Scottish Sea Farms Defined Benefit Pension Scheme

Trustees' Statement of Investment Principles

1. *BACKGROUND*

This Statement sets down the principles governing decisions about investments for the Scottish Sea Farms Defined Benefit Pension Scheme (the "Scheme") to meet the requirements of the Pensions Act 1995, as amended by the Pensions Act 2004 and subsequent Regulations. Before preparing this Statement, the Trustees have consulted Scottish Sea Farms Limited (the "Company") and obtained and considered the written professional advice of Mercer. The Trustees will review this statement every year and after any changes in investment policy.

The Trustees' investment responsibilities are governed by the Scheme's Trust Deed: a copy of this document is available on request.

2. *INVESTMENT POLICY*

The Trustees' main aims are:

- To make sure that the Scheme will be able to meet its benefit obligations as they fall due.
- To, over time, move the Scheme to a fully funded self sufficiency position, so that at some future point in time there will no longer be a requirement to rely on the Company's financial support to meet the Scheme's obligations.
- To invest the assets in a manner that has similar characteristics to the liabilities so as to minimise fluctuations in the Scheme's deficit (subject to the requirement to generate excess returns relative to the liabilities to attain a fully funded self sufficiency level).

To achieve these objectives the Trustees have put in place the following strategic asset allocation in October 2017:

Strategic Benchmark Allocation:

Asset Class	Benchmark %	Performance Benchmark
AAA-AA-A Corporate Bond – All Stocks – Index Fund	5.0	iBoxx Non-Gilts ex BBB All Stocks Index
Investment Grade Corporate Bond – Over 15 Year – Index Fund	35.0	iBoxx Non-Gilts Over 15 Year Index
Total Corporate Bonds	**40.0**	
Gilt and LDI Funds Combination of: – Over 15 Year Index-Linked Gilts Index Fund – Fixed and index-linked single stock gilt funds (unleveraged) – Leveraged fixed and index-linked single stock gilt funds – Sterling liquidity fund (cash)	60.0	Bespoke benchmark
Total Gilts and LDI	**60.0**	
Total	100.0	

The allocation to Gilts and LDI is invested to target an interest rate and inflation hedge ratio of 90% as a proportion of liabilities on a gilts flat basis. The hedge ratio also takes account of the interest rate exposure from the corporate bonds. The Trustees will monitor the hedge ratios on a regular basis with input from Mercer, the Trustees' investment consultant. If the hedge ratios have drifted materially from the target, the Trustees may issue instruction to the manager to rebalance the portfolio.

The assets are managed by Legal & General Investment Management ("Legal & General") in pooled funds. The performance objective of the corporate bond funds is to achieve a return (gross of fees) in line with the respective Performance Benchmark index set out in the table above, measured over rolling three year periods. Assets are managed on a passive basis with no outperformance target set above the benchmark return.

Legal & General's performance objective for the Over 15 Year Index-Linked Gilt Index Fund is to track the performance of the FTSE A Index-Linked Over 15 Year Gilts Index, measured over rolling three year periods. This is managed on a passive basis with no outperformance set above the benchmark return.

The gilt and LDI fund portfolio seeks to match the sensitivities of the liabilities to interest rate and inflation. As such, the underlying funds (including the leveraged and unleveraged fixed interest and index-linked gilt funds) aim to broadly match the movement in value placed on the liabilities due to changes in interest rates and inflation.

Legal & General is regulated by the Financial Conduct Authority ("FCA") and, as required by the Financial Services Act, the Trustees have entered into a signed Agreement with them (via a Policy Document). The Agreement provides important protections for the Scheme itself and for the Trustees. It also sets out the terms on which the assets are managed; the investment brief, guidelines and restrictions under which the investment manager works.

3. *THE TRUSTEES' POLICY WITH REGARD TO RISK*

There are various risks to which any pension scheme is exposed. The Trustees have reviewed these risks in the context of the Scheme's particular characteristics and implemented an appropriate strategy which balances the need to meet the investment objectives and risks which the Scheme faces.

