

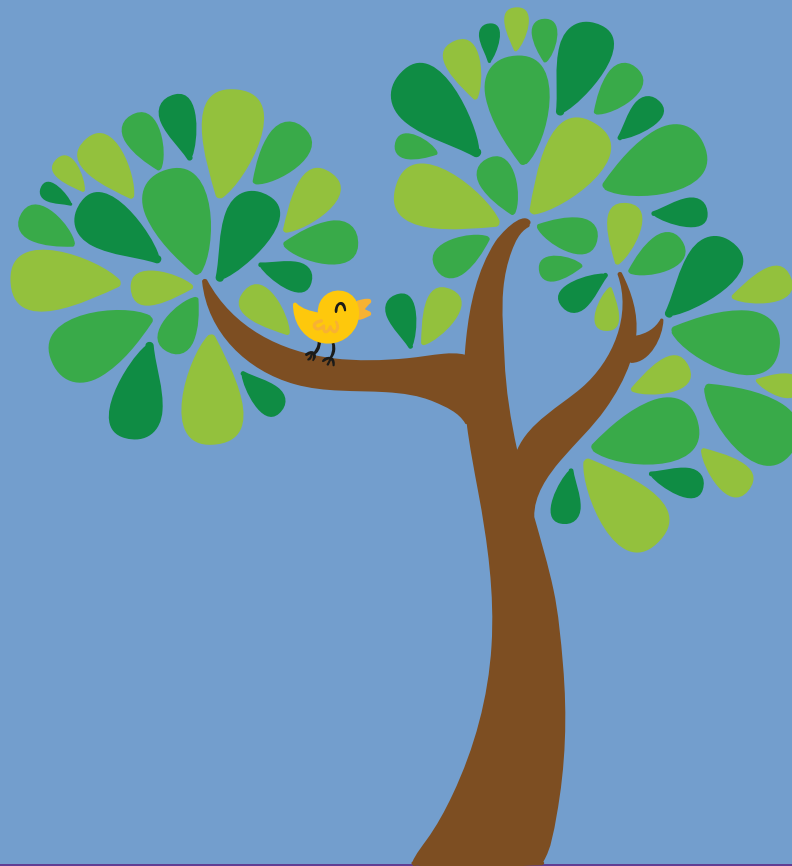
Royal Mail Pension Plan

Report and Financial Statements

For the year ended 31 March 2019

The assets of the Plan are held in trust for members by the Trustee and are managed independently from the finances of the employers.

Plan registration number: 100981732



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Trustee Directors & Advisers



Joanna Matthews
– Chair

Joanna Matthews joined the Board as Chair in October 2012. She built

her career as a pension lawyer at Sacker & Partners. Joanna became a full-time professional Trustee in 2006 and also chairs a number of other major pension schemes.



Phil Browne

Phil Browne joined Royal Mail in 1980 and was a member of the National and Postal Executive

for the Communication Workers Union (CWU) from 1995 to 2017, prior to which he held various CWU positions. He was elected to the Trustee Board in October 2008 as a Member Nominated Trustee.



Susannah Parden
(appointed October 2018)

Susannah Parden is Director of Internal Audit and Risk Management for Royal Mail Group.

Susannah joined the Trustee Board in October 2018.



Mark Ashworth

Mark Ashworth represents, and is a director of Law Debenture, which is a professional

independent Trustee of pension schemes. He is a Barrister and Chartered Secretary and joined Law Debenture in 2001. He serves on the Trustee boards of a number of major pension schemes. Mark was appointed to the Trustee Board in March 2006.



Graeme Cunningham

Graeme Cunningham joined Royal Mail in 1969.

From 1971 he held numerous positions in both the CWU and Unite/CMA. From 1997 until 2018 he served as a member of the National Committee of Unite/CMA and for 7 years as National Chair. He joined the Trustee Board in April 2003.



Lionel Sampson

Lionel Sampson is the Senior Policy Advisor to the General Secretary of the CWU. He was

previously the Policy Advisor dealing with pensions. Prior to this, he was Divisional Representative for the South East Division of the CWU, and a member of both the Union of Communication Workers and National Executive Councils. He joined the Trustee Board in October 1996.



Paul Brown

Paul Brown spent 17 years at Post Office Ltd, most recently as Head of

Commercial Development.

Paul has continued to represent Post Office Ltd on the Trustee Board since leaving the Post Office in August 2016. Paul joined the Trustee Board in August 2012.



Paul Kennedy

Paul Kennedy is the Midlands Divisional Representative for the Communication Workers Union,

a post he has held since its creation in 1992. He joined Royal Mail in 1974 and has held a variety of CWU posts since 1982. He is also a member of the Employment Tribunals. He joined the Trustee Board in August 2006.



Richard Travers
(resigned September 2018)

Richard Travers is Finance Director Letters and Network for Royal Mail Group,

accountable for Royal Mail Letters revenue and Network Expenditure and Investment as well as Efficiency, Costing and Revenue Protection. Since he joined Royal Mail he has held a number of senior roles throughout the business. Richard joined the Trustee Board in April 2014 and resigned in September 2018.

Trustee Directors

	Number of Board meetings attended	Number of Board meetings held
Ms J Matthews - Chair	6	7
Mr P Brown	6	7
Mr P Browne	7	7
Mr G Cunningham	7	7
Mr P Kennedy	6	7
Law Debenture Pension Trust Corporation plc (represented by Mr M Ashworth)	6	7
Mr L S Sampson	5	7
Mr R Travers*	4	7
Ms S Parden*	3	7

*Mr R Travers resigned in September 2018 and attended all Board meetings until retirement. Ms S Parden was appointed in October 2018 and attended all Board meetings from appointment.

Trustee

Royal Mail Pensions Trustees Limited
2nd Floor
11 Ironmonger Lane
London
EC2V 8EY

Sponsoring Employers

Royal Mail Group
100 Victoria Embankment
London
EC4Y 0HQ

Post Office Ltd
Finsbury Dials
20 Finsbury Street
London
EC2Y 9AQ

Administration

Pensions Service Centre
PO Box 5863
Pond Street
Sheffield
S98 6AB



From left to right: Richard-Law Deeks, Ian McKnight, Mark Rugman

Executive

Richard Law-Deeks
- Chief Executive Officer

Ian McKnight
- Chief Investment Officer

Mark Rugman
- Head of Membership & Benefits

Actuary

Colin Singer FIA
(Willis Towers Watson)

Auditor

KPMG LLP

Banker

The Royal Bank of Scotland

**Bulk Annuity Provider
(POL Section)**

Rothsay Life PLC

Custodian

JP Morgan Chase Bank

Financial Adviser

PricewaterhouseCoopers LLP

Investment Consultant

Mercer Investment Consulting

Investment Managers

- Aberdeen Standard Investments (appointed May 2018)
- Beach Point Capital Management
- BlackRock
- Bluebay (appointed August 2018)
- BMO Global Asset Management (appointed November 2018)
- Brevan Howard Asset Management
- Boussard and Gavaudan (appointed March 2019)
- Caxton Associates
- Centerbridge Partners
- Christofferson, Robb & Company
- Crescent Capital Group
- Dalton Investment (appointed August 2018)
- Dodge & Cox Worldwide Funds
- Elementum Advisors
- Empyrean Capital (appointed December 2018)
- Gramercy Funds Management
- Hamilton Lane
- HBK Capital Management
- Hermes Fund Managers
- Highbridge Capital Management
- HPS Partners
- Insight Investment Management
- Intermediate Capital Group
- JP Morgan Asset Management (appointed April 2018)
- Kames Capital
- LaSalle Investment Management
- Lazard Asset Management
- Loomis Sayles
- Macquarie Group
- MetLife Investment Management
- Oaktree Capital Management

- Och Ziff Capital Management Group
- Pacific Alliance Group
- Paamco (appointed February 2019)
- Phoenix Property Investors (appointed June 2018)
- Quantum Energy Partners
- Quinbrook Infrastructure Partners (appointed November 2018)
- River & Mercantile Group
- Standard Life
- Taconic Capital
- TOR Investment Management
- Vivo Capital
- Walter Scott & Partners

Performance & Risk Consultant

Lane Clark & Peacock

Property Valuer

CB Richard Ellis Ltd

Plan Legal Adviser

Sacker & Partners LLP

Solicitors

- CMS Cameron McKenna Nabarro
- Olswang LLP
- Mills & Reeve LLP

These particulars are as at 31 March 2019 unless otherwise stated.

Trustee Report

This is the Annual Report of the Royal Mail Pension Plan ('RMPP' or the 'Plan') for the year ended 31 March 2019.

Plan Governance

Trustee Arrangements

Royal Mail Pensions Trustees Limited ('RMPTL') acts as Trustee for RMPP.

The Board of RMPTL is supported by an executive team of pension management professionals which advises the Board on its responsibilities and ensures that Board decisions are fully implemented.

The Trustee Board has an equal number of member and employer nominated Trustee Directors, together with an independent Chair. All Board members are appointed by Royal Mail, with the agreement of the Royal Mail Unions where appropriate. Three of the Board members are nominated by Royal Mail Group ('RMG') of which two are currently independent, one by Post Office Ltd ('POL') and four by the Royal Mail Unions overseen by the Trustee. The independent Chair is appointed by Royal Mail after agreement with the Unions. Royal Mail currently has one employer nominated Trustee Director post vacant.

RMG and POL may remove their own nominees at any time. A member nominated Trustee Director can normally only be removed if all his or her co-Directors agree.

No matter who they are nominated by, each Trustee Director is responsible for protecting the benefits of all members. Each Trustee Director contributes his or her own blend of business knowledge and experience when making Trustee decisions.

Trustee Meetings

During the year the Board met formally on seven occasions and the business matters addressed included:

- Changes to RMG Section benefits from 1 April 2018
- Investment strategy
- The interim escrow arrangement for the RMG section
- Plan governance, including new General Data Protection Regulation requirements

- Government procurement of administration services for the Royal Mail Statutory Pension Scheme (RMSPS)
- The 2018 triennial valuation

The chart on page 4 shows each individual Trustee Director's meeting attendance.

Sub-Committees

The Board has established the following standing Sub-Committees (the number of meetings held during the year is shown in brackets):

- Administration (3)
- Audit, Risk & Finance (3)
- Funding (4)
- Investment (4)

Additionally, the following Sub-Committees conduct business by correspondence and by meeting as and when required:

- Internal Disputes Resolution
- Discretions

Trustee Training

The Board follows The Pensions Regulator's Code of Practice on Trustee Knowledge and Understanding.

During the year, training has been undertaken by the Board on investment and funding strategy, the Defined Benefit Cash Balance Scheme (DBCBS) section, Board software, and pension plan buy-outs. All Trustee Directors have completed The Pensions Regulator's training course, the 'Trustee Toolkit'.

Plan Structure

The Plan is divided into six Sections, A, B, C, D, E and F. Sections A, B and E contain the benefit rules and schedules for former members of the Post Office Staff Superannuation Scheme (POSSS) and Section C contains the rules for former members of the Post Office Pension Scheme (POPS). Section D contains the matching AVC arrangement for Section C and F members. With effect from 1 April 2008, Sections A, B, C and E of the Plan are closed to new entrants.

In 2018, Section F was added to enable the Trustee to admit, with effect from 1 April 2018, those members of the Royal Mail Defined Contribution Plan who meet the eligibility criteria of joining the Plan, and who choose to do so.

RMG is the participating employer for the RMG section and the DBCBS. In line with the change in status of POL introduced by the Postal Services Act 2011, with effect from 1 April 2012, POL became a participating employer and distinct RMG and POL sections with separate funding and investment arrangements were created within the Plan. At the same time the Plan's accrued liabilities (including the entitlements of all the then pensioners and deferred pensioners) were transferred to a new Government scheme, the RMSPS. On the 1 April 2018 the DBCBS was created.

The following associated employers also participate (in the RMG section of the Plan): Quadrant Catering Ltd, RM Property and Facilities Solutions Limited, and The Postal Heritage Trust.

The Plan is a registered scheme under part IV of the Finance Act 2004 and as such certain parts of its income and chargeable gains are free from taxation. The Plan's Pension Scheme Taxation Reference (PSTR) number is 00328877RE. The Plan is also registered with the Pension Schemes Registry with a reference number of 100981732.

Membership Administration

The Board has delegated benefit administration to the Royal Mail Pensions Service Centre in Sheffield under contractual arrangements. These arrangements specify service levels against which the Board monitors performance.

The contact details and address for all enquiries is shown on the back page of this document.

Contributions

Contributions to the Plan, which in total amounted to £417 million during the year, were received in accordance with the schedule of contributions as shown in the Trustee's Summary of Contributions (page 38). Following agreement between RMG and the Trustee, RMG's contributions, that were previously due to the Plan in respect of accrual of benefits from 1 September 2017 to 31 March 2018, have been accumulated in a fund which is not currently part of the assets of the Plan. This gives the Trustee and the Company more flexibility as to how these assets are best used for the benefit of members in the future. These assets amounted to £187 million as at 31 March 2019. The precise terms on which this will become payable to the Trustee are to be discussed as part of the 2018 valuation. Absent of agreement between the Trustee and RMG by 30 September 2019, the amounts held in this fund will be transferred to the RMG Section of the Plan.

Pension Increases

Section A/B members – in accordance with the Trust Deed, eligible pensions in payment and deferred benefits were increased by 2.4% in April 2019. This reflected the change in CPI for the year ended 30 September 2018. No discretionary increases were awarded.

Section C, D, & E members – in accordance with the Rules, eligible pensions in payment were increased by 3.3% in April 2019. This reflected the change in RPI for the year ended 30 September 2018. No discretionary increases were awarded.

Transfer Values

During the year, transfer values in respect of withdrawing members were calculated and verified in the manner prescribed by legislation. No allowance has been made for discretionary pension increases.

The Plan does not accept transfers from other schemes.

Risk Management and Internal Controls

The Board has established a risk management framework which enables it to review on a regular basis the risks faced by the Plan. Internal control systems are also reviewed regularly by the Board through its Audit, Risk and Finance Sub-Committee. The Board's Statement on Risk Management and Internal Controls (Appendix 6 on Page 58) includes a summary of the main risks faced by the Plan.

Key Events during 2018/19

Changes to Benefits from 1 April 2018

In April 2018 the Trustee wrote to all RMG Section members informing them of benefit changes with effect from 1 April 2018. The letter explained that following a consultation with the Company's employees, Royal Mail and the Trustee Board had agreed that Sections B and C of the RMG Section of RMPP would be closed to accrual of benefits on the previous benefit basis - i.e. Career Salary Defined Benefit - with effect from 31 March 2018.

At the end of February 2018, Royal Mail informed its employee members that all members who remain in RMPP will build up benefits under a new Defined Benefit Cash Balance Scheme (DBCBS) unless they informed the Company that they did not wish to do so. The DBCBS enables members to build up a cash lump sum at a rate set by the Company (initially at 19.6% of each year's pensionable pay) with further discretionary increases to the lump sum being targeted, but not guaranteed, each year. Once credited, those increases are guaranteed at the age of 65.

The Trustee has worked with its independent advisers to understand the detailed provisions of the DBCBS and reviewed all the legal documentation. The necessary rule amendments to RMPP have been agreed by the Company and by the Trustee, after taking independent advice.

The new DBCBS is designed to help Royal Mail manage its funding commitments to the RMPP and the Trustee took full account of the security of members' accrued benefits in agreeing the changes.

Asset Allocation Between Sections

The Trustee approved the unitisation of the two Royal Mail Group ("RMG") accrual tranches of the Plan ("Sub-Sections") in November 2018. Unitisation is an internal accounting process to reflect allocation of assets between two different accounting owners (RMG Section and DBCBS Section). The investment assets are not physically split between the Sections.

Investment Strategy

During the year 1 April 2018 to 31 March 2019, the Plan's strategy evolved substantially, with the removal of developed market equity exposure from the RMG Section, the addition of new emerging market debt and equity managers into both Sections, the hiring of a small-cap equity manager for the DBCB Section and sales of assets which had performed very strongly, such as highly rated investment-grade credit and high yield bonds. Purchases included asset-backed secured finance assets and a range of specialist private market debt investments.

