The Capability Scotland Pension Scheme (the "Scheme")

Statement of Investment Principles

Introduction

This SIP has been agreed by the Trustees of the Capability Scotland Pension Scheme (the "Scheme"). This statement sets out the principles governing the Trustees' decisions to invest the assets of the Scheme.

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

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustees consulted the sponsoring company and took appropriate written advice from their investment advisers, Isio Group Limited/Isio Services Limited ("Isio"). The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

Governance

The Trustees of the Scheme make all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers.
When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees' investment advisers 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 Trustees in the interests of obtaining best value for the Scheme.

Investment objective

The Trustees invest the assets of the Scheme with the aim of ensuring that all members' accrued benefits can be paid. The Scheme's funding target is specified in the Statement of Funding Principles, and the Scheme funding position will be reviewed regularly to assess the position relative to the funding target and whether the investment policy remains appropriate to the Scheme's circumstances.

In May 2022 the Trustees agreed to restructure the strategy, using the majority of the Scheme's assets to purchase a buy-in policy which covers the majority of the Scheme's liabilities.

The Scheme's present investment objective is to achieve the return on UK Government bonds, with a nature and duration consistent with the Scheme's liabilities.

Investment strategy

The Scheme's investment strategy was derived following careful consideration of the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of contributions required to fund the Scheme, and also the strength of the sponsoring company's covenant. The Trustees considered the merits of a range of asset classes.

The Trustees recognise that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the invested assets and the cost of insuring all liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities.

The Trustees have also considered a number of other risks set out in Appendix 2.

Investment Management Arrangements

The Trustees have appointed an insurer and an investment manager to manage the assets of the Scheme as listed in Appendix 1. Both parties are 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:

- Realisation of investments;
- Social, environmental, ethical and governance considerations in selection, retention and realisation of investments;
- The exercise of rights (including voting rights) attaching to the investments.
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustees take investment managers' policies into account when selecting and monitoring managers. The Trustees takes into account the performance targets investment managers are evaluated on. The investment manager is expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable. The investment manager's remuneration is based upon a percentage value of the assets under management.

The custody of the holdings invested in a pooled investment vehicle is arranged by the investment manager.

Investment Manager Monitoring and Engagement

As the remaining assets are due to fund any true-up premium in respect to the buy-in insurance policy, the Trustees periodically monitor that the Scheme has sufficient assets. If this is not the case, the Trustees may need to intervene.

The Trustees acknowledge the importance of Environmental, Social and Governance factors (ESG). As the majority of the assets are invested in the buy-in policy, there is limited scope for the Trustees to incorporate ESG into the Scheme's investment strategy.

Employer-related investments

The Trustees policy is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005, except where the Scheme invests in pooled vehicles that may hold employer-related investments, in which case the total exposure to employer-related investments will not exceed 5% of the Scheme's value.

Direct investments

Direct investments, as distinguished by the Pensions Act 1995, are products purchased without delegation to a fund manager through a written contract. When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.

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Signed:..Ian Gordon..

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Ian Gordon Director McGrigors Pension Trustees Limited

Date:30-08-2022..

Appendix 1

Strategic asset allocation by fund manager

Fund Manager	Fund	Manager Benchmark/Target
Legal & General Assurance Society	Full member insurance buy-in	n/a
Insight (accessed via the Mobius Life platform)	Liquidity Plus Fund	SONIA

Appendix 2 – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustees have considered and sought to manage is shown below.

The Trustees adopt 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 Scheme's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.
Funding	• The extent to which there are insufficient Scheme 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 Trustees 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 Scheme.	• When developing the Scheme's investment and funding objectives, the Trustees take account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.

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

Risk	Definition	Policy
Interest rates and inflation	• The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	• To broadly hedge 100% of these risks.
Liquidity	• Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	• To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values).
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.	• To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available

		sufficiently compensates the Scheme for the risk of default.
Environmental, Social and Governance	• Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: • Responsible Investment ('RI') Policy / Framework • Implemented via Investment Process • A track record of using engagement and any voting rights to manage ESG factors • ESG specific reporting • UN PRI Signatory
Currency	• The potential for adverse currency movements to have an impact on the Scheme's investments.	• Hedge all currency risk on all assets that deliver a return through contractual income.
Longevity	• Members of the Scheme living longer than expected, leading to a larger than expected liability.	• To hedge the majority of this risk through the purchase of the buy-in policy.
Non-financial	• The views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme in the selection, retention and realisation of investments.	• Non-financial matters are not taken into account in the selection, retention or realisation of investments. • This policy will be reviewed at least annually.

Appendix 3 - Policy on Investment Manager Arrangements

The Trustees have the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies.	• As the Scheme is invested in pooled funds, there is no scope for these funds to tailor their strategy and decisions in line with the Trustees' policies. However, the purchase of the buy-in policy and the pooled fund holdings are aligned to the strategic objective.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. If the Trustees have concerns over the performance of an investment manager, they liaise with the Investment Consultant in the first instance in order to come to a more informed view. Thereafter, if necessary, the Trustees may then meet with the investment manager in order to form a final opinion of how to proceed with the mandate. • The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees policies.	• The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustees evaluate the performance of each investment manager relative to their respective performance objective or benchmark and within the context of the prevailing market environment. Where relevant, the manager's performance in relation to realised risk or downside protection also forms part of the Trustees' assessment of performance. The Trustees also consider the each investment manager's client service quality, including quality of reporting and climate-related disclosure, when making an overall assessment. • Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis. • The Trustees recognize that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers.
The duration of the Scheme's arrangements with the investment managers	• All of the Scheme's funds are open ended. The duration is flexible, and the Trustees will from time-to-time consider the appropriateness of

	these investments and whether they should continue to be held. - The purchase of the buy-in policy is a permanent investment, but this was deemed to be appropriate for the Scheme given the additional security it provides for members' benefits.