DEFAULT ARRANGEMENT STATEMENT OF INVESTMENT PRINCIPLES

Scone Estates Retirement Benefits Scheme

Contents

1. Introduction

This document has been produced by the Trustee of the Scone Estates Retirement Benefits Scheme (the "Scheme") after receiving advice from Argyle Consulting Ltd ("Argyle").

It has been prepared to comply with Section 35 of the Pensions Act 1995 as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015/879.

The aims, policies and objectives of the Statement of Investment Principles ensure that the assets in the Scheme's default arrangement (the "Default Arrangement") are invested in the best interests of members and beneficiaries.

The Scheme consists of both 'defined contribution' ("DC") and 'defined benefit' ("DB") assets, and Scheme members may have DC benefits, DB benefits, or a combination of the two (in certain of those cases and depending on a member's dates of service, his or her DC benefits may be converted using a DB basis when the member begins to draw his or her benefits). The Trustee's investment powers, including as applicable to the Default Arrangement, are set out in the Scheme's Trust Deed and Rules and subsequent amending deeds. This Statement is consistent with those powers.

2. Default Arrangement Statement of Investment Principles

This Statement sets down the principles governing decisions about the investment of the Default Arrangement assets and supersedes any previous Statements prepared by the Trustee.

In preparing this Statement, the Trustee has:

- Consulted with the Earl of Mansfield and Mansfield (the "Sponsor"), although responsibility for maintaining this Statement and setting investment policy rests solely with the Trustee.
- Obtained and considered written professional advice and recommendations from Argyle who the Trustee has appointed to review the Default Arrangement investments. Argyle is authorised and regulated by the Financial Conduct Authority ("FCA"). It has been confirmed to the

Trustee that Argyle has the appropriate knowledge and experience to give the advice required by the Pensions Acts.

The Default Arrangement's strategy consists of two pooled funds accessed through the Phoenix Wealth platform and managed by Mercer Marsh Benefits (formerly Jardine Lloyd Thompson) ("Mercer"). The two pooled funds comprise of the TEAMS Active Diversified Growth fund and the TEAMS Active UK Long Corporate Bond fund. The Diversified Growth portfolio consists of two Diversified Growth Funds provided by Baillie Gifford and Schroder. Kames Capital is the investment manager of the Active UK Long Corporate Bond fund. The investment manager selection of both funds is overseen by Mercer and managers may change when Mercer advises it is required.

The Trustee will review this Statement at least once every three years. If there are any significant changes in any of the areas covered by this Statement, the Trustee will review it without further delay. Any changes made will be based on written advice from a suitably qualified individual and will follow on from consultation with the Sponsor.

3. Investment Responsibilities

3.1 Trustee Responsibilities

Under the legal documentation governing the Scheme, the power of investment is vested in the Trustee. Therefore, the Trustee is responsible for setting the investment objectives and determining the strategy to achieve those objectives. It sets the overall investment target and then monitors the performance of its investment managers against the target. In doing so, the Trustee considers the advice of its professional advisers who it considers to be suitably qualified and experienced for this role.

Its duties and responsibilities include but are not limited to:

- Regular approval of this Statement and monitoring compliance with this Statement
- Appointment, removal (where applicable) and review of its investment managers or investment adviser and its performance relative to relevant benchmarks

- Assessment of the investment risks run by the Default Arrangement
- Monitoring and review of the asset allocation

3.2 Investment Adviser's Duties and Responsibilities

The Trustee appointed investment advisor is Mercer. Mercer provides advice when the Trustee requires it and/or when Mercer feels it suitable to do so. Areas on which it can provide advice are as follows:

- Setting investment objectives, where relevant
- Determining the strategic asset allocation
- Determining suitable funds and investment managers

It should be noted that the Trustee retains responsibility for all decisions.

Mercer receive an adviser charge of 0.15% of the Default Arrangement assets and a proportion of the fund management costs. Having reviewed the total investment management fees, they appear to be competitive against the wider market.

The Trustee is satisfied that this is a suitable adviser compensation structure.

