

# **Royal London Group Pension Scheme**

## **Annual Report and Financial Statements**

**for the year ended 31 December 2020**

**Scheme Registration Number: 100154281**

# Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

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### Trustee and advisers

|   |   |
|---|---|
| <b>Corporate Trustee</b>  | RLGPS Trustee Limited   |
| <b>Directors of the Corporate Trustee (“Trustee Directors”)</b> | <b>Employer nominated</b><br><br>Andrew Evans ( <i>Chair</i> ) ( <i>Independent Trustee</i> )<br>Ewan Smith ( <i>Deferred member</i> )<br>Martin Lewis<br>The Law Debenture Pension Trust Corporation plc represented by Edward Levy ( <i>Independent Trustee</i> )<br><br><b>Member nominated</b><br><br>Ian Forder ( <i>Pensioner member</i> )<br>Paul McHardy ( <i>Deferred member</i> ) |
| <b>Scheme actuary</b>   | Andrew Long FIA of Towers Watson Limited  |
| <b>Administrators</b>   | Towers Watson Limited   |
| <b>Independent Auditors</b>                                     | PricewaterhouseCoopers LLP  |
| <b>Legal advisers</b>   | CMS Cameron McKenna Nabarro Olswang LLP<br>Cannings Connolly Solicitors<br>Slaughter and May<br>DLA Piper UK LLP<br>Thor Lion LLP   |
| <b>Investment consultant</b>                                    | Lane Clark & Peacock LLP  |
| <b>Investment manager</b>                                       | Royal London Asset Management Limited   |
| <b>Investment custodian</b>                                     | HSBC Bank plc (HSBC Securities Services)  |
| <b>Annuity provider</b>   | Aviva Annuity UK Limited  |
| <b>Additional Voluntary Contribution (AVC) providers</b>        | The Royal London Mutual Insurance Society Limited<br>Scottish Widows Limited<br>The Equitable Life Assurance Society (until 31 December 2019)<br>Utmost Life and Pensions (from 1 January 2020)   |
| <b>Bankers</b>  | HSBC UK Bank plc<br>National Westminster Bank plc   |
| <b>Principal employer</b>                                       | The Royal London Mutual Insurance Society Limited (“the Company”)   |
| <b>Contact for enquiries</b>                                    | Provided on “Further information” page 54   |

The Royal London Mutual Insurance Society Limited is the parent company of Royal London Asset Management Limited and RLGPS Trustee Limited. Throughout this report the term “Royal London Group” refers to The Royal London Mutual Insurance Society Limited.

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### **Trustee's report**

#### **Introduction**

The Trustee Directors of RLGPS Trustee Limited ("the Trustee") present their annual report and financial statements of the Royal London Group Pension Scheme ("the Scheme") for the year ended 31 December 2020.

#### **Scheme constitution and management**

The Scheme is an occupational pension scheme established under trust to provide retirement benefits to all eligible employees of Royal London Group. The Scheme is a final salary pension scheme whereby benefits are payable to members in accordance with the Scheme Rules based on their length of service, accrual rate and their pensionable earnings as defined by the Scheme Rules prior to leaving the service of Royal London Group.

The Scheme is governed by a definitive Trust Deed and Scheme Rules. The provisions governing the Scheme reflect historical transfers in and the "harmonisation" of benefits in 2001. Against this backdrop the Trustee is in the latter stages of a project to review and consolidate the Rules of the Scheme.

The Scheme is overseen by a Corporate Trustee whose Trustee Directors are responsible for setting the strategy and for managing the Scheme. The Trustee Directors are required to act in accordance with the Trust Deed, the Scheme Rules and the Memorandum and Articles of Association of the Trustee within the framework of pension and trust law.

The Trustee Directors are appointed and removed in accordance with the Trust Deed, the Articles of Association of the Corporate Trustee and the overriding provisions in the Pensions Act 2004. The Company has power under the Trust Deed to appoint or remove the Corporate Trustee. The Scheme ordinarily has six Trustee Directors, four of whom are appointed by the Company and two by the Scheme's members. The member nominated trustee arrangements are determined by the Trustee. The persons who acted as Trustee Directors are listed on page 1.

The full Trustee Board normally meets at three monthly intervals.

The Trustee operates two Sub Committees of the Trustee Board; the Funding and Investment Committee and the Administration and Risk Committee. These Sub Committees meet quarterly and undertake work delegated by the Trustee Board. The Trustee Board receives updates from the Sub Committees at each quarterly meeting.

**Funding and Investment Committee** members are Edward Levy (Chair), Paul McHardy, Martin Lewis and Ewan Smith. The Committee met 4 times in 2020.

**Administration and Risk Committee** members are Andrew Evans (Chair), Ian Forder and Edward Levy. The Committee met 4 times in 2020.

Working groups are also established on an ad hoc basis; such working groups meet when necessary and report to the Trustee at the subsequent Trustee Board meeting.

#### **Police Mutual Assurance Society Staff Pension Fund**

Following the acquisition of Police Mutual Assurance Society by the Royal London Group on 1st October 2020, the assets and liabilities of the Police Mutual Assurance Society Staff Pension Fund ("PMAS SPF") transferred in to the Scheme from the same date. Before confirming agreement to the transfer, the Trustee carried out appropriate due diligence and considered advice from the Scheme Actuary and the Scheme's legal and investment advisers.

Prior to the transfer being completed, the Police Mutual Assurance Society paid a contribution into the PMAS SPF in order to bring its funding level up to the same level as the Scheme's funding level, the transfer therefore had no material impact on the Scheme's funding position.

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### Trustee's report (continued)

#### Financial developments and financial statements

The financial statements included in this annual report are the accounts required by the Pensions Act 1995. They have been prepared and audited in compliance with the regulations made under sections 41(1) and 41(6) of the Act.

The financial statements are provided on pages 20 to 43.

#### Membership

Details of membership of the Scheme as at 31 December 2020 are given below:

| Membership movements              | Deferred members | Pensioner members | Beneficiaries | Total         |
|-----------------------------------|------------------|-------------------|---------------|---------------|
| <b>At 1 January 2020</b>          | <b>9,820</b>     | <b>8,887</b>      | <b>2,027</b>  | <b>20,734</b> |
| Adjustments to prior year figures | (38)             | 25                | 1             | (12)          |
| <b>At 1 January 2020 revised</b>  | <b>9,782</b>     | <b>8,912</b>      | <b>2,028</b>  | <b>20,722</b> |
| New entrants                      | 1                | -                 | 126           | 127           |
| Police Mutual Transfers in        | 101              | 77                | 4             | 182           |
| Transfers out                     | (117)            | -                 | -             | (117)         |
| Retirements                       | (329)            | 329               | -             | -             |
| Deaths                            | (17)             | (299)             | (121)         | (437)         |
| Commutations                      | (41)             | (12)              | (26)          | (79)          |
| <b>At 31 December 2020</b>        | <b>9,380</b>     | <b>9,007</b>      | <b>2,011</b>  | <b>20,398</b> |

Included in the above is 1 (2019: nil) pensioner whose benefits are partially provided by annuities. This member transferred into the Scheme as part of the Police Mutual transfer.

The Life Cover Membership section of the Scheme was closed to all members from 1 January 2020. This section provided death in service benefits to current employees of Royal London via the Scheme; from 1 January 2020 these benefits are provided through a separate arrangement managed by the Group.

Adjustments were made to the prior year figures to reflect an up-to-date position of the membership of the Scheme as at 1 January 2020 and largely arose due to late notifications.

## Royal London Group Pension Scheme

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### Trustee's report (continued)

#### Pension increases

The Trust Deed and Rules makes provision for increases in pensions in payment and deferred pensions. Entitlement to pension increases depends on the legacy scheme and the period in which the pension is earned.

##### (a). Pensions accrued before 1 April 2011

Pension increases in respect of pensions accrued before 1 April 2011 in excess of the guaranteed minimum pension were awarded as provided in the table below by the legacy schemes:

| Legacy scheme <sup>5</sup>                              | Pension in excess of Guaranteed Minimum Pension accrued before 6 April 1997 |                   | Pension accrued after 5 April 1997 and before 30 November 2001 |                   | Pension accrued after 29 November 2001 and before 1 April 2011 |                   | Pension increase date |
|---|---|-------------------|--|-------------------|--|-------------------|-----------------------|
|   | 2020  | 2019              | 2020   | 2019              | 2020   | 2019              |                       |
| RLGPS (standard benefits members)                       | n/a   | n/a               | n/a  | n/a               | 2.4%   | 3.3%              | 1-Jul                 |
| RASF Scheme II (members joining before 1 August 2001)   | 2.6% <sup>1</sup>   | 2.4% <sup>1</sup> | 2.6% <sup>1</sup>  | 2.4% <sup>1</sup> | 2.6% <sup>1</sup>  | 2.4% <sup>1</sup> | 1-Jul                 |
| RASF Scheme II (members joining from 1 August 2001)     | n/a   | n/a               | 2.4%   | 3.3%              | 2.4%   | 3.3%              | 1-Jul                 |
| RLSPF   | 1.7%  | 2.5%              | 1.7%   | 2.4%              | 2.4%   | 3.3%              | 1-Apr                 |
| UFGPS (contracted-in before 17 September 2002 leavers)  | 1.7%  | 2.5%              | 1.7% <sup>3</sup>  | 2.4% <sup>3</sup> | 2.5%   | 2.5%              | 1-Apr                 |
| UFGPS (contracted-out before 17 September 2002 leavers) | 2.5%  | 2.5%              | 2.5% <sup>2</sup>  | 2.5% <sup>2</sup> | 2.5%   | 2.5%              | 1-Apr                 |
| SLORBS  | 2.2% <sup>4</sup>   | 3.0% <sup>4</sup> | 2.2% <sup>4</sup>  | 3.0% <sup>4</sup> | 2.4%   | 3.0%              | 1-Jan                 |
| SLIORBS   | 2.6%  | 2.4%              | 2.6%   | 2.4%              | 2.6%   | 2.4%              | 1-Jul                 |
| SLDRBS  | 2.2% <sup>4</sup>   | 3.0% <sup>4</sup> | 2.2% <sup>4</sup>  | 3.0% <sup>4</sup> | 2.4%   | 3.0%              | 1-Jan                 |

<sup>1</sup> Special arrangements in first year following retirement apply. No increase was applied at 1 July in the calendar year of retirement.

<sup>2</sup> Increase of higher of (a) 2.5% on RPI cumulative pension from retirement date or (b) 1.7% on pension in payment on the pension benefits for members contracted out before 17 September 2002 (2019: 2.4%).

<sup>3</sup> Increase of 2.5% (2019: 2.5%) for those contracted in after 17 September 2002.

<sup>4</sup> Increase of between 2.2% (2019: 3.0%) and 3.0% (2019: 3.2%).

<sup>5</sup> There are some other small categories of members within the legacy schemes whose increases differ slightly to those shown in the table above. Those affected have been communicated to separately. The full names of the legacy schemes can be obtained from the contact details provided on page 54.

##### (b). Pensions accrued from 1 April 2011

Pension benefits accrued from 1 April 2011 were increased at a rate equal to the Consumer Prices Index ("CPI") subject to a maximum of 2.5%. The increases were applied from the effective dates indicated in the table above.

New pensions commencing after the pensions increase date were increased on a proportional basis. The increases were applied to both guaranteed and discretionary elements as appropriate.

## **Royal London Group Pension Scheme**

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### **Trustee's report (continued)**

#### **Pension increases (continued)**

During 2020, the Company granted a discretionary increase at the rate of 1.7% (2019: 2.5%) to pensions in payment with no guaranteed increases (in excess of guaranteed minimum pensions). (In 2019 members who retired after 1 April 2007 were awarded an additional 1% increase.) As the Scheme was in deficit at 31 March 2020, the Royal London Group paid a contribution of £4.1 million in July 2020 to cover the cost of the discretionary increase. All other pensions in payment increased in line with either the Scheme's Rules and/or pensions legislation.

#### **(c). Pension in deferment**

Pensions in deferment accrued prior to 6 April 2009 are revalued in accordance with the Pension Schemes Act 1993, at a rate equal to the increase in the CPI except for RLSPF members (whose increase remains linked to the RPI in accordance with the Scheme's Rules) or to the increase produced by the application of 5% per annum, whichever is the lower.

Pensions in deferment accrued after 5 April 2009 are revalued in accordance with the Pension Schemes Act 2008, at a rate equal to the increase in the CPI or to the increase produced by the application of 2.5% per annum, whichever is the lower.

#### **Transfer values**

Cash equivalents paid during the Scheme year with respect to transfers have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and do not include discretionary benefits.

#### **Guaranteed Minimum Pensions (GMP) equalisation**

In October 2018, the High Court determined that certain benefits provided to members who contracted out of the State Pension between May 1990 and April 1997 must be equalised between men and women, and a further ruling in November 2020 determined that past transfers must be also equalised. The Trustee is reviewing the implication of the ruling on members' benefits from the Scheme. As soon as this review is finalised then affected members will be communicated with. However, this will take many months and even years to complete.

## Royal London Group Pension Scheme

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### Trustee's report (continued)

#### Report on Actuarial liabilities

The Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), does not require the financial statements to include liabilities in respect of promised retirement benefits.

