Macfarlanes Pension Scheme

Statement of Investment Principles

October 2024

1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustees of the Macfarlanes Pension Scheme (the "Scheme"). This statement sets down the principles governing decisions about investments for the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010, the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. In preparing this statement the Trustees have consulted Macfarlanes Services Limited ("MSL"), the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority for a range of investment business activities.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustees will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.

1.5. The investment powers of the Trustees are set out in Clause 5 of the Deed of Variation, dated 30 March 2001. This statement is consistent with those powers.

2. Choosing Investments

2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their investments against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. The Trustees have secured a bulk annuity policy with Aviva Life & Pensions UK Limited ("Aviva"). Aviva is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. The Trustees will also consult the employer before amending the investment strategy.

3. Investment Objectives

3.1. The Trustees' main investment objectives are:

- to ensure that they can meet the members' entitlements as they fall due;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet the cost of current and future benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;

3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustees have secured a bulk annuity which covers the benefits due to all members, subject to final adjustments in due course.

4. Kinds of investments to be held

4.1. The Scheme can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
- Annuity policies.

4.2. As the Scheme's investments consist entirely of the bulk annuity policy, there should be minimal (if any) employer-related investment content within the Scheme's portfolio. Any check would typically be carried out annually by the Scheme's auditor. In practice, there are no employer-related investments, and there is no prospect of any for the lifetime of the Scheme.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix 1.

5.2. The Scheme holds a bulk annuity policy which is expected to meet the benefit entitlements of each of the Scheme's members, subject to final adjustment in due course. The remainder of the Scheme's assets are held in cash in the Scheme's bank account.

5.3. The nature of the bulk annuity policy means that the insurer will meet cashflow requirements in respect of benefit payments. The Trustees expect any fees and other expenses to be met using the existing bank reserves held and, where relevant, contributions from the Employer.

5.4. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflow requirements or any other unexpected items.

6. Risks

6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities:

Risk versus the liabilities The risk of the assets behaving differently from the Scheme's liabilities has largely been mitigated by purchasing an annuity policy that exactly matches the benefit payments due, subject to final adjustment in due course.

Asset Allocation risk The asset allocation is detailed in the Appendix 1 and is monitored on a regular basis by the Trustees.

ESG/Climate risk The Trustees have considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material. The risks are effectively mitigated through the purchase of a bulk annuity policy.

Concentration risk In relation to the bulk annuity policy, it is the insurer's discretion how the underlying assets are invested and the insurer bears the risk in relation to the assets' performance. **Loss of investment** The biggest risk is in relation to the bulk annuity policy. In the event of the insurer becoming insolvent, the Scheme could suffer losses (but would still retain the liability to pay members' benefits). This risk is mitigated by the regulatory regime and capital requirements in place for UK insurers. The Trustees have carried out due diligence on the insurer.

Liquidity risk Responsibility for providing the monies to pay member benefits lies with the insurer as the provider of the bulk annuity policy, which mitigates the majority of the potential liquidity risk.

Covenant risk The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored periodically. The appropriate level of investment risk is considered with reference to the strength of the employer covenant. The purchase of a bulk annuity policy with Aviva, and the UK insurer regulatory regime, significantly reduce the extent of any reliance on the covenant, which is effectively limited to the payment of ongoing expenses.

Investment manager risk The Scheme's main asset is the annuity policy held with Aviva and there is no exposure to investment manager risk in relation to this asset.

7. Expected return on investments

7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. The Trustees have chosen to invest in a bulk annuity policy with the intention of achieving returns in line with movements in the value of the Fund's liabilities. The expected income from the annuity contract is that required to meet benefit payments.

8. Realisation of investments

8.1. The Scheme's main investment is an annuity policy which is not readily realisable but is structured so as to pay benefits to members as they fall due.

9. Financially material considerations, non-financial matters, the exercise of voting rights, and engagement activities

9.1. The Trustees believe that Environmental, Social and Governance ("ESG") factors are financially material – that is, they have the potential to impact the value of the Scheme's investments from time-to-time. As the Trustees have secured benefits with an insurance company, incorporating Environmental, Social and Governance (ESG) factors is at Aviva's discretion.

9.2. The responsibility for the exercising of rights (including voting rights) attaching to the bulk annuity policy belongs to Aviva.

9.3. The Trustees do not consider any non-financial matters when constructing the investment strategy and/or when selecting or reviewing fund managers.

10. Policy on arrangements with asset managers

1.1. The Trustee is required by legislation to have a policy covering various aspects of the Scheme's arrangement with the asset managers through which the Scheme invests. This is no longer applicable, as the Scheme does not invest with any asset managers.

11. Agreement

11.1. This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, the actuary and the Scheme auditor upon request.

Agreed by the Trustees of the Macfarlanes Pension Scheme **Date: 23 October 2024**

Note on investment policy of the Scheme in relation to the current Statement of Investment Principles dated October 2024

Appendix 1

1. The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below.

Asset class	Allocation (%)
Aviva Life & Pensions UK Limited Annuity Policies	100.0
Total	**100.0**

The Scheme will also hold cash in the bank account to cover fees and other expenses, as required.

2. Choosing investments

The Trustees have secured an insurance contract in respect of the Scheme's liabilities with Aviva Life & Pensions UK Limited Retirement who is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters.

3. Fee Agreements

There are no ongoing fees in respect of the Aviva annuity policies.

Barnett Waddingham are renumerated on a fixed fee and time cost basis depending on the work carried out.

4. Kinds of investments to be held

The Trustees have considered all asset classes and has gained exposure to the following asset classes:

- Annuity policies; and
- Cash

5. Realisation of investments

The annuity policies have been structure to provide sufficient income to meet all benefit payments as they fall due, subject to final adjustments in due course. Therefore, the Trustees do not foresee any need to surrender (i.e. realise) the value of its annuity policies. However, in such an event, the Trustees will take appropriate advice before making any decisions. The Trustees expect any fees and other expenses to be met using the existing bank reserves and, where relevant, contributions by the Employer.