3.3 Investment Managers' Duties and Responsibilities

The Trustee, after considering suitable advice, appointed Mercer which adopts a multi manager approach and manages the managers. The Default Arrangement assets are managed via the Phoenix Wealth investment platform.

The investment managers are detailed in the Appendix of this Statement. These investment managers are authorised and regulated by the FCA and are responsible for stock selection, asset allocation (if managing a multi-asset portfolio) and the exercise of voting rights. All of the managers are compensated by fund-based charges on the value of the Default Arrangement's assets that they hold.

4. Setting the Investment Strategy

4.1 Investment Strategy

The Trustee has determined its investment strategy after considering the Default Arrangement's objectives, its own appetite for risk and the views, risk appetite and covenant of the Sponsor. It has also received written advice from its investment adviser.

4.2 Types of Investment

The Default Arrangement's assets are invested on behalf of the Trustee by Mercer, through the Phoenix Wealth investment platform, with a number of underlying investment managers.

The Trustee is permitted to invest across a wide range of asset classes, including but not limited to equities, bonds, cash, property and alternative asset classes. The use of derivatives is as permitted by the guidelines that apply to the pooled funds. The Trustee understands that some asset classes provide a better match to the liabilities than others.

The Trustee's policy is not to invest directly in employer-related investments but may hold employer-related investments through the pooled funds.

4.3 Balance Between Different Types of Investment

The allocation between the different asset classes is shown in the Appendix to this Statement.

The Trustee has considered the merits of both active and passive management for the different elements of the asset allocation and selected suitable types of management for each asset class. The current managers are shown in the Appendix.

From time to time the Default Arrangement may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected events.

The Trustee may also hold insurance policies which are for the benefit of certain members to match part, or all, of their liabilities.

4.4 Expected Return on Investments

The Trustee has noted the long-run relationships that exist between the returns from different asset classes and has noted the different expected risk/return characteristics of the different asset classes.

In particular, equities can be expected to deliver a greater long-run real return (over price inflation) than that expected from corporate bonds, fixed interest gilts, index-linked gilts or cash but that typically equities are the most volatile asset class in terms of market returns.

The Diversified Growth Funds are expected to achieve a return in line with the equity markets over a full market cycle, with reduced levels of volatility relative to equities.

4.5 Realisation of Investments

The Default Arrangement's assets are invested in pooled vehicles, which in turn invest generally in securities traded on recognised exchanges. The Default Arrangement's investments can generally be readily realised if necessary, and the funds are daily or weekly priced.

5. Additional Considerations

5.1 Financially Material Considerations

The Trustee has considered financially material factors such as environmental, social and governance issues as part of the investment process to determine a strategic asset allocation. It believes that financially material considerations are implicitly factored into the expected risk and return profile of the asset classes it is investing in. However, the Trustee has not made an explicit allowance for risks associated with climate change as it believes that it is difficult to accurately quantify.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the

Trustee does expect its investment managers to take account of financially material considerations.

The Trustee accepts that the Default Arrangement's assets are subject to the investment manager's own policy on socially responsible investment. The Trustee is satisfied that this corresponds with its responsibilities to the beneficiaries of the Default Arrangement.

An assessment of the Environmental, Social and Governance and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers. If any manager views prove to be inconsistent with the Trustee's policies, then the Trustee may look to replace them with a manager that does have consistent views.

5.2 Non-Financially Material Considerations

The Trustee has not considered non-financially material matters in the investment process.

5.3 Stewardship

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

Where this primary consideration is not prejudiced, the investment manager should take account, where it believes appropriate, of social, environment and ethical factors in the exercise of such rights. The Trustee has reviewed the investment managers voting policies and decided that they are appropriate. The Trustee will continue to monitor this regularly.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code. All the investment managers have published corporate governance policies. The policies comply with these principles.

6. Risks

The Trustee is aware of and seeks to take account of a number of risks in relation to the Default Arrangement's investments. Under the Pensions Act 2004, the Trustee is required to state its policy regarding the ways in which risks are to be measured and managed. Overall, the Trustee measures and monitors its risks by receiving monitoring reports which report on the performance of its assets and its managers. The key risks and the policies are as follows:

6.1 Solvency and Mismatching Risks

This is measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities. The risk is managed by setting a Default Arrangement specific asset allocation with an appropriate level of risk.

