

Royal London Group Pension Scheme

Annual Report and Financial Statements

for the year ended 31 December 2021

Scheme Registration Number: 100154281

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2021

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Trustee and advisers

Corporate Trustee	RLGPS Trustee Limited
Directors of the Corporate Trustee ("Trustee Directors")	Employer nominated Andrew Evans (<i>Chair</i>) (<i>Independent Trustee</i>) Ewan Smith (<i>Deferred member</i>) Martin Lewis The Law Debenture Pension Trust Corporation plc represented by Edward Levy (<i>Independent Trustee</i>) Member nominated Ian Forder (<i>Pensioner member</i>) Paul McHardy (<i>Deferred member</i>)
Scheme secretary	Alexandra Lynch
Scheme actuary	Andrew Long FIA of Towers Watson Limited
Administrators	Towers Watson Limited
Independent Auditors	PricewaterhouseCoopers LLP
Legal advisers	CMS Cameron McKenna Nabarro Olswang LLP Cannings Connolly Solicitors Slaughter and May DLA Piper UK LLP Thor Lion LLP
Investment consultant	Lane Clark & Peacock LLP
Investment manager	Royal London Asset Management Limited
Investment custodian	HSBC Bank plc (HSBC Securities Services)
Annuity provider	Aviva Annuity UK Limited
Additional Voluntary Contribution (AVC) providers	The Royal London Mutual Insurance Society Limited Scottish Widows Limited Utmost Life and Pensions Limited
Bankers	HSBC UK Bank plc National Westminster Bank plc
Principal employer	The Royal London Mutual Insurance Society Limited ("the Company")
Contact for enquiries	Provided on "Further information" page 55

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 2021.

Scheme constitution and management

The Scheme is an occupational pension scheme established under trust to provide retirement benefits to all eligible employees and ex-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, during 2021 the Trustee completed 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 Board operates two Sub Committees; 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 2021.

Administration and Risk Committee members are Andrew Evans (Chair), Ian Forder and Edward Levy. The Committee met 4 times in 2021 for quarterly meetings, and twice for ad hoc meetings to select a firm of independent financial advisers to support members in making their Scheme retirement choices. It is expected that the advice offering, which will be paid for from the Scheme, will be in place from late Summer 2022.

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.

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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 44.

Membership

Details of membership of the Scheme as at 31 December 2021 are given below:

Membership movements	Deferred members	Pensioner members	Beneficiaries	Total
At 1 January 2021	9,380	9,007	2,011	20,398
Adjustments to prior year figures	(25)	(7)	4	(28)
At 1 January 2021 revised	9,355	9,000	2,015	20,370
New entrants	-	-	151	151
Transfers out	(106)	-	-	(106)
Retirements	(283)	283	-	-
Deaths	(27)	(278)	(124)	(429)
Trivial commutations	(28)	(3)	(34)	(65)
Ceased dependant's pension	-	-	(1)	(1)
At 31 December 2021	8,911	9,002	2,007	19,920

Included in the above is 1 (2020: 1) pensioner whose benefits are partially provided by annuities. This member transferred into the Scheme as part of the Police Mutual transfer, which took place in 2020.

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 2021 and largely arose due to late notifications.

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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 ⁵	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
	2021	2020	2021	2020	2021	2020	
RLGPS (standard benefits members)	n/a	n/a	n/a	n/a	1.1%	2.4%	1-Jul
RASF Scheme II (members joining before 1 August 2001)	1.5% ¹	2.6% ¹	1.5% ¹	2.6% ¹	1.5% ¹	2.6% ¹	1-Jul
RASF Scheme II (members joining from 1 August 2001)	n/a	n/a	1.1%	2.4%	1.1%	2.4%	1-Jul
RLSPF	0.5%	1.7%	0.5%	1.7%	1.1%	2.4%	1-Apr
UFGPS (contracted-in before 17 September 2002 leavers)	0.5%	1.7%	0.5% ³	1.7% ³	1.4%	2.5%	1-Apr
UFGPS (contracted-out before 17 September 2002 leavers)	1.4%	2.5%	1.4% ²	2.5% ²	1.4%	2.5%	1-Apr
SLORBS	0.9% ⁴	2.2% ⁴	0.9% ⁴	2.2% ⁴	1.1%	2.4%	1-Jan
SLIORBS	1.5%	2.6%	1.5%	2.6%	1.5%	2.6%	1-Jul
SLDRBS	0.9% ⁴	2.2% ⁴	0.9% ⁴	2.2% ⁴	1.1%	2.4%	1-Jan

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

² Increase of higher of (a) 1.4% (2020: 2.5%) on RPI cumulative pension from retirement date or (b) 0.5% (2020: 1.7%) on pension in payment on the pension benefits for members contracted out before 17 September 2002.

³ Increase of 1.4% (2020: 2.5%) for those contracted in after 17 September 2002.

⁴ Increase of between 0.9% (2020: 2.2%) and 3.0% (2020: 3.0%).

⁵ 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 55.

(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.

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Trustee's report (continued)

Pension increases (continued)

During 2021, the Company granted a discretionary increase at the rate of 0.5% (2020: 1.7%) to pensions in payment with no guaranteed increases (in excess of guaranteed minimum pensions). As the Scheme was in surplus at 31 March 2021, no contribution was made by the Royal London Group 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.

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 55.

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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 55.

