STATEMENT OF INVESTMENT PRINCIPLES
for the Royal London Group Pension Scheme August 2020

1. Introduction

1.1. What is the purpose of this Statement of Investment Principles?

This Statement of Investment Principles ("SIP") sets out the policy of RLGPS Trustee Limited ("the Trustee") on various matters governing decisions about the investments of the Royal London Group Pension Scheme ("the Scheme"). This SIP replaces the previous SIP signed in September 2019.

1.2. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from the Scheme's investment adviser, Lane Clark & Peacock LLP ("LCP") whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments and the need for diversification, given the circumstances of the Scheme and the principles contained in this SIP.

The Royal London Mutual Insurance Society Limited ("the Employer") was consulted on the SIP.

Royal London Asset Management, the current sole investment manager for the Scheme, was given the opportunity to comment on a draft of the SIP and its comments have been incorporated into this final version. The manager is required to carry out its investment responsibilities in a manner consistent with this SIP.

1.3. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005 ("the Regulations") and the Pension Regulator's guidance for defined benefit pension schemes (March 2017).

The Scheme's assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Scheme's Definitive Amending and Consolidating Trust Deed dated 2 September 2008, as amended by a deed of amendment dated 4 November 2010.

The SIP also reflects the Trustee's response to the Myners voluntary code of investment principles.

2. What are the Trustee's overall investment objectives?

The Trustee has the following investment objectives:

- the acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the Employer, the benefits due to members of the Scheme, as set out in the Trust Deed and Scheme Rules;
- to limit the risk of assets failing to meet the liabilities, both over the long-term and on a shorter-term basis, in particular in relation to the Scheme's statutory funding objective;
- to reach full funding on a low risk "self-sufficiency" basis, supported by an investment strategy that primarily features government bonds, investment grade credit and property type assets (progress against this objective is assessed and reported to the Trustee by its advisers on a regular basis);
- to minimise the long-term costs of the Scheme by having an investment strategy that has an appropriate level of risk, relative to the Scheme's target investment return, whilst having regard to the objectives shown above.

3. What risks does the Trustee consider and how are these measured and managed?

When deciding how to invest the Scheme's assets, the Trustee considers a wide range of risks, including, but not limited to, those set out in Appendix 1. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

4. Summary of the Scheme's investment strategy

4.1. How was the investment strategy determined?

The Trustee, with the help of its investment adviser (LCP), and in consultation with the Employer, regularly undertakes a review of investment strategy, taking into account the objectives described in Section 2 above.

The Trustee's Funding and Investment Committee ("FIC") last carried out a review in March 2020. This review did not result in any immediate changes, in light of market volatility at the time.

4.2. What is the investment strategy?

The Trustee has agreed that the investment strategy of the Scheme should be based on the strategic asset allocation below with effect from June 2017.

Asset class	Strategic asset allocation
UK equities	7.5%
Overseas equities	12.5%
Total equities	**20.0%**
Property	10.0%
Total alternatives	**10.0%**
High yield bonds	4.0%
Multi-asset credit	6.0%
Sterling investment grade corporate bonds	30.0%
UK index-linked gilts	29.0%
Sterling cash	1.0%
Total bonds and cash	**70.0%**
Total	**100.0%**

In addition to the investments shown in the table above, the Trustee has put in place a strategy for hedging the residual interest rate and inflation risks relating to the Scheme's liabilities, which is expected to result in additional gilt exposure.

Further details regarding the Scheme's investment strategy are given in Appendix 2.

5. What does the Trustee consider in setting the Scheme's investment strategy?

When deciding how to invest the Scheme's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 1. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. The key financial assumptions made by the Trustee in determining the investment arrangements, based on LCP's best estimate expected return assumptions as at 31 December 2019, were as follows:

Asset class	Expected excess return over gilts (% pa)
UK equities	5.3
Overseas equities (unhedged)	5.3
Emerging Market equities	6.3
UK property	3.3
Multi Asset Credit	2.3
High Yield Bonds	2.3
Index-linked Gilts	0.0
Sterling investment grade corporate bonds	0.9
Cash	0.0

As at 31 December 2019, the assumed expected return on gilts was 1.3% pa.

