

Johnstons of Elgin Pension Scheme Statement of the Trustees' Investment Principles

1. Background

This investment statement sets down the principles governing the Trustees' decisions about investment for the Johnstons of Elgin Pension Scheme ("the Scheme") to meet the requirements of the Pensions Act 1995, as amended by the Pensions Act (2004) and subsequent regulations. Before preparing this Statement the Trustees have consulted with the Sponsoring Employer, James Johnston & Company of Elgin Limited, and obtained and considered written professional advice from their actuaries and consultants - Mercer. The Trustees undertake to review this statement at least every three years.

The Trustees investment responsibilities are governed by the Scheme's Trust Deed and Rules: a copy of the relevant clause, of which the Statement takes full regard, is available on request.

2. Investment Objectives and Risk

2.1 *Investments Objectives*

The main aims underlying the Trustees' investment policies are:

- To ensure that sufficient assets are available to pay members' benefits as and when they arise;
- To pay regard to the employer's interests on the size and incidence of employer's contribution payments;

To achieve their aims, the Trustees have put in place the strategic asset allocation framework shown in the attached appendix.

2.2 *The Trustees' Policy with regard to Risk*

The main risk which the Trustees seek to guard against is that the aims and objectives stated above in 2.1 will not be met. In addition, there are various other risks to which the Scheme is exposed. The Trustees review these risks as part of a formal analysis of the Scheme's assets and liabilities. This analysis enables the Trustees to assess the level of risk within the Scheme's asset portfolio relative to the Scheme's liabilities. It also allows the Trustees to implement the most appropriate strategy which balances the need to meet the investment objectives and risks the Scheme faces. The Trustees have considered the following specific areas of risk:

- The risk that a mismatch between the Scheme's assets and liabilities, will lead to a deterioration of the Scheme's funding level. The Trustees aim to control this risk by periodically reviewing the appropriateness of the Scheme's investment strategy. The Trustees recognise that even if the Scheme's assets were to be fully invested in matching assets there may still be a mismatch between the interest-rate and inflation

sensitivity of the Scheme's assets and the Scheme's liabilities due to the mismatch in duration between matching assets and actuarial liabilities.

- The risk that the day to day management of the assets will not achieve the rate of return expected by the Trustees. The Trustees recognise that the use of active investment managers involves such a risk. However, for specific asset classes and strategies, the Trustees believe that this risk is outweighed by the potential gains from successful active management (e.g. the Diversified Growth Fund). Likewise, passive management will be used for one of a number of reasons, namely to control fees and to reduce risk when investing in markets deemed relatively efficient where the scope for added value is more limited (i.e. the global equities and UK gilts and corporate bonds).
- The Trustees also aim to control the risk associated with active management by applying a prudent manager appointment process and obtaining regular ongoing monitoring of manager performance.
- The risk that the realisation of investments to meet benefit outgo is made at a time when prices are depressed, or when the assets cannot easily be sold. The Trustees aim to control this risk by managing the Scheme's cash flow requirements carefully over the short term and by limiting the Scheme's exposure to illiquid assets.

2.3 Investment Strategy

The Trustees' investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in this Statement. Following a review in 2015 the Trustees agreed the following investment arrangements:

- The appointment of BlackRock Investment Management (BlackRock) to manage the Scheme's assets;
- The majority of the assets of the Scheme are invested in diversified portfolios of assets with predominant holdings in growth assets (equities and a diversified growth fund).
- Additional assets are held in UK corporate bond, fixed interest gilts and index linked gilts funds to provide some matching against movements in the Scheme's liabilities.

The Trustees' carried out subsequent reviews of the Scheme's investment strategy in 2018, and again in 2019 following completion of the 2019 actuarial valuation, and have taken additional steps in 2020 and 2021 to de-risk the Scheme's investment strategy following improvements in funding.

The investment strategy will be reviewed following formal actuarial valuations and in response to any material changes to any aspect of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Sponsoring Company which the Trustees judge to have a bearing on the investment strategy.