The most recent completed triennial actuarial valuation was performed as at 31 December 2019. A funding update was carried out as at 31 December 2021. The results of this funding update and the full actuarial valuation as at 31 December 2019 are provided in the table below:

Actuarial report date: 31 December	2021	2019
	Funding Update	Full valuation
	£'000	£'000
Value of technical provisions	2,971,900	2,736,600
Value of assets available to meet technical provisions (excluding AVCs)	3,079,278	2,743,500
Funding surplus	107,378	6,900
Funding level as a percentage of technical provisions	103.6%	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 increased over 2021 due mainly to strong overall asset returns, particularly on the Scheme's investments in equity markets. In addition, there was a rise in bond yields, albeit this was partially offset by increased inflation expectations.

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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 47 of this annual report and financial statements.

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Trustee's report (continued)

COVID-19 Pandemic

Investment markets experienced another volatile year, with the COVID-19 pandemic and actions taken by governments playing a major role. While individual countries have attempted to manage markets with different approaches, most have used the same basic formula – cutting interest rates to very low levels, using some form of quantitative easing and supporting their economies with various economic support packages such as the UK's furlough scheme. After the shock of 2020, this support has prompted an economic recovery in 2021, albeit with the rebound generally smaller than the scale of the negative impact seen in 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 continue to keep the situation under review.

The COVID-19 pandemic has brought into focus various risks faced by all pension schemes. The Trustee has continued to be 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 as the current situation is easing it will continue to receive regular comprehensive updates from their advisers, administrators and Royal London Group.

The Scheme's administrators continued to administer the Scheme throughout the pandemic with no adverse effect on the payment of members' benefits 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.

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.

Russia - Ukraine Conflict

At the time of writing, the war in Ukraine is ongoing. This terrible situation and the associated uncertainty is impacting investment markets and increasing volatility. Return-seeking assets have been negatively impacted, credit spreads have widened and markets face large amounts of uncertainty. Already elevated, there is potential for longer term increased inflationary pressures as a result of the impact on energy prices and supply chains. The Trustee has discussed the potential impacts of the conflict with their advisers and the Royal London Staff Pensions Team and will continue to monitor the situation to identify whether any specific actions are necessary or advisable.

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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:

- 33.5% in return-seeking investments comprising UK and overseas equities, high yield debt and multi-asset credit.
- 66.5% 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.

During 2021 the Trustee, in consultation with the Company, agreed a long-term investment objective and a de-risking framework for the Scheme. The de-risking framework aims to capture any better than expected improvements in the Scheme's funding level. Triggers to prompt de-risking were agreed; these are based on the expected return of the Scheme's investment strategy relative to the investment return required to reach self-sufficiency (gilts + 0.5% pa by 2035). The Trustee and Company agreed that the first trigger was the required return being gilts + 1.4% per annum; this trigger was met in January 2022 and resulted in a 5% reduction in the Scheme's return-seeking investments.

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 September 2021. The Scheme's Implementation statement for 2021 can be found on pages 48 to 53.

A copy of the SIP is available on request from the contact address set out on page 55 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.

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Trustee's report (continued)

Investment report (continued)

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.

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

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Trustee's report (continued)

Investment report (continued)

Voting and engagement (continued)

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.

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.

Annualised return by asset class over	1 year	3 years	5 years
Sterling corporate bonds	-2.8%	6.9%	5.1%
Benchmark	-2.4%	6.5%	4.3%
Index linked gilts	4.6%	8.2%	5.6%
Benchmark	4.2%	7.6%	5.0%
Global high yield bonds	3.8%	7.8%	5.5%
Benchmark	2.0%	6.3%	4.3%
Multi asset credit *	5.1%	6.0%	-
Benchmark	4.1%	4.4%	-
UK equities	18.4%	9.3%	6.0%
Benchmark	18.5%	8.2%	5.3%
Overseas equities	24.7%	20.7%	14.1%
Benchmark	21.2%	19.2%	13.8%
Emerging Market Equities**	-0.6%	10.1%	-
Benchmark	-1.2%	8.2%	-
RL Property Fund	17.5%	4.7%	4.9%
Benchmark	18.0%	5.9%	7.1%
RL UK Real Estate Fund***	21.5%	7.8%	-
Benchmark	19.1%	6.2%	-
Money market	0.0%	-1.1%	-0.5%
Benchmark	0.0%	0.3%	0.4%
Scheme	7.2%	8.8%	6.5%
Benchmark	5.5%	8.4%	6.2%

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

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

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

The Scheme return of 7.2% 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 5.4% for the year ended 31 December 2021 (7.0% per annum for the 3 years ended 31 December 2021). 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.

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Trustee's report (continued)

Investment report (continued)

Review of investment performance (continued)

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.

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

Over the year to 31 December 2021, there were two instances where the Trustee's investment arrangements departed from the principles set out in the SIP.

- As mentioned in the 2020 Annual Report and Financial Statements, 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. This bond remained in breach of the mandate guidelines over 2021.
- In June 2021, the Trustee reduced its strategic allocation to UK property in favour of multi asset credit (MAC). The Trustee subsequently updated the SIP later in 2021 to reflect this change in strategy.

Employer related investments

There were no employer related investments held directly or indirectly by the Scheme at the year end (2020: 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.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2021

Trustee's report (continued)**Investment report (continued)****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.

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.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2021

Trustee's report (continued)

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 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 2021

Trustee's report (continued)**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 55. 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/group-pension-schemes/>.

Approval

The Trustee's report was approved and signed by the Trustee Directors on 29 March 2022.

Signed for and on behalf of RLGPS Trustee Limited by:

Trustee Director

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2021

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 2021, 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 2021; 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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to, or in respect of, the Scheme.

We have provided no non-audit services to the Scheme in the period under audit.

