Royal Mail Pension Plan

Report and Financial Statements

For the year ended 31 March 2020

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

Royal Mail Pension Plan

Contents

Trustee Directors & Advisors

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

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. Law Debenture 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 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.

Trustee Directors

	Number of Board meetings attended	Number of Board meetings held
Ms J Matthews	**4**	**6**
Mr P Brown	**6**	**6**
Mr P Browne	**6**	**6**
Mr G Cunningham*	**6**	**6**
Mr P Kennedy	**6**	**6**
Law Debenture Trust Corporation plc (Represented by Mr M Ashworth)	**6**	**6**
Mr L S Sampson**	**6**	**6**
Ms S Parden	**4**	**6**

*Mr Cunningham was re-nominated by the Unite/CMA Executive for a new three year term of office from 1 April 2020 to 31 March 2023.

**Lionel Sampson was re-elected as a Member Nominated Trustee Director for the Royal Mail Pension Plan for a new three year term of office from 1 April 2020 to 31 March 2023.

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, Michael Airey, Balvinder Aujla

Executive

Richard Law-Deeks
Chief Executive Officer

Ian McKnight
Chief Investment Officer

Mark Rugman
Head of Membership and Benefits

Michael Airey
Head of Actuarial

Balvinder Aujla
Head of Finance & Operations

Actuary

Colin Singer FIA
(Willis Towers Watson)

Auditor

KPMG LLP

Banker

The Royal Bank of Scotland

Bulk Annuity Provider (POL Section)

Rothesay Life PLC

Custodian

JP Morgan Chase Bank

Financial Advisor

PricewaterhouseCoopers LLP

Investment Consultant

Mercer Investment Consulting

Investment Managers

Aberdeen Standard Investments (terminated December 2019)
AM Squared Investors (appointed November 2019)
Aegon Asset Management (appointed May 2019)
Boussard and Gavaudan (appointed April 2019)
Beach Point Capital Management
BlackRock
Bluebay
BMO Global Asset Management
Brevan Howard Asset Management
Capstone Vol (Offshore) Limited (appointed December 2019)
Caxton Associates
Centerbridge Partners
Christofferson, Robb & Company
CopperRock (appointed July 2019)
Crescent Capital Group
Dalton Investment
Dodge & Cox Worldwide Funds
East Lodge (appointed December 2019)
Elementum Advisors
Empyrean Capital
Gramercy Funds Management
Hamilton Lane
HBK Capital Management
Highbridge Capital Management
HPS Partners
Insight Investment Management
Intermediate Capital Group (terminated November 2019)
Kames Capital
LaSalle Investment Management
Lazard Asset Management (terminated June 2019)
Loomis Sayles
Macquarie Group
MetLife Investment Management
Oaktree Capital Management
Och Ziff Capital Management Group - renamed Sculptor Capital Management
Paamco
PAG
Phoenix Property Investors
Quantum Energy Partners
Quinbrook Infrastructure Partners
River & Mercantile Group
Rothesay Life
Standard Life
Taconic Capital
TOR Investment Management
Vivo Capital
Walter Scott & Partners

Perfomance & Risk Consultant

Lane Clark & Peacock

Property Valuer

CB Richard Ellis Ltd

Plan Legal Advisor

Sacker & Partners LLP

Solicitors

CMS Cameron McKenna Nabarro Olswang LLP
Mills & Reeve LLP

These particulars are as at 31 March 2020 unless otherwise stated.

Trustee's Report

This is the Annual Report and Financial Statements of the Royal Mail Pension Plan ('RMPP' or the 'Plan') for the year ended 31 March 2020.

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 who advises the Board on its responsibilities and ensures that Board decisions are fully implemented.

The Trustee Board has positions for four employee-nominated and four employer-nominated Trustee Directors (and one independent Chair). Currently there is a vacancy for an employer-nominated Trustee Director. 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.

Trustee Meetings

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

- Funding
- Investment strategy
- Plan governance
- Administration
- Member engagement

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

Sub-Committees and Working Groups

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

Sub-Committees:

- Administration (3)
- Audit, Risk & Finance (3)
- Funding (5)
- Investment (4)

Working Groups:

- Investment Working Group (4)
- De-risking Working Group, established in January 2020 (0)

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

- Internal Disputes Resolution (2)
- Discretions (8)

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 member engagement, Board effectiveness and governance, pension plan buy-outs, and environmental, social and governance beliefs. 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 were 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. With effect from 31 March 2018 Sections B and C ceased accrual of benefits on the previous benefit basis (i.e. Career Salary Defined Benefit) and along with Section F members were able to build up benefits under a new Defined Benefit Cash Balance Scheme ('DBCBS').

