

**EDINBURGH MERCHANT COMPANY
RETIREMENT BENEFITS SCHEME
STATEMENT OF INVESTMENT
PRINCIPLES**

SEPTEMBER 2020

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1 INTRODUCTION

This Statement of Investment Principles (“the Statement”) has been prepared by the Trustees of Edinburgh Merchant Company Retirement Benefits Scheme (“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 investment policy of the Scheme 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, Mercer, whom they believe to have a degree of knowledge and experience that is appropriate for the management of its investments; and
- consulted with the Sponsoring Employer, although it affirms that no aspect of its 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 Trustees have also received confirmation from the Scheme Actuary during the process of revising the investment strategy that its investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used for 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.

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 the Statement
- The appointment and review of any investment advisers appointed
- The assessment and review of the performance of each Investment Manager
- The choice of appropriate funds with each of the Investment Managers
- 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 the Statement

3.2 INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustees have recently appointed Mercer as the investment adviser to the Scheme as and when advice is required. To date, Mercer have provided advice on the production this statement only. Matters on which Mercer can provide advice to the Trustees include the following:

- Setting of investment objectives.
- Determining investment strategy and asset allocation.
- Determining an appropriate investment structure.
- Framing manager mandates.
- Assistance in determining funds and investment managers that are suitable to meet the Trustees' objectives.
- Selecting and replacing investment managers.
- Setting cashflow management (investment and disinvestment) policies (Appendix 2).

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 cash flows (see Appendix 2). 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.

Mercer is remunerated on a project-by-project basis with a fee being agreed in advance of the project commencing. Mercer does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice. The Trustees believe 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 ARRANGEMENTS WITH INVESTMENT MANAGERS

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

The Trustees, after considering appropriate investment advice, has appointed professional, authorised investment managers to manage the assets of the Scheme.

Investment managers are appointed by the Trustees based on 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. The Trustees therefore accept that they 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 each manager's mandate and the basis of the contracts between the Trustees and their investment managers are set out in Appendix 3.

In particular, the Investment Managers are responsible for all decisions concerning the selection and de-selection of the individual securities within the portfolios they manage.

All of the Investment Managers that are engaged by the Trustee are authorised and regulated by the FCA, Prudential Regulation Authority (PRA) or both.

The Investment Managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme.

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 it cannot influence the charging structure of the pooled funds in which the Scheme is invested, but is 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 the most appropriate basis for remunerating the underlying investment managers and is consistent with the Trustees' policies as set out in this SIP.

The Trustees believe that this is the most appropriate basis for remunerating managers.

3.4 SUMMARY OF RESPONSIBILITIES

A summary of the responsibilities of all relevant parties, including the Scheme Actuary and the administrators, so far as they relate to the Scheme's investments, is set out in Appendix 4.

4 INVESTMENT STRATEGY

4.1 SETTING INVESTMENT STRATEGY

The Trustees have determined the investment strategy after considering the Scheme's liability profile and requirements of the Statutory Funding Objective, its 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 advice from an investment adviser.

Taking all of these factors into consideration, the Trustees have determined that the benchmark asset allocation, as set out in Appendix 1, is suitable for the Scheme.

In making this decision, the Trustees have been satisfied that this is consistent with its investment objectives and is supported by both the Sponsoring Employer and its covenant.

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 the overall strategy. This approach is set out in Appendix 2.

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. It does so after receiving written advice from an 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 3.

The Trustee recognises 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. The Trustee has therefore decided to partly invest in a managed fund, investing in a number of different asset classes..

4.4 FINANCIAL CONSIDERATIONS

The Trustees consider many risks which they anticipate could have an impact on the financial performance of the Scheme's investments over the Scheme's expected lifetime. Such risks are set out in the next section of this statement.

The Trustees recognise that environmental, social and corporate governance ("ESG") factors, including but not limited to climate change, can influence the investment risk and return outcomes 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. Therefore, other factors being equal, the Trustees would seek to invest in funds which incorporate ESG principles.

The Scheme's assets are invested in pooled funds, and therefore the Trustee accepts the fact that it has very limited ability to influence the ESG policies and practices of the companies in which its managers invest. However, the ESG policies of the pooled fund managers will be taken into account in the selection of future funds and managers and will be a factor in the selection process.

4.5 NON-FINANCIAL CONSIDERATIONS

The Trustees' objective is that the financial interests of the Scheme members are its first priority when choosing investments.

They have decided not to consider non-financial considerations, such as ethical views, or to take members' preferences into account when setting the 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 their right in accordance with what it believes to be the best interests of the majority of the Scheme's membership.

