# Highland Distillers Pension Scheme

## Annual Report and Financial Statements
## For the Year Ended 5 April 2022
## Scheme Registration number 101256036

# Contents

# 1 Trustees and their Advisers

### The Trustees

The Trustees of the Highland Distillers Pension Scheme are set out below:

| Employer appointed | Member nominated |
|---|---|
| Lindsay Campbell | David Cox |
| Ashleigh Clark | Tim Patterson |
| Chris Gilsenan | |

| | |
|---|---|
| **Professional Trustee** | Candia Kingston (representing Scottish Pension Trustees Limited) |
| **Independent Chair** | Candia Kingston (representing Scottish Pension Trustees Limited) |
| **Scheme Secretary** | Hymans Robertson LLP |

### Advisers

The advisers to the Trustees are set out below:

| | |
|---|---|
| **Scheme Actuary** | Kerry Lindsay, Hymans Robertson LLP |
| **Auditor** | Grant Thornton UK LLP |
| **Solicitor** | Pinsent Masons LLP |
| **Administrator** | Hymans Robertson LLP |
| **Investment Adviser** | Hymans Robertson LLP |
| **Covenant Adviser** | PwC LLP |
| **Investment Managers** | Insight Investment Fund Management |
| | Partners Group |
| **AVC Providers** | Clerical Medical |
| | Utmost Life and Pensions |
| | Phoenix Life |
| | Prudential |
| **Bankers** | HBOS |
| **Principal Employer** | Highland Distillers Limited |
| | 100 Queen Street |
| | Glasgow |
| | G1 3DN |
| **Participating Employers** | Edrington Distillers Limited |

# 2 Trustees' Report

### Introduction

The Trustees of the Highland Distillers Pension Scheme are pleased to present their report together with the audited financial statements and actuarial statements of the Scheme for the year ended 5 April 2022. The purpose of the report is to describe how the Scheme and its investments have been managed during the year.

Existing employees continued to accrue service in the Scheme until it closed to future accrual on 31 October 2014, when all active members ceased accrual of pension.

## Management of the Scheme

### Constitution

The Scheme is governed by the Trust Deed and Rules. It provides defined benefit pensions and other relevant benefits to retiring members and to their dependants in the event of death.

### Trustees

The Principal Employer has the power to appoint or remove Trustees under the Trust Deed and Rules.

The Trustees of the Scheme during the year are listed on page 1.

During the year, the Trustees held four Trustee meetings (2021: four).

In line with legislation, at least one third of trustees are member nominated. When a position arises, or at least once every five years, members are invited to apply for selection, providing proof of support from two other members of the Scheme. Once all nominations have been received, the successful candidates will be chosen using the following selection procedure.

- If the same number of candidates apply (or fewer than) as there are positions available, they will automatically be appointed as Trustees.
- If there are insufficient candidates, the Trustees may seek further candidates from eligible members.
- Should any unfilled places remain, after the nomination and selection procedure, the process will be re-run after a reasonable period.

If there are more applicants than positions, interviews will be held including appropriate representation from members.

Member-nominated Trustees are appointed to hold office for five years and are then eligible for re-appointment. All Member-nominated Trustees have recently been reappointed for a five year term in line with this process. A Trustee may resign his or her office at any time by giving one month's written notice to the Principal Employer. A Member-nominated Trustee can be removed from office only if all the other Trustees agree.

## Financial Development of the Scheme

The financial statements have been prepared and audited in accordance with regulations made under Section 41(1) and (6) of the Pensions Act 1995. They show how the Scheme's finances have developed over the year. The notes to the statements give further information on the various figures shown.

The Trustees confirm that the financial statements comply with all requirements under the applicable United Kingdom law and current accounting standards.

The Fund Account on page 19 shows that the net assets of the Scheme decreased from £172,335,165 at 5 April 2021 to £171,756,819 at 5 April 2022.

| | 2022<br>£ | 2021<br>£ |
|---|---|---|
| Member related income | 9,907,496 | 3,856,552 |
| Member related payments | (5,426,123) | (6,959,891) |
| **Net additions / (withdrawals) from dealings with members** | **4,481,373** | **(3,103,339)** |
| Net loss on investments | (5,059,719) | (10,071,685) |
| **Net decrease in fund** | **(578,346)** | **(13,175,024)** |
| Net assets at start of year | 172,335,165 | 185,510,189 |
| **Net assets at end of year** | **171,756,819** | **172,335,165** |

The Scheme is made up of a variety of assets. These assets and their distribution, under the management of the investment managers, are detailed in the financial statements and the investment managers' reports appended to this report.

## Pension Increases

Pensions in payment were increased with effect from 1 May 2021 in accordance with the Scheme Rules, as follows:

a) 5% for pension in excess of the GMP accrued up to 31 December 1998

b) 1.1% in line with the Retail Prices Index (maximum 5%) for pension accrued between 1 January 1999 & 5 April 2011

c) 1.1% in line with the Retail Prices Index (maximum 2.5%) for pension accrued after 5 April 2011

d) 0.5% in line with the Consumer Prices Index (maximum 3.0%) for post 88 GMP

There were no discretionary pension increases made during the year.

Please note that the Macallan section increases in line with the Retail Prices Index (maximum 5%) for pension accrued up to 5 April 2011. Pension accrued after 5 April 2011 increases in line with the Retail Prices Index (maximum 2.5%).

## Transfer Values

Discretionary benefits are not included in the calculation of cash equivalent transfer values.

## Schedule of Contributions

Contributions received from the Participating Employers were in accordance with the Schedule of Contributions certified by the Scheme Actuary on 17 April 2020. The amount of contributions paid is shown in the audited financial statements.

## Actuarial Position

Whereas the financial statements show the assets currently held in the Scheme and its accrued liabilities and financial transactions in the last Scheme year, the actuarial statement refers to the Scheme's obligation to pay pensions and other benefits which fall due after the Scheme year end. The purpose of the actuarial statement is to confirm whether the current assets, plus any future contributions, will be sufficient, in the normal course of events, to cover past and future liabilities of the Scheme, such as pensions.

A full actuarial valuation of the Scheme is carried out every three years in order that the Scheme Actuary can monitor the progress of the Scheme and value its assets and liabilities. The last valuation was undertaken as at 6 April 2019 and showed that the Scheme deficit had decreased from £63 million in 2016 to £22 million. As a result the funding level of the Scheme increased from 69% to 88% on a technical provisions basis. On a buyout basis the Scheme increased from 59% to 75% funded as at 6 April 2019. Following the 2019 actuarial valuation, a Flexibility at Retirement liability management exercise was carried out by the Employer with the agreement of the Trustees. This reduced the Scheme deficit on a technical provisions basis by around £0.4 million.

As part of the negotiations following the 2016 actuarial valuation, the Principal Employer agreed to pay deficit repair contributions of £6.6 million per year until the earlier of the date at which the Scheme's statutory and secondary funding deficits are cleared, or 1 August 2025. This was confirmed and re-agreed as part of the 2019 actuarial valuation discussions.

As a result of the coronavirus outbreak and following advice from their actuarial, covenant and legal advisers in line with guidance from the Pensions Regulator, a revised schedule of contributions was implemented from March 2020. This allowed for deficit repair contributions originally due to be paid in the year 2020 / 21 to be deferred and set out the method by which they would be repaid to the Scheme in the year to March 2022 at the latest. Contributions were resumed on 1 November 2020 and the missed payments between 1 March 2020 and 31 October 2020 were recouped between March 2021 and October 2021.

In addition to the main valuations, the Trustees review the funding of the Scheme at each Trustees' meeting and receive annual funding updates from the Scheme Actuary. As required by statute, an annual Summary Funding Statement, giving a detailed description of the funding status of the Scheme, is issued to all members each year.

The 5 April 2022 formal valuation is currently underway and the outcome will be advised in due course.

## Conflict in Ukraine and Russia

The Trustees have been monitoring the impact of the war in Ukraine on both the employer covenant and the Scheme's investments.

After the outbreak of the conflict, the Company quickly moved to suspend all shipments to Russia. A cross-functional Edrington / Beam Suntory team was established to assess the impact of sanctions and support the team locally in managing stock and liquidity. Stock destined for Russia was reallocated to other markets. A joint decision was made to sell the business to members of the local management team. Shipments from Edrington to Russia will remain suspended for the foreseeable future. Overall, the trustees believe that the direct impact of the conflict in Ukraine on the employer is immaterial and does not affect the employer covenant.