In line with the change in status of POL introduced by the Postal Services Act, with effect from 1 April 2012 POL became a principal 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 Royal Mail Statutory Pension Scheme ('RMSPS'). The DBCBS also has its own separate funding and investment arrangements.

For the RMG Section and the DBCBS the principal employer is RMG and the participating employers are 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 £404 million during the year, were received in accordance with the schedule of contributions as shown in the Trustee's Summary of Contributions (page 40)

Following agreement between RMG and the Trustee, RMG's contributions, that were previously due to the Plan in respect of accrual 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.

A full escrow arrangement was set up in October 2019 which holds these assets. The assets amount to £184 million as at 31 March 2020 (£187 million as at 31 March 2019). The Trustee has agreed terms on which the amounts held in escrow will be transferred to the RMG Section of the Plan - these include triggers in which the funding position of the Plan or the covenant strength of RMG deteriorates.

Pension Increases

Pensions are increased in accordance with legislation and the Trust Deed & Rules. Currently, this means that for Sections A, B and E pensions in payment, the rate of increase is measured by reference to the Consumer Prices Index (CPI), and for Section C it is measured by reference to the Retail Prices Index (RPI), up to a maximum of 5%.

In April 2020, the increase for Sections A, B & E pensions in payment was 1.7%. For deferred members of these sections, pensions are revalued in the same way. The increase for Section C pensions in payment was 2.4%. For deferred members in Section C, each member's pension is revalued for the period between the date of leaving service and the date the pension commences, by reference to CPI and in accordance with the Pension Schemes Act 1993. No discretionary increases were awarded.

DBCBS increases

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.
The DBCBS reported its first annual funding update at 31 March 2019 which led to a discretionary pension increase of 3.7% being awarded to all members Cash Balances at 31 March 2020.

Transfer Values

During the year, transfer values in respect of withdrawing members were calculated and verified in the manner prescribed by legislation. Where required allowance has been made for discretionary 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 Control (Appendix 6 on Page 60) includes a summary of the main risks faced by the Plan.

Key Events during 2019/20

Investments

During the year 1st April 2019 to 31st March 2020, the Plan's investment strategy continued to evolve significantly, with the removal of emerging market equity and debt exposures from the RMG Section, as well as reductions in the high yield bond, absolute return bond and core property portfolios as the Trustee implemented material reductions in its exposure to market risk to protect the Section's strong funding position.

In addition, the private debt, private equity and absolute return portfolios were unitised between the RMG section and DBCBS to facilitate sales of those assets from the RMG Section to the DBCBS. The (now closed) RMG Section employs a liability-driven investment strategy which is designed to remove interest rate and inflation risks from all the Section's accrued liabilities, while the (still open) DBCBS also currently hedges out those risks for existing accrual and for 12 months of future accrual: this target is reviewed regularly.

Over the course of the year, the DBCBS moved towards its target asset allocation, with temporary holdings in two diversified growth funds removed. In total, portfolio sales of over c.£1billion were completed during the year across the RMG Section and DBCBS. This was achieved via unitisation, which is an internal accounting process to reflect allocation of assets between the two Sections.

Contributions of £394m for the DBCBS were invested across a broad range of asset classes, including those unitised categories listed above and cash, as well as being used to initiate a high yielding, dynamic credit allocation and an initial modest allocation to small-cap equities. The target asset allocation of the DBCBS is to be further reviewed in light of the market conditions following the recent market moves associated with the COVID-19 pandemic.

Although the RMG Section's return-seeking portfolio retains exposure to actively managed portfolio of equities, the underlying stock market movement is hedged out. In addition, the DBCBS went into 2020 very conservatively positioned in shares (under 8% of the assets), and both Sections were exposed instead to the Plan's unitised absolute return portfolio. This proved to be very useful positioning, given the dramatic economic impact of the COVID-19 outbreak globally, and in particular on the stock markets. The Plan's absolute return portfolio (in particular those fund managers able to benefit from the volatile macro environment) held up strongly as equity markets crashed, protecting the Plan's portfolios from much of this impact. The largest impact at total portfolio level, however, was the robust interest-rate and inflation hedging strategies, which increased dramatically in value as interest rates fell, pushing up the value of the Plan's liabilities – and of the liability hedging portfolio. The result of this is that the RMG Section now has its highest asset value since 'starting again' with new accrual in 2012, after the Pensions Transfer to Government moved pre-2012 pension accrual (and assets) to the RMSPS. Since its closure in 2018, the RMG Section's funding position remains in surplus.