The Scheme is subject to a Statutory Funding Objective as required under section 222 of the Pensions Act 2004, which requires a scheme to have sufficient and appropriate assets to cover its technical provisions. The technical provisions are calculated by projecting the benefits expected to be paid in each year after the valuation date and discounting the cash flows to obtain the present value. This assessment is carried out every 3 years using the method and assumptions agreed between the Trustee and the Company. The method and assumptions are documented in the Statement of Funding Principles dated 19 March 2021 a copy of which is available to members on request from the address set out on page 54.

The most recent completed triennial actuarial valuation was performed as at 31 December 2019. A funding update was carried out as at 31 December 2020. The results of this funding update and the full actuarial valuation as at 31 December 2019 are provided in the table below:

| <b>Actuarial report date: 31 December</b>                               | <b>2020</b>           | 2019           |
|---|-----------------------|----------------|
|   | <b>Funding Update</b> | Full valuation |
|   | <b>£'000</b>          | £'000          |
| Value of technical provisions   | <b>2,985,400</b>      | 2,736,600      |
| Value of assets available to meet technical provisions (excluding AVCs) | <b>2,949,174</b>      | 2,743,500      |
| Funding (deficit)/surplus   | <b>(36,226)</b>       | 6,900          |
| Funding level as a percentage of technical provisions                   | <b>98.8%</b>          | 100.3%         |

The value of liabilities (technical provisions) in the above table exclude those in respect of Additional Voluntary Contributions which are fully met by matching assets and exclude any allowance for advance funding of non-guaranteed discretionary pension increases.

The value of liabilities is based on pensionable service to the valuation date and assumptions about various factors that will influence the Scheme in the future, such as the levels of investment returns, when members will retire and how long members will live.

The funding level reduced over 2020 mainly due to a further fall in bond yields coupled with other changes to assumptions reflecting lower future expected returns from the Scheme's assets.

The 31 December 2020 position allows for the bulk transfer of assets and liabilities from the Police Mutual Assurance Society Staff Pension Fund (PMAS SPF) on 1 October 2020. Prior to the transfer the Police Mutual Assurance Society paid a contribution into PMAS SPF in order to bring its funding level up to the same level as the Scheme's. The transfer therefore had no material impact on the Scheme's funding position.

## Royal London Group Pension Scheme

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### Trustee's report (continued)

#### Report on Actuarial liabilities (continued)

##### Recovery plan

As the full actuarial valuation as at 31 December 2019 showed a funding surplus, no recovery plan was required to be agreed by the Trustee and the Company and the Trustee agreed that no regular contributions will be paid to the Scheme by the Company.

The method and significant assumptions used in the calculations are as follows:

##### Method

The actuarial method used in the calculation of the liabilities is the Projected Unit Method.

##### Significant actuarial assumptions

The assumptions used to calculate the Scheme's technical provisions set out in the triennial actuarial valuation report as at 31 December 2019 are summarised in the following main categories. All percentage rates are per annum:

- Discount interest rate: term dependent discount rate based on Willis Towers Watson Zero Coupon Gilt Nominal Yield Curve with an additional margin of 1.4% per annum to the end of 2034 and a 0.5% addition thereafter. This was equivalent to a single discount rate of 2.28% per annum.
- Retail Price Inflation (RPI): based on the Willis Towers Watson Zero Coupon Gilt-Impaired Breakeven Inflation Curve. This was equivalent to adopting a single RPI assumption of 3.17% per annum.
- Consumer Price Inflation (CPI): based on RPI inflation assumption, deducting an appropriate margin to reflect the differences between RPI and CPI. At 31 December 2019, the Trustee adopted a margin of 1.0% per annum until 2030 and a margin of 0.5% per annum after 2030. This was the equivalent to adopting a single CPI assumption of 2.42% per annum.
- Pension increases linked to RPI but subject to:
  - a minimum of 0% and a maximum of 7.5% at 3.11% per annum
  - a minimum of 0% and a maximum of 5.0% at 3.16% per annum
  - a minimum of 0% and a maximum of 3.0% at 2.66% per annum
- Pension increases linked to CPI but subject to:
  - a minimum of 0% and a maximum of 5.0% at 2.49% per annum
  - a minimum of 0% and a maximum of 3.0% at 2.27% per annum
  - a minimum of 0% and a maximum of 2.5% at 2.01% per annum
- Mortality for the period in retirement applying the SAPS "S3" series tables with a relevant multiplier factor.
- Mortality future improvements in longevity applying the CMI core 2019 projection model with long-term trend improvements of 1.50% per annum, an initial addition of 0.5% per annum and the core smoothing parameter of 7.0.

It is a legal requirement for the Trustee to agree a schedule of contributions for the Scheme following a triennial actuarial valuation even if no regular contributions will be payable. A schedule of contributions showing zero regular contributions was therefore certified by the Scheme Actuary on 19 March 2021. A copy of the Scheme actuary's certification of the schedule of contributions is included on page 46 of this annual report and financial statements.

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### **Trustee's report (continued)**

#### **COVID-19 Pandemic**

The scale and spread of Covid-19 (Coronavirus) worldwide and the actions taken by governments, has caused and will continue to cause disruption to almost all sectors and financial markets. As a result, there was a dramatic downturn in global markets in March 2020. The outbreak is having a significant financial impact and the Trustee continues to monitor the situation. The Trustee has noted that the stock markets have started to recover during Q3 2020.

At the point of approval of the Trustee's report, the Trustee does not believe there to be a material impact on the employer covenant, however as the situation is fluid and unpredictable the Trustee will keep the situation under review.

The Covid-19 pandemic brings into focus various risks faced by all pension schemes. The Trustee has been in regular discussion with their advisers and the Royal London Staff Pensions team over the period to monitor whether any specific actions were necessary or advisable. It has also been able to monitor the performance of the Scheme's assets and liabilities and had regular business updates from Royal London Group over the period. The Trustee acknowledges that the current situation is constantly evolving, and will continue to receive regular comprehensive updates from their advisers, administrators and Royal London Group.

The Trustee is satisfied that its advisers and the Staff Pension team have implemented adequate business continuity plans to minimise the risk of disruption to the on-going provision of all relevant services to the Scheme. The Scheme's administrators have provided assurances of their ability to continue to administer the Scheme throughout the pandemic by implementing business resilience processes. The Trustee considered the liquidity of the investment portfolio and concluded that payment of pension and member transactions (e.g. retirements, transfers) could continue as normal given the liquidity present.

Given the wider impact of the pandemic, the Trustee has worked with their advisers to consider the strength of the covenant provided by the Scheme's Principal Employer. At this time, the Trustee remains comfortable that the covenant is sufficient to continue to support the Scheme and has not implemented any changes to funding or investment strategy as a result of this review.

The Trustee does not consider that any of the matters noted above give rise to material uncertainties that may cast significant doubt on the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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### **Trustee's report (continued)**

#### **Investment report**

##### **Investment principles and strategy**

The ultimate responsibility for deciding investment policy lies with the Trustee.

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

The Trustee sets the investment strategy taking into account considerations such as the strength of the employer covenant, the long term liabilities and the funding plan agreed with the employer. The investment strategy is set out in the Scheme's Statement of Investment Principles ("SIP").

The target investment strategy is to hold:

- 30% in return-seeking investments comprising UK and overseas equities, high yield debt and multi-asset credit.
- 70% in liability-driven-investments (LDI) that are expected to move in line with the long term liabilities of the Scheme. This is referred to as matching assets and comprises UK government and corporate bonds, UK property, derivatives and repurchase agreements, the purpose of which is to hedge against the impact of interest rate and inflation movements of the long term liabilities.

The Trustee maintains a SIP as required by section 35 of the Pensions Act 1995 and meets the requirements of the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee reviews the SIP for appropriateness from time to time and last updated it in August 2020, a copy of the Scheme's Implementation statement for 2020 can be found on pages 47 to 52.

A copy of the SIP is available on request from the contact address set out on page 54 of this annual report and financial statements under 'Further information'.

Details of the Scheme's investments are given in note 14 to the financial statements.

##### **Management of investments**

The Trustee has appointed Royal London Asset Management Limited ("RLAM") to manage the Scheme's investments on a day-to-day basis. RLAM have full discretion to invest world-wide subject to the restrictions set out in the investment management agreement which is designed to ensure that the objectives and investment policies set out in the SIP are followed.

RLAM are authorised and regulated by the Financial Conduct Authority in the United Kingdom under the Financial Services and Markets Act 2000.

##### **Custodial arrangements**

The Trustee has appointed HSBC Bank plc (HSBC Securities Services) as custodian of the Scheme's investments other than pooled investment vehicles and AVCs. The Scheme's direct investment assets are held in the names of the nominees by the Scheme's custodian. The custodian operates a system of internal controls to ensure the security of the Scheme's assets.

The custody of underlying assets in pooled investment vehicles and AVCs is arranged by the manager of those investments.

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### **Trustee's report (continued)**

#### **Investment report (continued)**

##### **Trustee's policy on voting rights and social, environmental and ethical factors**

The Trustee has examined how rights, including voting rights, attached to investments should be exercised by considering and supporting the UK Stewardship Code ("the Code") issued by the Financial Reporting Council ("FRC"). The Trustee has decided that investment rights should be exercised by investment managers on its behalf in line with the investment managers' general policies on corporate governance.

The Trustee considers that it is necessary in all circumstances to act in the best financial interests of beneficiaries and, where this primary consideration is not prejudiced, the investment managers can take social, environmental and ethical issues into account.

The Trustee has less influence over the underlying investments within the pooled investment vehicles held by the Scheme but reviews the managers' policies and statements of compliance in respect of these investments.

##### **Financially material considerations and non-financial matters**

The Trustee has considered how Environmental, Social, and Governance (ESG) and ethical factors should be taken into account in the selection, retention and realisation of investments given the time horizon of the Scheme and its members.

The Trustee recognises that it has an important influence on the Scheme's approach to ESG (including climate change) and other financially material considerations through its investment strategy and manager selection decisions.

The Trustee expects its investment manager to take account of financially material considerations, including climate change and other ESG considerations. The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and regularly reviews how its manager is taking account of these issues in practice.

The Trustee has limited influence over its manager's investment practices where assets are held in pooled funds, but it encourages its manager to improve its practices where appropriate.

In particular, the Trustee expects its current (and any future) investment manager to be a signatory to the United Nations Principles for Responsible Investment.

The Trustee does not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

##### **Voting and engagement**

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment manager the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects its investment manager to exercise ownership rights and undertake monitoring and engagement in line with its general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries.

## **Royal London Group Pension Scheme**

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### **Trustee's report (continued)**

#### **Investment report (continued)**

##### **Voting and engagement (continued)**

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

##### **Matters relating to the Trustee's arrangement with any asset manager**

The Trustee can influence the manager's investment practices to some extent where assets are invested in segregated mandates. However, it has limited influence over the manager's investment practices where assets are held in pooled funds. In both cases it encourages the manager to improve its practices where appropriate.

The Trustee's view is that the fees paid to the investment manager, and the possibility of its mandate being terminated, ensure it is incentivised to provide a high-quality service that meets the stated objectives, guidelines and restrictions of each investment mandate. However, in practice, the manager cannot fully align its investment philosophy, strategy and decisions to the (potentially conflicting) policies of all its investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the manager's investment approach is consistent with its policies before any new mandate appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects its investment manager, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when monitoring the manager. In relation to monitoring, the Trustee receives an annual update from the investment manager in relation to its engagement with issuers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods compared to the relevant benchmark. The appropriateness of the relevant performance benchmark is reviewed on a regular basis. The duration of the manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate its investment manager by reference to the manager's individual performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. The manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises 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 manager. In addition, the Trustee expects its manager to ensure portfolio turnover remains within any limits set out in portfolio guidelines, and to monitor portfolio turnover costs over time, seeking efficiencies where appropriate. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

## Royal London Group Pension Scheme

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### Trustee's report (continued)

#### Investment report (continued)

##### Review of investment performance

The table below shows the performance of the Scheme investment assets over various periods relative to the appropriate benchmarks.

| <b>Annualised return by asset class over</b> | <b>1 year</b> | <b>3 years</b> | <b>5 years</b> |
|--|---------------|----------------|----------------|
| Sterling corporate bonds                     | <b>11.2%</b>  | <b>7.2%</b>    | <b>8.6%</b>    |
| <i>Benchmark</i>                             | 11.4%         | 7.1%           | 8.1%           |
| Index linked gilts                           | <b>12.8%</b>  | <b>6.6%</b>    | <b>9.7%</b>    |
| <i>Benchmark</i>                             | 12.1%         | 6.0%           | 9.1%           |
| Global high yield bonds                      | <b>6.5%</b>   | <b>5.8%</b>    | <b>6.7%</b>    |
| <i>Benchmark</i>                             | 5.0%          | 4.4%           | 6.8%           |
| Multi asset credit *                         | <b>4.7%</b>   | <b>4.5%</b>    | -              |
| <i>Benchmark</i>                             | 4.4%          | 4.5%           | -              |
| UK equities                                  | <b>-9.5%</b>  | <b>-0.2%</b>   | <b>5.4%</b>    |
| <i>Benchmark</i>                             | -10.3%        | -1.1%          | 5.0%           |
| Overseas equities                            | <b>15.2%</b>  | <b>11.2%</b>   | <b>14.9%</b>   |
| <i>Benchmark</i>                             | 14.0%         | 10.6%          | 15.2%          |
| Property                                     | <b>-2.7%</b>  | <b>0.5%</b>    | <b>2.5%</b>    |
| <i>Benchmark</i>                             | -1.0%         | 2.7%           | 4.4%           |
| Money market                                 | <b>-3.4%</b>  | <b>-2.3%</b>   | <b>-4.1%</b>   |
| <i>Benchmark</i>                             | 0.2%          | 0.5%           | 0.4%           |
| Scheme                                       | <b>7.9%</b>   | <b>5.9%</b>    | <b>8.6%</b>    |
| <i>Benchmark</i>                             | 8.7%          | 6.2%           | 8.9%           |

\*There are no fund returns in the 5 year period as fund inception is under 5 years (June 2017).

