Lombard Ireland Limited Non-contributory Pension And Death Benefits Plan
("the Plan")

Statement of Investment Policy Principles

Introduction

The purpose of this Statement of Investment Policy Principles is to outline the policies and guidelines that govern the management of the Plan's assets. It has been reviewed by the Trustees and provides an overview of their investment objectives and investment policies, how they measure risk measurement and their risk management processes.

Detailed guidelines for the Plan's investment managers are separately documented.

Investment Objectives

The overall investment objective of the Trustees is to ensure that the benefits of the Plan continue to be affordable and that ultimately the level of benefits set out in the Trust Deed and Rules can be paid. To achieve this, the Trustees seek to implement an investment strategy which is appropriate to the liabilities of the Plan and the funding and risk tolerances of both the Trustees and the Sponsor.

The Plan's current investment strategy results from an investment strategy review completed in June 2019 and which has been refined by the Trustees since then. The latest change to the strategy took place in February 2021.

Formulating Investment Policy

The Trustees have responsibility for setting and monitoring the investment strategy and arrangements of the Plan.

In setting their investment policy, the Trustees recognise that the Company's continued financial support for the Plan is of utmost importance in serving the best interests of members. Therefore, the principles outlined in this Statement are not shaped by the objectives of the Trustees in isolation, but also by an understanding of the objectives (financial or otherwise) of the Company.

The Trustees also recognise the need for expert advice in formulating investment policy and have therefore appointed an Investment Consultant (Mercer) to provide advice appropriate to the Plan.

Risk Measurement

The ideal investment strategy for any pension scheme investment would be a portfolio of high quality bonds of term appropriate to the liabilities. However, this bond strategy would be expected to deliver low long term returns and thus require high contributions. The Plan therefore needs to hold assets classes with higher expected returns (e.g. growth assets such as equities, higher-yielding fixed income, and other return seeking asset classes) in order to try to reduce funding costs over the longer term. Growth assets (also commonly known as return seeking assets) will involve higher risk and volatility, particularly over the short term and it is therefore important to conduct investment risk assessment to gain comfort on the level of investment risk in the Plan's portfolio of assets.

The key risk in the context of investment is that the Plan's funding level may deteriorate as a result of the investment strategy being pursued which would in turn increase the costs of funding and may threaten the future sustainability of the Plan.
The Trustees have therefore considered the following as part of their investment risk analysis

- **Value at Risk**
  Value at risk is an assessment of the potential increase in the deficit (on a long term measure of the liabilities) over a 1-year period at a given level of probability. The Trustees have considered the Value at Risk metrics for a number of investment strategies to attribute the key drivers of risks and how they might be mitigated.
- **Scenario analysis**
  The Trustees have considered the probability and extent of future surplus for a number of different investment strategies.
- **Duration of the liabilities**
  Duration is an assessment of sensitivity to changes in interest rates. Duration of the liabilities can differ significantly, depending on the liability valuation measure under consideration.
- **Hedge ratios**
  Hedge ratios assess the extent to which the liability matching portfolio behaves in line with the liabilities. The funding level and duration of the liabilities and the extent and duration of bond investment are key components to this calculation. It is important to consider hedge ratios on both short term (Funding Standard) and long term measures of the liability. Given the current interest rate environment, a key Trustee concern is maintaining/improving the Plan's Funding Standard position.
- **Contribution impact**
  The Trustees and the Sponsor have considered the differing contribution rates which would be required for a range of investment strategies with differing expected returns.
- **Other Statistical analysis**
  As part of their assessments on the diversification of the growth portfolio of the Plan, the Trustees have considered the correlation of different growth asset classes with developed equity markets and the aggregate standard deviation (as a measure of volatility of return) of a number of different investment strategies.
- **Qualitative risk assessment**
  The Trustees have consulted with asset class experts as part of the investment strategy review process. This is necessary as many of the quantitative assessments of risk above are based on long term assumptions and cannot accommodate important inputs into a given asset class' success in a strategy such as prevailing market conditions or investment manager skill.

The assumptions underlying the risk assessments above had an effective date of 31/12/2018. Actual experience will differ from the assumptions (perhaps significantly) and consequently, the Trustees will regularly review the investment strategy.

Current Investment Policy
The last investment strategy review was conducted for the Plan in 2019. The review comprised consideration of the range of possible asset classes available to the Plan and the appropriateness of these asset classes to meet their objectives.