The Trustee regularly reviews the expected return of the Scheme's investment strategy with its adviser, to ensure it remains appropriate in the context of the Scheme's long-term objectives.

In setting the strategy, the Trustee also took into account:

- the Scheme's investment objectives, including the target return required to meet these investment objectives;
- the best interests of all members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material (eg ESG and climate change) over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme;
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes; and
- the views of the sponsoring employer.

The Trustee's key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve required investment returns, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that are typically not rewarded, should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors and is one factor that trustees should consider when making investment decisions;
- responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact Scheme returns;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

6. Appointment of investment managers

6.1. How many investment managers are there?

Currently, the Trustee has decided to appoint one investment manager to manage the Scheme's assets.

6.2. What formal agreements are there with the investment manager?

The Trustee has signed an investment management agreement with the investment manager, setting out in detail the terms on which the portfolios are managed, including the need for suitable and appropriately diversified investments. The Trustee and investment manager, to whom discretion has been delegated, exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable. Details of the investment manager and its investment benchmarks and guidelines are given in Appendix 2.

6.3. What does the investment manager do?

The investment manager's primary role is the day-to-day investment management of the Scheme's investments. The manager is authorised under the Financial Services and Markets Act 2000 to carry out such activities.

6.4. How are the investment arrangements implemented?

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 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.

7. Other matters

7.1. What is the Trustee's policy on the realisation of investments?

The investment manager has discretion over the timing and realisation of investments of the Scheme and in considerations relating to the liquidity of investments. When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment manager of any liquidity requirements.

The Trustee's preference is for investments that are readily realisable but recognises that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg property). In general, the Trustee's policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation, with the investment manager taking into consideration any Tactical Asset Allocation decisions, and also receive income from some of the portfolios where appropriate.

7.2. Financially material considerations and non-financial matters

The Trustee has considered how 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 (ie 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.

7.3. Voting and engagement

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

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects its investment manager to exercise ownership rights and undertake monitoring and engagement in line with the 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.

7.4. What are the responsibilities of the various parties in connection with the Scheme's investments?

Appendix 3 contains brief details of the respective responsibilities of the Trustee, the investment adviser, the investment manager, the custodian and the Scheme Actuary. Appendix 3 also contains a description of the basis of remuneration of the advisers and the investment manager.

7.5. Does the Trustee make any investment selection decisions of its own?

Before making any investment selection decision of its own, it is the Trustee's policy to obtain written advice. The written advice considers the suitability of the investment, the need for diversification and the principles contained in this SIP. It is also the Trustee's policy to review its own investment selection decisions on a regular basis, based on written advice.

Written advice is obtained from a person who is reasonably believed by the Trustee to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of trust schemes.

8. Review

The Trustee will, from time to time, review the appropriateness of this SIP, with the help of its advisers, and will amend the SIP as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

Signed........ P A Evans ....Date 10/9/20

Signed..Date 11/9/2020

For and on behalf of RLGPS Trustee Limited

Edward Levy, Director for
The Law Debenture Pension Trust Corporation p.l.c.

The Trustee's policy towards risk, risk measurement and risk management

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Scheme in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired.

The Trustee aims is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed journey plan and employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR") and other relevant measures such as scenario testing), now and as the strategy evolves.

The Trustee considers that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

1. Strategic risk

This is the risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions (for example, inflation and interest rate risks).

This risk has been taken into account in the Trustee's investment strategy review, and will be monitored by the Trustee on a regular basis. The Trustee will review the Scheme's investment strategy at least every three years in light of the various risks faced by the Scheme.

2. Inadequate returns

A key objective of the Trustee is that, over the long-term, the Scheme should have adequate resources to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Scheme with the expectation of producing a sufficient long-term return in excess of growth of the liabilities in order to meet benefits as they fall due.

3. Investment manager risk

This is the risk that the investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustee monitors the investment manager on a regular basis to ensure it remains appropriate for its selected mandates.

4. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trustee's ability to meet its investment objectives.

The Trustee believes that the need for the Scheme's assets to be adequately diversified between different asset classes and within each asset class has been met by the strategy outlined in Section 4 and Appendix 2, and by the guidelines agreed with the investment manager.

5. Illiquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due or that the Scheme will become a forced seller of assets in order to meet benefit payments.

The Trustee is aware of the Scheme's cash flow requirements and believes that this risk is managed appropriately via the measures described in Section 7.1.

6. Environment, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks investment options that address these risks and to appoint investment managers who will manage these risks appropriately on their behalf. It regularly reviews how these risks are being managed in practice.

7. Collateral adequacy risk

The Scheme is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustee when requested to do so will not be able to post additional cash to the LDI portfolio within the required timeframe. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, the Trustee ensures that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

8. Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central clearing exchange.

In particular, the Scheme's investment manager makes use of swaps and gilt repurchase agreements to match a portion of the Scheme's liabilities. For non-cleared derivatives, counterparty risk is managed within the portfolio through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

9. 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.

The Scheme is subject to credit risk because it invests in bonds. The Trustee manages its exposure to credit risk by investing in bonds with a diversified exposure to different credit issuers, and by predominantly investing in bonds that are classified as "investment grade". Further to this, the Trustee delegates the responsibility of managing credit risk to the investment manager, who assesses the security backing bond investments and takes note of credit rating agencies assessments. The Trustee also delegates responsibility of assessing the investment manager's capabilities in this area to its investment consultant, LCP.

10. Equity risk

Equity represents (part) ownership of a company. Equity risk is the risk that the value of this holding falls in value. The Trustee believes that equity risk is a rewarded investment risk, over the long term.

The Trustee considers exposure to equity risk in the context of the Scheme's overall investment strategy and believes that the level of exposure to this risk is appropriate.

11. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists (primarily in relation to overseas equity holdings) diversifies the strategy and is appropriate. In general, the majority of overseas bonds are hedged to sterling.

12. Interest rate and inflation risk

The Scheme's liabilities are subject to interest rate and inflation risk. The interest rate and inflation exposure of the Scheme's assets (including bonds, interest rate swaps and inflation swaps) hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to have exposures to these assets.

13. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme and takes these into consideration as far is as practical in setting the Scheme's investment arrangements as part of its assessment of the other aspects of the Scheme's Integrated Risk Management framework. Examples include:

- political risk;
- custodian risk;
- operational risk;
- corporate governance risk;
- mortality risk (the risk that members live, on average, longer than expected); and
- sponsor risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering each of the risks that contribute to funding risk, the Trustee believes that it has addressed and is positioned to manage this general risk.

Detailed investment strategy

Appendix 2

1. The strategic asset allocation

The Trustee has selected Royal London Asset Management ("RLAM") as the investment manager for all of the Scheme's assets.

The benchmark is shown below.

Asset class	Strategic asset allocation	Control range	Benchmark index
UK equities	7.5%	2.5% - 12.5%	FTSE-A All Share
Passive	6.0%	1.0% - 11.0%	FTSE100
Active	1.5%	0.5% - 2.5%	FTSE-A All Share excluding FTSE100
Overseas equities	12.5%	7.5% - 17.5%	FTSE All World ex UK
Property (active)	10.0%	7.0% - 13.0%	AREF/IPD Quarterly Property Fund Index
Multi-asset credit (active)	6.0%	3.0% - 9.0%	LIBOR+4% pa
Global high yield bonds (active)	4.0%	1.0% - 7.0%	Bank Of America Merrill Lynch BB-B Global Non-Financial HY Constrained (HN4C) Index (hedged to Sterling)
Sterling investment grade corporate bonds (active)	30.0%	25.0% - 35.0%	50% iBoxx Sterling Non-Gilt All Stocks; and 50% iBoxx Sterling Non-Gilt Over 15 Years
Developed market government bonds (active)	0.0%	-10.0% - 10.0%	No benchmark
UK index-linked gilts (active)	29.0%	24.0% - 34.0%	80% FTSE Index-Linked Gilts Over 5 Years; and 20% FTSE Index-Linked Gilts All Stocks
Overseas bonds (active)	0.0%	0.0% - 3.0%	No benchmark
Sterling cash (active)	1.0%	0.0% - 6.0%	LIBID 7 Day
Total	**100.0%**		

In addition to the strategy set out in the table above, the Trustee has implemented a derivative overlay to hedge interest rate and inflation risks inherent within the Scheme's liability profile (beyond the hedging provided by the Scheme's physical bond allocations) and to efficiently implement tactical views to go over or underweight various investment markets. This is expected to result in higher overall bond exposure (than that suggested in the physical allocations above).

