



Atholl Estates Pension Scheme

Statement of Investment Principles

February 2022

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01 Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 for the Atholl Estates Pension Scheme (1974) ('the Scheme'). It describes the investment policy being pursued by the Trustees of the Scheme and is in accordance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme Actuary is Gerry Devenney of XPS Pensions Group and the Investment Adviser is XPS Investment (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with Blair Castle Estate Limited ('the Company') and the Advisers and have obtained and considered written advice from the investment adviser. The Trustees believe the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge of the investment arrangements that the Scheme requires.

The Trustees are responsible for the investment of the Scheme's assets and the administration of the Scheme. Where it is required to make an investment decision, the Trustees always receive advice from the Advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services and Markets Act 2000 ("FSMA"), the Trustees set the general investment policy, but delegate the day-to-day investment of the Scheme's assets to professional Investment Managers. The Investment Managers are authorised under the FSMA and provide the expertise necessary to manage the investments of the Scheme.

01.01 Declaration

The Trustees confirm that this Statement of Investment Principles reflects the Investment Strategy they have decided to implement. The Trustees acknowledge that it is their responsibility, with guidance from the Advisers, to ensure the assets of the Scheme are invested in accordance with these Principles.

Signed:

Date:

Name:

For and on behalf of the Trustees of the Atholl Estates Pension Scheme (1974).

02 Scheme Governance

The Trustees are responsible for the governance and investment of the Scheme's assets. The Trustees consider that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the relevant Advisers. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

The Trustees have decided not to appoint an Investment Sub-Committee to deal with investment matters.

03 Investment Objectives

The investment objective of the Scheme is to achieve an overall rate of return that will ensure:

- Sufficient resources are available to meet all liabilities as they fall due; and
- Investment returns are maximised at an acceptable level of risk

The Trustees believe the investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary.

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements and pooled fund documentation with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustees or governing the pooled funds in which the Scheme is invested.

The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations, including their selection / deselection criteria.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns

As covered in more detail in this document, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

04 Asset Allocation Strategy

The Trustees have taken the view that the investment objective is best achieved by determining, and investing in accordance with, an appropriate split between "on-risk" assets (e.g. equities, property, high-yield corporate bonds and 'rotational' funds) and "off-risk" assets (e.g. fixed and index-linked gilts and high quality corporate bonds, as well as liability driven investment (LDI) funds).

The allocation between the asset classes making up the on-risk and off-risk assets will vary over time to reflect, amongst other factors, the profile of the liabilities, the perceived relative value of the different asset classes and the perceived risk to the primary investment objective arising from any shortfall in the funding of the Scheme. The current benchmark and target allocation is set out in Appendix C and any changes in such allocations will only be made after receiving written advice from the Investment Advisers that such allocation remains consistent with the investment objectives.

Due to the size of the fund, the Trustees have decided to use pooled index funds to invest the Scheme's assets. The Trustees have also taken the view that active investment management within asset classes is unlikely to deliver sufficient excess returns to justify the additional cost and risks.

The current strategic target asset allocation is set out in Appendix C.

04.01 Rebalancing Policy

The current Investment Manager operates an automatic rebalancing policy. If the actual allocation moves further than the permitted range set out in the table above, the Investment Manager will automatically switch assets back to the benchmark allocation via the application of cashflows or switches between asset classes.

Cash inflows into the Scheme and cash outflows from the Scheme will be invested or disinvested respectively by the Investment Manager to minimise the need to rebalance.

04.02 Rates of Return

The target rates of return for each asset class are detailed in Appendix B.

04.03 Diversification

The Trustees have sought to achieve diversification by investing in pooled funds which have investment restrictions i.e. funds which impose concentration limits on individual positions and limits on the exposure to individual issuers. The Trustees have chosen to invest in a diversified growth fund to increase the level of diversification and are comfortable with the overall level of diversification in the investment strategy. The Trustees will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

04.04 Suitability

The Trustees have taken advice from the relevant Advisers to ensure that the asset allocation strategy is suitable for the Scheme, given its investment objectives.