5 RISK

Under the Pensions Act 2004, the Trustees are required to state its 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.

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 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 available to the Trustees 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 is associated with the inability of a borrower to repay, in full or part the monies which it owes to a creditor.
- The Scheme invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.
- The Scheme's holdings in pooled investment vehicles are unrated. 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.

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, interest rate risk and other price 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, it 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 rate risk

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.
- The Trustees recognise that the Scheme's liabilities are exposed to a significant level of interest rate risk and for this reason it is desirable for the Scheme's assets to be exposed to a similar level of interest rate risk. The Trustees manage the Scheme's interest rate risk by considering the net risk when taking account of how the liabilities are valued.

Other Price risk

- This is the risk of volatility that principally arises in relation to the return seeking assets.
- 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.

6 MONITORING OF INVESTMENT ADVISER AND MANAGERS

6.1 INVESTMENT ADVISER

For any adviser appointed, the Trustees will assess and review their performance in a qualitative way. The Trustees are also aware of the need to set objectives against which to assess any advisers appointed.

6.2 INVESTMENT MANAGERS

The Trustees receive quarterly monitoring reports from their Investment Managers on the performance of their fund holdings, which presents 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. It also provides returns of market indices so that these can also be used to help inform the assessment of the underlying managers' performance.

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 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.

The Trustees will work with their investment managers 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'.

8 COMPLIANCE

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

A copy of the Scheme's current Statement plus Appendices is also supplied to the Sponsoring Employer, the Scheme's auditors and the Scheme Actuary.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes all others and was approved by the Trustees on 29 September 2020.

APPENDIX 1: ASSET ALLOCATION BENCHMARK

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

Asset Class	Strategic Allocation (%)
Growth Assets	55.0
Multi-Asset	55.0
Stabilising Assets	45.0
Mixed Bonds	45.0
Total	100.0%

The Scheme also holds a small allocation to a cash fund, making up below 0.5% of the assets.

The policy for rebalancing and investment / disinvestment of cashflows is set out in Appendix 2.

Appendix 3 provides information about the selection of investment managers.

APPENDIX 2: CASHFLOW AND REBALANCING POLICY

Any cashflow requirements will be taken pro-rata in line with the agreed asset allocation set out in Appendix 1.

APPENDIX 3: INVESTMENT MANAGER INFORMATION

The Scheme invests with Standard Life Investments, whose key responsibility it to appoint suitable investment managers to each of the mandates within the Trustee's agreed investment strategy as set out in Appendix 1.

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

Growth Assets

Manager / Fund	Benchmark	Objective	Dealing Frequency
Multi-Asset			
Standard Life Managed Fund	ABI (Pension) Sterling Fixed Interest Sector	To provide long term growth whilst investing in a diversified portfolio of assets	Monthly

Stabilising Assets

Manager / Fund	Benchmark	Objective	Dealing Frequency
Bonds			
Standard Life UK Mixed Bonds Fund	Composite 50% FT Actuaries Brit Govt All Stocks/ 50% ML Sterling UK Non-Gilt All Stocks	To provide long term growth from the reinvestment of income generated by investing in UK bonds	Daily
Cash			
Scottish Widows Cash Fund	None	To provide a long term total return, where this is compatible with a high level of capital security through cash and near cash investments.	

APPENDIX 4: 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 and modifying it if deemed appropriate
- Reviewing the investment strategy following the results of each actuarial review, in consultation with the Scheme Actuary
- Appointing the Investment Manager(s) and custodian (if required)
- Assessing the quality of the performance and processes of the Investment Manager(s) by means of regular reviews of investment returns and other relevant information
- 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 MANAGERS

As noted in this SIP, Standard Life Investments has been appointed as Investment Manager and will select underlying investment managers on behalf of the Trustees.

The responsibilities include the following:

- Providing the Trustees on a quarterly basis (or as frequently as required) with a statement and valuation of the assets
- Informing the Trustees of any changes in the internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur
- Having regard to the need for diversification of investments, so far as appropriate for the particular mandate, and to the suitability of investments
- Managing the Scheme's assets in accordance with the mandate set out in the IMA

The responsibilities of the underlying investment managers include:

- Having regard to the need for diversification of investments, so far as appropriate for the particular mandate, and to the suitability of investments
- Managing their funds in accordance with their stated mandates

SCHEME ACTUARY

The Scheme Actuary's responsibilities include the following:

- Liaising with the Trustees 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 Manager according to the Trustees instructions.