EDRINGTON

HIGHLAND DISTILLERS PENSION SCHEME

SHORT FORM TRUSTEES' REPORT 2021

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For the year ended 5 April 2021

SUMMARY OF FUNDING

	@ 6 APRIL 2021	@ 6 APRIL 2020	COMMENTS
Funding level (target is 100%)	94%	94%	**GREEN - ON TRACK**
Deficit (target is £0)	£11 million	£13 million	**GREEN - ON TRACK** The scheme is on track to eliminate the deficit by 2025

- The funding level of the scheme has remained stable over the year.
- The deficit has decreased.

Stay in touch

It's very important that you keep the trustees up to date of any changes to your circumstances, particularly if you move house or you would like to change your nominated beneficiary for any death benefits from the scheme.

Contact the trustees at:

The Trustees of the Highland Distillers Pension Scheme
c/o Hymans Robertson
20 Waterloo St
Glasgow
G2 6DB

Email: edringtonpensions@hymans.co.uk
Phone: 0141 566 7527
Member portal: https://edringtonpensions.co.uk (details your own personal benefits)

If you have not yet registered for the portal, please contact the Hymans Robertson administration team at edringtonpensions@hymans.co.uk who will arrange registration.

STATEMENT FROM THE CHAIR OF TRUSTEES

It has been another turbulent year for us all as the influence of Covid-19 has continued to be felt in almost every corner of our lives.

I am pleased that, at least on the pension front, the trustees can bring you better news. The funding level of the scheme has continued to improve throughout the year: the deficit was sitting at £11 million at the scheme year end in April and has improved further since. Contrast this with the position five years ago when the deficit was upwards of £60 million.

When I wrote to you last year, the company was just recommencing payment of contributions, after a short pause in payment during the early months of the pandemic. The company has now repaid in full the missed contributions and has reverted to payments at the regular rate of £6.6 million a year.

As we continue our progress towards a fully funded position, we are looking to the future. The ultimate aspiration of both the trustees and the company is to secure the benefits of all members with an insurance company. We took our first step in this direction in autumn 2018, when we insured some of the benefits with Pension Insurance Corporation plc, a specialist UK insurer in this space. We will continue to monitor insurance pricing, and hope to insure further benefits when the timing is right.

We would ask all those members with additional voluntary contribution funds to monitor these funds carefully. The choices for trustees to invest these funds are relatively limited and members may well benefit from taking financial advice in this area.

You will have read in the press about the rise of financial scams during the pandemic. In an effort to combat pension scams, the Pensions Regulator has introduced new checks for members considering taking their benefits out of the scheme, which our administrator, Hymans Robertson, will be carrying out on our behalf. If you ask for a transfer value quote, you are likely to be asked a number of questions – rest assured that these are for your own benefit.

I would urge all members to update their nominated beneficiaries information online at https://www.edringtonpensions.co.uk. You likely filled in a nominated beneficiaries form when you joined the scheme, but it is extremely helpful to the trustees to hold up-to-date information in this regard. You can also access and request lots of helpful information on your benefits.

This year has seen just a couple of changes to the trustee board. We welcomed Chris Gilsenan as the new company-nominated trustee as we said goodbye and thank you to our colleague Veronika Gunn-Boesch, who retired as a trustee after six years of service.

Wishing all our members continued good health.

Candia Kingston
Independent chair of the pension scheme trustees

OVERVIEW

This report updates you on the scheme's funding position, audited accounts and investment performance for the year ended 5 April 2021.

It also shares news on what's been happening in the scheme over the past year, and sets out some more general pension information.

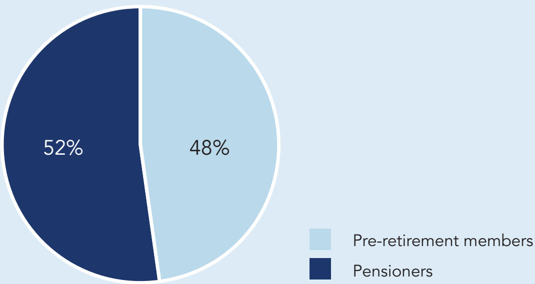
How many members were in the scheme?

The total membership of the scheme at the year end was split as follows:

	@5 APRIL 2021	@5 APRIL 2020
Pre-retirement members	296	309
Retired members and dependants (pensioners)	319	320
Total membership	**615**	**629**

Scheme profile at 5 April 2021

NUMBER OF MEMBERS



SUMMARY FUNDING STATEMENT

The aim of the summary funding statement is to help you understand the scheme's ability to pay your benefits. It shows the current financial position of the scheme by reporting the results of the scheme's actuarial valuations.