Asset Allocation Strategy

continued

The Trustees have chosen to hold a portion of the Scheme's assets in pooled Liability Driven Investment (LDI) funds (the 'off-risk' assets) to provide a material degree of inflation and interest rate hedging against the Scheme's liabilities.

The aim of the return-seeking assets (e.g. multi-asset funds) is to provide additional expected return above that achieved by the off-risk assets, consistent with the investment objectives.

Recognising that non-sterling investments carry an element of currency risk the Trustees have a policy of holding substantially all of the assets in Sterling-denominated investments, to match the Scheme's liabilities.

04.05 Liquidity

All of the non-cash assets are held in pooled funds with frequent dealing dates.

05 Strategy Implementation

The Trustees have decided to invest only in passively managed funds, although it is noted that within the multi-asset diversified fund, active management may be used for some asset classes where the investment manager believes there is an advantage in doing so.

05.01 Mandate and Performance Objectives

The Trustees have received advice on the appropriateness of each pooled fund that the Scheme is invested in from the Advisers and believe them to be suitable to meet the Scheme's investment objectives. The benchmark for each fund currently held and its objectives are set out in Appendix B.

05.02 Manager Agreement

The scheme is invested in pooled funds and as such there is no formal agreement between the Trustees and an individual fund manager relating to investments in each asset class.

05.03 Custody

Custody of the underlying assets is at the discretion of the pooled funds, whilst shares and/or units in the funds are held in book form only. Cash is held securely in separate accounts with approved counterparties.

06 Monitoring

06.01 Pooled Funds

The Trustees, or the advisers on behalf of the Trustees, will monitor the performance of the funds against the agreed performance objectives.

The Trustees, or the Advisers on behalf of the Trustees, will regularly review the performance of the funds to satisfy themselves that the funds remain suitable.

If the Trustees are not satisfied with the performance of the funds they will ask the manager of those funds what steps they intend to take to rectify the situation. If the funds still do not meet the Trustees' requirements, they will look to purchase other funds - potentially with a different manager - after consultation with the Investment Adviser.

06.02 Investment Managers

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

The Trustees receive regular performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the Trustees' selection and deselection criteria that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate.

These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustees' meetings as requested.

The Investment Consultant has also carried out a review of how well the Trustees' guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustees will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

06.03 Advisers

The Trustees will monitor the advice given by the Advisers on a regular basis.

06.04 Other

The Trustees are required to review this SIP on a triennial basis, or, without undue delay, following any changes to the investment strategy.

07 Fees

07.01 Funds

The Trustees will ensure that the fees charged by funds and their expense ratios are consistent with levels typically available in the industry for passive funds. The current fee basis for each of the funds is set out in Appendix B.

The Trustees are aware of the investment manager policy regarding soft commission arrangements. Information about the investment manager's fees, commissions and other transaction costs is available in the annual report of the pooled funds in accordance with the Financial Conduct Authority ('FCA') Disclosure Code.

The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

07.02 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

07.03 Custodian

There is no custodian appointed directly by the Trustees.

07.04 Trustees

None of the Trustees are paid directly for their duties. Their expenses are met and they are given time off from their other employment duties to attend the periodic Trustees' meetings.

08 Risks

The Trustees recognise a number of risks involved in the investment of assets of the Scheme:

- i. The risk of failing to meet the objectives as set out in Section 3 – the Trustees will regularly monitor the investments to mitigate this risk.
- ii. The risk of adverse consequences arising through a mismatch between the Scheme's assets and its liabilities. This is addressed through the asset allocation strategy and through regular actuarial and investment reviews and the funding target.
- iii. Risk of lack of diversification of investments – addressed through investing in pooled funds with diversification requirements and through the asset allocation policy.
- iv. Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of pooled funds with frequent dealing dates.
- v. Underperformance risk – addressed through monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.
- vi. Organisational risk – addressed through regular monitoring of the Investment Manager and the Advisers.
- vii. Sponsor risk – the risk of the Employer ceasing to exist, which for reasons of prudence, the Trustees have taken into account when setting the asset allocation strategy.
- viii. **Environmental, Social and Governance risk** – the risk that environmental, social and governance factors are not given significant consideration. This is addressed by having a policy whereby such factors should be given appropriate consideration in relation to current and future investment decisions made.