A large-scale programme to substitute expensive gilts from the liability hedging portfolio with high lease-to-value property assets was initiated. The Plan was also active within the alternatives portfolio, and in aggregate these changes enabled the Plan to deliver positive returns in a very challenging market environment. An additional revenue stream was added through the initiation of a gilts lending programme, and an extensive fee and costs study enabled the reduction in some fee rates and the tight management of the fixed costs of managing the Plan.

A comprehensive Brexit risk management project was undertaken, along with initiation of a project examining the Plan's ability to factor in climate change concerns alongside other environmental, ethical, and governance policies already in place.

The DBCB Section introduced a dynamic "multi-asset" credit manager as its portfolio was built out, while the Plan also committed to contingent investments looking to benefit from any distress coming into the global credit markets over the next few years (the idea being to position the Plan on the front foot ahead of any opportunities which may arise). Managers able to benefit from the volatile macro environment were also increased as an allocation, and this proved very successful over the year.

In aggregate, the Plan invested £1 billion over the course of the year, half from new monies and half from sales of existing assets.

Liaison with the Royal Mail Statutory Pension Scheme

The Trustee has continued to work with the managers of RMSPS to ensure service to members continues to be as seamless as practicable. There are regular meetings between the teams supporting both schemes and there is regular reporting to the Plan's Trustee on the service provided.

Accounting

The Plan's assets have increased in value from £10,651 million at 31 March 2018 to £11,554 million at 31 March 2019. There were receipts from contributions of £417 million and benefit and transfer payments were £80 million.

The increase in the market value of investments during the year was £515 million, primarily as a consequence of the fall in yields during the year, increasing the value of the Plan's liability-hedging portfolio (in the financial statements under pooled investment vehicles in Note 8). Investment income totalled £72 million and there were expenses of £21 million.

Membership Summary

As a result of the introduction of the new DBCBS section, total membership increased from 120,950 to 124,398 during the year. The number of employee members decreased slightly from 85,378 to 84,643 as at 31 March 2019. The number of deferred members has increased from 16,276 to 17,378 and the number of pensioners has also increased from 19,296 to 22,377. A full analysis of membership appears in Appendix 1 (page 42).

Actuarial Valuation and Funding Update

The latest formal actuarial valuation for the RMG section was as at 31 March 2018 and showed the section had assets of £9,986 million and liabilities of £9,854 million giving a surplus of £132 million. The latest formal actuarial valuation for the POL Section was as at 31 March 2015 and showed the section had assets of £371 million and liabilities of £308 million, giving a surplus of £63 million.

The annual funding update as at 31 March 2017 was distributed to members in June 2018. POL Section had assets of £548 million and liabilities of £540 million giving a surplus of £8 million.

The actuarial certificates on page 39 confirm that the agreed Schedules of Contributions are in accordance with the Trustee's Statement of Funding Principles.

Investment

Investment Policy

The Trustee's Statement of Investment Principles (SIP) covers the following areas:

- Fund governance
- Investment objective
- Risk and return
- Diversification of risks
- Strategic management
- Investment managers
- Cash flow management
- AVCs
- Responsible investment
- Compliance with, and review of, the SIP

Separate SIPs have been agreed with RMG and POL. POL's SIP was updated as at June 2017 and RMG's SIP in March 2018. Each Section's spread of investments continues to balance security and growth in order to pay the RMPP's benefits when they become due. The SIPs for both RMG and POL are included in full on pages 44 to 54.

The SIPs are available to Plan members on request.

The Trustee confirms that it complies with the updated Myners' Principles which provide guidance on best practice in investment decision-making.

Investment Strategy

The investment strategy of the Plan aims to safeguard the assets and to provide, together with contributions, the financial resource from which benefits are paid. Investment is inevitably exposed to risks. These risks can be broadly classified as those inherent in the safe custody and record-keeping of assets and those inherent in the investment markets. The assets of the Plan are kept totally separate from the finances of the sponsoring employers. In order to control their title and security, the Trustee holds the assets in designated custodian accounts and uses the safekeeping services of the custodian shown on page 5. The risks inherent in the investment markets for the RMG Section are partially mitigated by pursuing a widely diversified

approach across asset classes and investment managers. The majority of POL Section's assets are now held under the buy-in policy with Rothesay.

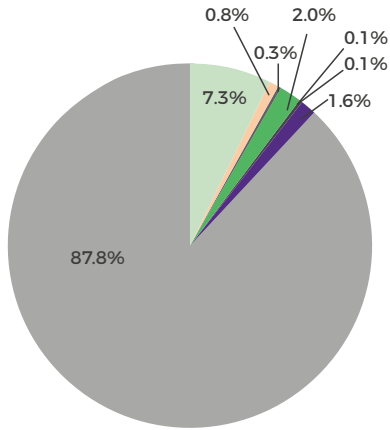
The charts on pages 10 and 11 show the weightings of the different types of asset held at 31 March 2019 for the RMG, DBCBS, and POL Sections and for the previous year for the RMG and POL Sections.

The RMG and DBCBS Sections invest in a mix of risk-reducing and return-seeking assets. They invest in derivatives (predominantly swaps and gilt repurchase agreements) to reduce risk whilst maintaining expected investment returns. Derivatives are included in the charts below as "liability-hedging assets, derivatives, collateral". The charts show assets on an economic exposure basis and include pooled investments which have been redistributed in the chart to reflect the underlying values by asset type (i.e. equities, property, bonds).

Therefore the charts differ from the analysis of investment values included in the financial statements.

Asset allocation up to 31 March 2019

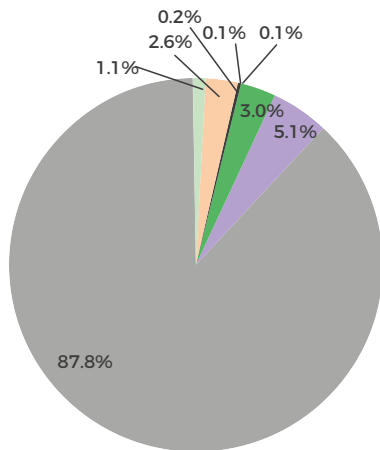
POL Section



	Asset Class
Equities (listed and private)	0.8%
Alternative investments	2.0%
Property (incl. property-linked debt)	0.3%
High yield credit	0.1%
Emerging market debt	0.1%
Liability hedging assets, derivatives, collateral	1.6%
Cash	7.3%
Bulk purchase annuity	87.8%
Total Assets	100.00%

Asset allocation up to 31 March 2018

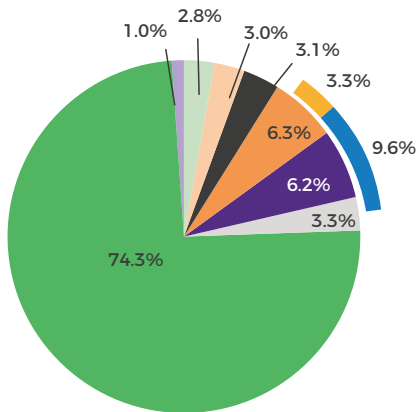
POL Section



	Asset Class
Equities (listed and private)	1.1%
Alternative investments	2.6%
Property (incl. property-linked debt)	0.2%
High yield credit	0.1%
Emerging market debt	0.1%
Liability hedging assets, derivatives, collateral	3.0%
Cash	5.1%
Bulk purchase annuity	87.8%
Total Assets	100.00%

Asset allocation up to 31 March 2019

RMG Section

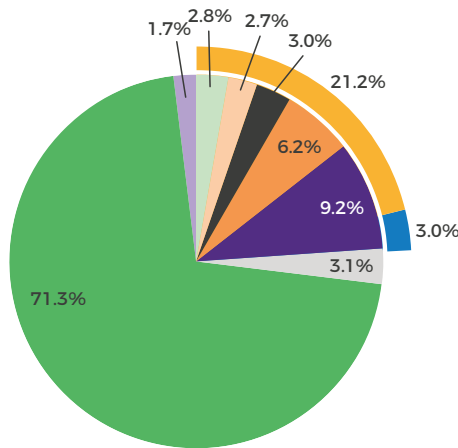


● Swaps (inc TRS) ● Repo

	Asset Class
Equity beta	2.8%
Equity alpha	3.0%
Property	3.1%
Higher risk credit	6.3%
Lower risk credit	6.2%
Absolute return	3.3%
Liability hedging assets, derivatives, collateral (including matching cash)	74.3%
Surplus cash	1.0%
Total Assets	100.00%

Asset allocation up to 31 March 2018

RMG Section

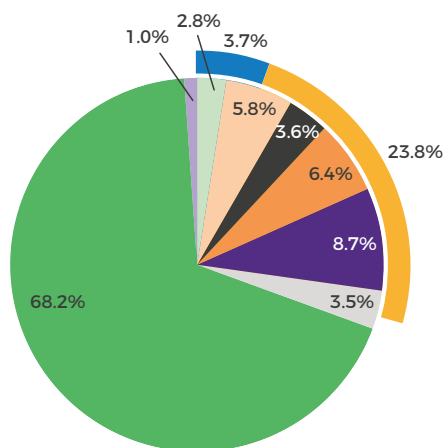


● Swaps (inc TRS) ● Repo

	Asset Class
Equity beta	2.8%
Equity alpha	2.7%
Property	3.0%
Higher risk credit	6.2%
Lower risk credit	9.2%
Absolute return	3.1%
Liability hedging assets, derivatives, collateral (including matching cash)	71.3%
Surplus cash	1.7%
Total Assets	100.00%

Asset allocation up to 31 March 2019

DBCBS Section



● Swaps (inc TRS) ● Repo

	Asset Class
Equity beta	2.8%
Equity alpha	5.8%
Property	3.6%
Higher risk credit	6.4%
Lower risk credit	8.7%
Absolute return	3.5%
Liability hedging assets, derivatives, collateral (including matching cash)	68.2%
Surplus cash	1.0%
Total Assets	100.00%

Investment Managers

The Plan's assets as at 31 March 2019 were managed by several external investment managers with specialist portfolios as detailed below.

Manager	Mandate	£m
Aberdeen Standard Investments	Diversified Growth Fund	53
Boussard and Gavaudan	Alternatives	31
Beach Point Capital Management	High Yield Debt and Fixed Income	223
BlackRock*	Liability Driven Investment, CLOs	7,406
Bluebay	Emerging Market Equities	72
BMO Global Asset Management*	Liability Driven Investment	71
Brevan Howard Asset Management	Alternatives	57
Caxton Associates	Alternatives	38
Centerbridge Partners	Private Debt	10
Christofferson, Robb & Company	Alternatives	53
Crescent Capital Group	Private Debt	14
Dalton Investment	Emerging Market Equities	35
Dodge & Cox Worldwide Funds	Global Unconstrained Equities	114
Elementum Advisors	Alternatives	67
Empyrean Capital	Private Debt	39
Gramercy Funds Management	Emerging Markets Debt	78
Hamilton Lane	USA Private Equity	70
HBK Capital Management	Alternatives	45
Highbridge Capital Management	Private Debt	65
HPS Partners	Emerging Market Debt	16
Insight Investment Management	Secured Finance	155
Intermediate Capital Group	Private Debt	77
JP Morgan Asset Management	Diversified Growth Fund	54
Kames Capital	Fixed Income	131
LaSalle Investment Management	UK Property and Real Estate Debt	306
Lazard Asset Management	Emerging Market Equities	108
Loomis Sayles	Global Investment Grade Credit	103
Macquarie Group	Asian Infrastructure	26
MetLife Investment Management	Infrastructure Debt	72
Oaktree Capital Management	Private, E.M., Mezzanine, & Real Estate	87
Och Ziff Capital Management Group	Alternatives	6
Paamco	Absolute Return Emerging Manager	23
PAG	Alternatives	77
Phoenix Property Investors	Real Estate Debt	8
Quantum Energy Partners	Private Equity	36
Quinbrook Infrastructure Partners	Private Debt	16
River & Mercantile Group	Equity Option Overlay and Equity TRS	241
Rothsay Life	Insurance Contract	509
Standard Life	Global Investment Grade Credit	102
Taconic Capital	Alternatives	26
TOR Investment Management	Alternatives	83
Vivo Capital	Private Equity	16
Walter Scott & Partners	Global Unconstrained Equities	222
Cash and other assets		399
AVC Investments		114
Net Assets		11,554

Asset groupings explained

Asset category	Components
Equity alpha	Developed market equities with offsetting swaps, to remove the impact of movements in equity markets, and isolate returns solely from manager skill.
Equity beta	Private market and emerging market equities.
Property	UK and overseas property.
Absolute return	Investments designed to provide a positive return in all markets.
Higher risk credit	High yield, private and emerging market debt.
Lower risk credit	CLOs, investment grade and infrastructure debt, secured finance and absolute return bonds.

The figures shown on page 12 are based on the investment values as at 31 March 2019 included in the financial statements.

* BlackRock and BMO Global Asset Management manage the Liability Driven Investment Portfolios through a Pooled Investment Vehicle. Although this forms a large proportion of the Plan's assets, risk is mitigated through holding a spread of underlying assets comprising index-linked gilts (backed by Government), swap contracts, repos and cash.

The expenses of investment management are paid by the Trustee company and recharged to the Plan. The investment managers receive a fixed fee plus, where relevant, a performance fee which is only payable if a return higher than the specific benchmark return set for that portfolio is achieved (see Note 5 to the accounts on page 20).

Liquidity of Investments

The Trustee regards the majority of the investments as readily realisable, apart from the buy-in policy in POL Section. Other exceptions include certain pooled investments, private equity, property and some corporate bonds, which due either to the nature of the investments or current market conditions means they are less liquid than the rest of the investment portfolio.

Investment Returns

The charts below show the Plan's returns for return-seeking assets for the year ended 31 March 2019 as well as annualised returns for the three years to the same date, split by Section.

Responsible Investment

The Trustee's policy on responsible investment is included in its Statement of Investment Principles. The Trustee has adopted the Financial Reporting Council's (FRC's) UK Stewardship Code and is a signatory to the United Nations Principles for Responsible Investment (UNPRI).

Through its Investment Sub-Committee, the Trustee:

- Has received reports from its managers on how they have exercised their voting rights and how they have engaged with investee companies. The Trustee holds the investment managers responsible for their decisions in the use of voting rights on all issues including remuneration policy. This is in keeping with the principles outlined in the FRC's UK Stewardship Code;
- Has received a report from the UNPRI on its compliance with the principles;
- Has ensured that those of its investment managers who hold UK listed shares comply with the FRC's UK Stewardship Code; and
- Has appointed Global Engagement Services (GES) to engage with all equity holdings (including Emerging Markets) on Environmental, Social and Governance (ESG) issues where required and to make recommendations.

RMG Section	year to 31 March 19	3 years to 31 March 19
Return on return-seeking assets (%) p.a.	3.1%	7.0%
Target (3M Libor + 3.4%)*	0.8%	0.6%
Return on liability-matching assets and cash p.a.	6.1%	14.3%

DBCBS Section	year to 31 March 19
Return on return-seeking assets (%) p.a.	-5.5%
Target (3M Libor + 3.6%)**	0.8%
Return on liability-matching assets and cash p.a.	4.6%

POL Section	year to 31 March 19	3 years to 31 March 19
Return on return-seeking assets (%) p.a.	11.7%	8.9%
Target (3M Libor)	0.8%	0.6%
Return on liability-matching assets and cash p.a.**	1.6%	9.7%

*The "Target" figures are the returns solely on 3M LIBOR and exclude the 3.4% hurdle.

**The "Target" figures are the returns solely on 3M LIBOR and exclude the 3.6% hurdle

***for periods after July 2017 the performance figures for the "Liability-matching and cash" excludes any contribution from the bulk purchase annuity contracts that was transacted at that time.

