

SCOTTISH LEATHER GROUP LIMITED
1979 RETIREMENT BENEFITS
SCHEME FOR DIRECTORS

STATEMENT OF INVESTMENT PRINCIPLES

MARCH 2021

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1 INTRODUCTION

This Statement of Investment Principles (the “Statement”) has been prepared by the Trustees of the Scottish Leather Group Limited 1979 Retirement Benefits Scheme for Directors (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 Scheme’s investment policy 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 a suitably qualified individual, employed by their investment consultants, Mercer, whom they believe to have a degree of knowledge and experience that is appropriate for the management of their investments; and
- consulted with the Sponsoring Employer, although they affirm that no aspect of their 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.

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 Scheme's funding position and the strength of the Sponsoring Employers' covenant.

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

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. They carry out their duties and fulfil their responsibilities as a single body.

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 this Statement
- The appointment and review of the investment managers and investment adviser
- The assessment and review of the performance of each investment manager
- The setting and review of the investment parameters within which the investment managers can operate
- 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 this Statement

3.2 INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustees have appointed Mercer as the investment adviser to the Scheme. Mercer provides advice as and when the Trustees require it, as well as raising any investment-related issues, of which it believes the Trustees should be aware.

Matters on which Mercer expects to provide advice to the Trustees include the following:

- Setting of investment objectives
- Determining investment strategy and asset allocation
- Determining an appropriate investment structure
- Liaising with Mercer to determine funds and investment managers that are suitable to meet the Trustees' objectives
- Setting cashflow management (investment and withdrawal) policies (see Appendix 3)
- How any significant changes in the investment managers' organisation could affect the interests of the Scheme
- How any changes in the investment environment could present either opportunities or problems for the Scheme

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 cashflows (see Appendix 3). 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.

The Trustees monitor the performance of the Scheme's investment managers against their benchmarks. Mercer will provide performance monitoring reports to aid the Trustees in this process.

Mercer makes a fund based charge which covers Mercer's services as specified within the addendum to the Implemented Investment Consultancy Services Agreement ("ICA"). Any additional services provided by Mercer will be remunerated primarily on a time-cost basis.

In particular, Mercer does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice, and as noted below, any discounts negotiated by Mercer with the underlying managers and these discounts are passed on in full to the Scheme.

The Trustees are satisfied 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 ARRANGEMENT WITH INVESTMENT MANAGERS

The Trustees are a long-term investor and do not look to change the investment arrangements on a frequent basis.

The Trustees, after considering appropriate investment advice, have invested the Scheme's assets through a Trustee Investment Policy (TIP) from Mobius Life Limited ("Mobius"), whose appointment foregoes the need for a Custodian.

The Mobius TIP facilitates investment into a range of underlying funds managed by third party investment managers and the value of the Mobius TIP is directly linked to the change in value in the underlying funds. All of the underlying investment managers used by the Fund are authorised and regulated by the FCA. Mobius Life Limited is authorised by the Prudential Regulation Authority ("PRA") and regulated by the FCA and the PRA.

The underlying investment managers used by the Trustees through the Mobius platform are chosen based on advice from the investment advisor. This is based on the investment advisor's view of their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected. The Trustees will only invest in pooled investment vehicles through the Mobius platform. The Trustees therefore accept that it cannot specify the risk profile and return targets of the managers, but the pooled funds are chosen with appropriate characteristics to align with the overall investment strategy.

The details of investment managers and the funds invested in are set out in Appendix 4, together with the details of each manager's mandate.

The underlying investment managers are responsible for all decisions concerning the selection and de-selection of the individual securities within the portfolios they manage.

In the case of multi-asset mandates, the underlying investment managers are responsible for all decisions concerning the allocation to individual asset classes and changes in the allocations to individual asset classes.

Both Mobius and the underlying investment managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme. Where possible, discounts have been negotiated by Mercer and Mobius with the underlying managers on their standard charges and the Scheme benefits directly from these discounts.

None of the underlying managers in which the Scheme's assets are invested have performance based fees which could encourage the manager to make short term investment decisions to hit their profit targets.

The Trustees therefore consider that the method of remunerating fund managers is consistent with incentivising them to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. By encouraging a medium to long-term view, it will in turn encourage the investment managers to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

The Trustees accept that they cannot influence the charging structure of the pooled funds in which the Scheme is invested, but are satisfied that the ad-valorem charges for the different underlying funds are clear and are consistent with each fund's stated characteristics. The Trustees are therefore satisfied that this is the most appropriate basis for remunerating the underlying investment managers and is consistent with the Trustees' policies as set out in this SIP.

3.4 SUMMARY OF RESPONSIBILITIES

A summary of the responsibilities of all relevant parties, including the Scheme Actuary and the scheme administrators, so far as they relate to the Scheme's investments, is set out at Appendix 5.

