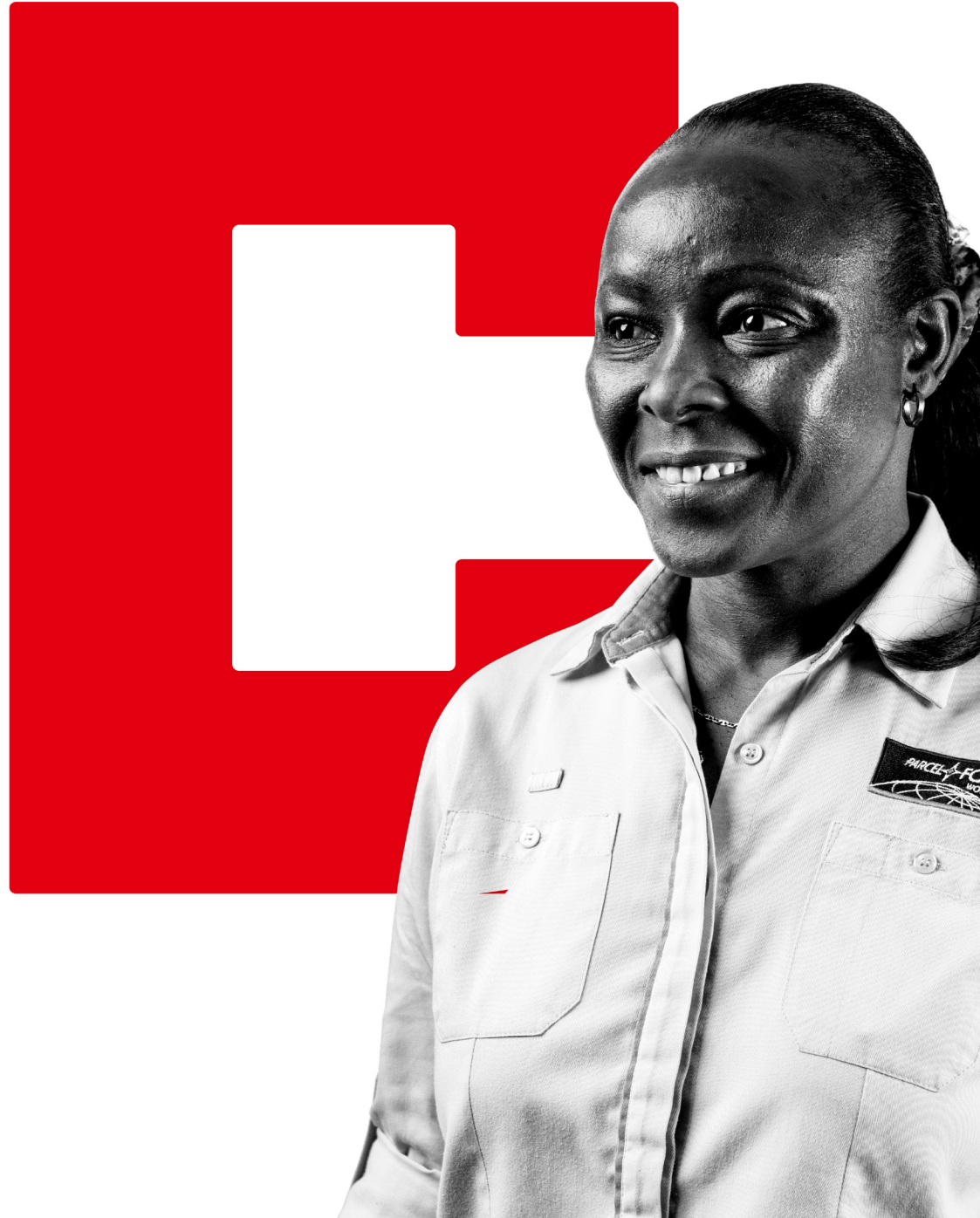


# Statement of Investment Principles 'SIP'

September 2024



# 1. Introduction

## Background

Under the Pensions Act 1995, Regulation 2 and 2A(1) of the Occupational Pension Schemes (investment) Regulations 2005 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (“the Investment Regulations”) and subsequent Regulations, the Trustee of the Royal Mail Collective Pension Plan (“the Collective Plan”, the “RMCPP” or the “Plan”) is required to prepare a statement of the principles governing investment decisions of the Collective Plan. This document contains that statement.