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 2021

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 with 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 2021

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 by the engagement team included:

- Testing journal entries where we identified particular fraud risk criteria.
- Obtaining independent confirmations of material investment valuations and cash balances at the year end.
- Testing estimates and judgements made in the preparation of the financial statements for indicators of bias.
- Reviewing meeting minutes, any correspondence with the Pensions Regulator, and significant contracts and agreements.
- Holding discussions with the Trustee to identify significant or unusual transactions and known or suspected instances of fraud or non-compliance with applicable laws and regulations.
- Assessing financial statement disclosures, and agreeing these to supporting evidence, for compliance with the Pensions Acts 1995 and 2004 and regulations made under them.

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. 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
Watford

29 March 2022

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2021

Fund account for the year ended 31 December 2021

	<i>Note</i>	2021 £'000	2020 £'000
Contributions and other income			
Employer contributions	4	-	4,100
Transfers in	5	-	42,699
Other income	6	-	14
		<u>-</u>	<u>46,813</u>
Benefits and other payments			
Benefits paid or payable	7	86,927	87,076
Payments to and on account of leavers	8	40,589	29,215
Administrative expenses	9	3,419	3,439
		<u>130,935</u>	<u>119,730</u>
Net withdrawals from dealings with members		<u>(130,935)</u>	<u>(72,917)</u>
Returns on investments			
Investment income	10	47,059	33,989
Change in market value of investments	14	216,359	246,080
Investment management expenses	11	(3,955)	(3,525)
Investment management fee rebates	12	1,559	1,914
Taxes on investment income	13	(281)	(14)
Net returns on investments		<u>260,741</u>	<u>278,444</u>
Net increase in the fund during the year		129,806	205,527
Opening net assets		2,951,310	2,745,783
Closing net assets		<u>3,081,116</u>	<u>2,951,310</u>

The notes to the financial statements on pages 22 to 44 form part of these financial statements.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2021

Statement of net assets available for benefits as at 31 December 2021

	<i>Note</i>	2021 £'000	2020 £'000
Investment assets			
Equities	14	366,993	351,517
Bonds	14	3,265,450	3,314,646
Pooled investment vehicles	19	486,884	462,165
Derivatives assets	16	41,662	36,636
Insurance policies	17	1,506	1,479
Cash	20	83,767	42,874
Other investment balances	21	115,251	31,786
AVC investments	22	1,838	2,136
Reverse repurchase agreements receivable	14	634,285	1,124,724
		4,997,636	5,367,963
Investment liabilities			
Bonds sold short	14	(526,216)	(915,124)
Derivatives liabilities	16	(7,500)	(6,494)
Other investment balances	21	(69,244)	(16,957)
Repurchase agreements payable	14	(1,320,091)	(1,498,126)
		(1,923,051)	(2,436,701)
Total net investments		3,074,585	2,931,262
Current assets	27	8,625	21,638
Current liabilities	28	(2,094)	(1,590)
Total net assets available for benefits		3,081,116	2,951,310

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 44 form part of these financial statements.

The financial statements on page 20 to 44 were approved and signed by the Trustee Directors on 29 March 2022.

Signed for and on behalf of RLGPS Trustee Limited by:

Trustee Director

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2021

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 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, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance 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 2021

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 2021

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 and bonds sold short 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 2021

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

	2021 £'000	2020 £'000
Additional contributions	-	4,100
	<u>-</u>	<u>4,100</u>

An Additional Employer contribution was not required to fund discretionary pension increases this year, as explained further on page 5.

5. Transfers in

	2021 £'000	2020 £'000
Group Transfers in from other Schemes	-	42,699
	<u>-</u>	<u>42,699</u>

The prior year value represents the group transfer in of the Police Mutual Assurance Society Staff Pension Fund.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2021

Notes to the financial statements (continued)**6. Other income**

	2021 £'000	2020 £'000
Sundry income	-	14
	<u>-</u>	<u>14</u>

7. Benefits paid or payable

	2021 £'000	2020 £'000
Pensions	77,343	76,672
Commutations and retirement lump sums	9,392	10,331
Lump sum death benefits	192	73
	<u>86,927</u>	<u>87,076</u>

8. Payments to and on account of leavers

	2021 £'000	2020 £'000
Individual transfers to other schemes	40,589	29,215
	<u>40,589</u>	<u>29,215</u>

9. Administrative expenses

	2021 £'000	2020 £'000
Administration fees	1,767	1,604
Actuarial fees	455	441
Levies paid to the Pensions Regulator	521	710
Trusteeship fees	157	156
Audit fees	107	63
Legal fees	244	221
Consultancy	157	227
Sundry expenses	11	17
	<u>3,419</u>	<u>3,439</u>

Audit fees include one-off scoping changes, including an under accrual in the prior year.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2021

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

	2021 £'000	2020 £'000
Dividends from equities	6,959	8,553
Interest from bonds	47,282	48,682
Interest paid on bonds sold short	(7,512)	(14,003)
Net payments on swaps	(2,202)	(10,804)
Income from pooled investment vehicles	3,997	4,699
Interest on cash deposits	5	139
Other investment income	-	(35)
Income from reverse repurchase agreements	22	1,056
Interest paid/payable on repurchase agreements	(1,738)	(4,483)
Net income from stock lending	152	163
Annuity income	94	22
	<u>47,059</u>	<u>33,989</u>

11. Investment management expenses

	2021 £'000	2020 £'000
Administration and management fees	3,124	2,872
Custodian charges	208	193
Investment advisory fees	314	358
Bank charges	63	47
Other Investment Charges	184	-
Commission on futures	62	55
	<u>3,955</u>	<u>3,525</u>