- The risk of a shortfall of assets relative to the liabilities as determined if the Scheme were to wind up.

  It is recognised that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more short-term volatility in the Scheme's funding position. Advice has been taken on the matter and (in light of the objectives noted previously) the Trustees have considered carefully the implications of adopting different levels of risk.

- The risks which may arise from the lack of diversification of investments.

  The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk arising from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio.

- The liability benchmark used as a basis for selecting assets to match the liabilities is an approximate picture of the liabilities of the Scheme (due to assumptions required to model the liabilities) and the pooled funds used to hedge the liabilities are an approximate match for the liability benchmark. However, the Trustees and Mercer, the Trustees' investment consultant, believe that the funds used provide an efficient way of hedging the Scheme's liabilities.

- There are also operational risks involved in the use of leveraged pooled funds, including the counterparty credit risk and leverage management. LGIM, the Scheme's investment manager, monitors and manages these risks on behalf of the Trustees.

The investment policy, which is based on advice from Mercer, balances the need to meet the investment objectives and the risk taken by the Scheme. Based on this an overall Scheme benchmark, which consisted of a 40% allocation to corporate bonds and 60% allocation to gilt and LDI funds, was implemented in September 2017.

The Agreement with the investment manager includes a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

The investment manager must not do anything that could be considered to be speculative or 'trading' as defined by the Financial Services and Tax authorities.

4. *BUYING AND SELLING INVESTMENTS*

The Trustees have delegated the responsibility for buying and selling investments to the investment manager. As already mentioned, the day to day activities which the investment manager carries out for the Scheme are governed by the Agreement between the Trustees and the investment manager, which are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

5. *ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (ESG)*

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, including climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have considered the extent to which social, environmental and ethical considerations are taken into account in the selection, retention and realisation of the Scheme's investments. The assets of the Scheme are managed entirely in fixed income securities, including corporate bonds and index-linked gilts, via pooled fund arrangements. The Trustees accept that they cannot directly influence how social, ethical and environmental considerations affect the selection of securities within the corporate bond pooled fund, however the Trustees have given Legal & General full discretion in evaluating ESG factors, including climate change considerations, when managing the corporate bond fund. Furthermore, as the assets held by the Scheme have no voting rights attached, the Trustees note that corporate governance voting issues are not relevant to the Scheme.

The Trustees do not explicitly consult members when making investment decisions but update members, at least annually, via newsletters on any changes to the Scheme's investment arrangements and also makes available on request a copy of the Statement of Investment Principles. The Trustees do not intend to consider non-financial matters in the selection, retention and realisation of investments.

6. *ENGAGEMENT WITH INVESTMENT MANAGERS*

The policy in relation to the Trustees' arrangements with their investment manager is set out below.

(i) Incentivising the investment manager to align their investment strategy and decisions with the Trustees' policies:

The investment manager is appointed based on their capabilities and, therefore, their perceived likelihood of achieving the return objective and risk characteristics required for the asset class being selected for.

The Scheme's assets are managed on a passive basis and the Trustees look to their investment consultant for their forward-looking assessment of a manager's ability to closely track the respective benchmarks. This view is based on the consultant's assessment of the manager's portfolio construction, implementation, risk management and business management, in relation to the particular investment fund that the Scheme invests in. The consultant's manager research ratings assist with due diligence and ongoing monitoring and are used in decisions around selection, retention and realisation of an investment manager's appointment.

If the investment objective for the investment manager's fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

As the Trustees invest in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate funds can be selected to align with the overall investment strategy.

(ii) Incentivising the investment manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an investee (or debtor) company, and to engage with investee (or debtor) companies in order to improve their performance in the medium to long-term:

The Trustees will consider the investment consultant's assessment of how the investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy.