3. Day to Day Management of the assets

3.1 *Main Assets*

The Trustees employ an investment manager who has day-to-day responsibility for the investment of the Scheme's assets. This manager is regulated by the Financial Conduct Authority ("FCA") and - as required by the Financial Services and Markets Act 2000 - the Trustees have entered into a signed agreement with the investment manager which complies in all respects with this Statement. The agreement provides important protection for the Scheme and for the Trustees and set out the terms on which the assets are to be managed; the investment briefs, guidelines and restrictions under which the investment manager works. All investments are through pooled funds operated by the appointed manager. A separate institution (Bank of New York Mellon) has been appointed to act as custodian for the underlying assets.

The attached appendix sets out the details of each fund benchmark, performance target and fees.

3.2 *The Trustees' Policy with regard to Diversification*

The Trustees believe that the asset allocation policy in place will provide an adequately diversified distribution of assets. The current agreement with the investment manager also has regard to the need to diversify within each class of assets as well as in terms of stock selection.

The agreement with the investment manager includes a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

3.3 *Aligning Manager Appointments with Investment Strategy*

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.

The Trustees look to their investment consultant, where appropriate, for their forward looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees and are used in decisions around selection, retention and realisation of manager appointments.

When selecting and appointing investment managers, the Trustees will take into account how ESG, climate change and stewardship are integrated within the managers' investment processes. This will be balanced against other manager selection criteria such as (but not limited to) idea generation, portfolio construction, implementation, business management and fees and charges.

If the investment objective of a particular fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

Where the Trustees invest in pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the managers, but appropriate mandates can be selected to align with the overall investment strategy.

3.4 *Buying and Selling Investments*

The Trustees have delegated the responsibility for day-to-day buying and selling of investments to the investment manager who has undertaken not to exceed the Trustees' investment powers as set out in the Trust Deed. As already mentioned, the day-to-day activities which the investment manager carries out for the Trustees are governed by the agreement between the manager and the Trustees, which is reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

3.5 *Environmental, Social and Corporate Governance (ESG)*

ESG, Stewardship, and Climate Change

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustees have taken into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments. This includes undertaking engagement activities in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring of the manager's actions and engagement on ESG and voting is undertaken on a semi-annual basis through reports provided by our investment consultant and the investment manager as well as during any meetings we hold with the investment manager.

Investment Restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

Member Views

The Trustees do not explicitly consult members when making investment decisions including the selection, retention and realisation of investments, but regularly update members via newsletters and by making a copy of the Statement of Investment Principles available on request.

3.6 *Other Assets*

Assets in respect of the member's additional voluntary contributions are held in separate policies in the Trustees' name with a range of providers.

3.7 *Monitoring the Investment Manager*

Performance of the investment manager is monitored by Mercer, with performance reports produced by Mercer on a semi-annual basis. The Trustees review the absolute performance, relative performance against a suitable index used as the benchmark, and/or against the managers' stated target performance (over the relevant time period).

The Trustees' focus is on long-term performance but, as noted above, may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager or portfolio management team;
- There is a change in the underlying objectives of the investment manager;
- There is a significant change to the investment consultant's rating of the manager.

The Trustees meet with the investment manager regularly to review the investment manager's actions together with the reasons for and background behind the investment performance. The investment manager is remunerated by way of a fee calculated as a percentage of assets under management.

If managers are not meeting performance objectives, or investment objectives for mandates have changed, the Trustees may ask managers to review the Annual Management Charge.

Mercer is retained as investment consultant to assist the Trustees in fulfilling their responsibility for monitoring the investment manager.

Portfolio Turnover Costs

The Trustees do not currently monitor portfolio turnover costs. The Trustees receive MiFID II reporting from their investment manager but do not analyse the information. However, the Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees may ask managers to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus

Manager Turnover

The Trustees are long term investors and are not looking to change the investment arrangements on a frequent basis. For open-ended funds, there is no set duration for the manager appointments. The Trustees will therefore retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointed has been reviewed and the Trustees have decided to terminate the mandate.

4. Compliance with this Statement

We, the Trustees, our investment manager and our consultants, (all of whom have been appointed by the Trustees), each have duties to perform to ensure compliance with this statement. These are:-

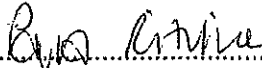
The Trustees, will review and amend this Statement at least every three years and in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the sponsoring Company which they judge to have a bearing on the stated Investment Policy. Any such review will again be based on the written, expert investment advice of Mercer and will be in consultation with the Company.

