

The Buccleuch Estates Limited 1974 Retirement Fund

Engagement policy implementation statement

Introduction

This Engagement Policy Implementation Statement (the “Statement”) sets out how, and the extent to which, the stewardship policy and policies on environmental, social and governance (“ESG”) factors and climate change, set out in the Statement of Investment Principles (the “SIP”), have been followed during the year to 30 April 2025 (the “Fund Year”). This Statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, and the guidance published by the Pensions Regulator.

An updated SIP was signed in July 2025. The Statement is based on, and should be read in conjunction with, the SIP that was in place for the Fund Year. The latest version of the SIP can be accessed online: <https://buccleuchpensions.co.uk/>.

Cartwright Financial Solutions Ltd (“Cartwright”) replaced Mercer as the Trustee’s investment advisors in May 2025.

Trustee’s Investment objectives

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set.

As outlined in the SIP, the Trustee’s primary investment objective for the Fund is to maintain its financial position to be fully funded on a solvency basis (i.e., a proxy insurance provider buy-out basis).

Furthermore, taking the sponsoring employer’s covenant into consideration:

- seek a return marginally ahead of gilts, whilst,
- ensuring the assets are liquid enough to meet the liabilities, as and when they fall due.

Policy on ESG, stewardship and climate change

The Trustee recognises that ESG factors can influence the investment performance of the Fund’s portfolio and it is therefore in members’ and the Fund’s best interest that these factors are taken into account within the investment process.

The Fund’s SIP includes the Trustee’s policies on ESG factors, stewardship and climate change. The Trustee keeps its policies under regular review, with the SIP subject to review at least triennially. The policies were reviewed in November 2022, following a change to the Fund’s investment strategy to de-risk the portfolio.

The Fund’s assets are invested in pooled funds and therefore the Trustee accepts that it has very limited ability to influence the ESG policies and practices of the companies in which the managers invest. The Trustee therefore relies on the policies and judgement of the investment managers.

The Trustee expects the investment managers to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to investments and

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engagement activities in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee recognises that as a large proportion of the Fund's assets are invested in passive pooled funds, this limits the investment managers' ability to take active decisions on whether to hold securities based on the investment managers' considerations of ESG factors, including climate change.

Nonetheless, the Trustee can confirm that it has acted in accordance with the SIP in relation to voting and engagement activities over the Fund Year.

Fund's investment structure

The Fund's main investment is a Trustee Investment Policy ("TIP") with Mobius Life Limited ("Mobius"). Mobius provides an investment platform and enables the Fund to invest in pooled funds managed by third party investment managers. As such, the Trustee has no direct relationship with the Fund's underlying investments managers. However, the Trustee has the responsibility of monitoring the pooled funds, in conjunction with advice received from its investment advisor.

Trustee engagement

Over the Fund Year, the Trustee has not directly engaged with the pooled investment managers on matters pertaining to ESG, stewardship or climate change. The engagement initiatives are driven by the investment managers, mainly through regular engagement meetings with the companies in which they invest.

However, the Trustee considers how ESG, climate change and stewardship are integrated within investment processes in appointing new investment managers, implementing investment strategy decisions, and monitoring the existing investment managers:

- The Trustee received quarterly performance reports from their investment advisor, and these included ratings (both the general and ESG specific ratings) for the funds in which the Fund is invested.
- The Trustee reviews the ESG ratings of funds when undertaking an investment strategy review.
- The Trustee is notified of changes in ESG ratings of the funds in which the Fund invests.

This enables the Trustee to monitor the development of the ESG scores and determine whether further action should be taken in respect of specific funds.

Taking all the above into consideration, the Trustee is satisfied that responsible investment is embedded appropriately in the investment managers' approaches to investing and are satisfied that the ESG scores for the Fund's current holdings are satisfactory.

An ESG report appended to this Statement, which sets out a summary of the key engagement activity of the pooled funds.

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Voting activity

The Fund disinvested from pooled funds with exposure to equities and therefore no longer holds assets with voting rights. As such, whilst the Trustee monitors manager engagement, it does not assess any form of voting information as it is not applicable to the Fund's investments.

Policies in respect of arrangements with asset managers

The policies below are included within the 1 December 2022 Statement of Investment Principles (“SIP”).

