

The Drambuie Liqueur Company Limited

Statement of Investment Principles from the Trustees

1. Background

This Investment Statement sets down the principles governing decisions about investments for The Drambuie Liqueur Company Limited Retirement Benefits Scheme (the “Scheme”) to meet the requirements of the Pensions Act 1995 (as amended). Before preparing it we have consulted the Sponsoring Company and obtained and considered the written professional advice from Mercer Limited. Where matters described in this Statement may affect the Scheme’s funding policy, input has also been obtained from the Scheme Actuary.

The Trustees will review this statement regularly to ensure it remains accurate. The Statement will be amended should any changes be made to the Scheme’s investment arrangements. The Trustees are committed to maintaining the accuracy of this Statement on an ongoing basis.

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

2. The Trustees’ Investment Objectives

In determining the strategic allocation of the Scheme’s assets, the Trustees have considered a number of objectives and associated risks to be met over the lifetime of the Scheme. The main aims are:

- To make sure that we can meet our obligations to the beneficiaries of the Scheme.
- To pay due regard to the interests of the Sponsoring Company on the size and incidence of contribution payments.

In order to ensure that an appropriate investment strategy is in place the Scheme's investment strategy was reviewed in 2017 and the following investment objectives were agreed:

- To structure the bond portfolio to hedge a proportion of the liabilities against interest rate and inflation movements to reduce the extent of the volatility of the funding level
- To ensure that the investment portfolio is consistent with the assumptions used in determining the funding of the Scheme.

As a result, the Trustees have implemented a liability-driven investment (LDI) portfolio with the aim of hedging between 50% to 55% of the impact of interest rate and inflation movements on the Scheme’s long term liabilities (gilts +0.5%

basis). The Trustees have also re-aligned and simplified the Scheme's equity portfolio.

The investment arrangements are set out below. The Trustees believe that the resulting asset mix is appropriate in meeting the aims and objectives detailed above.

Asset Class	Benchmark (%)
Equity	25.0
Global Dividend Fund	21.5
Emerging Market Equities	3.5
Alternatives	20.0
Diversified Growth Fund	20.0
Bonds	55.0
Long Corporate Bonds	35.0
Liability Driven Investment	20.0
TOTAL	100.0

The individual manager benchmarks are outlined in Appendix A, along with the Scheme's cashflow policy. The Scheme's Investment Policy is monitored on a regular basis by the Trustees.

3. The Trustees' Policy on Risk Measurement and Management

There are various risks to which any pension scheme is exposed. We have considered the following key risks:

- The risk that the investment strategy fails to deliver sufficient returns to meet the Trustees' obligations to beneficiaries;
- The risk that the investment returns result in volatile performance which in turn results in a high variability in the cost incurred by the employer.
- The risk of falling interest rates and rising inflation expectations will have on the funding of the Scheme

These risks are managed by ensuring that the investments contain an appropriate balance of equities, bonds and alternatives. The equities are used with a view to delivering returns in excess of bonds to improve the funding position. The diversified growth fund has been implemented with the view that through diversification the portfolio will retain broadly the same expected return as equities but with lower volatility.

The LDI portfolio and corporate bonds have been put in place in order to reduce the effect of the interest rate and inflation mismatch by investing in bond (and bond like) assets with similar characteristics to the liabilities.

The mix of investments is reviewed on a formal basis at each actuarial valuation.

The Trustees also pay close regard to:

- The volatility which may arise through a lack of diversification of investments – this risk is managed by investing in diversified pooled funds.
- The risk that assets are not able to be realised at short notice without incurring significant costs. This risk is managed by ensuring that all assets are invested in pooled fund units which can be redeemed on regular dealing dates. The Trustees believe that in normal market conditions the managers will be able to meet all redemption requests from the assets of the funds.
- The risk of investment managers' underperformance. The investment managers invest on an "active" basis. That is, the managers seek to outperform, rather than simply replicate, the performance of relevant market indices. This gives rise to the risk of underperformance. The Trustees have taken advice and set a realistic performance objective that should not necessitate excessive risk being taken. The Trustees accept this risk as a consequence of aiming to generate higher investment returns for the purpose of improving the long-term funding of the Scheme.
- There are also operational risks involved in the use of leveraged LDI pooled funds, including counterparty credit risk and leverage management. In light of the Scheme's LDI manager, monitor and manage these risks on behalf of the Trustees.