Conclusion

This has been another very busy year for the RMPP.

Having taken appropriate independent professional advice, the Trustee agreed the changes necessary to implement the new DBCBS arrangements for the RMG Section, with effect from 1 April 2018 and this section is now fully operational for employee members.

The DBCBS section has received over £408 million in new contributions which have been invested in accordance with the Statement of Investment Principles for the section. This includes its own liability matching portfolio managed by BMO Global Asset Management.

Investment returns for the year, and for the three years to 31 March 2019, were well ahead of the target for the return-seeking part of the Plan's portfolio.

Richard Law-Deeks was appointed as the Chief Executive on 20 September 2018 after holding the position in an interim capacity since February 2018. Richard was previously the Head of Finance.

Richard Travers, an employer nominated Trustee, resigned from his position on the Trustee Board on 30 September 2018 after over four years of service and we thank him for this valuable input and expertise. We welcome Susannah Parden, who was appointed to the Trustee Board on 01 October 2018 and replaces Richard, and look forward to working with her over the coming years.

The Trustee Board would like to thank the RMPTL Executive, the Royal Mail Pensions Service Centre, the Royal Mail Pensions Strategy Team and our team of external advisers for their assistance throughout the year.

Joanna Matthews – Chair

July 2019

Statement of Trustee's Responsibilities for the Financial Statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustees. Pension scheme regulations require the Trustee to make available to Plan members, beneficiaries and certain other parties, audited financial statements for each Plan year which:

1. show a true and fair view of the financial transactions of the Plan during the Plan year and of the amount and disposition at the end of the Plan year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year; and
2. contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for:

- assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Plan, or have no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Plan prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for such internal control as it determines is

necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities.

Statement of Trustee's Responsibilities in respect of Contributions

The Plan's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan and the dates on or before which such contributions are to be paid. The Plan's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Plan and for procuring that contributions are made to the Plan in accordance with the schedule.

Royal Mail Pension Plan Financial Statements

Fund Account

for the year ended 31 March 2019

	Notes	2019 £m	2018 £m
Contributions and benefits			
Employer contributions	1	294	150
Employee contributions	1	123	125
Benefits	2	(69)	(57)
Payments to and on account of leavers	3	(11)	(14)
		337	204
Administrative expenses	4	(7)	(7)
Net additions from dealing with members		330	197
Return on investments			
Investment income	6	72	74
Change in market value of investments	7	515	140
Investment management expenses	5	(14)	(17)
Net return on investments		573	197
Net increase in the fund during the year		903	394
Net Assets of the Plan			
At start of year		10,651	10,257
At end of year		11,554	10,651

The Notes on page 19 to 34 form an integral part of the financial statements.

Statement of Net Assets (available for benefits)

as at 31 March 2019

	Notes	2019 £m	2018 £m
Investment assets			
Equities	-	377	368
Property	9	295	272
Bonds	-	751	983
Pooled investment vehicles	8	9,080	7,949
Insurance policies	-	509	483
Derivative contracts	10	1	24
AVC investments	12	114	116
Cash	11	458	436
Other investment assets	16	101	84
		11,686	10,715
Investment liabilities			
Derivative contracts	10	(29)	(5)
Other investment liabilities	16	(111)	(64)
		(140)	(69)
Net investment assets			
		11,546	10,646
Current assets	-	24	16
Current liabilities	13	(16)	(11)
Net assets of the Plan at 31 March			
		11,554	10,651

The Notes on pages 19 to 34 form an integral part of the financial statements.

The financial statements summarise the transactions of the Plan and deal with the net assets at the disposal of the Trustee. They do not take into account obligations to pay pensions and benefits which fall due after the end of the Plan year. The actuarial position of the Plan, which does take into account such obligations, is dealt with in the Report on Actuarial Liabilities included on page 40 and these financial statements should be read in conjunction with that report.

Approved by the Trustee and signed on behalf of the Directors by:

Accounting Policies

Basis of Preparation

The financial statements have been prepared in accordance with the Occupational Pension Scheme (Requirement to obtain Audited Accounts and a statement from the Auditor) Regulators 1996, Financial Reporting Standard 102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice (SORP) (revised November 2014).

Basis of Accounting

The financial statements state the assets at market value. The long-term financial position of the Plan including liabilities for pensions and other benefits which are expected to arise in the future and which are not reflected in the financial statements, is dealt with in the Actuarial Valuation Reports as at 31 March 2018 (RMG Section) and 1 April 2015 (POL Section).

Basis of Consolidation

The results of subsidiary undertakings are included from the date of acquisition and up to date of disposal using the acquisition method of accounting.

The Plan holds some investments through wholly owned subsidiaries and partnerships. Such investments are consolidated by including the assets, liabilities, income and expenditure of those wholly owned subsidiaries and partnerships in the Plan's financial statements. Consolidation is based on the latest available financial statements augmented where necessary by unaudited management information made up to dates not earlier than three months before the Plan's year end. Adjustments have been made on consolidation to bring the accounting policies of the consolidated undertakings into line with those adopted by the Plan.

Contributions

Normal contributions from employers and employees are made in accordance with the rates set out in the schedules of contributions in force for the Plan Year. Normal contributions relating to wages and salaries earned in the Plan Year have been recognised in these financial statements. Additional Voluntary Contributions are accounted for on

an accruals basis when deducted from payroll.

Augmentation contributions are recognised in the financial statements in accordance with the due dates set out in the schedules of contributions.

Benefits

Benefits are accounted for on an accruals basis according to when they fall due for payment.

Transfers

Individual transfers out of the Plan are accounted for on a cash basis of amounts paid. Group transfers are accounted for when liability is accepted by the receiving scheme, which is usually on the basis of amounts paid.

Investment Income

Income from property, bonds and other interest receivable is taken into account on an accruals basis. Income from all other marketable securities is taken into account on the date when stocks are quoted ex-dividend. Investment income is recognised in the financial statements net of associated tax credits which are not recoverable by the Plan. Any overseas withholding tax is recognised as income, but where this is not recoverable by the Plan it is shown separately as a tax charge.

Income from other assets, such as pooled investment vehicles, is recognised on a receipts basis.

Foreign Currencies

The functional and presentational currency for reporting purposes is Sterling. Foreign currency investments and related assets and liabilities are translated into Sterling at the rates ruling at the year end. Foreign currency income and expenditure is translated at exchange rates prevailing on the appropriate dates, which are usually the transaction dates. Exchange differences arising from translation are dealt with in the Fund Account within the change in market value of investments.

Market Value of Securities

The majority of listed securities are valued at the bid price, or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the Net Assets

Statement. For fixed interest securities this valuation is shown net of the accrued interest therein; such interest is included in other investment assets.

Stock index and bond futures are included in the Net Assets Statement under derivative contracts at fair value. For exchange-traded derivatives that are assets, fair value is based on bid prices. For exchange-traded derivatives that are liabilities, fair value is based on offer prices. All gains and losses on open contracts are included within the change in market value of investments.

Open forward foreign currency contracts at the balance sheet date are over the counter contracts and are valued using forward currency rates at that point.

The unrealised appreciation or depreciation of open foreign currency contracts is calculated by the difference between the contracted rate and the rate to close out the contract.

Open option contracts at the balance sheet date are over the counter contracts and fair value is calculated taking into account the strike price, maturity date and the underlying asset of the option. The unrealised appreciation or depreciation of open option contracts is calculated by the difference between the premiums paid for the options and the price to close out the options.

Interest rate and credit default swaps are over the counter contracts and fair value is the current value of the future expected net cash flows, taking into account the time value of money and market data at year end.

Unlisted securities, insurance policies and other pooled investment vehicles are valued at the Trustee's valuation using published prices, the latest information from investment managers and actuarial consultants, or at cost less any necessary provisions for impairment.

The insurance policy held by the Plan has been valued using membership data as at 31 March 2018 updated for membership movements, payments made to pensioners and revaluation of deferred benefits.

The financial assumptions used to value the policy have been calculated using the 2015 triennial valuation Technical Provisions basis, updated for current market conditions, as set out in the statement of funding principles dated 21 March 2017. This represents a change in accounting policy compared with 2018 and is expected to be applied consistently in future years. The first accounting recognition of the insurance policy was in 2018, following its execution in July 2017.

For purposes of valuation practicality at the time, the policy was valued on the basis of updating the original premium paid to secure the policy. Both the 2018 and 2019 methods are acceptable for this purpose.

Securities on Loan and Sale and Repurchase Agreements

Securities on loan or sold subject to repurchase agreements are included in the financial statements within the respective investment classes at the year-end market value of the securities on loan, or of the securities to be repurchased. Collateral received on stock loans is excluded from the financial statements.

Market Value of Properties

Properties are valued on a market value basis for financial statements purposes, as at the year-end date in accordance with RICS Valuations Standards.

Market Value of Properties

Properties are valued on a market value basis for financial statements purposes, as at the year-end date in accordance with RICS Valuations Standards.

The valuer, CB Richard Ellis, is a recognised firm of Chartered Surveyors which has the appropriate expertise within its practice to value these properties.

Commitments

Commitments represent funds to be allocated for future investments by the Plan.

Notes to the Financial Statements

1. Contributions

		2019 £m	2018 £m
Contributions by employer*	- normal	293	142
	- augmentation	1	8
Contributions by members	- normal	117	113
	- additional voluntary	6	10
	- added years	-	2
		417	275

* From 1 April 2018 all employer contributions relate to DBCBS.

In 2018 the Trustee and RMG agreed to ringfence certain employer contributions in an escrow arrangement in order to give the Trustee and the Company more flexibility over how these assets are best used for the benefit of members in the future.

2. Benefits

	2019 £m	2018 £m
Retirement pensions	30	23
Lump sum/retirement benefits	30	32
Death benefits	9	2
	69	57

3. Payments to and on behalf of leavers

	2019 £m	2018 £m
Individual transfer values	11	14

Transfer values were calculated and verified in the manner prescribed by legislation. No allowance has been made for discretionary pension increases in respect of those sections of the Plan which do not guarantee pension increases fully in line with inflation.

Notes to the Financial Statements continued

4. Administration expenses

	2019 £m	2018 £m
Administrative expenses	7	7

Administrative expenses include costs totalling £77,000 in respect of the Pension Protection Fund (2018: £67,500). Administrative expenses also include fees payable to the Plan's auditors (KPMG LLP) of £129,000 (2018: £108,000) of which £18,000 (2018: £10,000) relates to the Plan's subsidiaries.

5. Investment management expenses

	2019 £m	2018 £m
Investment managers' base fees	7	7
Investment managers' performance fees	1	4
Other expenses	6	6
	14	17

6. Investment income

	2019 £m	2018 £m
Dividends from equities	8	7
Income from bonds	31	41
Income from pooled investment vehicles	13	7
Net rental income	12	16
Interest on cash deposits	5	2
Income from derivatives	(1)	(2)
Other investment income	4	3
	72	74
Net recoverable withholding tax	-	-
	72	74

Net rental income is stated after deduction of £3 million (2018: £2 million) of property related expenses.

The Plan is a registered pension scheme for tax purposes under the Finance Act 2004. The Plan is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income.

Notes to the Financial Statements continued

7. Reconciliation of investments

This includes profits and losses on investments sold as well as increases and decreases in the value of investments held at 31 March 2019. An analysis of the change in market value of net assets is shown below:

Investment assets	Market value at 31 March 2018 £m	Purchases at cost and derivative payments £m	Sale proceeds and derivative receipts £m	Change in value £m	Market value at 31 March 2019 £m
Equities	368	127	(148)	30	377
Property	272	25	-	(2)	295
Bonds	983	365	(640)	43	751
Pooled investment vehicles	7,949	1,230	(554)	455	9,080
Insurance policies	483	-	-	26	509
AVC investments	116	6	(8)	-	114
Cash	436	20	-	2	458
Derivative contracts*	19	19	(27)	(39)	(28)
	10,626	1,792	(1,377)	515	11,556
Other investment assets and liabilities	20	-	(30)	-	(10)
Net investment assets	10,646	1,792	(1,407)	515	11,546

*Derivative contracts include both derivative assets and liabilities which are shown separately on the face of the Net Assets Statements.

Note: The 'Change in value' column comprises gains and losses on investments sold and increases and decreases in the value of investments held.

Transaction costs are costs that are directly attributable to the acquisition or disposal of an investment and are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year amounted to £1,328,000 (2018: £1,434,000). In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. Further detail on transaction costs can be found in Note 18.

Notes to the Financial Statements continued

8. Pooled investment vehicles	2019 £m	2018 £m
Bond funds	555	537
Equity funds	152	63
Absolute return funds	631	369
Property funds	41	24
Private equity funds	146	147
Liability driven investment funds	7,397	6,713
Private debt funds	158	96
	9,080	7,949

The Scheme is currently the sole investor in the liability driven investment fund. The underlying assets in this pooled investment vehicle are as follows:

Bonds	8,129	6,139
Swaps	200	388
Repurchase agreements	(1,036)	(292)
Net cash	104	478
	7,397	6,713

Notes to the Financial Statements continued

9. Property	2019 £m	2018 £m
UK		
Retail	176	161
Industrial	48	42
Residential	71	69
	295	272

There was no property (2018: nil) which was leased back to Royal Mail at market rates.

10. Derivative contracts	2019 £m	2018 £m
Assets		
Futures contracts	-	-
FX forward contracts	1	1
Swaps	-	23
	1	24
Liabilities		
Futures contracts	-	-
FX forward contracts	(3)	(1)
Swaps	(26)	(4)
	(29)	(5)

Objectives and Policies

The Trustee has authorised the use of derivatives by its investment managers as part of its overall investment strategy for the Plan. The main objectives for the use of derivatives are summarised as follows:

Futures contracts

Futures contracts are entered into as a method of balancing the Plan's exposure to a particular market or sector. Derivatives often provide a cheaper and more effective way of modifying portfolio risk to remain within asset allocations governed by the investment strategy of the Plan.

Credit default swaps

Credit default swaps are used to decrease the Plan's credit risk on fixed interest instruments.

Foreign exchange forward contracts

Foreign exchange forward contracts are used to hedge against adverse foreign exchange rate movements on investments denominated in non-Sterling currencies.

Interest rate swaps

Interest rate swaps are used to decrease the Plan's risk to interest rate movements on floating rate instruments.

Notes to the Financial Statements continued

10. Derivative contracts (continued)

Disclosures of the derivatives held at year end are set out below:

Futures - exchange traded

Type of Future	Expiration	Economic Exposure Value £m	2019 Asset £m	2019 Liability £m
Fixed interest - overseas*	June 19	(13)	-	-
			-	-

Type of Future	Expiration	Economic Exposure Value £m	2018 Asset £m	2018 Liability £m
Fixed interest - overseas*	June 18	(2)	-	-
			-	-

*The value of Fixed interest - overseas assets was £9,000 (2018: £27,000) and Fixed interest - overseas liabilities was £60,000 (2018: £5,000).

FX forwards

Currency Bought	Currency Sold	Notional Value £m	2019 Asset £m	2019 Liability £m
GBP	EUR	44	-	-
GBP	USD	122	-	(2)
USD	EUR	33	1	-
VARIOUS*	VARIOUS*	7	-	(1)
			1	(3)

Currency Bought	Currency Sold	Notional Value £m	2018 Asset £m	2018 Liability £m
GBP	EUR	44	-	-
GBP	USD	113	1	(1)
USD	EUR	10	-	-
VARIOUS*	VARIOUS*	8	-	-
			1	(1)

All FX forward contracts are over the counter settling in less than one year.

*The value of the FX forward various assets was £46,000 (2018: £71,000) and the value of the FX forward various liabilities was £103,000 (2018: £66,000).

