welcome to brighter

EDINBURGH MERCHANT COMPANY RETIREMENT BENEFITS SCHEME

STATEMENT OF INVESTMENT PRINCIPLES

September 2024

Contents

Section 1
Introduction

This Statement of Investment Principles ("the Statement") has been prepared by the Trustees of Edinburgh Merchant Company Retirement Benefits Scheme ("the Scheme") in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations.

The Statement outlines the principles governing the investment policy of the Scheme and the activities undertaken by the Trustees to ensure the effective implementation of these principles.

In preparing the Statement, the Trustees have:

- obtained and considered written advice from, Mercer, whom they believe to have a degree of knowledge and experience that is appropriate for the management of its investments; and
- consulted with the Sponsoring Employer, although it affirms that no aspect of its strategy is restricted by any requirement to obtain the consent of the Sponsoring Employer.

The advice and the consultation process considered the suitability of the Trustees investment policy for the Scheme.

The Trustees will review the Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the statutory funding requirements. Furthermore, the Trustees will review the Statement without delay after any significant change in investment policy. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

Section 2

Investment Objectives

The Trustees' primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustees also aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustees have also received confirmation from the Scheme Actuary and Investment Consultant during the process of revising the investment strategy that its investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used for the Statutory Funding Objective.

Section 3

Investment Responsibilities

3.1 TRUSTEES DUTIES AND RESPONSIBILITIES

The Trustees are responsible for setting the investment objectives and determining the strategy to achieve the objectives.

The duties and responsibilities of the Trustees include, but are not limited to, the following tasks and activities:

- The regular approval of the content of the Statement
- The appointment and review of any investment advisers appointed
- The assessment and review of the performance of each Investment Manager
- The choice of appropriate funds with each of the Investment Managers
- The assessment of the risks assumed by the Scheme at total scheme level and manager by manager
- The approval and review of the asset allocation benchmark for the Scheme
- The compliance of the investment arrangements with the principles set out in the Statement

3.2 INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustees have appointed Mercer as the investment adviser to the Scheme as and when advice is required. To date, Mercer have provided advice on the production of this statement, the investment strategy of the Scheme, the suitability of the funds available with the Investment Manager and the cashflow management policy of the Scheme. Matters on which Mercer can provide advice to the Trustees include the following:

- Setting of investment objectives;
- Determining investment strategy and asset allocation;
- Determining an appropriate investment structure;
- Framing manager mandates;
- Assistance in determining funds and investment managers that are suitable to meet the Trustees' objectives;
- Selecting and replacing investment managers

- Setting cashflow management (investment and disinvestment) policies (Appendix B)

The Trustees may seek advice from Mercer with regard to both strategic and tactical investment decisions (see Section 4 - Investment Strategy); however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cash flows (see Appendix B). Mercer may be proactive in advising the Trustees regarding tactical investment decisions; however, there is no responsibility placed on Mercer to be proactive in all circumstances.

Mercer is remunerated on a project-by-project basis with a fee being agreed in advance of the project commencing. Mercer does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice. The Trustees believe that this is the most appropriate adviser remuneration structure for the Scheme.

Mercer is authorised and regulated by the Financial Conduct Authority ("FCA").

3.3 SUMMARY OF RESPONSIBILITIES

A summary of the responsibilities of all relevant parties, including the Scheme Actuary and the administrators, so far as they relate to the Scheme's investments, is set out in Appendix D.

Section 4
Investment strategy

4.1 SETTING INVESTMENT STRATEGY

The Trustees have determined the investment strategy after considering the Scheme's liability profile and requirements of the Statutory Funding Objective, its own appetite for risk, the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer's appetite for risk, and the strength of the Sponsoring Employer's covenant. The Trustees have also received advice from an investment adviser.

Taking all of these factors into consideration, the Trustees have determined that the benchmark asset allocation, as set out in Appendix A, is suitable for the Scheme.

In making this decision, the Trustees have been satisfied that this is consistent with its investment objectives and is supported by both the Sponsoring Employer and its covenant.

In respect of the investment of contributions and any disinvestments to meet member benefit payments, the Trustees have decided on a structured approach to rebalance the assets in accordance with the overall strategy. This approach is set out in Appendix B.