The Schemes' portfolios have no direct exposure to Russia or Ukraine and only minimal indirect exposure. Rising interest rates caused absolute negative returns on the Schemes' portfolios but, due to the 100% hedging protection in place, the Schemes' liabilities moved in similar direction and magnitude, protecting the Schemes' funding positions

## Chair's Statement

I am very pleased to report that the Scheme remains in robust health. We are yet to agree final funding figures at 6 April 2022, but our estimates show a further improvement since the annual update at 6 April 2021, when the funding level was 94%.

Our interest and inflation hedges remain at 100% of the value of the liabilities, protecting the Scheme against the current rise in experienced and anticipated inflation. We are actively looking at opportunities to hedge more of our liabilities with an insurance company, following the purchase of a policy with Pension Insurance Corporation PLC in 2018 matching much of our pensioner liabilities at the time. The Trustees' medium-term goal is to insure all of our liabilities and wind up the Scheme.

The Trustees work closely with the Company to ensure members' benefits are met and the Scheme Actuary and I maintain a close relationship with the Finance Director and the Company's advisers to monitor progress with our deficit recovery plan. These meetings, along with the annual presentation to the Trustee Board of the company's results and future plans ensure your Trustees are well informed as to the Company's performance.

We continue with our work in cleansing the data of the Scheme to ensure that this is held to be as complete and accurate as possible.

Signed on behalf of the Trustees by:

Candia Kingston

Independent Chair of the Trustees of the Highland Distillers Pension Scheme

Date : 4/11/2022

# Scheme Membership

The reconciliation of the Scheme membership during the year ended 5 April 2022 is shown below:

| Pensioner Members (including spouses and dependants) | |
|---|---|
| **As at 6 April 2021** | **319** |
| Retirements | 9 |
| Deaths | (17) |
| Spouses' pensions | 5 |
| **Pensioner Members as at 5 April 2022** | **316** |

Included within pensioner members above are 16 (2021: 21) pensioners who receive a pension from an annuity policy purchased on their behalf and 160 (2021: 171) whose benefits are insured under the pensioner buy-in.

| Deferred Pensioner Members | |
|---|---|
| **As at 6 April 2021** | **296** |
| Retirements | (9) |
| Deaths | (3) |
| Transfers out | (3) |
| **Deferred Pensioner Members as at 5 April 2022** | **281** |

| Total Scheme Membership | |
|---|---|
| **As at 6 April 2021** | **615** |
| **As at 5 April 2022** | **597** |

# Investment Policy

### Investment Management

The assets of the Scheme are held in trust, by the Trustees, for the benefit of the members. The Trustees have responsibility for investment of the Scheme's assets. The Trustees' investment objective is to maximise the return of the Scheme's investments whilst ensuring that there are sufficient assets to meet the liabilities of the Scheme as and when they become payable, and that the Scheme remains solvent in the short term. To ensure this, investments are spread across a range, both by type and geographically. Spreading the investments in this way reduces the risk of a sharp fall in one particular market having a substantial impact on the whole fund.

There is a degree of delegation of responsibility for investment decisions. The investment strategy is agreed by the Trustees, after taking appropriate advice from the Scheme's investment adviser.

Subject to complying with the agreed strategy, which specifies the target proportions of the fund which should be invested in the principal market sectors, day to day management of the Scheme's asset portfolio, which includes discretion for stock selection, is the responsibility of the respective investment managers.

### Investment Strategy

The Trustees' ongoing strategy, with the Principal Employer's support, is to reduce the Scheme's risk profile. The Scheme has reduced its allocation to traditional growth assets over time and currently holds 100% in non-growth assets, made up of gilts, corporate bonds, private debt, asset backed securities, liability matching funds, cash and a buy-in policy.

The Trustees will continue to implement further protection for the Scheme from adverse movements in inflation and interest rates. This 'hedging' is achieved by investing in investments which provide a close match to the Scheme's liabilities and cashflow requirements. At the year end the approximate hedging levels were 100% (2021: 100%) of technical provision liabilities for inflation and 100% (2021: 100%) for interest rates.

The value of the Scheme's assets as at 5 April 2022 is shown below. Allocations in the following two tables do not include the buy-in policy, AVC investments or cash in the Scheme's bank account (although cash in the portfolio's pooled funds is included). A portion of the valuation for illiquid alternative debt is as at 31 March 2022 due to the relevant fund being monthly valued.

| | Pooled Investment Vehicles 2022 | | Pooled Investment Vehicles 2021 | |
|---|---|---|---|---|
| | £ | % | £ | % |
| Illiquid Alternative Debt | 24,681,551 | 21.5 | 28,770,145 | 27.0 |
| Liability Matching Funds | 34,870,554 | 30.4 | 70,344,726 | 66.1 |
| Cash | 55,102,537 | 48.1 | 7,401,154 | 6.9 |
| **Total** | **114,654,642** | **100.0** | **106,516,025** | **100.0** |

## Asset Allocation

The value of the Scheme's investment assets split by investment fund as at 5 April 2022 is shown below. Valuations are shown at the bid price or equivalent. The Partners Group mandate is valued as at 31 March 2022 as this portfolio is only monthly valued therefore value the at 5 April 2022 is not available.

| Investment Manager | Asset Class | Valuation (£) 2022 | Asset Allocation (%) 2022 | Valuation (£) 2021 | Asset Allocation (%) 2021 |
|---|---|---|---|---|---|
| Insight | Liability Matching Funds | 34,870,554 | 30.4 | 70,344,726 | 66.1 |
| Insight | Cash | 55,102,537 | 48.1 | 7,401,154 | 6.9 |
| Insight | Illiquid Alternative Debt | 16,865,504 | 14.7 | 16,290,096 | 15.3 |
| Partners Group | Illiquid Alternative Debt | 7,816,047 | 6.8 | 12,480,049 | 11.7 |
| | **Total Assets** | **114,654,642** | **100.0** | **106,516,025** | **100.0** |

In addition, the Trustees hold insurance policies with Pension Insurance Corporation (PIC), Aviva, Prudential and Standard Life that provide income to exactly match the pensions paid to a number of Scheme pensioner members. These insurance policies are valued at £51,914,000 as at 5 April 2022 (2021: £59,394,000).

The investment strategy is agreed by the Trustees after taking appropriate advice. Subject to complying with the agreed strategy, which specifies the target proportions of the fund which should be invested in the principal market sectors, the day-to-day management for the Scheme's asset portfolio, which includes full discretion for stock selection, is the responsibility of the investment managers. Target allocations are agreed with guidance from the Scheme's investment adviser and are detailed in the Statement of Investment Principles. The target allocation for the Liability Matching Funds is 41%.

## Investment Performance

Our investment adviser monitors the performance of the investment managers and provides regular performance reports to the Trustees. The performance of the managers is analysed relative to agreed benchmarks. The full reports of the investment managers are set out in the appendices, showing performance and market conditions to 31 March 2022. The table below summarises performance to 31 March 2022 as data to 5 April 2022 is not available.

| Investment performance to 31 March 2022 | 1 Year (%) | 3 Years (% pa) | 5 Year (% pa) |
|---|---|---|---|
| **Insight - Illiquid alternative debt** | **3.3** | **3.3** | **3.3** |
| Target: LIBOR +4% p.a. | 4.2 | 4.6 | 4.7 |
| **Insight - Liability Matching Funds** | (4.0) | - | - |
| **Combined Highland Distillers fund** | **12.2** | **7.7** | **6.2** |
| Benchmark target: combined fund index | (2.3) | 1.9 | 5.8 |
| Target: combined fund index + outperformance targets | (0.7) | 3.6 | 7.1 |

No performance is shown for the Partners Group mandate, as due to the nature of private debt as an asset class it is not appropriate to assign this manager a short-term performance figure. However, the performance of this mandate since inception is included within the combined Highland Distillers fund performance (based on change in asset values).

The Insight Liability Matching Funds were invested in August 2020 and as a result do not have a three- or five-year performance to 31 March 2022; however, the fund's since inception performance is included within the combined Highland Distillers portfolio performance.

The Highland Distillers fund three- and five-year performance figures include performance of other legacy mandates.

