# Royal Mail Collective Pension Plan

## Responsible Investment Policy – September 2022

### 1. INTRODUCTION

The Trustee of the Royal Mail Collective Pension Plan ("the Collective Plan") has developed this Responsible Investment Policy ("the Policy"), in order to set out its key responsible investment ("RI") objectives and how these will be achieved. Given the long investment horizon of the Collective Plan, the Trustee strongly believes that investing for the benefit of planet and people is of central importance. In addition, the Trustee has an ambition to be a market leader in the field.

This Trustee has a primary responsibility to act in the best financial interest of the members of the Plan and the Trustee believes that this Policy helps it to do so by addressing some of the risks that come from the long investment horizon of the Collective Plan.

This Policy will be shared with all key Plan stakeholders.

### 2. GOVERNANCE

This Policy is approved and owned by the Trustee of the Collective Plan.

The Trustee understand that this is a relatively new area, these are complex issues and the means of achieving RI goals are not an exact science. Therefore, the Policy will remain under regular review and may be amended from time to time as further research takes place, and industry-wide best practice develops.

The Trustee is made up of representatives from the CWU and Unite unions, as well as from the Royal Mail Group and professional independent Trustee Directors. The Trustee has a diverse background, and through the union representation believes that the views of members can be taken into account.

### 3. ABOUT THE PLAN

The Collective Plan is a hybrid pension scheme that combines two sections, a Collective Money Purchase Section (also known as Collective Defined Contribution, referred to as "CDC" herein) and a Defined Benefit Lump Sum ("DBLS") Section.

In the CDC Section, members share investment and longevity risk, and contribution rates for employers and employees are set in advance. One of the benefits of having everyone in the Plan together is that the Trustee is able to balance the risk profile of members close to, or already in, retirement with members who are still a long way from retirement. This means that the Trustee can take a much longer-term view and can target higher investment returns, accepting that returns might be negative in the short-term but are expected to deliver performance in excess of inflation over the long-term.

This longer-term view means that the most pertinent risk factors that concern the Trustee are inflation, demographic and climate change. These are examples of long-term risks that are likely to impact the success of the Plan's investment strategy. Therefore, the Trustee seeks to invest in a manner that reflects this view on risk.

## 4. DEFINING RESPONSIBLE INVESTMENT ("RI")

The Trustee has defined RI as "An approach that aims to incorporate Environmental, Social and Governance ("ESG") factors into investment decisions, to better manage risk and generate sustainable, long-term returns."

## 5. PRIMARY RESPONSIBILITY

The Trustee's primary responsibility is to act in the best financial interest of the members of the Plan.

The Trustee believes that incorporating financially material ESG factors (including the risks and opportunities arising from climate change) into investment decision making is therefore complementary to their primary responsibility, as doing so helps to reduce investment risk and, in some cases, enhances long-term investment returns.

## 6. STAKEHOLDER VIEWS

The Trustee believes that its policy should reflect the extent to which ESG issues might represent a risk to the Plan.

The Trustee believes it should be aware of and informed on the RI values of Royal Mail when setting the Plan's own approach to RI.

Whilst not being actively canvassed, members' views may be considered and accessibility to the Trustee's RI policy is important.

## 7. THE PLAN'S INVESTMENT APPROACH

The Trustee have decided to make use of a Fiduciary Manager to facilitate the investment of the Plan's assets (excluding AVCs).

The Trustee, having taken advice from the investment consultant, sets general investment policy in line with the Plan's Investment Rules. Responsibility for selection of specific investments is delegated to its Fiduciary Manager, who can provide the skill and expertise necessary to manage the investments of the Plan competently. The selection process, conducted by the Trustee, included central consideration of the Manager's RI practices and regard for ESG factors.

The Trustee has an Investment Management Agreement ("IMA") in place with the Fiduciary Manager, which reflects the RI beliefs outlined in this policy. The investment consultant expects the Fiduciary Manager to have sustainability processes that align with the investment risk and return characteristics of the strategy set out in the IMA.

The Trustee expects its Fiduciary Manager to consider a range of sustainable investment factors in its responsibility for the Plan's assets, such as, but not limited to, those arising from the ESG themes set by the Trustee, in the context of a broader risk management framework.

The Fiduciary Manager's RI policies are required to outline the extent to which ESG factors are integrated into the investment processes. The Trustee has reviewed the Fiduciary Manager's policies in these areas and is satisfied they broadly meet with the Trustee's views and take account of financially material factors when selecting, retaining and realising investments. The Trustee will continue to review its Fiduciary Manager's policies at least annually. Other non-financial matters are considered by the Trustee as the need arises.

The Funding and Investment Committee, which has delegated responsibility from the Trustee Board to monitor the Fiduciary Manager, will meet with the Fiduciary Manager quarterly and will raise questions on RI where appropriate. The Committee receives RI reporting on a quarterly basis from the investment consultant, which has a dedicated sustainable investment resource and a network of subject matter experts, with input from the Fiduciary Manager.

The Plan's Fiduciary Manager is a signatory to the UN-backed Principles for Responsible Investment, and the UK Stewardship Code.

