

Stanplan F – The Royal Highland and Agricultural Society of Scotland (the “Scheme”)

Statement of Investment Principles (the “Statement”)

Scope of Statement

This Statement has been prepared in accordance with sections 35 and 36 of the Pensions Act 1995, as amended by sections 244 and 245 of the Pensions Act 2004, respectively, and the Occupational Pension Schemes (Investment) Regulations 2005.

This statement has been commissioned by Entrust Pension Limited (the "Trustee"), as Trustee of the Scheme. The Scheme's assets are held in trust for the Scheme by the Trustee, whose powers of investment are set out in the Stanplan F General Rules.

The effective date of this Statement is January 2021. The Trustee will review this Statement and the Scheme's investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy.

Consultations made and parties involved

The Trustee has consulted with the Employer prior to writing this Statement and will take the Employer's comments into account when it believes it is appropriate to do so. The Trustee will also consult with the Employer on any revision to this statement.

The Trustee is responsible for the investment strategy of the Scheme. It has obtained and considered written advice on the investment strategy appropriate for the Scheme. It has obtained advice on the preparation of this Statement and this advice was provided by Aon Solutions UK Limited (“Aon”) which is authorised and regulated by the Financial Conduct Authority.

A copy of this Statement is available to the members of the Scheme.

Objective

The objective of the investment strategy is to ensure that the Scheme's assets and future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Scheme as they arise.

Investment policies

This Statement details the Trustee's policies on:

1. matters relating to the kinds of investments held by the Scheme;
2. stewardship and, in particular, voting and engagement activities; and
3. its arrangements with asset managers.

1. Matters relating to the kinds of investments held by the Scheme

1.1 Kinds of investments

The Trustee has decided to invest the Scheme's assets in Aon's Delegated Consulting Service ("DCS"). Management of the Scheme's assets has been delegated to Aon Investments Limited ("AIL"), which is authorised and regulated by the Financial Conduct Authority.

Under DCS, AIL manages the Scheme's assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. AIL conducts the necessary day to day management of the funds required to meet the Trustee's objectives and appoints asset managers to manage investments on behalf of the Trustee ("Underlying Managers").

1.2 The balance between different kinds of investment

Under DCS, the Scheme will have an allocation between six different funds as detailed in the table below. The strategic allocation to each component is determined by the target level of return, and target hedging of interest rates and inflation.

Investment	Objective	Return Target
Growth Fund	To generate long term capital growth through investment in a diversified portfolio of return-seeking assets.	LIBOR ⁽³⁾ +4% p.a.
Nominal +3 Fund	A mixture of diversified return-seeking assets and investments designed to match the Scheme's nominal liabilities.	Gilts ⁽¹⁾ +3% p.a.
Real +3 Fund	A mixture of diversified return-seeking assets and investments designed to match the Scheme's real liabilities.	Gilts ⁽²⁾ +3% p.a.
Nominal +1 Fund	A mixture of diversified return-seeking assets and investments designed to match the Scheme's nominal liabilities.	Gilts ⁽¹⁾ +1% p.a.
Real +1 Fund	A mixture of diversified return-seeking assets and investments designed to match the Scheme's real liabilities.	Gilts ⁽²⁾ +1% p.a.
Absolute Return Bond Fund	A mixture of diversified fixed income and credit assets, with limited sensitivity to changes in interest rates.	LIBOR ⁽³⁾ +2% p.a.

(1) The benchmark used for gilts in the Nominal Funds is 20 year zero-coupon fixed interest gilts.

(2) The benchmark used for gilts in the Real Funds is 20 year zero-coupon index-linked gilts.

(3) The LIBOR benchmark referenced above is likely to change to the Sterling Overnight Index Average (SONIA) during 2021. This is due to the discontinuation of LIBOR.

The Trustee reviews the investment strategy in conjunction with each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way). The Trustee takes written advice from its professional advisers regarding an appropriate investment strategy for the Scheme.

The Scheme's investment strategy has been established as laid out below. The Scheme's actual position relative to this asset allocation strategy is to be reviewed on an annual basis in order to determine whether any rebalancing is required. This monitoring is to be conducted relative to the control ranges set out in the table below by the Scheme's administrator, Isio. In addition, quarterly monitoring received by the Trustee will enable it to identify whether or not corrective action needs to be taken on an exceptions basis.

