Royal Liver Assurance Limited Superannuation Fund (UK)

Statement of Investment Principles – September 2020

1. Introduction

The Trustee of the Royal Liver Assurance Limited Superannuation Fund (the "Fund") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (as amended 30th November 2018) ("the Act"). It also meets the requirements of the Occupational Pension Schemes (Investment) Regulations 2005. The Statement also takes into account the principles underlying the Myners Code of Best Practice for pension plan investment.

The Statement is intended to affirm the investment principles that govern decisions about the Fund's investments. A separate document, the Investment Policy Implementation Document ("IPID"), detailing the specifics of the Fund's investment arrangements has also been completed.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustee.

In preparing this Statement, the Trustee has consulted the Principal Company, Royal Liver Pension Trustee Services Limited ("the Company"). The Trustee has also obtained and considered written professional advice from its Investment Consultant, XPS Pensions, who is suitably qualified through ability and experience and has appropriate knowledge.

The investment responsibilities of the Trustee are governed by the Fund's Trust Deed and Rules (a copy of which is available for inspection on request) and relevant overriding legislation. According to the law, the Trustee has ultimate power and responsibility for the Fund's investment arrangements.

2. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Consider the broad level of risk consistent with meeting the objectives set
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the Trustee's risk tolerance

In considering the appropriate investments for the Fund, the Trustee has obtained and considered the written advice of the Investment Consultant, whom the Trustee considers to be suitably qualified to provide such advice. Where matters described in this Statement may affect the Fund's funding policy, input has also been sought from the Fund's Actuary. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustee's objective is to invest the Fund's assets in the best financial interests of the members and beneficiaries, and the interests of the employer under the Fund and in the case of a potential conflict of interest in the sole interests of the members and beneficiaries. Within this framework the Trustee has agreed a number of key objectives to help guide it in its strategic management of the assets and control of the various risks to which the Fund is exposed.

The Trustee's primary objectives are as follows:

- To ensure the Fund has sufficient and appropriate assets to pay members' benefits as they fall due.

- To achieve a fully funded status on a self sufficient basis whereby high quality bonds are held to cover the Fund's liabilities, including inflation-linked bonds to protect against increases in the Fund's inflation-sensitive liabilities.

- To limit the risk of the Fund failing to meet the Statutory Funding Objective, i.e. having insufficient assets to meet the Fund's Technical Provisions liabilities.

The Trustee pays due regard to the Company's views with respect to the potential size and incidence of contribution payments, and the degree to which the Company accepts variation in the Fund's surplus or deficit as a consequence of the investment policy adopted.

4. Investment Risk Management and Measurement

There are various investment related risks to which any pension plan is exposed. The Trustee's policy on risk management with regard to the investment arrangements of the Fund's main assets is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Fund's assets and liabilities. The Fund's assets should share similar characteristics with its liabilities, in terms of duration and nature to the extent possible.
- The Trustee recognises that whilst increasing risk is expected to increase the potential for greater returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities as well as producing more short-term volatility in the Fund's funding position. A deterioration in the Fund's funding level could lead to higher than expected contributions from the Company. The Trustee has taken advice on the matter and has considered carefully and comprehensively the implications of adopting different levels of risk.
- While the risk introduced through investing a proportion of the Fund's assets in asset classes with expected returns in excess of a risk-free asset could lead to volatility in the funding level disclosed at a subsequent actuarial valuation, it is felt that this risk is acceptable in view of the potential benefits of the expected extra returns. Meanwhile, the extra returns should work through ultimately to greater security for members of the Fund and lower costs falling on the Company.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure that the asset allocation and manager structure policies in place result in an adequately diversified portfolio.

- The Trustee's willingness to take investment risk is dependent on the continuing legal obligation and financial strength of the Company and its ability to contribute appropriately to the Fund. It is further supported by a conditional guarantee provided by The Royal London Mutual Insurance Society. The financial strength of the Company and its perceived commitment to the Fund is monitored and the Trustee will reduce investment risk relative to the liabilities should either of these deteriorate.

- The documents governing the Investment Manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund. The Investment Managers are prevented from investing in asset classes outside of their mandate without the Trustee's prior consent.

