The Scottish Investment Trust plc Retirement Benefits Scheme

Statement of Investment Principles

February 2021

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01 **Introduction**

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the Scottish Investment Trust plc Retirement Benefits Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustees of the Scheme and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is John Gordon of XPS Pension Group and the Investment Adviser is XPS Investment (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with the Scottish Investment Trust plc ('the Employer') and the Advisers and have obtained and considered written advice. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme's assets and the administration of the Scheme. Where it is required to make an investment decision, the Trustees always obtain advice from the Investment Adviser first and they believe that this ensures that they are appropriately familiar with the issues concerned.

Given the size of the Scheme, the Trustees have decided the most cost effective way of investing the Scheme assets is to invest in pooled funds on a life platform, rather than directly appointing an individual investment manager. Decisions about which pooled funds to invest in are made after receiving investment advice from an FCA regulated firm.

01.01 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

Signed .... Date ....

Name: ....

For and on behalf of the Trustees of the Scheme

02 **Scheme Governance**

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the managers of pooled funds and seeking advice from the relevant Advisers where necessary. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

The Trustees have decided not to appoint an Investment Sub-Committee to deal with investment matters.

03 **Investment Objectives**

The Trustees have decided upon the following objectives:

- The Trustees' primary objective will be to seek to be able to meet all current and future liabilities from the assets of the Scheme as and when they fall due;
- Having regard to the primary investment objective and subject to the (current strong) strength of the employer covenant, the Trustees will seek to achieve a level of investment return which aims to mitigate the cost of the Scheme to the Employer over the long term;
- The Trustees will also have regard to the profile of the members of the Scheme, by looking to reduce over time the unrewarded risks (such as interest rate risk) that are currently prevalent in the Scheme in an efficient manner.
- The Trustees will seek to use the skills of investment managers to reduce volatility and to diversify across asset classes where prudent to do so given the other investment objectives.

The Trustees believe the investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary.

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements and pooled fund documentation with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustees or governing the pooled funds in which the Scheme is invested.

The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations, including the selection / deselection criteria.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

04 **Asset Allocation Strategy**

The Trustees have taken the view that the investment objective is best achieved by determining, and investing in accordance with, an appropriate split between "on-risk" assets (e.g. equities, property, high-yield corporate bonds, diversified growth funds and 'rotational' funds) and "off-risk" assets (e.g. fixed and index-linked gilts, high quality corporate bonds and liability-driven investment funds).

The allocation between the asset classes making up the on-risk and off-risk assets will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes and the perceived risk to the primary investment objective arising from any shortfall in the funding of the Scheme. Any changes in allocations will only be made after receiving written advice from the Investment Advisers that such allocation is consistent with the investment objectives.

The Trustees have decided that the investment objectives would best be met by a strategy of holding any off-risk assets within a portfolio of liability-driven investment funds ("LDI Funds") that seek to hedge out an element of the inflation and interest rate risks of the Scheme in an efficient manner and will seek to transition the existing holdings of matching assets into LDI Funds once they have received advice as to which funds are most suitable.

04.01 Rebalancing Policy

The Trustees, in conjunction with the Advisers, will monitor the actual asset allocation of the Scheme on a biannual basis via the governance report. If the actual allocation moves further than -/+5% from the agreed allocation, the Trustees will make a decision as to whether to switch assets back to the strategy following consideration of advice.

04.02 Rates of Return

The target rates of return for each asset class are detailed in Appendix B.

04.03 Platform provider

The Trustees have purchased a life policy through Mobius Life ("the Platform Provider") within which to hold and administer the Scheme's assets. The Platform Provider is Authorised by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority. Pooled funds are selected from those available from the Platform Provider. The Trustees have satisfied themselves, having received investment advice, that the range of pooled funds available is sufficient to meet their objectives and that any insurance risk is more than offset by a reduction in operational risk and lower costs of switching between pooled funds.

04.04 Diversification

The Trustees have sought to achieve diversification by investing in pooled funds which have investment restrictions i.e. funds which impose concentration limits on individual positions, limits on the exposure to individual issuers or other controls on risk and volatility. Generally speaking each asset class would expect to have different issuers and therefore add to the diversification of the Scheme. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

04.05 Suitability

The Trustees will obtain advice from the Investment Advisers as to the suitability of any pooled fund before making an investment.

The Trustees have chosen to hold a significant portion of the Scheme's assets in pooled funds invested in "on-risk" assets (e.g. diversified growth funds and equities) to help achieve the investment objectives by aiming to provide additional expected return above that achieved by the "off-risk" assets. The balance will be held in LDI Funds (the "off-risk" assets) to provide some degree of matching with the Scheme's liabilities in an efficient manner and this portion will increase over time as the Scheme matures and the funding level increases. Ultimately as the Scheme approaches full maturity the Trustees expects to add funds invested gilts and/or corporate bonds to the "off-risk" assets.