What is an actuarial valuation?

An actuarial valuation measures the financial health of a pension scheme by comparing the value of its liabilities and its assets.

To measure the scheme's liabilities, the actuary calculates the likely future pension of each member of the scheme and then estimates the value of the pension in today's terms.

To do this, the actuary must make a number of sensible assumptions for each member, such as:

- At what age will they retire?
- How long will they live?
- How much will their pension increase each year?
- Do they have a spouse or dependant who will receive a pension after their death?

Adding pension values across all members gives a measure of the total liabilities of the scheme.

This is compared with the value of the scheme's assets to determine the current financial health. If a scheme's liabilities are greater than its assets, the scheme is in deficit and a plan must be put in place to fix this.

DEFICIT: THE GAP BETWEEN ASSETS AND LIABILITIES

How often is the financial health of the scheme measured?

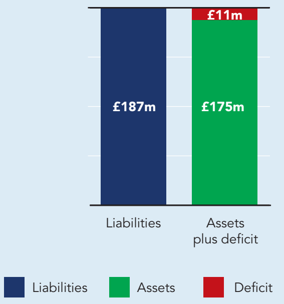
The main valuation is carried out every three years by the scheme actuary.

Annual updates take place between main actuarial valuations to monitor progress. Although not as accurate as the main valuation, the annual update gives a good indication of how the scheme funding is progressing in light of economic changes and investment performance.

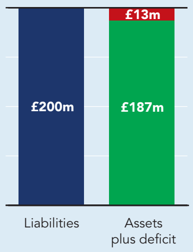
What does the most recent update show us?

The annual update at 6 April 2021 showed that, while the scheme is still in deficit, the value of the deficit is reducing.

AT 6 APRIL 2021 FUNDING LEVEL WAS 94%



AT 6 APRIL 2020 FUNDING LEVEL WAS 94%



The company has agreed to pay £6.6 million each year to the scheme, plus an additional amount to cover investment management fees.

Since the 2020 report, the value placed on our scheme's liabilities has fallen, primarily due to a rise in bond yields which reduces the current value of members' benefits.

The assets have also fallen over the same period. Because the trustees hedge exposure to bond yields in our investment portfolio, our assets and liabilities tend to move up and down in tandem.

The overall effect is that the deficit has reduced to £11 million, while the funding level has stayed stable at 94%. See page 5 for some more information about contribution payments.

What is the plan for the future?

The trustees' and company's shared long-term aim is for the assets and liabilities of the pension scheme to be transferred to an insurance company. This is called a 'buy-out' and would mean that future pensions would be paid by an insurance company. This could be Pension Insurance Corporation plc or a different insurance company. It is even possible that different members would be paid by different insurance companies.

It is important to note that a buy-out would not affect your benefits and could provide better long-term protection for your pension. Currently, the scheme is reliant on the company continuing in business for many years into the future and being able to continue to pay pension contributions, as required. Insurance companies, unlike pension schemes, are required to be fully funded at all times and policyholders are additionally backed by the Financial Services Compensation Scheme.

Buy-out will not happen until the pension scheme is fully funded, and the deficit cleared, which is not expected for a number of years. In the meantime, the scheme will continue to be run by the trustees. You will be advised of progress in future annual reports.

How will full funding of the scheme be achieved?

The trustees' plan to achieve full funding of the scheme by 2025 has two main elements:

1. Securing deficit repair contributions from the company of £6.6 million per year until the earlier of 2025 or the deficit (on a full insurance company buy-out basis) being cleared, plus payment of investment management fees.
2. Reducing the risk of adverse investment factors by switching to less volatile investments.

More information on the trustees' investment policy is given on page 7 of this report.

Support from the company

Although the pension scheme assets are kept in a fund which is separate from the company, and under the control of the trustees, the pension scheme is reliant on support from the company. The trustees' long-term plan is to buy out the scheme with an insurance company. As this will not happen until the scheme is fully funded, support from the company remains crucial.

The chair of trustees meets with the senior finance team at the company on a regular basis to review progress and plan for the future.

What would happen if the scheme started to wind up?

We are required, by law, to let you know the scheme's financial position were it to wind up. Winding up a scheme means that the responsibility for paying all benefits would be transferred to an insurance company, along with sufficient funds to pay for this. The cost of paying an insurance company to guarantee the benefits is higher than providing the benefits under our current scheme.

The potential wind-up costs are measured when there is an actuarial valuation. If the scheme had been wound up at the last valuation date of 6 April 2019, the deficit on this basis was £53 million, resulting in the scheme being 75% funded on this basis.