6.2 Concentration Risk

This is managed through the diversification of the Scheme's assets across a range of different funds with different investment styles and underlying securities, and different investment managers.

6.3 Investment Manager Risk

This is assessed as the deviation of actual risk and return relative to that specified in the investment manager's objectives. It is measured by monitoring on a regular basis the actual deviation of returns relative to investment manager's agreed objectives and an assessment of factors supporting the managers' investment process.

6.4 Sponsor Risk

This is assessed as the ability and willingness of the Sponsor to support the continuation of the Scheme and to make good any current or future deficit. This 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.

This is monitored according to the level of cashflows required by the Scheme over a specified time period. The Trustee will assess the cash requirements to limit the impact of cashflow requirements on the Scheme's investment policy.

6.5 Liquidity Risk

The risk is managed by having a suitable amount of readily realisable investments and by holding a certain level of cash type assets. The Scheme invests in assets that are generally invested in quoted markets and are as readily realisable as the Trustee feels suitable given the Scheme's cashflow position and the expected development of the liabilities.

6.6 Market Risk

Most of the underlying financial assets in the pooled funds are transacted on a regulated market. Markets provide transparency, liquidity, efficiency and regulation to ensure investors achieve a fair price for their assets. There is a chance that investors lose confidence in one or more markets, and therefore the investor is not able to buy or sell an asset. When a market is no longer functioning the prices between the buying and selling prices tend to widen.

6.7 Currency Risk

The Scheme may gain exposure to overseas currencies by investing in non-sterling assets or via currency investment. Some currency hedging is used to manage this risk.

6.8 Loss of Investment Risk

There is a risk of loss of investment by each investment manager and potentially the custodian. This includes losses beyond those caused by market movements e.g. losses caused by fraud. The Trustee undertakes regular reviews of the internal controls and processes of the investment manager.

6.9 Environmental, Social and Governance (ESG) and Climate Change Risks

There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio. This can lead to losses that may not have been factored into any assumptions. The Trustee has considered ESG issues as part of the investment process but has made no explicit allowance for risks associated with climate change as it believes it is difficult to accurately quantify.

7. Compliance

The Trustee confirms that it has received and considered written advice from Mercer on the establishment and implementation of its investment strategy.

The Trustee confirms that it has consulted with the Sponsor regarding its strategy. Copies of this Statement and any subsequent amendments will be made available to the Sponsor, the investment managers, the Scheme Actuary and the Scheme auditor upon request.

The Trustee will review this Statement at least every three years. This will include a review of the suitability of the investment strategy on an ongoing basis and consideration of the continued suitability of the appointed investment managers.

SIGNED ON BEHALF OF THE TRUSTEE OF THE SCHEME	
NAME	
POSITION	DIRECTOR, MACROBERTS TRUSTEES LIMITED
DATE	1 NOVEMBER 2019

8. Appendix

8.1 Rebalancing and Cash Flow Management

The Trustee understands that the asset allocation of investments will vary over time due to market movements. The Trustee seeks to keep the asset allocation in line with its benchmark but minimise the costs of rebalancing.

Where possible, cash outflows will be met from the income of the Scheme's assets to minimize transaction costs.

Where income is insufficient, monies will be raised through the sale of assets so as to move the allocation closer to the central benchmark allocation subject to consideration of liquidity issues, transaction costs, market conditions and the speed with which monies are required. Similarly, where cashflows in are received, the money will be invested in such a way as to bring the allocation into line with the central benchmark allocation.

8.2 Investment Managers

The Trustee has invested the Default Arrangement assets through a pooled fund with Mercer.

Mercer conducts full investment administration for the Default Arrangement and carries out the day to day management of the underlying investment managers.

8.3 Charges

Investment Manager	Fund	Weighting	Annual Management Charge
Mercer	Teams Diversified Growth	41%	1.05%
Mercer	Active UK Long Corporate Bond	59%	0.65%