

# Statement of Investment Principles – RBC (UK) Pension Plan

Last reviewed: 11 December 2023

## Introduction

- 1 This document is the Statement of Investment Principles (“SIP”) made by RBC Pension Trustees Limited as Trustee of the RBC (UK) Pension Plan (“the Trustee” and “the Plan” respectively) in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).
- 2 The Plan has two sections – a defined benefit (“DB”) section, and an Additional Voluntary Contributions (“AVC”) section. The investment principles for the AVC section are covered at the end of the SIP.
- 3 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took written advice from the Plan’s Fiduciary Manager (Towers Watson Limited) and consulted Royal Bank of Canada (the “Employer”). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.
- 4 The operation of the Plan is governed by a Definitive Trust Deed and Rules (the most recent version is dated 1 July 2008), together with any subsequent Deeds of Amendment. The Plan holds investments as permitted by its Trust Deed and Rules.

## Plan objectives

- 5 The principal objective of the Plan is to invest the assets to meet its liabilities when they fall due. The Trustee wishes to protect members’ accrued benefits, whilst achieving a funding level of 100% on a reasonably prudent basis.
- 6 The Trustee investment beliefs will inform all investment strategy decisions. The Trustee has adopted the following investment beliefs:
  - a All investment strategy begins with the Plan’s objectives & constraints (including a defined risk budget). The Trustee focuses on decisions that will have the greatest impact on achieving the Plan’s objectives.
  - b The success of an investment strategy is judged by meeting the Plan’s objectives, not in correctly predicting the direction of the market.
  - c Manager selection should not drive investment strategy; rather managers should be chosen to fulfil the strategic asset allocation that meets the Plan’s objectives.
  - d For every return above the risk-free rate there is a risk and the Trustee’s aim is to achieve an attractive risk adjusted return.

- e Illiquidity always increases risk relative to a liquid comparable asset and needs to offer a higher expected return to be a part of an asset allocation.
- f Risk management needs to be put in place in the good times to have the greatest effect in the bad times.
- g Diversification adds value over the long term but cannot be relied upon to protect the portfolio in all adverse conditions.
- h The attractiveness of a strategy should be considered net of all costs (transaction and management fees), and using prudent cost assumptions will incorporate a margin of safety leading to better outcomes.
- i Investment strategy only works if it is implemented, and if the Trustee doesn't understand something it won't invest in it.
- j Investment strategy should be as simple as possible but as complex as necessary to meet the Plan's objectives.
- k Environmental, social and corporate governance (ESG) factors and good stewardship practices should be integrated into investment management processes where possible.

## **Investment strategy**

- 7 Following advice from its Fiduciary Manager, the Trustee has agreed a strategy, in light of a detailed review in conjunction with the 2021 Actuarial Valuation, to manage the Scheme to the expected return target (currently Gilts +1.0%) whilst managing risk appropriately.
- 8 The Trustee has received advice to determine an appropriate investment strategy for the Plan. The Trustee has a desire to diversify risk exposures and to manage its investments effectively. The investment strategy makes use of a range of investments which together enable the Trustee to:
  - a Target the required expected return on assets
  - b Provide exposure to a diversified portfolio of asset classes
  - c Manage investment risk, including that arising due to a mismatch between assets and liabilities
  - d Hedge interest rate and inflation risk arising from the liabilities
  - e Maintain suitable liquidity of assets such that the Plan is not forced to buy and sell investments at particular times to pay member benefits or meet potential collateral calls on derivatives exposures
- 9 The Trustee has appointed an investment manager to manage the Plan's assets on a discretionary basis and to provide investment advisory services to the Trustee (the "Fiduciary Manager"). The balance within and between the investments to be held under the investment strategy will be determined from time-to-time at the discretion of the Fiduciary Manager, with

the objective of maximising the probability of achieving the Plan's investment objective set by the Trustee. The Fiduciary Manager's discretion is subject to guidelines set by the Trustee in the agreement between the parties as amended from time to time (the "Agreement"). In exercising investment discretion, the Fiduciary Manager is required to act in accordance with its obligations in the Agreement, including the guidelines and any investment restrictions set out therein, and in so doing is expected to give effect so far as reasonably practicable to the principles contained in this SIP. This ensures appropriate incentivisation and alignment of decision-making with the Trustee's overall objectives, strategy and policies.