Investment	Target Weight	Control Ranges
Growth Fund	–	–
Nominal +3 Fund	5.0%	0.0% - 15.0%
Real +3 Fund	25.0%	15.0% - 35.0%
Nominal +1 Fund	7.5%	0.0% - 17.5%
Real +1 Fund	47.5%	37.5% - 57.5%
Absolute Return Bond Fund	15.0%	5.0% - 25.0%

As at the effective date of this Statement, the target investment strategy had an overall allocation to return-seeking assets of broadly 40% and an overall allocation to liability matching assets and the Absolute Return Bond Fund of broadly 60%.

1.3 Expected returns on assets

The target return of each individual investment is outlined in the above table. Broadly speaking, the objective of the Growth Fund and the Absolute Return Bond Fund are to generate long term capital growth through investment in a diversified portfolio of assets. Similarly, the Nominal and Real Funds seek to do this to varying degrees, whilst simultaneously matching movements in liabilities on an exposure basis.

1.4 Risks arising from the investments and risk management

The Trustee measures and manages the credit risk, market risk and liability mismatching risk of the Scheme's investments on a regular basis. In the case of market risk, the Trustee makes distinction between risks that arise from currency exposure, interest rate and inflation exposure, and other pricing risks.

Measurement of each of the risks is detailed in ongoing reporting provided by Aon. The methods the Trustee employs for managing each risk is set out below.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other part by failing to discharge an obligation.

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. AIL carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of a pooled manager.

Indirect credit risk arises in relation to exposure to underlying bond pooled investment vehicles. This risk is mitigated through the underlying exposures on aggregate basis being predominantly investment grade credit securities, and by funds holding a diverse portfolio of investments with exposure to a range of issues and issuers.

Cash is held within financial institutions which are at least investment grade credit rated.

b) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets via pooled investment vehicles. AIL may enter into currency exchange transactions and/or use techniques and instruments to seek to protect against fluctuation in the relative value of its portfolio positions as a result of changes in currency exchange rates between the trade and settlement dates of specific securities transactions or anticipated securities transactions.

c) Interest rate and inflation risk

Interest rate and inflation risk is the risk that the fair value or future cash flows of a financial asset, primarily bonds, interest rate swaps and pooled investment vehicles held mainly in bonds, will fluctuate because of changes in market interest rates and/or inflation.

The Scheme is subject to interest rate and inflation risk because some of the Scheme's investments are held in gilt derivatives, through pooled vehicles, and cash. These investments are held in order to mitigate the impact of interest rate and inflation changes on the Scheme's liabilities. The Scheme also has some exposure to bond pooled investment vehicles as part of its diversified return seeking growth portfolio.

d) Liability mismatching risk

Liability mismatching risk is the risk that changes in the value placed on the Scheme's liabilities are not matched by appropriate changes in the value of the Scheme's assets.

The Scheme's investment strategy is determined through asset-liability modelling exercises. This enables measurement of the extent of liability mismatching risk through qualitative and quantitative assessment of the expected volatility of the liabilities relative to the Scheme's current and alternative investment strategies. On an ongoing basis, the risk is managed by assessing the progress of the actual growth of the liabilities relative to the selected investment strategy.

e) Other price risk

The Trustee defines other price risk as the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Other price risk arises principally in relation to the Scheme's return seeking assets which are held in pooled vehicles, investing in turn in a diversified range of pooled vehicles including, but not limited to, equities, fixed income, debt, property, infrastructure, hedge funds and other asset classes.

1.5 Realisation of investments and liquidity

The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (through the sale of units in pooled funds).

1.6 Environmental, Social, and Governance (“ESG”) considerations

The Trustee considers investment risk to include ESG factors and climate change. These risks could negatively impact the Scheme's investments. The Trustee considers these risks by taking advice from its investment adviser.

The Trustee has appointed AIL to manage the Scheme's assets. AIL invests in a range of underlying investment vehicles. As part of AIL's management of the Scheme's assets, the Trustee expects AIL to:

- where relevant, assess the integration of ESG factors in the investment process of Underlying Managers;
- use its influence to engage with Underlying Managers to ensure the Scheme's assets are not exposed to undue risk; and
- report to the Trustee on its ESG activities as required.

1.7 Members' views and non-financial factors

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social

and environmental impact, or present and future quality of life matters (defined as "non-financial matters"¹).

2. Stewardship – voting and engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustee, on an annual basis, reviews the stewardship activity of AIL to ensure the Scheme's stewardship policy is being appropriately implemented in practice. The Trustee receives annual reports on stewardship activity carried out by AIL. These reports include detailed voting and engagement information from Underlying Managers.