RLAM is also permitted to use active currency overlays (up to 4% relative to overseas benchmark exposure) within the TAA process to reflect its views on currency risk.

Details of this are set out in the RLAM investment management agreement and are reviewed by the Trustee from time-to-time.

RLAM's objectives for the physical assets excluding the derivatives used for hedging are to:

- outperform the benchmark return by 0.5% pa over rolling three year periods, before the deduction of investment management fees;
- maintain an annualised active risk for the total fund within the range 0.5% - 1.5%, where the active risk is calculated monthly using a proprietary model with inputs from BARRA and BarCap models[1]; and
- maintain a 3-year historic tracking error within the range 0.5% - 1.5%, where historic tracking error is defined as the annualised standard deviation of monthly returns relative to the benchmark.

RLAM is permitted to actively manage the asset allocation against the strategic asset allocation within the limits shown above. In exceptional market conditions, the Trustee may suspend or amend the way in which the portfolio is managed.

RLAM monitors the actual asset allocation against the strategic asset allocation periodically. If, due to the performance of the assets, an allocation breaches a limit, RLAM will automatically take action to bring the asset allocation within the agreed limits.

Unless specified otherwise in the investment management agreement, asset categories not included here may only be used following a revision of these restrictions which specifically permits their inclusion.

For the purpose of monitoring, all assets are valued at bid price and all pooled funds are treated on a look-through basis.

RLAM is expected to manage the passive portfolios with the aim of minimising the tracking error relative to the benchmark index, subject to ensuring that the portfolio is managed efficiently. However, in exceptional circumstances, RLAM may choose to exclude stock from their passive portfolio for reasons other than tracking error management. In such cases, RLAM will inform the Trustee of the reasons behind the decision and this will form part of the review process.

RLAM's objective for the hedging mandate is to at least match the hedging benchmark gross of fees, while making use of relative value opportunities with regards to instrument selection and taking account of the hedging afforded by the corporate bond and index-linked gilt holdings. The benchmark is the present value of notional cash flows, derived as set out in the Investment Management Agreement with RLAM, discounted by reference to a zero-coupon gilt fixed interest curve, and an inflation rate equivalent to the zero-coupon gilt break-even curve.

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[1] BARRA's model provides a measure of tracking error against the index for equity performance. BarCap's model provides a measure of tracking error against the index for bond performance.

RLAM's objective for the Scheme's cash holdings is to deliver a return in line with the benchmark after the deduction of investment management fees, using investments specified in the Trustee's investment management agreement with RLAM.

2. Restrictions applicable to the bond mandates

In addition to the permitted ranges set out in Section 1 above, the following restrictions have been agreed with RLAM with respect to the investment grade corporate bond portfolio.

Individual issuer exposure is subject to the following maximum limits:

Rating	Maximum exposure
AAA	12.5%
AA	7.0%
A	4.0%
BBB	1.5%
Sub-investment grade	1.0%

The exposure to different credit ratings will be within the following ranges compared to the index distribution (subject to a minimum of zero):

Rating	Range
AAA	+/- 20%
AA	+/- 10%
A	+/- 10%
BBB	Max 10% overweight; no minimum
Sub-investment grade	Max 5%

Investment in unrated bonds is permitted, provided that the allocation to unrated bonds is both no greater than 5% of total assets and no greater than 30% of non-government bonds held. This includes a maximum of 2.5% of total assets in a combination of senior secured loans and private placement debt.

Investment in overseas index-linked bonds is permitted, provided that the allocation to overseas index-linked bonds is no greater than 10% of the benchmark weight to index-linked gilts.

A maximum of 5% of the index-linked bond portfolio can be held in sterling non-gilt index linked securities.

In applying the above limits, where bonds are rated, the official rating given by an agency will prevail (the lowest rating to be taken where there is a split rating). Where a bond is not rated, the investment manager's internal rating will be used.