1. How the arrangement with the investment managers incentivises them to align their investment strategies with the Trustee’s investment policies, including in relation to ESG

The Trustee will only invest in pooled investment vehicles on the Mobius platform. The Trustee therefore accepts that it cannot specify the risk profile and return targets of the managers’ funds, but the pooled funds are chosen with appropriate characteristics to align with the overall investment strategy.

The Trustee accepts that it cannot influence the charging structure of the pooled funds in which the Fund is invested, but is satisfied that the ad-valorem charges for the different underlying funds are clear and are consistent with each fund’s stated characteristics.

2. How the arrangement incentivises the investment managers to make decisions based on their assessment of the investee companies’ medium to long term financial and non-financial performance and engage accordingly

Both Mobius and the underlying investment managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Fund. Where possible, discounts have been negotiated with the underlying managers on their standard charges and the Fund benefits directly from these discounts. None of the underlying managers in which the Fund’s assets are invested have performance based fees which could encourage the manager to make short-term investment decisions to hit their profit targets.

The Trustee therefore considers that the method of remunerating fund managers is consistent with incentivising them to make decisions based on assessments of the medium to long-term financial and non-financial performance of an issuer of debt. By encouraging a medium to long-term view, it will in turn encourage the investment managers to engage with issuers of debt in order to improve their performance in the medium to long-term.

3. How the method and time horizon for evaluating the investment manager’s performance, and the basis of their remuneration, are aligned with the Trustee’s other investment policies

The Trustee received quarterly monitoring reports on the performance of the underlying investment managers from their investment advisor, which present performance information over 3 months, 1 year and 3 years. The reports show the absolute performance, performance against the manager’s stated target performance (over the relevant period) on a net of fee basis. They also provide returns of market indices so that these can be used to help inform the assessment of the underlying managers’ performance.

The reporting reviews the performance of the Fund’s assets in aggregate against the Fund’s strategic benchmark.

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Policies in respect of arrangements with asset managers

In conjunction with advice and information from their investment adviser, the Trustee has the role of replacing the underlying investment managers where appropriate. It takes a long-term view when assessing whether to replace the underlying investment managers, and such decisions would not be made based solely on short-term performance concerns. Instead, changes would be driven by a significant reduction in confidence that the investment manager will be able to perform in line with their fund's mandate over the long term.

Changes will also be made to the underlying managers if there is a strategic change to the overall strategy and therefore the Fund no longer requires exposure to that asset class or manager.

4. How they define and monitor portfolio turnover (frequency of buying or selling) costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range

The Trustee does not currently monitor portfolio turnover costs for the funds in which the Fund is invested, although notes that the performance monitoring reports which it receives is net of all charges, including such costs. Portfolio turnover costs means the costs incurred as a result of the buying, selling, lending or borrowing of investments.

The Trustee is also aware of the requirement to define and monitor targeted portfolio turnover and turnover range.

Given that the Fund invests in a range of pooled funds, many of which invest across a wide range of asset classes, the Trustee does not have an overall portfolio turnover target for the Fund.

5. The duration of the arrangements with the investment managers

The trustee is a long-term investor and does not look to change the investment arrangements on a frequent basis.

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Investment report for period ending 30th April 2025(continued)

The Trustee has decided to invest in pooled investment funds on the Mobius Life platform. During the accounting period the Trustee decided to heavily de-risk the Fund’s investment strategy due to a significant improvement in the funding position. The revised investment strategy is outlined below:

Asset Class	%
Multi Asset Credit	10.0
Absolute Return Bonds	10.0
Fixed Interest Gilts	60.0
Index Linked Gilts	20.0
Total	100.0

The investment advisor continually reviews the performance and suitability of the investment managers and monitors the processes and personnel associated with each manager to ensure that appropriate managers are retained by the Fund. Quarterly performance reports are prepared and issued to the Trustee by the investment advisor.

Performance is calculated and monitored on a quarterly basis. Quarterly performance is assessed and reported as at 31 March, 30 June, 30 September and 31 December each year. This report covers the period ending 31 March 2025.

Annual Market Commentary to Q1 2025

The market tailwinds that prevailed earlier in the year continued into the second quarter of 2024, making it another favourable period for equities, especially for large companies in developed markets. Central banks, such as the Federal Reserve (Fed) and the Bank of England (BoE), kept interest rates steady due to persistent inflation concerns, while the European Central Bank (ECB) decided to cut rates. Across the board, 10-year government bond yields increased. In Europe, Japan, and the UK, value stocks outperformed growth stocks over the quarter. Additionally, Emerging market equities outpaced those in developed markets during Q2.