04.06 Liquidity

All of the non-cash assets are held in pooled funds with frequent dealing dates.

04.07 DC Section

The Scheme has one member who holds units in the return seeking funds as a DC investment. The member no longer contributes into this fund. The Trustees review this investment periodically on a proportionate basis.

05 **Strategy Implementation**

The Trustees have decided to invest in actively managed funds but the LDI Funds will be passively managed and future investment in actively managed funds will only be considered where the Trustees reasonably believe the manager can add value over and above the additional fees.

05.01 Mandate and Performance Objectives

The Trustees have received advice on the suitability of each pooled fund that the Scheme is invested in from the Advisers. The benchmark for each fund currently held and its objectives are set out in Appendix B.

05.02 Manager Agreement

The Trustees have invested in pooled funds and as such there is no formal Manager Agreement setting out the scope of any Investment Manager's activities, its charging basis and other relevant matters. However, Appendix B contains a note on the charging structures set by each organisation for the pooled funds in which the Trustee Directors have decided to invest.

05.03 Diversification

The assets are invested in pooled funds with diversification requirements. The Trustees will monitor the pooled funds regularly to ensure that they are comfortable with the level of diversification being achieved. The Trustees have agreed to avoid direct equity investment as a means of diversification from the Company's business.

05.04 Diversification

Custody of the underlying assets is at the discretion of the pooled funds, whilst shares and/or units in the funds are held in book form only. Cash is held securely in separate accounts with approved counterparties.

06 **Monitoring**

06.01 Pooled funds

The Trustees will monitor the performance of the funds against their stated performance objectives.

The Trustees, or the Advisers on behalf of the Trustees, will regularly review the performance of the funds to satisfy themselves that the funds remain suitable.

If the Trustees are not satisfied with the performance of the funds they will ask the manager of those funds what steps they intend to take to rectify the situation. If the funds still do not meet the Trustees' requirements, they will look to purchase other funds - potentially with a different manager - after consultation with the Investment Adviser.

The Trustees will monitor the advice given by the Advisers on a regular basis.

06.02 Investment Managers

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

The Trustees receive, and consider, regular performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the Trustee's selection and deselection criteria that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate.

These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee's meetings as requested.

The Investment Consultant has also carried out a review of how well the Trustee's guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustees will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

06.03 Platform Provider

The Trustees together with the Investment Advisers keeps the credit rating and solvency ratios of the platform provider under regular review as well as ensuring the choice of pooled funds on the platform is sufficiently diverse.

06.04 Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

06.05 Other

The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

07 **Fees**

07.01 Pooled Funds

The Trustees will ensure that the fees charged by funds and their expense ratios are consistent with levels typically available in the industry for passive/active funds. The current fee basis for each of the funds is set out in Appendix B.

The Trustees are aware of the pooled funds provider's policy regarding soft commission arrangements. Information about the pooled funds provider's fees, commissions and other transaction costs is available in the annual report of the pooled funds in accordance with the Financial Conduct Authority ('FCA') Disclosure Code.

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence. The Trustees do not believe it appropriate to set a specific turnover target or limit, but they expect their Investment Managers to keep turnover to a minimum and be able to justify any turnover in terms of improved performance or reduced risk.

07.02 Platform Provider

The charge for the Platform Provider is 0.035% of the Scheme's invested assets per annum.

07.03 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

07.04 Custodian

There is no custodian appointed directly by the Trustees.

07.05 Trustees

The Independent Trustee is paid for his services. None of the other Trustees are paid directly for their duties, although their expenses are met and they are given time off from their other employment duties (where relevant) to attend the periodic Trustees' meetings.

08 **Risks**

The Trustees recognise a number of risks involved in the investment of assets of the Scheme:

i. The risk of failing to meet the objectives as set out in Section 3 – the Trustees will obtain advice from the Investment Advisers as to which pooled funds are likely to best meet the investment objectives and will closely monitor performance..

ii. The risk of adverse consequences arising through a mismatch between the Scheme's assets and its liabilities. A degree of mismatching is accepted, supported by the sponsor covenant. This continued risk is monitored and addressed through the asset allocation strategy and regular actuarial and investment reviews.

iii. Risk of lack of diversification of investments – addressed through investing in pooled funds with diversification requirements and through the asset allocation policy.

iv. Risk of holding assets that cannot be easily sold should the need arise addressed through the use of pooled funds with frequent dealing dates.

v. Underperformance risk – addressed through only investing in actively managed funds where the manager is expected to add value and monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.

vi. Organisational risk – addressed through holding the pooled funds within a single life policy and by regular monitoring of the pooled funds provider and the Advisers.

vii. Sponsor risk – the risk of the Employer ceasing to exist, which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy.

viii. Interest rate and inflation risk – the risk of increases in future liabilities due to inflation or decreases in interest rates is managed by investing in leveraged LDI Funds which are expected to perform in line with the liabilities.

ix. Counterparty risk – the risk of loss due to the failure of a counterparty is managed by investing in LDI Funds where the counterparty has a strong credit rating and where surplus margin is regularly swept back to the custodian.

x. Insurance risk – the risk that the platform provider fails is managed by using an insurer with no general insurance risks and by monitoring the solvency ratios of the platform provider.

xi. Environmental, Social and Governance risk – the risk that environmental, social and governance factors are not given significant consideration. This is addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

The Trustees will keep these risks under regular review.