Given the Scheme does not have any holdings in equities, the Trustees do not delegate any voting activities to the investment manager. The investment manager is aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

(iii) Aligning the evaluation of the investment managers performance and the remuneration for investment management services with the Trustees investment policies:

The Trustees receive investment manager performance reports and 6 monthly performance reports from their investment consultant, which present performance information over the short term (3 and 6 months) and longer term (3 year and 5 year periods). The Trustees review the absolute performance and the relative performance against a suitable index used as the benchmark (over the relevant time period). The Trustees' focus is on long term performance but will review the manager if there are short term performance concerns.

If the manager is not meeting the performance objectives, or their investment objectives for the mandate have changed, the Trustees would expect to review the terms of the mandate and / or may ask the investment manager to review their fees. The Trustees would also expect to review the investment manager should the investment manager breach any of their investment guidelines.

(iv) Monitoring portfolio turnover costs incurred by the investment manager:

The Trustees receive and consider quarterly reporting from the investment manager, which includes details on the costs associated with pooled fund unit transactions.

The Trustees do not currently monitor underlying portfolio turnover costs but may look to do this in the future.

(v) Duration of the arrangement with the asset manager:

The Trustees are long term investors and are not looking to change the arrangements with the investment manager on a frequent basis.

As the funds in which the Scheme invests are open-ended, there is no set duration for the manager's appointment. The Trustees will retain the investment manager unless:

- There is a change to the overall investment strategy that no longer requires exposure to that asset class and/or manager;
- The manager appointment has been reviewed and the Trustees have decided to terminate the appointment and appoint another manager.

7. *COMPLIANCE WITH THIS STATEMENT*

The Trustees, the investment manager and Mercer, the Trustees' consultant, each have duties to perform to ensure compliance with this Statement. These are:

The Trustees will review this Statement annually, taking into account the advice of their consultant.

The investment manager will report regularly to the Trustees on:

- the valuation of all investments held for the Scheme;
- records of all transactions together with a cash reconciliation;
- a review of recent actions undertaken on behalf of the Scheme together with a summary of its current stated policy.

The investment manager, who has received a copy of this Statement, will have regard to the need for the diversification and suitability of investments for the Scheme and the Trustees' principles contained herein.

The investment manager will also notify the Trustees in advance of any new investment categories in which it is proposing to invest.

Mercer, the Trustees' consultant, will provide advice to assist the Trustees in reviewing and updating this Statement as and when required.

The Trustees of the Scottish Sea Farms Defined Benefit Pension Scheme

September 2020

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Date of Amendments:

February 2011 – Change in Investment Strategy
July 2015 – Change in Cashflow Policy
September 2017 – Addition of Liability Driven Investment
September 2019 – Update to Corporate Governance and Socially Responsible Investment Section
September 2020 – Inclusion of Engagement with Investment Managers (Section 6)

APPENDIX

<u>Investment Management Charges</u>

AAA-AA-A Corporate Bond – All Stocks – Index Fund

First £5m	0.15% per annum
Next £5m	0.125% per annum
Next £20m	0.10% per annum
Over £30m	0.08% per annum

Investment Grade Corporate bond – Over 15 Year – Index Fund

First £5m	0.15% per annum
Next £5m	0.125% per annum
Next £20m	0.10% per annum
Over £30m	0.08% per annum

Over 15 Year Index-Linked Gilts Index Fund

First £5m	0.10% per annum
Next £5m	0.075% per annum
Next £20m	0.05% per annum
Over £30m	0.03% per annum

Single stock gilts and single stock index-linked gilts funds

First £5m	0.10% per annum
Next £5m	0.075% per annum
Next £20m	0.05% per annum
Over £30m	0.03% per annum

Leveraged gilt or index-linked gilt funds

First £25m	0.24% per annum
Over £25m	0.17% per annum

Sterling Liquidity Fund

First £5m	0.125% per annum
Next £5m	0.10% per annum
Next £20m	0.075% per annum
Over £30m	0.05% per annum