Royal Insurance Group Pension Scheme

Statement of Investment Principles – September 2020

1. Introduction

1.1 The Trustee Board ("the Trustee") of the Royal Insurance Group Pension Scheme ("the Scheme"), RIGPS Pension Trustee Limited, in its capacity as Trustee of the Scheme has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. As required under the Act, the Trustee has taken appropriate written advice from its investment advisers.

1.2 In preparing this Statement, the Trustee has consulted the sponsoring company of the Scheme (Royal & Sun Alliance Insurance plc) ("Sponsoring Company") to ascertain whether there are any material issues about which the Trustee should be aware in agreeing the Scheme's investment arrangements. Notwithstanding, it is noted that, the ultimate power and responsibility for deciding investment policy lies with the Trustee.

2. Scheme Governance

2.1 The Trustee is responsible for the overall investment arrangements and has delegated specific responsibilities to its Investment Sub Committee ("ISC"). All decisions of the ISC will be recorded in committee minutes and made available to the Trustee, along with a summarised report at the following Trustee Board meeting.

2.2 The role and responsibilities for the ISC are covered in the Terms of Reference for the Investment Sub Committee.

2.3 The ISC has a documented business plan which sets out the Scheme's expected activities and aspirations for the year and is updated regularly.

3. Legal Duty and Investment Objective

3.1 The Trustee has a legal duty to invest the Scheme's assets in the best interests of the members and beneficiaries of the Scheme, and in the case of a potential conflict of interest, in the sole interests of the members and beneficiaries. This will principally mean maximising the chances that the benefits to which the Scheme's members and beneficiaries are entitled under the Scheme's governing documentation being paid in full.

3.2 In order to achieve the above, the Trustee's principal investment objective is to generate a return which will be sufficient, together with the expected contributions from the Sponsoring Company, to reach full funding on a low dependency basis within a reasonable timeframe.

4. **Investment Strategy**

4.1 The Trustee adopts an investment strategy which is consistent with the legal duties and principal investment objective set out in section 3.1. The remainder of this document sets out the policies which inform this strategy.

5. **Process For Choosing Investments**

5.1 The process for choosing investments is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk and expected return consistent with meeting the objectives set; and
- Construct a portfolio of investments that is expected to meet the return objective (net of all costs) given the targeted level of risk and other considerations (including cashflow and liquidity requirements).

5.2 In considering the appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of Redington Limited, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Act.

6. **Investment Beliefs**

6.1 The Trustee has adopted the following investment beliefs when considering the expected return, risk and diversification within the investment policy for the Scheme. These beliefs are intended to guide future decisions relating to the investment of the Scheme's assets and they are that:

- the liabilities of the Scheme behave in a similar way to UK government bonds in terms of how they increase and decrease in value with long term interest rates and inflation expectations.
- assets that do not match the liabilities of the Scheme are risky relative to the liabilities, and that these risks need to be understood, quantified, and monitored. They also need to be sufficiently well rewarded to justify the risks taken.
- risks should only be tolerated to the extent that they can be justified by the covenant of the Sponsoring Company.
- equities, property and credit should be expected to outperform government bonds over the long-term.
- assets with low liquidity should offer a liquidity premium.
- assets which have complex characteristics should offer a complexity premium.

- unrewarded risks should be removed if markets allow at a fair price.
- diversification of risky assets, both across and within asset classes, reduces risk and volatility.
- judgement and qualitative research are at least as important as quantitative analysis.
- investor behaviour can result in market inefficiencies.
- active management of investment grade and sub-investment grade credit is preferable compared with a passive approach.
- market sentiment can result in opportunities for long-term investors.
- the implementation of any change in policy should allow adequately for prevailing market conditions.
- environmental, social and governance issues can have a financial impact on investment returns.

7. **Risk Management and Measurement**

7.1 There are various risks to which the Scheme is exposed. In establishing the investment policy, the Trustee has considered the following risks:

- **Risk:** The risk that there is a mismatch between the value of the assets and the liabilities of the Scheme.

  Policy: The Trustee hedges the majority of the risk seen as unrewarded including liability risks (interest rate risk and inflation risk) and currency risk. A proportion of the longevity risk is also hedged. A certain level of risk is required within the policy, however, to achieve the investment objectives. The Trustee recognises that, whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the respective Scheme's liabilities. Increasing risk can also produce more short-term volatility in a Scheme's funding position.

- **Risk:** The risks that may arise from a lack of diversification of investments within the Scheme.

  Policy: To reduce the impact of this risk the Trustee is responsible for ensuring the asset allocation policy in place results in an adequately diversified portfolio, subject to meeting the overall investment objectives set by the Trustee.

- **Risk:** The risk that the day to day management of the assets will not achieve the rate of investment return expected by the Trustee and required to meet the objectives.