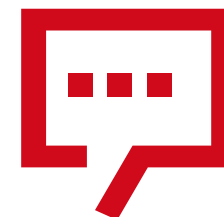
In the process of preparing this document, the Trustee has:

- **Consulted the Principal Employer** and will consult the Principal Employer before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.
- **Sought and considered advice on the contents of this Statement from the Collective Plan’s Investment Consultant.** The Trustee believes the Collective Plan’s Investment Consultant to be suitably qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge of the management of the investments of pension trusts.
- **Had regard to the requirements of the Pensions Act concerning diversification and suitability of investments** and the Trustee will consider those requirements on any review of this document or any change in their investment policy. The Trustee will refer to this document where necessary to ensure that it exercises its powers of investment in line with the principles set out in it as far as is reasonable.



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The Trustee will review this document, at least once a year, or sooner following an unscheduled actuarial valuation or change to the Collective Plan's investment policy, or where the Trustee considers a review is needed for other reasons.



This document is publicly available online. Copies will also be given to the Principal Employer, the Collective Plan's Investment Consultant, the Scheme Actuary and the Fiduciary Manager ("FM"). Future revisions will be circulated similarly.

## About the Collective Plan

The Collective Plan is a hybrid pension scheme that combines a

**Collective Money Purchase  
(also known as Collective  
Defined Contribution, referred  
to as "CDC" herein) Section**



**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 a large group of members in the Collective 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 realised investment returns, inflation, demographic changes and climate change. These are examples of long-term risks that are likely to impact the success of the Collective Plan's investment strategy. Therefore, the Trustee seeks to invest in a manner that reflects this view on risk. The Trustee is aware that a higher allocation to growth assets carries an associated uncertainty in potential outcomes however, the Plan invests over the long term and is designed to withstand short periods of uncertainty.

In the CDC Section, the key factors that determine the rate at which members' benefits are adjusted (either upwards or downwards) include:

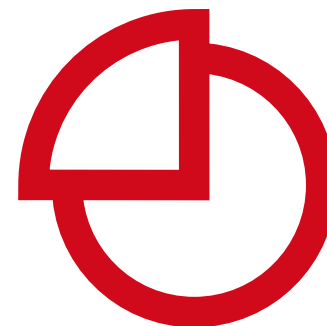
- **How assets have performed to date:** this affects the size of assets that will be used to calculate the affordability of benefits at each annual benefit calculation.
- **How assets are expected to perform in the future:** this affects the expectation for the amount of assets needed to meet future benefit payments. A higher expectation for future investment performance will mean greater benefits can be afforded at the point of the annual benefit calculation.
- **How long members are expected to live** (and other demographic assumptions): the longer members are expected to live, the more assets the Section will need to meet the benefits over the course of a members' life. Therefore, if members are expected to live longer, lower benefits can be afforded in the short term than compared to if members are expected to live for the same amount of time.

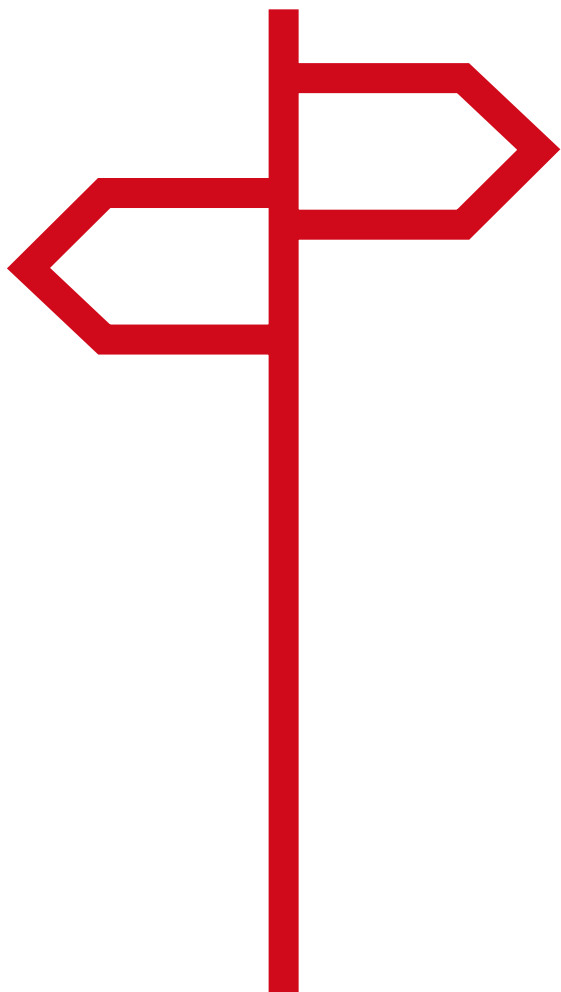
The expectation is that there will be some years where members' projected **income for life** goes down – this is part of the design. The aim is that, over time, there will be more ups than downs. The ambition is that by accepting that incomes can go down, the Trustee is able to invest the Collective Plan's assets in a way which is expected to create a bigger income for members over their lifetimes.