The Scheme return of 7.9% shown in the table above excludes the LDI hedging portfolio and only takes account of the tactical asset allocation decisions taken by the Scheme's investment manager during the year in accordance with the investment mandate agreed by the Trustee and the returns achieved on certain other financial instruments such as derivatives which are not reflected in the individual asset classes listed in the table above. The performance of the LDI hedging portfolio is calculated differently (by reference to the LDI liability benchmark) and was 7.8% for the year ended 31 December 2020 (5% per annum for the 3 years ended 31 December 2020). These two returns are therefore calculated on different bases.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme's investments and considers them to be appropriate to justify the holding of each class of the investments.

The Trustee considers that the spread of investments both geographically and by investment category enables the Scheme to benefit from potentially higher rates of investment growth in different markets whilst also decreasing the effect that price fluctuations within a particular market may have on the Scheme. The proportion of the Scheme's assets invested in a particular market is determined by reference to the relative rate of return and the relative level of risk associated with that market. The Money market asset class includes gains and losses on currency and foreign exchange contracts.

The Trustee considers that all the Scheme's investments are readily marketable with the exception of pooled investment vehicles in property, senior secured loans, private placement debts, and a small proportion of the global high yield bonds, which is deemed to be less readily marketable. The liquidity of senior secured loans and private placement debt is lower than the average of the Scheme investments. If there was a material disposal of units in the Royal London Property Fund and/or the Royal London UK Real Estate Fund, the Funds' Prospectuses provide for deferred redemption (on a normal basis, redemption requests must be received three months in advance, but this may be deferred for one further month) as the underlying assets would have to be sold in the marketplace.

## **Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2020

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### **Trustee's report (continued)**

#### **Investment report (continued)**

##### **Departures from the Statement of Investment Principles ("SIP")**

Over the year to 31 December 2020, there were two instances where the Trustee's investment arrangements departed from the principles set out in the SIP.

- In June 2020, S&P downgraded a specific bond (issued by a French energy company) held within the Scheme's investment grade corporate bond mandate, which caused it to breach the 1.5% maximum limit on holdings in BBB-rated securities. Following discussions with the Scheme's investment manager and consultant, the Trustee decided not to rectify this breach, on the basis that the holding is a relatively small component of the mandate, and was unlikely to be downgraded further / default given the support the company is expected to receive from the French government.
- In December 2020, the Trustee rebalanced its equity allocation to achieve a more global focus, and to grant the investment manager greater flexibility in stock selection. The Trustee was in the process of updating the SIP for this change at the time.

##### **Employer related investments**

There were no employer related investments held directly or indirectly by the Scheme at the year end (2019: None).

##### **Risks and mitigations**

The key risks facing the Scheme are set out below. There are some additional risks associated with financial instruments and these are set out in note 24 to the financial statements.

##### **Interest rate risk**

The Scheme has interest bearing assets including fixed interest securities and cash balances, which earn interest at variable rates. The value of the Scheme's liabilities is directly affected by interest rates. The asset allocation strategy is developed in consideration of these risks and a liability driven investment portfolio is held to reduce the effect of variations in interest rates.

##### **Inflation risk**

The Scheme has exposure to the impact of inflation because the majority of the benefits payable from the Scheme are inflation linked. The Trustee's investment strategy is developed in consideration of this risk and a liability driven investment portfolio is held to reduce the effect of variations in inflation.

##### **Longevity risk**

The Scheme has exposure to the impact of longevity of each member (i.e. the risk of members living longer than expected). The risk is monitored by regular actuarial input about trends in longevity. The Trustee monitors the opportunities available in the market to reduce this risk.

##### **Covenant risk**

As the sponsor of the Scheme, the Company is responsible for supporting it and ensuring there are sufficient funds to pay members' benefits. Therefore the Scheme is exposed to the risk of the Company not being able to do this. The Trustee regularly monitors the covenant of the Company.

## **Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2020

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### **Trustee's report (continued)**

#### **Investment report (continued)**

##### **Liquidity risk**

The investment manager has discretion to maintain a positive cash position as part of the benchmark set by the Trustee and is forewarned by the Trustee if there is likely to be a need for a cash withdrawal from the Scheme assets. For the day to day needs, the Administrator monitors cash requirements and may initiate the withdrawal of monies from the investment manager to the extent required to meet immediate benefits and expenses.

##### **Expression of wish forms**

The Trustee wishes to emphasise to members the importance of indicating to the Trustee the person(s) to whom they wish benefits to be paid in the event of death. The Trustee would normally take members' wishes into account, although they are not obliged to do so.

Members are urged to review their nomination of beneficiary form should their circumstances change. A change can be made on-line or through a form available from the Scheme's Administrator whose address is on page 54.

## **Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2020

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### **Statement of Trustee's responsibilities**

#### **The Trustee's responsibilities in respect of the financial statements**

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is 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 these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

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

The Trustee also has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it 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 Trustee is also responsible for the maintenance and integrity of the annual report and financial statements on the Royal London Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### **The Trustee's responsibilities in respect of contributions**

The Trustee is responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the Scheme by or on behalf of employers and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is 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 that fall due to be paid are paid into the Scheme in accordance with the schedule of contributions.

Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

## **Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2020

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### **Statement of Trustee's responsibilities (continued)**

#### **Further information**

Any enquiries about the Scheme can be made by contacting the Staff Pensions Team at the address provided in the 'Further information' on page 54. A copy of this annual report and financial statements is available on the Royal London Group website: <https://www.royallondon.com/about-us/corporate-information/key-financial-information/annual-reports/>.

#### **Approval**

The Trustee's report was approved and signed by the Trustee Directors on 23 March 2021.

**Signed for and on behalf of RLGPS Trustee Limited by:**

**Trustee Director**

**Trustee Director**

## **Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2020

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## **Independent Auditors' report to the Trustee of Royal London Group Pension Scheme**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion, Royal London Group Pension Scheme's financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2020, 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 (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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.

We have audited the financial statements, included in the annual report and financial statements, which comprise: the statement of net assets available for benefits as at 31 December 2020; the fund account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remained independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### **Conclusions relating to going concern**

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 authorised for issue.

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Scheme's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

## **Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2020

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### **Independent Auditors' report to the Trustee of Royal London Group Pension Scheme**

#### **Report on the audit of the financial statements (continued)**

##### **Reporting on other information**

The other information comprises all the information in the annual report and financial statements other than the financial statements, our auditors' report thereon and our auditors' statement about contributions. The Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

##### **Responsibilities for the financial statements and the audit**

###### *Responsibilities of the Trustee for the financial statements*

As explained more fully in the Statement of Trustee's responsibilities, the Trustee is responsible for ensuring that the financial statements are prepared in accordance with the applicable framework and for being satisfied that they show a true and fair view. The Trustee is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the financial statements, the Trustee is 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 Trustee either intends to wind up the Scheme, or has no realistic alternative but to do so.

###### *Auditors' 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 auditors' 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.

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

Based on our understanding of the Scheme and its environment, we identified that the principal risks of non-compliance with laws and regulations related to the administration of the Scheme in accordance the Pensions Acts 1995 and 2004 and regulations made under them, and codes of practice issued by the Pensions Regulator; and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered the direct impact of these laws and regulations on the financial statements. We evaluated incentives and opportunities for fraudulent

## **Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2020

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### **Independent Auditors' report to the Trustee of Royal London Group Pension Scheme**

#### **Responsibilities for the financial statements and the audit (continued)**

*Auditors' responsibilities for the audit of the financial statements (continued)*

manipulation of the financial statements, including the risk of override of controls, by the Trustee and those responsible for, or involved in, the preparation of the underlying accounting records and financial statements, and determined that the principal risks were related to posting inappropriate journals to conceal misappropriation of assets and inappropriate adjustments of asset valuations. Audit procedures performed included:

- Testing of journals where we identified particular risk criteria.
- Obtaining independent confirmations of material investment valuations and cash balances at the year end
- Reviewing estimates and judgements made in the preparation of the financial statements
- Reviewing meeting minutes, any correspondence with the Pensions Regulator, contracts and agreements and holding discussions with the Trustee to identify significant or unusual transactions and known or suspected instances of fraud or non-compliance with laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

#### *Use of this report*

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**Manchester**

**23 March 2021**

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

### Fund account for the year ended 31 December 2020

|   | <i>Note</i> | <b>2020</b><br>£'000 | 2019<br>£'000 |
|---|-------------|----------------------|---------------|
| <b>Contributions and other income</b>             |             |                      |               |
| Employer contributions                            | 4           | <b>4,100</b>         | -             |
| Transfers in                                      | 5           | <b>42,699</b>        | -             |
| Other income                                      | 6           | <b>14</b>            | 297           |
|   |             | <b>46,813</b>        | 297           |
| <b>Benefits and other payments</b>                |             |                      |               |
| Benefits paid or payable                          | 7           | <b>87,076</b>        | 85,374        |
| Payments to and on account of leavers             | 8           | <b>29,215</b>        | 26,052        |
| Administrative expenses                           | 9           | <b>3,439</b>         | 3,152         |
|   |             | <b>119,730</b>       | 114,578       |
| <b>Net withdrawals from dealings with members</b> |             | <b>(72,917)</b>      | (114,281)     |
| <b>Returns on investments</b>                     |             |                      |               |
| Investment income                                 | 10          | <b>33,989</b>        | 50,661        |
| Change in market value of investments             | 14          | <b>246,080</b>       | 278,558       |
| Investment management expenses                    | 11          | <b>(3,525)</b>       | (3,614)       |
| Investment management fee rebates                 | 12          | <b>1,914</b>         | 2,209         |
| Taxes on investment income                        | 13          | <b>(14)</b>          | (593)         |
| <b>Net returns on investments</b>                 |             | <b>278,444</b>       | 327,221       |
| <b>Net increase in the fund during the year</b>   |             | <b>205,527</b>       | 212,940       |
| <b>Opening net assets</b>                         |             | <b>2,745,783</b>     | 2,532,843     |
| <b>Closing net assets</b>                         |             | <b>2,951,310</b>     | 2,745,783     |

The notes to the financial statements on pages 22 to 43 form part of these financial statements.

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

### Statement of net assets available for benefits as at 31 December 2020

|  | <i>Note</i> | 2020<br>£'000      | 2019<br>£'000      |
|--|-------------|--------------------|--------------------|
| <b>Investment assets</b>                       |             |                    |                    |
| Equities                                       | 14          | 351,517            | 457,921            |
| Bonds  | 14          | 3,314,646          | 2,746,684          |
| Pooled investment vehicles                     | 19          | 462,165            | 560,330            |
| Derivatives assets                             | 16          | 36,636             | 14,257             |
| Insurance policies                             | 17          | 1,479              | -                  |
| Cash   | 20          | 42,874             | 45,423             |
| Other investment balances                      | 21          | 31,786             | 20,625             |
| AVC investments                                | 22          | 2,136              | 2,244              |
| Reverse repurchase agreements receivable       | 14          | 1,124,724          | 669,463            |
|  |             | <b>5,367,963</b>   | <b>4,516,947</b>   |
| <b>Investment liabilities</b>                  |             |                    |                    |
| Bonds sold short                               | 14          | (915,124)          | (635,517)          |
| Derivatives liabilities                        | 16          | (6,494)            | (17,900)           |
| Other investment balances                      | 21          | (16,957)           | (7,343)            |
| Repurchase agreements payable                  | 14          | (1,498,126)        | (1,110,580)        |
|  |             | <b>(2,436,701)</b> | <b>(1,771,340)</b> |
| <b>Total net investments</b>                   |             | <b>2,931,262</b>   | <b>2,745,607</b>   |
| <b>Current assets</b>                          | 27          | <b>21,638</b>      | <b>2,242</b>       |
| <b>Current liabilities</b>                     | 28          | <b>(1,590)</b>     | <b>(2,066)</b>     |
| <b>Total net assets available for benefits</b> |             | <b>2,951,310</b>   | <b>2,745,783</b>   |

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. 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 takes into account such obligations, is dealt with in the Report on Actuarial liabilities on pages 6 to 7 of the annual report and these financial statements should be read in conjunction with this report.

The notes to the financial statements on pages 22 to 43 form part of these financial statements.

The financial statements on page 20 to 43 were approved and signed by the Trustee Directors on 23 March 2021.

