The Royal Bank of Scotland International Pension Trust

Statement of Investment Principles

Updated November 2022

Introduction

1 The Trustee is required to prepare a statement of principles governing decisions about investments for their pension funds. This document contains that statement and describes the investment policy pursued for the Scheme by the Trustee through the Trustee Board. The SIP is required under the Act in the Isle of Man but it is not required under all jurisdictions where the Scheme operates. Nonetheless, the Trustee considers it good practice to adopt the principles set out in the SIP in relation to all sections of the Scheme.

2 In preparing the SIP, the Trustee Board has consulted the Employer. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee Board.

3 In preparing the SIP the Trustee Board has sought written advice from external investment advisors. The written advice considers the issues set out in the Investment Regulations and the principles contained in this statement.

4 The Trustee Board will review the SIP at least every three years and without delay after any significant change in investment policy. Reference will be made to the SIP where necessary to ensure that the Trustee's powers of investment are exercised so as to give effect to the principles set out in the SIP as far as is reasonably practicable.

5 The Trustee Board will approve general investment policy. Those implementing that policy shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

6 Investments are chosen taking account of the criteria for investment set out in the Investment Regulations and the principles contained in this statement.

7 The Trustee Board considers that the investment principles described in this statement are consistent with their obligations under the Act. In addition, the Trustee Board will review its investment policy in the light of actuarial valuations or as it otherwise deems appropriate from time to time.

Division of Responsibilities

8 The Trustee Board is supported by the members of RBS Pension Trustee Executive Support ("RPTES") and the Trustee Board employs external investment advisors for regulated investment advice. The Trustee Board retains direct responsibility for all policy decisions.

9 Day to day management of the assets of the Scheme is delegated to external investment managers. The investment managers operate within investment guidelines consistent with the overall objectives of the Scheme and the Investment Regulations.

10 The roles of the Trustee Board, its advisors and the investment managers are summarised below:

Trustee Board

- setting Investment Objectives for the Scheme
- setting a Strategic Asset Allocation for the Scheme
- setting a risk management framework, including any derisking framework
- selecting and deselecting investment managers

External advisors

- advising the Trustee Board on matters relating to investment of the Scheme's assets and providing regulated investment advice
- overseeing implementation of the investment policies selected by the Trustee Board
- reporting to the Trustee Board on the progress and performance of the Scheme

Investment managers

- making investment selection decisions within the investment guidelines agreed for their portfolio

11 Where appropriate, the Trustee Board will obtain written advice to assist in discharging its responsibilities.

Investment Objectives

12 The Trustee Board's Investment Objectives are:

- To achieve full funding on a prudent basis (known as "self-sufficiency") by 2034 in the most efficient manner possible
- To take account of contributions to the Scheme
- To minimise the short term impact of downside risk as far as possible

These Investment Objectives are chosen to be compatible with the Trustee Board's longer term aim of maximising the security of benefits for members.

The Scheme merged with the Isle of Man Bank Pension Fund ("the IOMB Fund") and the Isle of Man Bank Widows' and Orphans' Fund ("the W&O Fund") on 1 March 2021. The Investment Objectives outlined above are therefore in respect of the merged Scheme assets and liabilities.

Policy

13 The Trustee Board's policy is to meet the Investment Objectives through investing in a mixture of assets, as expressed in the Strategic Asset Allocation, that are expected to provide the level of returns required by the Scheme to meet the liabilities at an acceptable level of risk for the Trustee Board with consideration also being given, as appropriate, to the level of cost acceptable to the Employer.