4 INVESTMENT STRATEGY

SETTING INVESTMENT STRATEGY

The Trustees have determined their investment strategy after considering the Scheme's liability profile and requirements of the Statutory Funding Objective, their 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 written advice from their Investment Adviser.

The basis of the Trustees' strategy is to divide the Scheme's assets between a "Growth" portfolio, comprising assets such as equities, and a "Stabilising" portfolio, comprising assets such as bonds and liability driven investment ("LDI"). Thus, the Trustees regard the basic distribution of the assets to be appropriate for the Scheme's objectives and liability profile. The initial and framework allocations are set out in Appendices 1 and 2.

The Trustees recognise the benefits of diversification across growth asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. Where they consider it advisable to do so, the Trustees have appointed investment managers to select and manage the allocations across growth asset classes, in particular where it would not be practical (or appropriate) for the Trustees to commit the resources necessary to make these decisions themselves.

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 their overall strategy. This approach is set out in Appendix 3.

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 themselves. They do so after receiving written advice from their 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 4.

4.4 FINANCIALLY MATERIAL CONSIDERATIONS

The Trustees understand that they must consider all factors that have the ability to impact the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance ("ESG") factors.

The Trustees recognise that ESG factors, such as climate change, can influence the investment performance 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.

The Trustees note that ESG considerations are not paramount to the first level decision making process within the funds which provide actively managed diversification. However, in the actively managed Diversified Growth Funds in which the Scheme invests, whilst the managers typically do not put ESG considerations at the heart of the asset allocation decision, they will embed ESG considerations into the management of the underlying asset classes where it is appropriate to do so.

The Trustees receive ESG scores provided by the Investment Adviser in relation to the funds in which the Scheme is invested and will monitor how these develop over time.

The Trustees are therefore satisfied that ESG factors are appropriately reflected in the overall investment approach.

The Trustees, will take ESG considerations into account in the selection, retention and realisation of investments.

4.5 NON-FINANCIAL CONSIDERATIONS

The Trustees only consider factors that are expected to have a financial impact on the Scheme's investments. Non-financial considerations, such as ethical views, are not implemented in the current 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 its right in accordance with what it believes to be the best interests of the majority of the Scheme's membership.

4.7 STEWARDSHIP

Mercer will monitor the performance, strategy, risks, ESG policies and corporate governance of the investment managers on behalf of the Trustees and discuss this with the Trustees as appropriate. If the Trustees have any concerns, they will raise them with Mercer.

5 RISK

The Trustees are aware, and seek to take account of a number of risks in relation to the Scheme's investments, including the following:

Under the Pensions Act 2004, the Trustees are required to state their 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.
- It is managed through the diversification of the Scheme's assets across a range of funds with different investment styles, by monitoring and advice from the investment adviser where there have been significant changes to the managers' capabilities, and by using the Mobius platform, which enables quick and efficient replacement of managers if appropriate.

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 wide 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 to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are provided to the Trustees from time to time 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 one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- The Trustees acknowledge that the assessment of credit risk on individual debt instruments is delegated to the investment manager. The Trustees will however ensure that they are comfortable with the amount of risk that the Scheme's investment manager takes.

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

- 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, the scheme 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/Inflation Rate Risk

- This is the risk that an investment's value will change due to a change in the level of interest/inflation rates. This affects debt instruments more directly than growth instruments.
- The Trustees acknowledge that the interest rate risk related to individual debt instruments, and particularly LDI, is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management, and hedging via swaps, particularly where LDI is involved.

Other Price Risk

- This is the risk that principally arises in relation to the growth portfolio, which invests in, for example, equities.
- The Trustees acknowledge that 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.
- The Trustees are aware that Responsible Investing is one of the core beliefs of the Investment Manager and the Investment Adviser. As a result, part of the rating process of the Investment Adviser and decision-making process of the Investment Manager in relation to the underlying investment managers is based on its financial stewardship and how well the investment manager integrates governance and sustainability into its investment process.

6 MONITORING OF INVESTMENT ADVISER AND MANAGERS

6.1 INVESTMENT ADVISER

The Trustees continually assess and review the performance of their adviser in a qualitative way.

6.2 INVESTMENT MANAGERS

The Trustees receive quarterly monitoring reports on the performance of the underlying investment managers from Mercer, which present performance information over 3 months, 1 year and 3 years. The reports show the absolute performance, performance against the manager's stated target performance (over the relevant time period) on a net of fees basis. They also provide returns of market indices so that these can be used to help inform the assessment of the underlying managers' performance.

The reporting reviews the performance of the Scheme's assets in aggregate against the Scheme's strategic benchmark.

In conjunction with advice and information from their investment adviser, the Trustees have the role of replacing the underlying investment managers where appropriate. It takes a long-term view when assessing whether to replace the underlying investment managers, and such decisions would not be made based solely on short-term performance concerns. Instead, changes would be driven by a significant downgrade of the investment manager by Mercer's Manager Research Team. This in turn would be due to a significant reduction in Mercer's confidence that the investment manager will be able to perform in line with their fund's mandate over the long term.