**In the DBLS Section**, members are guaranteed a lump sum at the point of retirement, which is equal to at least 3/80ths of the member's pensionable pay for every year in work. If the investments in the DBLS Section perform in line with, or exceeds the Trustee's expectations the **lump sum** is likely to increase. However, because the **lump sum** is a guaranteed benefit, there is greater emphasis on lower-risk growth in this Section.

In accordance with the Financial Services and Markets Act 2000, the Trustee sets general investment policy and delegate the responsibility for selection of specific investments including any form of derivatives to an appointed Fiduciary Manager. The FM shall provide the skill and expertise necessary to manage the investments of the Collective Plan competently.

**Separate to the CDC and DBLS Sections, members can make Additional Voluntary Contributions ("AVCs") on a, non-collective, money purchase basis into the Collective Plan.**





## 2. Governance

The strategic targets for the Collective Plan's assets, as set out in Section 4, are the responsibility of the Trustee acting on expert advice from the Scheme Actuary and other advisers and is driven by the investment objectives.

To ensure that investment decisions are taken by persons or organisations with the skill, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities.

Additionally, to help the Trustee meet its investment objectives, the Trustee has established a Funding and Investment Committee ("FIC"), which is responsible for certain investment matters delegated to it under its terms of reference.

The Trustee agrees with the Myners Principle of separate competition for actuarial and investment consulting contracts. Actuarial services for the Collective Plan are provided by Towers Watson Limited and investment consulting services are provided by Redington Ltd.

The Trustee will ensure the Collective Plan's investment arrangements and FM, which is BlackRock Investment Management (UK) Limited, comply with regulatory and taxation requirements – monitored through an annual compliance statement from the manager.

# 3. Objectives of the Collective Plan

As part of the Trust Deed & Rules governing the Collective Plan, Investment Rules provide the Trustee with clear boundaries on the return objective and risk budget within which the Trustee must manage the investments within the CDC and DBLS Sections.

The Trustee's investment objectives are to ensure that the Collective Plan's assets are invested within the parameters set out in the Investment Rules. Details in relation to the Investment Rules that the Trustee needs to follow are detailed below.

## CDC Section

### CDC Available Assets

The purpose of the Available Assets in the CDC Section is to fulfil the money purchase benefits within the CDC Section. The parameters set out in the Investment Rules are defined by a return objective and risk budget.

The return objective is defined as a range around the forward-looking return expectations for a diversified basket of global equities. The expected return on the portfolio must lie within the pre-specified range.

Similarly, the risk budget is set as a range of forward-looking volatility around the same diversified basket of global equities. The forward-looking volatility of the portfolio must lie within the pre-specified range.

### Reserve – part of the CDC Section

In addition to CDC Available Assets, for fulfilling money purchase benefits within the CDC Section, there are also **three pools of assets** (referred to as reserves) for specified purposes. Given their specific nature, they have different objectives and are invested in different ways:

#### 1. Operational Expense Reserve

- The objective of this reserve is to meet all the non-investment management related expenses of the CDC Section.
- As a result of this objective, this reserve will need to be held in liquid assets so that the Trustee can meet regular outgoing cash requirements. Minimising transaction costs is also very important.
- Therefore, this reserve will be held in cash and/or invested in money market vehicles.