The following restrictions have been agreed with RLAM with respect to the Global High Yield bond portfolio:

- maximum holding of 3% of the portfolio in bonds of any one issuer;
- the ten largest holdings to comprise no more than 20% of the portfolio;
- maximum of 15% of the portfolio in bonds rated below B, including unrated bonds; and
- no maximum on the proportion of the portfolio that may be held in investment grade bonds.

The multi-asset credit allocation is accessed via a pooled fund managed by RLAM. The fund operates an unconstrained approach but aims to invest in line with the following model allocation:

Credit type	Model allocation
Loans	40%
Secured high yield	30%
Asset-backed securities	20%
High yield	5%
Other	5%
Total	**100%**

3. Restrictions applicable to the liability hedging strategy

- An overall target of 100% of the benchmark is to be hedged, within tolerances of +/- 5%.
- For each 5 year interval of the benchmark, the hedging ratio will be between 85% and 115%.

Other restrictions are set out in the Investment Management Agreement with RLAM.

4. Additional Voluntary Contributions (“AVCs”)

The Trustee has selected Clerical Medical, Scottish Life, Scottish Widows, and Utmost Life & Pensions (previously held with Equitable Life) as the Scheme’s money purchase AVC providers. Each of these providers offer a range of unit-linked and with-profits funds to members. The Scheme is closed to future accrual from 1 April 2016. As such, no contributions into these AVC arrangements will be permitted from this date onwards.

Investment governance, responsibilities, decision-making and fees

Appendix 3

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division of responsibility allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- reviewing the investment policy following the results of each valuation, and / or after any review of investment strategy (eg any asset liability modelling exercise);
- if required, the policy for rebalancing between asset classes;
- appointing, monitoring, reviewing and, when necessary, dismissing investment managers, the actuary, investment consultants and other service providers;
- monitoring the exercise of the investment powers that it has delegated to the investment manager and monitoring compliance with Section 36 of the Act;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate;
- consulting with the Employer when reviewing the SIP;
- developing a mutual understanding of investment and risk issues with the Employer;
- setting the investment strategy, in consultation with the Employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form; and
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged.

The Trustee has delegated consideration of certain investment matters (including liability hedging) to a Funding and Investment Committee ("FIC"), according to agreed terms of reference. However, any investment decisions remain the responsibility of the Trustee.

2. Investment manager

In broad terms, the investment manager will be responsible for:

- managing its portfolio, within the guidelines agreed with the Trustee;
- providing the Trustee with regular information concerning the management and performance of the portfolio;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- informing the Trustee of any changes in the internal objectives and guidelines of any pooled funds used by the Scheme as soon as practicable;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- the independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Scheme; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

3. Custodians

In broad terms, custodians (whether there is a direct relationship between the custodian and the Trustee or not) will be responsible for:

- the safekeeping and reconciliation of the investments;
- settling transactions; and
- administering income and tax payments.

4. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of investment managers and / or custodians, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations) and the extent to which these practices are aligned with the Trustee's policies on such considerations;
- advising on how any changes in financial market conditions could present opportunities or issues for the Scheme; and

- participating with the Trustee in reviews of this SIP.

5. Scheme Actuary

In broad terms, the Scheme Actuary's responsibilities, in respect of investment matters, include:

- performing the Scheme's triennial valuations to determine the financial position of the Scheme; and
- liaising with the investment adviser on the characteristics of the Scheme's liabilities.

6. Mandates given to advisers and investment managers

The Trustee has in place signed agreements with each of the Scheme's advisers and the investment manager. These provide details of the specific arrangements agreed by the Trustee with each party.

7. Fee structures

The Trustee recognises that the provision of investment management, dealing and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's actuarial and investment advisers, under which charges are calculated on either a fixed-fee or a "time-cost" basis.

The investment manager receives fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the manager's general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

Non-employed Trustee Directors are paid directly. Those that are employed are considered to be remunerated by virtue of their employment by the Employer.

8. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee Directors, both individually and as a whole, believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustee's policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

9. Working with the Scheme's Employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the Employer's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the Employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and Employer work together collaboratively.