An insolvent company may be unable to pay these additional costs, and members might not get the full amount of pension they have built up, even if the scheme was fully funded on the normal basis.

The Pension Protection Fund

For companies that become insolvent, the Pension Protection Fund (PPF) was set up to take over their schemes and pay members' pensions. The pension received from the PPF may be less than the full benefit earned in a scheme, being 90% of full pension entitlement for most members, and 100% for those over the normal retirement age. Maximum pensionable salary and pension increase rates may also be restricted. Further information and guidance is available on the PPF website at www.pensionprotectionfund.org.uk, or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR (0845 600 2541).

The Pensions Regulator

Legislation requires the trustees to advise you that:

- the regulator has not modified the scheme for future accrual, given direction for the calculation of the scheme's liabilities, imposed a recovery plan or a schedule of contributions, and
- no payments (return of assets) have been made to the company since the last funding statement.

THE SCHEME'S INVESTMENTS

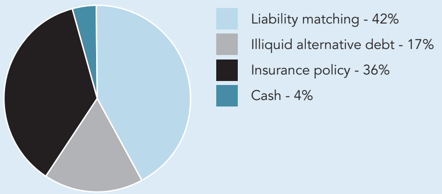
The trustees are responsible for the scheme's investments. With advice from the scheme's investment consultants, the trustees decide on appropriate asset classes and funds to invest in. Day-to-day investment decisions, such as which shares to buy or sell, are delegated to the fund managers.

Diversifying the types of investment reduces the risk to the scheme of one asset class performing badly. The aim is to provide adequate income and growth for the scheme, without taking undue risk.

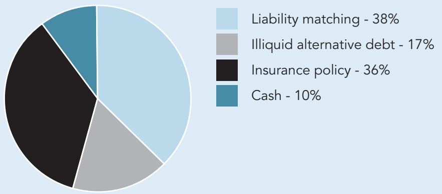
Where is the scheme invested?

The distribution of the scheme's assets at 6 April 2021 is shown below, with the previous year's allocation for comparison.

ASSETS OF THE SCHEME
at 6 April 2021



at 6 April 2020



How has the investment strategy changed?

The trustees' ongoing strategy, with the company's support, is to reduce investment risk.

The scheme has reduced its allocation to traditional growth assets over time. Our assets are now made up of illiquid debt, liability-matching funds, cash and an insurance policy with Pension Insurance Corporation plc that covers payment of a substantial portion of our annual pension payroll.

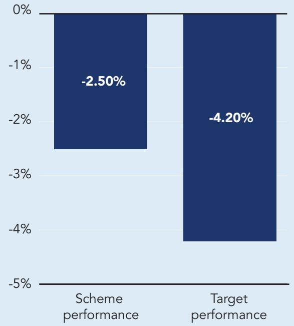
These terms may not all be readily understood: liability-matching funds work to limit the scheme's exposure to both interest rates and inflation, while illiquid debt generally refers to bonds without an active secondary market (such as a stock exchange) in which they can be traded.

The trustees' strategy is detailed in the Statement of Investment Principles available at https://www.edrington.com/governance/

How are the investments performing?

The scheme's assets delivered a return of -2.5% over the year to 31 March 2021. Although the performance was negative, this was primarily driven by rising bond yields rather than poorly performing assets. As bond yields rise, their value falls. In fact we outperformed our target investment performance by around 1.7% over the year. This target is based on how comparable assets have performed over the same period, so varies over time.

ANNUAL INVESTMENT PERFORMANCE
to 31 March 2021



Over the longer term, we have outperformed our target over three years but underperformed over a five-year period.

SUMMARY ANNUAL FINANCIAL STATEMENTS

A summary of the audited annual financial statements is shown below.

	YEAR ENDED 5 APRIL 2021 £'000	YEAR ENDED 5 APRIL 2020 £'000
Value of pension fund at start of year	**185,510**	169,387
Total additions	24,740	20,904
Total deductions	(6,960)	(7,273)
Change in the market value of investments	(30,955)	2,491
Value of pension fund at end of year	**172,335**	185,510

Details of the additions and deductions are shown below:

Additions to the scheme during the year

	£'000	Last year comparison £'000
Employer contributions	3,850	6,600
Annuity income from insured pensioners	2,819	2,822
Reimbursement of fees and expenses	18	288
Investment and other income	18,053	11,194
Total additions	**24,740**	**20,904**

Deductions from the scheme during the year

	£'000	Last year comparison £'000
Pensions and lump sums	(5,163)	(4,538)
Transfers to other pension schemes	(1,789)	(2,544)
Fees and expenses	(7)	(190)
Total deductions	**(6,960)**	**(7,273)**

Notes

1. The figures above include the value of additional voluntary contributions (AVCs) and all insured pensions, some of which are excluded in the valuation figures stated earlier in this report.
2. The change in the market value of investments above includes the change in value of the insurance policy with Pension Insurance Corporation which is not included in the investment performance figure on the previous page.
3. The timing of cashflows also impacts the change in the market value of investments above while, due to the method of calculation, it does not impact the investment performance figure on the previous page.