## 2. Continuity Reserve

- The objective of this reserve is to meet the costs following a Triggering Event (a triggering event is something that threatens the ongoing existence of the Collective Plan).
- As a result of this objective, this reserve will need to meet the statutory requirements for the Continuity Reserve and be subject to any relevant haircuts to market values applied to financial reserves held to meet costs arising from triggering events.

### **Therefore, this reserve will be invested as follows:**

- Up to 150% of the Statutory Minimum (defined as the amount needed to cover the costs detailed in Section 14(2)(b) of the Pension Schemes Act 2021, which are in relation to costs arising in the event of a triggering event occurring): be held in cash and/or invested in money market vehicles.
- Amounts over 150% of the Statutory Minimum: invested in the same manner as the CDC Available Assets. The Trustee may face implementation limitations due to the smaller asset size relative to the CDC Available Assets, which may mean that the assets are invested in different vehicles. In these instances, alternative implementation routes that aim to deliver comparable investment characteristics may be chosen.

## 3. Employer Reserve

- The objective of this reserve is to house short-term liquidity needs, such as when 'excess' payments arise from a member being eligible for a refund of contributions.
- As a result of this objective, this reserve will need to be regular outgoing cash requirements. Minimising transaction costs is also very important.
- Therefore, this reserve will be held in cash and/or invested in money market vehicles.



## DBLS Section

### Non-Reserve DBLS Assets

The purpose of the Non-Reserve Assets in the DBLS Section is to support the payment of benefit entitlements from the DBLS Section. The parameters set out in the Investment Rules are defined by a return objective and risk budget.

The return objective is set against a yield target above conventional UK Government-issued bonds (i.e. gilts).

The risk budget is defined as a volatility limit calculated with reference to the yield target.

The portfolio must be managed in line with these pre-specified return targets and volatility limits, where practicable. If it is not possible to meet both the return target and volatility limit, the volatility limit takes precedence.

### Reserve – part of the DBLS Section

In addition to the Non-Reserve DBLS Assets, the DBLS Section also has **two separate pools of assets** referred to as the Cash Balance Risk Assets and Employer Reserve.

#### 1. Cash Balance Risk Assets

- The Cash Balance Risk Assets are available for years where there is a funding deficit. Deficit repair contributions will not be sought until this reserve is exhausted. This reserve helps to prevent awarding benefit increases that are unsustainable over the long term.
- The Trustee aims to invest the Cash Balance Risk Assets in the same manner as the Non-Reserve DBLS Assets. However, the Trustee may face implementation limitations due to the smaller asset size relative to the Non-Reserve DBLS Assets, which may mean that the assets are invested in different vehicles. In these instances, alternative implementation routes that aim to deliver comparable investment characteristics may be chosen.





## 2. Employer Reserve

- The objective of this reserve is to house short-term liquidity needs, such as when 'excess' payments arise from a member being eligible for a refund of contributions.
- As a result of this objective, this reserve will need to be held in liquid assets so that the Trustee can meet regular outgoing cash requirements. Minimising transaction costs is also very important.
- Therefore, this reserve will be held in cash and/or invested in money market vehicles.

### **Additional Voluntary Contributions ("AVCs")**

The Collective Plan provides a facility for its members (in a non-collective manner) to pay Additional Voluntary Contributions ("AVCs") on a money purchase basis to enhance their benefits at retirement. The Collective Plan's Investment Rules do not describe parameters for the AVCs. The Trustee's objective for the AVCs is to provide a selection of investment options that enable members to generate suitable long-term returns, whilst considering the way in which members are most likely to access these savings at retirement. Given the other retirement benefits offered through the Collective Plan, the Trustee expects that a default lifestyle strategy that de-risks over a 15-year period and targets cash at retirement to be most appropriate for most members making AVCs. All of the funds underlying the default lifestyle strategy will be made available in the self-select range. Additionally, the Trustee has made available an investment option for members who wish to invest in line with Shariah principles.

## 4. Investment beliefs

The different characteristics of the CDC and DBLS Sections lead to the Trustee having some investment beliefs that are specific to each Section.