4. Additional Voluntary Contributions (AVCs)

The Trustees invest members' additional voluntary contributions with Aegon. With the assistance of the Scheme's consultants, these arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and the investment profile of the funds remain consistent with the objectives of the Trustees and needs of the Members.

5. Buying and selling investments

We have delegated the responsibility for buying and selling the underlying investments to the Investment Managers. The Investment Managers are regulated by the Financial Conduct Authority (the "FCA") and, as required by the Financial Services & Markets Act ("FSMA"), we have entered into a signed agreement with them. The day to day activities which the Investment Managers carry out for us are governed by the Arrangement between us, which is reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

6. Responsible Investment and Corporate Governance

The Trustees believe that good stewardship and environmental, social and governance (“ESG”) issues may have a material impact on investment returns. The Trustees also recognise that long-term sustainability issues, including climate change, present risks as well as 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 the Investment Managers full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights and stewardship obligations attached to the Scheme’s investments.

Similarly, the Scheme’s voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Equity managers who are authorised in the UK are expected to report on their adherence to the UK Stewardship Code on an annual basis. The Trustees also monitor the investment consultant’s ESG ratings that are assigned to the respective investment managers’ funds.

The Trustees do not explicitly consult members when making investment decisions but make available on request a copy of the Statement of Investment Principles.

7. Engagement with Investment Managers

The policy in relation to the Trustees’ arrangements with their investment managers are set out below.

- (i) *Incentivising investment managers to align their investment strategy and decisions with the Trustees’ policies:*

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 being selected for.

The Trustees look to its investment consultant 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.

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

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

Some appointments are actively managed and the managers are incentivised through performance targets. An appointment will be reviewed following periods of sustained underperformance. The Trustees will review the appropriateness of using actively managed funds (on an asset class basis) on an ad-hoc basis.

(ii) *Incentivising the investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer, and to engage with issuers in order to improve their performance in the medium to long-term:*

The Trustees will consider the investment consultant's assessment of how each investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the investment managers' policy on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustees can review the decisions made by their managers, including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best long term performance over the medium to long term.

The Trustees delegate all voting and engagement activities to the investment manager. When required, the Trustees will question managers' voting decisions if they deem them out of line with the investment fund's objectives or the objectives / policies of the Scheme.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

(iii) *Aligning the evaluation of the investment managers performance and the remuneration for investment management services with the Trustee policies:*

The Trustees receive quarterly investment manager performance reports and 6 monthly performance reports from their investment consultant, which present performance information over 6 month, 1 year, 3 year and 5 year periods. The Trustees review the absolute performance, relative performance against a

suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustees' focus is on long term performance but will review a manager if there are short term performance concerns.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustees may ask the manager to review their fees.

(iv) *Monitoring portfolio turnover costs incurred by the investment manager:*

The Trustees receive MiFID II reporting from their investment managers and investment consultant (where applicable) but do not analyse the information.

The Trustees do not currently monitor portfolio turnover costs but may look to do this in the future.

(v) *Duration of the arrangement with the asset manager:*

The Trustees are long term investors and are not looking to change the investment arrangements on a frequent basis.

As the funds in which the Scheme invests are open-ended, there is no set duration for the manager appointments. The Trustees will 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 appointment has been reviewed and the Trustees have decided to terminate.

8. Compliance with this Statement

We, the Trustees of The Drambuie Liqueur Company Limited Retirement Benefits Scheme, the Investment Managers and Mercer Limited, our Consultants, each have duties to perform to ensure compliance with this Statement. These are:

The Trustees will review this Statement regularly and after any material change in the investment policy on the advice of Mercer Limited and will record compliance with it on an annual basis.

The Investment Managers 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 actions undertaken on behalf of the Scheme together with a summary of their current stated policy.

The Investment Managers, who have received a copy of this Statement, will have regard to the need for diversification and suitability of investments to the Scheme and the Trustees principles contained herein.

Mercer Limited, our consultants, will provide the advice needed to allow us to review and update this statement at least every three years (or more frequently if required).

For and on behalf of The Trustees of The Drambuie Liqueur Company Limited Retirement Benefits Scheme

September 2020

Appendix A – Investment Manager Arrangements

1. Investment Benchmarks

Fidelity

Asset Class	Benchmark %	Control Range %	Benchmark Index
Equities	41.75		
Global Dividend Fund	37.5	+/- 5.0%	MSCI AC World Index
Emerging Markets	4.25	+/-4.0%	MSCI Global Emerging Markets Free Index GDR
Bonds	58.25		
Long Corporate bonds	58.25	+5.0%/-10.0%	Merrill Lynch Eurosterling Over 10 Year Index
Total	100.0		

Insight

Asset Class	Benchmark %	Control Range %	Benchmark Index
Alternatives	100.0		
Broad Opportunities Fund	100.0	n/a	3 Month GBP LIBID
Liability Driven Investment (LDI)*	100.0	n/a	Bespoke benchmark

*This portfolio includes a range of LDI and fund investing in cash plus instruments in order to hedge the target proportion of liabilities.