Over one, three and five years to 31 March 2022 the combined Highland Distillers scheme fund performance is ahead of target.

## Custody of Scheme Assets

Under the terms of the investment management agreements, the Trustees have appointed the investment managers as custodians of the Scheme's assets. Insight's appointed custodian is The Northern Trust Company. Partners Group does not appoint a custodian. The custodians are responsible for safe keeping of share certificates and other documents relating to ownership of listed investments. The Trustees are responsible for ensuring the Scheme's assets continue to be securely held.

### Investment Manager Fees

The annual investment managers' fees were calculated as follows:

| | |
|---|---|
| Insight | 0.48% p.a. for Secured Finance Fund<br>0.05% p.a. for LDI Sub-portfolio<br>0.08% p.a. for Liquidity Fund<br>0.10% p.a. for Liquidity Fund Plus<br>(The LDI Sub-portfolio fee is a weighted average of the annual fees of underlying gilt and leveraged gilt LDI funds) |
| Partners Group | Management fee of 0.85% plus performance fee of 7.5% of profit above preferred return of 4% p.a. |

The fee structure for the different managers reflects not only the type of investments held but the level of out-performance expected of the managers.

### Statement of Investment Principles

The Scheme's investment principles are in accordance with the Occupational Pension Schemes (Investment) Regulations 1996. The Trustees are required to produce a Statement of Investment Principles (SIP) in accordance with Section 35 of the Pensions Act 1995. A copy of the statement is available online at https://www.edrington.com/en/statement-of-investment-principles. The investment managers each have a copy of this statement and are required to act in accordance with it.

At the year end the Scheme's assets were not in line with the applicable SIP. Yields and inflation will fluctuate, causing the LDI allocation to move in line with markets. However, the hedging ratios will remain the same. It is more important that the Scheme's hedging levels remain at target, than the absolute allocation remain within the ranges stated in the SIP. While there is a general acceptance that actual allocation would fluctuate and therefore sometimes shift out of tolerance ranges, no re-balancing action will be required as long as the hedging ratios remain correct.

In addition, the Partners Group mandate has been distributing income in recent years with the redemptions being paid back to the Scheme in cash (and any surplus invested in the LDI mandate). This illiquid allocation will continue to reduce over time under the current de-risking framework. So whilst the target to Partners is 10% per the SIP, in reality the underweight allocation will remain until the assets are paid back to the Scheme, as is the nature of a private closed-ended fund. The Trustees agreed not to make any further investments to this asset class as its illiquidity is incompatible with the Scheme's proximity to potential buy-out. This means the Scheme will remain underweight to this allocation and correspondingly overweight to LDI, versus their target allocations in the SIP.

## Social, Environmental and Ethical Considerations

The Trustees recognise that social, environmental and ethical considerations are among the factors which investment managers may take into account, where relevant, when selecting investments for purchase, retention or sale. The managers have produced statements setting out their policy in this regard. The managers have been delegated by the Trustees to act accordingly. However, the Trustees expect the managers to seek to maximise returns within the terms of their mandates and these factors should be taken into account only in that context. During the year the Trustees developed a set of Responsible Investment Beliefs which they will continue to develop as the scope of these considerations evolve. The Beliefs are available upon request.

As part of regulatory changes which came into force on 1 October 2020, the Trustees are required to produce an annual Implementation Statement which describes how they have complied with their stewardship policy as set out in the Statement of Investment Principles. This document is required to be published on a public-facing website. The Trustees' Implementation Statement can be found on page 39.

## Principal Employer Related Investments

There were no Principal Employer related investments at 5 April 2022 (2021: none) nor at any time during the year.

## Covid-19 and Conflict in Ukraine and Russia

During the Scheme year ongoing lockdowns related to the Covid-19 pandemic impacted the global markets and supply chains, further with the emergence of the omicron variant in Q2 2021. Markets subsequently rallied, and post year-end, pandemic restrictions have been lifted globally.

The recent conflict between Ukraine and Russia impacted global markets during the Scheme year. Following assessment of the Scheme's investment portfolio, up to and including the date of signing, the Scheme had no direct exposure to the conflict in any of its investment mandates. There are no expected direct effects on the Scheme's portfolios (including bond portfolios) as a result of these events, and no expected impact on liquidity. With respect to broader market impact, the Scheme's investments hold no equities or diversified growth assets and its strong hedging position means it has withstood the greater volatility. The Trustees will continue to monitor the situation and the impact on the Scheme.

# Statement of Trustees' Responsibilities

The financial statements, which are prepared in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice), are the responsibility of the Trustees. Pension scheme regulations require, and the Trustees are responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustees are responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustees are also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustees also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustees are responsible under pensions legislation for preparing, maintaining and from time to time reviewing and, if necessary, revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

# Further Information

### Internal Dispute Resolution Procedures

It is a requirement of the Pensions Act 1995 that Trustees of all occupational pension schemes must have internal dispute resolution procedures in place for dealing with any disputes between the Trustees and the Scheme beneficiaries. A dispute resolution procedure has been agreed by the Trustees, details of which can be obtained by writing to the Secretary to the Trustees at the address below.

### Contact for Further Information

Any enquiries or complaints about the Scheme, including requests from individuals about their benefits or for a copy of Scheme documentation, should be sent to the Secretary to the Trustees at the address below:

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

### The Money and Pensions Advisory Service (MaPS)

This service is available at any time to assist members and beneficiaries with pensions questions and issues they have been unable to resolve with the trustees of the Scheme. MaPS has launched Moneyhelper, which brings together the Money Advice Service, The Pensions Advisory Service and Pension Wise to create a single place to get help with money and pension choices. Moneyhelper is impartial, backed by the government and free to use.

The Money and Pensions Service
Holborn Centre
120 Holborn
London
EC1N 2TD
Tel: 0800 011 3797
www.moneyhelper.org.uk

### The Pensions Ombudsman

Members have the right to refer a complaint to the Pensions Ombudsman free of charge. The Pensions Ombudsman deals with complaints and disputes which concern the administration and/or management of occupational and personal pension schemes.

Contact with the Pensions Ombudsman about a complaint needs to be made within three years of when the events(s) the member is complaining about happened – or, if later, within three years of when they first knew about it (or ought to have known about it). There is discretion for those time limits to be extended.

The Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
London
E14 4PU
Tel: 0800 917 4487
Email: enquiries@pensions-ombudsman.org.uk
www.pensions-ombudsman.org.uk

Members can also submit a complaint form online:
www.pensions-ombudsman.org.uk/making-complaint

## The Pensions Regulator

The Pensions Regulator (TPR) has the objectives of protecting the benefits of members, promoting good administration and reducing the risk of claims on the Pension Protection Fund. TPR has the power to investigate schemes, to take action to prevent wrongdoing in, or maladministration of, pension schemes and to act against Employers failing to abide by their pension obligations. TPR may be contacted at the following address:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW
www.thepensionsregulator.gov.uk

## Pension Tracing Service

The Pension Schemes Registry has been replaced with the Pension Tracing Service and is now provided by the Department for Work and Pensions. Responsibility for compiling and maintaining the register of occupational pension schemes has been passed to the Pensions Regulator.

Contact details for the services are as follows:

Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU
www.gov.uk/find-pension-contact-details

## Additional Information

Members and recognised trade unions, that is unions recognised for the purpose of collective bargaining in relation to members, are entitled to inspect copies of the documents giving information about the Scheme. In some circumstances, copies of the documents can be provided but a charge will be made for copies of the trust documents (Deed and Rules) and of the Scheme Actuary's report.

The data provided by members on their application forms is processed using computers. The use of data is registered under the Data Protection Act 1998, for the purposes of pensions administration by the Trustees and of personnel/employee administration by the Participating Employers.

## Approval of the Report by the Trustees

The Investment Report, Report on Actuarial Liabilities and Implementation Statement included in this annual report and financial statements forms part of the Trustees' Report.

Signed for and on behalf of the Trustees of the Highland Distillers Pension Scheme by:

Trustee

Trustee

4/11/2022

Date

# 3 Independent Auditor's Report to the Trustees

## Independent Auditor's Report to the Trustees of the Highland Distillers Pension Scheme

### Opinion

We have audited the financial statements of the Highland Distillers Pension Scheme (the 'Scheme') for the year ended 5 April 2022, which comprise the fund account, the statement of net assets (available for benefits) and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 5 April 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.