Some key factors that differentiate the two Sections include; the relevant investment time horizon for the CDC being much longer than the DBLS Section (because the CDC Section pays out retirement income whereas the DBLS Section provides a single lump sum at retirement), and the level of guaranteed benefit (the CDC Section income is not guaranteed, whereas the DBLS Section guarantees a minimum amount on retirement). Additionally, the defined benefit nature of the DBLS Section means that it is sensitive to different types of risks that are less relevant to the CDC. Where a belief is not prefaced by which Section it specifically relates to, it applies to the Collective Plan as a whole:

- 1. For the CDC Section only** – We should target a level of investment return that reflects the long-term nature of the Collective Plan, recognising that investing in a manner that reflects the time horizon of risk factors pertinent to this Section will likely lead to a high level of short-term investment volatility.
- 2.** Good investment governance and decision-making play a key role in meeting the Collective Plan's objectives.
- 3.** It is important to set clear strategic objectives to aid the construction of appropriate investment portfolios.
- 4.** Diversification is a key tool to reduce investment risk in our investment strategy.
- 5.** In determining investment strategy, we prioritise asset allocation over manager selection.
- 6.** In certain asset classes, and at the right fee, active management can provide better outcomes than passive management.
- 7.** Higher investment costs do not necessarily mean worse value for money.
- 8.** Taking exposure to Illiquidity Risk (in which holders of illiquid securities are unable to sell quickly or without significant transaction costs) is likely to be, in the long term, rewarded with additional returns net of fees. Given the design of the Collective Plan, illiquid assets are expected to be a significant part of the asset allocation.



9. Subject to the Trustee's fiduciary responsibilities, we should invest in such a way that has a positive impact on the future of people and planet.
10. The approach which we should take in recognising Environmental, Social and Governance ("ESG") risks in the decision-making process is seeing ESG as a potential source of both financial risk and benefit. Therefore, assessing both the cost and benefit of these risks should lead to better returns than if these risks were ignored. This is particularly important to the Trustee, given the long-term nature of the Collective Plan.
11. There are generally considered to be three broad implementation routes for recognising ESG risks in the decision-making process; integrating ESG considerations into the investment process, negative screening in specific areas, and positive screening to increase exposure to specific areas. We believe that all three are important and will make use of them (as appropriate) in our decision-making process.
12. Engagement and using voting rights are effective risk management tools. Therefore, we will seek to influence the engagement and voting behaviour of our FM and any relevant underlying asset manager(s).



## 5. Strategic asset allocation

The Trustee has adopted dedicated long-term strategy assessment frameworks, relevant for each Section of the Collective Plan. The frameworks quantify the Collective Plan's investment objectives, including the Return Objectives and Risk Budgets, and integrate the Collective Plan's responsible investment objectives.

Whilst ensuring compliance with the Investment Rules is a key priority for the Trustee, the assessment frameworks have been designed with member benefit payments in mind. The frameworks help the Trustee monitor how investment strategies could affect the benefit adjustments that could be applied to both CDC and DBLS Sections.

The Expected Return on Assets is calculated using the Investment Consultant's Expected Return assumptions for each asset class that the Collective Plan is invested in.

The frameworks are updated on a quarterly basis and are used by the Trustee board and Funding and Investment Committee to monitor the progress of the Collective Plan against its objectives.

### Diversification

The Trustee will ensure that the asset allocation is designed such that the Collective Plan's investments are adequately diversified amongst various risk factors, and with suitably diversified counterparty exposures.

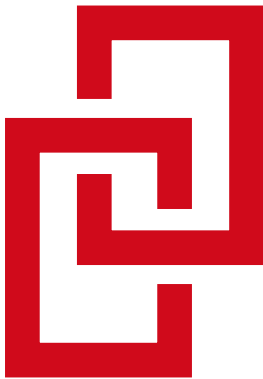
In addition, at the security selection level, the Collective Plan avoids undue concentration.

### Liquidity

The Trustee's policy is to hold sufficient investments in liquid or readily realisable assets to meet the Collective Plan's anticipated cashflow requirements so that realisation of assets will not disrupt the Collective Plan's overall investment policy.

### Collateral

The Trustee has delegated the detailed management of collateral to the FM. On an ongoing basis, the manager monitors the level of appropriate assets available for the Collective Plan's potential collateral requirements.