4.2 INVESTMENT DECISIONS

The Trustees distinguish between three types of investment decision: strategic, tactical and stock-level.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustees take all such decisions. It does so after receiving written advice from an investment adviser and consulting with the Sponsoring Employer. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Scheme benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Trustees. However, where such decisions are made within a pooled fund, they are the responsibility of the Investment Manager of the fund.

Stock Selection Decisions

All such decisions are the responsibility of the investment managers of the pooled funds in which the Scheme is invested.

4.3 TYPES OF INVESTMENTS TO BE HELD

The Trustees are permitted to invest across a wide range of asset classes.

All the funds in which the Scheme invests are pooled and unitised. The use of derivatives is permitted by the guidelines that apply to the pooled funds. Details relating to the pooled funds can be found in Appendix C.

The Trustees recognise the benefits of diversification across asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. The Trustees also recognise and are comfortable that asset class diversification is lower within an investment strategy that aims to match the liabilities of the Scheme.

4.4 FINANCIAL CONSIDERATIONS

The Trustees consider many risks which they anticipate could have an impact on the financial performance of the Scheme's investments over the Scheme's expected lifetime. Such risks are set out in the next section of this statement.

The Trustees recognise that environmental, social and corporate governance ("ESG") factors, including but not limited to climate change, can influence the investment risk and return outcomes of the Scheme's portfolio and it is therefore in members' and the Scheme's best interests that these factors are taken into account within the investment process.

The Trustees further recognise that investing with a manager who approaches investments in a responsible way and takes account of ESG related risks will lead to better risk adjusted performance results as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken. Therefore, other factors being equal, the Trustees would seek to invest in funds which incorporate ESG principles.

The Scheme's assets are invested in pooled funds, and therefore the Trustees accept the fact that it has very limited ability to influence the ESG policies and practices of the companies in which its managers invest.

However, the ESG policies of the pooled fund managers will be taken into account in the selection of future funds and managers and will be a factor in the selection process.

4.5 NON-FINANCIAL CONSIDERATIONS

The Trustees' objective is that the financial interests of the Scheme members are its first priority when choosing investments.

They have decided not to consider non-financial considerations, such as ethical views, or to take members' preferences into account when setting the investment strategy.

4.6 CORPORATE GOVERNANCE AND VOTING POLICY

The Scheme is invested solely in pooled investment funds. The Trustees' policy is to delegate responsibility for engaging with, monitoring investee companies and exercising voting rights to the pooled fund investment managers and expects the investment managers to use their discretion to act in the long term financial interests of investors.

The Trustees note that the investment managers' corporate governance policies are available on request and on their respective websites.

If the Trustees are specifically invited to vote on a matter relating to corporate policy, the Trustees would exercise their right in accordance with what it believes to be the best interests of the majority of the Scheme's membership.

Section 5

Risk

Under the Pensions Act 2004, the Trustees are required to state its policy regarding the ways in which risks are to be measured and managed. These are set out below.

Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a Scheme-specific strategic asset allocation with an appropriate level of risk.

Manager Risk

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.

Liquidity Risk

- This is monitored according to the level of cashflows required by the Scheme over a specified period.
- It is managed by holding an appropriate amount of readily realisable investments. The Scheme's assets are invested in pooled funds which are readily realisable.

Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- It is managed by regular reviews of the investments and through investing in funds which give a degree of diversification.

Corporate Governance Risk

- This is assessed by reviewing the Scheme's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights (where relevant) and corporate engagement to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are available to the Trustees and take into account the financial interests of the shareholders, which should ultimately be to the Scheme's advantage.

Sponsor Risk

- This is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.
- It is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the sponsor. Regular updates on employer covenant are provided to the Trustees by senior staff of the sponsor.

Legislative Risk

- This is the risk that legislative changes will require action from the Trustees so as to comply with any such changes in legislation.
- The Trustees acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Credit Risk

- This is the risk that is associated with the inability of a borrower to repay, in full or part the monies which it owes to a creditor.
- The Scheme invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.
- The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements.