Strategic Asset Allocation

Arising from the review (which included input from the Sponsoring Employer and the Plan Actuary), the Trustees established a strategic asset allocation for the Plan, which has been refined by the Trustees since then. The strategic portfolio allocations will evolve over time to reflect a reduced growth portfolio exposure and an increased liability hedging portfolio allocation according to an agreed de-risking plan.

The base currency of the Plan (and hence of the benchmark) is the Euro. The Trustees have factored the Euro nature of the liabilities when constructing the benchmark strategy.

The asset allocation for each of the growth and liability hedging portfolios implemented under the de-risking framework is set out below.

Growth Portfolio Allocation	
Asset Class	**Strategic Allocation**
Fundamental Indexation Global Equity (Euro Hedged)	50.0%
Passive Emerging Markets Equity	13.3%
Low Volatility Equity (Euro Hedged)	13.3%
Alternative Strategies (Euro Hedged)	23.4%
Total Growth Portfolio	**100.0%**

Liability Hedging Portfolio Allocation	
Asset Class	**Strategic Allocation**
Euro Nominal Government Bonds (Long Duration)	38.0%
Global Buy & Maintain Corporate Bonds (Euro Hedged)	15.0%
Euro Over 5 Year Bond Fund	19.0%
Long Real LDI Fund	10.0%
Medium Term Inflation Linked Bond Fund	18.0%
Total Liability Hedging Portfolio	**100.0%**

Based on assumptions as at 31 December 2020 and asset allocations as at 31 March 2021, the strategy had the following return and risk characteristics:

- The expected return was assessed as 0.6% net of fees
- The value at risk measure was assessed as €14.7 million, using a 5% probability and a 1-year time horizon. This is based on a Plan funding level of 87.8% as at 31 March 2021, measured by reference to a market basis which values liabilities by reference to a curve comprising of core Eurozone government bond yields plus a margin of 0.25%
- The duration of the bond portfolio was estimated to be c14 years, and the estimated duration of the liabilities of the Plan on the market basis described above was c20 years
- The hedge ratio of the strategy is approximately c45% allowing for the Plan liabilities and funding level on the market basis measure

Dynamic De-risking

The funding level of the Plan on the de-risking basis will be monitored on a daily basis through a Dynamic De-risking Service offered by Mercer to determine opportune times at which to accelerate the planned increase in the Plan's allocation to the liability hedging portfolio. The Plan is currently in Funding Level Band 9.

Funding Level Band	Bottom of Funding Level Band (Funding Level %)	Trigger to move into next Funding Level Band (Funding Level %)	Target Growth Allocation (% of total assets)	Tolerance Bands (% divergence from target allocation)
8*	0.0%	84.9%	30%	+/- 2%
9	84.9%	100.0%	28%	+/- 2%

*7 Funding Level Bands reached under previous Allocation Plan

Rebalancing

The Trustees recognize that even though the Plan's investments are subject to short-term volatility, it is critical that a long-term investment focus be maintained. The Trustees intend to avoid ad-hoc revisions to their philosophy and policies in reaction to either speculation or short-term market fluctuations and thus have agreed a rebalancing policy under which the asset allocation will be restored to the strategic allocation.

A rebalancing process has been agreed with Mercer Global Investments Europe, the investment manager, as part of the investment management agreement.

Risk Management

The Trustees will measure and monitor risk in their portfolio on a regular basis. Investments are regularly considered as part of Trustee meetings, which are also attended by the Plan's investment consultant. The Trustees receive and review quarterly reports from their Investment Consultants. The investment managers appointed to the Plan also provide performance reporting to the Trustees on a quarterly basis.

In addition, the Trustees formally review the Plan's investment strategy in conjunction with actuarial valuations of the Plan and will do so following any significant change to the Plan.

The Trustees will ensure that the investment of the Plan's assets adheres to the requirements of the Occupational Pension Schemes (Investment) Regulations 2006.

Manager Structure

Mercer has been appointed under an Implemented Consulting Service to implement the investment strategy and manager selection of the Plan. This involves selecting, blending and monitoring active and passive investment managers for the equity, alternatives and bond portfolios on the Trustees' behalf, allowing the Trustees to focus on strategic decisions.

Summary information on the funds and their performance objectives is set out below.