- 10 The Trustee has established an Investment Sub-Committee (the "ISC") to support the Trustee in investment decision making and monitoring. The terms of reference for the ISC are provided in a separate document.
- 11 The Scheme Actuary performs a valuation of the Plan at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree an appropriate funding strategy for the Plan.
- 12 The Trustee will monitor the liability profile of the Plan and will regularly review, in conjunction with the Fiduciary Manager and the Scheme Actuary and in collaboration with the Employer, the appropriateness of its investment strategy.
- 13 The expected return of the investments will be monitored regularly and will be directly related to the Plan's investment objective.
- 14 The Trustee, together with the Plan's administrators and the Fiduciary Manager, will hold sufficient cash and money market instruments to meet short-term benefit and other payment obligations.

## **Investment managers**

- 15 The Trustee has delegated investment selection, de-selection and the ongoing management of relationships with investment managers to the Fiduciary Manager within the guidelines set by the Trustee in the Agreement. Investments will be made by the Fiduciary Manager on behalf and in the name of the Trustee, either directly in pooled vehicles or by the appointment of third party investment managers to provide discretionary investment management services to the Trustee.
- 16 The Trustee and ISC consider the Fiduciary Manager's performance in carrying out these responsibilities as part of their ongoing oversight of the Fiduciary Manager. The Trustee expects the Fiduciary Manager to ensure that the Plan's investment portfolio, in aggregate, is consistent with the policies set out in this SIP, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee expects the Fiduciary Manager to:
  - check that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustee's principles contained in the SIP;
  - set appropriate guidelines within each investment management agreement for segregated investments with a view to ensuring consistency with the Trustee's principles contained in the SIP.

- 17 In accordance with the Financial Services and Markets Act 2000, the Trustee and ISC will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Plan competently. The duration of the arrangements with investment managers will be determined on an individual basis taking into account the nature of the relevant investment mandate. In most cases, managers are appointed with the expectation of a long-term relationship but with an ability to terminate where considered appropriate. However, there may be occasions when managers are put in place for a short period or a fixed period, depending on the nature of the investment strategy.
- 18 The Trustee, ISC and Fiduciary Manager are not involved in the investment managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. However, the Fiduciary Manager may provide investment recommendations to third party investment managers appointed by the Trustee where it considers it appropriate. The Trustee and ISC have delegated the detailed monitoring of the Plan's investment managers to the Fiduciary Manager. The Fiduciary Manager will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each investment manager, consistent with the achievement of the Plan's long term objectives, and an acceptable level of risk. The ISC, on behalf of the Trustee, will monitor the performance of the Fiduciary Manager against the objectives set in its investment guidelines.
- 19 The Trustee expects the Fiduciary Manager to appoint third party investment managers and select pooled funds with an expectation of a long-term partnership with the Trustee, which encourages active ownership of the Plan's assets. When assessing an investment manager's or fund's performance, the Trustee expects the Fiduciary Manager to focus on longer-term outcomes, commensurate with the Trustee's position as a long term investor. Consistent with this view, the Trustee does not expect that the Fiduciary Manager would terminate an investment manager's appointment or disinvest from a selected fund based purely on short-term performance but recognises that this may happen within a short timeframe due to other factors such as a significant change in their business structure or investment team. The Trustee and ISC adopt the same long term focus as part of its ongoing oversight of the Fiduciary Manager.
- 20 For most of the Plan's investments, the Trustee expects the Fiduciary Manager to appoint third party investment managers or select pooled funds with a medium to long time horizon, consistent with that of the Plan. In particular areas such as equity and credit, the Trustee expects the Fiduciary Manager to work with investment managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustee notes that the Fiduciary Manager may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustee expects that the appropriateness of the Plan's allocation to such mandates is determined in the context of the Plan's overall objectives.
- 21 The Trustee and Fiduciary Manager recognise that an investment's long-term financial success is influenced by a range of financially material factors including environmental, social and governance ("ESG") issues.
- 22 Consequently the Trustee (through the selection of the Fiduciary Manager and its associated approach to ESG issues, as set out below) seeks to be an active long-term investor. The Trustee's focus is on financially material considerations. The Trustee's policy at this time is not to take into account non-financial matters in the selection, retention and realisation of investments.