In our evaluation of the Trustees' conclusions, we considered the inherent risks associated with the Scheme including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the Trustees and the related disclosures and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are approved by the Trustees.

### Conclusions relating to going concern (continued)

In auditing the financial statements, we have concluded that the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Trustees with respect to going concern are described in the 'Responsibilities of Trustees for the financial statements' section of this report.

### Other information

The Trustees are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Responsibilities of Trustees for the financial statements

As explained more fully in the Statement of Trustees' Responsibilities, the Trustees are responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to wind up the Scheme, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities.](http://www.frc.org.uk/auditorsresponsibilities) This description forms part of our auditor's report.

### Auditor's responsibilities for the audit of the financial statements (continued)

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Scheme and determined that the most significant are the Pensions Acts 1995 and 2004 and those that relate to the reporting frameworks (Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice "Financial Reports of Pension Schemes" 2018 ("the SORP").
- In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements such as the Pensions Regulator's Codes of Practice and relevant compliance regulations (including the Annual Pensions Bill and tax legislation) under which the scheme operates.
- We discussed the policies and procedures regarding compliance with laws and regulations with the Trustees. We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with management, the Trustees, and from inspection of Trustees' board minutes and legal and regulatory correspondence.
- We assessed the susceptibility of the Scheme's financial statements to material misstatement due to irregularities including how fraud might occur. We evaluated management's incentives and opportunities for manipulation of the financial statements and determined that the principal risks were in relation to the risk of management override of controls through posting inappropriate journal entries to manipulate results for the year and incorrect or exaggerating pricing of investment assets due to the nature of valuing hard to value assets such as insurance policies and level 3 pooled investment vehicles.

Our audit procedures involved;

- Direct confirmation of the valuation of insurance policies at the year end with the Valuer and the performance of work of experts testing is also reviewed.
- Obtaining independent confirmations of material investment valuations and cash balances at the year end.
- Journal entry testing, with a focus on large manual journals to unusual account codes, including
  - Material journals posted to account codes where would not expect large transactions;
  - Review of journals to unusual accounts codes and suspense accounts;
  - Manual journals with unusual account combinations such as those between the Fund Account and the Statement of Net Assets.

In addition, we completed audit procedures to conclude on the compliance of disclosures in the annual report and Financial Statements with applicable financial reporting requirements.

### Auditor's responsibilities for the audit of the financial statements (continued)

#### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

All team members are qualified accountants or working towards that qualification and are considered to have sufficient knowledge and experience of schemes of a similar size and complexity, appropriate to their role within the team. The engagement team are required to complete mandatory pensions sector training on an annual basis, thus ensuring they have sufficient knowledge and of the sector the underlying applicable legislation and related guidance.

### Use of our report

This report is made solely to the Scheme's Trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester

Date: 4/11/2022

# 4 Financial Statements

## Fund account for year ended 5 April 2022

| | Note | 2022<br>£ | 2021<br>£ |
|---|---|---|---|
| **CONTRIBUTIONS AND BENEFITS** | | | |
| Contributions | *4* | **9,906,784** | 3,856,330 |
| Other income | *5* | **712** | 222 |
| | | **9,907,496** | 3,856,552 |
| Benefits paid or payable | *6* | **(4,903,848)** | (5,163,403) |
| Payments to and on account of leavers | *7* | **(514,528)** | (1,789,411) |
| Administrative expenses | *8* | **(7,747)** | (7,077) |
| | | **(5,426,123)** | (6,959,891) |
| **Net returns / (withdrawals) from dealings with members** | | **4,481,373** | (3,103,339) |
| **RETURNS ON INVESTMENTS** | | | |
| Investment income | *9* | **4,666,242** | 20,871,740 |
| Change in market value of investments | *11.1* | **(9,747,932)** | (30,955,088) |
| Investment manager fees | *12* | **21,971** | 11,663 |
| **Net loss on investments** | | **(5,059,719)** | (10,071,685) |
| **Net decrease the Scheme during the year** | | **(578,346)** | (13,175,024) |
| **Net assets of the Scheme at the start of the year** | | **172,335,165** | 185,510,189 |
| **Net assets of the Scheme at the end of the year** | | **171,756,819** | 172,335,165 |

The notes on pages 21 to 33 form part of these financial statements.

# 4 Financial Statements (continued)

## Statement of net assets (available for benefits) as at 5 April 2022

| | *Note* | **2022** | 2021 |
|---|---|---|---|
| **Investment assets** | *11.1* | **£** | £ |
| Pooled investment vehicles | | **114,654,642** | 106,516,025 |
| Insurance policies | | **51,914,000** | 59,394,000 |
| AVC investments | | **144,513** | 139,827 |
| Cash | | **32,377** | 30,336 |
| Other investment balances | | **8** | 1,066,763 |
| | | **166,745,540** | 167,146,951 |
| Current assets | *14* | **5,251,146** | 5,809,411 |
| Current liabilities | *15* | **(239,867)** | (621,197) |
| **Net assets of the Scheme at the end of the year** | | **171,756,819** | 172,335,165 |

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year.

The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities on page 38 and in the Scheme Actuary's certificate on page 37 of these financial statements and should be read in conjunction with them.

These financial statements were approved by the Trustees of the Highland Distillers Pension Scheme, and signed for and on their behalf by:

Trustee

Trustee

4/11/2022

Date

The notes on pages 21 to 33 form part of these financial statements.

# 5 Notes to the Financial Statements

## Notes to the financial statements for the year ended 5 April 2022

### 1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS 102) – The Financial Reporting Standard applicable in the UK and Republic of Ireland and the guidance set out in the Statement of Recommended Practice (Revised 2018) (“the SORP”).

The financial statements have been prepared on a going concern basis, which the Trustees believe to be appropriate as they believe that the Scheme has adequate resources to realise its assets and meet pension payments in the normal course of affairs (continue to operate) for the period of at least 12 months from the date of approval of the financial statements. In reaching this conclusion, the Trustees assessed the impact of the Covid-19 outbreak and have taken into account plausible downside assumptions of the Principal Employer to gain comfort that it will continue to support the Scheme

### 2 IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under Scottish law. The address for enquiries to the Scheme is Hymans Robertson LLP, 20 Waterloo Street, Glasgow, G2 6DB.

### 3 ACCOUNTING POLICIES

The principal accounting policies of the Scheme are set out below.

#### 3.1 Contributions receivable

Deficit repair contributions are included on an accruals basis at rates agreed between the Trustees and the Participating Employers as documented in the Schedule of Contributions.

Additional contributions are accounted for on an accruals basis in the payroll period to which they relate.

Expense allowance contributions and reimbursement of fees are accounted for in accordance with the agreement under which they are being paid.

#### 3.2 Benefits paid or payable

Pensions in payment, including pensions funded by annuity contracts, are accounted for in the period to which they relate.

Benefits are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustees of his decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving.

#### 3.3 Transfer payments

Transfer values to other pension arrangements are accounted for when the liability is discharged for any pension benefits in respect of a transferring member from the Scheme which is normally when the transfer amount is paid. All values are based on methods and assumptions determined by the Scheme Actuary.

## Notes to the financial statements for the year ended 5 April 2022 (continued)

### 3 ACCOUNTING POLICIES (continued)

#### 3.4 Administrative and investment management expenses

Accounting treatment for administrative and investment management expenses is dependent upon the Schedule of Contributions in place during the year.

During the year, the Participating Employers were required to meet the costs of administrative expenses including levies payable under the Pensions Act, and any other Scheme expenses that were reasonably incurred in the course of the Trustees performing their duties.

The Participating Employers are responsible for the payment of investment management expenses, in addition to the expenses previously due.

Where the Participating Employers fail to meet these costs directly, the charges will be reimbursed to the Scheme.

All expenses are accounted for on an accruals basis.

#### 3.5 Investment income and bank interest

Investment income and interest on bank deposits are included on an accruals basis.

Income arising from annuity policies is included in investment income and the pensions paid included in pension payments.

#### 3.6 Taxation

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

#### 3.7 Investments

Investments are stated at bid price or NAV price at the year end or latest available date, as advised by the investment managers. Additional Voluntary Contribution assets are included at the values quoted by the insurance companies at the year end.