Notes to the Financial Statements continued

10. Derivative contracts (continued)

Swaps - over the counter

Type of Swap	Expiration	Economic Exposure Value £m	2019 Asset £m	2019 Liability £m
Credit default swap - index*	< 5 years	3	-	-
Interest rate swap - fixed for floating	< 5 years	294	-	(1)
Interest rate swap - fixed for floating	< 40 years	163	-	(5)
Total return swap - global equity short	February 2020	303	-	(20)
			-	(26)

Type of Swap	Expiration	Economic Exposure Value £m	2018 Asset £m	2018 Liability £m
Credit default swap - index*	< 5 years	3	-	-
Interest rate swap - fixed for floating	< 5 years	96	1	(1)
Interest rate swap - fixed for floating	< 40 years	127	2	(3)
Total return swap - global equity short	February 2019	257	20	-
			23	(4)

* The value of the credit default swap - index assets was £42,000 (2018: £62,000) and the credit default swap - index liabilities was £nil (2018: £nil).

Notes to the Financial Statements continued

11. Cash

	2019 £m	2018 £m
Interest earning deposits		
Sterling	397	367
Foreign currency	61	69
	458	436

12. AVC investments

Members' Additional Voluntary Contributions are invested separately from the principal Plan on a money purchase basis with Zurich. There are legacy 'with profits' arrangements with Aviva, Standard Life, and Equitable Life Assurance Society. Members participating in these arrangements each receive an annual statement confirming the amount held in their account and the movements in the year. The table below details the value held per provider:

	2019 £m	2018 £m
Zurich	97	99
Aviva	2	2
Standard Life	6	6
Equitable Life	9	9
	114	116

Notes to the Financial Statements continued

13. Current liabilities	2019 £m	2018 £m
Accrued benefits	3	2
Other creditors	13	9
	16	11

14. Securities on loan

Securities have been lent to market makers in return for fee income earned by the Plan. Security for the loans is obtained by holding collateral in the form of financial instruments.

	2019 On loan £m	2019 Collateral £m	2018 On loan £m	2018 Collateral £m
Equities	8	9	22	24
Bonds*	14	14	15	16
	22	23	37	40

*The value of bonds on loan at the end of year was £13,720,000 and the collateral value held at the end of the year was £14,370,000.

15. Commitments and contingent liabilities

	2019 £m	2018 £m
Property	1	14
Other*	428	459
	429	473

* Other commitments represent funds allocated for specific private equity and alternative investments. There were nil contingent liabilities at 31 March 2019 (2018: nil).

Notes to the Financial Statements continued

16. Other investment assets and investment liabilities

'Other investment assets' consists of accrued income, amounts due from brokers and collateral placed with counterparties. The value of collateral placed with counterparties was £15m (2018: £29m).

'Other investment liabilities' consists of amounts due to brokers and collateral received from counterparties. The value of collateral held from counterparties was £10m (2018: £25m).

17. Net assets at the end of the year

The table below shows the net assets of the Plan for each individual section.

	RMG £m	DBCBS £m	POL £m	Total £m
Equities	368	9	-	377
Property	295	-	-	295
Bonds	742	-	9	751
Pooled investment vehicles	8,746	315	19	9,080
Insurance policies	-	-	509	509
Derivative contracts	(28)	-	-	(28)
Cash and other assets	338	75	43	456
Total	10,461	399	580	11,440
AVC investments				114
Total net assets at the end of the year				11,554

Notes to the Financial Statements continued

18. Transaction Costs

Included within the purchases and sales are direct transaction costs of £1,328,000 (2018: £1,434,000) comprising fees, commissions, and stamp duty. These costs are attributable to the following asset classes:

	Stamp Duty £m	Fees £m	Commission £m	2019 Total £m
Equities	-	0.1	0.2	0.3
Bonds*	-	-	-	-
Property	0.9	-	-	0.9
	0.9	0.1	0.2	1.2

	Stamp Duty £m	Fees £m	Commission £m	2018 Total £m
Equities	-	0.1	0.2	0.3
Bonds*	-	-	-	-
Property	0.2	0.8	-	1.0
	0.2	0.9	0.2	1.3

*There were fees and commissions of £30,000 (2018: £41,000) relating to Bonds during the year. Transaction costs are also borne by the Plan in relation to pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately reported.

Notes to the Financial Statements continued

19. Investment Fair Value Hierarchy

The fair value of financial instruments has been determined using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the measurement date;

Level 2: Inputs other than quoted prices included within Level 1 which are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly;

Level 3: Inputs which are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

As at 31 March 2019:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	328	-	49	377
Bonds	332	338	81	751
Property	-	295	-	295
Pooled investment vehicles	-	7,639	1,441	9,080
Insurance policies	-	-	509	509
Derivatives	-	(28)	-	(28)
AVC investments	-	114	-	114
Cash	458	-	-	458
Other investment balances	(10)	-	-	(10)
Total	1,108	8,358	2,080	11,546

As at 31 March 2018:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	324	-	44	368
Bonds	363	540	80	983
Property	-	272	-	272
Pooled investment vehicles	-	6,790	1,159	7,949
Insurance policies	-	-	483	483
Derivatives	-	19	-	19
AVC investments	-	116	-	116
Cash	436	-	-	436
Other investment balances	20	-	-	20
Total	1,143	7,737	1,766	10,646

Notes to the Financial Statements continued

20. Investment Risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: This comprises currency risk, interest risk and other price risk.

Currency risk: This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

Interest rate risk: This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

Other price risk: This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Plan has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee's Report. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Plan's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Plan's investment managers and monitored by the Trustee by regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the Plan's exposures to credit and market risks are set out below. This does not include AVC investments as these are not considered significant in relation to the overall investments of the Plan.

(i) Credit risk

The Plan is subject to credit risk as the Plan invests in bonds, OTC derivatives, has cash balances, undertakes stock lending activities and enters into repurchase agreements. The Plan also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

Analysis of direct credit risk

	Investment grade £m	Non-investment grade £m	Unrated £m	2019 Total £m
Bonds	8,593	285	2	8,880
OTC Derivatives	172	-	-	172
Cash	562	-	-	562
Stock lending	22	-	-	22
Repurchase agreements	(1,036)	-	-	(1,036)
PIVs	-	-	1,754	1,754
Total	8,313	285	1,756	10,354

Notes to the Financial Statements continued

	Investment grade £m	Non-investment grade £m	Unrated £m	2018 Total £m
Bonds	6,586	531	6	7,123
OTC Derivatives	407	-	-	407
Cash	436	-	-	436
Stock lending	15	-	-	15
Repurchase agreements	(292)	-	-	(292)
PIVs	8	-	1,134	1,142
Total	7,160	531	1,140	8,831

Credit risk arising on bonds is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. The Plan also invests in high yield and emerging market bonds which are non-investment grade. The Trustee manages the associated credit risk by requesting the investment manager to diversify the portfolio to minimise the impact of default by any one issuer. Credit risk arising on other investments is mitigated by investment mandates requiring counterparties to be of at least investment grade credit quality. Credit ratings of counterparties can be monitored via the reports issued from the major credit rating agencies.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Plan is subject to risk of failure of the counterparty. The credit risk for OTC swaps and options is reduced by collateral arrangements which would require the transfer of cash between counterparties when OTC derivative positions are opened and during the life of the open position as the market value of the position changes over time. Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts but all counterparties are required to be at least investment grade.

Cash is held within financial institutions which are at least of investment grade credit rating.

The Plan lends certain fixed interest and equity securities under a Trustee-approved stock lending programme. The Trustee manages the credit risk arising from stock lending activities by restricting the amount of overall stock that may be lent, only lending to approved borrowers who are rated investment grade, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements. At the year end, the Plan had lent £8 million (2018: £22 million) of fixed income securities and £14 million (2018: £15 million) of quoted securities and held collateral in the form of cash and fixed interest securities with a value of 108% (2018: 108%) of stock lent.

The Plan's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the managers operate and diversification of investments amongst a number of pooled arrangements. For the LDI funds, the Plan is the sole investor and the underlying assets of the funds (see note 8) have been reviewed for credit risk disclosure purposes. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager. This involves the review of internal controls reports which are externally audited, reviews of the audited annual accounts, monitoring and adherence to Service Level Agreements and ongoing discussions and meetings with the pooled fund manager and their custodians.

Notes to the Financial Statements continued

A summary of pooled investment vehicles by type of arrangement is as follows:

	2019 £m	2018 £m
Qualifying investor fund	7,397	6,713
Open ended investment companies	1,122	771
Shares of limited liability partnerships	561	465
Total	9,080	7,949

Indirect credit risk arises in relation to underlying investments held in the pooled investment vehicles. This risk can be mitigated by investing in pooled funds which invest in investment grade credit rated securities and transact with counterparties of an investment grade credit rating.

(ii) Currency risk

The Plan is subject to currency risk because some of the Plan's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee limits overseas currency exposure through a currency hedging policy.

The Plan's total net unhedged exposure by major currency at the year end was as follows:

	2019 £m	2018 £m
Currency		
Euro	131	132
US Dollar	715	596
Japanese Yen	15	17
Other	146	147
Total	1,007	892

(ii) Interest rate risk

The Plan is subject to interest rate risk on bonds and interest rate swaps held either as segregated investments or through pooled vehicles and cash. At the year end these comprised:

	2019 £m	2018 £m
Direct		
Bonds	751	983
Swaps	(26)	19
Indirect		
Bond PIVs	555	537
LDI PIVs	7,397	6,713
Other debt PIVs	158	96
Total	8,835	8,348

Notes to the Financial Statements continued

(iv) Other price risk

Other price risk arises principally in relation to the Plan's return seeking portfolio which includes directly held equities, equities held in pooled vehicles, equity futures, absolute return funds, private equity and investment properties.

The Plan manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets. At the year end, the Plan's exposure to investments subject to other price risk was:

	2019 £m	2018 £m
Direct		
Equities	377	368
Investment properties	295	272
Indirect		
Equity funds	152	63
Absolute return funds	631	369
Investment property funds	41	24
Private equity funds	146	147
Total	1,642	1,243

21. Related party transactions

During the year there were transactions with Royal Mail Pension Trustees Limited (RMPTL). RMPTL provides the Plan with comprehensive trustee services including the provision of external supplies. The cost to RMPTL of providing these services is borne by the Plan and allocated between administrative and investment management expenses. Contributions received and pension benefits paid in respect of Trustee Directors who are members of the Plan were in accordance with the Schedule of Contributions and Plan rules where appropriate.

There was no employer related investment during the year.

	2019 £m	2018 £m
Fees charged for the year including amounts payable to RMPTL as at 31 March 2019 of £2 million (2018: £2 million)	19	13

Independent Auditor's Report to the Trustee of the Royal Mail Pension Plan

Opinion

We have audited the financial statements of Royal Mail Pension Plan ("the Plan") for the year ended 31 March 2019 which comprise the Fund Account and the Statement of Net Assets and related notes, including the accounting policies on page 18.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Plan during the Plan year ended 31 March 2019 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Trustee and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Plan's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

We applied a standardised firm-wide approach in response to that uncertainty when assessing the Fund's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The Trustee has prepared the financial statements on the going concern basis as it does not intend to wind up the Plan, and as it has concluded that the Plan's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Plan, including the impact of Brexit, and analysed how those risks might affect the Plan's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Plan will continue in operation.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions), the Chair's Statement and the actuarial certification of the schedule of contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Independent Auditor's Report to the Trustee of the Royal Mail Pension Plan

Trustee's responsibilities

As explained more fully in their statement set out on page 15, the Plan Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to wind up the Plan, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Plan Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Plan Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund Trustee, for our audit work, for this report, or for the opinions we have formed.

Fang Fang Zhou
for and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

Independent Auditor's Statement about Contributions, to the Trustee of the Royal Mail Pension Plan

Statement about contributions

We have examined the summary of contributions payable under the schedules of contributions to the Royal Mail Pension Plan in respect of the Plan year ended 31 March 2019 which is set out on page 38.

In our opinion contributions for the Plan year ended 31 March 2019 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects been paid at least in accordance with the schedules of contributions certified by the actuary on 26 September 2013, 8 May 2017 and 27 March 2018.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the schedules of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Plan and the timing of those payments under the schedules of contributions.

Respective responsibilities of trustee and auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 15, the Plan's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Plan and for monitoring whether contributions are made to the Plan by the employer in accordance with the schedules of contributions.

It is our responsibility to provide a statement about contributions paid under the schedules of contributions to the Plan and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Plan's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Plan's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Plan's Trustee, for our work for this statement, or for the opinions we have formed.

Fang Fang Zhou
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
15 Canada Square
London
E145GL

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published.

These matters are the responsibility of the Trustee but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Trustee's Summary of Contributions

The following summary of contributions is designed to show contributions as specified in the schedules of contributions and those paid in addition.

Contributions Receivable	2019 Per Schedule £m	2019 Additional £m	2019 Total £m	2018 Per Schedule £m	2018 Additional £m	2018 Total £m
Employers' normal contributions*	293	-	293	142	-	142
Members' normal contributions	117	-	117	113	-	113
Employers' augmentation contributions	1	-	1	8	-	8
Members' additional voluntary contributions	-	6	6	-	10	10
Members' added years' contributions	-	-	-	-	2	2
Total contributions (see Note 1 to the financial statements)	411	6	417	263	12	275

* The Trustee and RMG agreed to ringfence certain employer contributions in an escrow arrangement in order to give the Trustee and the Company more flexibility over how these assets are best used for the benefit of members in the future.

Approved by the Trustee and signed on behalf of the Directors by

J Matthews – Chair

July 2019

Actuary's Certification of Schedules of Contributions

Royal Mail Pension Plan – RMG Section

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2018 to be met for the period for which this schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 19 July 2019.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Plan's liabilities by the purchase of annuities, if the Plan were to be wound up.

C G Singer

Fellow of the Institute and Faculty of Actuaries
Willis Towers Watson

Watson House
London Road
Reigate
Surrey
RH2 9PQ

19 July 2019

Royal Mail Pension Plan – POL Section

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2015 to be met for the period for which this schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 21 March 2017.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Plan's liabilities by the purchase of annuities, if the Plan were to be wound up.

C G Singer

Fellow of the Institute and Faculty of Actuaries
Willis Towers Watson

Watson House
London Road
Reigate
Surrey
RH2 9PQ

21 March 2017

Report on Actuarial Liabilities (forming part of the Trustee's report)

Under Section 222 of the Pensions Act 2004, schemes are subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the employer and set out in the Statement of Funding Principles, which is available to Plan members on request.

The most recent full actuarial valuation of the RMG Section of the Plan was carried out as at 31 March 2018.

The most recent full actuarial valuation of the POL Section of the Plan was carried out as at 31 March 2015.

The value of the technical provisions for the Plan was:

The value of the Technical Provisions for the Plan was:	The market value of the assets at that date was:
£9,854 million for RMG Section	£9,986 million for RMG Section
£308.0 million for POL Section	£370.7 million for POL Section

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Statement of Funding Principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Nominal discount rate:

RMG	POL
Term-dependent discount rate equal to the forward yield on UK nominal gilts plus an initial 0.55% in 2018/19 reducing in equal annual steps of 0.06% until the margin is 0.13% in 2025/26. From 2026/27, the margin reduces to 0.125% and remains constant at that thereafter.	Term-dependent discount rate equal to the spot yield on UK nominal gilts less a margin of 0.2% per annum.

Price inflation (RPI):

Term-dependent inflation rate equal to the UK gilt implied inflation spot yield. Annual CPI inflation to be assumed lower than the assumed annual RPI inflation by 0.8% per annum for the RMG section, and 0.3% for the POL section.

Pensionable pay increases:

RMG	POL
Annual increases are assumed to take place in April each year in line with RPI inflation + 0.24% per annum.	Annual increases are assumed to take place in April each year, in line with RPI inflation together with an allowance for promotions and increments of 0.12% per annum of the corresponding liability. In addition, the Technical Provisions will include a reserve for promotional increases to basic pay which increase benefits by more than RPI.

Pension increases and revaluation:

Index-linked pensions and pensions subject to a maximum increase of 5% per annum are assumed to increase in line with the relevant inflation index (RPI or CPI), according to the provisions of the appropriate section of the Plan Rules, with no adjustment for caps or floors.