An independent fee and costs review conducted by specialist benchmarking company, CEM, concluded that the Plan was a "high value-add, low cost" Plan.

Environmental, Social and Governance policy and Climate Change

The Plan has further developed its environmental, social and governance ('ESG') policy and actions throughout the year.

We have extended the capacity of our engagement provider, Sustainalytics, to include corporate bond holdings in addition to the equity holdings engagements on all ESG issues that they were currently carrying out for the Plan.

The Trustee carried out an ESG beliefs session in 2019 that resulted in a Responsible Investment Mission Statement that reads:

- We recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that may increasingly require explicit consideration;
- We commit to be an engaged and responsible long-term investor in the assets and markets in which we invest;
- We believe that the integration of financially material environmental (including climate change), social and governance ('ESG') factors within our investment process was not detrimental to the risks and may enhance the sustainable long term expected returns from the Plan's investments;
- We aim to appoint and retain managers whose beliefs and practices are consistent with our beliefs on ESG risks and opportunities (where relevant to their mandate) and we encourage best stewardship practice from our investment managers; and
- As part of our commitment to Responsible Investment, the Plan is a signatory to the United Nations-backed Principles for Responsible Investment and to the UK Stewardship Code.

The Plan's Statement of Investment Principles was also amended to reflect the ESG policy that included the consideration of climate change. This was in line with the Department for Work and Pensions' requirements.

The Plan will be working to comply with even more regulations in ESG reporting and transparency in 2020 and to comply with new Financial Reporting Council (FRC) requirements for the UK Stewardship Code, of which we are currently a Tier 1 Signatory (i.e. demonstrating best practice among peers), in 2021. As highlighted last year, the Plan had 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) and following the recent market turmoil these commitments have now started to be invested.

Liaison with Royal Mail Statutory Pension Scheme

The Trustee has continued to work with 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 £11,554 million at 31 March 2019 to £12,496 million at 31 March 2020. There were receipts from contributions of £404 million and benefit and transfer payments were £97 million.

The increase in the market value of investments during the year was £602 million, primarily as a consequence of the fall in yields during the year, increasing the value of the Plan's liability-hedging portfolio (shown in the financial statements under pooled investment vehicles in Note 8). Investment income totalled £58 million and there were expenses of £25 million.

Membership Summary

Total membership marginally decreased from 124,398 to 124,157 during the year. The number of employee members decreased from 84,363 to 80,158 as at 31 March 2020. The number of deferred members has increased from 17,378 to 18,288 and the number of pensioners has also increased from 22,377 to 25,711. A full analysis of membership appears in Appendix I (page 44).

Actuarial Valuation and Funding Update

The table below shows the results of the latest formal actuarial valuation of the RMG and POL Sections as at 31 March 2018. The table includes the results of the latest annual funding updates as at 31 March 2019 which were distributed to members in April 2020 for the RMG Section and January 2020 for the POL section.

The DBCBS reported its first annual funding update at 31 March 2019 showing a surplus of £10m which led to a discretionary pension increase being awarded at 31 March 2020.

The actuarial certificates on page 41 confirm that the agreed Schedules of Contributions are in accordance with the Trustee's Statement of Funding Principles.

	Actuarial valuation 31 March 2018 £m	Annual funding update 31 March 2019 £m
RMG Section		
Assets	9,986	10,464
Liabilities	9,854	10,411
Surplus	132	53
DBCBS		
Assets	n/a	396
Liabilities	n/a	386
Surplus	n/a	10
POL Section		
Assets	438	455
Liabilities	414	427
Surplus	24	28

POL partial buy-out

The Trustee purchased a bulk annuity insurance contract with Rothesay Life in 2017 to support its strategy to de-risk the POL Section and minimise fluctuations in the funding level. After careful consideration, and having received advice from its advisors, the Trustee decided the time was right to move to the next step of converting this bulk insurance policy into individual policies for each member. This process is known as a 'Partial Buy-out' and once complete, Rothesay Life will take over responsibility for directly paying the members benefits that the policies cover.

The Pension Service Centre has been busy providing all of the POL Section membership data to Rothesay Life to facilitate this smooth transition. The Trustee wrote to members in January 2020 informing them of this decision to proceed with the Partial Buyout. The Executive and Trustee continue to support the Pension Service Centre with the Partial Buyout transition.