Market Risk

- This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of the following three types of risk: currency risk, interest rate risk and other price risk.

  ### *Currency Risk*

  - This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In the context of a UK pension scheme, it may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.

Interest rate risk

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.
- The Trustees recognise that the Scheme's liabilities are exposed to a significant level of interest rate risk and for this reason it is desirable for the Scheme's assets to be exposed to a similar level of interest rate risk. The Trustees manage the Scheme's interest rate risk by considering the net risk when taking account of how the liabilities are valued.

Other Price risk

- This is the risk of volatility that principally arises in relation to the return seeking assets.
- The Trustees acknowledge that (where relevant) a scheme can manage its exposure to price risk by investing in a diverse portfolio across various markets.

ESG Risk

- This is the risk that Environmental, Social or Corporate Governance concerns, including climate change, have a financially material impact on the return of the Scheme's assets.
- The Trustees manage this risk by investing in well-respected investment managers where ESG principles are appropriately included in the investment decision making process.

Section 6

MONITORING OF INVESTMENT ADVISER AND MANAGERS

6.1 INVESTMENT ADVISER

For any adviser appointed, the Trustees will assess and review their performance in a qualitative way. The Trustees are also aware of the need to set objectives against which to assess any advisers appointed.

6.2 ARRANGEMENTS WITH INVESTMENT MANAGERS

Aligning Manager Appointments with Investment Strategy

The Managers are appointed by the Trustees based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics.

The Trustees look to Mercer, 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 Mercer'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.

Mercer's manager research ratings assist with due diligence (and questioning the investment managers during presentations to the Trustees) and are used in decisions around selection, retention and realisation of manager appointments.

The Trustees will consider how ESG and stewardship are integrated into the investment process as well as ensuring fees are competitive within the asset class.

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

The Scheme's investments are all made through pooled investment vehicles. The Trustees accept that it has no ability to specify the risk profile and return targets of the Manager. Such issues are taken into consideration when selecting and monitoring the Managers to align with the overall investment strategy requirements.

Incentivising Managers to Consider Long-Term Financial and Non-financial Performance

The Trustees also consider Mercer's assessment of how each Manager embeds ESG into its investment process and how the Manager's responsible investment philosophy aligns with the Trustees' beliefs around responsible investment. This includes the Managers' policy on voting and engagement (where relevant). The Trustees will use this assessment in decisions around selection, retention and realisation of Manager appointments where applicable.

The Managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustees are dissatisfied, then they will consider replacing the Manager.

Evaluating Investment Manager Performance and Remuneration

The Trustees receive reporting from the Investment Managers on a quarterly basis. The Trustees review absolute performance and, in many cases, relative performance, either against a suitable index used as a benchmark (where relevant) and/or against the Managers' stated performance target (over the relevant time period).

The Trustees' focus is primarily 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 Mercer's rating of the manager

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management. These fees were considered when the managers were appointed.

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 or decide to switch managers.

Portfolio Turnover Costs

The Trustees do not currently monitor portfolio turnover costs.

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 costs. 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 (which all of the Scheme's assets are invested in), 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; or

- The manager appointed has been reviewed and the Trustees have decided to terminate the mandate.

Section 7

Best Practice

The Trustees note that in March 2017, the Pensions Regulator released 'Investment Guidance for Defined Benefit Pension Schemes'.

Section 8

Compliance

The Scheme’s Statement of Investment Principles and annual report and accounts are available to members on request.

A copy of the Scheme’s current Statement plus Appendices is also supplied to the Sponsoring Employer, the Scheme’s auditors, Scheme Actuary and is made available online.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes all others and was approved by the Trustees on ______________.

Appendix A

Asset allocation benchmark

The Scheme's strategic asset allocation is set out below. The strategic asset allocation was last reviewed in 2024.

Asset class	Strategic allocation
Growth assets	**0.0**
Matching Assets	**100.0**
Investment grade corporate bonds	30.0
Index-Linked government bonds	20.0
Fixed interest government bonds	34.0
Cash	16.0
Total	**100.0**

The Trustees expect to generate a return, over the long term, of circa 0.4% per annum above gilts. This value is based on the Scheme's strategic asset allocation above and Mercer's central asset class assumptions (based on geometric expected median returns) as at 31 December 2023.