14 The target Strategic Asset Allocation for the Scheme accretes the growth assets by 1.3% p.a. and is shown below:

	Benchmark	Strategic allocation (%)
Global Equities	Synthetic: FTSE All World Exposure (Developed Market 100% hedged, Emerging Market Unhedged) Physical: FTSE All World Index (Net WHT) – GBP Hedged	20

Corporate Bonds	Over 15 years: Barclays Sterling Aggregate 100MM Non-Gilts Over 15 Years Index. Over 15 years: Markit iBoxx £ Non-Gilts ex BBB Over 15 Year Index. Buy & Maintain Credit (Maturing Funds): Various	22.5
Multi Asset Credit	GBP cash + 4-5% p.a.	7.5
LDI (gilts, index linked gilts and leveraged LDI funds)	Various	50
Total		**100**

The strategic allocation shown above reflects the merged strategy of the legacy Scheme, IOMB Fund and W&O Fund. The Trustee will streamline the Trust's investment arrangements in 2023 at which point the strategic allocation (and associated benchmarks for the asset classes) will be refined further.

The Scheme achieves global equity exposure using a combination of synthetic equity exposure (through the use of a basket of regional equity futures) and physical equities (which are accessed through a pooled fund). This will be revisited in 2023.

The Scheme achieves Corporate Bond exposure through a combination of funds from the legacy Scheme, IOMB Fund and W&O Fund investment arrangements. The benchmarks of the relevant funds are shown in the table above along with the overall strategic allocation. The number of funds used to achieve the strategic Corporate Bond exposure will be streamlined in 2023.

The Scheme achieves LDI exposure through a combination of a segregated LDI mandate and funds from the legacy IOMB Fund and W&O Fund investment arrangements. This will be streamlined in 2023.

Liability Hedging Benchmark	
Interest Rate (PV01) Exposure	70%
Inflation Expectations (IE01) Exposure	70%

The target hedge ratios are expressed as a percentage of the self-sufficiency liabilities (defined as gilts+0%). Actual exposures may change as a result of market movements.

15 The asset classes within the Strategic Asset Allocation and the respective weightings were chosen taking account of:

- their fundamental risk and return characteristics, both in absolute terms and relative to the liability
- the need for diversification within the Scheme
- the suitability of the assets to the Scheme

16 The Strategic Asset Allocation includes an allocation to assets which are sensitive to interest rates and inflation in order to reduce the risk of changes in the deficit (surplus) position arising as result of changes in the value of the liability caused by movements in interest rates and inflation.

Expected Returns

17 The asset classes and their respective weightings within the Strategic Asset Allocation have been selected so as to achieve a long-term expected return at Scheme level that exceeds the change in the liability. This approach is intended to deliver returns commensurate with the valuation and funding assumptions.

Realisation of Investments

18 Measures are in place to ensure the Scheme holds sufficient investments in liquid or realisable assets to meet the cash-flow needs arising from benefit and other payments from the Scheme.

ESG, Stewardship and Climate Change

19 The Trustee Board recognises that environmental, social, and corporate governance (ESG) issues may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee Board has given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee Board considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented at least annually. This is done using specific ESG fund ratings provided by the Scheme's investment consultant. These ratings represent the extent to which managers integrate ESG factors and active ownership into their core processes. The ESG ratings for the existing investment managers are provided on a quarterly basis.

Member views are not taken into account in the selection, retention and realisation of investments.

The Trustee Board has not set any investment restrictions on the appointed Managers in relation to particular products or activities, but may consider this in future.

The Trustee Board maintains a separate investment beliefs document which sets out further detail on their approach to ESG, Stewardship and Climate Change.

Voting Policy

20 The Trustee Board encourages the investment manager to exercise voting rights at all company meetings wherever it is practicable and cost effective. Voting decisions are to be exercised in the best interests of shareholders. Current regulations in some overseas markets however place severe restrictions on the meaningful exercise of shareholder rights, often resulting in shares not being voted.

Employer Related Investments

21 Investment in shares or other securities issued by the Natwest Group and its associated companies is generally prohibited except in the following circumstances:

- Passively managed portfolios tracking a recognised index which may contain such securities; and
- Collective investment schemes operated by the bank for the purposes of cash management.

In no circumstances shall investment in Employer Related Investments exceed 5% of the assets of the Scheme.