12. Investment management fee rebates

	2021 £'000	2020 £'000
Investment management fee rebates	1,559	1,914

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.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2021

Notes to the financial statements (continued)**13. Taxes on investment income**

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

14. Reconciliation of net investments

	Value as at 1 January 2021 £'000	Purchases at cost and derivative payments £'000	Sale proceeds and derivative receipts £'000	Change in market value £'000	Value as at 31 December 2021 £'000
Equities	351,517	56,728	(121,788)	80,536	366,993
Bonds - Net	2,399,522	8,830,950	(8,508,643)	17,405	2,739,234
Derivatives - Net	30,142	3,669,772	(3,740,493)	74,741	34,162
Pooled investment vehicles	462,165	85,261	(101,900)	41,358	486,884
Insurance policies	1,479	-	-	27	1,506
AVC investments	2,136	-	(532)	234	1,838
	<u>3,246,961</u>	<u>12,642,711</u>	<u>(12,473,356)</u>	<u>214,301</u>	<u>3,630,617</u>
Cash	42,874			2,058	83,767
Other investment balances	14,829				46,007
Reverse repurchase agreements receivable	1,124,724				634,285
Repurchase agreements payable	(1,498,126)				(1,320,091)
	<u>(315,699)</u>			<u>2,058</u>	<u>(556,032)</u>
	<u>2,931,262</u>			<u>216,359</u>	<u>3,074,585</u>

Gilts with a market value as at 31 December 2021 of £630.5 million (2020: £1,133.6 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 £3,265.5 million (2020: £3,314.6 million) of bond assets and £526.2 million (2020: £915.1 million) of bond liabilities due to short selling of bonds.

Gilts with a market value as at 31 December 2021 of £1,330.5 million (2020: £1,502.9 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

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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:

	2021	2020
	£'000	£'000
Fees	4	8
Commissions	41	263
Taxes	25	110
	<u>70</u>	<u>381</u>

The above transaction fees relate to equities.

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

	2021			2020		
	Assets £'000	Liabilities £'000	Total £'000	Assets £'000	Liabilities £'000	Total £'000
Over the counter contracts						
Swaps	34,831	(6,348)	28,483	9,852	(5,784)	4,068
Forward foreign currency contracts	2,421	(932)	1,489	3,053	(710)	2,343
	<u>37,252</u>	<u>(7,280)</u>	<u>29,972</u>	<u>12,905</u>	<u>(6,494)</u>	<u>6,411</u>
Exchange traded contracts						
Futures	4,410	(220)	4,190	23,731	-	23,731
	<u>41,662</u>	<u>(7,500)</u>	<u>34,162</u>	<u>36,636</u>	<u>(6,494)</u>	<u>30,142</u>

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Notes to the financial statements (continued)

16. Derivatives (continued)

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.

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). Interest rate swap

An interest rate swap is a contract under which interest payments at a fixed rate are exchanged for interest payments at a variable interest rate (or vice versa) based on an agreed principal amount. Only the net interest payments are exchanged. No exchange of principal takes place.

(c). 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.

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Notes to the financial statements (continued)

16. Derivatives (continued)

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

Nature of Swap	Expires	Number of Contracts	Notional principal £'000	Assets £'000	Liabilities £'000	2021 Net £'000
Total return swaps						
Pay fixed interest for total return (Gilts)	1 year	6	110,000	13,937	(117)	13,820
				<u>13,937</u>	<u>(117)</u>	<u>13,820</u>
Interest rate swaps						
Pay fixed interest for variable (SONIA)	1 – 5 years	2	40,000	104	-	104
Pay fixed interest for variable (SONIA)	10 – 20 years	1	52,000	279	-	279
Pay variable (SONIA) for fixed interest	1 – 5 years	5	195,000	-	(3,367)	(3,367)
Pay variable (SONIA) for fixed interest	10 – 20 years	1	52,000	-	(526)	(526)
				<u>383</u>	<u>(3,893)</u>	<u>(3,510)</u>
Inflation swaps						
Pay fixed interest for variable (RPI)	1 year	1	13,500	332	-	332
Pay fixed interest for variable (RPI)	1 – 5 years	4	124,000	6,264	-	6,264
Pay fixed interest for variable (RPI)	5 – 10 years	4	121,000	4,645	-	4,645
Pay fixed interest for variable (RPI)	20 years +	3	21,250	6,872	-	6,872
Pay variable (RPI) for fixed interest	1 – 5 years	3	85,000	1,061	(265)	796
Pay variable (RPI) for fixed interest	5 – 10 years	3	115,000	960	(1,655)	(695)
Pay variable (RPI) for fixed interest	20 years +	3	9,250	377	(418)	(41)
				<u>20,511</u>	<u>(2,338)</u>	<u>18,173</u>
				<u>34,831</u>	<u>(6,348)</u>	<u>28,483</u>