Asset Class	Benchmark	Objective
Fundamental Indexation Global Equity (Euro Hedged)	MSCI Customised Index (Euro Hedged)	Perform in line with the benchmark
Passive Emerging Markets Equity	MSCI Emerging Markets Index	Perform in line with the benchmark
Low Volatility Equity (Euro Hedged)	MSCI World Index (Euro Hedged)	Achieve 75% of the volatility of the MSCI World Index, while still delivering returns in line with (or better than) the MSCI World Index over the longer term
UCITS Alternative Strategies (Euro hedged)	HFRI FOF: Market Defensive Index	Over rolling 5-year periods; Deliver returns of Cash + 3% net of fees per annum, with a correlation with equities below 0.4 and annualised volatility in the 5-7% range. The shorter term objective is to outperform the HFRI FOF: Market Defensive Index.
Global Buy & Maintain Corporate Bonds (Euro Hedged)	Barclays Capital Customized Buy & Maintain Index (Euro Hedged)	The fund is actively managed with reference to the benchmark, which serves to provide an indication of the broader opportunity set and, over the longer term, it is one measure to assess the success of the strategy
Euro Nominal Bond Long Duration Fund	Composite Benchmark of Eurozone Government Bonds with duration 13-17yrs.	Perform in line with the benchmark
Euro Over 5 Year Bond Fund	Barclays / Merrill Lynch Euro 5+ year GDP – weighted Government Bond Index	Perform in line with the benchmark
Long Real LDI Fund	Composite benchmark with leveraged duration of c50yrs	Perform in line with the benchmark
Medium Term Inflation Linked Bond Fund	Composite Benchmark with overall duration of 14 – 18 years	Perform in line with the benchmark

ESG, Stewardship, and Climate Change

The Trustees believe that environmental, social, and corporate governance (ESG) factors 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 Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that may require explicit consideration.

The Trustees have delegated day-to-day management of the assets to Mercer Global Investments Europe (MGIE), who in turn delegates responsibility for the investment of the assets to underlying investment managers. MGIE monitors how the investment managers evaluate ESG factors, including climate change considerations, and whether the investment managers exercise voting rights and stewardship obligations in relation to their investments in accordance with their own corporate governance policies and current best practice.

MGIE provides reporting, regularly and at least annually, on ESG integration, stewardship monitoring, and climate-focused metrics such as carbon “foot-printing” for equities.

Shareholders’ Rights Regulations 2020 (“SRDII”)
The Trustees do not have a standalone engagement policy as the Plan invests in pooled funds and therefore has no direct engagement with the issues of the underlying securities held.

The Trustees have instead engaged with Mercer Global Investments Europe Limited (MGIE) who have provided a copy of their Engagement Policy and confirmed that MGIE complies with the Irish legislation transposing SRDII, which came into operation on 30 March 2020.

An annual report will be published by MGIE outlining how the Engagement Policy was implemented, include a general description of voting behaviour, a summary of significant votes taken and information on the use of the services of proxy advisors. The first annual report will be available in advance of the deadline of 31 March 2021.

The MGIE Engagement Policy requires sub-investment managers to vote on all shares in a manner deemed most likely to protect and enhance the long-term value for fund investors.

The Trustees in turn expect investment manager appointments to be long-term in nature and therefore assess performance over long periods. While short-term performance issues may not result in manager replacement, other factors could necessitate a change within relatively short timeframes.

Sustainable Finance Disclosure Regulations
The Trustees acknowledge the requirement, under Article 4 of the Disclosure Regulations, to publish their position regarding whether the principal adverse impacts of investment decisions on sustainability factors are considered and to maintain related information on a website. The Trustees are awaiting further clarity on Level II regulations prior to making such a statement.

This policy may be made publicly available in the future but is currently included within the SIPP of the Plan as this is available to members each year through the Trustee Annual Report.

Review
The success of the current strategy will be reviewed on at least an annual basis, with a formal investment strategy review being carried out every 3 years or following any significant change in the circumstances of the Plan.

Additional Voluntary Contributions (AVCs)

Investment Objectives – AVCs

The investment objectives of the trustees with regard to the AVC section of the plan are:

(a) To provide a range of efficiently managed fund options that meets the broad needs of the members of the plan.

(b) To provide appropriate information on these funds such that members are assisted in understanding and making their choice of fund.