**Signed for and on behalf of RLGPS Trustee Limited by:**

**Trustee Director**

**Trustee Director**

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

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### Notes to the financial statements

#### 1. General information

The Scheme is an occupational pension scheme established by the Trust Deed dated 5 October 1988 under English law. The Scheme is a defined benefit (“DB”) scheme which was established to provide retirement benefits for its members. The beneficial members of the Scheme are eligible employees of the Royal London Group who commenced service on or before 1 September 2005. The benefits are payable to members in accordance with the Scheme Rules based on their length of service, accrual rate and their pensionable earnings as defined by the Scheme Rules prior to leaving the service of Royal London Group.

The Trustee’s registered office address is at 55 Gracechurch Street, London, EC3V 0RL.

The Scheme is a registered pension scheme under the Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by employers and employees are normally eligible for tax relief and income and capital gains earned by the Scheme receive preferential tax treatment.

#### 2. Statement of compliance

The individual financial statements of the Royal London Group Pension Scheme have been prepared in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council (“FRS 102”) and the guidelines set out in the Statement of Recommended Practice, “Financial Reports of Pension Schemes” (Revised June 2018) (“the SORP”).

#### 3. Summary of significant accounting policies

The principal accounting policies set out below have been consistently applied in the preparation of the financial statements.

##### a. Currency

The functional currency and presentation currency of the Scheme is the Great British Pound Sterling (GBP (£)).

##### b. Foreign currency conversion

Assets and liabilities in foreign currencies are expressed in GBP at the rates of exchange ruling at the year-end. Foreign currency transactions are translated into GBP at the spot rate at the date of the transaction.

Gains and losses arising on conversion are dealt with as part of change in market value of investments.

##### c. Contributions

Employers’ additional contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

##### d. Other income

Other income is accounted for on a receipt basis.

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

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### Notes to the financial statements (continued)

#### 3. Summary of significant accounting policies (continued)

##### e. Benefit payments

Where a member can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken or if there is no member choice, on the date of retirement or leaving.

Tax liability arising on a member's excess annual or lifetime allowance settled by the Scheme is recovered from the member.

Pensions in payment are accounted for in the period to which they relate.

##### f. Transfers from and to other schemes

Transfer values represent the amounts receivable or payable during the year for members who have joined or left the Scheme. All values are based on methods and assumptions determined by the Actuary advising the Trustee. The values are accounted for upon liability being accepted by the receiving scheme. In the case of individual transfers, this is normally when the payment of the transfer value is made.

##### g. Administrative and other expenses

Administrative expenses are accounted for on an accruals basis by reference to the period to which they relate.

##### h. Investment income and expenses

Dividends from equities and any income from pooled investment vehicles which distribute income is accounted for on an accruals basis on the date when stock is quoted ex-dividend and in the case of unquoted instruments, when the income is declared.

Interest on bonds, including income bought and sold on purchases and sales of bonds, is accounted for on an accruals basis.

Interest on cash and short term deposits is accounted for on an accruals basis.

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, including profits and losses realised on sales of investments and unrealised changes in market value. The change in market value also includes realised profits and losses on closed derivative contracts and unrealised profits and losses on open derivative contracts.

Income generated by pooled investment vehicles which are accumulation funds is retained within the funds without issue of further units and is reflected in the change in market value of the units. The tax element on the income from the property pooled investment vehicle is reclaimed and reinvested through the purchase of additional units and is reflected in the purchases.

Receipts or payments under swap contracts representing the difference between the swapped cash flows are recognised in investment income when received or paid.

Investment income includes any reclaimable tax credits. Withholding tax is accrued on the same basis as investment income. Where withholding tax is not recoverable, this is shown as a separate expense within investment returns.

Investment management expenses are accounted for on an accruals basis by reference to the period to which they relate.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. In addition there are indirect transaction costs which are incurred through the bid – offer spread on pooled investments. The amount of indirect transaction costs is not separately provided to the Scheme.

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

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### Notes to the financial statements (continued)

#### 3. Summary of significant accounting policies (continued)

##### i. Valuation and classification of investments

Investment assets and liabilities are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price or most recent transaction price is used. Where quoted or other unit prices are not available, the Trustee adopts valuation techniques appropriate to the class of investment. Details of the valuation techniques and principal assumptions are given in the notes to the financial statements where used.

The methods of determining fair value for the principal classes of investments are:

- Equities, bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the last price provided by the manager at or before the year end.
- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Trustee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustment is made.
- Swaps are valued at the net present value of future cash flows arising therefrom.
- Futures contracts are traded on an active exchange market and are valued at the difference between exchange settlement prices and inception prices.
- Forward exchange contracts are valued at the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- Annuity (insurance) policies are valued by the Scheme Actuary at the amount of the related obligation, determined using the most recent Scheme funding valuation assumptions updated for market conditions at the reporting date.
- The value of AVCs and other investment balances which are unquoted or not actively traded on a quoted market is driven by the fair value of its underlying assets as advised by the asset managers. Where there are restrictions or other factors which prevent realisation at the fair value an adjustment is made to value of the asset.
- Accrued interest on bonds, bonds sold short and swaps is excluded from the reported market value and is included within other investments.
- The Scheme recognises assets delivered under repurchase agreements to reflect its ongoing interest in those securities. Cash received from repurchase agreements is recognised as an investment asset and an investment liability is recognised for the value of the repurchase obligation including accrued interest.

The Scheme does not recognise assets received under reverse repurchase agreements. Cash delivered under such agreements is recognised as an investment receivable.

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

### Notes to the financial statements (continued)

#### 3. Summary of significant accounting policies (continued)

##### j. Other investment arrangements

The Scheme recognises assets delivered out under stock-lending arrangements and as collateral under derivative contracts to reflect its ongoing interest in those securities.

Collateral securities received in respect of stock-lending arrangements and derivative contracts are disclosed but not recognised as Scheme assets.

The value of collateral received in respect of derivative contracts reflects the exposure value of the derivatives at the middle of bid and offer prices including interest accrual.

##### k. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

There were no critical judgements in applying the accounting policies.

Key accounting estimates and assumptions - the Trustee makes estimate and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. For the Scheme, the Trustee believes the only estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are related to the valuation of the Scheme investments and, in particular, those classified in Level 2 and 3 of the fair-value hierarchy.

#### 4. Employer Contributions

|                          | 2020<br>£'000 | 2019<br>£'000 |
|--------------------------|---------------|---------------|
| Additional contributions | 4,100         | -             |
|                          | <u>4,100</u>  | <u>-</u>      |

The Additional Employer Contribution was to fund the discretionary pension increases explained on page 5.

#### 5. Transfers in

|                                       | 2020<br>£'000 | 2019<br>£'000 |
|---------------------------------------|---------------|---------------|
| Group Transfers in from other Schemes | 42,699        | -             |
|                                       | <u>42,699</u> | <u>-</u>      |

The group transfer in was in respect of the inclusion of the Police Mutual Assurance Society Staff Pension Fund. The group transfer was settled by a transfer of Pooled Investment Vehicle assets £40,776k, Cash £143k and an Annuity Policy £1,780k on 1 October 2020. The PIV assets were instructed to be liquidated on the day of transfer.

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

### Notes to the financial statements (continued)

#### 6. Other income

|                                 | 2020<br>£'000 | 2019<br>£'000 |
|---------------------------------|---------------|---------------|
| Claims on life insurance policy | -             | 297           |
| Sundry income                   | 14            | -             |
|                                 | <u>14</u>     | <u>297</u>    |

#### 7. Benefits paid or payable

|  | 2020<br>£'000 | 2019<br>£'000 |
|--|---------------|---------------|
| Pensions                                       | 76,672        | 75,233        |
| Commutations and retirement lump sums          | 10,331        | 9,734         |
| Lump sum death benefits                        | 73            | 344           |
| Tax paid on members' lifetime allowance excess | -             | 63            |
|  | <u>87,076</u> | <u>85,374</u> |

The tax on members' lifetime allowance excess paid by the Scheme is recovered from the members.

#### 8. Payments to and on account of leavers

|  | 2020<br>£'000 | 2019<br>£'000 |
|--|---------------|---------------|
| Payments for members reinstated in state schemes | -             | 26            |
| Individual transfers to other schemes            | 29,215        | 26,026        |
|  | <u>29,215</u> | <u>26,052</u> |

#### 9. Administrative expenses

|                                       | 2020<br>£'000 | 2019<br>£'000 |
|---------------------------------------|---------------|---------------|
| Administration fees                   | 1,604         | 1,593         |
| Actuarial fees                        | 441           | 322           |
| Levies paid to the Pensions Regulator | 710           | 576           |
| Trusteeship fees                      | 156           | 186           |
| Audit fees                            | 63            | 61            |
| Legal fees                            | 221           | 355           |
| Consultancy                           | 227           | 27            |
| Sundry expenses                       | 17            | 32            |
|                                       | <u>3,439</u>  | <u>3,152</u>  |

## Royal London Group Pension Scheme

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### Notes to the financial statements (continued)

#### 9. Administrative expenses (continued)

Some of the administration of the Scheme is provided by the Company. The direct costs of the Company employees involved in the administration are recharged to the Scheme. Indirect costs incurred by the Company are recharged to the Scheme on an allocation methodology agreed by the Trustee. These costs are included in the administration fees and are provided in note 29 (Related party transactions).

Trusteeship fees include fees paid directly to the Trustee Directors as disclosed in note 29 (Related party transactions) to the financial statements.

#### 10. Investment income

|  | 2020<br>£'000 | 2019<br>£'000 |
|--|---------------|---------------|
| Dividends from equities                        | 8,553         | 14,941        |
| Interest from bonds                            | 48,682        | 37,158        |
| Interest paid on bonds sold short              | (14,003)      | -             |
| Net (payments)/receipts on swaps               | (10,804)      | (5,457)       |
| Income from pooled investment vehicles         | 4,699         | 5,609         |
| Interest on cash deposits                      | 139           | 365           |
| Other investment income                        | (35)          | 19            |
| Income from reverse repurchase agreements      | 1,056         | 2,146         |
| Interest paid/payable on repurchase agreements | (4,483)       | (4,318)       |
| Net income from stock lending                  | 163           | 198           |
| Annuity income                                 | 22            | -             |
|  | <u>33,989</u> | <u>50,661</u> |

#### 11. Investment management expenses

|                                    | 2020<br>£'000 | 2019<br>£'000 |
|------------------------------------|---------------|---------------|
| Administration and management fees | 2,872         | 2,914         |
| Custodian charges                  | 193           | 198           |
| Investment advisory fees           | 358           | 397           |
| Bank charges                       | 47            | 105           |
| Commission on futures              | 55            | -             |
|                                    | <u>3,525</u>  | <u>3,614</u>  |

#### 12. Investment management fee rebates

|                                   | 2020<br>£'000 | 2019<br>£'000 |
|-----------------------------------|---------------|---------------|
| Investment management fee rebates | 1,914         | 2,209         |

The fee rebates represent amounts received from the Scheme's investment manager as reimbursement representing a proportion of investment management charges on pooled investment vehicles.

#### 13. Taxes on investment income

The taxation charge within investment returns represents irrecoverable withholding tax arising on certain classes of investment income.

## Royal London Group Pension Scheme

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### Notes to the financial statements (continued)

#### 14. Reconciliation of net investments

|   | Value as at<br>1 January<br>2020<br>£'000 | Purchases at cost<br>and derivative<br>payments<br>£'000 | Sale proceeds<br>and derivative<br>receipts<br>£'000 | Change in<br>market<br>value<br>£'000 | Value as at 31<br>December<br>2020<br>£'000 |
|---|---|--|--|---------------------------------------|---|
| Equities                                    | 457,921                                   | 394,931  | (502,668)  | 1,333                                 | <b>351,517</b>                              |
| Bonds - Net                                 | 2,111,167                                 | 5,195,602  | (5,107,487)  | 200,240                               | <b>2,399,522</b>                            |
| Derivatives - Net                           | (3,643)                                   | 7,342,441  | (7,343,760)  | 35,104                                | <b>30,142</b>                               |
| Pooled investment vehicles                  | 560,330                                   | 60,718   | (167,936)  | 9,053                                 | <b>462,165</b>                              |
| Insurance policies                          | -   | 1,780  | -  | (301)                                 | <b>1,479</b>                                |
| AVC investments                             | 2,244                                     | -  | (121)  | 13                                    | <b>2,136</b>                                |
|   | <u>3,128,019</u>                          | <u>12,995,472</u>  | <u>(13,121,972)</u>                                  | <u>245,442</u>                        | <u><b>3,246,961</b></u>                     |
| Cash  | 45,423                                    |  |  | 638                                   | <b>42,874</b>                               |
| Other investment balances                   | 13,282                                    |  |  |                                       | <b>14,829</b>                               |
| Reverse repurchase<br>agreements receivable | 669,463                                   |  |  |                                       | <b>1,124,724</b>                            |
| Repurchase agreements payable               | (1,110,580)                               |  |  |                                       | <b>(1,498,126)</b>                          |
|   | <u>(382,412)</u>                          |  |  | <u>638</u>                            | <u><b>(315,699)</b></u>                     |
|   | <u>2,745,607</u>                          |  |  | <u>246,080</u>                        | <u><b>2,931,262</b></u>                     |

Gilts with a market value as at 31 December 2020 of £1,133.6 million (2019: £662.1 million) were received under the reverse repurchase agreements. These gilts are not recognised as assets of the Scheme.