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

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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	Assets	Liabilities	2021 Net
				£'000	£'000	£'000	£'000
Within							
1 Month	1	GBP	AUD	1,727	25	-	25
1 Month	1	GBP	CAD	1,724	26	-	26
1 Month	2	GBP	CHF	5,784	-	(103)	(103)
1 Month	1	GBP	EUR	8	-	-	-
1 Month	1	GBP	JPY	6,941	-	(71)	(71)
1 Month	1	GBP	SEK	1,399	47	-	47
1 Month	1	AUD	GBP	1,702	-	(9)	(9)
1 Month	1	CAD	GBP	4,466	-	(14)	(14)
1 Month	1	JPY	GBP	7,009	-	(114)	(114)
1 Month	1	NOK	GBP	1,422	-	(52)	(52)
1 Month	1	SDG	GBP	99	2	-	2
1 Month	2	USD	GBP	8,598	81	(71)	10
3 Months	1	GBP	AUD	22,338	312	-	312
3 Months	1	GBP	CAD	1,931	33	-	33
3 Months	8	GBP	EUR	68,433	800	(1)	799
3 Months	5	GBP	USD	95,027	1,095	(5)	1,090
3 Months	3	AUD	GBP	7,886	-	(32)	(32)
3 Months	1	CAD	GBP	1,889	-	(4)	(4)
3 Months	6	EUR	GBP	23,317	-	(249)	(249)
3 Months	4	USD	GBP	9,412	-	(207)	(207)
					2,421	(932)	1,489

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.

Outstanding futures contracts at the year-end are detailed as shown on the following page:

Royal London Group Pension Scheme

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Notes to the financial statements (continued)

16. Derivatives (continued)

		Expires	Economic	2021		
Nature of futures	Currency	within	exposure	Assets	Liabilities	Total
			£'000	£'000	£'000	£'000
Equity futures bought						
ICF FTSE 100 IDX FUT Mar22	GBP	1 year	177,534	3,708	-	3,708
CME S&P500 EMINI FUT Mar22	USD	1 year	24,066	390	-	390
EUX EURO STOXX 50 Mar22	EUR	1 year	10,655	244	-	244
OSE TOPIX INDX FUTR Mar22	JPY	1 year	2,299	68	-	68
				4,410	-	4,410
Equity futures sold						
NYF MSCI EmgMkt Mar22	USD	1 year	(12,675)	-	(72)	(72)
SFE SPI 200 FUTURES Mar22	AUD	1 year	(5,718)	-	(61)	(61)
KFE KOSPI2 INX FUT Mar22	KRW	1 year	(5,142)	-	(43)	(43)
HKG HANG SENG IDX FUT Jan22	HKD	1 year	(4,442)	-	(44)	(44)
				-	(220)	(220)
				4,410	(220)	4,190

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 2021. A summary of the main assumptions adopted for this valuation are shown in the table below.

Financial Assumptions		31 December 2021
Discount Rate		Gilt curve + 1.20% pa for 13 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 2021
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 2020 model
Future improvements in longevity		CMI 2020 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

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18. Collateral and stock lending arrangements

Cash collateral of £15,630,000 was received by the Scheme in respect of derivative contracts outstanding as at 31 December 2021 (2020: £400,000). The cash collateral is included within cash with an offset liability included within the other investment balances (liabilities).

Cash collateral of £nil was settled by the Scheme in respect of derivative contracts outstanding as at 31 December 2021 (2020: £380,000). The cash collateral is included in receivables within other investment balances.

Stock collateral was received 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 2021 of £810,000 (2020: £nil). The pledged assets are included in the net investment assets.

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 2021 of £1,052,000 (2020: £1,692,000). The pledged assets are included in the net investment assets.

Gilts with a market value as at 31 December 2021 of £nil (2020: £9,481,000) were delivered as collateral under the repurchase and reverse repurchase agreements.

Gilts with a market value as at 31 December 2021 of £17,365,000 (2020: £nil) were received as collateral under the repurchase and repurchase agreements.

Cash collateral of £nil (2020: £2,655,000) was received by the Scheme under the repurchase and reverse repurchase agreements.

Cash collateral of £3,140,000 (2020: £nil) was delivered 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 2021 amounted to £68,565,330 (2020: £73,061,000) 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 2021 was £79,063,754 (2020: £76,632,000) and is not included in the net investment assets.

19. Pooled investment vehicles

	2021 £'000	2020 £'000
Equities	28,319	25,869
Bonds	268,466	178,104
Property	190,099	258,192
	486,884	462,165

Royal London Group Pension Scheme

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Notes to the financial statements (continued)**20. Cash**

	2021 £'000	2020 £'000
UK GBP Sterling	81,666	40,569
Foreign currency	2,101	2,305
	<u>83,767</u>	<u>42,874</u>

21. Other investment balances

	2021 £'000	2020 £'000
Accrued interest receivable	13,760	15,574
Dividends & investment income receivable	305	2,047
Trade settlements due from brokers	79,214	5,310
Futures margin receivable	18,437	3,773
Cash collateral receivable	3,140	4,606
Tax reclaims	395	476
	<u>115,251</u>	<u>31,786</u>
Accrued interest payable	(1,060)	(7,804)
Trade settlements due to brokers	(37,493)	(6,087)
Futures margin payable	(4,454)	-
Cash collateral payable	(26,230)	(3,055)
Tax payable	(7)	(11)
	<u>(69,244)</u>	<u>(16,957)</u>
	<u>46,007</u>	<u>14,829</u>

Royal London Group Pension Scheme

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Notes to the financial statements (continued)

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:

	2021 £'000	2020 £'000
Scottish Widows Limited	1,014	1,221
The Royal London Mutual Insurance Society Limited	519	566
Utmost Life and Pensions Limited	305	349
	1,838	2,136

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 2021 or 31 December 2020.