For the first time since 2021, UK inflation fell to the target of 2%. Despite the slowdown in UK growth and positive inflation trends, the BoE maintained the base interest rate at 5.25%. In May, the UK economy emerged from a technical recession, with a GDP increase of 0.7%. Yields increased over the quarter, resulting in negative returns for UK Gilts.

The third quarter of 2024 turned out to be strong for global markets for both equities and fixed income. This was largely driven by central banks, including the US Federal Reserve, European Central Bank, and Bank of England, reducing interest rates.

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Investment report for period ending 30th April 2025(continued)

Declining inflation and expectations of further rate cuts led to a sharp drop in Treasury yields, steepening the yield curve in anticipation of a lower interest rate environment. UK equities also posted gains, recovering from a rough start, though they underperformed relative to global peers. Top performing sectors included financials, consumer staples, and consumer discretionary. Growing expectations for a UK rate cut were realised when the Bank of England delivered its first rate reduction in four years in August. Meanwhile, annual Consumer Price Index inflation edged up slightly to 2.2%, after hitting the BoE's 2.0% target in June 2024. UK gilts rallied over the quarter, bolstered by the government's pledge to jump-start economic growth.

The Bank of England lowered rates to 4.75% during the fourth quarter of 2024. However, gilt yields rose, and the pound weakened against the dollar following the Chancellors announcement of £40 billion in tax hikes and increasing concerns about UK debt levels.

UK equities declined, pressured by rising bond yields and mounting macroeconomic challenges. European equities fell amid recession fears and political instability in Germany and France. The ECB cut rates twice by 25 bps.

In France, Prime Minister Michiel Barnier lost a no-confidence vote, and French bond yields surpassed Greek yields for the first time amid the turmoil.

Emerging markets experienced a challenging quarter, with only four regions posting positive returns in US dollar terms, due to the anticipated implementation of US Import tariffs. Globally, high-yield bonds outperformed investment-grade bonds, driven by expectations of pro-business policies from the incoming U.S. President. Both U.S. and European high-yield spreads tightened during the quarter.

In the first quarter of 2025, US equities declined, led by sharp pullbacks in Information Technology and Consumer Discretionary sectors. In contrast, UK equities posted gains, led by strong performance from large-cap names, particularly in Financials, Energy, and Healthcare. European equities also rallied, supported in part by rotation out of US large caps following AI developments in China. In contrast, UK small and mid-caps underperformed amid persistent economic uncertainty. The Office for Budget Responsibility maintained a stable fiscal outlook but flagged risks tied to rising defence costs and global trade tensions, suggesting potential tax increases later in the year. Economic concerns weighed on consumer-facing sectors, including Housebuilders, Retail, and Travel & Leisure.

The Fed held rates steady at 4.25–4.50% in March, while revising its 2025 growth forecast lower (1.7%) and lifting its inflation outlook (2.7%). Softer US data supported Treasury gains, with yields falling and USD-denominated bonds outperforming euro counterparts across both investment grade and high yield.

The ECB cut rates in January and March 2025 as eurozone inflation eased to 2.3% by February. In the UK, gilt yields edged higher amid stagflation concerns and fiscal vulnerability. Emerging market equities advanced but lagged behind Europe. A weaker dollar and lower US Treasury yields provided support. China outperformed, buoyed by optimism around AI innovation following DeepSeek's low-cost model release, alongside additional stimulus measures.

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Investment report for period ending 30th April 2025(continued)

Gold rose over the quarter as trade tensions and growth concerns drove demand for safe-haven assets.

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Investment report for period ending 30th April 2025(continued)

Performance to 30 April 2025 (net of fees)

Investment Fund % Growth	1 Year to 30 April 2025		3 Years to 30 April 2025		5 Years to 30 April 2025	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
	%	%	%p.a	%p.a	%p.a	%p.a
M&G Total Return Credit Investment Fund	7.2	8.8	7.9	8.1	7.1	6.5
Payden Absolute Return Bond Fund	6.5	7.8	4.5	7.1	4.4	5.5
L&G Life AF Over 15 Year Gilts Index Fund	-0.8	-0.9	-12.9	-13.3	-13.2	-13.3
L&G Life HC Over 15 Year Index-Linked Gilts Index Fund	-10.4	-10.4	-20.8	-21.0	-14.7	-14.7

Source: Investment managers