Valuation of the POL annuity

The valuation of the Buy-in at 31 March 2020 was £392m (2019:£509m). The assumptions used are stated as being consistent with the Technical Provisions basis adopted by the Plan Trustee for funding purposes, as set out in the most recent Statement of Funding Principles in relation to the 31 March 2018 triennial valuation, adjusted for market conditions (in particular the discount rate and inflation assumptions) to 31 March 2020. The assumptions are reasonable under the flexibility provided by the Pensions Statement of Recommended Practice. Note that the assumptions at the prior year 31 March 2019 were set based on the Technical Provisions basis relevant for the 31 March 2015 triennial valuation, updated to 31 March 2019.

COVID-19

Given the challenges that COVID-19 brings and despite business operations being disrupted, all functions and service providers are operating effectively and as best as they can whilst working remotely.

Measures have been put in place to ensure the administration of the RMPP can continue to operate as efficiently as possible including the provision of laptops and phones to enable remote working and prioritising work that is time-critical. Crucially, the regular monthly pension payroll and the authorisation and payment of benefits can be run 'remotely' and there has been no disruption to pension payments.

COVID-19 has caused disruption to economic activity which has been reflected in recent fluctuations in global stock markets and, in turn, in the valuation of Scheme assets. The Trustee has designed and implemented the Scheme's investment strategy taking a long-term view and have built in resilience to withstand short term fluctuations. The Key Events, Investment section provides more details on this.

The Executive team have identified the risks that could be impacted by COVID-19 which include administration, investment, funding and operational risks. The Executive have increased the monitoring of the Plan's administrators, investment managers and custodian to enable the Plan to identify and react to any issues if they arise. The funding level continues to be regularly reviewed as set out in the Statement on Risk Management (see Appendix 6, page 60).

Collective Defined Contribution (CDC) scheme and Defined Benefit Lump Sum Scheme (DBLSS)

The Company has been working closely with the CWU and other stakeholders to make CDC a reality for Royal Mail and its people. The Pension Schemes Bill, which will enable CDC pension schemes under UK law is currently progressing through Parliament. Once complete and after any further legislative and regulatory changes have been made, Royal Mail aims to set up the first scheme of this kind in the UK.

The CDC and DBLSS will replace the transitional DBCBS. The DBLSS is a similar arrangement to the existing DBCBS.

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. Both SIPs were updated as at June 2019. 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 46 to 56.

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. Investing assets inevitably exposes the Plan 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. The risks inherent in the investment markets for the RMG Section (and DBCB 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.

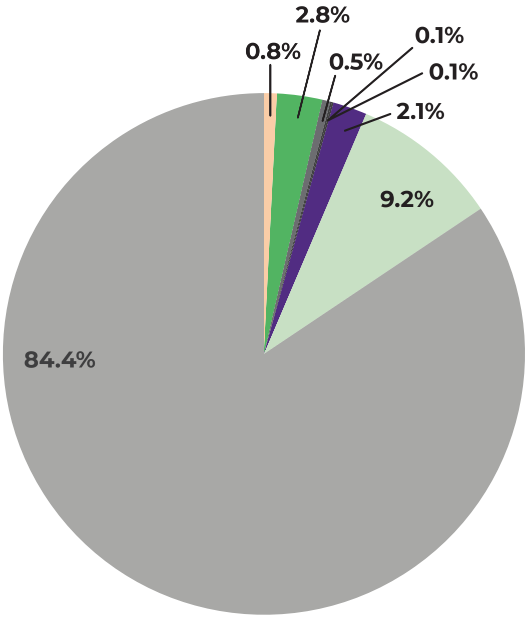
The charts shown on pages 11 to 13, show the weightings of the different types of asset held at 31 March 2020 for the RMG, DBCBS, and POL Sections along with the weightings for the previous year, which visually illustrates the material portfolio restructuring which took place.

The RMG and DBCB Sections invests in a mix of risk-reducing and return-seeking assets. The Plan invests in derivatives (predominantly swaps and options) to reduce interest rate and inflation 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 may differ from the analysis of investment values included in the financial statements.