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:

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Notes to the financial statements (continued)

23. Fair value of investments (continued)

Asset category	Hierarchy level			2021
	1	2	3	Total
	£000	£000	£000	£000
Investment assets				
Equities	366,192	801	-	366,993
Bonds - Net	1,808,032	926,896	4,306	2,739,234
Derivatives	4,410	37,252	-	41,662
Pooled investment vehicles	-	296,786	190,098	486,884
Insurance Policies	-	-	1,506	1,506
Cash	83,767	-	-	83,767
Other investment balances	115,251	-	-	115,251
AVC investments	-	-	1,838	1,838
Reverse repurchase agreements receivable	-	634,285	-	634,285
	<u>2,377,652</u>	<u>1,896,020</u>	<u>197,748</u>	<u>4,471,420</u>
Investment liabilities				
Derivatives	(220)	(7,280)	-	(7,500)
Other investment balances	(69,244)	-	-	(69,244)
Repurchase agreements payable	-	(1,320,091)	-	(1,320,091)
	<u>(69,464)</u>	<u>(1,327,371)</u>	<u>-</u>	<u>(1,396,835)</u>
Total investments	<u>2,308,188</u>	<u>568,649</u>	<u>197,748</u>	<u>3,074,585</u>

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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			2020
	1	2	3	Total
	£000	£000	£000	£000
Investment assets				
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>
Investment liabilities				
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>
Total investments	<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)

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.

As at 31 December 2021, the Trustee investment strategy is to hold:

- 33.5% in return-seeking investments comprising equities, high yield debt and multi-asset credit.
- 66.5% 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.

Over the year, the Trustee reduced the Scheme's strategic asset allocation to UK property from 10.0% to 6.5%, in favour of multi-asset credit. This explains the modest increase in return-seeking investments over the period.

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.

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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 2021.

Legal form	2021 £'000	2020 £'000
Open-ended Investment Company (OEIC)	28,319	25,869
Irish Collective Asset-management Vehicle (ICAV)	268,466	178,104
Property Authorised Investment Fund (PAIF)	190,099	258,192
	486,884	462,165

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 £1,864.1 million (2020: £1,514.3 million) where the credit risk is minimal or holding corporate bonds & fixed interest of £736.2 million (2020: £783.4 million) with an investment-grade credit rating, across a diversified exposure of different credit issuers. There is a further £138.9 million (2020: £101.8 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.

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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% (2020: 14.0%) 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 £000	Indirect exposure £000	Hedging £000	2021 Net exposure after hedging £000	2020 Net exposure after hedging £000
Euros	EUR	80,523	-	(44,324)	36,199	35,400
Japanese Yen	JPY	26,957	-	(3)	26,954	15,215
US dollars	USD	331,108	793	(75,926)	255,975	229,320
Other currencies		56,200	27,527	(17,099)	66,628	66,188
		494,788	28,320	(137,352)	385,756	346,123

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 £2,069,222,000 (2020: £1,968,419,000) representing 68.2% (2020: 68.1%) 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 £962,799,000 (2020: £921,298,000) representing 31.8% (2020: 31.9%) of the total investment portfolio.

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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:

	2021		2020 (Restated)	
	£'000	%	£'000	%
Royal London Multi-Asset Credit Fund	268,466	8.7	178,104	6.0
UK Treasury 0.125% IL 22/03/2044*	163,483	5.3	-	-
REVERSEREPO GB00BFX0ZL78 0% 19/04/2021	-	-	266,887	9.0
UK Treasury 1.25% IL Gilt 22/11/2027**	-	-	247,073	8.4
UK Gilt 0.125% IL 10/08/2028**	-	-	219,214	7.4
UK Treasury 0.125% IL 22/03/2026**	-	-	212,564	7.2
Royal London Property Authorised Investment Fund**	-	-	205,523	7.0
UK Treasury Gilt 1.5% 22/01/2021	-	-	165,071	5.6
	431,949		1,494,436	

*This investment was held as at 31 December 2020 but its value was under 5%.

**These investments are still held at 31 December 2021 but their value were under 5%.

It was noted that there were three investments included in the prior year concentration of investments table, amounting to £572m, in error as the value used was the exposure or notional value and not the market value. As a consequence, the prior year balances have been restated to exclude TRS CSF 12/03/21 FLT R, TRS CSF 0.01% 12/03/21 FIX R and ICF FTSE 100 IDX FUT Mar21 since their market values were under 5% of the net assets of the Scheme.

26. Employer related investments

There were no employer related investments held directly or indirectly by the Scheme at the year-end (2020: None).

27. Current assets

	2021 £'000	2020 £'000
Cash balances	8,511	21,403
Prepayments	114	189
Other debtors	-	46
	8,625	21,638

28. Current liabilities

	2021 £'000	2020 £'000
Unpaid benefits	220	2
Amounts due to employer	304	34
Accrued expenses	546	546
Tax deducted from pensions	1,024	1,008
	2,094	1,590

Royal London Group Pension Scheme

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for the year ended 31 December 2021

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.

	2021 £'000	2020 £'000
Chair	60	60
Other Trustees	96	96
	<u>156</u>	<u>156</u>

In addition, two Trustee Directors claimed expenses amounting to £532 (2020: £149) 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 (2020: £11,000) payable by the Scheme as at the year-end to The Law Debenture Pension Trust Corporation plc.

During the year one (2020: 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 £292,352 (2020: £294,605) in respect of these services which are included in note 9, of which £72,503 was payable (2020: £82,035) 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 2021, these investments which are held on behalf of the members had a market value of £518,903 (2020: £565,841) 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 £3,124,113 (2020: £2,871,049) are in respect of this remuneration for the year ended 31 December 2021 which is included in note 11, of which £280,015 (2020: £493,957) was payable at the year-end and are included in note 28.