Changes will also be made to the underlying managers if there is a strategic change to the overall strategy and therefore the Scheme no longer requires exposure to that asset class or manager.

6.3 PORTFOLIO TURNOVER COSTS

The Trustees do not currently monitor portfolio turnover costs for the funds in which the Scheme is invested, although notes that the performance monitoring reports which it receives is net of all charges, including such costs. Portfolio turnover costs means the costs incurred as a result of the buying, selling, lending or borrowing of investments.

The Trustees are also aware of the requirement to define and monitor targeted portfolio turnover and turnover range.

Given that the Scheme invests in a range of pooled funds, many of which invest across a wide range of asset classes, the Trustees do not have an overall portfolio turnover target for the Scheme.

The Trustees are working with Mercer to determine the most appropriate way to obtain and monitor the information required in relation to the pooled funds in which the Scheme is invested and will include further information about this when next updating the SIP.

7 BEST PRACTICE

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

The Trustees meet with their Investment Adviser on a regular basis, monitoring developments both in relation to the Scheme's circumstances and in relation to evolving guidance, and will revise the Scheme's investment approach if considered appropriate.

8 COMPLIANCE

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

A copy of the Statement is also supplied to the Sponsoring Employer, the Scheme's investment managers, the Scheme Auditor and the Scheme Actuary.

This Statement supersedes all others and was approved by the Trustees:

Signed:



Name:

Iain McFadyen

Date:

05 March 2021

APPENDIX 1: ASSET ALLOCATION BENCHMARK

The Scheme's initial strategic asset allocation benchmark is set out below.

Asset Class	Strategic Allocation (%)
Multi Asset Credit	71
Liability Driven Investment – nominal	7
Liability Driven Investments - real	22
Total	100

The policy for rebalancing and investment / disinvestment of cashflows is set out in Appendix 3.

Appendix 4 provides information about the funds in which the assets are invested.

APPENDIX 2: ASSET ALLOCATION FRAMEWORK

The Scheme's strategic asset allocation benchmark (all figures are %):

Required Return	Gilts + 1.2% p.a.
Multi Asset Credit	71
LDI – Nominal	7
LDI – Real	22

APPENDIX 3: CASHFLOW AND REBALANCING POLICY

Rebalancing Policy

There will be no automatic rebalancing.

Cashflow Policy

The Trustees have put in place a suitable procedure for managing the Scheme's cashflows.

For avoidance of doubt, this Statement will not be revised purely in relation to a change in cashflow policy.

LDI Recapitalisation

The Trustees note that the LDI manager may require additional assets from time to time in order to support the operation of the LDI funds or may release assets from time to time.

The Trustees have put in place a policy regarding this recapitalisation/release procedure.

APPENDIX 4: INVESTMENT MANAGER INFORMATION

The tables below show the details of the mandate(s) with each manager.

Manager / Fund	Benchmark	Objective	Dealing Frequency	SORP / IFRS Class
Multi Asset Credit				
Ninety One Global Total Return Credit Fund	LIBOR	LIBOR +4% pa over an economic cycle gross of fees	Daily	(b) / 2
M&G Total Return Credit Investment	LIBOR	LIBOR +3 to 5% pa over an economic cycle gross of fees	Daily	(b) / 2
Liability Driven Investments				
Insight Enhanced LDI Funds	Customised	To allow pension schemes to effectively hedge liabilities with similar durations.	Daily	(b) / 2

For avoidance of doubt, this SIP will not be updated solely in response to a replacement of one of the underlying investment managers.

APPENDIX 5: 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 with the Investment Adviser and modifying it if deemed appropriate
- Reviewing the investment strategy following the results of each actuarial review, in consultation with the Investment Adviser and Scheme Actuary
- Appointing the investment managers and custodian (if required)
- Assessing the quality of the performance and processes of the investment managers by means of regular reviews of investment returns and other relevant information, in consultation with the Investment Adviser
- 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

The Investment Adviser's responsibilities include the following:

- Participating with the Trustees in reviews of this Statement of Investment Principles
- Production of performance monitoring reports
- Advising the Trustees, at their request, on the following matters:
 - Through consultation with the Scheme Actuary, how any changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested
 - How any significant changes in the Investment Managers' organisation could affect the interests of the Scheme
 - How any changes in the investment environment could present either opportunities or problems for the Scheme
- Undertaking project work, as requested, including:
 - Reviews of asset allocation policy
 - Research into and reviews of investment managers
- Advising on the selection of new managers and/or custodians

SCHEME ACTUARY

The Scheme Actuary's responsibilities include the following:

- Liaising with the Investment Adviser 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 managers according to the Trustees' instructions.