## 6. Manager structure

The FM is selected with the aim of fulfilling the Collective Plan's strategic objectives.

The manager has specific performance targets (relevant for each of the Collective Plan's Sections), agreed with the Trustee at the outset of the mandate. Further information regarding asset stewardship and manager monitoring are set out in the following sections.



## 7. Responsible investment

Regulations require the Trustee to disclose the following:

- the Trustee's policies in relation to financially material considerations, including Environmental, Social and Governance considerations;
- the extent (if at all) to which “non-financial” matters are taken into account in the selection, retention and realisation of the Collective Plan's investments;
- the Trustee's policies in relation to the exercise of the rights (including voting rights) attaching to the Collective Plan's investments and undertaking engagement activities in respect of the investments.

These areas are addressed in detail in the Collective Plan's Responsible Investment Policy, which can be found at [www.rmcollectiveplan.com/documents-forms](http://www.rmcollectiveplan.com/documents-forms)



## 8. Manager monitoring

The Trustee delegates the day-to-day management of the assets of the Collective Plan to the FM.

The FM is carefully selected to manage all of the underlying mandates following guidance and written advice from the Collective Plan's Investment Consultant. As required under Section 36 of the Act, the Collective Plan's Investment Consultant has provided written advice on this appointment in respect of the "satisfactory" nature of the investment.

The terms of the long-term relationship between the Trustee and its FM are set out in a separate Investment Management Agreement ("IMA"). This documents the Trustee's expectations of their manager, alongside the Investment Guidelines the FM is required to operate under.

The Investment Guidelines are based on the policies set out in this document, the Statement of Investment Principles (the SIP). The SIP is shared with the Collective Plan's FM on an annual basis or more frequently as appropriate, and the Investment Guidelines are updated following any changes, ensuring the manager always invests in line with the Trustee's policies.

The Trustee requires its FM to invest with a medium- to longer-term time horizon, and use any rights associated with the investment to drive better long-term outcomes.

For some asset classes, the Trustee does not expect the FM and any relevant underlying asset manager(s) to make decisions based on long-term performance.

These may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustee's strategic asset allocation.

The Trustee appoints its FM with an expectation of a long-term partnership, which encourages active stewardship of the Collective Plan's assets. When assessing the manager's performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term timeframe.

The Trustee would not expect to terminate the FM's appointment based purely on short-term performance. However, the FM's appointment could be terminated within a short timeframe due to other factors such as a significant change in business structure or the investment team.

Should the Trustee's monitoring process reveal that the FM's investment strategy and investment decisions are not aligned with the Trustee's policies, the Trustee will engage with the FM to discuss how better alignment may be achieved.

If, following engagement with the manager, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the arrangements with the FM may be altered or their appointment terminated.



The manager is paid an ad valorem fee (subject to a cap) for a defined set of services which encompasses both fiduciary management and underlying asset management. The Trustee reviews the fees annually to confirm they are in line with market practices.

The Trustee reviews the portfolio transaction costs and portfolio turnover range of the manager periodically, where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations.

The FM is regularly reviewed by the Funding and Investment Committee, who have been delegated this responsibility by the Trustee. The decision on appointment of the FM is taken by the Trustee. The manager has been provided with a copy of the Statement of Investment Principles and the Funding and Investment Committee monitor adherence to those principles.





## 9. Risk management

The different nature of the CDC and DBLS Sections mean that the most pertinent risks for each Section (and therefore the most relevant risks to manage) are different.

The CDC Section has a longer investment time horizon than most other pension schemes and the Trustee can target higher risk investments that are expected to provide higher returns in the long term, accepting that they carry an associated level of volatility to potential outcomes.

This approach helps to manage and address the key risk in the **CDC Section**:

- that assets underperform expectations in the long term.

For the **DBLS Section**, with guaranteed benefits on retirement, the key risk is:

- a mismatch between the Section's assets and its liabilities.

To aid the ongoing measurement and management of these risks, the Trustee's Investment Consultant provides a relevant dashboard for each Section on a quarterly basis.

**The dashboard highlights:**

- the alignment of the investment strategy with long-term investment outcomes;
- the risk of the investment strategy, depicted in a number of ways including volatility and impact on member outcomes;
- the investments' exposure to various forms of long-term risk factors that could arise from not investing responsibly (e.g. environmental, social and governance risks); and
- specifically for the DBLS Section, how derivative exposure is managed to support the liability hedging policy whilst maintaining sufficient liquidity to meet ongoing member benefit payments.