09 **Other Issues**

09.01 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

09.02 Environmental, Social and Governance

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The Trustees have determined their approach to financially material considerations over the Scheme's long term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustees require the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers and encourages them to vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

Further, the Trustees' policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

Appendix A Responsibilities

Trustees

The Trustees of the Scheme are responsible for, amongst other things:

i. Determining the investment objectives of the Scheme and reviewing these from time to time.

ii. Agreeing an investment strategy designed to meet the investment objectives of the Scheme.

iii. Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.

iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review or following a change in the strength of the employer covenant, in consultation with the Advisers.

v. Assessing the quality of the performance and process of the Investment Manager by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.

vi. Selecting pooled funds which are consistent with the investment strategy after consultation with the Advisers.

vii. Assessing the ongoing effectiveness of the Advisers.

viii. Consulting with the Employer when reviewing investment policy issues.

ix. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.

x. Informing the Advisers of any changes to Scheme benefits and significant changes in membership.

xi. Monitoring the risks associated with utilising a platform provider.

Platform Provider

The platform provider's responsibilities include:

i. The safekeeping of all the assets of the Scheme held on the platform.

ii. Processing the settlement of all transactions.

iii. Undertaking all appropriate administration of the Scheme's assets.

iv. Processing all dividends and tax reclaims in a timely manner.

v. Dealing with corporate actions.

vi. Providing access to a range of appropriate pooled funds.

Appendix A Responsibilities continued

Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

i. Participating with the Trustees in reviews of this SIP.

ii. Advising the Trustees how any changes within the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested.

iii. Advising the Trustees of any changes in the Scheme's Investment Manager that could affect the interests of the Scheme.

iv. Advising the Trustees of any changes in the investment environment that could either present opportunities or problems for the Scheme.

v. Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and current Investment Manager, and selection of new managers/custodians/performance measurers, as appropriate. Scheme Actuary.

vi. Advising the Trustees as to whether any proposed new investments are suitable and/or whether existing investment should be sold.

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

i. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

ii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.

iii. Advising the Trustees and Investment Adviser of any changes to contribution levels and funding level.

Appendix B
Asset Allocation

The Trustees have migrated the Scheme assets onto the Mobius Life platform. Mobius Life are instructed to invest in line with the Scheme's strategic allocation below:

Asset Class	Fund	%	Investment Style
Diversified Growth	BG Diversified Growth Fund	35	Active
Liability Driven Investment	LGIM Matching Core and Gilt Funds	65	Passive

Expected Returns and Performance Monitoring

The Trustees have received advice on the appropriateness of each Investment Manager's target, benchmark and risk tolerance from the Investment Adviser and believe them to be suitable to meet the Scheme's investment objectives. Each Investment Manager is mandated by the Trustees to manage the investments in a particular way, and details of these mandates are described below:

LGIM

Fund	Benchmark Index	Objective
BG Diversified Growth Fund	UK Base Rate	To outperform the benchmark index by at least 3.5% p.a. (net of fees) over rolling five year periods with an annualised volatility of less than 10%.
LGIM Matching Core Fund	Customised Markit Index investing in higher yielding assets from a selection of swaps and gilts, allowing for funding and transaction costs.	To track the performance of the Benchmark Index as closely as possible.
LGIM All Stocks Gilt Index Fund	FTSE Actuaries UK Conventional Gilts All Stocks Index	The investment objective of the fund is to track the performance of the FTSE Actuaries UK Conventional Gilts All Stocks Index to within +/-0.25% p.a. for two years out of three.
LGIM Over 5 Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index	The investment objective of the fund is to track the performance of the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index to within +/-0.25% p.a. for two years out of three.

Fees

The investment management fees paid to the pooled fund provider are as follows:

Manager	Fund Name	Charges % p.a.	
		Annual Management Charge (AMC)	Additional Charges
Baillie Gifford	Diversified Growth Fund	[redacted]	[redacted]
LGIM	Matching Core Fixed Long	[redacted]	[redacted]
LGIM	Matching Core Real Long	[redacted]	[redacted]
LGIM	LGIM All Stocks Gilt Index Fund	[redacted]	[redacted]
LGIM	LGIM Over 5 Year Index-Linked Gilts Index Fund	[redacted]	[redacted]
LGIM	Matching Core Fixed Short	[redacted]	[redacted]

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