The Scheme received investment management fee rebates of £1,558,739 (2020: £1,913,858) from RLAM and Royal London Unit Trust Managers Limited (RLUTM), a subsidiary of RLAM, for the year ended 31 December 2021. 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 £271,707 (2020: £342,193) was receivable at the year-end and is included in note 28.

Royal London Group Pension Scheme

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for the year ended 31 December 2021

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	2021		2020	
	£'000	%	£'000	%
Royal London Multi-Asset Credit Fund	268,466	8.7	178,104	6.0
Royal London Property Authorised Investment Fund	128,437	4.2	205,523	7.0
Royal London UK Real Estate Feeder Fund	61,662	2.0	52,668	1.8
Royal London Emerging Markets ESG Leaders Tracker Fund	28,319	0.9	25,870	0.9
	486,884		462,165	

30. Contingent liabilities and contractual commitments

In the opinion of the Trustee, the Scheme had no contingent liabilities as at 31 December 2021 other than GMP benefits equalisation below (2020: 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. No detailed calculations or estimates have been performed. However, based on a high level estimate, the Trustee is of the opinion that the amount is not material to these financial statements. 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 2021 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

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for the year ended 31 December 2021

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 schedules of contributions for the Scheme year ended 31 December 2021 as reported in Royal London Group Pension Scheme's summary of contributions have, in all material respects, been paid in accordance with the schedules of contributions certified by the Scheme actuary on 22 June 2017 and 19 March 2021.

We have examined Royal London Group Pension Scheme's summary of contributions for the Scheme year ended 31 December 2021 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 schedules 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
Watford

29 March 2022

Royal London Group Pension Scheme
Annual report and financial statements
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Summary of Contributions

	£000
Contributions required under the schedules of contributions	-
Per the Fund account	-
	-

Approval

The Summary of Contributions was approved and signed by the Trustee Directors on 29 March 2022.

Signed for and on behalf of RLGPS Trustee Limited by:

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.

Signature

19-03-2021
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

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for the year ended 31 December 2021

Implementation Statement, covering 1 January 2021 to 31 December 2021

The Trustee of the 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 Scheme 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 Scheme 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 Scheme Year. The last formal review of these policies was carried out as part of the Scheme’s September 2021 SIP updates.

The Trustee has, in its opinion, followed the Scheme’s voting and engagement policies during the Scheme 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 RLAM’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 RLAM, the Scheme’s investment adviser, LCP, incorporated its assessment of the nature and effectiveness of RLAM’s approach to voting and engagement. In particular:

- The Trustee received an annual report from LCP in February 2021, which provided an update on RLAM’s investment capabilities alongside an assessment of how Responsible Investment matters are incorporated into its processes.
- The Trustee received quarterly ESG monitoring dashboards from LCP, which score each of the Scheme’s equity and credit mandates relative to benchmark MSCI data. The Trustee used these dashboards to question RLAM on areas where scores were lower than the benchmark.

The Trustee also met with RLAM on several occasions over the Scheme Year, with a focus on voting and engagement as well as the management of climate change risk. In particular:

- The Trustee held a dedicated meeting in March 2021 focussed explicitly on climate change. This included presentations from RLAM and Royal London Group in relation to how these risks and opportunities are being addressed at both a Scheme specific and firmwide level.
- The Trustee received presentations from RLAM in May 2021 and November 2021, focussed on the incorporation of Responsible Investment within the Scheme’s UK property portfolios, which included the approach to tenant engagement.
- In the November 2021 meeting, the Trustee also received a presentation from RLAM on its proposed approach to net zero carbon emissions across all assets it manages.

The Trustee also took the following actions over the Scheme Year to further support its governance practices in relation to voting and engagement:

- The Trustee, with assistance from LCP, agreed a Responsible Investment “roadmap”, detailing key actions to take over the later stages of 2021 and 2022. This included a timeline for complying with upcoming TCFD governance requirements.
- The Trustee, with assistance from LCP, reviewed RLAM’s 2021 Stewardship and Responsible Investment Report.

Royal London Group Pension Scheme

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for the year ended 31 December 2021

Implementation Statement, covering 1 January 2021 to 31 December 2021 (continued)

2. Voting and engagement (continued)

- The Trustee, with assistance from LCP, shared its Stewardship best practice expectations with RLAM. The intention of this document was to ensure RLAM's approach to engagement is aligned with the beliefs of the Trustee. At the time of writing, RLAM had not responded to this, but the Trustee expects to review a response in 2022.

3. Description of voting behaviour during the year

The Trustee has delegated to RLAM 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 2021 to 31 December 2021 (continued)

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

3.2. Summary of voting behaviour over the year

A summary of voting behaviour over the Scheme Year is provided in the table below. In 2020, the Trustee re-arranged the Scheme's UK equity exposure to be implemented via FTSE100 futures. As such, there were no voting opportunities within UK equities over the Scheme Year.

	<i>RLAM overseas equities (physical allocation)</i>
Value of Scheme assets at end of reporting period (£ / % of total assets)	£395,475,939
Number of holdings at end of reporting period	615
Number of meetings eligible to vote	763
Number of resolutions eligible to vote	8,213
% of resolutions voted	100% ¹
Of the resolutions on which voted, % voted with management	79%
Of the resolutions on which voted, % voted against management	18%
Of the resolutions on which voted, % abstained from voting	2%
Of the meetings in which the manager voted, % with at least one vote against management	20%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy adviser	12%

¹RLAM voted on all meetings. However, due to certain voting restrictions, 5 resolutions were not voted at 3 meetings. This is because of slate elections where there were more candidates presented on the ballot than the number of director seats to be filled. Hence to approve some candidates others have to be rejected.

