James Donaldson & Sons Limited Managed Pension Plan

Statement of Investment Principles

Background

This Investment Statement sets out the principles governing decisions about investments for James Donaldson & Sons Limited Managed Pension Plan ("the Plan") to meet the requirements of The Pensions Act 1995, as amended by the Pensions Act 2004, and The Occupational Pension Schemes (Investment) Regulations 2005 as amended by subsequent regulations. It is subject to periodic review by the Trustee at least every three years and more frequently as appropriate.

The Plan's investment strategy is derived from the Trustee's investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

In preparing this Statement, the Trustee has consulted with the principal employer (James Donaldson & Sons Limited) and has taken professional advice from their Investment Consultant (Isio Group Limited "Isio").

Governance

The Trustee of the Plan makes all major strategic decisions including, but not limited to, the Plan's asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustee seeks proper written advice. The Trustee's investment advisers, Isio, are qualified by their ability in, and practical experience, of financial matters, and have the appropriate knowledge and experience. The investment advisers' remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Plan.

Investment Objective

The Plan closed to new entrants and future benefit accrual on 30 June 2012.

The Trustee entered into an insurance buy in contract with a preferred insurance company in November 2019. The Trustee and insurance company are currently working together to convert the buy in to a buy out and this is expected to complete over the short to medium term.

Investment Strategy

The Plan retains a nominal amount of assets. Following advice from Isio (then KPMG), the Trustee invested these assets in a portfolio of assets similar to that of an insurance company so as to hedge any movements in the premium due as part of the planned buy out.

Detail on the investment management structure of the Plan is provided in Appendix A.

Investment Management Arrangements

At present, one investment manager has been appointed to manage the assets of the Plan as listed in this document. The investment manager is regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment manager via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;

- The exercise of rights (including voting rights) attaching to the investments;

- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

As the Plan's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment managers.

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Plan's investment manager and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment manager.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	• At present the Trustee receives monthly reports from the investment manager, but does not receive regular reporting from its investment consultants, given the ongoing insurance buy out.However should the Plan's circumstances change, the Trustee will engage with their investment consultants to receive regular updates on the Plan's assets.	• There are significant changes made to the investment strategy. • The risk levels within the assets managed by the investment manager have increased to a level above and beyond the Trustee's expectations. • Underperformance vs the performance objective over the period that this objective applies.
Environmental, Social, Corporate Governance factors and the exercising of rights	• See Appendix C	• See Appendix C

Through the engagement described above, the Trustee will work with the investment manager to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

Roles and Responsibilities of Relevant Parties

Investment Advisor – Isio: Responsible for providing investment advice to the Trustee in relation to various Plan matters which include, but are not limited to: investment monitoring, the Statement of Investment Principles, fund manager selection, asset transfers, Plan Report and Accounts and the Plan's investment strategy.

Independent Trustee – Dalriada Trustees Limited: Should act in line with the Plan trust deed and rules in governing the Pension Plan, and in doing so act in the best interests of the Plan beneficiaries. In doing so the Trustee is responsible for various Plan investment matters which include, but are not limited to: making decisions regarding the Plan's strategic asset allocation, making decisions regarding the Plan's investment manager, monitoring the performance of the Plan's investments against appropriate benchmarks, and managing Plan liquidity to ensure that all benefit payments are met as and when they fall due.

Investment Manager - BlackRock Investment Management are responsible for making investment decisions on behalf of the Trustee in accordance with the investment management agreements in place with the Trustee.

Investment Manager Fees

The investment manager is paid fees for their services. The fees are calculated as a percentage of the market value of the part of the fund it manages.

BlackRock charge fees based on the average value of the assets of the fund during each calendar quarter. These fees are invoiced quarterly in arrears, and are settled directly, not by cancellation of units.

The annual management charge paid on the Aquila Life Gilt and Index Linked Gilt funds is 0.08%.

Risk

The Plan is exposed to a number of risks which pose a threat to meeting its objectives. The principal risks affecting the Plan and the Trustee's policies for mitigating such risks are set out in Appendix B.

Realisation of investments

The Trustee operates a bank account for daily cash flow needs.

All of the Plan's investments may be realised quickly if required.

Additional voluntary contributions (AVCs)

Some members of the Defined Benefit Section obtain further benefits by paying AVCs to the Plan (via an AVC policy held with Scottish Life). The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions.

Signed for and on behalf of Dalriada Trustees Limited as the Trustee of the James Donaldson & Sons Limited Managed Pension Plan:

..23 September 2020.......................