Mortality:

The mortality tables to be used in deferment and after retirement in respect of a member and the member's dependant are set out in the table below.

	RMG		POL	
	Base Table	Improvements	Base Table	Improvements
Male members	118% S2PMA	CMI 2017 with 1.5% trend and smoothing parameter of 8	91% S2PMA	CMI 2014 with 2% trend
Male dependants	99% S2PMA_H		89% S2PFA	
Female members	116% S2PFA_H		96% S2DFA	
Female dependants	106% S2PFA_H			

Appendices

Appendix 1 – Membership Analysis as at 31 March 2019

RMG Section	2019	2018
Active Members		
Employee members	68,080	72,093
Dual Status - deferred members with part benefits in payment	10,440	11,071
Total Active members	78,520	83,164
Deferred Members		
Deferred members	13,319	12,195
Dual Status - deferred members with part benefits in payment	1,820	1,866
Total Deferred members	15,139	14,061
Pensioner members		
Pensioner members	20,958	18,088
Total Pensioner members (excluding dual status)	20,958	18,088
Total Membership – RMG Section	114,617	115,313

POL Section	2019	2018
Active Members*		
Employee members	1,748	1,958
Dual Status - deferred members with part benefits in payment	207	256
Total Active members	1,955	2,214
Deferred Members		
Deferred members	2,018	1,927
Dual Status - deferred members with part benefits in payment	221	288
Total Deferred members	2,239	2,215
Pensioner members		
Pensioner members	1,419	1,208
Total Pensioner members (excluding dual status)	1,419	1,208
Total Membership – POL Section	5,613	5,637

*The POL Section closed to further accrual on 31 March 2017. The benefits of POL employees who are members of the Plan are linked to their salaries and therefore they have been classified above as active members rather than deferred members.

DBCBS Section	2019
Active Members	
Employee members	4,168
Dual Status - deferred members with part benefits in payment	-
Total Active members	4,168
Deferred Members	
Deferred members	-
Dual Status - deferred members with part benefits in payment	-
Total Deferred members	-
Pensioner members	
Pensioner members	-
Total Pensioner members (excluding dual status)	-
Total Membership - DBCBS Section	4,168

Appendix 2 - Five Year History of the Fund

	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m
Income					
Employers' contributions	421	417	363	150	294
Member contributions and transfers-in	147	139	125	111	123
Investment income	50	55	69	74	72
Benefits Paid					
Retirement pension	6	11	18	23	30
Lump sum retirement benefits	18	27	25	32	30
Death benefits and leavers	11	11	16	14	9
Assets					
Assets	6,531	7,554	10,257	10,651	11,554

Appendix 3 - Royal Mail Group Section Statement of Investment Principles March 2019

1. Introduction

- 1.1 This Statement of Investment Principles (the 'Statement') has been prepared by Royal Mail Pensions Trustees Limited (the 'Trustee'), who acts as Trustee for the Royal Mail Pension Plan (the 'Plan').
- 1.2 Since 1 April 2012, the Plan's assets and liabilities have been sub-divided into two sections (the 'Sections') relating to Post Office Limited ('POL') and to Royal Mail Group ('RMG' or the 'Company'). The Trustee seeks to maintain good working relationships with POL and RMG. Investment policy is determined separately for each Section and reflects separate consultations with POL and RMG.
- 1.3 The remainder of this Statement refers primarily to RMG Section (the 'Section') or otherwise, as specified, to the Plan in general.
- 1.4 As from 1 April 2018, there was a change in the benefits accrued by members of the Section. From that date, members accrued an entitlement to a cash lump sum paid at retirement. The assets backing accrual from 1 April 2018 are managed separately from those relating to accrual prior to that date and are also managed subject to a specific investment rule within the Trust Deed and Rules, which comes into effect from 1 April 2019. That specific investment rule does not apply to the management of assets relating to benefits accrued prior to 1 April 2018. This statement distinguishes between the investment policies adopted for these two parts of the Section where appropriate. RMG has been consulted in preparing this Statement and will be further consulted regarding any proposed changes to the Statement.

- 1.5 The Statement sets out the principles governing the Trustee's decisions about the investment of the Section's assets. The Trustee refers to this Statement when making investment decisions, to ensure that they are consistent with the principles set out in it.
- 1.6 The statement is designed to meet the requirements of Section 35 of the Occupational Pensions Schemes (Investment) Regulations 2005.
- 1.7 The Trustee has obtained written professional advice from the Plan's investment consultant in preparing this statement. The Trustee believes that the investment consultant meets the relevant requirements under Section 35 (3) of the Pensions Act 1995. In matters where the investment policy may affect the Section's funding policy, advice has also been obtained from the Scheme Actuary. The Trustee will obtain similar advice whenever it reviews this Statement.
- 1.8 The Trustee's investment powers are set out within the Plan's Trust Deed & Rules, subject to applicable legislation. If necessary, the Trustee will take appropriate legal advice regarding the interpretation of these. The Trustee notes that, according to the law, the Trustee has ultimate power and responsibility for the Section's investment arrangements.
- 1.9 In the normal course of events, the Trustee does not expect to revise this Statement frequently because the Statement covers broad principles. The Trustee will review this Statement in response to any material changes to any aspects of the Section, its liabilities, finances and the attitude to risk of the Trustee and the Company that it judges to have a bearing on the Statement. Reviews will occur no less frequently than triennially.

All reviews will again be based on written expert advice and will include consultation with the Company.

2. Fund Governance

- 2.1 The Trustee is responsible for the investment of the Section's assets but is permitted to delegate execution of these responsibilities. When determining which decisions to delegate, the Trustee has taken into account whether it has the appropriate training and is able to secure the necessary expert advice in order to take an informed decision. The Trustee's ability to execute the decision effectively is also taken into account. Details of the Trustee's duties and responsibilities are included in Appendix A to Appendix 3 (page 49).
- 2.2 The Trustee has established the Investment Sub-Committee ('ISC') to focus on investment issues. Details of the ISC's duties and responsibilities are included in separate Terms of Reference.
- 2.3 The Trustee has appointed an investment consultant to advise the Trustee and the ISC as to the setting, implementation and monitoring of the investment policy.
- 2.4 The Trustee has chosen to delegate day-to-day management of the Section's investments to a number of investment managers, in accordance with Section 34 of the Pensions Act 1995. The terms of each investment manager's appointment are contained in the investment management Agreement between the investment manager and the Trustee and, where applicable, in the governing documentation of pooled vehicles.
- 2.5 The Trustee has appointed a performance and risk consultant independent of the Section's investment managers.

2.6 The custodian is responsible for the safekeeping of the Section's assets and performs the associated administrative duties (e.g. trade settlement, dividend collection, corporate actions, tax reclamation and proxy voting). The details of the custodian's appointment and duties are set out in the contract between the Trustee and the custodian.

3. Investment Objective

3.1 Meeting the Section's Liabilities

Assets relating to benefits accrued prior to 1 April 2018

The Trustee recognises that in setting investment policy to meet the liabilities, it must have regard to both the potential for the investment policy to generate positive return that would lead to an improvement in the Section's funding position and to the potential for poor returns that would cause it to deteriorate. The Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return. The Trustee has specified objectives for the investment policy that balance these requirements.

Assets relating to benefits accrued from 1 April 2018

The investment of assets relating to benefit accrual from 1 April 2018 is subject to specific constraints within the Trust Deed and Rules. These are to the effect that the assets must be invested in a manner which the Trustee considers is reasonably consistent with its best estimate of what is required to achieve in future a long-term return objective. The return objective can range from an excess return over the yield on UK government bonds ('gilts') of +3.6% per annum to +1.4% per annum. Where within this range the objective lies is a function of the remaining term to payment of the retirement cash lump sum benefits accrued from 1 April 2018. Currently and in the shorter-term, the objective is at or close to the upper end of the range, gilts +3.6% per annum.

4. Risk and Return

4.1 The Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the Section's estimated liabilities.

Specifically for investment of assets relating to benefits accrued from 1 April 2018, the long term return objective requires an unmatched strategy with gradual de-risking as the arrangement matures, but there is provision within the investment rule for the Trustee to de-risk faster than specified in that objective if it considers that the risks to accrued benefits (excluding potential future discretionary increases) are too great, taking into account the Company's covenant. In addition, there is a risk control specified in the investment rule, which is framed in terms of an upper limit on a forward-looking estimate of return volatility and this limit takes precedence over the return objective, if the two conflict.

4.2 Given the ongoing commitment of the Company to the Section and the current circumstances of the Section, a degree of investment risk can currently be taken, in the expectation of generating excess returns relative to the lowest risk strategy. Specifically for investment of assets relating to benefits accrued from 1 April 2018, the Trustee is currently satisfied that it can invest without diverging from the long-term return objective in the investment rule.

4.3 In deciding to take investment risk relative to the liabilities, the Trustee has carefully considered the following possible consequences:

- Over any time period, the assets might not achieve the anticipated excess return relative to the liabilities. This would result in the deterioration of the Section's financial position and consequently may result in higher contributions than currently expected from the Company.

- There may be a shortfall of assets relative to the liabilities in the event of discontinuance of the Section. This consequence is particularly serious if it coincides with the Company being unable to make good the shortfall.

4.4 The Trustee has taken advice on these issues from the Investment Consultant and the Scheme Actuary.

4.5 The Trustee's willingness to take investment risk is dependent on the Section's financial position from time to time, on the continuing financial strength of the Company and on its willingness and capacity to contribute appropriately to the Section. The financial strength and perceived commitment of the Company to the Section is monitored by the Trustee and the Trustee will review the level of investment risk relative to the liabilities should either of these change.

4.6 The Trustee will also monitor the Section's financial positions and liability profiles, with a view to reviewing the investment objectives, risk tolerance and/or return targets should there be a significant change in either. This monitoring will be undertaken separately for assets and liabilities relating to pre 1 April 2018 benefit accrual and for assets and liabilities relating to benefit accrual from that date. The investment policies for the two asset portfolios will differ to reflect the differing nature of the benefit arrangements and the liabilities that arise from them.

4.7 There are many different combinations of assets and investment management approaches that could be adopted in targeting a particular level of investment risk and/or expected return. The Trustee's objective is to identify those combinations that it believes are likely to minimise the level of risk taken for the level of return sought.

5. Diversification of Risks

- 5.1 To control the risk of deterioration in the financial position of the Section, the Trustee requires the Section's assets to be adequately diversified between different asset classes, especially among those asset classes which represent significant risk relative to the liabilities.
- 5.2 The principal asset categories used by the Section are set out below.
- 5.2.1 UK Government bonds ('gilts') – although gilts are the lowest risk asset relative to the Section's liabilities, they are not risk free. Interest rate risk exists if the cash-flow profile of the gilts held by the Section differs from that of the Section's projected benefit cash-flows due to members. Inflation risk exists if the assets and projected liabilities have different linkages to inflation. A sovereign credit risk would exist if the UK government were not certain to make the payments due on the gilts (a default) and/or if markets perceived an increase in the risk of default and the market values of gilts fell as a result.
- 5.2.2 Non-Government Sterling bonds carry interest rate risk, inflation risk and credit risk.
- 5.2.3 Non-Sterling bonds – in addition to the risks listed above, investing in non-Sterling bonds adds currency risk as the Section's liabilities are denominated in Sterling. Consequently, changes in exchange rates will impact the relative value of the assets and liabilities. Non-Sterling bonds may be issued by governments and non-governmental borrowers.
- 5.2.4 All interest bearing assets, including high yield bonds and emerging markets debt as well as cash, share the risk characteristics detailed above to varying degrees. The Trustee uses derivatives in combination with or as an alternative to bonds and as a means of managing currency exposures. In using derivatives, the Section is exposed to the associated counterparty risks, a form of credit risk in that the counterparty to the derivative transaction could fail to meet its obligations to the Section.
- There may also be basis risks if the exposures gained through derivatives differ in some way from any liability or physical asset exposures they are designed to hedge.
- 5.2.5 Equities – equities, whether public or private, represent an ownership stake in a company. The value of this stake is determined by the buyer and seller of the stake and there is no certain value to this investment (unlike the payments contracted under a bond, subject to credit and currency risk). A periodic payment, in the form of a dividend, might be made to an equity holder although the timing and amount of this is uncertain. The uncertainty of the return from equities relative to the liabilities means there is a significant equality/liability mismatch risk.
- 5.2.6 Property – the return generated by an investment in property can be broken down into income and capital. The income component is subject to interest rate risk and inflation risk relative to the liabilities. There is also uncertainty as to the long-term level of the income. The capital value of the property is determined by the buyer and seller of the property and is not certain. These uncertainties, including currency risk in the case of properties outside the UK, constitute a significant property/liability mismatch risk.
- 5.3 The Trustee has chosen to employ active management for a proportion of the Section's assets. The active managers are given asset class benchmarks which it is their objective to outperform. The asset class benchmarks have the risks relative to the liabilities mentioned above (interest rate and inflation risk, currency risk, equity mismatch risk etc). Active managers will seek to outperform the benchmarks by taking positions against them and this introduces a further active risk into the investment policy. Part of this active risk is the risk taken by the Trustee, in selecting active investment managers, that some or all of the managers lack the skill to outperform their benchmarks with a sufficiently high degree of confidence.
- 5.4 Some of the managers may employ derivatives for the purposes of efficient portfolio management and subject to agreed restrictions. The risks associated with investing in derivatives are largely the same as those of investing in the underlying asset categories.
- 5.4.1 Leverage may be an additional risk introduced if the economic exposure arising from investing in a derivative is greater than the capital committed to the investment.
- 5.4.2 Administrative risk may also be present depending on the terms of the contract governing the derivative.
- 5.5 A regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those regimes subject to unstable regimes.
- 5.6 There is a liquidity risk attaching to assets which may not always be readily realisable or whose market values may be adversely affected as a direct consequence of the Section seeking to realise them. This risk applies to all the asset categories listed above, albeit to varying degrees. The Trustee believes that the Section's long-term investment horizon justifies a degree of liquidity risk where such risk is rewarded and a proportion of the Section's assets are invested in less liquid investments.
- 5.7 The Trustee acknowledges that it is not possible to monitor all the risks listed above at all times. However, it seeks to take on those risks for which reasonable potential exists to be rewarded over time, in the form of excess returns, and it seeks to expose the Section to a diversified range of risks. The Trustee reviews the overall level of risk periodically and when considering the impact of any proposed change of investment strategy. The resulting combination of assets and investment management approaches has been selected to be consistent with the investment objective.

6. Strategic Management

6.1 The Section's strategic asset allocation is set separately for assets relating to benefit accrual pre 1 April 2018 and for assets relating to benefit accrual from that date. In each case, it has been designed to capture the strategic risks that the Trustee has decided to take, reflecting the differing investment objectives of the two asset portfolios. In each case, the investments are divided into two main categories: the liability-hedging asset portfolio and the return-seeking asset portfolio.

Assets relating to pre 1 April 2018 benefit accrual

6.2 For assets relating to pre 1 April 2018 benefit accrual, the Section's current strategic target for liability-hedging assets is to hedge the interest rate and inflation risks attaching to all accrued liabilities. The allocation to the liability-hedging asset portfolio reflects this strategic target and the requirement for there to be sufficient eligible collateral within the portfolio to support the derivatives used within it. Currently, the liability-hedging asset portfolio accounts for a majority of the Section's pre 1 April 2018 assets, although the allocation is variable as a result of changes in market conditions in particular.