Policy: The Trustee recognises that the use of active management involves such a risk. The Trustee ensures that individual portfolios are suitably diversified and, where appropriate, diversified manager structures are in place within each asset class to reduce this risk. In markets where the Trustee does not believe that the risk of underperformance is sufficiently well compensated, or sufficiently likely to be compensated, a passive approach is adopted.

- **Risk:** The risk that the Scheme is invested in assets which are unsuitable given the circumstances of the Scheme.

  Policy: The documents governing each investment manager's appointment include a number of guidelines which are designed to ensure that only suitable investments are held. Arrangements are also in place to monitor the investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee receives regular reports from each investment manager and the investment advisor.

- **Risk:** The risks associated with the Scheme's assets not being held in safe custody.

  Policy: The custody of the Scheme's assets is delegated to a global custodian either directly or via the use of pooled vehicles.

- **Risk:** The risks associated with the Scheme's use of derivatives.

  Policy: The Trustee mitigates this risk through daily collateral management, diversifying exposure across counterparties, and the use of robust ISDA, GMRA or other relevant derivatives documentation.

- **Risk:** The risk that the Sponsoring Company is unable to continue to support the Scheme.

  Policy: The Trustee manages this risk by assessing the interaction between the Scheme and the Sponsoring Company's business, as measured by a number of factors, including the creditworthiness of the Sponsoring Company and the size of the pension liability relative to the financial strength of the Sponsoring Company. Advice is taken from a specialist covenant advisor in this regard and the Scheme has in place an Integrated Risk Management framework which considers the interaction between funding, investment and covenant.

7.2 Should there be a material change in the Scheme'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.

8. Portfolio Construction

8.1 The Trustee has adopted the following policies and principles in structuring the Scheme's investments:

- To help diversify manager-specific risk, multiple manager appointments within a single asset class are preferred where practical.

- At a total asset level and within individual manager appointments, investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer. This restriction does not apply to investment in UK Government debt.

- Illiquid investments, such as property, may be held as long as the ISC judges that the lack of liquidity will not prevent the Scheme from achieving the investment objectives.

- Investment in derivatives is permitted either directly or within pooled funds as long as they contribute to a reduction in risk or facilitate efficient portfolio management.

- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the ISC will ensure that the assets of the Scheme are predominantly invested in regulated markets.

- The Scheme shall not invest in securities issued by the Sponsoring Company or its associated companies (other than any such securities held within a pooled fund in which the Scheme invests).

- No appointed investment manager shall invest in the securities issued by the relevant manager's company or any affiliated companies (other than any such securities held within a pooled fund in which the Scheme invests).

9. Day–to-Day Management of the Assets

9.1 The ISC delegates the day to day management of the Scheme's assets to a number of investment managers. The ISC takes steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

9.2 The ISC determines, based on expert advice, the asset types and associated ranges within which each appointed investment manager may operate.

9.3 The ISC regularly reviews the balance between active and passive management, which may be adjusted from time to time. However, any such adjustments would be done with the aim of ensuring the overall level of expected return and risk is consistent with the principal investment objective.

9.4 The ISC regularly reviews the continuing suitability of the Scheme's investments, including the appointed managers. The ISC seeks long-term, ongoing partnerships with their investment managers to incentivise medium to long-term financial performance. The ISC does not set duration expectations for its partnerships but monitors their suitability on an ongoing basis. Some investments allow the Trustee to terminate the relationship with the investment manager on short notice, but for others, normally where the underlying asset class is illiquid, have a fixed term.

9.5 Investment managers are appointed on an ongoing basis. To incentivise investment managers to make decisions based on medium to long-term financial performance, the ISC assesses investment manager performance over various periods including 3 year, 5 year and since inception of the mandate. Its review of ongoing suitability of the investment manager is heavily focussed on the assessment of the future performance expectations and the portfolio's role in supporting the Scheme's overall investment objectives and the portfolio's alignment with these principles.

9.6 To incentivise the medium to long-term financial performance of its investments, the ISC monitors the stewardship and engagement activities for each of its investment managers on an annual basis. The ISC expects its investment managers to directly engage with the debt or equity issuers to improve the issuer's performance on a medium to long-term basis. The quality of each investment manager's approach forms part of the assessment of its ongoing suitability.

9.7 The ISC reviews the turnover and ongoing investment costs on an annual basis using the industry standard templates and definitions where possible. Based on the guidance from its investment advisor, each portfolio has an expected investment turnover range and the portfolio's turnover is assessed against that expected range. Deviations from that range are reviewed with the investment manager.

10. Realisation of Investments

10.1 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 and pooled fund prospectuses.

11. Cash Requirements

11.1 The ISC reviews the cashflow for the Scheme on a quarterly basis and ensures that sufficient cash is held to meet the Scheme's cashflow needs.