Risk Management

22 In its approach to the risk management of the Scheme the Trustee Board recognises that:

- the risks to which the Scheme is exposed can be measured and controlled to varying degrees
- there is an economic cost associated with reducing certain risks and in some cases the cost may outweigh the benefit
- it has to take a level of investment risk in order to meet its Investment Objectives given the relative size of the assets and the liability

23 Key risks identified include:

- **Underperformance risk (assets underperforming the liability)**

  Together with contributions from the Employer the assets must produce a level of return which is sufficient to meet the cost of benefits paid from the Scheme over the long term. If the assets underperform the liability this objective may be jeopardised.

  This risk is measured by regular monitoring of the Scheme Funding Level and of exposure to key risk factors relative to the liability which include interest rates, inflation, equities, as well as demographic risks inherent in the liability.

This risk is controlled primarily by:

- incorporating in the Strategic Asset Allocation asset classes which are expected to outperform the liability over the long term
- significant exposure to assets which hedge key risk factors in the liability, thereby controlling the volatility of the Scheme Funding Level.

▪ **Concentration risk**

Asset classes and investments can perform in an unpredictable manner. Without adequate diversification the Scheme would be exposed to an unacceptable level of risk from any given asset class or investment.

This risk is primarily measured by quantitative and qualitative assessment of the exposure to individual assets and asset classes.

This risk is controlled by setting a Strategic Asset Allocation with adequate diversification to limit concentration of exposures.

▪ **Manager risk**

The Scheme employs investment managers to manage the assets on its behalf. The Scheme invests in a series of passively managed funds but also an actively managed fund.

This risk is measured by quantitative and qualitative assessment of the progress, performance and strategy employed by the investment manager, particularly in relation to assets in the actively managed fund.

This risk is controlled by ensuring the strategy adopted in relation to the actively managed fund reduces the risk of unacceptable performance to such low level as is acceptable to the Scheme and by regular monitoring of performance of each fund.

▪ **Liquidity risk**

The Scheme has to meet ongoing benefits and other payments. The Scheme has to hold sufficient liquid or realisable assets to enable it to meet its short term obligations without compromising the longer term investment programme (e.g. by becoming a forced seller of illiquid assets).

This risk is measured through regular assessment of the ongoing benefits and other payments required to be made from the Scheme.

This risk is controlled by holding sufficient assets to meet the liquidity requirements of the Scheme in a series of investment funds that offer a high level of liquidity.

▪ **Currency risk**

The benefits and other obligations of the Scheme are primarily Sterling denominated. To the extent that the Scheme holds non-Sterling assets there is a currency risk.

This risk is measured by quantitative assessment of the exposure to non-Sterling assets through the Strategic Asset Allocation.

This risk is controlled by limiting the exposure to non-Sterling assets in the Strategic Asset Allocation and by currency hedging of certain non-Sterling exposures.

▪ **Sponsor risk**

The sponsor makes contributions to the Scheme to meet the cost of future benefits and, to the extent that there is one, to reduce any deficit in the Scheme.

Sponsor risk is measured by quantitative and qualitative assessment of the strength of the sponsor covenant, including the financial strength of the Employer.

This risk is controlled by adopting an investment strategy which seeks to achieve full funding over a suitable period of time thereby reducing reliance on the sponsor.

- **Safekeeping and custody risk**

  The Scheme holds title to the assets which have to be managed over the period until they are required to pay the benefits from the Scheme. The safekeeping of the assets is integral to meeting this objective.

  This risk is measured by quantitative assessment of the value of assets held by the Scheme in any particular investment and qualitative assessment of the nature of that investment.

  This risk is managed by ensuring that the investment manager has robust processes in place to provide safekeeping of the underlying investments within the funds utilised by the Scheme. In particular steps are taken to ascertain that the investment manager utilises a custodian bank to provide safekeeping of the underlying assets.