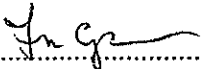
BlackRock Investment Management (BlackRock), our investment manager, will prepare quarterly reports to the Trustees including:-

- Valuation of all investments held for the Scheme.
- Records of all transactions, together with a cash reconciliation.
- A review of recent transactions undertaken on behalf of the Scheme, together with a summary of their current stated policy.

BlackRock will also notify us in advance of any new investment categories in which they are proposing to invest.

Mercer, our consultant, will provide the advice needed to allow us to review and update this statement regularly.

Signed  (Trustee)

Signed  (Trustee)

Johnstons of Elgin Pension Scheme
Statement of Investment Principles

Date 17/09/21

Date of Amendments:

First Amendment: November 2004
Second Amendment: December 2004
Third Amendment: June 2006
Fourth Amendment: June 2008
Fifth Amendment: May 2011
Sixth Amendment: February 2016
Seventh Amendment: November 2016
Eighth Amendment: October 2017
Ninth Amendment: June 2018
Tenth Amendment: September 2019
Eleventh Amendment: January 2020
Twelfth Amendment: June 2020
Thirteenth Amendment: September 2021

Appendix: Investment Strategy for the Johnstons of Elgin Pension Scheme

Investment Strategy

The Trustees have determined, based on expert advice from Mercer, a benchmark mix of asset types and ranges within which the investment manager may operate; these guidelines are set out below. The Trustees believe that the resulting asset mix is currently appropriate for controlling the risks identified in 2.2. The Trustees employ BlackRock Investment Management as their investment manager. Investment is made via unitised pooled index tracking funds (with the exception of the Dynamic Diversified Growth Fund which is actively managed across a number of different asset classes) and the Trustees are satisfied that the spread of assets by type and spread of individual securities within each type provides adequate diversification of investments.

The Trustees have targeted an investment strategy as follows:

Asset Class	Benchmark Weight %	Tolerance Ranges %	Active/ Passive	Benchmark Index
Total Growth	30.0	+/- 3.0		
Diversified Growth	30.0		Active	UK 3-month LIBOR + 3% p.a.
Total Matching	70.0	+/- 3.0		
Over 5 Year Index Linked Gilts			Passive	FTSE UK Gilts Index-Linked Over 5 Year Index
Over 15 Year Corporate Bonds			Passive	iBoxx Sterling Non Gilts Over 15 Years Index
Over 15 Year Fixed Interest Gilts	70.0		Passive	FTSE Actuaries UK Conventional Gilts Over 15 Years Index
Liability Hedging			Passive	Bespoke benchmark
Total Fund	100.0	-	-	-

On a six-monthly basis Mercer will review the Scheme's overall asset split against the Scheme's strategic 70.0% matching / 30.0% growth asset benchmark and its tolerance ranges.

As part of the review, Mercer will provide advice on whether any rebalancing is required.

Mercer will also provide their view on the most appropriate funds in which to invest/disinvest should this be required for cashflow purposes on a monthly basis.

The Trustees will monitor the hedge ratio of the BlackRock LDI Portfolio relative to its target on a regular basis and will rebalance the portfolio if necessary.

Individual Mandates – Fees and Objectives

BlackRock Dynamic Diversified Growth Fund

Objective: The investment objective of the fund is to deliver long term consistent capital growth with low volatility and a focus on downside protection. The explicit fund target is to deliver a return of UK 3-month LIBOR + 3.0% (net of fees) over rolling 3 year periods.

Fees: Investment Management Fees: 0.55% p.a. on the first £50m
0.50% p.a. thereafter

BlackRock Aquila Life Over 5 Year Index-Linked Fund

Objective: The investment objective of the fund is to achieve a total rate of return equal to the FTSE UK Over 5 Year Index Index-Linked Gilts Index within an acceptable tolerance range.

Fees: Investment Management Fees: 0.08% p.a. on the first £15 million;
0.04% p.a. on the next £85 million; and
0.03% p.a. thereafter.