12. Environmental, Social, Governance (ESG) Risks

12.1 The Trustee believes that environmental, social and corporate governance ("ESG") issues, including climate change risks, can be financially material to security prices and should therefore be considered as part of the Scheme's investment process. The Trustee sets the Scheme's policy on ESG risks, as set out below, but delegates responsibility for the implementation of this to the ISC.

12.2 Investment managers are given full discretion to evaluate ESG issues in the selection, retention and realisation of investments. The ISC believes that good managers consider how to best account for ESG factors in their investment process, and that investment teams are likely to have stronger ESG analysis if the importance of ESG is recognised by their broader organisation. The evaluation of how the managers have identified and managed material ESG risks, forms part of the ISC's ongoing appraisal of the manager's appointment.

12.3 The Trustee believes that the impact of, and potential policy responses to, climate change creates a material financial risk. The investment managers' identification and integration of climate change risks forms part of the ISC's monitoring and ongoing assessment of their managers.

12.4 It is accepted that pooled investments will be governed by the individual policies of the investment managers and so the ability of the Trustee to directly influence behaviour is limited. The extent to which ESG and climate change risks are taken into account are left to the discretion of the investment manager and forms part of the ISC's monitoring and ongoing assessment of these investments as well as being a key area of focus when appointing new investment managers.

12.5 The Trustee does not take into account non-financial matters (i.e. the ethical and other views of members and beneficiaries) in setting its investment policy and does not require its investment managers to take those matters into account in the selection, retention and realisation of assets.

12.6 It is recognised that ESG factors have varying degrees of importance for different types of assets held as part of the Scheme's overall investment strategy. They may, in particular be of limited or no application for the Scheme's investment strategy comprising gilts and certain other hedging instruments.

13. Stewardship: Exercise of Voting Rights and Engagement Activities

13.1 The Trustee sets the Scheme's policy on stewardship including the exercise of voting rights and engagement activities. The Trustee believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty. The ISC has been given delegated responsibility to implement the Trustee's policy.

13.2 Investment managers are given full discretion in exercising rights and stewardship obligations relating to the Scheme's investments. The ISC expects all of their investment managers to monitor investee companies and engage with management on all relevant stewardship matters including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance. Furthermore, the ISC encourages its investment managers to work collectively with other managers when practical.

13.3 The ISC requires all appointed investment managers to report regularly to the ISC and disclose all voting and engagement activity undertaken on its behalf. The ISC monitors the approach of each investment manager.

13.4 The ISC may engage with its investment managers as part of its stewardship monitoring process or, potentially, as a particular stewardship matter is brought to its attention. The ISC has not had, and does not expect, direct engagement with the issuers or other holders of debt or equity.

13.5 The ISC is supportive of the UK Stewardship Code ("the Code") published by the Financial Reporting Council and expects the Scheme's managers who are registered with the FCA to comply with the Code. Such managers are required to report on the extent of their adherence to the UK Stewardship Code on an annual basis.

13.6 The ISC expects its investment managers to have effective policies addressing potential conflicts of interest in matters of stewardship. These will be reviewed periodically.

14. Monitoring and Reporting

14.1 The appointment of the Scheme's investment managers will be reviewed by the ISC from time to time, based on the results of their monitoring of performance and process, and of compliance with the requirements in the Act concerning diversification and suitability, where relevant. The Trustee shares the Statement with the investment managers periodically, with the aim of ensuring managers invest in line with the Trustee's policies.

14.2 To assist the ISC in assessing performance, the investment advisor provides relevant reporting on a quarterly basis, with more regular updates as necessary. As part of this process, the ISC has delegated the detailed monitoring of the Scheme's investment managers to its investment advisor. The ISC holds regular meetings with the investment managers to satisfy themselves that they continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Scheme.

14.3 The Trustee believes that custodian services are a vital part of the management of the Scheme's assets and recognise the importance of monitoring the custodial arrangements.

14.4 The Trustee Board will provide an implementation statement within its annual reports signed after 1 October 2020. The implementation statement will set out how it has acted on the principles within this Statement and will provide details of the stewardship, engagement and voting undertaken in regards to the Scheme's investments.

15. Company Consultation

15.1 The Trustee has consulted with the Sponsoring Company in formulating the Scheme's investment strategy and in formulating this Statement.

15.2 The Trustee will consult the Company prior to any material changes in investment arrangements including but not limited to the overall level of risk, the introduction of new asset classes, the selection of investment managers and the level of interest rate and inflation hedging.

16. AVC Arrangements

16.1 The Scheme's AVC arrangement provides for benefits to be accrued both on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges, and on a with profits basis. In selecting appropriate investments, the Trustee is aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members.

17. Review of this Statement

17.1 The Trustee will review this Statement, with input from the ISC, at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who 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 Scheme's investments, and having consulted the Sponsoring Employer.

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