6.3 For pre 1 April 2018 assets, the Section's return-seeking asset strategy will be managed to a target defined by the Trustee from time to time within the ranges (expressed as a percentage of return-seeking assets) set out in the table below:

	(%)
Equities (listed and private)	0-15
Property	0-20
High yield credit	0-20
Private debt (including Property-linked debt)	0-20
Absolute return	0-20
Investment grade credit	20-100
Emerging market debt	0-10

6.4 For pre 1 April 2018 assets, the allocation to the return-seeking asset portfolio is also variable as a result of changes in market conditions. There is no systematic rebalancing between the return-seeking asset portfolio and the liability-hedging asset portfolio, but the Trustee will reduce the allocation to one in favour of the other if necessary to ensure the overall strategy is consistent with the Trustee's investment objectives and risk tolerance. To effect such changes on a timely basis, the Trustee may choose to diverge materially from the return-seeking asset strategy for a period of time. Divergences may also arise from market movements and the practical constraints on increasing or reducing allocations to illiquid assets in the shorter-term.

6.5 Overseas currency exposures may be hedged in whole or in part. Strategic equity risk exposures may be managed through the use of equity index derivatives, including options. The strategy within investment grade and high yield credit will develop over time and may include illiquid and less liquid forms of credit, such as infrastructure debt, asset-backed securities (including collateralised loan obligations) and loans, as well as more liquid corporate bonds.

6.6 The Trustee will implement the strategic asset allocation, including the liability-hedging target, over time taking into account prevailing market conditions and the financial position of the Section.

Assets relating to benefit accrual from 1 April 2018

6.7 For assets relating to benefit accrual from 1 April 2018, the Trustee sets a strategic target for liability-hedging assets to hedge a majority of interest rate risks attaching to all accrued guaranteed liabilities (excluding future potential discretionary increases) plus expected accrual of guaranteed benefits for the following year (again excluding potential discretionary increases after that year). Inflation exposure may be incorporated within the portfolio where the Trustee concludes this is appropriate to reduce risks to the real value of potential future discretionary increases, provided this does not represent an unacceptable risk to currently guaranteed benefits.

The allocation to the liability-hedging asset portfolio depends upon the required allocation to the return-seeking asset portfolio needed to meet the long-term return objective within the investment rule. The Trustee may hedge less than the strategic target for interest rate risk if there is insufficient eligible collateral available within the liability-hedging asset portfolio.

6.8 For assets relating to benefit accrual from 1 April 2018, the Section's return-seeking asset strategy will be managed to a target defined by the Trustee from time-to-time within the ranges (expressed as a percentage of return-seeking assets) set out in the table below:

	(%)
Equities (listed and private)	0-40
Property	0-30
High yield credit	0-30
Private debt (including Property-linked debt)	0-30
Absolute return (including diversified growth/multi-asset funds)	0-100
Investment grade credit	0-50
Emerging market debt	0-30
Other	0-30

6.9 For assets relating to benefit accrual from 1 April 2018, the allocation to the return-seeking asset portfolio is a function of the long-term return objective specified in the investment rule within the Trust Deed & Rules. The Trustee will establish a policy from time to time to allocate new contributions and, as necessary, to rebalance the return-seeking asset portfolio to the Trustee's strategic target in order to maintain an allocation consistent with the requirements of the investment rule. To effect such changes on a timely basis, the Trustee may choose to diverge materially from the target return-seeking asset strategy for interim periods of time. Divergences may also arise from market movements and the practical constraints on increasing or reducing allocations to illiquid assets in the shorter-term.

- 6.10 Overseas currency exposures may also be hedged in whole or in part. Strategic equity risk exposures may be managed through the use of equity index derivatives, including options. The strategies within investment grade and high yield credit may include illiquid and less liquid forms of credit such as infrastructure debt, asset-backed securities (including collateralised loan obligations) and loans as well as more liquid corporate bonds.
- 6.11 The Trustee will implement the strategic asset allocation, including the liability-hedging target, over time taking into account prevailing market conditions and the financial position of the Section.

7. Investment Managers

- 7.1 The investment managers have full discretion to buy and sell investments on behalf of the Section, subject to agreed constraints. They have been selected for their expertise in different specialisations and each manages investments for the Section to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured.
- 7.2 Where assets are managed on a segregated basis, the Trustee is able to tailor the nature of the investment mandate and restrictions on how assets are managed to the Section's specific requirements. The precise terms differ between the investment managers depending on the nature of their mandate.
- 7.3 The Trustee accepts that it is not possible to specify investment restrictions where assets are managed via pooled funds, but nonetheless takes appropriate legal and investment advice regarding the suitability of the pooled fund and its documentation.

8. Cashflow Management

- 8.1 The Trustee recognises the liquidity risks associated with the level of cashflow required by the Section over a specified period.
- 8.2 The Section's administrator monitors the monthly benefit outgoings to ensure that sufficient cash balances are available.
- 8.3 In general, the Section's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. In the event that the cashflow of the Section is negative, the Trustee decides from which asset classes and managers assets should be realised to meet the Section's cashflow needs.

9. Additional Voluntary Contributions

- 9.1 Additional Voluntary Contributions (AVCs) made by members are invested in a range of pooled investment vehicles to provide money purchase benefits. For certain eligible members, AVCs may also be used to purchase 'added years' of reckonable service which are invested with the main Section's assets. (This option was withdrawn with effect from 1 April 2018). The Trustee's objective in relation to money purchase AVC funds is to provide a reasonable range of appropriate funds, recognising that members can choose to invest outside the Section.

10. Responsible Investment

10.1 Sustainable Investment

- 10.1.1 The Trustee aims to be an engaged and responsible long-term investor in the assets and markets in which it invests.
- 10.1.2 The Trustee believes that the integration of these factors within investment managers' investment processes is not detrimental to the risks and the sustainable long term expected returns from the Section's investments. All of the Section's investment managers are encouraged to take these factors into account within their respective investment processes.

- 10.1.3 The Plan is a signatory to the United Nations backed Principles for Responsible Investment which acts as a framework for investors to take environmental, social and governance issues into account.

10.2 Corporate Governance

- 10.2.1 The Trustee has given the investment managers full discretion in exercising rights, including voting rights, in relation to the Section's investments.
- 10.2.2 The Trustee encourages best practice in terms of engagement with investee companies. It therefore seeks to require its investment managers to discharge their responsibilities in respect of investee companies in accordance with the UK Stewardship Code drawn up by the Financial Reporting Council. The Plan became a signatory to the Code in 2011.
- 10.2.3 The Trustee believes that good corporate governance is important and it expects the investment managers to have suitable policies which promote the concept of good corporate governance and, in particular, a policy of exercising voting rights. The Trustee holds the investment managers accountable for their decisions in the use of voting rights.

10.3 Social Investment

- 10.3.1 With regard to ethical and environmental considerations, the active investment managers have, where relevant, been instructed by the Trustee not knowingly to invest in:
- countries that are on the United Nations trade embargo list;
 - companies that are involved in terrorism, money laundering, drug trafficking or any other serious crime;
 - companies that do not take into account the reasonable long-term interests of their stakeholders; and
 - to use their best efforts to avoid investing in companies that in the investment manager's opinion persistently behave without due regard for the environment or society as a whole.

11. Compliance With and Review of This Statement

- 11.1 The Trustee will review compliance with this Statement on a regular basis. The regular review will occur no less frequently than triennially to coincide with the Actuarial Valuation, in the light particularly of any changes to the funding position of the Section.
- 11.2 Each investment manager will provide written confirmation that they have complied with their

obligations under the Pensions Act 1995. The Trustee undertakes to advise the investment managers promptly and in writing of any material change to this Statement.

- 11.3 The Trustee will also periodically review this statement as stated in paragraph 1.8 above. Any review of this Statement will be in response to any material changes to any aspect of the Section, its liabilities, finances and the attitudes to risk of the Trustee and the Company, which it judges to have a bearing on the stated investment policy.

- 11.4 A copy of this Statement has been provided to the Company, investment consultant, investment managers, performance and risk consultant and custodian.

Appendix A to Appendix 3 – Plan Governance

This Annex sets out a summary of the Plan's current governance structure. It is not a formal part of the Statement of Investment Principles. The responsibilities of the Trustee and its current advisers are set out below.

A1. Trustee

The Trustee is responsible for the investment of the Plan's assets. The Trustee takes some decisions and delegates the balance. An overview of the Trustee's duties and responsibilities is as follows:

- Overall responsibility for the Plan's investments.
- Compliance with legislative and regulatory requirements.
- Define the terms of operations of the Investment Sub-Committee (ISC) of the Trustee.
- Appoint the members of the ISC.
- Appoint the investment consultant.
- Decide on investment strategy, based on recommendations from the ISC and the investment consultant.

- Appoint the investment managers and custodian, based on recommendations from the ISC and the investment consultant.

The Trustee has established the ISC under written Terms of Reference to focus on investment issues. The ISC has been delegated the responsibility for ongoing monitoring of the current investment arrangements against their agreed objectives and for reviewing and making recommendations to the Trustee for changes to investment policy as necessary from time to time. These include recommendations on the overall strategic benchmark and the appointments of investment managers and advisers.

A2. Administrator

Royal Mail Pensions Service Centre administers the benefits of the Plan and monitors the associated monthly outgoings.

A3. Custodian

In relation to the segregated investments the Trustee has appointed JP Morgan

Chase Bank as the Plan's custodian, responsible for the safekeeping of a part of the Plan's assets and performing the associated administrative duties. The Trustee is not responsible for the appointment of the custodian of the assets contained within pooled fund investments.

A4. Investment Consultant

The investment consultant is Mercer Investment Consulting regulated by the Financial Conduct Authority.

A5. Performance and Risk Consultant

The performance and risk consultant is Lane Clark & Peacock LLP. The details of their appointment, including reporting and analysis to be provided and the fees for the service are set out in a contract entered into between the Trustee and Lane Clark & Peacock LLP.

A6. Covenant Adviser

The Covenant Adviser is PricewaterhouseCoopers.

Post Office Limited Section Statement of Investment Principles March 2019

1. Introduction

1.1 This Statement of Investment Principles (the 'Statement') has been prepared by Royal Mail Pensions Trustees Limited (the 'Trustee'), who acts as Trustee for the Royal Mail Pension Plan (the 'Plan').

1.2 Since 1 April 2012, the Plan's assets and liabilities have been sub-divided into two sections (the 'Sections') relating to Post Office Limited ('POL') and to Royal Mail Group ('RMG' or the 'Company'). The Trustee seeks to maintain good working relationships with POL and RMG. Investment policy is determined separately for each Section and reflects separate consultations with POL and RMG.

1.3 The remainder of this Statement refers primarily to POL Section (the 'Section') or otherwise, as specified, to the Plan in general. POL (the 'Company'), has been consulted in preparing this Statement and will be further consulted regarding any proposed changes to the Statement.

1.4 The Statement sets out the principles governing the Trustee's decisions about the investment of the Section's assets. The Trustee refers to this Statement when making investment decisions, to ensure that they are consistent with the principles set out in it.

1.5 The statement is designed to meet the requirements of Section 35 of the Occupational Pensions Schemes (Investment) Regulations 2005.

1.6 The Trustee has obtained written professional advice from the Plan's investment consultant in preparing this statement. The Trustee believes that the investment consultant meets the relevant requirements under Section 35 (3) of the Pensions Act 1995. In matters where the investment policy may affect the Section's funding policy, advice

has also been obtained from the Scheme Actuary. The Trustee will obtain similar advice whenever it reviews this Statement.

1.7 The Trustee's investment powers are set out within the Plan's Trust Deed & Rules, subject to applicable legislation. If necessary, the Trustee will take appropriate legal advice regarding the interpretation of these. The Trustee notes that, according to the law, the Trustee has ultimate power and responsibility for the Section's investment arrangements.

1.8 In the normal course of events, the Trustee does not expect to revise this Statement frequently because the Statement covers broad principles. The Trustee will review this Statement in response to any material changes to any aspects of the Section, its liabilities, finances and the attitude to risk of the Trustee and the Company that it judges to have a bearing on the Statement. Reviews will occur no less frequently than triennially. All reviews will again be based on written expert advice and will include consultation with the Company.

2. Fund Governance

2.1 The Trustee is responsible for the investment of the Section's assets but is permitted to delegate execution of these responsibilities. When determining which decisions to delegate, the Trustee has taken into account whether it has the appropriate training and is able to secure the necessary expert advice in order to take an informed decision. The Trustee's ability to execute the decision effectively is also taken into account. Details of the Trustee's duties and responsibilities are included in Annex A (page 53).

2.2 The Trustee has established the Investment Sub-Committee ('ISC') to focus on investment issues. Details of the ISC's duties and

responsibilities are included in separate Terms of Reference.

2.3 The Trustee has appointed an investment consultant to advise the Trustee and the ISC as to the setting, implementation and monitoring of the investment policy. Details of the Investment Consultant's duties and responsibilities are included in the Appendix.

2.4 The Trustee has chosen to delegate day-to-day management of the Section's investments to a number of investment managers, in accordance with Section 34 of the Pensions Act 1995. The terms of each investment manager's appointment are contained in the investment management Agreement between the investment manager and the Trustee and, where applicable, in the governing documentation of pooled vehicles.

2.5 The Trustee has appointed a Performance Measurer independent of the Section's investment managers. Summary details of the Performance Measurer's duties and responsibilities are included in the Appendix.

2.6 The custodian is responsible for the safekeeping of the Section's assets and performs the associated administrative duties (e.g. trade settlement, dividend collection, corporate actions, tax reclamation and proxy voting). The details of the custodian's appointment and duties are set out in the contract between the Trustee and the custodian. Summary details of the Custodian's duties and responsibilities are included in the Appendix.

3. Investment Objective Meeting the Section's Liabilities

3.1 The Trustee recognises that in setting investment policy to meet the liabilities, it must have

regard to both the potential for the investment policy to generate positive return that would lead to an improvement in the Section's funding position and to the potential for poor returns that would cause it to deteriorate. The Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return. The Trustee has specified objectives for the investment policy that balance these requirements.

4. Risk and Return

- 4.1 Given the current circumstances of the Section, The Trustee seeks to adopt a low risk investment strategy relative to the Section's liabilities.
- 4.2 In deciding to take investment risk relative to the liabilities, the Trustee has carefully considered the following possible consequences:
- Over any time period, the assets might not achieve the anticipated excess return relative to the liabilities. This would result in the deterioration of the Section's financial position.
 - There may be a shortfall of assets relative to the liabilities in the event of discontinuance of the Section. This consequence is particularly serious if it coincides with the Company being unable to make good the shortfall.
- 4.3 The Trustee has taken advice on these issues from the Investment Consultant and the Scheme Actuary.
- 4.4 The Trustee's willingness to take investment risk is dependent on the Section's financial position from time to time, on the continuing financial strength of the Company and on its willingness and capacity to contribute appropriately to the Section. The financial strength and perceived commitment of the Company to the Section is monitored by the Trustee

and the Trustee will review the level of investment risk relative to the liabilities should either of these change.

On the latest advice received from its Covenant Adviser, the Trustee's investment policy is currently set on the basis that the Company has no capacity to meet a deficit of any magnitude and, as such, there is no covenant to support investment risk within the Section's strategy.

- 4.5 The Trustee will also monitor the Section's financial position and liability profiles, with a view to reviewing the investment objectives, risk tolerance and/or return targets should there be a significant change in either or there are developments in risk management options available.
- 4.6 There are many different combinations of assets and investment management approaches that could be adopted in targeting a particular level of investment risk and/or expected return. The Trustee's objective is to identify those combinations that it believes are likely to minimise the level of risk taken for the level of return sought.

5. Diversification of Risks

- 5.1 To control the risk of deterioration in the financial position of the Section, the Trustee requires the Section's assets to be adequately diversified between different asset classes, especially among those asset classes which represent significant risk relative to the liabilities.
- 5.2 The principal asset categories used by the Section re set out below. UK Government bonds ('gilts')
- 5.2.1 – although gilts are the lowest risk asset relative to the Section's liabilities, they are not risk free. Interest rate risk exists if the cash-flow profile of the gilts held by the Section differs from that of the Section's projected benefit cash-flows due to members.

Inflation risk exists if the assets and projected liabilities have different linkages to inflation. A sovereign credit risk would exist if the UK government were not certain to make the payments due on the gilts (a default) and/or if markets perceived an increase in the risk of default and the market values of gilts fell as a result.