- **Operational risk**

  The management of the assets is a complex process that introduces risk of losses arising from human error, damage to infrastructure or other events which may be hard to predict.

  This risk is measured by quantitative and qualitative assessment of the key areas of risk associated with each investment.

  This risk is managed by:

  - selecting only investment managers who have the expertise, infrastructure and control framework required to properly manage the assets of the Scheme
  - regular monitoring of the investment manager(s) and reporting of performance
  - regular assessment of investment manager internal control policies relating to operational risks

- **Fraud & dishonesty risk**

  The Scheme is exposed to the risk of losses arising from fraud or dishonesty.

  This risk is measured by quantitative and qualitative assessment of the key areas of risk associated with each investment.

  This risk is managed by:

  - controls relating to the movement of assets outside of the Scheme

Investment Manager Selection Criteria

24 Selection criteria for investment managers will include:

- **Business**
  - stable ownership structure with a clear commitment to investment management
  - evidence of clear strategic direction
- **People**
  - high calibre, experienced professionals
  - relatively low staff turnover
  - evidence of clear commitment to culture
  - strong recruitment/training plans
  - no inappropriate level of “key man risk” (reliance on one individual)

- **Process**
  - effective approach to accessing/interpreting research
  - robust, repeatable process
  - process consistent with the stated philosophy
- **Performance**
  - acceptable variability in relation to manager’s style

Whilst past performance is a consideration in investment manager selection, it does not rank as importantly as the other criteria above.

The Trustee Board uses their external investment advisor to help assess prospective managers against the criteria above. In addition, the Trustee Board also relies on the manager research carried out by the external investment advisor when determining suitable candidates.

Investment Manager Deselection Criteria

25 Investment managers may be replaced if:

- The Trustee Board has material doubts that the investment manager will achieve the required performance and risk objectives to an acceptable standard on an ongoing basis
- The Trustee Board considers that it is desirable in the interest of the Scheme, for example following a change of strategy or a decision to change the Strategic Asset Allocation

Additional Voluntary Contributions

26 The Scheme provides a facility for members to pay AVCs into the Fund to enhance their benefits at retirement. The Trustee Board's objective is to provide a range of funds with different risk profiles that should provide suitable long term returns, consistent with members' reasonable expectations. Consequently a variety of funds have been made available for those members who pay AVCs. The Trustee Board is responsible for reviewing from time to time the range of funds made available to members.

Glossary of terms

Act	Retirements Benefit Schemes Act 2000 in the Isle of Man
Employer or **Sponsor**	Natwest Group
Employer Related Investments	Investments in the Natwest Group and its associated companies as defined by the Investment Regulations
Funding Level	The ratio of assets to liabilities, expressed as a percentage. A Funding Position greater than 100% means the value of the assets is greater than value of the liabilities, while a Funding Position less than 100% means the value of the assets is less than the value of the liabilities
Group	The Natwest Group and its associated companies
Hedging Programme	The investment strategies adopted for the risk management of the Scheme by offsetting the sensitivity of the liability value to key risks including interest rates and inflation
RPTES	RBS Pension Trustee Executive Support - A team of specialists who support the Trustee Board by providing assistance and fulfilling certain responsibilities in relation to the running of the Scheme
Investment manager	External professional investment manager employed by the Trustee Board to manage a portfolio of assets and with discretion to select specific investments subject to investment guidelines agreed for their portfolio
Investment Objectives	A set of target objectives which the investment policies are designed to meet
Investment Regulations	The Retirement Benefits Schemes (International Schemes) Regulations 2001
IOMB Fund	The Isle of Man Bank Pension Fund
Scheme	The Royal Bank of Scotland International Pension Trust
SIP	Statement of Investment Principles
Strategic Asset Allocation	The high-level allocation to individual asset classes (e.g. equities, bonds, etc.)
Trustee	RBS International Employees' Pension Trustees Limited
Trustee Board	Board of Directors of the Trustee
W&O Fund	The Isle of Man Bank Widows' and Orphans' Fund