Total Fund

Manager	Benchmark %	Control Range %	Benchmark Index
Fidelity	60.0	+/-3.0%	Composite
Insight – DGF	20.0	+/-3.0%	3 Month GBP LIBID
Insight – LDI	20.0	+/-3.0%	Bespoke benchmark
Total	100.0		

2. Cashflow policy

The asset split between the three portfolios will be reviewed every six months. At the time of the review the Trustees will set the cashflow policy for the forthcoming six month period, whereby disinvestments are taken from the most overweight portfolio relative to the Total Fund benchmark outlined above (given a net deficit in cashflow) and vice versa.

In the event of the assets exceeding +/-3.0% of the weights detailed above, and cashflow is insufficient to rebalance the portfolios back towards their target weights, the Trustees will review and agree the action to take in order to rebalance the assets back towards the Total Fund benchmark.

3. Performance Targets

The Fidelity Global Dividend Fund performance target is to outperform the MSCI AC World Index benchmark by 1.0% p.a. gross of fees, over rolling three year periods.

The Fidelity Emerging Markets Fund performance target is to outperform the MSCI Global Emerging Market Free Index GDR.

The Fidelity Corporate Bond Fund performance target is to outperform the Merrill Lynch Eurosterling Over 10 Year Index by 0.75% p.a. over a rolling 3 year period.

The Insight Broad Opportunity Fund performance target is to deliver long term returns of 3.0%-5.0% p.a. (net of fees) above the benchmark of 3 month LIBID.

The Insight LDI portfolio target is to match its bespoke benchmark within reasonable tolerances. The benchmark is designed to broadly match the changes in the Scheme's long term liabilities.

4. Risk Levels

Fund	Investment Risk Objective (% p.a.)
Fidelity Global Dividend Fund	c.10.3*
Fidelity Institutional Emerging Markets Fund	4.0 – 8.0
Fidelity Institutional UK Long Corporate Bond Fund	0.0 – 1.5
Insight Broad Opportunities Fund	c.7.0**
Insight LDI Enhanced Selection Funds	n/a

*The Fidelity Global Dividend Fund does not have a volatility target. The annualised volatility of the funds over 3 years to 30 September 2017 was 10.3% p.a.

**The Insight Broad Opportunities Fund does not have a volatility target. The average volatility of the Fund is expected to be less than half the volatility of the equity market, averaging around 7.0%.

5. Fees

The management fees charged by Fidelity Investment Management are 0.74% p.a. on the Equity Funds, and 0.30% p.a. on the Corporate Bond Fund.

The management fees charged by Insight Investment Management are 0.5% p.a. on the Insight Broad Opportunities Fund.

The management fees charged by Insight Investment Management are 0.1% p.a. on the LDI portfolio and the Insight Liquidity Sterling Plus Fund.

Appendix B – Statement of Investment Beliefs

The Fund’s investment beliefs outline key aspects of how it sets and manages the Fund’s exposures to investment risk. They are:

- High Level Strategic Beliefs
- Second Order Strategic Beliefs
- Manager Structure/Style
- Governance/ESG

High Level Strategic Beliefs

Investment policy is defined in terms of a strategic split across a range of asset classes. The characteristics of an investment portfolio (particularly in terms of risk and return) are best set by establishing specific allocations to major asset classes. This implies that a long term approach to investing is likely to be more successful than a short term approach.

Growth exposure is currently 45% of total assets:

- The Trustees are prepared to invest in assets that are not risk free in the belief that this should lead to better performance than assets with guaranteed returns/capital security.
- They are willing to tolerate the risk that these assets do not deliver the level of return expected of them and can fall in value. They do so in the belief that the level of risk is within the Sponsor’s ability to make good over a reasonable timeframe.

Reduction in growth exposure when affordable to do so:

- This implies that the Trustees are less willing to tolerate funding volatility in future. As the Scheme matures over the medium to longer term, the Trustees will wish to remove any deficit over a shorter period.
- The intention to reduce exposure over time is consistent with the Scheme’s investment objectives and may also suggest that a gradual move will reduce the risk of de-risking substantially at an inopportune time.