The Trustees will keep these risks under regular review.

09 Other Issues

09.01 Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustees will consider with the Advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

09.02 Environmental, Social and Governance

The Trustees have determined their approach to financially material considerations over the Scheme's long term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustees require the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

09.03 Voting rights

As the Scheme invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectation and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that Investment Manager.

Further, the Trustees' policy is that non-financial matters should not be considered in the selection, retention and realisation of investments.

Appendix A

Responsibilities

Trustees

The Trustees of the Scheme are responsible for, amongst other things:

- i. Determining the investment objectives of the Scheme and reviewing these from time to time.
- ii. Agreeing an investment strategy designed to meet the investment objectives of the Scheme.
- iii. Reviewing triennially the content of this SIP and modifying it if deemed appropriate, in consultation with the Advisers.
- iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Advisers.
- v. Assessing the quality of the performance and process of the pooled funds by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Advisers.
- vi. Selecting pooled funds which are consistent with the investment strategy after consultation with the Advisers.
- vii. Assessing the ongoing effectiveness of the Advisers.
- viii. Consulting with the Employer when reviewing investment policy issues.
- ix. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.
- x. Informing the Advisers of any changes to Scheme benefits, significant changes in membership.

Investment Adviser

The Investment Adviser will be responsible for, amongst other things:

- i. Participating with the Trustees in reviews of this SIP.
- ii. Advising the Trustees how any changes within the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested.
- iii. Advising the Trustees of any changes in the funds that could affect the interests of the Scheme.
- iv. Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and current pooled funds and advising on the selection of new funds.

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

- i. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

Appendix A Responsibilities continued

- ii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.
- iii. Advising the Trustees of any changes to contribution levels and funding level.

Appendix B

Pooled Funds

The Trustees have appointed one Investment Manager: Legal & General Investment Management ('LGIM'), to manage the assets of the Scheme.

The mandate for the Investment Manager is as follows:

Manager	Fund	%	Investment Style
LGIM	Diversified Fund	80	Active and Passive
	Matching Core Real Long Fund		
	Matching Core Fixed Long Fund	20	LDI

Expected Returns and Performance Monitoring

The Trustees have agreed the following performance target with LGIM.

Fund	Benchmark Index	Objective
Diversified Fund	FTSE Developed World Index (50% hedged to GBP)*	LGIM state that the long-term expected return is approximately 3.5% above the Bank of England base rate
Matching Core Real Long Fund	Index produced in conjunction with Markit – designed to include both swaps and gilts.	To move broadly in line with the movements of the Scheme's liabilities.
Matching Core Fixed Long Fund		

Fees

The investment management fees paid to the Investment Manager are as follows:

LGIM charge a flat fee of £1,500 per annum plus ad valorem charges based on the average value of the Scheme's holdings as follows:

Asset Class	Fee % p.a.	
	First £25m	
Diversified Fund	0.30%	
	First £7.5m	Next £20m
Matching Core Real Long Fund	0.20%	0.17%
Matching Core Fixed Long Fund	0.20%	0.17%

Appendix C

Current Asset Allocation

Having considered advice from the Advisers, and also having due regard for the objectives, the current liabilities of the Scheme together with their expected timing, the risks of and to the Scheme and the covenant of the Employer, the Trustees have decided upon the following benchmark allocation as being the basis for measuring investment performance:

Asset Class	%
Return Seeking Assets (Diversified Fund)	80
Matching Assets (Liability Matching Funds)	20

This allocation was last reviewed and agreed after an investment strategy review in October 2021.



Contact us
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