Date

Appendix A

Asset split by asset class (as at 30 June 2020)

Fund Manager	Asset Class	Strategic Benchmark (%)
BlackRock	Gilt and Index-Linked Gilt Funds	100
Total		**100**

Appendix B – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below. The Trustee considers these factors will be financially material for the Plan over the length of time during which the benefits provided by the Plan for members require to be funded to a level which would allow the benefits to be bought out with an insurer.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	**Definition**	**Policy**
Investment	• The risk that the Plan's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Plan's funding basis and the sponsoring company's covenant strength. • Investing in a portfolio of assets to mitigate the risk of changes in the value of the insurance premium
Funding	• The extent to which there are insufficient Plan assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	• The risk that the sponsoring company becomes unable to continue providing the required financial support to the Plan.	• When developing the Plan's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Plan is exposed to is at an appropriate level for the covenant to support.

The Plan is exposed to a number of underlying risks relating to the Plan's investment strategy, these are summarised below:

Risk	**Definition**	**Policy**
Interest rates and inflation	• The risk of mismatch between the value of the Plan assets and present value of liabilities from changes in interest rates and inflation expectations.	• The Trustee currently invests in a portfolio of assets which aims to mirror that of an insurance portfolio.
Liquidity	• Difficulties in raising sufficient cash when required without	• To invest in a portfolio of liquid assets should these be required at short notice to finalise the insurance

	adversely impacting the fair market value of the investment.	contract.
Market	• Experiencing losses due to factors that affect the overall performance of the financial markets.	• To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	• Default on payments due as part of a financial security contract.	• The current assets are focused on UK gilts and index-linked gilts. The Trustee views the UK Government is viewed as a very secure counterparty from a credit risk perspective.
Environmental, Social and Governance	• See Appendix C	• See Appendix C
Currency	• The potential for adverse currency movements to have an impact on the Plan's investments.	• The Plan currently has no investments that are not GBP denominated.
Non-financial	• Any factor that is not expected to have a financial impact on the Plan's investments.	• The Trustee has not considered non-financially material matters in the selection, retention and realisation of investments.

Appendix C - Financially Material Considerations

The Trustee has considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Plan for members. It believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes they are investing in.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect its fund manager and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Plan's assets are subject to the investment manager's own policy on socially responsible investment. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Plan with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustee will monitor financially material considerations though the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Plan and its investments;

- Use ESG ratings information provided by its investment consultant, to assess how the Plan's investment managers take account of ESG issues; and

- Request that all of the Plan's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, via its investment consultant.

If the Trustee determines that financially material considerations have not been factored into the investment managers' process, it will take this into account on whether to select or retain an investment.

Non-Financially Material Considerations

The Trustee has not considered non-financially material matters in the in the selection, retention and realisation of investments.

Stewardship

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The investment manager should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee will review the investment managers' voting policies, with the help of its investment consultant, and decide if they are appropriate.

The Trustee also expect the fund manager to engage with investee companies on the capital structure and management of conflicts of interest.

If the policies or level of engagement are not appropriate, the Trustee will engage with the investment manager, with the help of its investment consultant, to influence the investment managers' policy. If this fails, the Trustee will review the investments made with the investment manager.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expect investment managers to adhere to this where appropriate for the investments they manage.

Environmental, Social and Governance (ESG) and Climate Change Risks

There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio to unexpected risks. This can lead to losses that may not have been factored into any expectations of future investment returns. The Trustee has considered ESG issues including climate change as part of the investment process.

Appendix D - Investment manager arrangements

Incentives to align investment managers investment strategy and decisions with the trustees' policies

The Plan invests in pooled funds and so the Trustee acknowledges the fund's investment strategy and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy taking into account the fees being charged, which acts as the fund managers incentive.

The Trustee uses the fund objective/benchmark as a guide on whether its investment strategy is being followed and monitors this regularly.

Incentives for the investment manager to make decisions based on assessments about medium to long-term financial and nonfinancial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustee selects managers based on a variety of factors including investment philosophy, and process, which it believes should include assessing the long term financial and non-financial performance of the underlying company.

The Trustee also considers the managers voting and ESG policies and how it engages with the company as it believes that these can factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the fund managers' engagement and voting activity on an annual basis as they believe this can improve long term performance. The Trustee expects their managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as bonds, as they do not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but do expect those companies with better financial and non-financial performance over the long term will lead to better returns for the Plan.

The Trustee believes the annual fee paid to the fund managers incentivise them to do this.

If the Trustees feel that the fund managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies

The Trustee reviews the performance of each fund quarterly from a performance report they receive from the fund manager.

As long as funds track the performance of the benchmark within an acceptable range until buy-out, the Scheme intends to retain the manager.The fund managers' remuneration is considered as part of the manager selection process and is also monitored regularly with the help of its investment consultant to ensure it is in line with the Trustee's policies.

How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range

The Trustee does not monitor turnover costs directly. However, the investment manager is incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the arrangement with the asset manager

The Trustee plans to hold each of its investments for the period until the buy out contract is finalised. This is expected to be completed in the short/medium term.

Changes in investment strategy or change in the view of the fund manager can lead to the duration of the arrangement being shorter than expected.