Asset allocation up to 31 March 2020

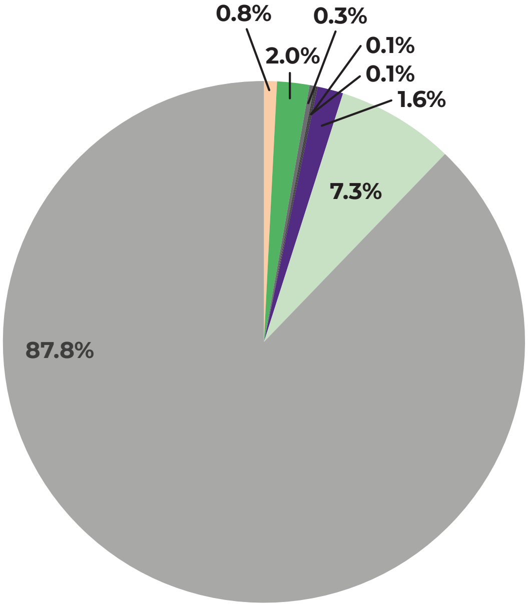
POL Section



	Asset Class
Equities (listed and private)	0.8%
Alternative investments	2.8%
Property (incl. property-linked debt)	0.5%
High yield credit	0.1%
Emerging market debt	0.1%
Liability hedging assets, derivatives, collateral	2.1%
Cash	9.2%
Bulk purchase annuity	84.4%
Total Assets	**100.00%**

Asset allocation up to 31 March 2019

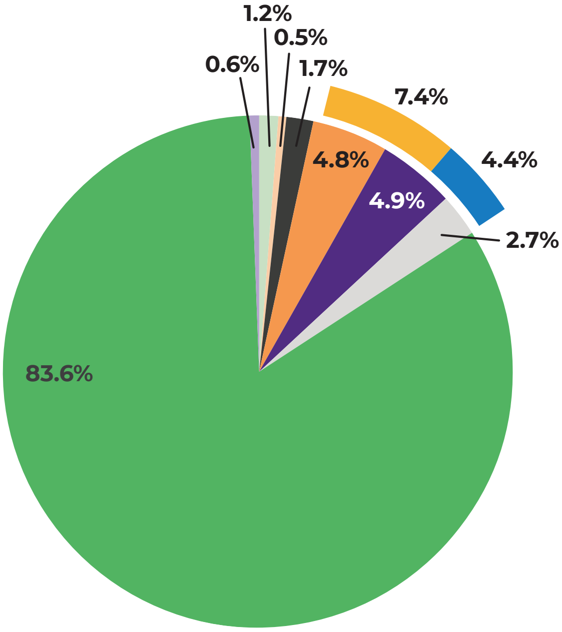
POL Section



	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 2020

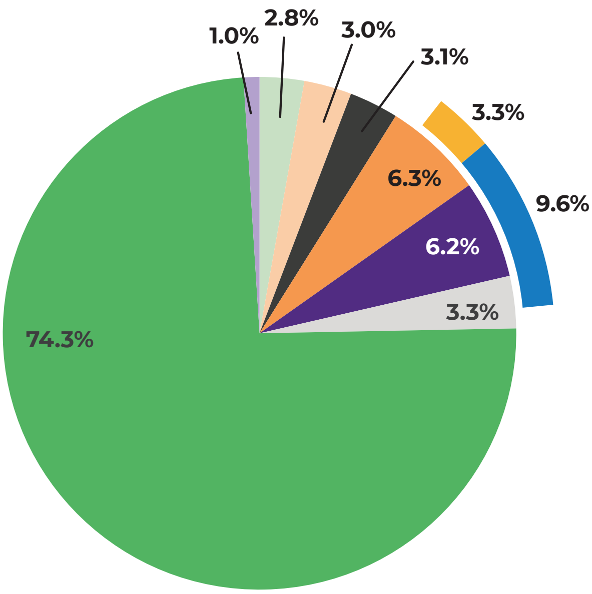
RMG Section



	Asset Class
Equity beta	1.2%
Equity alpha	0.5%
Property	1.7%
Higher risk credit	4.8%
Lower risk credit	4.9%
Absolute return	2.7%
Liability hedging assets, derivatives, collateral	83.6%
Surplus cash	0.6%
Total Assets	**100.00%**

Asset allocation up to 31 March 2019

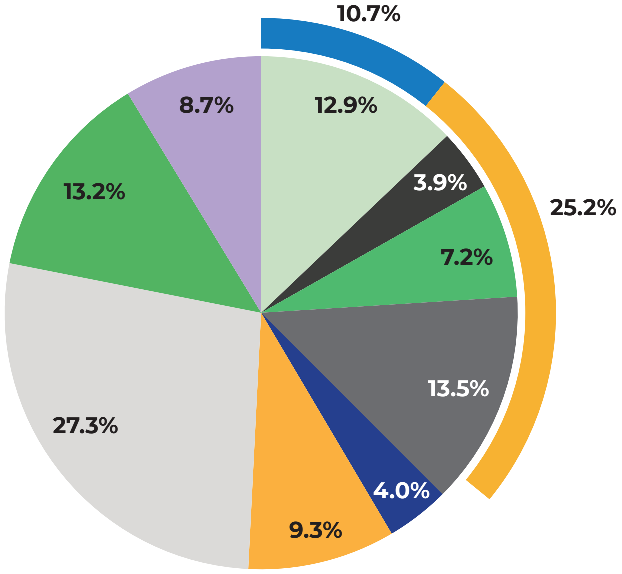
RMG Section



	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	74.3%
Surplus cash	1.0%
Total Assets	**100.00%**