#### 3.8 Change in market value

The change in market value during the year includes any realised profit or loss on sale of investments as well as the unrealised movement in the value of the investments still held at the year end.

#### 3.9 Insurance policy

Annuities purchased in the name of the Trustees which fully provide the pension benefits for certain members are included in these financial statements at the amount of the related obligation, determined using the most recent Scheme Funding valuation assumptions and methodology. Annuity valuations for Pension Insurance Corporation (PIC), Aviva, Prudential and Standard Life are provided by the Scheme Actuary at the year end.

#### 3.10 Foreign currencies

The Scheme's functional and presentational currency is sterling.

Assets and liabilities denominated in currencies other than sterling have been translated into sterling at the rates of exchange ruling at the year end. Exchange gains and losses arising on translation are included as part of the change in market value of investments.

## Notes to the financial statements for the year ended 5 April 2022 (continued)

### 4 CONTRIBUTIONS

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Employers:** | | |
| Deficit repair contributions from Participating Employers | **6,600,000** | 3,300,000 |
| Additional contributions | **3,300,000** | 550,000 |
| Fees reimbursed by the Participating Employers | **6,784** | 6,330 |
| | **9,906,784** | 3,856,330 |

The current Schedule of Contributions certified by the Scheme Actuary on the 17 April 2020 is applicable from 31 March 2020 until 1 August 2025.

Contributions were not paid between 1 April 2020 and 31 October 2020 which was allowable by the current Schedule of Contributions. These missed payments were recouped between March 2021 and October 2021 and are disclosed as additional contributions within this note.

From 1 November 2020, contributions of £6.6m p.a restarted and were paid in monthly instalments. These contributions continue to be payable in until the earlier of:

- the date at which the Scheme's statutory and secondary funding deficit is cleared; or
- 1 August 2025.

An escrow account has been set up to which contributions may be diverted to in line with an agreement between the Trustees and the Company. No contributions were diverted to the escrow account in the year to 5 April 2022.

### 5 OTHER INCOME

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Transfer calculation fees | **712** | 222 |

### 6 BENEFITS PAID OR PAYABLE

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Pensions | **4,526,537** | 4,629,244 |
| Benefits data cleansing exercise arrears * | **84,294** | 309,960 |
| Commutations and lump sum retirement benefits | **242,185** | 209,855 |
| Lump sum death benefits | **50,832** | 14,344 |
| | **4,903,848** | 5,163,403 |

*The pension arrears are in respect of the Scheme's benefits data cleansing exercise completed for a portion of the pensioner population.

## Notes to the financial statements for the year ended 5 April 2022 (continued)

### 7 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Individual transfers to other pension scheme arrangements | **514,528** | 1,789,411 |

### 8 ADMINISTRATIVE EXPENSES

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Annual PPF levy | **3,071** | 2,955 |
| Other fees | **3,713** | 3,376 |
| Bank interest and charges | **963** | 746 |
| | **7,747** | 7,077 |

The annual PPF levy and the Scheme's annual Pensions Regulator fees are paid by the Scheme and then reimbursed by the Participating Employers in line with the Schedule of Contributions in place during the year.

All other administrative expenses are paid directly by the Participating Employers.

### 9 INVESTMENT INCOME

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Annuity income | **2,740,200** | 2,819,038 |
| Pooled investment vehicles | **1,926,042** | 18,044,244 |
| Income from cash deposits | **-** | 8,458 |
| | **4,666,242** | 20,871,740 |

All of the pooled investment vehicle income received during the year to 5 April 2022 relates to Insight. This income was reinvested in further units. The drop in investment income can be attributed to the termination of the BlackRock fund.

### 10 TAX

The Scheme has been given the status of a Registered Scheme, by the pensions arm of HM Revenue & Customs, under the Finance Act 2004, thereby providing valuable tax relief both for the Participating Employers and the members. The Trustees know of no reasons why this status may be prejudiced or withdrawn.

## Notes to the financial statements for the year ended 5 April 2022 (continued)

### 11 INVESTMENTS

### 11.1 INVESTMENT RECONCILIATION

| | *Opening value* | *Purchases at cost* | *Sales proceeds* | *Change in market value* | *Closing value* |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Pooled investment vehicles | **106,516,025** | 132,271,192 | (121,837,974) | (2,294,601) | **114,654,642** |
| Insurance policies | **59,394,000** | - | - | (7,480,000) | **51,914,000** |
| AVC investments | **139,827** | - | (21,983) | 26,669 | **144,513** |
| | **166,049,852** | **132,271,192** | **(121,859,957)** | (9,747,932) | **166,713,155** |
| Cash | **30,336** | | | | **32,377** |
| Other investment balances | **1,066,763** | | | | **8** |
| Total investments | **167,146,951** | | | | **166,745,540** |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year. This includes profits and losses realised on sales investments during the year, and increases resulting from accumulation within the Scheme of income derived from the Scheme's investments.

Where investments are held in pooled investment vehicles, some income is reinvested and reflected in the change in market value of the units at the year end as per note 9. Similarly the change in market value also includes expenses, both implicit and explicit, to the Scheme. Indirect transaction costs are incurred through the bid-offer spread on investments within the pooled investment vehicles. The amount of any such indirect costs is not separately provided to the Scheme. There are no direct transaction costs.

Other investment balances relate to income due from Insight but not yet received.

### 11.2 POOLED INVESTMENT VEHICLES

The market value of investments held can be analysed as follows:

| | **2022** | 2021 |
|---|---|---|
| | **£** | £ |
| Insight | **106,838,595** | 94,035,976 |
| Partners Group | **7,816,047** | 12,480,049 |
| | **114,654,642** | 106,516,025 |

## Notes to the financial statements for the year ended 5 April 2022 (continued)

### 11 INVESTMENTS (continued)

### 11.2 POOLED INVESTMENT VEHICLES (continued)

The type of PIV holdings can be analysed as follows:

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Bonds | **51,736,058** | 86,634,822 |
| Private debt | **7,816,047** | 12,480,049 |
| Cash | **55,102,537** | 7,401,154 |
| | **114,654,642** | 106,516,025 |

### 11.3 CONCENTRATION OF INVESTMENTS

The following investments account for more than 5% of the Scheme's net assets:

| | 2022 £ | 2022 % of net assets | 2021 £ | 2021 % of net assets |
|---|---|---|---|---|
| Insight- Liquidity Fund Liquidity plus class 3 | **54,998,611** | **32.0** | n/a | n/a |
| Insurance policies | **51,914,000** | **30.2** | 59,394,000 | 34.4 |
| Insight- IIFIG Secured Finance Fund Class B GBP (ACC) | **16,865,504** | **9.8** | 16,290,096 | 9.4 |
| Partners - Multi Asset Credit 2017 (IV) GBP | **7,816,047** | **4.6** | 12,480,049 | 7.2 |
| Insight- LDI Solutions Plus Funded Index Linked Gilts 2041-2050 | **n/a** | **n/a** | 13,194,793 | 7.6 |
| Insight- LDI Solutions Plus Funded Gilts Funds 2061-2070 | **n/a** | **n/a** | 12,753,443 | 7.4 |
| Insight- LDI Solutions Plus Funded Index Linked Gilts Funds 2051-2060 | **n/a** | **n/a** | 10,982,888 | 6.4 |
| Insight- LDI Solutions Plus Funded Gilts Funds index linked gilts 2061-2070 | **n/a** | **n/a** | 10,815,089 | 6.3 |

## Notes to the financial statements for the year ended 5 April 2022 (continued)

### 11 INVESTMENTS (continued)

### 11.4 AVC INVESTMENTS

The Trustees hold assets invested separately from the main fund in the form of insurance policies securing additional benefits on a money purchase basis for those members who paid Additional Voluntary Contributions (AVCs).

All AVCs stopped with effect from 31 October 2014. Members who participated in these arrangements each receive an annual statement made up to 5 April, confirming the amounts held in the account and the movements in the year. The aggregate amounts of AVC investments are as follows:

| | **2022** | 2021 |
|---|---|---|
| | **£** | £ |
| Clerical Medical | **102,014** | 98,676 |
| Utmost Life and Pensions | **31,274** | 29,926 |
| Phoenix Life | **11,225** | 11,225 |
| | **144,513** | 139,827 |

### 11.5 INSURANCE POLICIES

| | **2022** | 2021 |
|---|---|---|
| | **£** | £ |
| Insurance policies | **51,914,000** | 59,394,000 |

The Scheme receives insured pension payments from insurance policies with PIC, Aviva, Prudential and Standard Life. These form part of the payments to named pensioners. These policies are valued by the Scheme Actuary.

