<u>Chivas Brothers Pension Scheme</u>

<u>Statement of Investment Principles ("SIP")</u>

Purpose of this Statement

This SIP has been prepared by the Chivas Brothers Pension Scheme (Trustee) Limited (the "Trustee") of the Chivas Brothers Pension Scheme (the "Scheme"). This statement sets out the principles governing the Trustee's decisions to invest the assets of the Scheme.

The Scheme's investment strategy is derived from the Trustee's investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

Details of the Scheme's investment arrangements are set out in Appendix 1.

Governance

The Trustee of the Scheme make all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee believes that their investment advisers, Isio, are qualified by their ability in, and practical experience of, financial matters, and have the appropriate knowledge and experience. The investment adviser's remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Scheme.

The Trustee has set up an Investment Sub-Committee ("ISC") to monitor the operation of the Scheme's investment strategy. However, the Trustee remains involved in investment strategy decisions.

Investment objectives

The Trustee invests the assets of the Scheme with the aim of ensuring that all members' current and future benefits can be paid. The Scheme's funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Scheme's circumstances. The Scheme's funding target is specified in the Statement of Funding Principles.

The Scheme's present investment objective is to achieve a return of 3.1% per annum (based on Isio's central assumptions as at 31 December 2023) above the return on a liability matching portfolio of UK Government bonds (which are considered to move in a similar fashion to the calculated value of the Scheme's liabilities) Further detail on the expected return on investments in provided in Appendix 1.

Investment strategy

The Trustee takes a holistic approach to considering and managing risks when formulating the Scheme's investment strategy.

The Scheme's investment strategy was derived following careful consideration of the factors set out in Appendix 2. The considerations include the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Scheme, and also the strength of the sponsoring company's covenant. The Trustee considered the merits of a range of asset classes.

The Trustee recognises that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

The assets of the Scheme consist predominantly of investments which are traded on regulated markets.

Leverage and collateral management

The Trustee will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Scheme's liability hedging (LDI) portfolio. Further details on this can be found in Appendix 4.

The Trustee has a stated collateral management policy / framework. The Trustee has agreed a process for meeting collateral calls should these be made by the Scheme's LDI investment manager. The Trustee will review and stress test this framework on a regular basis.

Investment Management Arrangements

The Trustee has appointed several investment managers to manage the assets of the Scheme and these investment managers are regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Scheme's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

Areas for engagement	**Method for monitoring and engagement**	**Circumstances for additional monitoring and engagement**
Performance, Strategy and Risk	• The Trustee receives a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee/ISC meeting. • The Scheme's investment managers are invited, in person, to present to the Trustee on their performance, strategy and risk exposures.	• There are significant changes made to the investment strategy. • The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations. • Underperformance vs the performance objective over the period that this objective applies.
Environmental, Social, Corporate Governance factors and the exercising of rights	• The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues. • The Trustee receives information from their investment advisers on the investment managers' approaches to engagement. • The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually via the Implementation Statement and Sustainability Integration Assessment ("SIA") provided by Isio.	• The manager has not acted in accordance with their policies and frameworks. • The manager's policies are not in line with the Trustee's policies in this area.

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

Employer-related investments

The policy of the Trustee is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Scheme invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Scheme's total asset value. The Trustee will monitor this on an ongoing basis to ensure compliance.

Central Asset Reserve (CAR)

In addition to the existing investment strategy, the Scheme also has holdings in two asset backed funding arrangements, referred to as CAR I and CAR II. These assets are not considered to form part of the Scheme's formal investment strategy due to their unique structure and illiquid nature. The value of CAR I and II is, however, included in the overall value of the Scheme's assets when assessing the Scheme's funding level. As such, the CAR I and II provide additional security to the Scheme's financial status and this factor is considered by the Trustee when assessing the overall level of investment risk that it deems acceptable.

The Trustee has received legal advice to confirm that the holding in the CAR does not constitute an Employer Related Investment. The Trustee has received and considered investment advice regarding the suitability of the arrangement from an investment perspective.

Direct investments

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

Additional voluntary contributions (AVCs)

The Scheme provides a facility for members to pay additional voluntary contributions to enhance their benefits at retirement. Members are offered some choice of arrangements in which to invest their AVC payments, in order to allow them to make investments which are consistent with their needs and reasonable expectations. The Trustee reviews the suitability and performance of the AVC arrangements on a regular basis.

Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

Signed: ***Trustee of the Chivas Brothers Pension Scheme***

Date: ***May 2024***

For and on behalf of the Chivas Brothers Pension Scheme

Appendix 1 – Investment arrangements

The Scheme's target investment strategy is detailed in the table below, split by fund manager (as at 31 December 2023):

Fund Manager	Target Allocation	Asset Class	Performance Objective
Abrdn	7.0	Long Lease Property	SONIA plus 2.0% per annum (gross of fees)
	-	Cash	SONIA
Mercer	5.0	Diversified Growth Funds[1]	SONIA plus 3.0% per annum (net of fees)
	10.0	Private Credit	Assumed as net performance
Barings	10.0	Semi-Liquid Credit	Secured Overnight Financing Rate ('SOFR') + 4.4% p.a.
CQS	10.0	Semi-liquid Credit	SONIA plus 4.0% per annum (net of fees)
M&G	10.0	Multi-asset Credit	SONIA plus 2.5% per annum (net of fees)
Schroders	12.0	Asset Backed Securities	SONIA plus 1.0% per annum (gross of fees)
	36.0	Synthetic Equity	Composite benchmark
		Liability Driven Investment ("LDI")	The allocation is managed on a passive basis, whereby the objective is to match, rather than exceed the performance of the nominated liability-based benchmark.
Total	**100.0**		

[1]The capital committed to Credit Opportunities is held in a Diversified Growth Fund on an interim basis, as part of the capital draw-down arrangements in place.

In addition to the liability hedging programme, the collateral pool supports a synthetic equity portfolio. The synthetic equity strategy is designed to provide the equivalent of c.20% (as a % of total assets) exposure to global equity markets. Please find a breakdown of this allocation below.

Fund Manager	Target Allocation (%)[1]	Asset Class
Schroders (Synthetic Equity - Sustainable)	8.0	Global Developed Equities
	8.0	Global Developed Equities (GBP Hedged)
	4.0	Global Emerging Market Equities
Total	**20.0**	

Asset split by asset class:

Asset Class	Strategic Benchmark (%)	Expected Return[1] (%)
Long Lease Property	7.0	Gilts + 2.5
Diversified Growth Funds	5.0	Gilts + 2.8
Private Credit	10.0	Gilts + 4.2
Semi-liquid Credit	20.0	Gilts + 3.3
Multi-asset Credit	10.0	Gilts + 2.6
Asset Backed Securities	12.0	Gilts + 1.0
Synthetic Equity	36.0	Gilts + 4.3[2]
LDI & Cash		Gilts
Total	**100.0**	**Gilts + 3.1**

Totals may not sum due to rounding. [1]Expected return assumptions are based on Isio's central (best estimate) assumptions as at 31 December 2023. [2]Based on a weighted average as at the 31 December 2023 asset split.

Appendix 2 – Risks, Financially Material Considerations (including ESG and climate change) and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	**Definition**	**Policy**
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength. • Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	• When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

Risk	**Definition**	**Policy**
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 70% of these risks on a Technical Provisions basis.
Liquidity	Difficulties in raising sufficient cash when required without adversely	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they

	impacting the fair market value of the investment.	fall due (including transfer values), and to provide collateral to the LDI and synthetic equity manager.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI signatory 6. UK Stewardship Code signatory The Trustee monitors the managers on an ongoing basis. The Trustee considers ESG issues as part of the investment process, and believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes they are investing in.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Mitigate currency risk where applicable to minimise the impact of fluctuating exchange rates.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

Appendix 3

The Trustee has the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	• As most of the Scheme's managers are invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective. • The Scheme's LDI and synthetic equity manager has segregated arrangements with the investment managers, thereby allowing investment managers to align their strategy with the Trustee's policies. This is reviewed on an ongoing basis.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	• The Trustee reviews the performance of all of the Scheme's investments on a net of fees basis to ensure a true measurement of performance versus investment objectives. • The Trustee evaluates performance of the investments on an absolute basis and relative to the pre-defined benchmarks (over the relevant period). • The Trustee's focus is long-term performance but will put a manager 'on watch' if there are short-term performance concerns.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Scheme's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. o For closed ended funds, or funds with a lock-in period, the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and Scheme's liquidity requirements. o For open ended funds, the duration is flexible and the Trustee will, from time-to-time, consider the appropriateness of these investments and whether they should continue to be held.
Voting Policy – How the Trustee expects investment managers to vote on their behalf	• The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.
Engagement Policy – How the Trustee will engage with investment managers, direct assets and others about 'relevant matters'	• The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf. The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.

Appendix 4 – Collateral Management Policy

At the time of writing, the Trustee is targeting a level of collateral sufficient to withstand a yield rise of:

- 200bps held in Tier 1 collateral with the LDI manager (with an early capital warning at 250bps);
- 400bps held in Tier 1 and Tier 2 collateral with the LDI manager.

The Trustee will review this no less frequently than annually, or as soon as possible in the event of significant market movements.

The Trustee also adopts a framework for maintaining sufficient collateral levels.

Trigger	**Action**	**Responsibility**
LDI fund issues capital call	Assets sold from below collateral waterfall to meet capital call	LDI manager / Trustee
When collateral falls below 250bps	Assets sold from below collateral waterfall to restore buffer to above 400bps (agreed with the LDI manager)	LDI manager responsible for monitoring trigger, Trustee responsible for implementation (as soon as possible with timescales agreed with LDI manager)

The latest collateral waterfall is set out below. Assets held within the immediate collateral framework (Tier 2) with the same manager as the LDI mandate are shown in bold, reflecting the lower governance burden on the Trustee.

Manager	Asset Class	Dealing frequency
LDI manager	**Asset Backed Securities**	**Daily frequency**
Non-LDI manager	Cash	Daily frequency
Non-LDI manager	Multi-asset Credit	Daily frequency