Asset allocation up to 31 March 2020

DBCBS Section

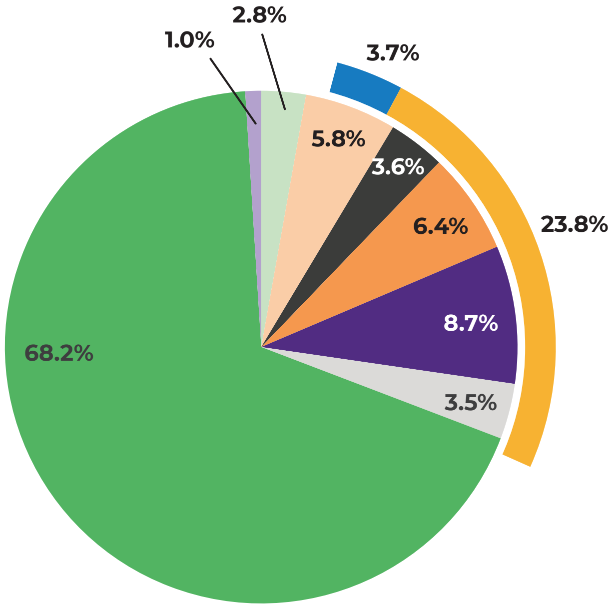


Swaps (inc TRS) Repo

	Asset Class
Equities	12.9%
Property	3.9%
Emerging debt market	7.2%
Private debt	13.5%
High yield credit	4.0%
Secured finance	9.3%
Absolute return	27.3%
Liability hedging assets, derivatives, collateral	13.2%
Surplus cash	8.7%
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	68.2%
Surplus cash	1.0%
Total Assets	**100.00%**

Investment Managers

The Plan's assets were managed by several external investment managers with specialist mandates as detailed below.

Manager	Mandate	£m
AM Squared Investors	Alternatives	41
Aegon Asset Management	Secured Finance	122
Boussard and Gavaudan	Alternatives	39
Beach Point Capital Management	High Yield Debt and Fixed ncome	174
BlackRock*	Liability Driven Investment, Infrastructure Debt and High Yield	8,859
Bluebay	Emerging Market Equities	34
BMO Global Asset Management*	Liability Driven Investment	101
Brevan Howard Asset Management	Alternatives	76
Capstone Vol (Offshore) Limited	Alternatives	49
Caxton Associates	Alternatives	31
Centerbridge Partners	Private Debt	20
Christofferson, Robb & Company	Alternatives	66
CopperRock	Global Small Cap Equity	10
Crescent Capital Group	Private Debt	30
Dalton Investment	Emerging Market Equities	11
Dodge & Cox Worldwide Funds	Global Unconstrained Equities	35
East Lodge	Alternatives	15
Elementum Advisors	Alternatives	47
Empyrean Capital	Alternatives	47
Gramercy Funds Management	Emerging Markets Debt	21
Hamilton Lane	USA Private Equity	50
HBK Capital Management	Alternatives	55
Highbridge Capital Management	Private Debt	59
HPS Partners	Private Debt	7
Insight Investment Management	Secured Finance	148
Intermediate Capital Group	Private Debt	102
Kames Capital	Absolute Return Bonds	49
LaSalle Investment Management	UK Property and Real Estate Debt	358
Loomis Sayles	Global Investment Grade Credit	71
Macquarie Group	Asian Infrastructure	36
MetLife Investment Management	Infrastructure Debt	66
Oaktree Capital Management	Private, E.M., Mezzanine, & Real Estate	134
Och Ziff Capital Management Group	Real Estate Debt	17
Paamco	Absolute Return Emerging Manager	99
PAG	Alternatives	103
Phoenix Property Investors	Real Estate Debt	16
Quantum Energy Partners	Private Equity	41
Quinbrook Infrastructure Partners	Private Equity & Real Assets	35
River & Mercantile Group	Equity Option Overlay and Equity TRS	279
Rothesay Life	Insurance Contract	392
Standard Life	Global Investment Grade Credit	74
Taconic Capital	Alternatives	33
TOR Investment Management	Alternatives	108
Vivo Capital	Private Equity	24
Walter Scott & Partners	Global Unconstrained Equities	50
Cash and other assets		156
AVC Investments		146
TOTAL		**12,496**

*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 investment managers receive a fixed fee for the management of mandates. Fees are paid by the Trustee and recharged to the Plan, or are taken directly from the fund by the investment manager. Where relevant, a performance fee is also charged 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).