The value of the total annuity policies as at 5 April 2022 is calculated as the present value of expected future benefit payments for the members covered by the annuity policies, projected using the technical provisions basis for the Scheme's most recently completed actuarial valuation as at 6 April 2019.

A number of pensioners have benefits insured with Sun Life of Canada and Prudential. The insured benefits are increased by the insurer while the pension paid from the Scheme is increased at the standard rate of all other Scheme pensioners and beneficiaries.

Included within the pensions value in note 6 are amounts funded by insured pensions of £2,549,906 (2021: £2,784,450).

## Notes to the financial statements for the year ended 5 April 2022 (continued)

### 11 INVESTMENTS (continued)

### 11.6 INVESTMENT FAIR VALUE HIERARCHY

The fair value of financial instruments has been determined using the following fair value hierarchy:

| | |
|---|---|
| Level 1 | The unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the assessment dates. |
| Level 2 | Inputs other than quoted prices included within Level 1 which are observable (i.e. developed for the asset or liability, either directly or indirectly. |
| Level 3 | Inputs which are unobservable (i.e. for which market data is unavailable) for the asset or liability. |

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

| **As at 5 April 2022** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **£** | **£** | **£** | **£** |
| Pooled investment vehicles | **-** | **106,838,595** | **7,816,047** | **114,654,642** |
| Insurance policies | **-** | **-** | **51,914,000** | **51,914,000** |
| AVC investments | **-** | **-** | **144,513** | **144,513** |
| Cash | **32,377** | **-** | **-** | **32,377** |
| Other investment balances | **8** | **-** | **-** | **8** |
| | **32,385** | **106,838,595** | **59,874,560** | **166,745,540** |

| As at 5 April 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Pooled investment vehicles | - | 94,035,976 | 12,480,049 | 106,516,025 |
| Insurance policies | - | - | 59,394,000 | 59,394,000 |
| AVC investments | - | - | 139,827 | 139,827 |
| Cash | 30,336 | - | - | 30,336 |
| Other investment balances | 1,066,763 | - | - | 1,066,763 |
| | 1,097,099 | 94,035,976 | 72,013,876 | 167,146,951 |

## Notes to the financial statements for the year ended 5 April 2022 (continued)

### 12 INVESTMENT MANAGER FEES

| | **2022** | 2021 |
|---|---|---|
| | **£** | £ |
| Investment fee rebates | **(21,971)** | (11,663) |

From 1 January 2020 the Participating Employers were responsible for all investment manager charges incurred by the Scheme.

### 13 INVESTMENT RISK DISCLOSURES

FRS 102 requires the disclosure of information in relation to certain investment risks to which the Scheme is exposed to at the end of the reporting period. These risks are set out by FRS 102 as follows:

**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.

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustees are responsible for determining the Scheme's investment strategy. The Trustees have set the investment strategy for the Scheme after taking advice from a professional investment advisor. Subject to complying with the agreed strategy, which specifies the target proportions of the fund which should be invested in the principal market sectors, the day-to-day management of the asset portfolio of the Scheme, including the full discretion for stock selection, is the responsibility of the investment manager.

The Scheme has exposure to the above risks because of the investments it makes following the investment strategy set out below. The Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustees by regular reviews of the investment portfolio. The investment objectives and risk limits of the Scheme is further detailed in the SIP.

Further information on the Trustees' approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

The Scheme's net assets for the current and previous years are detailed in the Statement of Net Assets (available for benefits).

## Notes to the financial statements for the year ended 5 April 2022 (continued)

### 13 INVESTMENT RISK DISCLOSURES (continued)

The following table summarises the extent to which the various classes of investments are affected by financial risks.

| 2021 and 2022 | Direct Credit Risk | Indirect Credit Risk | Interest Rate Risk | Currency Risk | Other Price Risk |
|---|---|---|---|---|---|
| Insight Secured Finance | Yes | Yes | Yes | Yes | Yes |
| Insight Liability Matching Funds | Yes | Yes | Yes | No | No |
| Insight Liquidity | Yes | Yes | Yes | No | No |
| Partners Group | Yes | Yes | Yes | Yes | Yes |
| Insurance policy | Yes | No | No | No | No |

### Investment Strategy

The investment objective of the Scheme is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the Scheme payable under the Trust Deed and Rules as they fall due.

The Trustees set the investment strategy for the Scheme taking into account considerations such as the strength of the Participating Employers' covenant, the long-term liabilities of the Scheme and the funding agreed with the Participating Employers. The investment strategy is set out in its SIP.

The Trustees review the allocation of assets between the managers regularly and if the asset class or manager weightings breach their prescribed ranges, the Trustees will decide whether to rebalance the assets at that time.

The Statement of Net Assets (available for benefits) discloses the value of pooled investment vehicles for the current and previous years.

#### (i) Credit risk

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. The Scheme is indirectly exposed to credit risks arising on the underlying financial instruments held by the pooled investment vehicles.

Cash held within financial institutions which are at least investment grade credit rated. This is the position at the year end.

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. Trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the operating environment of the pooled manager.

## Notes to the financial statements for the year ended 5 April 2022 (continued)

### 13 INVESTMENT RISK DISCLOSURES (continued)

A summary of pooled investment vehicles by type of arrangement is as follows:

| | 2022<br>£ | *Reclassified 2021<br>£ |
|---|---|---|
| Authorised unit trusts | **55,102,537** | 7,401,154 |
| OEICS | **51,736,058** | 86,634,822 |
| Other investment company vehicles | **7,816,047** | 12,480,049 |
| **Total** | **114,654,642** | 106,516,025 |

*Reclassifications by type of arrangement were made after obtaining more information from the investment manager.

Indirect credit risk arising is mitigated by investment mandates requiring the majority of counterparties to be at least investment grade credit rated. Partners Group invest in private debt which is unrated, however 85% (2021: 86%) of the portfolio (at year end) was invested in senior secured debt, the most secure form of private debt.

There is some direct credit risk attached to the insurance policies whereby the insurance providers may cause financial loss to the Scheme by failing to discharge their obligation, however this is mitigated by the Trustees investing in policies with regulated insurance providers. Additional comfort is provided by the regulatory system under which the insurance companies providing the policies operate.

#### (ii) Currency risk

The Scheme is subject to indirect currency risk. Indirect currency risk arises from the Scheme's investments in sterling priced pooled investment vehicles which hold underlying investments denominated in a foreign currency. There is no exposure to direct currency risk as all of the Scheme's investments are held via pooled investment vehicles which are sterling denominated. Currency risk exposure via the Insight Secured Finance fund and the Partners Group private debt fund is hedged back to GBP (sterling) using derivative instruments.

#### (iii) Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds through pooled vehicles, and cash. Indirect market risk arises if the underlying investments of the pooled investment vehicles are exposed to interest rate or other price risks.

The Trustees have set a hedging target of 100% of the value of the technical provisions to protect against interest rate risk. Under this strategy, if interest rates fall, the value of the liability matching funds will rise to help match the increase in technical provisions arising from a fall in the discount rate. Similarly, if interest rates rise, these funds will fall in value, as will the technical provisions because of an increase in the discount rate.

At the year end the non-growth portfolio represented approximately 100.0% of the total investment portfolio including the value of the buy-in policy (2021: 100%).

#### (iv) Other price risk

Other price risk arises principally in relation to the Scheme's annuity policies.

The Scheme manages this exposure by investing in an insurance policy with the annuity provider.

At the year end, annuity policies represented approximately 30% (2021: 36%) of the total investment portfolio. Actual portfolio values may deviate slightly from target depending on normal market movements.