The policy for rebalancing and investment / disinvestment of cashflows is set out in Appendix B. Appendix C provides information about the selection of investment managers.

Appendix B
Cashflow and Rebalancing Policy

Following the implementation of the revised investment strategy, the Trustees commissioned a review of the cashflow and rebalancing policy, and concluded:

- Any cashflow requirements will be taken from the cash allocation within the portfolio set out in Appendix A.
- Any rebalancing back to the strategic asset allocation will be carried out on an ad hoc basis.

Appendix C

Investment Manager Information

The Scheme invests with abrdn, whose key responsibility is to manage the funds for each of the mandates within the Trustees' agreed investment strategy as set out in Appendix A. The tables below show the details of the mandate(s) with abrdn.

Matching assets

Manager / Fund	Benchmark	Objective	Dealing Frequency
Bonds			
SL Vanguard UK Government Bond Index	Bloomberg Barclays Global Aggregate U.K. Government Float Adjusted Bond Index	Track the Benchmark	Daily
SL Vanguard UK Inflation Linked Gilt Index	Bloomberg U.K. Government Inflation-Linked Float Adjusted Bond Index	Track the Benchmark	Daily
SL Vanguard UK Investment Grade Bond Index	Bloomberg GBP Non-Government Float Adjusted Bond Index	Track the Benchmark	Daily
SL Vanguard UK Long Duration Gilt Index	Bloomberg U.K. Government 15+ Years Float Adjusted Bond Index	Track the Benchmark	Daily
Cash			
Standard Life Deposit and Treasury	Sterling Overnight Interbank Average Index	To maintain capital and provide returns before charges in line with short term money market rates.	Daily

Appendix D

Responsibilities of Parties

TRUSTEES

The Trustees' responsibilities include the following:

- Reviewing at least triennially, and more frequently if necessary, the content of this Statement in consultation and modifying it if deemed appropriate
- Reviewing the investment strategy following the results of each actuarial review, in consultation with the Scheme Actuary
- Appointing the Investment Consultant, Investment Manager(s) and custodian (if required)
- Assessing the quality of the performance and processes of the Investment Manager(s) by means of regular reviews of investment returns and other relevant information
- Assessing the performance of the Investment Consultant by means of regular reviews
- Consulting with the sponsoring employer regarding any proposed amendments to this Statement
- Monitoring compliance of the investment arrangements with this Statement on a continuing basis

INVESTMENT ADVISER

As noted in this Statement, Mercer has been appointed as Investment Adviser and advice to the Trustees includes the following:

- Setting of investment objectives
- Determining investment strategy and asset allocation
- Determining an appropriate investment structure
- Framing manager mandates
- Assistance in determining funds and investment managers that are suitable to meet the Trustees' objectives
- Selecting and replacing investment managers
- Setting cashflow management (investment and disinvestment) policies

INVESTMENT MANAGER

As noted in this Statement, abrdn has been appointed as Investment Manager and will manage the Scheme's investments on behalf of the Trustees.

The responsibilities include the following:

- Providing the Trustees on a quarterly basis (or as frequently as required) with a statement and valuation of the assets
- Informing the Trustees of any changes in the internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur
- Managing the Scheme's assets in accordance with the objectives of the Trustees

The responsibilities of the underlying investment managers include:

- Having regard to the need for diversification of investments, so far as appropriate for the particular mandate, and to the suitability of investments
- Managing their funds in accordance with their stated mandates

SCHEME ACTUARY

The Scheme Actuary's responsibilities include the following:

- Liaising with the Trustees regarding the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme
- Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequent, as required) valuations and advising on the appropriate contribution levels

ADMINISTRATOR

The Administrator's responsibilities include the following:

- Ensuring there is sufficient cash available to meet benefit payments as and when they fall due
- Paying benefits and making transfer payments
- Investing contributions not required to meet benefit payments with the Investment Manager according to the Trustees instructions.

[Type here]

Mercer Limited
Clarendon House, 23 Clarendon Road
Belfast BT1 3BG
www.mercer.com