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 Overseas Equity

Microsoft, November 2021. Vote: For

Summary of resolution: Shareholder Proposal Regarding Report on Effectiveness of Workplace Sexual Harassment Policies

Rationale: Though RLAM recognised the company's plan to begin reporting on its implementation of sexual harassment and gender discrimination policies soon, they were supportive of the proponent's request to see increased disclosure in this area.

Royal London Group Pension Scheme

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Implementation Statement, covering 1 January 2021 to 31 December 2021 (continued)

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

3.3. Most significant votes over the year (continued)

- **Johnson & Johnson, April 2021. Vote:** Against

Summary of resolution: Advisory Vote on Executive Compensation

Rationale: RLAM took issue with the committee's decision to make adjustments to earnings per share ("EPS") performance targets under the 2020 short-term incentive plan and the 2018-2020 long-term incentive plan, by way of excluding talc- and opioid-related litigation expenses, resulting in EPS targets being achieved at significantly higher rates than if the metric had remained unadjusted, which calls into question the "at-risk" nature of the Company's variable incentive plans. There were also long-standing concerns with the overlapping of performance metrics under short- and long-term incentives, thus attenuating the challenging nature of incentive plans.

- **Adobe, April 2021. Vote:** Against

Summary of resolution: Advisory Vote on Executive Compensation

Rationale: RLAM did not approve of the significant cash sign-on awards granted to one non-executive director in the year. In addition, RLAM questioned the pay committee's decision to lower threshold vesting for annual bonus metrics in light of the Covid-19 pandemic.

- **Goldman Sachs Group, April 2021. Vote:** For

Summary of resolution: Shareholder Proposal regarding Racial Equity

Rationale: RLAM were supportive of the request for the Company to undertake a racial equity audit, showcasing its efforts to manage diversity-related issues and mitigating related risks.

- **JP Morgan Chase & Co, May 2021. Vote:** For

Summary of resolution: Shareholder Proposal regarding Independent Board Chair

Rationale: RLAM were supportive of the request to appoint an independent Chair.

- **JP Morgan Chase & Co, May 2021. Vote:** For

Summary of resolution: Shareholder Proposal regarding Racial Equity

Rationale: While RLAM acknowledged the company's current commitments and efforts, they were supportive of increased disclosure in this area.

- **Ocado, May 2021. Vote:** Abstain

Summary of resolution: Advisory Vote on Remuneration Report

Rationale: While RLAM acknowledged that no executive share awards were banked this year under the value creation plan, RLAM continued to have concerns over the potential quantum of awards above typical market norms.

Royal London Group Pension Scheme

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Implementation Statement, covering 1 January 2021 to 31 December 2021 (continued)

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

3.3. Most significant votes over the year (continued)

- **BHP, October 2021. Vote:** For

Summary of resolution: Approval of Climate Transition Action Plan

Rationale: While RLAM were broadly supportive of the Company's climate transition plan, they believed there is room for further improvement on the following aspects: (i) further clarity on scope 3 targets, particularly related to steel and the possibility that the Company is supporting lock-in in high-carbon infrastructure instead of more circular and scrap-based efficient steel-making; (ii) improving the offsetting strategy and clearly defining residual emissions; (iii) further transparency on the proportion of their capital expenditure that supports BHP's 'climate transition plan'; (iv) the expansion of just transition and inclusion of protection of human rights.; and (v) a commitment to "close not sale" the remaining fossil fuel-related assets, namely the metallurgical coal.

- **Exxon Mobil, May 2021. Vote:** For

Summary of resolution: Shareholder Proposal Regarding Lobbying Activity Alignment with the Paris Agreement

Rationale: RLAM were supportive of further disclosure in this area.

- **Exxon Mobil, May 2021. Vote:** For

Summary of resolution: Elect Gregory J. Goff (Dissident Nominee)

Rationale: Given the level of expertise of this nominee RLAM were supportive of their appointment to the Board.

- **Axa, April 2021. Vote:** Against

Summary of resolution: Elect Ramon De Oliveira

Rationale: The nominee was not independent given the length of board tenure and served on the Audit Committee which RLAM preferred to be fully independent (the nominee has since left the Audit Committee).

- **National Grid, July 2021. Vote:** For

Summary of resolution: Approval of the Company's Net Zero Commitment and Associated Climate Targets

Rationale: Whilst RLAM viewed many positives from the current approach, they believed some potential areas of improvement over the company's pace of strategy toward a net zero scenario by 2040 were possible. RLAM will pursue this issue further through their engagement.

Royal London Group Pension Scheme

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Implementation Statement, covering 1 January 2021 to 31 December 2021 (continued)

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

3.3. Most significant votes over the year (continued)

RLAM Fixed Income

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

2021 was a more benign year for credit than 2020 resulting in fewer requests for debt modifications and waivers. A number of bond consents reflected the impending cessation of LIBOR and a requirement for issuers to change coupon reference rates to SONIA for floating rate bonds - examples included Equity Release Funding and Canary Wharf. RLAM were keen to support this transition to ensure clients' future cash flows were protected.

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.

RLAM did not vote on any CVAs during 2021.

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 Money and Pensions Service (MaPS) of Holborn Centre, 120 Holborn, London, EC1N 2TD is a body sponsored by the Department for Work and Pensions which provides impartial money and pensions guidance (<http://moneyandpensionsservice.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.

Royal London Group Pension Scheme

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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
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
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
Phone: 01625 717 691