In the table above, Bonds reflects a net position comprising £3,314.6 million (2019: £2,746.7 million) of bond assets and £915.1 million (2019: £635.5 million) of bond liabilities due to short selling of bonds.

Gilts with a market value as at 31 December 2020 of £1,502.9 million (2019: £1,086.2 million) were delivered under the repurchase agreements. These gilts are recognised as assets of the Scheme and are included in the bonds.

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

### Notes to the financial statements (continued)

#### 15. Investment transaction costs

Transaction costs relating to purchases of investments are added to the cost of investments and those relating to sales of investments are netted against proceeds of investments. These costs include fees, commissions, stamp duty and other fees. Direct transaction costs incurred during the year are analysed as follows:

| Transaction fee category |                   |                |                | 2020           | 2019           |
|--------------------------|-------------------|----------------|----------------|----------------|----------------|
|                          | Equities<br>£'000 | Bonds<br>£'000 | Other<br>£'000 | Total<br>£'000 | Total<br>£'000 |
| Fees                     | 8                 | -              | -              | 8              | 140            |
| Commissions              | 263               | -              | -              | 263            | 39             |
| Taxes                    | 110               | -              | -              | 110            | 186            |
| <b>Total 2020</b>        | <b>381</b>        | <b>-</b>       | <b>-</b>       | <b>381</b>     |                |
| Total 2019               | 231               | -              | 134            |                | 365            |

In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments within the pooled investment vehicles and charges within those vehicles. It has not been possible for the Scheme to quantify such indirect transaction costs.

#### 16. Derivatives

| Over the counter contracts         |                 |                      |                | 2020            |                      | 2019           |
|------------------------------------|-----------------|----------------------|----------------|-----------------|----------------------|----------------|
|                                    | Assets<br>£'000 | Liabilities<br>£'000 | Total<br>£'000 | Assets<br>£'000 | Liabilities<br>£'000 | Total<br>£'000 |
| <b>Over the counter contracts</b>  |                 |                      |                |                 |                      |                |
| Swaps                              | 9,852           | (5,784)              | 4,068          | 9,223           | (17,802)             | (8,579)        |
| Forward foreign currency contracts | 3,053           | (710)                | 2,343          | 3,137           | (98)                 | 3,039          |
|                                    | <b>12,905</b>   | <b>(6,494)</b>       | <b>6,411</b>   | 12,360          | (17,900)             | (5,540)        |
| <b>Exchange traded contracts</b>   |                 |                      |                |                 |                      |                |
| Futures                            | 23,731          | -                    | 23,731         | 1,897           | -                    | 1,897          |
|                                    | <b>36,636</b>   | <b>(6,494)</b>       | <b>30,142</b>  | 14,257          | (17,900)             | (3,643)        |

#### Objectives and policies for holding derivatives

The Trustee allows RLAM the discretion to use derivatives to support the investment strategy. These are financial instruments whose value is dependent on the value of an underlying index, currency, commodity or other asset.

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

### Notes to the financial statements (continued)

#### 16. Derivatives (continued)

The Trustee authorised the use of derivatives for hedging purposes and to enhance the efficient management of the investment portfolios where they provide the opportunities to achieve the overall portfolio objective more efficiently than would be the case through direct dealing in the underlying securities.

Derivatives are not used for speculative purposes. Furthermore, restrictions are in place with RLAM to limit the overall extent of derivatives usage and exposure to certain types of derivatives.

Derivative contracts are included in the financial statements at fair value. During the year the Scheme used swaps, futures and forward foreign currency contracts.

#### Swaps

The Scheme used swaps which are over the counter contracts and fair value is the current value of future expected net cash flows arising from the swap, taking into account the time value of money. Fair value is normally calculated using discounted cash flow models and using market data at the reporting date. The Scheme participated in two types of swaps during the year, which are inflation swaps and total return swaps as follows:

##### (a). Inflation swap

An inflation swap is a contract under which inflation-indexed payments are exchanged for fixed payments based on an agreed principal amount. Only the net interest payments are exchanged. No exchange of principal takes place.

##### (b). Total return swaps

A total return swap is a contract in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. No exchange of principal takes place.

Outstanding swap contracts at the year-end are detailed as follows:

| Nature of Swap                              | Expires     | Number of Contracts | Notional principal<br>£'000 | Assets<br>£'000 | Liabilities<br>£'000 | 2020<br>Net<br>£'000 |
|---|-------------|---------------------|-----------------------------|-----------------|----------------------|----------------------|
| <b>Total return swaps</b>                   |             |                     |                             |                 |                      |                      |
| Pay fixed interest for total return (Gilts) | 1 year      | 19                  | 462,500                     | 5,017           | (4,934)              | 83                   |
| Pay total return (Gilts) for fixed interest | 1 year      | 5                   | 368,993                     | 3,447           | (342)                | 3,105                |
|   |             |                     |                             | <u>8,464</u>    | <u>(5,276)</u>       | <u>3,188</u>         |
| <b>Inflation swaps</b>                      |             |                     |                             |                 |                      |                      |
| Pay fixed interest for variable (RPI)       | 1 year      | 3                   | 40,000                      | 385             | -                    | 385                  |
| Pay fixed interest for variable (RPI)       | 1 – 5 years | 2                   | 19,500                      | 1,003           | -                    | 1,003                |
| Pay fixed interest for variable (RPI)       | 20 years +  | 1                   | 22,000                      | -               | (508)                | (508)                |
|   |             |                     |                             | <u>1,388</u>    | <u>(508)</u>         | <u>880</u>           |
|   |             |                     |                             | <u>9,852</u>    | <u>(5,784)</u>       | <u>4,068</u>         |

The notional principal of a swap is the amount used to determine the swapped receipts and payments.

## Royal London Group Pension Scheme

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for the year ended 31 December 2020

### Notes to the financial statements (continued)

#### 16. Derivatives (continued)

##### Forward foreign currency contracts

A forward foreign currency contract is an agreement to exchange an agreed amount of currency (contract or notional amount) at a specified exchange rate and on a specified date. The contract is used to reduce exposure to movements in exchange rates.

Outstanding forward foreign currency contracts at the year-end are detailed as follows:

| Settlement date | Number of contracts | Currency bought | Currency Sold | Contract /notional amount<br>£'000 | Assets<br>£'000 | Liabilities<br>£'000 | 2020<br>Net<br>£'000 |
|-----------------|---------------------|-----------------|---------------|------------------------------------|-----------------|----------------------|----------------------|
| Within          |                     |                 |               |                                    |                 |                      |                      |
| 1 Month         | 1                   | GBP             | CAD           | 1,388                              | 44              | -                    | 44                   |
| 1 Month         | 2                   | GBP             | CHF           | 5,565                              | 26              | -                    | 26                   |
| 1 Month         | 1                   | GBP             | EUR           | 3,992                              | 25              | -                    | 25                   |
| 1 Month         | 2                   | GBP             | JPY           | 13,764                             | 44              | -                    | 44                   |
| 1 Month         | 1                   | GBP             | SEK           | 1,239                              | -               | (21)                 | (21)                 |
| 1 Month         | 1                   | GBP             | SGD           | 1,040                              | 4               | -                    | 4                    |
| 1 Month         | 3                   | GBP             | USD           | 11,223                             | 257             | -                    | 257                  |
| 1 Month         | 2                   | AUD             | GBP           | 2,766                              | 66              | -                    | 66                   |
| 1 Month         | 1                   | CAD             | GBP           | 1,345                              | -               | (3)                  | (3)                  |
| 1 Month         | 1                   | CHF             | GBP           | 66                                 | -               | -                    | -                    |
| 1 Month         | 2                   | EUR             | GBP           | 9,421                              | -               | (57)                 | (57)                 |
| 1 Month         | 1                   | JPY             | GBP           | 26                                 | -               | -                    | -                    |
| 1 Month         | 1                   | SEK             | GBP           | 1,261                              | 18              | -                    | 18                   |
| 1 Month         | 2                   | SGF             | GBP           | 6,425                              | -               | (155)                | (155)                |
| 1 Month         | 1                   | USD             | GBP           | 2,691                              | -               | (94)                 | (94)                 |
| 3 Months        | 6                   | GBP             | EUR           | 54,572                             | 585             | (82)                 | 503                  |
| 3 Months        | 8                   | GBP             | USD           | 83,090                             | 1,984           | -                    | 1,984                |
| 3 Months        | 1                   | EUR             | GBP           | 21,904                             | -               | (191)                | (191)                |
| 3 Months        | 2                   | USD             | GBP           | 6,494                              | -               | (107)                | (107)                |
|                 |                     |                 |               |                                    | <b>3,053</b>    | <b>(710)</b>         | <b>2,343</b>         |

The contract or notional amount represents the sterling value of the foreign currency amount of the contract translated at the year-end spot rate.

##### Futures contracts

Futures are derivative financial contracts that obligate the parties to transact an asset at a predetermined future date and price. The contracts outline details of the quantity of the underlying asset and are standardised to facilitate trading on a futures exchange.

The fair value of an outstanding futures contract is the initial and valuation margin receivable or payable as at the year end. Outstanding futures contracts at the year-end are detailed as shown on the following page:

## Royal London Group Pension Scheme

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for the year ended 31 December 2020

### Notes to the financial statements (continued)

#### 16. Derivatives (continued)

| Nature of futures                 | Currency | Expires within | Economic exposure<br>£'000 | Assets<br>£'000 | Liabilities<br>£'000 | 2020           |
|-----------------------------------|----------|----------------|----------------------------|-----------------|----------------------|----------------|
|                                   |          |                |                            |                 |                      | Total<br>£'000 |
| <b>Equity futures bought</b>      |          |                |                            |                 |                      |                |
| ICF FTSE 100 IDX FUT Mar21        | GBP      | 1 year         | 186,180                    | 18,734          | -                    | 18,734         |
| CME S&P500 EMINI FUT Mar21        | USD      | 1 year         | 17,689                     | 1,057           | -                    | 1,057          |
| NYF MSCI EmgMkt Mar21             | USD      | 1 year         | 14,277                     | 1,038           | -                    | 1,038          |
| EUX EURO STOXX 50 Mar20           | EUR      | 1 year         | 11,058                     | 1,314           | -                    | 1,314          |
| OSE TOPIX INDX FUTR Mar21         | JPY      | 1 year         | 10,357                     | 499             | -                    | 499            |
| SFE SPI 200 FUTURES Mar21         | AUD      | 1 year         | 923                        | 71              | -                    | 71             |
| HKG HANG SENG IDX FUT Jan21       | HKD      | 1 year         | 770                        | 65              | -                    | 65             |
|                                   |          |                |                            | 22,778          | -                    | 22,778         |
| <b>Equity futures sold</b>        |          |                |                            |                 |                      |                |
| KFE KOSPI2 INX FUT Mar21          | HKD      | 1 year         | (983)                      | 103             | -                    | 103            |
|                                   |          |                |                            | 103             | -                    | 103            |
| <b>Interest Rate futures sold</b> |          |                |                            |                 |                      |                |
| ICF LONG GILT FUTURE Mar21        | GBP      | 1 year         | (40,391)                   | 850             | -                    | 850            |
|                                   |          |                |                            | 850             | -                    | 850            |
|                                   |          |                |                            | 23,731          | -                    | 23,731         |

#### 17. Insurance Policies

The Trustee holds an annuity policy with Aviva Annuity UK Limited. The annuity policy is valued by the Scheme Actuary as the amount of the related obligation, determined using the most recent Funding valuation updated for market conditions at the reporting date. The actuarial assumptions used are in line with those agreed between the Trustee and Royal London for the purpose of the 31 December 2019 valuation, updated for market conditions as at 31 December 2020. A summary of the main assumptions adopted for this valuation are shown in the table below.

##### Financial Assumptions

31 December 2020

Discount Rate

Gilt curve + 1.35% pa for 14 years and 0.5% pa thereafter

Pension increases (in line with RPI floored at 0% pa)

Set using the RPI inflation curve, considering the effect of inflation volatility set at 1% pa, and the pension increase floor of 0% pa

##### Demographic Assumptions

31 December 2020

Mortality base tables

102% and 101% of the SAPS "S3" all pensioner tables for the member and spouse respectively, projected to 2020 in line with CMI 2019 model

Future improvements in longevity

CMI 2019 projection model with long-term trend improvements of 1.50% pa, with an initial addition 0.50% pa and a smoothing parameter of 7.0

## Royal London Group Pension Scheme

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### Notes to the financial statements (continued)

#### 18. Collateral and stock lending arrangements

Cash collateral of £400,000 was received by the Scheme in respect of derivative contracts outstanding as at 31 December 2020 (2019: £120,000). The cash collateral is included within cash with an offset liability included within the other investment balances (liabilities).

Cash collateral of £380,000 was settled by the Scheme in respect of derivative contracts outstanding as at 31 December 2020 (2019: £5,430,000). The cash collateral is included in receivables within other investment balances.