## Notes to the financial statements for the year ended 5 April 2022 (continued)

### 14 CURRENT ASSETS

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Pensions paid in advance | **280,884** | 297,609 |
| Contributions due | **550,000** | 1,100,000 |
| Cash at bank and in hand | **4,420,262** | 4,355,465 |
| Amounts due from Participating Employers | **-** | 56,337 |
| | **5,251,146** | 5,809,411 |

At 5 April 2021 amounts due from Participating Employers related to the Pension Protection Fund Levy, Pension Regulator levies and investment manager fees incurred by the Scheme**.** This amount was offset against amounts due to the Participating Employers, detailed in Note 15. All amounts were settled in the year to 5 April 2022.

At 5 April 2022 £550k relates to the March 2022 amount which was due but not received until post year end.

### 15 CURRENT LIABILITIES

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Amounts due to Participating Employers | **-** | 96,344 |
| Deferred income on annuity policies | **162,500** | 172,943 |
| Unpaid benefits | **77,367** | 351,910 |
| | **239,867** | 621,197 |

At 5 April 2021 amounts due to Participating Employers of £88,034 related to investment management expenses paid by the Participating Employers on behalf of the Scheme. The Scheme reimbursed the Participating Employers in respect of these amounts and offset the amount that was due in respect of contributions detailed in Note 14. Amounts that were also due to the Participating Employers of £8,310 related to ex-gratia overpayments.

All amounts due to the Participating Employers at the prior year end were settled in the year to 5 April 2022.

### 16 RELATED PARTY TRANSACTIONS

The expenses of running the Scheme are paid by the Participating Employers other than the administrative expenses as shown in note 8 to the financial statements.

The Participating Employers pay certain investment manager fees on behalf of the Scheme:

- During the year to 5 April 2020, £88,034 was paid by the Participating Employers in relation to the period 6 April 2019 to 31 December 2019. These amounts were recharged to the Scheme by the Participating Employers on 4 April 2022 as per the Schedule of Contributions in place during this period.
- The Net Amount of £40,007 that was due to the Participating Employers at 5 April 2021 was settled on 4 April 2022. These amounts are detailed in current assets and current liabilities within notes 14 and 15 respectively.
- There is no amount due to or from the Participating Employers and the Scheme at 5 April 2022.

## Notes to the financial statements for the year ended 5 April 2022 (continued)

### 16 RELATED PARTY TRANSACTIONS (continued)

The following Trustees were also members of the Scheme during the year:  T Patterson and D A. Cox. Members of the Scheme who are also Trustees, or were previously Trustees, made contributions to the Scheme and receive benefits on the same terms as other members.

During the year to 5 April 2022 the Scheme incurred fees for independent trustee services totalling £17,010 (2021: £16,800). Fees for the quarter to 31 March 2022 totalling £4,410 were outstanding at year end (2021: £4,200). Expenses incurred by the independent trustee totalling £33 were also paid during the year to 5 April 2022.

There were no other related party transactions during the year.

### 17 CONTINGENCIES AND COMMITMENTS

**Guaranteed Minimum Pension ("GMP") Disclosure**

On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension (GMP) benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes.

In November 2020 a further High Court judgement was made in respect of GMP equalisation and historic transfer values. The judge ruled that historic transfer values would fall under the scope of GMP equalisation and that trustees of pensions schemes remain liable to members where transfer value payments reflected unequalised GMP benefits.

The issues determined by the judgement arise in relation to many other defined benefit pension schemes. The Trustees are aware that the issue will have an impact on the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps. Under the ruling, schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts.

For the purposes of the 6 April 2019 actuarial valuation, the Trustees made an allowance for the potential impact of GMP equalisation of 0.37% of liabilities. The formal valuation as at 6 April 2022 is ongoing where a reserve of 0.45% will be used to account for the November 2020 judgement referred to above.

Since March 2021 Scheme transfer values have been allowed for GMP equalisation.

### 18 SUBSEQUENT EVENTS

Post year end, conflict between Ukraine and Russia is impacting global markets, following assessment on the Scheme's investment portfolio, no direct exposure to the conflict has been identified up to and including the date of signing. The Trustees will continue to monitor the situation and the impact on the Scheme.

Post year end there has been significant global market volatility caused by economic uncertainties, which the Trustees continue to monitor with the assistance of their investment consultants. As at 30 September 2022, the Schemes investments (excluding insurance policies, AVCs and other investment balances) have fallen year-on-year by approximately 28%.

As the Scheme is 100% hedged against inflation and interest rate movements, the Scheme's liabilities on the technical provisions basis will have fallen by a similar amount therefore protecting the funding position.

### 19 EMPLOYER RELATED INVESTMENTS

There were no Principal Employer related investments at 5 April 2022 (2021: none) nor at any time during the year.

# 6 Independent Auditor's Statement about Contributions

### Independent Auditor's Statement about Contributions to the Trustees of the Highland Distillers Pension Scheme

We have examined the summary of contributions to the Highland Distillers Pension Scheme (the 'Scheme') in respect of the Scheme year ended 5 April 2022, which is set out on page 35 to 36.

### Qualified statement about contributions payable under the Schedule of Contributions

In our opinion, except for the effects of the departure from the Schedule of Contributions described in the Basis for qualified statement about contributions paragraph, contributions for the Scheme year ended 5 April 2022 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 17 April 2020.

### Basis for qualified statement about contributions

As explained on page 35 in relation to five out of twelve months of the year, contributions totalling £3,850,000 million were received between one and two days later than the due date set out in the Schedule of Contributions.

### Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

### Respective responsibilities of Trustees and the auditor

As explained more fully in the Statement of Trustees' Responsibilities set out on page 12, the Trustees are responsible for preparing, and from time to time reviewing and, if necessary, revising a Schedule of Contributions and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and to report our opinion to you.

### Use of our statement

This statement is made solely to the Trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Trustees those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustees as a body, for our work, for this statement, or for the opinions we have formed.

Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
Date: 4/11/2022

# 7 Summary of Contributions

### Trustees' Summary of Contributions Payable under the Schedule in respect of the Scheme year ended 5 April 2022

This summary of contributions has been prepared by, or on behalf of, and is the responsibility of the Trustees. It sets out the Participating Employers and member contributions payable to the Scheme under the Schedule of Contributions certified by the Scheme Actuary on 17 April 2020 in respect of the Scheme year ended 5 April 2022.

The Scheme Auditor reports on these contributions payable under the Schedule in the Auditor's Statement about Contributions.

### Summary of contributions payable in the year

During the year, the contributions payable to the Scheme were as follows:

| | 2022 |
|---|---|
| | £ |
| **Required by the Schedule of Contributions** | |
| Employer: deficit repair contributions from Participating Employers | 6,600,000 |
| Additional Employer contributions: deferred deficit repair contributions from Participating Employers | 3,300,000 |
| Other Employer contributions: fees reimbursed by Participating Employers | 6,784 |
| | |
| **Total contributions payable under the Schedule of Contributions (as reported on by the Scheme Auditor)** | **9,906,784** |

Under the terms of the Schedule of Contributions certified by the Plan Actuary on 17 April 2020, five receipts of deficit funding and two receipts of additional contributions totalling £3,850,000 were received between one and two days later than the due dates set out in the Schedule of Contributions. Due to the proportion of total contributions that this represents, the fact that it represents c.39% of the contributions due for the year, and the volume of late payments identified, the Auditor's Statement about Contributions has been qualified in respect of these late payments.

| Month | Days late | Deficit funding (£) | Additional (£) |
|---|---|---|---|
| May 2021 | 2 | 550,000 | 550,000 |
| August 2021 | 1 | 550,000 | 550,000 |
| November 2021 | 1 | 550,000 | - |
| January 2022 | 2 | 550,000 | - |
| February 2022 | 2 | 550,000 | - |

## Summary of Contributions (continued)

Signed for and on behalf of the Trustees of the Highland Distillers Pension Scheme by:

---------------------------------------- Trustee

---------------------------------------- Trustee

4/11/2022
---------------------------------------- Date

# 8 Actuarial Certificate

Highland Distillers Pension Scheme | Hymans Robertson LLP

## Highland Distillers Pension Scheme
## Schedule of contributions – actuarial certificate

### Adequacy of contributions

In my opinion, the contributions shown in this schedule are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated April 2020.

### Consistency with statement of funding principles

In my opinion, this schedule of contributions is consistent with the statement of funding principles dated November 2019.