- Within the Liability-Driven Investment ("LDI") assets, the Trustee recognises the risks associated with counterparty credit risk and is satisfied with the guidelines adopted by the LDI manager. In addition, the Trustee understands the funding costs associated with using derivative contracts.

- The Trustee recognises that the LDI assets will not provide a perfect match to the target liability value. Furthermore, there are different measures of the liability that will not be perfectly matched by the LDI assets.

- The Trustee is also conscious of certain additional liability risks such as longevity risk and will keep these risks under review to determine what mitigating action, if any, might need to be taken.

- The Trustee recognises the risks of underperformance introduced by the use of active managers but believes that active management, through the careful selection of suitable managers, can add value. Arrangements are in place to monitor the continuing suitability of the current investments. The Trustee regularly reviews the continuing suitability of the Fund's investments including the appointed managers and the balance between active and passive management. Performance is independently measured and the Trustee receives regular reports from the Investment Managers and its Investment Consultant.

- The safe custody of the Fund's assets is delegated to a professional custodian either directly or via pooled vehicles. The custodian is responsible for the prompt reclaim of withholding taxes and other taxes on income due to the Fund.

- The Trustee relies on the Investment Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Fund's entitlement within the pooled funds.

Should there be a material change in the Fund's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

5. Portfolio Construction

The Trustee has adopted the following control framework in structuring the Fund's investments;

- The Trustee, together with the Fund's administrators, will ensure there is sufficient cash to meet the likely benefit outgo. The Trustee's policy is that there should be sufficient investments in liquid or easily realisable assets to meet unexpected cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Fund's overall investment policy where possible.

- The Trustee ensures that the majority of the assets are invested in regulated markets and that any allocation to unregulated markets is maintained at a prudent level.

- The Trustee and Investment Managers (who have delegated discretion) exercise their powers in a manner calculated to ensure the security, quality, liquidity and profitability of the Fund. The Trustee invests the assets in a manner it believes to be appropriate to the nature and duration of the expected future retirement benefits payable under the Fund.

- The Trustee may use, or permit the Investment Managers to use, derivative instruments if they contribute to a reduction of risk or facilitate efficient portfolio management. This includes the Trustee, after taking advice, directing the Investment Manager(s) to use interest rate swaps, inflation swaps and total return swaps to reduce risk in the Fund by reducing the interest rate and inflation mismatch between the assets and the liabilities.

6. Investment Strategy

The Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the characteristics of the Fund's liabilities. Given the on-going commitment of the Company to the Fund, a degree of mismatching risk can be accepted on the basis that it is also acceptable to the Company. As the sponsoring employer, the Company bears some risk, in its obligation to fund any deficit.

The broad investment strategy, which took effect from June 2020, is currently as shown in the table below. Further detail is included in the IPID, which is available to members upon request.

Asset Class	Central Benchmark Allocation (%)	Control Ranges (%)
Corporate Bonds	70.0	65.0 – 75.0
Liability Hedge Portfolio	30.0	25.0 – 35.0
Total	**100.0**	**100.0**

The control ranges show the maximum variation from the central position that will be accepted by the Trustee. The Trustee monitors the asset allocation as at each calendar quarter end. If the control ranges have been exceeded, the Trustee will consider what rebalancing action should be taken.

The asset allocation of the Corporate Bond Sub-Fund, as percentages of total value, shall be maintained within the following ranges:

Asset Class	Minimum (%)	Maximum (%)
UK Gilts (conventional or index-linked)	0.0	25.0
Sterling non-gilts bonds	75.0	100.0
Sterling cash	0.0	20.0
Overseas Bonds	0.0	50.0
Derivatives*	-50.0	50.0

* Defined as net notional plus mark to market exposure. For the purposes of the Investment Constraints, any economic exposure achieved via derivatives will count towards the limit for the underlying asset from which the derivative's value is derived, if such a limit exists and has been specified. It will also count towards the limit for Derivatives.

The investment objective of the Corporate Bond Sub-Fund is to:

(i) Build a portfolio of sterling credit bonds with an overall interest rate duration target of between 14.5 and 15.5 years;

(ii) Seek to achieve a yield to maturity of not less than 1.75% per annum above equivalent duration gilt exposure: and

(iii) Seek to hold no less than 10% of the Corporate Bond Sub-Fund in AAA rated securities, 30% in AAA to AA- rated securities and 80% in AAA to A- rated securities. All to be calculated upon the completion of the restructure of the Corporate Bond Sub Fund.