Stock collateral was pledged by the Scheme in respect of derivative contracts outstanding at the year-end in the form of gilts with a market value as at 31 December 2020 of £1,692,000 (2019: £4,497,000). The pledged assets are included in the net investment assets.

Gilts with a market value as at 31 December 2020 of £9,481,000 (2019: £18,709,000) were delivered as collateral under the repurchase and reverse repurchase agreements.

Cash collateral of £2,655,000 (2019: £nil) was received by the Scheme under the repurchase and reverse repurchase agreements.

The Scheme has undertaken stock loan transactions during the year, which transfer the legal title to an asset to a third party but not the right to the income and change in market value of the asset. The Scheme retains the risks and rewards of ownership of assets under stock loan arrangements. The market value of the assets under such arrangements as at 31 December 2020 amounted to £73,061,000 (2019: £115,029,000) and is included in the net investment assets.

The assets transferred under stock loan arrangements are secured by the receipt of collateral from the third party in the form of government bonds, corporate bonds and quoted equities, which may be re-pledged or sold if there is default. The market value of collateral held by the Scheme as at 31 December 2020 was £76,632,000 (2019: £121,884,000) and is not included in the net investment assets.

#### 19. Pooled investment vehicles

|            | 2020           | 2019           |
|------------|----------------|----------------|
|            | £'000          | £'000          |
| Cash/Bonds | -              | 32,008         |
| Equities   | 25,869         | 91,996         |
| Bonds      | 178,104        | 169,963        |
| Property   | 258,192        | 266,363        |
|            | <u>462,165</u> | <u>560,330</u> |

#### 20. Cash

|                  | 2020          | 2019          |
|------------------|---------------|---------------|
|                  | £'000         | £'000         |
| UK GBP Sterling  | 40,569        | 40,203        |
| Foreign currency | 2,305         | 5,220         |
|                  | <u>42,874</u> | <u>45,423</u> |

## Royal London Group Pension Scheme

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### Notes to the financial statements (continued)

#### 21. Other investment balances

|  | 2020<br>£'000   | 2019<br>£'000  |
|--|-----------------|----------------|
| Accrued interest receivable              | 15,574          | 11,750         |
| Dividends & investment income receivable | 2,047           | 1,237          |
| Trade settlements due from brokers       | 5,310           | 1,356          |
| Futures margin receivable                | 3,773           | 333            |
| Cash collateral receivable               | 4,606           | 5,430          |
| Tax reclaims                             | 476             | 519            |
|  | <u>31,786</u>   | <u>20,625</u>  |
| Accrued interest payable                 | (7,804)         | (5,814)        |
| Trade settlements due to brokers         | (6,087)         | (1,402)        |
| Cash collateral payable                  | (3,055)         | (120)          |
| Tax payable                              | (11)            | (7)            |
|  | <u>(16,957)</u> | <u>(7,343)</u> |
|  | <u>14,829</u>   | <u>13,282</u>  |

#### 22. AVC investments

The Trustee holds assets invested separately from the main fund in the form of insurance policies, which secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held on their behalf and the movements in the year. The aggregate amounts of AVC investments are shown below:

|   | 2020<br>£'000 | 2019<br>£'000 |
|---|---------------|---------------|
| Scottish Widows Limited                           | 1,221         | 1,305         |
| The Royal London Mutual Insurance Society Limited | 566           | 631           |
| The Equitable Life Assurance Society              | -             | 308           |
| Utmost Life and Pensions                          | 349           | -             |
|   | <u>2,136</u>  | <u>2,244</u>  |

Following the acquisition of The Equitable Life Assurance Society by Utmost Life and Pensions on 1 January 2020 the Equitable Life AVC contracts were novated.

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

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### Notes to the financial statements (continued)

#### 23. Fair value of investments

The fair value of investments in the statement of net assets available for benefits has been determined using an analysis of the level in the following hierarchy:

| Valuation methodology  | Level |
|--|-------|
| Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date | 1     |
| Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly                  | 2     |
| Inputs are unobservable, i.e. for which market data is unavailable.  | 3     |

Pooled investment vehicles which are traded regularly are included in level 2. Where the absence of regular trading or the unsuitability of recent transaction prices as a proxy for fair value applies, valuation techniques are adopted and the vehicles are included in level 3.

The value of other pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Trustee. Where the value of the pooled investment vehicle is primarily driven by fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustments are made. No such adjustments have been made to the valuations as at 31 December 2020 or 31 December 2019.

Property funds are fair valued based on values estimated by underlying fund managers using accepted valuation methodologies and use market information in the absence of observable market data and are included in Level 3.

The Scheme's investment assets and liabilities have been included at fair value within the hierarchical levels as shown on the following page:

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

### Notes to the financial statements (continued)

#### 23. Fair value of investments (continued)

| Asset category                           | Hierarchy level  |                    |                | 2020               |
|--|------------------|--------------------|----------------|--------------------|
|  | 1                | 2                  | 3              | Total              |
| Investment assets                        | £000             | £000               | £000           | £000               |
| Equities                                 | 351,517          | -                  | -              | 351,517            |
| Bonds - Net                              | 1,466,179        | 926,193            | 7,150          | 2,399,522          |
| Derivatives                              | 23,731           | 12,905             | -              | 36,636             |
| Pooled investment vehicles               | -                | 203,974            | 258,191        | 462,165            |
| Insurance Policies                       | -                | -                  | 1,479          | 1,479              |
| Cash                                     | 42,874           | -                  | -              | 42,874             |
| Other investment balances                | 31,786           | -                  | -              | 31,786             |
| AVC investments                          | -                | -                  | 2,136          | 2,136              |
| Reverse repurchase agreements receivable | -                | 1,124,724          | -              | 1,124,724          |
|  | <u>1,916,087</u> | <u>2,267,796</u>   | <u>268,956</u> | <u>4,452,839</u>   |
| <b>Investment liabilities</b>            |                  |                    |                |                    |
| Derivatives                              | -                | (6,494)            | -              | (6,494)            |
| Other investment balances                | (16,957)         | -                  | -              | (16,957)           |
| Repurchase agreements payable            | -                | (1,498,126)        | -              | (1,498,126)        |
|  | <u>(16,957)</u>  | <u>(1,504,620)</u> | <u>-</u>       | <u>(1,521,577)</u> |
| <b>Total investments</b>                 | <u>1,899,130</u> | <u>763,176</u>     | <u>268,956</u> | <u>2,931,262</u>   |

## Royal London Group Pension Scheme

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### Notes to the financial statements (continued)

#### 23. Fair value of investments (continued)

An analysis for the prior year-end is as follows:

| Asset category                           | Hierarchy level  |                    |                | 2019               |
|--|------------------|--------------------|----------------|--------------------|
|  | 1                | 2                  | 3              | Total              |
|  | £000             | £000               | £000           | £000               |
| <b>Investment assets</b>                 |                  |                    |                |                    |
| Equities                                 | 457,110          | 811                | -              | 457,921            |
| Bonds - Net                              | 1,262,532        | 840,974            | 7,661          | 2,111,167          |
| Derivatives                              | 1,897            | 12,360             | -              | 14,257             |
| Pooled investment vehicles               | -                | 293,967            | 266,363        | 560,330            |
| Cash                                     | 45,423           | -                  | -              | 45,423             |
| Other investment balances                | 9,192            | 11,378             | 55             | 20,625             |
| AVC investments                          | -                | -                  | 2,244          | 2,244              |
| Reverse repurchase agreements receivable | -                | 669,463            | -              | 669,463            |
|  | <u>1,776,154</u> | <u>1,828,953</u>   | <u>276,323</u> | <u>3,881,430</u>   |
| <b>Investment liabilities</b>            |                  |                    |                |                    |
| Derivatives                              | -                | (17,900)           | -              | (17,900)           |
| Other investment balances                | (1,551)          | (5,792)            | -              | (7,343)            |
| Repurchase agreements payable            | -                | (1,110,580)        | -              | (1,110,580)        |
|  | <u>(1,551)</u>   | <u>(1,134,272)</u> | <u>-</u>       | <u>(1,135,823)</u> |
| <b>Total investments</b>                 | <u>1,774,603</u> | <u>694,681</u>     | <u>276,323</u> | <u>2,745,607</u>   |

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

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### Notes to the financial statements (continued)

#### 24. Investment risks

##### Types of risk relating to investments

FRS 102 requires the disclosure of information in relation to certain investment risks.

**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 or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset 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 SORP recommends these risk disclosures are made for all investments.

##### Investment strategy

The Trustee determines its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy. The Trustee manages 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 agreement in place with the Scheme's investment manager and monitored by the Trustee by regular reviews of the investment portfolio.

The Trustee investment strategy is to hold:

- 30% in return-seeking investments comprising equities, high yield debt and multi-asset credit.
- 70% in liability-driven-investments (LDI) that are expected to move in line with the long term liabilities of the Scheme. This is referred to as matching assets and comprises UK government and corporate bonds, UK property, derivatives and repurchase agreements, the purpose of which is to hedge against the impact of interest rate and inflation movements of the long term liabilities.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

##### Credit risk

Where the Scheme invests in pooled funds it is directly exposed to credit risk in relation to the solvency of the investment manager and the custodian of the funds. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being "ring-fenced" from the pooled fund manager, the regulatory environments in which the manager operates and diversification of investments amongst pooled arrangements. The Trustee also carries out due diligence checks before investing in new pooled investment vehicles and on an ongoing basis monitors any changes to the operating environment of the pooled fund manager.

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

### Notes to the financial statements (continued)

#### 24. Investment risks (continued)

The Scheme held investments in the following pooled investment vehicles by their legal form as at 31 December 2020.

| Legal form                                       | 2020<br>£'000  | 2019<br>£'000  |
|--|----------------|----------------|
| Open-ended Investment Company (OEIC)             | 25,869         | 124,004        |
| Irish Collective Asset-management Vehicle (ICAV) | 178,104        | 169,963        |
| Property Authorised Investment Fund (PAIF)       | 258,192        | 266,363        |
|  | <u>462,165</u> | <u>560,330</u> |

The Scheme is also subject to direct credit risk arising from investments in bonds, over-the-counter (“OTC”) derivatives, reverse repurchase agreements, equity futures and cash balances. Credit risk arising on bonds held directly (see note 14) is mitigated by investing in government bonds of £1,514.3 million (2019: £1,299.8 million) where the credit risk is minimal or holding corporate bonds & fixed interest of £783.4 million (2019: £709.9 million) with an investment-grade credit rating, across a diversified exposure of different credit issuers. There is a further £101.8 million (2019: £101.5 million) holding in below investment grade corporate bonds & fixed interest.

The Scheme’s OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to the risk of failure of the counterparty. The credit risk for OTC derivatives is reduced by limits on the exposure to any single counterparty and a minimum credit rating that all counterparties must meet. In addition, the derivative positions are collateralised daily to ensure that the extent of the credit risk is limited to one day’s market movements. Collateral in relation to the Scheme’s OTC derivative contracts and manager stock lending activities is typically posted in the form of government bonds or cash held with investment banks that are at least investment grade credit rated.

In addition, the investment manager seeks to trade all new swap contracts on a centrally cleared basis (rather than OTC), which uses a clearing house to remove the direct relationship between the Trustee and the counterparty, further reducing credit risk.

Where the Scheme’s investment manager engages in stock lending activities, the Trustee manages the credit risk arising from such activities by restricting the amount of overall stock that may be lent, only lending to approved borrowers who are rated investment grade, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements. Details of collateral arrangements held are set out in note 18.

The Trustee considers financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor’s or Fitch, or rated at Baa3 or higher by Moody’s.

Cash is held within financial institutions which are at least investment grade credit rated.

The Scheme is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles. Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles (see note 19). This risk is mitigated by mainly investing in funds which hold at least investment grade credit rated investments across and / or maintain a diversified exposure of different credit issuers.

The information about exposures to and mitigation of credit risk above applied at both the current and previous year-end.

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

### Notes to the financial statements (continued)

#### 24. Investment risks (continued)

##### Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure). The Trustee has set a benchmark limit to overseas currency exposure of 14.0% (2019: 12.5%) of the total portfolio value which is achieved through a currency hedging policy utilising forward foreign currency contracts (see note 16). The net currency exposure at the current and previous year-ends was:

| Currency name    | Code | Direct exposure<br>£000 | Indirect exposure<br>£000 | Hedging<br>£000  | 2020<br>Net exposure<br>after hedging<br>£000 | 2019<br>Net exposure<br>after hedging<br>£000 |
|------------------|------|-------------------------|---------------------------|------------------|---|---|
| Euros            | EUR  | 62,111                  | -                         | (26,711)         | 35,400  | 38,717  |
| Japanese Yen     | JPY  | 28,909                  | -                         | (13,694)         | 15,215  | 46,136  |
| US dollars       | USD  | 308,664                 | 3,544                     | (82,888)         | 229,320                                       | 219,250                                       |
| Other currencies |      | 41,180                  | 22,325                    | 2,683            | 66,188  | 59,033  |
|                  |      | <u>440,864</u>          | <u>25,869</u>             | <u>(120,610)</u> | <u>346,123</u>                                | <u>363,136</u>                                |

##### Interest rate risk

The Scheme is subject to interest rate risk as some of the Scheme's investments are held in bonds (either as segregated investments or through pooled investment vehicles), interest rate swaps and cash. The Scheme's liabilities are also subject to interest rate movement. The Trustee seeks to reduce the Scheme's exposure to this risk by investing some of the Scheme's assets in bonds and derivatives (such as interest rate swaps) whose values move in a similar way to the value of the liabilities. The net effect is to reduce the volatility of the funding level. As at the year end, the LDI portfolio had a total value of £1,968,419,000 (2019: £1,900,024,000) representing 68.1% (2019: 69.2%) of the total investment portfolio.