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 pages 11 to 13 are based on the investment values as at 31 March 2020 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 tables on the next page show the Plan's returns for return-seeking assets for the year ended 31 March 2020 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 Sustainalytics 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 20	3 years to 31 March 20
Return on return-seeking assets (%) p.a.	0.8%	2.9%
Target (3M Libor + 3.4%)*	0.8%	0.6%
Return on liability-matching assets and cash p.a.	11.0%	6.0%

DBCBS Section	year to 31 March 20
Return on return-seeking assets (%) p.a.	-1.6%
Target (3M Libor + 3.6%)**	0.8%
Return on liability-matching assets and cash p.a.	8.2%

POL Section	year to 31 March 20	3 years to 31 March 20
Return on return-seeking assets (%) p.a.	17.9%	12.2%
Target (3M Libor)	0.8%	0.6%
Return on liability-matching assets and cash p.a.***	2.4%	0.2%

*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 an extraordinary year for the RMPP. Despite COVID-19 lockdown and financial market distress, we have continued to deliver for the members of the Plan.
The triennial formal actuarial valuation as at 31 March 2018 was completed for the POL section in September 2019 and work is underway for the POL 'Partial Buy-out'.

Investment activity included the reductions in the Plan's exposure to market risk, unitisation of the private debt, private equity and absolute return portfolios, moving the DBCB Section towards its target asset allocation and further development of the Plan's ESG policy.

The DBCB Section has received £394 million in new contributions which were invested in accordance with the Statement of Investment Principles for the Section. The performance of the Section since its inception was sufficient to award the pension increase of CPI+2% for this year.

The RMG Section achieved a return of 8.8% over the 12 months to 31st March 2020, driven by the liability-hedging portfolio; the return seeking portfolio achieved 0.8% over the period. Over the 3-year period the Section returned 5.5%, with the return seeking assets returning 2.9%. Since 1st April 2012, the Section delivered a return of 14.6%, with the return-seeking portfolio contributing 6.3%. The Section remains fully funded at 31st March 2020.

With regards to Trustee developments, Mr Cunningham was re-nominated as a Member Nominated Trustee Director by the Unite/CMA Executive for a new three-year term of office from 1 April 2020 to 31 March 2023.

Lionel Sampson was re-elected as a Member Nominated Trustee Director for a new three-year term of office from 1 April 2020 to 31 March 2023.

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 advisors for their assistance throughout the year.

Joanna Matthews – Chair

09 July 2020

Statement of Trustee's Responsibilities for the Financial Statements

The audited financial statements, which are 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 Trustee. 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 y ear, 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.

The Trustee is responsible for the maintenance and integrity of the Plan and financial information included on the Plan's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2020	Notes	2020 £m	2019 £m
Contributions and Benefits			
Employer Contributions	1	283	294
Employee Contributions	1	121	123
Benefits	2	(83)	(69)
Payment to and on account of leavers	3	(14)	(11)
		307	**337**
Administrative expenses	4	(10)	(7)
Net additions from dealing with members		**297**	**330**
Return on investments			
Investment income	6	58	72
Change in the market value of investments	7	602	515
Investment management expenses	5	(15)	(14)
Net return on investments		**645**	**573**
Net increase in the fund during the year		**942**	**903**
Net Assets of the Plan			
At start of the year		11,554	10,651
At end of the year		**12,496**	**11,554**

The Accounting Policies and Notes on pages 20 to 36 form an integral part of the financial statements.

Statement of Net Assets (available for benefits)

for the year ended as at 31 March 2020

	Notes	2020 £m	2019 £m
Investment Assets			
Equities		73	337
Property	9	343	295
Bonds		642	751
Pooled investment vehicles	8	10,524	9,080
Insurance policies		392	509
Derivative contracts	10	12	1
AVC investments	12	116	114
Cash	11	376	458
Other investment assets	16	82	101
		12,560	**11,686**
Investment Liabilities			
Derivative contracts	10	(12)	(29)
Other investment liabilities	16	(65)	(111)
		(77)	**(140)**
Net investment assets			
		12,483	**11,546**
Current assets		31	24
Current liabilities	13	(18)	(16)
Net assets of the Plan at 31 March			
		12,496	**11,554**

The Accounting Policies and Notes on pages 20 to 36 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:

J Matthews – Chair

G Cunningham – Director

R Law-Deeks – Chief Executive Officer

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 2018).