- 5.2.2 Non-Government Sterling bonds carry interest rate risk, inflation risk and credit risk.
- 5.2.3 Non-Sterling bonds – in addition to the risks listed above, investing in non-Sterling bonds adds currency risk as the Section's liabilities are denominated in Sterling. Consequently, changes in exchange rates will impact the relative value of the assets and liabilities. Non-Sterling bonds may be issued by governments and non-governmental borrowers.
- 5.2.4 All interest bearing assets, including high yield bonds and emerging markets debt as well as cash, share the risk characteristics detailed above to varying degrees. The Trustee uses derivatives in combination with or as an alternative to bonds and as a means of managing currency exposures. In using derivatives, the Section is exposed to the associated counterparty risks, a form of credit risk in that the counterparty to the derivative transaction could fail to meet its obligations to the Section.
- 5.2.5 Equities – equities, whether public or private, represent an ownership stake in a company. The value of this stake is determined by the buyer and seller of the stake and there is no certain value to this investment (unlike the payments contracted under a bond, subject to credit and currency risk). A periodic payment, in the form of a dividend, might be made to an equity holder although the timing and amount of this is uncertain. The uncertainty of the return from equities relative to the liabilities means there is a significant equity/liability mismatch risk.

5.2.6 Property – the return generated by an investment in property can be broken down into income and capital. The income component is subject to interest rate risk and inflation risk relative to the liabilities. There is also uncertainty as to the long-term level of the income. The capital value of the property is determined by the buyer and seller of the property and is not certain. These uncertainties, including currency risk in the case of properties outside the UK, constitute a significant property/liability mismatch risk.

5.3 The Trustee has chosen to employ active management for a proportion of the Section’s assets. The active managers are given asset class benchmarks which it is their objective to outperform. The asset class benchmarks have the risks relative to the liabilities mentioned above (interest rate and inflation risk, currency risk, equity mismatch risk etc). Active managers will seek to outperform the benchmarks by taking positions against them and this introduces a further active risk into the investment policy. Part of this active risk is the risk taken by the Trustee, in selecting active investment managers, that some or all of the managers lack the skill to outperform their benchmarks with a sufficiently high degree of confidence.

5.4 Some of the managers may employ derivatives for the purposes of efficient portfolio management and subject to agreed restrictions. The risks associated with investing in derivatives are largely the same as those of investing in the underlying asset categories.

5.4.1 Leverage may be an additional risk introduced if the economic exposure arising from investing in a derivative is greater than the capital committed to the investment.

5.4.2 Administrative risk may also be present depending on the terms of the contract governing the derivative.

5.5 A regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those regimes subject to unstable regimes.

5.6 There is a liquidity risk attaching to assets which may not always be readily realisable or whose market values may be adversely affected as a direct consequence of the Section seeking to realise them. This risk applies to all the asset categories listed above, albeit to varying degrees. The Trustee believes that the Section’s long-term investment horizon justifies a degree of liquidity risk where such risk is rewarded and a proportion of the Section’s assets are invested in less liquid investments. The Trustee believes that the Section’s long-term investment horizon justifies a degree of liquidity risk where such risk is rewarded and a proportion of the Section’s assets are invested in less liquid investments.

5.7 The Trustee acknowledges that it is not possible to monitor all the risks listed above at all times. However, it seeks to take on those risks for which reasonable potential exists to be rewarded over time, in the form of excess returns, and it seeks to expose the Section to a diversified range of risks. The Trustee reviews the overall level of risk periodically and when considering the impact of any proposed change of investment strategy. The resulting combination of assets and investment management approaches has been selected to be consistent with the investment objective.

6. Strategic Management

6.1 The Section’s strategic asset allocation has been designed to capture the strategic risks that the Trustee has decided to take. The detail of the strategic target asset allocation for the Section as at 30 April 2017 is set out in the table below:

	(%)
Equities (listed and private)	1.4
Private debt (including Property-linked debt)	2.5
Private debt	2.4
Infrastructure debt	1.4
Liability-hedging assets, derivatives and collateral	92.2
	100.0

6.2 The strategic target allocation shown in the table is the target as at 30 April 2017. Allocations to private equities, property, infrastructure debt and private debt are illiquid and their weightings will vary over time in response to changes in their values, including investments and distributions, and those of the other assets. The allocation to liability-hedging assets will also vary according to market movements and will not be rebalanced. Additional investments in private markets funds will be made where prior contractual commitments exist but otherwise it is the Trustee’s intention to allow these investments to run-off over the natural life of the funds unless an attractive secondary market sale can be achieved sooner. Any other available cash will be invested in the liability-hedging asset portfolio. As at 30 April 2017, the Section retained investments in a global investment grade credit fund and in a residual absolute return portfolio to which the target allocations are zero. The Section will engage in a sale of these investments in 2017.

- 6.3 The Section's current strategic target for liability-hedging assets is to hedge the interest rate and inflation risks attaching to liabilities equal in value to the Section's assets, less an allowance for Section operational expenses. The liability hedging strategy may also incorporate some degree of longevity risk hedging in future, including through the use of insurance contracts. Overseas currency exposures may also be hedged in whole or in part.
- 6.4 The Trustee will implement the strategic asset allocation, including the liability-hedging target, over time taking into account prevailing market conditions and the financial position of the Section.
- 7. Investment Managers**
- 7.1 The investment managers have full discretion to buy and sell investments on behalf of the Section, subject to agreed constraints. They have been selected for their expertise in different specialisations and each manages investments for the Section to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured.
- 7.2 Where assets are managed on a segregated basis, the Trustee is able to tailor the nature of the investment mandate and restrictions on how assets are managed to the Section's specific requirements. The precise terms differ between the investment managers depending on the nature of their mandate.
- 7.3 The Trustee accepts that it is not possible to specify investment restrictions where assets are managed via pooled funds, but nonetheless takes appropriate legal and investment advice regarding the suitability of the pooled fund and its documentation.
- 8. Cashflow Management**
- 8.1 The Trustee recognises the liquidity risks associated with the level of cashflow required by the Section over a specified period. The Section's administrator monitors the monthly benefit outgoings to ensure that sufficient cash balances are available.
- 8.2
- 8.3 In general, the Section's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. In the event that the cashflow of the Section is negative, the Trustee decides from which asset classes and managers assets should be realised to meet the Section's cashflow needs.
- 9. Additional Voluntary Contributions**
- 9.1 Additional Voluntary Contributions (AVCs) made by members are invested in a range of pooled investment vehicles to provide money purchase benefits. For certain eligible members, AVCs may also be used to purchase 'added years' of reckonable service which are invested with the main Section's assets. (This option was withdrawn with effect from 1 April 2018). The Trustee's objective in relation to money purchase AVC funds is to provide a reasonable range of appropriate funds, recognising that members can choose to invest outside the Section.
- 10. Responsible Investment**
- 10.1 Sustainable Investment
- 10.1.1 The Trustee aims to be an engaged and responsible long-term investor in the assets and markets in which it invests. The Trustee believes that the integration of these factors within investment managers' investment processes is not detrimental to the risks and the sustainable long term expected returns from the Section's investments. All of the Section's investment managers are encouraged to take these factors into account within their respective investment processes.
- 10.1.2 The Plan is a signatory to the United Nations backed Principles for Responsible Investment which acts as a framework for investors to take environmental, social and governance issues into account.
- 10.2 Corporate Governance
- 10.2.1 The Trustee has given the investment managers full discretion in exercising rights, including voting rights, in relation to the Section's investments.
- 10.2.2 The Trustee encourages best practice in terms of engagement with investee companies. It therefore seeks to require its investment managers to discharge their responsibilities in respect of investee companies in accordance with the UK Stewardship Code drawn up by the Financial Reporting Council. The Plan became a signatory to the Code in 2011.
- 10.2.3 The Trustee believes that good corporate governance is important and it expects the investment managers to have suitable policies which promote the concept of good corporate governance and, in particular, a policy of exercising voting rights. The Trustee holds the investment managers accountable for their decisions in the use of voting rights.
- 10.3 Social Investment
- 10.3.1 With regard to ethical and environmental considerations, the active investment managers have, where relevant, been instructed by the Trustee:
- Not knowingly to invest in: Countries that are on the United Nations trade embargo list; Companies that are involved in terrorism, money laundering, drug trafficking or any other serious crime; Companies that do not take into account the reasonable long-term interests of their stakeholders:

- To use their best efforts to avoid investing in companies that in the investment manager's opinion persistently behave without due regard for the environment or society as a whole.

11. Compliance With and Review of This Statement

11.1 The Trustee will review compliance with this Statement on a regular basis. The regular review will occur no less frequently than triennially to coincide with the Actuarial Valuation, in the light particularly of any changes to the funding position of the Section.

11.2 Each investment manager will provide written confirmation that they have complied with their obligations under the Pensions Act 1995. The Trustee undertakes to advise the investment managers promptly and in writing of any material change to this Statement.

11.3 The Trustee will also periodically review this statement as stated in paragraph 1.8 above. Any review of this Statement will be in response to any material changes to any aspect of the Section, its liabilities, finances and the attitudes to risk of the Trustee and the Company, which it judges to have a bearing on the stated investment policy.

11.4 A copy of this Statement has been provided to the Company, investment consultant, investment managers, performance and risk consultant and custodian.

Appendix A to Appendix 3 – Plan Governance

This Annex sets out a summary of the Plan's current governance structure. It is not a formal part of the Statement of Investment Principles. The responsibilities of the Trustee and its current advisers are set out below.

A1. Trustee

The Trustee is responsible for the investment of the Plan's assets. The Trustee takes some decisions and delegates the balance.

An overview of the Trustee's duties and responsibilities is as follows:

- Overall responsibility for the Plan's investments.
- Compliance with legislative and regulatory requirements.
- Define the terms of operation of the Investment Sub-Committee (ISC) of the Trustee.
- Appoint the members of the ISC.
- Appoint the investment consultant.
- Decide on investment strategy, based on recommendations from the ISC and the investment consultant.

- Appoint the investment managers and custodian, based on recommendations from the ISC and the investment consultant.

The Trustee has established the ISC under written Terms of Reference to focus on investment issues. The ISC has been delegated the responsibility for ongoing monitoring of the current investment arrangements against their agreed objectives and for reviewing and making recommendations to the Trustee for changes to investment policy as necessary from time to time. These include recommendations on the overall strategic benchmark and the appointments of investment managers and advisers.

A2. Administrator

Royal Mail Pensions Service Centre administers the benefits of the Plan and monitors the associated monthly outgoings.

A3. Custodian

In relation to the segregated investments the Trustee has appointed

JP Morgan Chase Bank as the Plan's custodian, responsible for the safekeeping of a part of the Sections' assets and performing the associated administrative duties. The Trustee is not responsible for the appointment of the custodian of the assets contained within pooled fund investments.

A4. Investment Consultant

The investment consultant is Mercer Investment Consulting regulated by the Financial Conduct Authority.

A5. Performance and Risk Consultant

The performance and risk consultant is Lane Clark and Peacock LLP. The details of their appointment, including reporting and analysis to be provided and the fees for the service are set out in a contract entered into between the Trustee and Lane Clark and Peacock LLP.

A6. Covenant Adviser

The Covenant Adviser is PricewaterhouseCoopers.

Appendix 4 - The UK Stewardship Code

The Financial Reporting Council published 'The UK Stewardship Code' in July 2010. It was subsequently updated in September 2012.

The updated principles of the code are that institutional investors should:

- Publicly disclose their policy on how they will discharge their stewardship responsibilities.

- Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

- Monitor their investee companies.

- Establish clear guidelines on when and how they will escalate their stewardship activities.

- Be willing to act collectively with other investors where appropriate.

- Have a clear policy on voting and disclosure of voting activity.

- Report periodically on their stewardship and voting activities.

The Trustee has adopted the UK Stewardship Code.

Appendix 5 - The Principles for Responsible Investment

The Plan has signed up to the United Nations backed Principles for Responsible Investment. The principles are reproduced below.

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.

Possible actions:

- 1.1 Address ESG issues in investment policy statements.
- 1.2 Support development of ESG-related tools, metrics, and analyses.
- 1.3 Assess the capabilities of internal investment managers to incorporate ESG issues.
- 1.4 Assess the capabilities of external investment managers to incorporate ESG issues.
- 1.5 Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis.
- 1.6 Encourage academic and other research on this theme.
- 1.7 Advocate ESG training for investment professionals.

2. We will be active Owners and incorporate ESG issues into our ownership policies and practices.

Possible actions:

- 2.1 Develop and disclose an active ownership policy consistent with the Principles.
- 2.2 Exercise voting rights or monitor compliance with voting policy (if outsourced).
- 2.3 Develop an engagement capability (either directly or through outsourcing).
- 2.4 Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights).
- 2.5 File shareholder resolutions consistent with long-term ESG considerations.
- 2.6 Engage with companies on ESG issues.
- 2.7 Participate in collaborative engagement initiatives.
- 2.8 Ask investment managers to undertake and report on ESG-related engagement.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Possible actions:

- 3.1 Ask for standardising reporting on ESG issues (using tools such as the Global Reporting initiative).
- 3.2 Ask for ESG issues to be integrated within annual financial reports.
- 3.3 Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact).
- 3.4 Support shareholder initiatives and resolutions promoting ESG disclosure.

4. We will promote acceptance and implementation of the Principles within the investment industry.

Possible actions:

- 4.1 Include Principle-related requirements in requests for proposals (RFPs).
- 4.2 Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate).
- 4.3 Communicate ESG expectations to investment service providers.
- 4.4 Revisit relationships with service providers that fail to meet ESG expectations.
- 4.5 Support the development of tools for benchmarking ESG integration.
- 4.6 Support regulatory or policy developments that enable implementation of the Principles.

5. We will work together to enhance our effectiveness in implementing the Principles.

Possible actions:

- 5.1 Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning.
- 5.2 Collectively address relevant emerging issues.
- 5.3 Develop or support appropriate collaborative initiatives.

6. We will each report on our activities and progress towards implementing the Principles.

Possible actions:

- 6.1 Disclose how ESG issues are integrated within investment practices.
- 6.2 Disclose active ownership activities (voting, engagement, and/or policy dialogue).
- 6.3 Disclose what is required from service providers in relation to the Principles.
- 6.4 Communicate with beneficiaries about ESG issues and the Principles.

- 6.5 Report on progress and/or achievements relating to the Principles using a 'Comply or Explain'* approach.
- 6.6 Seek to determine the impact of the Principles.
- 6.7 Make use of reporting to raise awareness among a broader group of stakeholder.

*The Comply or Explain approach requires signatories to report on how they implement the Principles, or provide an explanation where they do not comply with them.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of the environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.

Appendix 6 - Statement on Risk Management and Internal Controls

The Trustee Board has put in place a risk management framework for the identification, assessment, treatment, monitoring and reporting of risk. The process helps support the Trustee's objectives by linking to the business plan, identifying and reacting to emerging risks, and developing cost-effective solutions to risk.

Risks identified and action plans for their management are recorded in the Risk Register and reviewed regularly by the Audit, Risk and Financial Sub-Committee, together with reports testing the internal controls in place to mitigate the identified risks. All Sub-Committees of the Trustee Board regularly review the risks within their domain. The Trustee Board retains overall responsibility for risk management and receives a report, at least annually, on the Risk Register and effectiveness of internal controls.

It should be borne in mind that the system of internal control and risk management is designed to manage rather than eliminate the risk of failure to achieve the Trustee's objectives. Summarised below are the most important risks currently faced by the Plan. They are being managed to support the long-term objectives of the Trustee Board:

1. Appropriate funding of the Plan does not take place

The career salary defined benefit sections of the Royal Mail Pension Plan closed to future accrual for the Post Office Ltd and Royal Mail Group sections at 31 March 2017 and 31 March 2018 respectively. Therefore ongoing contributions to meet the cost of accrual for these sections have ceased. Ongoing support is required from the sponsoring employers to meet any deficit in the funding position that may arise in the future. The Trustee monitors the funding position to ensure that all members receive the benefits they are entitled to. This is monitored through triennial actuarial valuations and frequent updates provided by the actuary. The strength of support from the sponsors is monitored through covenant reviews provided by the Plans advisors.