##### Other price risk

Other price risk arises principally in relation to the Scheme's equity, property, high yield debt and multi-asset credit investments. This risk will vary depending on the particular market invested in.

The Trustee seeks to reduce the Scheme's exposure to overall price risk by investing in a diversified range of investments across various markets. The Scheme's exposure to other price risk will vary over time depending on any "active" asset allocation decisions taken by the investment manager to reflect its market views, or any changes to the Scheme's overall target investment strategy. As at the year end, the Scheme's return seeking assets had a total value of £921,298,000 (2019: £829,719,000) representing 31.9% (2019: 30.2%) of the total investment portfolio.

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

### Notes to the financial statements (continued)

#### 25. Concentration of investments

The following investments are held which represent over 5% of the net assets of the Scheme:

|  | 2020             |     | 2019           |     |
|--|------------------|-----|----------------|-----|
|  | £'000            | %   | £'000          | %   |
| REVERSEREPO GB00BFX0ZL78 0% 19/04/2021           | 266,887          | 9.0 | -              | -   |
| UK Treasury 1.25% IL Gilt 22/11/2027             | 247,073          | 8.4 | 241,742        | 8.8 |
| UK Gilt 0.125% IL 10/08/2028                     | 219,214          | 7.4 | 141,133        | 5.1 |
| UK Treasury 0.125% IL 22/03/2026*                | 212,564          | 7.2 | -              | -   |
| Royal London Property Authorised Investment Fund | 205,523          | 7.0 | 212,054        | 7.7 |
| TRS CSF 12/03/21 FLT R                           | 195,647          | 6.6 | -              | -   |
| TRS CSF 0.01% 12/03/21 FIX R                     | 189,754          | 6.4 | -              | -   |
| ICF FTSE 100 IDX FUT Mar21                       | 186,180          | 6.3 | -              | -   |
| Royal London Multi-Asset Credit Fund             | 178,104          | 6.0 | 169,963        | 6.2 |
| UK Treasury Gilt 1.5% 22/01/2021*                | 165,071          | 5.6 | -              | -   |
| REVERSEREPO GB00BFX0ZL78 0.64% 21/01/2020        | -                | -   | 148,264        | 5.4 |
|  | <u>2,066,017</u> |     | <u>913,156</u> |     |

\*These investments were held as at 31 December 2019 but their values were under 5%.

#### 26. Employer related investments

There were no employer related investments held directly or indirectly by the Scheme at the year-end (2019: None).

#### 27. Current assets

|               | 2020          | 2019         |
|---------------|---------------|--------------|
|               | £'000         | £'000        |
| Cash balances | 21,403        | 2,038        |
| Prepayments   | 189           | 153          |
| Other debtors | 46            | 51           |
|               | <u>21,638</u> | <u>2,242</u> |

#### 28. Current liabilities

|                            | 2020         | 2019         |
|----------------------------|--------------|--------------|
|                            | £'000        | £'000        |
| Unpaid benefits            | 2            | 171          |
| Amounts due to employer    | 34           | 215          |
| Accrued expenses           | 546          | 711          |
| Tax deducted from pensions | 1,008        | 966          |
| Other creditors            | -            | 3            |
|                            | <u>1,590</u> | <u>2,066</u> |

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

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### Notes to the financial statements (continued)

#### 29. Related party transactions

##### a. Transactions with key management personnel

###### Trustee Directors

The following fees were paid in respect of Trustee services.

|                | 2020<br>£'000 | 2019<br>£'000 |
|----------------|---------------|---------------|
| Chair          | 60            | 60            |
| Other Trustees | 96            | 124           |
|                | <u>156</u>    | <u>184</u>    |

In addition, one Trustee Director claimed expenses amounting to £149 (2019: £2,000) for attendance at the Trustee meetings. The fees and expenses are included in note 9. Included in note 28 are fees amounting to £11,000 (2019: £36,000) payable by the Scheme as at the year-end to The Law Debenture Pension Trust Corporation plc.

During the year one (2019: one) Trustee Director was in receipt of a pension from the Scheme.

##### b. Transactions with other related parties

###### 1. The Employer

The Company provides certain administration and accountancy services to the Scheme. Costs incurred for these services are recharged to the Scheme. During the year the Scheme was recharged £294,605 (2019: £381,000) in respect of these services which are included in note 9, of which £82,035 was payable (2019: £91,000) at the year-end and are included in note 28.

A certain section of AVC investments is managed by The Royal London Mutual Insurance Society Limited. As at 31 December 2020, these investments which are held on behalf of the members had a market value of £565,841 (2019: £631,000) and are included in note 22.

###### 2. The Investment manager

Royal London Asset Management Limited (RLAM) is a subsidiary of The Royal London Mutual Insurance Society Limited. RLAM manages the investments of the Scheme on an arm's length basis and is remunerated in accordance with the terms of a normal commercial contract. This covers all investment transactions for the Scheme, including purchases, sales, investment income, investment management expenses, cash and receivables. Investment management expenses totalling £2,871,049 (2019: £2,914,000) are in respect of this remuneration for the year ended 31 December 2020 which is included in note 11, of which £493,957 (2019: £231,000) was payable at the year-end and are included in note 28.

The Scheme received investment management fee rebates of £1,913,858 (2019: £2,209,000) from RLAM and Royal London Unit Trust Managers Limited (RLUTM), a subsidiary of RLAM, for the year ended 31 December 2020. The rebates are in respect of the Scheme's holdings in the Royal London Property Authorised Investment Fund and Royal London UK Real Estate Feeder Fund which are pooled funds managed by RLUTM and are included in note 12. An amount of £342,193 (2019: £261,000) was receivable at the year-end and is included in note 28.

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2020

### Notes to the financial statements (continued)

#### 29. Related party transactions (continued)

The Scheme holds units in the following funds managed by RLUTM in proportion to the total Scheme assets as shown:

| Fund   | 2020           |     | 2019           |     |
|--|----------------|-----|----------------|-----|
|  | £'000          | %   | £'000          | %   |
| Royal London Property Authorised Investment Fund       | 205,523        | 7.0 | 212,054        | 7.7 |
| Royal London Multi-Asset Credit Fund                   | 178,104        | 6.0 | 169,963        | 6.2 |
| Royal London UK Real Estate Feeder Fund                | 52,668         | 1.8 | 54,309         | 2.0 |
| Royal London Emerging Markets ESG Leaders Tracker Fund | 25,870         | 0.9 | 39,752         | 1.4 |
| Royal London Japan Tracker Fund                        | -              | -   | 46,136         | 1.7 |
| Royal London Short Term Money Market                   | -              | -   | 32,008         | 1.2 |
| Royal London Asia Pacific ex Japan Tracker Fund        | -              | -   | 6,108          | 0.2 |
|  | <u>462,165</u> |     | <u>560,330</u> |     |

#### 30. Contingent liabilities and contractual commitments

In the opinion of the Trustee, the Scheme had no contingent liabilities as at 31 December 2020 other than GMP benefits equalisation below (2019: nil other than GMP benefits equalisation).

In October 2018, the High Court determined that certain benefits provided to members who contracted out of the State Pension between May 1990 and April 1997 must be equalised between men and women. The Scheme Actuary has included an estimated allowance of £21.5m in the actuarial valuation as at 31 December 2019 for the possible changes to the benefits that may be required to ensure that the Scheme provisions in respect of Guaranteed Minimum Pensions do not discriminate between male and female members. This amount represents the total actuarial value of varying benefits which are already in payment and benefits which have not yet been settled. The amount of back payments and interest potentially payable have not yet been estimated as the Trustee have not yet agreed the methodology for these calculations and so no accrual has been made in these financial statements.

A further judgement in November 2020 extended this requirement to former members who transferred out of the scheme after 1990. The allowance referred to above that has been included in the actuarial valuation excludes the potential cost of any transfers out paid prior to 26 October 2018. Based on very high-level analysis, the Trustee's actuarial advisers have estimated that the impact of this will be less than 0.1% of technical provisions.

The Trustee is reviewing the implications of these rulings on members' benefits from the Scheme. As soon as this review is finalised affected members will be communicated with. No accrual has been made in these financial statements for any back payments potentially payable.

As at 31 December 2020 the Scheme had contractual commitments in the form of stock collateral arrangements which are disclosed in note 18.

#### 31. Subsequent events

There were no subsequent events requiring disclosure in the financial statements.

## **Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2020

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### **Independent Auditors' statement about contributions to the Trustee of Royal London Group Pension Scheme**

#### **Statement about contributions**

##### **Opinion**

In our opinion, the contributions required under the schedule of contributions for the Scheme year ended 31 December 2020 as reported in Royal London Group Pension Scheme's Summary of Contributions have, in all material respects, been paid in accordance with the schedule of contributions certified by the Scheme actuary on 22 June 2017.

We have examined Royal London Group Pension Scheme's Summary of Contributions for the Scheme year ended 31 December 2020 which is set out on the following page.

##### **Basis for opinion**

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 in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme under the schedule of contributions and the timing of those payments.

##### **Responsibilities for the statement about contributions**

###### *Responsibilities of the Trustee in respect of contributions*

As explained more fully in the Statement of Trustee's responsibilities, the Scheme's Trustee is 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 employers in accordance with relevant requirements.

###### *Auditors' responsibilities in respect of the statement about contributions*

It is our responsibility to provide a statement about contributions and to report our opinion to you.

###### *Use of this report*

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**Manchester**

**23 March 2021**

**Royal London Group Pension Scheme**

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**Summary of Contributions**

|  |                     |
|--|---------------------|
|  | <b>£000</b>         |
| Contributions required under the schedule of contributions | -                   |
| Additional Contributions – Discretionary Pension Increase  | <b>4,100</b>        |
| Per the Fund account                                       | <u><b>4,100</b></u> |

**Approval**

The Summary of Contributions was approved and signed by the Trustee Directors on 23 March 2021.

**Signed for and on behalf of RLGPS Trustee Limited by:**

**Trustee Director**

**Trustee Director**

**Royal London Group Pension Scheme**

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**Actuarial certificate**

**Actuary's certification of the schedule of contributions**

**Name of scheme: Royal London Group Pension Scheme**

**Adequacy of rates of contributions**

1 I hereby certify that, in my opinion, the rates of the contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected, on 31 December 2019, to continue to be met for the period for which the schedule is to be in force.

**Adherence to statement of funding principles**

2 I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 19 March 2021.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the Scheme were wound up.

19-03-2021

Signature .....

Date .....

**Andrew Long**  
**Fellow of the Institute and Faculty of Actuaries**  
**Towers Watson Limited, a Willis Towers Watson Company**

**51 Lime Street**  
**London**  
**EC3M 7DQ**

## **Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2020

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### **Implementation Statement, covering 1 January 2020 to 31 December 2020**

The Trustee of Royal London Group Pension Scheme (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles (“SIP”) during the year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the year by, and on behalf of, the Trustee (including the most significant votes cast by the Trustee or on its behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 below.

#### **1. Introduction**

No changes were made to the voting and engagement policies in the SIP during the year. The last formal review of these policies was carried out as part of the Scheme’s September 2020 SIP.

The Trustee has, in its opinion, followed the Scheme’s voting and engagement policies during the year, by continuing to delegate to its investment manager (Royal London Asset Management, “RLAM”) the exercise of rights and engagement activities in relation to investments. The Trustee took a number of steps to review the Scheme’s manager’s engagement practices over the period, as described in Section 2 (Voting and engagement) below.

#### **2. Voting and engagement**

As part of its advice on the selection and ongoing review of the investment managers, the Scheme’s investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to voting and engagement.

In February 2020, the Trustee reviewed LCP’s responsible investment (RI) scores for the Scheme’s investment manager, along with LCP’s qualitative RI assessments for each mandate. These scores covered the approach to ESG factors, voting and engagement. The scores and assessments are based on LCP’s ongoing manager research programme and it is these that directly affect LCP’s manager and mandate recommendations. The manager scores were based on LCP’s Responsible Investment Survey 2020. The Trustee was satisfied with the results of the review and no further action was taken.

In August 2020, the Trustee held a meeting with its investment adviser, focussed on ESG and Stewardship matters. As part of this meeting, the Scheme’s investment manager was invited to present on its Responsible Investment policies at a firm level, alongside a more detailed discussion on voting activity in relation to its global equity mandates. To assist the Trustee with questioning its investment manager, the investment adviser produced an “ESG dashboard”, which scored the equity mandate on various ESG matters and highlighted areas of interest to raise at the meeting (e.g. engagement with carbon intensive companies).

The Trustee, with assistance from its investment adviser, also reviewed the investment manager’s 2020 Stewardship and Responsible Investment Report. This identified no areas for concern but raised a number of actions to take forward with the investment manager in monitoring how its practices develop over time.