Whilst these are the most important risks for each Section, the Trustee will consider new risks as they emerge.

Specifically for the **DBLS Section**, the Trustee also regularly monitors the sponsor covenant risk, and takes advice from an external sponsor covenant specialist at least once every three years.

In addition to the key risks identified above, the Trustee has implemented the following measures to manage the risks involved in the investment of the assets of the Collective Plan:

- **Other price risks** – exposure to overall price movements is addressed by constructing a diverse portfolio of investments across various markets.
- **Currency risk** – addressed through diversification of the overseas assets across a range of currencies and a currency hedge or partial currency hedge on certain overseas assets according to asset class.
- **Liquidity risk** – the Trustee monitors the level of cash held in order to limit the impact of the cash flow requirements on the investment policy as set out in Section 5.
- **Political risk** – the risk of an adverse influence on investment values from political intervention is reduced by the diversification of the assets across many countries and asset classes.
- **Custodial risk** – addressed through the agreement with the custodian and ongoing monitoring of the custodial arrangements. Restrictions are applied to who can authorise transfer of cash and other assets, and the accounts to which transfers can be made.
- **Cash risk** – addressed through the guidelines given to the custodian including minimum ratings for counterparties whose money market funds are used.
- **Interest rate risk** – for the DBLS Section, a liability driven investment (“LDI”) strategy is designed to reduce the Collective Plan’s interest rate risks by investing in assets/instruments that provide similar interest rate characteristics to those of the Collective Plan’s liabilities in the DBLS Section. Some of the Collective Plan’s other investments across both Sections, are also exposed to interest rate risk. The FM will consider the risk and expected reward when determining which investments to invest in.
- **Mismatching risk** – the Trustee recognises that for the assets to maintain the funding position of the DBLS Section and meet its investment return targets, some level of investment risk must be taken. The Trustee endeavours to achieve an appropriate balance between the level of risk taken and the cost of funding the Collective Plan, particularly taking into account the strength of the sponsor covenant. The LDI strategy in particular is held to reduce this mismatch risk.
- **Counterparty risk** – addressed by requiring the provision of collateral on a daily basis where possible and through using a number of counterparties to limit the exposures to individual counterparties as well as central clearing where appropriate. The exposures are managed by the FM and monitored by the Funding and Investment Committee.

- **Derivative risk** – addressed by the appointment of an FM with explicit responsibility to monitor counterparty strength and manage collateral flows (where appropriate). Where derivatives are used, documentation is carefully drafted to provide protection to the Collective Plan, including the situation where a counterparty's credit rating is downgraded. The manager uses several counterparties to minimise the impact of default of any one counterparty.

The Trustee maintains a Risk Register which is reviewed at least annually. The Risk Register seeks to identify risks particular to the Collective Plan and ways in which these risks can be managed and monitored.

## Additional Voluntary Contributions

Some members pay **Additional Voluntary Contributions** (“**AVCs**”) to the Collective Plan. The Trustee considers the following types of risk for the AVCs:

- **Inflation risk** – the risk that the investment returns over members' working lives do not keep pace with inflation.
- **Benefit Conversion Risk** – the risk that investment conditions just prior to retirement may be a mismatch to how members are likely to wish to use their AVC savings at retirement.
- **Manager risk** – the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed.
- **Volatility risk** – the risk that at retirement members are invested in assets which are too volatile compared to how the Trustee expects members are most likely to access their AVC savings.





## Appendix A – Current Advisers

### Advisers to the Collective Plan Trustee

<b>Actuarial Advisors:</b>	Towers Watson Limited
<b>Investment Consultant:</b>	Redington Ltd.
<b>Pension Fund Administrators:</b>	Royal Mail Group Limited
<b>Lawyers:</b>	Squire Patton Boggs (UK) LLP
<b>Custodian:</b>	JPMorgan Chase Bank, National Association, London Branch
<b>Fiduciary Manager:</b>	BlackRock Investment Management (UK) Limited
<b>AVC Provider:</b>	Scottish Widows Limited



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