

Sal Pension Scheme

Statement of Investment Principles – April 2023

1. Introduction

- 1.1 The Trustee Board (“the Trustee”) of the Sal Pension Scheme (“the Scheme”), Sal Pension Fund 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 (RSA Insurance Group Limited) (“the 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 Committee (“IC”). All decisions of the IC 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 roles and responsibilities for the IC are covered in the Terms of Reference for the Investment Committee.
- 2.3 The IC has a documented business plan which covers the Scheme’s expected activities and aspirations for the year and is updated regularly.

3. Investment Objectives

- 3.1 The Trustee has a fiduciary responsibility 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 will be paid in full.

4. Investment Strategy

- 4.1 On 27 February 2023, the Trustee purchased a number of bulk annuity policies (“buy-ins”) with Pension Insurance Corporation (“PIC”) which, together with a pre-existing longevity swap with Rothesay Life, are designed to fund all members’ defined benefit payments as they fall due.

- 4.2 The Trustee retains overall responsibility for reviewing the ongoing operation of and risks associated with the buy-in policies and longevity swap (together the “insurance policies”). This includes, but is not limited to, the insurers’ ongoing credit quality and the timeliness and accuracy of payments made to the Scheme.
- 4.3 A number of investments were retained in the Scheme at the point of purchasing the bulk annuity policies (“residual assets”). Work is ongoing to dispose of these with the expectation being that all will be sold or redeemed over the remainder of 2023 or by mid-2024 at the latest.
- 4.4 Any surplus assets held following the purchase of the bulk annuity policies, over and above the residual assets, will be invested in cash or money market funds.

5. **Risk Management and Measurement**

- 5.1 The key risk to the Scheme is that the value of assets is insufficient relative to the value of the liabilities. This is called solvency risk and ultimately could lead to there being insufficient assets to secure all benefits.
- 5.2 There are many other individual risk factors which have the potential to contribute to solvency risk. Due to the complex and interrelated nature of these risks, the Trustee considers these in a qualitative rather than a quantitative manner in accordance with regulatory requirements.
- 5.3 In practice, these risks have been minimised through the execution of the buy-in policies which mean that benefit payments can be met as they fall due; and the laws that regulate the insurers and provide protection for policyholders.
- 5.4 Whilst risks have been minimised, and there are considerable protections in place for policyholders, it is recognised that the Scheme’s single largest exposure is to PIC and the risk that they are unable to meet their obligations. The Trustee, therefore, actively measures and monitors the credit quality of PIC on a regular basis, with advice from its specialist covenant advisor.
- 5.5 By entering into buy-in policies, the likelihood of the Sponsoring Company being required to make large injections to support the Scheme has very significantly reduced. To the extent there remains a risk that injections are required, the Trustee manages this by assessing the creditworthiness of the Sponsoring Company and the size of any remaining pension liability relative to the financial strength of the Sponsoring Company. Advice is also taken from the Scheme’s specialist covenant advisor in this regard.
- 5.6 Should there be a material change in the Scheme’s circumstances, the Trustee, will review whether the investment arrangements should be altered, to the extent this is possible.

6. Day-to-Day Management of the Assets

- 6.1 The majority of the Scheme's assets were sold or transferred to PIC to fund the premium payment for the buy-in transactions. As a result, there remains only a small number of assets within the Scheme, with these all being in the process of being sold or redeemed.
- 6.2 The IC has taken steps, including taking expert advice, to satisfy itself that the managers, to whom day-to-day management of the remaining assets is delegated, have the appropriate knowledge and experience for managing the Scheme's investments.
- 6.3 The Trustee has over time put in place arrangements with investment managers designed to incentivise alignment with the Trustee's long term strategic objectives. With the recent buy ins, the Scheme's strategy has fundamentally changed, and remaining assets are being actively disposed of, and so, whilst the Trustee continues to monitor performance of the remaining assets, it does so recognising that it needs to be considered in that context. Stewardship and engagement activities also continue to be monitored, albeit it is recognised that there is likely limited scope to exert influence, given that steps are already underway to sell or redeem all investments.

7. Realisation of Investments

- 7.1 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.

8. Cash Requirements

- 8.1 The Trustee's primary focus, following the recent buy-in transaction, is on ensuring that the cashflows payable under the insurance policies are of the right value and received when they are due.

9. Environmental, Social, Governance Risks

- 9.1 The Trustee believes that environmental, social and corporate governance ("ESG") issues, including climate change risks, can have a significant financial impact. It is recognised, however, that these risks are principally embedded through the Scheme's buy-in policies, and therefore it is PIC's approach to ESG and climate change which is of most importance.
- 9.2 PIC's approach to ESG and climate change was an important factor in their selection as the Scheme's buy-in provider. On an ongoing basis, however, it is recognised that the ability of the Trustee to directly influence PIC's behaviour will be limited. That said, PIC's approach to ESG and climate change will form part of the Trustee's monitoring and ongoing assessment of PIC, to the extent this is practical, and should it be deemed appropriate, concerns will be raised.
- 9.3 To the extent that there are still investment managers employed by the Trustee, they are given discretion to evaluate ESG issues in the selection, retention and realisation of investments. The IC 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. 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 IC's monitoring and ongoing assessment of these investments and was a key area of focus when new investment managers were appointed.

- 9.4 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.

10. **Stewardship: Exercise of Voting Rights and Engagement Activities**

- 10.1 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 IC has been given delegated responsibility to implement the Trustee's policy.

- 10.2 PIC's approach to stewardship was reviewed as part of their selection as the Scheme's buy-in provider. On an ongoing basis, however, the Trustee believes it has limited scope to influence the ongoing stewardship and corporate governance activities of PIC. That said, PIC's approach to stewardship will form part of the Trustee's monitoring and ongoing assessment of PIC, to the extent this is practical, and should it be deemed appropriate, concerns will be raised.

- 10.3 To the extent that there are still investment managers employed by the Trustee, they are given full discretion in exercising rights and stewardship obligations relating to the Scheme's investments. The IC 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 IC encourages its investment managers to work collectively with other managers when practical.

- 10.4 The IC 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.

11. **Monitoring and Reporting**

- 11.1 The Trustee's primary focus, with advice from its professional covenant advisor, is the monitoring of the financial position of the insurers, in particular PIC.

- 11.2 As noted earlier in the Statement, all residual assets are being sold or redeemed and as such the IC does not intend to hold regular meetings with the investment managers unless particular concerns come to light.
- 11.3 The Scheme's longevity swap is collateralised daily and the IC recognises the importance of ensuring these arrangements continue to operate effectively.
- 11.4 The Trustee provides an implementation statement within its annual report. 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 with regards to the Scheme's investments.

12. **Company Consultation**

- 12.1 The Trustee has consulted with the Sponsoring Company in formulating the Scheme's investment strategy and in formulating this Statement.
- 12.2 The Trustee will consult the Company prior to any material changes in investment arrangements.

13. **AVC Arrangements**

- 13.1 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.

14. **Review of this Statement**

- 14.1 The Trustee will review this Statement, with input from the IC, 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.