As part of AIL's management of the Scheme's assets, the Trustee expects AIL to:

- ensure that (where appropriate) Underlying Managers exercise the Trustee's voting rights in relation to the Scheme's assets; and
- report to the Trustee on stewardship activity by Underlying Managers as required.

The Trustee will engage with AIL as necessary for more information, to ensure that robust active ownership behaviours, reflective of the Trustee's active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members on request.

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular where: votes were cast against management; votes against management generally were significant; votes were abstained; voting differed from the voting policy of the Trustee.

Where voting is concerned, the Trustee expects the Underlying Managers to recall stock lending, as necessary, in order to carry out voting actions.

The Trustee may engage with AIL, which in turn is able to engage with Underlying Managers, investee companies or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustee will consider, on a case-by-case basis, a range of methods by which it would monitor and engage so as to bring about the best long-term outcomes for the Scheme.

¹ The Occupational Pension Schemes (Investment) Regulations 2005 (SI 2005/3378), Reg. 2.

3. Arrangements with asset managers

3.1 Alignment of interests and decision making

The Trustee has appointed AIL as its fiduciary manager and considers AIL to be its asset manager.

The Trustee recognises that the arrangements with its fiduciary manager, and correspondingly the Underlying Managers, are important to ensure that interests are aligned. In particular, the Trustee seeks to ensure that AIL is incentivised to operate in a manner that generates the best long-term results for the Scheme and its beneficiaries.

The Trustee receives quarterly reports and regular verbal updates from AIL on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objectives, and assesses AIL over 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by AIL, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this Statement, with AIL and requests that AIL reviews and confirms whether its approach is in alignment with the Trustee's policies.

The Trustee delegates the ongoing monitoring of Underlying Managers to AIL. AIL monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the Underlying Managers are aligned with the investment objectives of the Scheme. This includes monitoring the extent to which the Underlying Managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee believes that having appropriate governing documentation, setting clear expectations to AIL, and regular monitoring of the AIL's performance and investment strategy, is sufficient to incentivise AIL to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where AIL is considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically engage with AIL to understand the circumstances and materiality of the decisions made.

Before appointment of a new fiduciary manager, the Trustee will review the governing documentation associated with the appointment and will consider the extent to which it aligns with the Trustee's policies, as set out in this Statement. Where possible, the Trustee will seek to amend that

documentation or express its expectations (such as through side letters, in writing, or verbally at Trustee meetings) so that there is more alignment.

3.2 Evaluation of performance and remuneration

The Trustee assesses the net of all costs performance of AIL on a rolling three-year basis against the Scheme's specific liability benchmark and investment objective. The remuneration paid to AIL and fees incurred by third parties appointed by AIL are provided annually by AIL to the Trustee. This cost information is provided alongside the performance of AIL to provide context. The Trustee monitors these costs and performance trends over time.

3.3 Cost monitoring

The Trustee is aware of the importance of monitoring its asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by its investments.

The Trustee receives annual cost transparency reports from AIL. These reports present information in line with prevailing regulatory requirements for fiduciary managers. They clearly set out on an itemised basis:

- the total amount of investment costs incurred by the Scheme;
- the fees paid to AIL;
- the fees paid to the Underlying Managers appointed by AIL;
- the amount of portfolio turnover costs incurred by the Underlying Managers (the Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the Underlying Managers);
- any charges incurred through the use of pooled funds (custody, administration, and audit fees); and
- the impact of costs on the investment return achieved by the Scheme.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. AIL monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the Underlying Managers.

The Trustee benefits from the economies of scale provided by AIL in two key cost areas:

- the ability of AIL to negotiate reduced annual management charges with the Underlying Managers; and

- the ability of AIL to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the Underlying Managers and achieve efficiencies where possible.

3.4 Duration of arrangements

There is no set duration for the Trustee's arrangement with AIL, although the continued appointment will be reviewed periodically.

Similarly, there are no set durations for arrangements with the Underlying Managers, although these are regularly reviewed as part of AIL's manager research and portfolio management processes.

4 Additional Voluntary Contributions

Under the terms of the Trust Deed the Trustee is responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. The Trustee reviews the investment performance of the chosen providers on a regular basis and takes advice as to the providers' continued suitability.

Signed on behalf of Entrust Pension Limited, Trustee of the Stanplan F – The Royal Highland and Agricultural Society of Scotland

Name (print)

Signature

Date