2. Insufficient liquidity within the Plan

Payment to the administrator for pensions, lump sums and transfers cannot be met when they fall due from the investment assets. The Plan holds a strategic allocation to cash and other liquid assets, with regular monitoring of cash levels within the executive to mitigate this risk. The Plan has access to short-term borrowing if further liquidity is required.

3. Investment performance relative to the liabilities is adverse because of market movements or inappropriate strategy

Investment market movements affect the value of both the assets and the liabilities of the Plan. When liabilities increase relative to assets, the funding position deteriorates. The Trustee regularly reviews its investment strategy. As and when market conditions are favourable, it reduces the level of risk inherent in its assets by diversifying its portfolio and by increasing its proportion of liability matching assets held.

4. Membership data is incorrect

Inaccurate or missing data can cause errors in Plan administration or provide misleading information on benefit illustrations sent to members. The Pensions Service Centre has a dedicated data integrity team working on verifying data.

5. Management of the Plan is disrupted by cyber-attack or IT problems

A cyber-attack may result in the theft of data or the Plans assets and delays to the services provided. RMG's IT security is used to protect data, with regular meetings held between the IT security team and the Executive to keep informed of potential threats. The Executive holds a business continuity plan that is used to minimise delays to services as a result of an IT issue or other issue that impacts the office used by the executive.

6. Deflation (sustained period of negative inflation)

Sustained deflation would impact negatively on the Plan's funding position through adverse yields from index-linked gilts relative to the Plan's liabilities. Equities would also produce adverse returns. The Trustee constantly monitors economic forecasts and holds fixed interest as well as index-linked gilts.

7. Failure by a counterparty

Failure by a counterparty could impair the funding position. A number of procedures are in place to mitigate against this risk including daily collateralisation, diversification of counterparties and limits on amounts placed with single institutions.

8. Increasing longevity within the Plan

Increasing longevity amongst the Plans membership deteriorates the funding position, increasing the support required from the Sponsor. Research from the continuous mortality investigation and the Plan's longevity experience is monitored and analysed by the Scheme Actuary to identify changing trends. A prudent mortality assumption is used in the valuation to reduce the likelihood of longevity experience deteriorating the funding position.

Appendix 7 - Governance Policy

Trustee Mission and Key Objectives

The mission and key objectives of the Trustee Board of the Royal Mail Pension Plan ('the Plan') are:

Mission:

- To pay all of the benefits as they fall due under the Plan, in accordance with the Trust Deed and Rules.

Key objectives:

- To maintain an appropriate funding basis for the Plan.
- To maintain an appropriate investment strategy for the Plan.
- To ensure that the membership administration of the Plan is properly carried out; and
- To ensure best practice governance of the Plan.

These key objectives are to be achieved in a cost-effective manner

The Trustee also has a long-term aim of establishing/maintaining the Plan on a self-sufficient basis for the financial security of all members.

Plan Governance

The Trustee has a responsibility to ensure that the Plan is managed and administered in accordance with its Trust Deed and Rules and in accordance with all relevant laws and regulations.

The Trust Deed and Rules stipulate primarily:

- How the Trustee conducts business including powers and discretions.
- The contributions payable by the participating employers and Plan members.
- The investment powers of the Trustee.
- The benefits payable to Plan members.

The Trustee has ultimate responsibility for funding decisions – the procedure for agreeing scheme funding is stipulated in Part 3 of the Pensions Act 2004.

The Trustee governs the Plan through a number of policies and procedures. These are shown in the Annex A on pages 61 to 63, categorised by each of the four main objectives of the Trustee Board.

Delegation of powers and duties

Under the Trust Deed and Rules the Trustee may delegate the powers, duties and responsibilities of managing the Plan. The administration of the Plan is carried out by Royal Mail Group (the 'Pensions Service Centre') but the Trustee retains the ultimate responsibility for ensuring its effectiveness. The Trustee has delegated limited powers with regard to certain discretionary benefits to the Trustee Executive and Pensions Service Centre.

Royal Mail Pensions Trustees Ltd ('RMPTL')

RMPTL is a wholly owned subsidiary of Royal Mail Group Ltd. Its sole purpose is to act as corporate Trustee to the Plan.

It does not trade but it is a registered company and therefore it must act in accordance with the Companies Act and with its Memorandum and Articles of Association. The Memorandum states the principal purpose of the Company and its objects, whilst the Articles stipulate how business is conducted including proceedings at meetings, structure of the Board, appointment and removal of directors, voting and delegation of powers.

Trustee Board composition

The Trustee Board has an equal number of member and employer nominated Trustee Directors, together with an independent Chair. All Board members are appointed by Royal Mail, with the agreement of the Royal Mail Unions where appropriate. Three of the Board members are nominated by Royal Mail Group (RMG) of which two are currently independent, one by Post Office Ltd (POL) and four by the Royal Mail Unions overseen by the Trustee. The independent Chair is appointed by Royal Mail after agreement with the Unions.

RMG and POL may remove their own nominees at any time. A member nominated Trustee Director can normally only be removed if all his or her co-Directors agree.

No matter who they are nominated by, each Trustee Director is responsible for protecting the benefits of all members. Each Trustee Director contributes his or her own blend of business knowledge and experience when making Trustee decisions.

Governance Policy^{continued}

Sub-Committees

The Board has established the following standing Sub-Committees:

- Administration
- Audit, Finance & Risk
- Funding
- Investment

Additionally, the following Sub-Committees conduct business by correspondence and by meeting as and when required:

- Internal Disputes Resolution
- Discretions

Other Sub-Committees are established on an ad hoc basis as and when required, such as the Member Nominated Directors Sub-Committee. The Investment Sub-Committee has established an Implementation Working Group which monitors progress of investment strategy.

All the Sub-Committees of the Trustee Board have approved terms of reference which include details of how they operate, their duties and powers. In general terms, Sub-Committees monitor the services provided by key external service providers, have limited delegated powers of appointment, carry out scrutiny of reports and make recommendations for action to the Trustee Board.

The Trustee Executive

The Board of RMPTL is supported by an executive team of pensions management professionals who advise the Board on its responsibilities and ensure that Board decisions are fully implemented.

Trustee Training

The Board follows The Pensions Regulator's Code of Practice on Trustee Knowledge and Understanding, which was introduced by the Pensions Act 2004. All Trustee Directors are required to complete The Pensions Regulator's training course, the 'Trustee Toolkit'.

Assessment and Benchmarking

The Trustee carries out regular self-assessments of its Board's effectiveness. It also participates in governance surveys and is represented in several benchmarking groups of pension schemes.

Relationship with Royal Mail Group (RMG) and Post Office Limited (POL)

The Plan has distinct RMG (2012 and cash balance) and POL Sections. The Trustee engages with RMG and with POL on investment strategy and funding arrangements through the Trustee's Investment and Funding Sub-Committees and its Investment Working Groups for each Section. The Chair and Chief Executive of RMPTL present an annual report on the affairs of the Plan to the Board of Royal Mail Group.

Other Stakeholders

The Trustee engages with its other stakeholders, including the following:

- Her Majesty's Government
- Members of the Plan
- Representative bodies of the members of the Plan, namely the Communication Workers Union, the Communication Managers Association section of UNITE, and the Pensioner Federation
- The Pensions Regulator
- Ofcom

Annex A to Appendix 7 - Key Policies and Procedures

	Date Last Reviewed
Policy/Procedure	
Triennial Valuation Report	May 2017
Statement of Funding Principles	May 2017
Annual Actuarial Report	May 2017
Summary Funding Statement	May 2017
Schedule of Contributions	Mar 2018
Recovery Plan (if required)	N/A
Investment	
Statement of Investment Principles	Mar 2018
Responsible Investment Policy	Mar 2018
Myners Compliance Report	Mar 2018
Quarterly Investment Reports	Mar 2018
Administration	
Pensions Service Centre ('PSC') Pricing and Service Level Agreement	Mar 2018
Internal Dispute Resolution Procedure	Feb 2014
PSC Compliance Statements	Mar 2018
Member Communications Strategy	Sep 2015
Review of Discretionary Powers	Mar 2016

Key Policies and Procedures^{continued}

Policy/Procedure Reviewed	Date Last Reviewed
Governance	
Trust Deed and Rules	Mar 2018
RMPTL Memorandum and Articles	Jan 2018
Trustee Board and Sub-Committee Meetings Schedule	Jul 2018
Business Plan	Mar 2018
Business Continuity Plans for RMPTL and Key Service Providers	Jan 2019
Member Nominated Trustee Nomination and Selection Process	Aug 2012
Induction Process for new Trustee Directors	Mar 2014
Conflicts of Interest Policy	Jul 2017
Risk Register	Mar 2018
Notifiable Events Whistle-blowing Report	Dec 2018
Review of Compliance with The Pensions Regulator's Codes of Practice	Sep 2018
Board Effectiveness Review	Jul 2019
Trustee Knowledge & Understanding Review	Jul 2018
Gifts & Hospitality Policy	Jul 2017
Anti Bribery Policy	Jul 2017

Policy/Procedure	Date Last Reviewed
Sub-Committees' Terms of Reference:	
Investment	Mar 2018
Funding	Jan 2018
Audit & Accounts	Jan 2018
Administration	Jan 2018
Discretions	Sep 2012
Internal Dispute Resolution	Sep 2012
Assessment of Advisers:	
Lawyers:	Sackers & Partners LLP Jan 2017
Actuary:	Willis Towers Watson Jan 2017
Covenant Reviewer:	PricewaterhouseCoopers LLP Jan 2017
Auditors:	KPMG LLP Nov 2016
Investment Consultant:	Mercer Investment Consulting Jan 2017
Custodian:	JP Morgan Chase Bank Feb 2017

Glossary of Terms

Actuarial Valuation

A valuation of a pension scheme which compares the scheme's assets to its liabilities. Economic and demographic assumptions are made to value the scheme's liabilities.

Added Years

A method of increasing pensionable service for those members wishing to provide for enhanced pension benefits by paying additional contributions.

Additional Voluntary Contributions (AVCs)

Contributions made by active members to purchase additional benefits.

Asset Allocation

The proportions in which the Plan's assets are distributed between different classes of investment.

Contingent Liability

A potential obligation which depends on whether or not some future event occurs.

Contracting Out

The use of the Plan to provide benefits in place of the State Second Pension (S2P).

Corporate Trustee

The Plan is managed by a corporate trustee company, acting as the Plan's Trustee.

Credit Default Swap

A financial swap agreement that transfers the credit exposure of fixed income products between parties.

Collateralised Loan Obligations (CLOs)

A form of securitisation where payments from multiple middle sized and large business loans are pooled together and passed on to different classes of owners in various tranches.

Custodian

A financial institution that holds and manages a client's securities or other assets on their behalf so as to reduce the risk of the client losing those assets or having them stolen.

Deferred Members / Deferred Pensioners

Members of the Plan who have ceased contributing (and may have left the employ of the Plan sponsor). They each have a benefit preserved in the Plan, payable at normal retiring age or on earlier death or ill health based on their period of service.

Derivatives

Financial contracts which derive their value from some other underlying asset. Examples include futures, options and swaps.

Emerging Market Equities/Debt

These are overseas asset classes which cover countries with developing economies. This asset class currently covers certain countries in Asia, Latin America, Europe and Africa.

Employer Covenant

The ability of a pension fund's sponsoring employer(s) to fund its pension scheme and underwrite investment risk.

Equities

Shares in UK and overseas companies.

Fair Value

A rational and unbiased estimate of the market value of goods, services or assets.

Fixed Interest Securities

Investments on which a fixed rate of interest is received.

Foreign Exchange ('FX' Forward)

A contract in the foreign exchange market that locks in the exchange rate for the sale or purchase of a foreign currency at an agreed future date.

Futures and Options Contracts

A futures contract is a firm agreement to buy or sell a security or quantity of securities at an agreed price and future date. An option contract confers the right without the obligation to complete a similar transaction at an agreed price and future date. In particular, stock futures and options are used by the Plan as a means to buy or sell, with a single transaction, the equivalent of a wide range of shares that are the constituents of stock market indices. Similarly, bond futures and options contracts relate to future transactions in UK and overseas bonds.

Gilt Repurchase Agreements (Repo)

The practice of selling gilts and simultaneously entering into an agreement to repurchase them at a fixed time and price. A technique used to fund temporary cash shortfalls, to fund long gilt positions, or to gear portfolios by borrowing against gilts. Buying gilts with a resale agreement is called a reverse repo and is a means of lending cash on a collateralised basis.

Hedge

A hedge is an investment position intended to offset potential losses/gains that may be incurred by an organisation. Liability hedging typically involves investing in assets which mitigate against the adverse impact of changes to interest rates and inflation rates.

Index Linked Securities

Stocks of which the capital value is linked to the rate of inflation.

Internal controls

Processes for assuring achievement of an organisation's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.

Investment Return

The return achieved by the Plan's investments in respect of both income and capital gains (realised and unrealised) normally expressed as an equivalent annual rate.

Money Purchase Benefits

Pensions and lump sums which are based on the accumulated value of contributions together with investment returns. Benefits on a money purchase basis are not related to either the member's salary or period of service.

Myners Principles

A set of high level principles compiled by a committee headed by Lord Myners relating to investment decision making and governance, recommended by The Pensions Regulator.

Options

An options contract is an agreement between a buyer and seller that gives the purchaser of the option the right to buy or sell a particular asset at a later date at an agreed upon price.

Over The Counter (OTC) Contracts

Contracts traded directly between the two parties rather than those which take place on a public, regulated exchange.

Pooled investments

Funds from many investors that are aggregated for the purpose of investment.

Private Equity

Equity capital that is not quoted on a public exchange as investors put capital directly into private companies.

Realised Gains

The net gain on investments sold, calculated by comparing the selling price with the price at which they were purchased, or with the value at which they were transferred to the Plan at inception.

Royal Mail Statutory Pension Scheme

The pension scheme established by Government which took over responsibility to pay all benefits earned by members of RMPP up to 31 March 2012.

Sections A, B, C, D E and F

Section A essentially mirrors the provisions of the Principal Civil Service Pension Scheme and only those who became members of the Plan before 1 December 1971 have an opportunity to elect for Section A benefits. Section B provides benefits for members of the Plan who joined after 30 November 1971. Section C provides benefits for members of the Plan who joined since 1 April 1987 as members of Section C and Section C Supplementary Plan. Section D contains the matching AVC arrangement for Section C members. Section E replicates the provisions of Section A and B but without the enhanced pension benefits on redundancy. Section F provides Cash Balance benefits to members joining the Plan on or after 1 April 2018.

Section C Supplementary Plan

A Plan to which full-time employee members may contribute £150 per annum (scaled down for part-timers). For most employee members, the employer matches these contributions; for higher earners there is a lower employer contribution or no contribution.

Short-term Investments

Securities with a maturity of a year or less. Examples are bank deposits, deposits in the interbank market, certificates of deposit and Treasury bills.

Swaps

Swaps are derivative contracts between two parties in which they agree to exchange one set of cash flows for another.

The Pensions Regulator

A statutory body in the UK which regulates pension schemes.

Total Return Swap (TRS)

A swap agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains.

Transfer Value

The cash equivalent or present value of a deferred pensioner's preserved benefit which can be used to purchase benefits in a new employer's scheme or a personal pension.

Unit Trust

An unincorporated mutual fund structure that allows funds to hold assets and pass profits through to the individual owners, rather than reinvesting them back into the fund. The investment fund is set up under a trust deed. The investor is effectively the beneficiary under the trust.

Unlisted Investments

Stocks and shares not traded on a recognised stock exchange.

Unrealised Gains

The net increase in the market value of investments held, but not yet realised.



Contact Details

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