- 23 When considering its policy in relation to stewardship including engagement and voting, the Trustee expects investment managers to address broad ESG considerations taking into account the nature of the assets held under the relevant investment mandate. The Fiduciary Manager has identified climate and human and labour rights as key areas of focus and the Trustee is supportive of these priorities. The Trustee assesses that ESG risks, including climate change, pose a financial risk to the Plan and that focussing on these issues is ultimately consistent with the Trustee's fiduciary duties and the financial security of its members. Whilst the Trustee's policy is to delegate a number of stewardship activities to the Fiduciary Manager and its investment managers, the Trustee recognises that the responsibility for these activities remains with the Trustee. The Trustee incorporates an assessment of how well the Fiduciary Manager and investment managers exercise these responsibilities as part of its overall assessment of their performance.
- 24 The Fiduciary Manager has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment manager selection and portfolio management process, with oversight undertaken on an periodic basis. The Trustee expects the Fiduciary Manager to assess the alignment of each investment managers' approach to sustainable investment (including engagement) with its own before making an investment appointment or selection on the Plan's behalf. The Trustee recognises that good stewardship practices, including engagement and voting activities are important as they help preserve and enhance asset owner value over the long term. As such, the Trustee expects the Fiduciary Manager to engage with the Plan's appointed investment managers where the Fiduciary Manager considers this appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings, and using voting rights to effect the best possible long-term outcomes. In addition, the Trustee expects the Fiduciary Manager to review the investment managers' approach to sustainable investment (including engagement and voting) on a periodic basis and engage with the investment managers to encourage further alignment as appropriate.
- 25 The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Fiduciary Manager takes into account in the assessment.
- 26 Where an investment manager's processes are deemed insufficient by the Fiduciary Manager and the investment manager does not take steps to improve their approach, the investment manager's position in the portfolio may be reviewed and/or a decision may be taken not to proceed with an investment.
- 27 The Fiduciary Manager encourages and expects the Plan's appointed investment managers to sign up to local or other applicable Stewardship Codes, in keeping with good practice, subject to the extent of materiality for certain asset classes. The Fiduciary Manager itself is a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and is actively involved in external collaborations and initiatives.
- 28 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Plan's investments to its investment managers and to encourage the managers to exercise those rights. The Fiduciary Manager assesses the voting policies of the investment managers that it appoints on the Trustee's behalf, for consistency with the Trustee's policies and objectives, as appropriate. The Fiduciary Manager has also appointed EOS at Federated Hermes to undertake public policy engagement and company-level engagement on its behalf.

- 29 The Trustee expects the Fiduciary Manager to consider the fee structures of investment managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the initial appointment of an investment manager and on an ongoing basis. Investment managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustee expects the Fiduciary Manager to review and report on the costs incurred in managing the Plan's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual investment manager level, the Trustee expects the Fiduciary Manager to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.
- 30 The Custodian is responsible for the safekeeping of the Plan's assets, both individual securities and holdings in collective vehicles, and for performing the associated administrative duties. In addition, the Custodian provides monitoring information on the Plan's investment performance.

### Other matters

- 31 The Plan is a Registered Pension Scheme for the purposes of the Finance Act 2004.

### Risks

- 32 The Trustee recognises a number of risks involved in the investment of the Plan's assets:
- Solvency and mismatch risk:
    - are measured through a qualitative and quantitative assessment of the expected development of the funding level relative to the current and alternative investment policies.
    - are managed through the development of a portfolio by the Fiduciary Manager consistent with delivering the Plan's investment objective and assessment of the progress of the actual growth of the liabilities relative to the selected investment policy.
  - Investment manager risk:
    - is measured by the expected deviation of the return relative to the benchmark set.
    - is managed by the Fiduciary Manager limiting exposure to any one investment manager, consideration of the appropriate amount of the Plan to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.
  - Liquidity risk:
    - is measured by the level of cashflow required by the Plan over a specified period.
    - is managed by the Plan's administrators and Fiduciary Manager assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.
  - Currency risk:

- is measured by the level of exposure to non-Sterling denominated assets.
- is managed by the implementation of a currency hedging programme (through currency hedging carried out by some of the Plan's investment managers) which reduces the impact of exchange rate movements on the Plan's asset value.
- Interest rate and inflation risk:
  - is measured by comparing the likely movement in the Plan's liabilities and assets due to movements in inflation and interest rates.
  - is managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Plan's assets to better-match movements in the value of the liabilities due to inflation and interest rates. The construction, ongoing monitoring and consideration of the risks associated with using derivatives within the liability hedging portfolio is undertaken by the Fiduciary Manager, with oversight by the Trustee.
- Custodial risk:
  - is measured by assessing the credit-worthiness of the Custodian and its ability to settle trades on time and provide secure safekeeping of assets under custody.
  - is managed by monitoring the Custodian's activities and reviewing the performance of the Custodian, and through investment in pooled vehicles, with the pooled fund managers being responsible for selection of suitable custodians. In addition the Fiduciary Manager is responsible for sweeping un-invested cash balances into pooled cash funds, which are managed by a pooled fund manager who, in line with the Plan's other pooled fund managers, is responsible for selecting the custodian for the cash funds.
- Political risk:
  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
  - is managed through the level of diversification within the Plan's portfolio and through regular reviews of the actual investments relative to policy and through the level of country diversification within the policy..
- Sponsor risk:
  - is measured by receiving regular financial updates from the Employer and periodic covenant assessments.
  - is managed through an agreed contribution and funding schedule.
- Fiduciary manager risk:
  - is recognised by the Trustee due to the level of delegation to the Fiduciary Manager
  - is managed through:
    - documentation of the Fiduciary Manager's powers and duties within the Agreement with the Fiduciary Manager;
    - detailed investment guidelines determined by the ISC and Trustee under which the Fiduciary Manager will operate and against which the Fiduciary Manager will

report its compliance. The investment guidelines include parameters and constraints regarding: the investment objective, permitted financial instruments, asset allocation constraints, currency exposure, liability hedging, diversification limits, liquidity, securities lending/borrowing/overdrafts, and strategic dynamic de-risking. These parameters and constraints are reviewed on an annual basis and as required;

- regular review of the investment strategy decisions and process; and
  - quarterly review of performance against the agreed objectives.
- Derivatives risk
- Counterparty risk – this risk is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust ISDA, GMRA or other relevant derivatives documentation.
  - Basis risk – the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted by the Fiduciary Manager for the backing assets and the investment managers' asset management capabilities.
  - Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.
  - Legal and operation risk – the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks. The Trustee and Fiduciary Manager take appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.

## AVC section

- 33 Prior to July 2006 members of the Plan could provide additional retirement benefits for themselves by paying Additional Voluntary Contributions ("AVCs"). From July 2006, the Plan's AVC facility was closed to new members and new contributions. AVC funds in respect of historic contributions remain invested at the direction of members.
- 34 The Trustee's duty is to act in the members' best interests. The Trustee's primary objective in AVC provision is to ensure that members are offered a suitable number of investment options, with various different risk and return characteristics. The risks considered by the Trustee are:
- a that the investment return over a member's working life will not keep pace with inflation;
  - b that investment market movements in the period immediately prior to retirement lead to a substantial reduction in the anticipated level of pension;
  - c that relative market movements in the period immediately prior to retirement lead to a substantial reduction in the anticipated cash lump sum benefit; and
  - d that active management underperforms against the relevant benchmarks.



35 AVC Investment Options:

- a In order to fulfil the Trustee's objective as set out above, the Trustee has selected a core range of funds with Aviva which includes a Lifestyle profile which assumes members will take their AVC benefits as a lump sum.
  
- b In addition, legacy AVC funds are invested in With-profits funds with M&G Prudential and Standard Life Assurance Limited (all closed to new members and new contributions).

**Signed on behalf of the Trustee**

Signed by:  
Date:  
Name:  
Position: Trustee Director

Signed by:  
Date:  
Name:  
Position: Trustee Director