7. Range of assets

The Trustee considers that the combination of the investment policy and the specific manager mandates will ensure that the assets of the Fund include suitable investments that are appropriately diversified and provide a reasonable expectation of meeting the objectives. In setting out the mandates for the Investment Managers, the Trustee will ensure that the Fund holds a suitably diversified range of securities in each category, avoiding an undue concentration of assets.

Based on the structure set out in section 6, the Trustee considers the arrangements with the Investment Managers to be aligned with the Fund's overall strategic objectives. Details of each specific mandate are set out in agreements with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through the allocation parameters set by the Trustees.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Fund's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Fund. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. As covered in more detail in Section 17, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term.

8. Day–to-Day Management of the Assets

Day to day management of the assets is delegated to professional Investment Managers, who are all regulated by the relevant authority in the domicile country. The Investment Managers have full discretion to buy and sell investments on behalf of the Fund subject to agreed constraints and applicable legislation. The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Fund's investments. Investments are managed for the Fund to specific mandates which include performance objectives, risk parameters and timescales over which performance will be measured.

Further details of the Fund's current strategic benchmark, and the appointed managers and funds invested in can be found in the IPID.

9. Review process

Appointments of Investment Managers are expected to be long-term, but the Trustee will review the appointment of the Investment Managers in accordance with their responsibilities. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustee's investment policies.

The Trustee receives quarterly performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the criteria below that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate. These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustee may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee meetings as requested.

The Investment Consultant has also carried out a review of how well ESG factors are incorporated into the Investment Manager's processes and the Trustee will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

10. Portfolio turnover

The Trustee requires the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

11. Expected Return

Given the investment strategy adopted, the Trustee expects to generate a return, over the long term c. 1.0% p.a. above that which would have been achieved had no investment risk been taken within the portfolio (i.e. had the assets been invested solely in a portfolio of long dated government debt which is a proxy for the growth of the Fund's liabilities). It is recognised that over the short term, performance may deviate significantly from the long term target and there are no guarantees that such a return will be achieved.

12. Additional Assets

The Trustee has established an Additional Voluntary Contributions ("AVCs") arrangement, in which members' AVCs are invested to enhance their benefits at retirement.

The Trustee reviews the investment performance of the chosen AVC provider on a regular basis and takes advice as to the providers' continued suitability. Details of the current provider can be found in the IPID.

13. Realisation of Investments

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

14. Responsible Investment

The Trustee has considered its approach to environmental, social and corporate governance ("ESG") factors for the long term time horizon of the Fund and believes there can be financially material risks relating to them. The Trustee has delegated the ongoing monitoring and management of ESG risks including those related to climate change to the Fund's investment managers. The Trustee requires the Fund's investment managers to take ESG and climate change risks into consideration within their decision-making in relation to the selection, retention or realisation of investments, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

Similarly the Trustee has delegated responsibility for the exercise of rights (including voting rights) attached to the Fund's investments to the Investment Managers. The Trustee encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustee requires the Investment Managers to report on significant votes made on behalf of the Trustee.

The Trustee will seek advice from the Investment Consultant on the extent to which its views on ESG including climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustee, with the assistance of the Investment Consultant, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustee's requirements as set out in this Statement. Such issues are of greatest relevance to asset managers, in particular equity managers, who are authorised in the UK.

If the Trustee becomes aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectation and the investment mandate guidelines provided, then the Trustee may consider terminating the relationship with that Investment Manager.

As investment manager of the corporate bond portfolio, Royal London Asset Management ("RLAM") will use the UK Stewardship Code as the basis for their engagement with management and will utilise any opportunities to vote as a bondholder

When considering the selection, retention or realisation of investments, the Trustee has a fiduciary responsibility to act in the best interests of the beneficiaries of the Fund, although they have neither sought, nor taken into account, the beneficiaries' views on matters including (but not limited to) ethical issues and social and environmental impact. The Trustee will review this policy on a regular basis.

15. Compliance with and Review of this Statement

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will be made in consultation with the Company and only after having obtained and considered written advice of someone whom the Trustee reasonably believes 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 pension fund investments.

Adopted by the Trustee of the Royal Liver Assurance Ltd Superannuation Fund on 29 September 2020