## 8. **IMPLEMENTATION**

In line with the Trustee's objectives around responsible investment, the Trustee is committed to being an active steward of the Plan's investments. This stewardship entails selectively investing in assets it considers to be thematically aligned with the Trustee's RI objectives, engaging with underlying investee companies where they have scope to improve with respect to these objectives, and excluding certain assets or asset classes that are incompatible with the Trustee's commitment to RI.

### Alignment to the Paris Agreement Goal

Investment decisions will be informed by Paris-alignment where possible. This means investing with the goal in mind of limiting global warming to well below 2º C, preferably to 1.5º C, when compared to pre-industrial levels. Part of achieving this is for the global economy to have net zero greenhouse gas emissions by 2050 at the latest and halve by 2030.

The Trustee requires the Fiduciary Manager to adhere to its own exclusionary screens, and where practicable, Article 12 exclusions for EU Paris-aligned Benchmarks across the whole portfolio, which in combination specifically exclude:

1. companies involved in any activities related to controversial weapons;
2. companies which produce firearms and/or small arms ammunition intended for retail to civilians
3. companies that derive more than 5% of their revenue from the distribution (wholesale or retail) of firearms and/or small arms ammunition intended for retail to civilians
4. companies involved in the cultivation and production of tobacco;
5. companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises;
6. companies that derive 1% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;
7. companies that derive 10% or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;
8. companies that derive 50% or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;
9. companies that derive 50% or more of their revenues from electricity generation with a GHG intensity of more than 100g $CO_2$ e/kWh.

The Trustee believes that exclusions have the potential for reducing investment risk.

### Voting

As an investor in both UK and non-UK listed companies, the Trustee accepts its responsibilities as a shareholder.

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments and to ensure the delegated party exercises those rights unless agreed otherwise. The Trustee has instructed the Fiduciary Manager to make use of an independent stewardship and engagement adviser, Institutional Shareholder Services ("ISS") to provide voting services for the Plan. ISS are to vote in line with their Socially Responsible Investment ("SRI") voting policy, which reflects the view that firms should commit to measuring their social and environmental impact in addition to their financial performance. SRI guidelines generally favour all environmental, social, and workforce proposals that promote good corporate citizenship alongside enhancing long-term shareholder and stakeholder value. This entails support for matters like board independence and diversity, shareholder proposals, climate accountability, and transparency around social practices. Furthermore, the Trustee expects the Plan's Fiduciary Manager to discharge their responsibilities in respect of investee companies in accordance with the UK Stewardship Code published by the Financial Reporting Council.

The Trustee will ask its Fiduciary Manager to report on voting activity on at least an annual basis. The Trustee will monitor voting activity and voting patterns, including asking for information on significant votes cast.

**Engagement**

The Trustee believes that engagement is an effective way of implementing positive change.

Engagement with companies in which the Plan invests is an important part of protecting value for RMCPP's Members – The Trustee believe that when companies are governed properly, they are more likely to be sustainable in the long-term.

Engagement activity is primarily delegated to its Fiduciary Manager. The Trustee believes that the Fiduciary Manager is best placed to engage with invested companies on ESG matters, given their knowledge of, and level of access to, the companies' management. This is a pragmatic approach considering the breadth of investments and the amount of time corporate entities have for single investors. As the Plan grows in size, the appropriateness of delegating engagement activity to the Fiduciary Manager will be reviewed.

The Trustee expects its Fiduciary Manager to engage on ESG matters when they are considered material and relevant to the investment. The Fiduciary Manager is encouraged to engage with regulators and governance bodies with the aim of improving the regulatory and operational environment for all investors. The Trustee will periodically review engagement activities undertaken by its Fiduciary Manager as part of its broader monitoring activity.

**Initiatives and Industry Collaborations**

Whilst the Trustee primarily delegates engagement to its Fiduciary Manager, the Trustee views collaboration between asset owners as being essential in enabling the investment community to drive significant and real progress towards achieving a net zero real economy.

The investment community will achieve this through capital allocation decisions, stewardship and successful engagement with policy makers and fellow investors. Whilst the Trustee have yet to partner with specific initiative, the Trustee will assess the suitability of any such initiative, collaboration and/or affiliation on a periodic basis.

## 9. ADDITIONAL VOLUNTARY CONTRIBUTIONS ("AVCs")

This Responsible Investment policy mainly applies to the non-AVC assets, reflecting the level of influence that the Trustee has on those investments. However, the Trustee has provided a copy of this policy to the AVC manager and encourages them to take it into account.

For the AVC assets, the Trustee has made a Shariah Fund available to members who would like to invest in funds with this specific consideration.

## 10. **CONFLICTS OF INTEREST**

The Trustee separately considers any conflicts of interest arising in the management of the Plan and its investments and has ensured that the Fiduciary Manager has an appropriate conflicts of interest policy in place. The Fiduciary Manager is required to disclose any potential or actual conflict of interest in writing to the Trustee on a timely basis.

## 11. **DISCLOSURE AND REPORTING**

Plan Members will be provided information on the Trustee's voting and engagement activity through the annual implementation statement.

This Responsible Investment policy can be located on the Collective Plan website – www.rmcollectiveplan/com/documents-forms