## **Implementation Statement, covering 1 January 2020 to 31 December 2020 (continued)**

### **3. Description of voting behaviour during the year**

The Trustee has delegated to its investment manager the exercise of voting rights, and the Trustee itself has not used proxy voting services over the year.

In this section we have sought to include voting data on the Scheme's global equity holdings over the year and, where relevant, notable engagements with companies in relation to debt holdings and tenants in relation to property holdings.

#### **3.1. Description of voting processes**

RLAM's Voting Policies are reviewed on an annual basis and signed off by the RLAM Investment Committee. In updating the Voting Policies, RLAM incorporates new and emerging best practice, feedback from clients, changes in local governance or stewardship codes, and RLAM's own evolution in thinking. RLAM claims to be a strong advocate of good corporate governance, and its preference is to vote 'as a house'. As a result, no single fund or fund manager may single-handedly change a vote for their fund, and any recommendations to change a vote are considered and discussed as a house. RLAM believes that this 'house views' approach also helps send a clear and consistent message to companies on its governance expectations and allows it to engage more effectively and seek improvements to governance standards.

RLAM regards voting in an informed and consistent manner to be a fiduciary duty of institutional investors. As such, proxy voting at RLAM is a highly active and integrated process led by dedicated staff within the Responsible Investment ("RI") Team. The RI Team sits alongside fund managers who are involved in decision making and policy setting. RLAM reviews its voting policies on an annual basis to ensure that it integrates best practice and market developments, in conjunction with fund managers to ensure that RLAM arrives at a strong, consistent approach.

All RLAM's votes are assessed and fully researched in-house by the RI Team, many of which are also discussed at length with the relevant fund management teams. To aid in this, RLAM purchases governance and voting research from IVIS (the voting service of the UK Investment Association) and Glass Lewis. This provides information around company meetings, and highlights items of particular interest or where there could potentially be an exception to generally agreed principles affecting RLAM's shareholder rights. This external research is used in conjunction with internal research, information gathered from meetings with the company and any other relevant sources. RLAM has a custom voting template implemented by Glass Lewis, but RLAM does not follow proxy recommendations and does not operate any standing instructions or auto-vote procedures. The voting recommendations are used rather as a method of flagging potential concerns. All votes are reviewed at a minimum by one member of the RI team before submission, and two if they are controversial or differ from RLAM's policy position. Fund managers receive automated notifications of all votes submitted for their funds, where they can raise any additional questions or concerns.

RLAM will also write to any company held in its actively managed funds should RLAM vote against or abstain, providing RLAM's vote decisions and RLAM's rationale for opposing management. This often leads to further dialogue and meetings with management.

## Royal London Group Pension Scheme

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### Implementation Statement, covering 1 January 2020 to 31 December 2020 (continued)

#### 3. Description of voting behaviour during the year (continued)

##### 3.2. Summary of voting behaviour over the year

|  | <i>RLAM UK equities*</i><br><i>(physical allocation)</i> | <i>RLAM overseas equities</i><br><i>(physical allocation)</i> |
|--|--|---|
| Value of Scheme assets at end of reporting period (£ / % of total assets)                          | £236,760   | £361,289,323  |
| Number of holdings at end of reporting period  | 1  | 564   |
| Number of meetings eligible to vote  | 167  | 1,281   |
| Number of resolutions eligible to vote   | 3,115  | 15,048  |
| % of resolutions voted   | 100%   | 99% <sup>1</sup>  |
| Of the resolutions on which voted, % voted with management   | 95%  | 80%   |
| Of the resolutions on which voted, % voted against management                                      | 5%   | 19%   |
| Of the resolutions on which voted, % abstained from voting   | 0%   | 1%  |
| Of the meetings in which the manager voted, % with at least one vote against management            | 41%  | 80%   |
| Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy adviser | 6%   | 13%   |

\*Shortly before the year end the Scheme's equity portfolio was re-arranged and UK Equity exposure was replaced by equity futures

<sup>1</sup>RLAM voted on all meetings except for 92 resolutions at 9 meetings where there was share blocking in place

##### 3.3. Most significant votes over the year

Commentary on the most significant votes cast on the Trustee's behalf is set out below as determined by RLAM.

###### RLAM UK Equity

- **Royal Dutch Shell, May 2020. Vote:** Against

**Summary of resolution:** Shareholder Proposal Regarding GHG Reduction Targets

**Rationale:** In light of the company's leading climate strategy relative to its peer group, RLAM did not see the merit in imposing additional short-term targets at the time, as the manager favours a long-term approach to tackling climate change issues.

- **AstraZeneca, April 2020. Vote:** Against

**Summary of resolution:** Director Election

**Rationale:** While RLAM acknowledged the Company's response to the level of shareholder dissent on the re-election of this director at the last annual general meeting, it nevertheless retained its concerns about the nominee's level of external time commitments.

## Royal London Group Pension Scheme

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### Implementation Statement, covering 1 January 2020 to 31 December 2020 (continued)

#### 3. Description of voting behaviour during the year (continued)

##### 3.3. Most significant votes over the year (continued)

- **HSBC Holdings Plc, April 2020. Vote:** For

**Summary of resolution:** Shareholder Proposal Regarding Pension Scheme

**Rationale:** While RLAM noted the company's rationale in opposing this shareholder proposal, it was RLAM's view that the "state pension deduction" (or clawback on the pension schemes of former HSBC employees) had a disproportionate impact on worse-off retirees, due to a flat level of deduction against a pension payment based on a proportion of salary. In addition, RLAM noted that this deduction only applies to a single HSBC pension scheme and would prefer to see fair treatment for all pension scheme members, irrespective of any state benefits they may or may not receive or be entitled to, now or in the future.

- **Barclays Plc, May 2020. Vote:** For

**Summary of resolution:** Management Proposal Regarding Climate Change Strategy

**Rationale:** RLAM welcomed Barclays' ambition to become a net zero bank by 2050 across its Scope 1, 2 and 3 footprints, along with the bank's commitments to helping its energy and power client's transition and to report annually from 2021.

- **Diploma, January 2020. Vote:** For

**Summary of resolution:** Chairman Election

**Rationale:** The company fell short of the gender diversity targets set by the Hampton-Alexander Review, standing at 17% rather than the 33% that was expected by the end of 2020. On this occasion however, RLAM noted that the company has disclosed measurable targets and has commenced a search for a non-executive director, with a commitment to reach their target by the end of the year. Therefore, RLAM did not vote against the chairman this year.

##### RLAM Overseas Equity

- **Visa Inc., January 2020. Vote:** For

**Summary of resolution:** Advisory Vote on Executive Compensation

**Rationale:** RLAM preferred to see a greater proportion of long-term awards tied to performance metrics and to see a greater degree of disclosures. However, RLAM had no material concerns with remuneration during the year.

- **Apple Inc., February 2020. Vote:** Against

**Summary of resolution:** Advisory Vote on Executive Compensation

**Rationale:** RLAM recognised the improvements made with regard to Apple's clawback policy over the year but remained concerned that long term incentives are largely based on a single performance measure. RLAM also had concerns that in the event of negative performance, shares rewards would still vest at the target level.

## Royal London Group Pension Scheme

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### Implementation Statement, covering 1 January 2020 to 31 December 2020 (continued)

#### 3. Description of voting behaviour during the year (continued)

##### 3.3. Most significant votes over the year (continued)

- **McDonald's Corp, May 2020. Vote:** Against

**Summary of resolution:** Advisory Vote on Executive Compensation

**Rationale:** RLAM was concerned by the decision to treat the outgoing CEO as a termination 'without cause,' thereby enabling the vesting of significant share awards.

- **China Construction Bank Corp, May 2020. Vote:** Against

**Summary of resolution:** Elect Chairman

**Rationale:** RLAM preferred to see the appointment of a fully independent chairman to the board.

- **Alphabet, May 2020. Vote:** Against

**Summary of resolution:** Advisory Vote on Executive Compensation

**Rationale:** Long term awards were not sufficiently performance-based and lacked stretching performance periods and hurdles. Moreover, total pay remained relatively excessive to peers and RLAM did not approve of the additional one-off transitional payment granted to the CEO during the year.

##### **RLAM Fixed Income**

The majority of voting opportunities arose during corporate actions or at bond holder meetings.

Over 2020 there were 2 bond holder meetings pertaining to the restructuring of Intu Debenture following the default of its parent, Intu Properties plc. RLAM had been directly involved in restructuring discussions as part of a unified bondholder group of institutional investors.

The key amendments of the proposals were to defer a scheduled coupon payment and to release cash that was previously inaccessible to bondholders. The proposals significantly strengthened the security package for bondholders. To this end, RLAM voted in favour of these proposals.

## Royal London Group Pension Scheme

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### Implementation Statement, covering 1 January 2020 to 31 December 2020 (continued)

#### 3. Description of voting behaviour during the year (continued)

##### 3.3. Most significant votes over the year (continued)

###### RLAM Property

Voting opportunities on Property assets arise when a tenant begins a 'Company Voluntary Arrangements' (CVA) procedure. Typically, a CVA allows an insolvent company to pay creditors over a fixed period. For property owners, this means that contractual lease terms are compromised.

RLAM voted in favour of all 8 CVAs by companies which are tenants in underlying properties in the Royal London UK Real Estate Fund and Royal London Property Fund during 2020.

| <b>Retailer</b>      | <b>Royal London UK Real Estate Fund</b> | <b>Royal London Property Fund</b> |
|----------------------|---|-----------------------------------|
| All Saints           | For                                     | N/A                               |
| C&J Clark            | For                                     | For                               |
| Hotter Shoes         | For                                     | N/A                               |
| LK Bennett           | For                                     | N/A                               |
| New Look             | For                                     | N/A                               |
| Pizza Express        | For                                     | N/A                               |
| Poundstretcher       | For                                     | N/A                               |
| The Restaurant Group | For                                     | N/A                               |

## **Royal London Group Pension Scheme**

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### **Further information**

#### **The Registrar, TPAS, The Pensions Ombudsman and The Pensions Regulator**

In accordance with The Occupational and Personal Pensions Schemes (Disclosure of Information) Regulations 2013, members are advised that:

- information regarding the Scheme has been given to the Registrar of Occupational Pension Schemes;
- The Pensions Advisory Service (TPAS) of 11 Belgrave Road, London, SW1V 1RB is an information service on pension matters (<https://www.pensionsadvisoryservice.org.uk/>);
- The Pensions Ombudsman of 10 South Colonnade, Canary Wharf, London, E14 4PU may investigate and determine any complaint or dispute of fact or law which they have failed to resolve with the Trustee or the Scheme administrator, in relation to pensions (<https://www.pensions-ombudsman.org.uk/>).

In addition to the above, The Pensions Regulator regulates company pension schemes and enforces the law as it relates to them. It has wide ranging powers which include the power to:

- suspend, disqualify and remove a trustee, or a director of a trustee company, for consistently not carrying out their duties;
- wind up schemes where necessary;
- apply for injunctions to prevent the misuse and misappropriation of scheme assets and apply for restitution where necessary.

The Auditors and Actuary have a statutory duty to make an immediate written report to The Pensions Regulator if they believe that legal duties concerned with the running of the Scheme are not being carried out.

#### **Internal disputes resolution procedure**

A disputes resolution procedure has been agreed by the Trustee to try to resolve any queries raised by beneficiaries or potential beneficiaries of the Scheme and details of this can be obtained by writing to the contact below.

#### **The Pension Tracing Service**

The Pension Tracing Service has been set up to provide a tracing service for members and other prospective beneficiaries, of previous employers' schemes, who have lost touch with earlier employers and trustees. This Scheme is registered, and its registration number is 100154281. To trace a benefit entitlement under a former employer's scheme, enquiries should be addressed to the Pension Tracing Service at The Pension Service 9, Mail Handling Site A, Wolverhampton, WV98 1LU [www.gov.uk/find-pension-contact-details](http://www.gov.uk/find-pension-contact-details).

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### Further information (continued)

#### Contact for further information

Any queries or complaints about the Scheme, including requests from individuals for information about their benefits, or for a copy of Scheme documentation, should be sent to the Trustee of Royal London Group Pension Scheme at the following addresses.

Queries from deferred and pensioner members about their benefit entitlements:

Royal London Group Pension Scheme  
Willis Towers Watson  
PO Box 545  
Redhill  
RH1 1YX  
Email: [royallondongroup@willistowerswatson.com](mailto:royallondongroup@willistowerswatson.com)  
Phone: 0113 394 9307

Queries from current employee members about their benefit entitlements:

c/o Staff Pensions Team  
Royal London Group  
Royal London House  
Alderley Park  
Congleton Road  
Nether Alderley  
Macclesfield  
SK10 4EL  
Email: [staff.pensions@royallondon.com](mailto:staff.pensions@royallondon.com)  
Phone: 01625 717 939

All other queries, including complaints or requests for Scheme documentation:

Staff Pensions Trustee Secretarial  
Royal London Group  
Royal London House  
Alderley Park  
Congleton Road  
Nether Alderley  
Macclesfield  
SK10 4EL  
Email: [staff.pensions@royallondon.com](mailto:staff.pensions@royallondon.com)  
Phone: 01625 717 691