Outside of these objectives (i.e. to provide a reasonable range of fund choices and appropriate information on these funds) the Trustees are not responsible for investment losses. Members making AVCs must understand that the Trustees do not accept responsibility for the success or otherwise of the choices made by members. Members have a responsibility to read and understand the documentation available to them so that the choices made by them adequately reflect their objectives and their own attitude to risk.

Risk Measurement Methods – AVCs

Given the defined contribution nature of the AVC section of the plan, the trustees will determine the range of fund options to be offered by reference to the nature and duration of the liabilities of individual members or categories of member.

In particular, the Trustees will consider the following risks:

- The risk of achieving an insufficient level of capital growth over time, so that the member's invested contributions achieve a lower overall return than that required to keep pace with earnings inflation;
- The risk that the value of a member's account moves significantly out of line with the movement in the value of annuity rates, leading to uncertainty about the amount of retirement income the member will receive for a given amount of retirement savings;
- The risk that the value of a member's account falls sharply due to investment market volatility; and
- The risk that members will not possess sufficient understanding of the options provided to make an informed decision, due either to an excessively wide or complex range of options or to provision of insufficient information on those options.

Risk Management Processes – AVCs

The Trustees will ensure that within the fund choices that are available to each member, the risks most applicable to each member can (if the member so chooses) be kept to a level that is appropriate for that individual member. This will be achieved by careful selection and monitoring of the range of funds on offer. Furthermore, the Trustees provide information to members on the range of funds offered to them.

ESG, Stewardship, and Climate Change

The Trustee believes that environmental, social, and corporate governance (ESG) factors 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.

By using a pooled investment vehicle for its equity investments, the Trustee accepts that the day-to-day application of voting rights will be carried out by Irish Life Investment Managers in accordance with their own corporate governance policy and current best practice. Irish Life Investment Managers has in place clear policies of normally voting on all issues on behalf of its investors' best financial interests and has provided the Trustee with a statement detailing their voting policy and practices.

The Trustee considers Mercer's ESG ratings (where available) for each of their strategies. Rating reviews are undertaken on a regular basis and documented at least annually. The Trustee, in conjunction with its advisers, will actively monitor and engage with its managers on ESG integration, consistent with this Policy statement.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations and not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

Shareholders' Rights Regulations 2020

With respect to the European Union (Shareholders' Rights) Regulations 2020, the Trustee has not developed a standalone engagement policy. The Scheme invests in units in various pooled funds that may from time to time invest in equities of companies which are listed on EU regulated markets. However, in each case the Scheme is one investor among others so has no direct voting rights or other means of engagement with any companies in which the pooled fund may have invested.

The Trustee has engaged with Irish Life Investment Managers and they have provided a copy of their Engagement Policy and confirmed that they are in compliance with the Regulations.

The investment horizon of the Scheme's equity investments is medium to long term in nature, and the Trustee expects the managers to use their engagement activity to drive improved performance over those periods.

The Trustee also expects investment manager appointments to be long-term in nature, and assess the performance over longer-term periods. Short term performance issues would not be expected to result in a manager termination, although other factor may necessitate a change over relatively short timeframes.

Sustainable Finance Disclosure Regulations

The Trustee acknowledges that under Article 4 of the Disclosure Regulations there is a requirement to publish and maintain on a website whether principal adverse impacts of investment decisions on sustainability factors are considered. The Trustee is awaiting the clarity of the Level II regulations prior to making such a statement.

This policy may be made publicly available in the future but is currently included within the SIPP of the Scheme as this is available to members each year through the Trustee Annual Report.

Current Investment Policy – AVCs

The current range of fund categories is set out below along with a description of the investment manager arrangements adopted by the Trustees.

To manage the risks set out above, the Trustees currently offer the following broad categories of fund options to members. Irish Life Assurance plc are currently employed as investment managers to the AVC section of the Plan.

Asset class	**AVC funds available**
Cash funds	Irish Life Exempt Cash Fund
Bond funds	Irish Life Exempt Passive Long Bond Fund
Managed (multi-asset) funds	Irish Life Consensus Fund
Equity funds	Irish Life Indexed World Equity Fund
Property funds	Irish Life Exempt Property Fund

Contact Information – AVCs

More information on the AVC options is available by contacting the administrator at the following address:

Group Pension Services
The Royal Bank of Scotland Group plc
City Link House
4 Addiscombe Road
Croydon CR9 5PB

Effective Date of this Statement: March 2021