BlackRock Aquila Life Over 15 Year Corporate Bond Index Fund

Objective: The investment objective of the fund is to achieve a total rate of return equal to the iBoxx Sterling Non Gilts Over 15 Years Index within an acceptable tolerance range.

Fees: Investment Management Fees: 0.12% p.a. on the first £15 million;
0.075% p.a. on the next £85 million; and
0.06% p.a. thereafter.

BlackRock Aquila Life Over 15 Years UK Gilt Index Fund

Objective: The investment objective for the Aquila Life Over 15 Years UK Gilt Index Fund is to achieve a total rate of return equal to the FTSE Actuaries UK Conventional Gilts Over 15 Years Index within an acceptable tolerance range.

Fees: Investment Management Fees: 0.08% p.a. on the first £15 million;
0.04% p.a. on the next £85 million; and
0.03% p.a. thereafter.

BlackRock Fixed Income index funds – UK Index-Linked Gilt funds, Fixed income index funds – Long maturity funds, Fixed Income index funds - Single-year target Gilt Funds and Fixed Income index funds – Single-Year target Index-Linked Gilt funds

Objective for these Funds: The portfolio consists of a leveraged and unleveraged portfolio of index-linked gilts and fixed interest gilts. In doing so the objective is to enhance the liability matching efficiency of the Scheme. Performance of the underlying assets held by the portfolio is expected to be broadly in line with that of the gilt market overall

Fees for the Fixed Income Index Funds:

Investment Management Fees: 0.08% p.a. on the first £15 million;
0.04% p.a. on the next £85 million; and
0.03% p.a. thereafter.

Fees for the Overseas Bond Funds and Liability matching Funds:

Investment Management Fees: 0.15% p.a. on the first £15 million;
0.10% p.a. thereafter.

The Johnstons of Elgin Pension Scheme (“the Scheme”)

Annual Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles (‘SIP’) produced by the Trustees has been followed during the year to 5 April 2021. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The main aims underlying the Trustees’ investment policies are:

- To ensure that sufficient assets are available to pay members’ benefits as and when they arise;
- To pay regard to the employer’s interests on the size and incidence of employer’s contribution payments;

These objectives were unchanged over the 12 months to 5 April 2021.

Policy on ESG, Stewardship and Climate Change

The Scheme’s SIP includes the Trustees’ policy on Environmental, Social and Governance (‘ESG’) factors, stewardship and climate change. This policy sets out the Trustees’ beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. This was last reviewed in June 2020.

In order to establish these beliefs and produce this policy, in May 2019 the Trustees undertook investment training provided by their Investment consultant on responsible investment, which covered ESG factors, stewardship and climate change. The Trustees keep the policies under regular review with the SIP subject to review at least triennially, and without delay if there are relevant, material changes to the Plan and/or the sponsoring company.

The following work was undertaken during the year to 5 April 2021 relating to the Trustees’ policy on ESG factors, stewardship and climate change, and sets out how the Trustees’ engagement and voting policies were followed and implemented during the year.

Engagement

- The Trustees requested that the investment manager confirm compliance with the principles of the UK Stewardship Code. BlackRock confirmed that they are signatories of the current UK Stewardship Code and submitted the required reporting to the Financial Reporting Council by 31 March 2021 in order to be on the first list of signatories for the UK Stewardship Code 2020 that took effect on 1 January 2020. After

review and approval, BlackRock's next year's signatory status will be confirmed (providing their annual report is accepted).

- The Scheme's investment performance report is reviewed by the Trustees twice a year. The investment report includes ratings (both general and specific to ESG) from the investment consultant. Where the funds in which the Scheme invests in may not be highly rated from an ESG perspective the Trustees continue to monitor and engage with those managers. The investment performance report includes how the manager is delivering against their specific mandates.
- The Trustees meet with the investment manager when required to review actions together with the reasons for and background behind the investment performance and can challenge decisions made including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best performance over the medium to long term.
- The Trustees will continue to monitor BlackRock's ESG policies going forward, and will also use Mercer's ESG ratings to assess the appointed manager's strategies for ESG integration.
- When selecting and appointing investment managers, where applicable, the Trustees will take into account how ESG, climate change and stewardship are integrated within the managers' investment processes. This will be balanced against other manager selection criteria such as (but not limited to) idea generation, portfolio construction, implementation, business management and fees and charges.
- Over the last year, BlackRock have been engaging with companies on a wide range of different issues including ESG factors. This resulted in BlackRock focusing on 440 carbon-intensive companies and taking voting action on climate-related issues at 63 of them (as of November 30, 2020). These engagement initiatives are driven mainly through regular engagement meetings with the companies that the managers invest in or by voting on key climate-related resolutions at companies' Annual General Meetings. Moving into 2021, BlackRock are making several notable changes to their policies on Environmental & Social factors, in addition to updates to their policies on Governance factors.
- Finally, we also note that post year-end the Trustees began collecting information on the turnover costs being incurred by BlackRock in order to allow ongoing engagement with the manager. The Trustees progress with regards to engagement on turnover costs will be included in next years' Statement.

