Statement of Investment Principles

For the Royal London Group Pension Scheme

Effective from: January 2025

1. Introduction

This Statement of Investment Principles (“SIP”) has been produced by RLGPS Trustee Limited, the Trustee of the Royal London Group Pension Scheme.

It sets out our policies on various matters governing investment decisions for the Royal London Group Pension Scheme (“the Scheme”), which is a Defined Benefit (“DB”) Scheme.

This SIP replaces the previous SIP dated March 2024.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator’s guidance on investments.

2. Investment objectives

The primary objective for the Scheme is to ensure that the benefit payments are met as they fall due.

In addition to this primary objective, the Scheme’s funding level (asset value relative to liabilities) should remain at an appropriate level. We are aware that there are various measures of funding and have given due weight to those considered most relevant to the Scheme.

3. Investment strategy

With input from our advisers and in consultation with the employer, the Scheme’s agreed investment strategy is shown in the following table.

Asset class	Strategic allocation
Global equities	6.0%
UK property	4.5%
Multi-asset credit	13.5%
UK investment grade credit	34.0%
Index-linked gilts, cash & Liability Driven Investment (“LDI”)	24.0%
Pensioner buy-in	18.0%
Total	**100.0%**
Target interest rate and inflation hedging (Self-sufficiency basis)	95.0%

The Scheme’s assets (excluding the pensioner buy-in) are held with a single investment manager. We have provided the investment manager with a benchmark asset allocation against which to manage the Scheme’s assets.

If material deviations from this benchmark occur, our investment manager has discretion to rebalance the assets on our behalf within agreed limits.

We have an LDI leverage management plan in place which sets out the assets directly available to support the Scheme’s LDI arrangements and how these would be sold down if required.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes.

The primary ways that we manage investment risk is via diversification, ensuring that we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments.

In setting the strategy it is our policy to consider:

- our investment objectives, including the target return required to meet these;
- 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; and
- the need for appropriate diversification between different asset classes to manage investment risk and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate.

We also consider other factors that we believe to be financially material over time horizons relevant to the funding of the Scheme's benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

Our key investment beliefs, which influence the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit, and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward 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;
- ESG factors should be considered when making investment decisions, and managers may be able to improve risk-adjusted returns by doing this;
- climate change is a financially material systemic issue that presents risks and opportunities for the Scheme over the short, medium and long term;
- aligning our assets with net zero greenhouse gas emissions by 2050 where practicable is expected to help reduce the risks to the Scheme from climate change;
- voting and engagement are important and can create long term value which is in the best interest of Scheme members and therefore we encourage our manager to improve its voting and engagement practices.

5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have signed an agreement with our investment manager setting out the terms on which the portfolio is to be managed. We review and encourage our manager to improve its practices within the parameters of the portfolio it is managing.

Our 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 the portfolio. However, in practice the manager cannot fully align its 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 our responsibility to ensure that the manager's investment approach is consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect our investment manager to make decisions based on assessments of the longer term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting new investment mandates and monitoring our manager.

We evaluate investment manager performance over both shorter and longer term periods as available. If the manager is not meeting its performance objectives, we will consider alternative arrangements.

Our policy is to evaluate the investment manager by considering performance, the role it plays in helping to meet our 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.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment manager, we do not explicitly monitor portfolio turnover. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. 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, we, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment manager of any liquidity requirements.

Our preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg property). In general, our 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 market-based views, and also receive income from some of the portfolios where appropriate.

7. Financially material considerations and non-financial matters

We consider how ESG considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Scheme and its members.

We influence the Scheme's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect the investment manager to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates it is set. We review how our manager is taking account of these issues in practice and encourage our manager to improve its ESG practices, although acknowledge that we have limited influence where assets are held in pooled funds.

Our ambition is to align our assets with net zero greenhouse gas emissions by 2050 by investing with an investment manager with a credible net zero target.

We do not take into account any non-financial matters that are purely non-financial in nature (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. However, the line between financial and non-financial factors is not always clear and some non-financial factors that may not immediately present as financially material may have the potential to become so in the future. We keep this under review as part of our overall ESG considerations.

8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe 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 and is in the best interests of our members.

We seek to appoint investment managers with strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council.

We have delegated to the investment manager the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. We expect our manager to undertake voting and engagement in line with its stewardship policies, considering the long-term financial interests of investors.

As all of our non buy-in investments are held through the manager we do not monitor or engage directly with issuers or other holders of debt or equity.

We monitor the manager's activities in relation to ESG factors, voting and engagement on a regular basis. We seek to understand how it is implementing its stewardship policies in practice to check that its stewardship is effective and aligned with our expectations.

We have selected some priority ESG themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We review the themes regularly and update them if appropriate. We communicate these stewardship priorities to our manager each year and update them if appropriate.

If our monitoring identifies areas of concern, we will engage with the manager to encourage improvements. We will set objectives and target dates for each formal engagement, review progress, and have an escalation process which we will follow if progress is unsatisfactory.