The Scheme holds 55% in “matching assets”, which hedges 50% - 55% of interest rate and inflation risk on gilts +0.5% basis:

- It is important to limit the Scheme’s funding volatility and this can be achieved by reducing the mismatch between exposure to interest rate and inflation changes in the assets vs the liabilities. This is more important than absolute levels of volatility.
- As an initial step, the Trustees wished to balance the extent of the interest rate and inflation risk within the Scheme and hedge 50% to 55% (relative to gilts +0.5% liabilities). This was seen as a suitable compromise between protecting the downside risk, level of leverage required and improvements to funding should interest rates/inflation improve from their current levels.

- The intention is that for the level of matching assets and hedging ratios to be increased when there are appropriate opportunities to do this either as result of funding level improvements and/or improvements in interest rates and breakeven inflation rates.

Second Order Strategic Beliefs

Tactical deviations from the long term strategy are limited. It is difficult to predict with confidence the success of short term tactical moves and the additional downside of the cost of implementation, together with the risk of underperforming the long term strategy if unsuccessful, argue against doing so to a significant degree.

The Trustees believe that some skill does exist in this area (noting that their Diversified Growth and Global Dividend managers have discretion to take such tactical views on the proportion of assets under their management).

Diversification of the growth assets across asset classes and markets retaining significant allocation to equities:

- The Trustees believe that equities are an attractive asset for generating long term return.
- They also see benefit in diversifying exposure across alternative sources of return and across markets.
- They consider the risk reduction benefit of this approach outweighs any view that alternative assets will perform less well than equities (otherwise the risk reduction could be achieved equally well by holding less in equities).

Matching assets are invested in a mix of gilts (including LDI) and corporate bonds:

- While gilts, swaps and LDI provide the most secure exposure to interest rate and inflation sensitive assets, the additional yield (credit spread) from corporate bonds provides an effective means of contributing to overall Scheme return, adding to the return expected from the growth assets.

Investments are predominately in liquid and traded markets:

- The Trustees can only tolerate illiquidity to a limited extent, and any expected premium gained from holding illiquid assets is outweighed by potential downsides including:
 - The ability to convert investments to cash in the short term, e.g. to meet benefits or to enable a change in strategy.

Manager Structure/Style

Growth assets are invested predominately in active funds. The Trustees believe in active management in global equities, including emerging market equities, and their diversified growth mandate should deliver superior performance net of fees. A measurement period of 3 to 5 years (consistent with performance targets) is appropriate.

They are willing to tolerate deviations from benchmark including periods of underperformance. They believe that investment in a mandate with wide discretion to invest across markets (Global Dividend Fund) and across asset classes (Diversified Growth Fund) can improve the overall risk and return characteristics of the growth portfolio

Risk reduction assets are managed predominantly on a passive basis (gilts/LDI) and on an active basis (corporate bonds) to reduce risk relative to liability movements:

- There is some scope for added value in gilt markets, however, the main focus is on achieving an appropriate hedge in an efficient manner. Insight have some discretion to “add value” via the choice of instruments used.
- A passive index-tracking approach to corporate bond management is inefficient and it is better to operate a selective, active approach.

Decisions to appoint/retain managers:

- The Trustees believe that it is possible with expert advice to select investment managers who are likely to deliver outperformance/manage risk better relative to the market based on an assessment of the investment managers’ team and processes.
- Past performance (including risk) may be an indicator of skill, but cannot be considered in isolation.

Governance/ESG

Strategy and manager decisions are taken by the Trustees after taking advice:

- The Trustees wish to retain the responsibility for a) strategic and b) investment manager decisions, and take advice (as they are required to do) from suitably qualified individuals.
- The Trustees are willing, however, to accept some delegation through the type of mandate e.g. by enabling the Diversified Growth Fund to take decisions guided only by an objective of delivering a “cash plus” return.

The full trustee board considers and makes decisions:

- Given the size of the Trustee board the Trustees believe that it is more effective to address investment issues as part of the main Trustee Board. Decision-making can generally be effective based on six monthly meetings.

ESG issues are delegated to individual managers:

- The Trustees have not formed a particular view on the potential impact of ESG issues on performance prospects including risk (shorter or longer term).
- They are happy to rely on their appointed managers to express their own views, to the extent allowed in their portfolios.
- It is however important to monitor managers’ policies and processes which the Trustees do on a six monthly basis.