Voting Activity

The Trustees have delegated their voting rights to the investment manager.

The investment manager is expected to provide voting summary reporting (where applicable) on a regular basis, at least annually. The reports are not currently reviewed by the Trustees, but the aim is for these to be reviewed on an annual basis going forwards as part of a wider ESG review of the Scheme investment manager.

The Trustees expect to be more active in challenging the investment manager in relation to voting and engagement in the future. It is expected that, when the investment manager presents to the Trustees at future meetings, the Trustees will ask the investment manager to highlight key voting activity and the impact on the portfolio.

The Trustees do not use the direct services of a proxy voter.

Over the last 12 months to 5 April 2021, some of the key voting activity on behalf of the Trustees was undertaken by BlackRock. A summary of their activity is shown below.

BlackRock Equities:

BlackRock uses the BlackRock Investment Stewardship team (BIS) to vote on its behalf. The BIS team’s key engagement priorities include: Board quality; environmental risks and opportunities, corporate strategy and capital allocation, compensation that promotes long-termism and Human capital management.

Voting activity undertaken over 1 April 2020 to 31 March 2021 is summarised in the table below for the Scheme’s equity funds.

Fund	Number of meetings in which the manager was eligible to vote	% of meetings in which the manager voted	Number of resolutions in which the manager was eligible to vote	% of resolutions in which the manager voted	% of votes with management / against management
Aquila Life World Fund	3,298	96.6%	41,138	95.0%	89.2%/5.9%
Dynamic Diversified Growth Fund	977	97.3%	12,398	96.6%	90.1%/5.7%

Source: BlackRock. Figures subject to rounding. Voting activity data provided on a quarterly basis and therefore shown over 1 April 2020 to 31 March 2021.

We have included an example of BlackRock’s engagements with companies and voting on behalf of the Trustees over 1 April 2020 to 31 March 2021 below:

- **The Procter & Gamble Company (P&G)– Report on Efforts to Eliminate Deforestation (In favour):** In October 2020, the shareholder proposal requested a report assessing if and how P&G could increase the scale, pace, and rigor of its efforts to eliminate deforestation and the degradation of intact forests in its supply chains. The proposal places special attention on the company’s use of palm oil and forest pulp. While BlackRock recognizes the company's efforts to date towards enhancing P&G sustainability and monitoring disclosure reports, Blackrock determined that there is room for P&G to improve the frequency and depth of disclosure.

- **Equinor ASA - Instruct Company to Set and Publish Targets Aligned with the Goal of the Paris Climate Agreement to Limit Global Warming (Against):** In May 2020, the shareholders proposals addressed a range of climate related issues from the setting of more ambitious climate targets to the immediate cessation of certain activities. The shareholder proposal asks, “Shareholders support Equinor to set and publish targets that are aligned with the goal of the Paris Climate Agreement to limit global warming to well below 2°C above pre-industrial levels.” The supporting statement of this resolution argues that if Equinor’s ambition is to reduce their net carbon intensity by

at least 50% by 2050, halving the carbon intensity in a growing energy system will not lead to a level of absolute emissions reduction necessary to achieve the goal of the Paris Climate Agreement. The proponent asks for more "inspirational" targets and suggest the range of 80-100% reduction by 2050 (CO2 per unit of energy). BlackRock believes that Equinor has made significant progress in terms of transparency relating to portfolio resilience and has some of the most ambitious climate targets in the industry on all relevant scopes