Please note that the adequacy of contributions statement in this certificate relates to the Scheme's statutory funding objective. For the avoidance of doubt, this certificate does not mean that the contributions shown in this schedule would be enough to secure the Scheme's full liabilities with annuities if the Scheme were to wind up.

| | |
|---|---|
| Signature | Kerry Lindsay |
| Date | 17 April 2020 |
| Name | Kerry Lindsay |
| Qualification | Fellow of the Institute and Faculty of Actuaries |
| Name of Employer | Hymans Robertson LLP |
| Address | 20 Waterloo Street, Glasgow, G2 6DB |

This certificate is provided to meet the requirements of regulation 10(6) of The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

# 9 Report on Actuarial Liabilities (Forming part of the Trustees' Report)

### Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustees and the Employer and set out in the Statement of Funding Principles, which is available to scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 6 April 2019 and the most recent annual update was carried out at 6 April 2022 and showed:

| | **6 April 2019 Valuation** | *** 6 April 2022 Annual Update** |
|---|---|---|
| The value of the technical provisions was : | £183.8 million | £168.3 million |
| The value of the assets at that date was: | £162.0 million | £169.0 million |
| Funding level: | 88% | 100.4% |

* This position is based on the 2019 technical provisions assumptions as the 2022 formal valuation is ongoing.

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

### Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

### Significant actuarial assumptions

**Discount Interest Rate**

Pre–retirement: market implied gilt yield curve

Post-retirement: market implied gilt yield curve

**Future Retail Price Inflation**

Market implied gilt yield curve

**Future Consumer Price Inflation**

RPI curve less 0.9% per annum

**Pension increases**

Assumed to be in line with price inflation (RPI) adjusted to take account of any maximum or minimum increase that may apply

**Mortality**

2018 Club Vita tables

CMI mortality projection model (2018) with core parameterisation, a long-term rate of improvement of 1.5% p.a. and an addition to initial improvement parameter of 1.5% for men and 0.25% for women.

**GMP Equalisation**

An allowance for GMP equalisation of 0.37% of the technical provisions liabilities has been included.

# 10 Implementation Statement (Forming part of the Trustees' Report)

**Statement of Compliance with the Highland Distillers Pension Scheme's Stewardship Policy for the year ending 5 April 2022.**

## Introduction

This is the Trustees' statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustees have complied with the Scheme's Stewardship Policy (which is embedded in the Statement of Investment Principles) during the period from 6 April 2021 to 5 April 2022.

All the Scheme's assets are invested in liability-hedging assets, bonds and other debt-based investments with no voting rights. As such, the Trustees focus on engagement.

## Stewardship policy

The Trustees' Stewardship (voting and engagement) Policy sets out how the Trustees will behave as an active owner of the Scheme's assets which includes the Trustees' approach to:

- The exercise of any voting rights attached to assets; and
- Undertaking engagement activity, including how the Trustees monitor and engage with their investment managers and any other stakeholders.

The Scheme's Stewardship Policy is reviewed in line with any review of the Scheme's Statement of Investment Principles (SIP), which was last completed in August 2021.

There were no changes to the Stewardship policy in the SIP during the year covered by this statement.

You can review the Scheme Stewardship Policy which can be found within the Scheme's Statement of Investment Principles, at https://www.edrington.com/en/policies

The Trustees have delegated engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustees believe it is important that their investment managers take an active role in the supervision of the companies in which they invest, by engaging with the management on issues which affect a company's financial performance.

The Trustees' own engagement activity is focused on their dialogue with their investment managers which is undertaken in conjunction with their investment advisers. The Trustees meet with their managers on a regular basis and the Trustees consider the managers' exercise of their stewardship both during these meetings and through routine reporting provided by their investment adviser.

The Trustees also monitor their compliance with their Stewardship Policy and are satisfied that they have complied with the Scheme's Stewardship Policy over the year to 5 April 2022.

## Implementation Statement (continued)

### Engagement activity

The Trustees hold meetings with their investment managers on a periodic basis where stewardship issues are discussed along with other investment matters. Over the last 12 months, the Trustees met with both their investment managers, Insight and Partners Group. The Trustees discussed the following issues over the course of the year:

| Engagement | Subject discussed | Outcome |
|---|---|---|
| Partners Group<br>11 June 2021 | • Background to the strategy, fund investment outlook, cash flows and risk of loss<br>• Responsible investment, including climate strategy, client reporting, UNPRI status and sustainable development goals<br>• Engagement points during life cycle of private debt strategy and aligning investments with ESG criteria | The Trustees noted Partners Group's selection process and engagement case studies across the ESG spectrum |
| Insight<br>6 September 2021 | • Investment policy, fund background, performance and outlook<br>• ESG integration within the investment strategy | The Trustees noted Insight's areas of focus on ESG risk as well as understanding portfolio-specific risks |

## Implementation Statement (continued)
## Engagement activity (continued)

### Summary of manager engagement activity

The Trustees receive periodic reporting on their managers' engagement activity. The following table summarises the key engagement activity for the 12-month period ending 5 April 2022.

| Manager: Fund | Approach | Topic(s) engaged on |
|---|---|---|
| Insight: Secured Finance Fund, Liability Driven Investments, and Cash | The funds invest in gilts, corporate bonds, cash instruments, and other fixed income, with no voting rights.<br><br>Insight engages via questionnaires, surveys and calls with senior management of engagement subjects mainly at executive level.<br><br>Insight also produce annual reports on integration of the RI principles into their investment management process across the business.<br><br>On a firm-wide level, Insight undertook 861 engagements across 625 entities. Engagements over the year covered climate change, environmental issues, governance, social issues, risk management, strategy including capital management, and refinancing over the year. | **Secured Finance**: Insight undertook a total of 50 engagements across 40 entities in relation to the fund. Key engagements in credit markets are as follows:<br><br>• CVC – Cordatus: Insight engaged on governance concerns around the allowance for greater concentration risk within CLO holdings. Following the engagement, investment restrictions were tightened and stronger controls over the CLO manager's remit.<br><br>• Together financial services: Insight engaged on environmental risks across the issuer's loan book, lack of carbon data and environmental metrics or detailed climate risk analysis processes. Insight have not established a resolution yet but continue to engage with the issuer.<br><br>• Pepper: Insight note positive approach to ESG from this issuer but identified a need for improving environmental risk management. Insight's engagement is ongoing but they note that Pepper has pledged to demonstrate progress in this area.<br><br>**LDI**: Insight continue to promote the industry's incorporation of ESG risks borne by derivatives counterparties into engagements and has developed a scoring system for counterparties.<br><br>**Liquidity Plus (cash) fund**: Insight undertook 24 engagements across 14 entities during the year. Cash instruments are noted to exclude tobacco, defence and fossil fuels. |

## Implementation Statement (continued)
## Engagement activity (continued)

### Summary of manager engagement activity (continued)

| Manager: Fund | Approach | Topic(s) engaged on |
|---|---|---|
| Partners Group: Illiquid Private Debt | The MAC (IV) 2017 fund invests in private debt and does not currently invest in public equities and therefore has no material exposure to assets which carry any voting rights.<br><br>There may be some debt holdings which are converted to equity or have equity holdings attributed to them, in which case Partners follow their Proxy Voting directive.<br><br>Partners Group engages via regular calls with investee company management.<br><br>Partners Group implements a Climate Change Strategy to manage their portfolios towards the Paris Agreement climate goals and in alignment with TCFD disclosure recommendations, and has a key focus on renewable energy and carbon avoidance strategies in their portfolios. | Partners Group engaged with its investee companies across issues such as the use of plastics, energy consumption, warfare, trading with sanctioned countries.<br><br>Key engagements over the year include:<br><br>• Brand of Taiwanese tea stores: Partners Group engaged on single-use plastics (straws, cutlery) and proposed a sustainable packaging strategy to reuse and recycle plastics.<br><br>• Software developer in the construction sector: Partners Group engaged on establishing credit documentation with ESG objectives. As a result the company is switching to green energy.<br><br>Provider of aircraft solutions: Partners declined opportunity to invest in this company due to exposure to platforms used in offensive warfare. |

### Review of policies

In April 2021 the Trustees developed a set of Responsible Investment beliefs to guide their approach to Environmental, Social and Governance (ESG) issues. These Beliefs will be reviewed as the Trustees' approach to RI evolves.

The Trustees and their investment advisers remain satisfied that the responsible investment policies of the managers remain suitable for the Scheme.