PENSIONS NEWS AND FURTHER INFORMATION

Administrator

Any queries on the scheme should be directed to Rebecca Raeburn or one of her team at:

Hymans Robertson
20 Waterloo St
Glasgow
G2 6DB

edringtonpensions@hymans.co.uk

0141 566 7527

You can access the secure area of the scheme's website at https://www.edringtonpensions.co.uk/, which allows you to view your personal information including your annual pension at date of leaving, annual pension revalued to a current date and details of any nominated beneficiaries (where an online form has been completed). You can also submit requests for illustrations and view the results online, model benefits at retirement, advise of any change of address and provide your communication preferences such as email or letter.

If you have any difficulties in registering for access to the secure part of the site online, please contact the Hymans Robertson administration team using the details above.

Change in trustees

Veronika Gunn-Boesch retired as trustee and Chris Gilsenan joined as a new trustee.

For a full list of our current trustees, see page 12 of this report.

Retirement planning

Planning for your retirement becomes more important as you approach your chosen retirement age. You can start this process by gathering information on all your pension benefits.

As well as your Edrington pension, you may have pensions with previous employers or personal pensions. If you have lost track of a previous pension scheme, you can obtain help from the Pension Tracing Service:

www.gov.uk/find-pension-contact-details

0800 731 0193

Should you have any questions about pensions generally, or if you are over 50 and would like access to impartial pensions guidance, you can get help from the government-run Money Helper service at:

www.moneyhelper.org.uk

0800 011 3797

Find out more about your state pension and state pension age at:

www.gov.uk/check-state-pension

0800 731 0175

Pension options

This pension scheme is a defined benefit (DB) scheme which sets out clearly the benefits that are paid to members.

It is different from a defined contribution (DC) scheme, which typically provides more freedom around how benefits are paid, but without the same guarantees that attach to DB pensions.

In common with many other pension schemes, we are seeing an increase in the number of members transferring their benefits out of this scheme into alternative DC arrangements. This is not a decision to be taken lightly – the freedom available in DC schemes will suit some people but not others.

If you want to consider transferring your DB pension, you should seek advice from a properly qualified independent financial adviser. If your pension pot is valued at more than £30,000, you are required by law to take advice before transferring. Government rules do not allow members who are already in receipt of a final salary pension to transfer to a DC plan. An independent financial adviser in your area can be found on the government sponsored website:

www.unbiased.co.uk

0800 023 6868

Protect your pension against pension scams

During the pandemic, there has been an increase in pension scams. We are working hard to spot these, but we need your help.

Some fraudulent advisers claim to be authorised by the Financial Conduct Authority and send a false link to the member to check their authorisation. Do not trust FCA links sent to you by those professing to be advisers: always check that your adviser is authorised at:

www.fca.org.uk/firms/financial-services-register

Find out more about scams at:

www.fca.org.uk/scamsmart/how-avoid-pension-scams

The Pensions Regulator

The Pensions Regulator oversees the running of UK pension schemes. It has information about valuations and funding on its website:

www.thepensionsregulator.gov.uk

THE TRUSTEES AND THEIR ADVISERS

The current trustees of the scheme are Candia Kingston (for Scottish Pension Trustees, independent chair), Lindsay Campbell, Ashleigh Clark, David Cox, Chris Gilsenan and Tim Patterson.

The scheme is run by the trustees in accordance with the formal trust deed and rules. The trustees are responsible for reviewing the progress of the scheme and for monitoring the administration, accounts, investments and financial position.

The trustees confirm that the financial statements comply with all requirements under applicable United Kingdom law and current accounting standards. Having taken all steps to provide the scheme's auditors with all relevant information to perform the audit, as far as the trustees are aware, there is no relevant audit information of which the scheme's auditors are unaware.

In order to carry out their duties, they employ a range of specialist advisers to help on various aspects. The current advisers are:

Actuary
Kerry Lindsay, Hymans Robertson LLP

Consultants
Hymans Robertson LLP

Auditors
Grant Thornton UK LLP

Solicitors
Pinsent Masons

Investment Managers
BlackRock
Insight
Partners Group

Bankers
Halifax Bank of Scotland

The formal report and accounts and other scheme documentation are available for inspection.

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