Basis of Accounting

The Plan is established as a trust under English law. The address for enquiries to the Plan is listed on page 4. 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 31 March 2018 (POL Section).

Going Concern

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as they believe that the Plan has adequate resources to realise its assets and meet benefit obligations in the normal course of affairs (continue to operate) for at least the next twelve months. In reaching this conclusion, the Trustee considered the impact of the COVID-19 outbreak and have taken into account the impact on investments, portfolio liquidity, cashflow requirements and the employer covenant. This assessment, together with income and capital growth from its assets, gives the Trustee confidence to prepare the financial statements on a going concern basis.

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.

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 in the period which they fall due for payment. Where there is a choice, benefits are accounted for in the period in which the member notifies the Plan of the decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving. Benefits taken are reported gross of any tax settled by the Plan on behalf of the member. Opt outs are accounted for when the Plan is notified of the opt out.

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.

Expenses

Expenses are accounted for on an accruals basis. The Scheme bears all the costs of administration. Direct costs are charged to the section to which they relate. Indirect costs are allocated between sections based on an allocation methodology agreed by the Trustee.

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 pensions paid, pension increases and revaluation, as well as member options including transfers out and tax free cash at retirement.

The financial assumptions used to value the policy have been calculated using the 2018 triennial valuation Technical Provisions basis, updated for current market conditions, as set out in the Statement of Funding Principles dated 25 September 2019.

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 the basis of open market value as at the year end date, in accordance with RICS Valuations Standards, by independent valuers. As a result of the current situation with regards the COVID-19 pandemic, the Trustee have been advised by its valuers that conditions exist in the real estate markets that may result in uncertainty in the reliability of these valuations . Nonetheless, these represent the best estimate of the current valuation at the year end date, and have been adjusted by the valuers to account for the expected impact of COVID-19, based on the information available at the time that the valuation was prepared.

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		**2020 £m**	**2019 £m**
Contributions by employer	- normal	283	293
	- augmentation	-	1
Contributions by members	- normal	111	117
	- additional voluntary	10	6
		404	**417**

From 1 April 2018 all employer contributions relate to DBCBS.

2. Benefits	**2020 £m**	**2019 £m**
Retirement pensions	36	30
Lump sum/retirement benefits	37	30
Death benefits	10	9
	83	**69**

3. Payments to and on behalf of leavers	**2020 £m**	**2019 £m**
Individual transfer values	14	11

Notes to the Financial Statements continued

4. Administrative expenses	2020 £m	2019 £m
Administrative expenses	10	7
	10	7

Administration expenses include costs totalling £86,000 in respect of Scheme and Risk Based Levies for the Pension Protection Fund (2019: £77,000). Administration expenses also include fees payable to the Plan's Auditors (KPMG) of £102,000 (2019: £129,000) of which £18,000 (2019: £18,000) relates to the Plan's subsidiaries.

5. Investment management expenses	2020 £m	2019 £m
Investment managers' base fees	8	7
Investment managers' performance fees	3	1
Other expenses	4	6
	15	14

6. Investment income	2020 £m	2019 £m
Dividends from equities	3	8
Income from bonds	26	31
Income from pooled investment vehicles	7	13
Net rental income	14	12
Interest on cash deposits	3	5
Income from derivatives	-	(1)
Other investment income	5	4
	58	72
Net recoverable withholding tax	-	-
	58	72

Net rental income is stated after deduction of £2m (2019: £2m) of property related expenses. The Plan is a registered scheme for tax purposes under the Finance Act 2004. The Plan is therefore exempt from taxation except where there is witholding tax relating to overseas income.

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 2020. An analysis of the change in market value of net assets is shown below:

Investment assets	Market value at 31 March 2019 £m	Purchases at cost and derivative payments £m	Sale proceeds and derivative receipts £m	Change in value £m	Market value at 31 March 2020 £m
Equities	377	61	(354)	(11)	73
Property	295	123	(57)	(18)	343
Bonds	751	270	(370)	(9)	642
Pooled investment vehicles	9,080	2,673	(2,027)	798	10,524
Insurance policies	509	-	-	(117)	392
AVC investments	114	10	(9)	1	116
Cash	458	-	(81)	(1)	376
Derivative contracts*	(28)	81	(12)	(41)	-
	11,556	**3,218**	**(2,910)**	**602**	**12,466**
Other investment assets and liabilities	(10)	27	-	-	17
Net investment assets	**11,546**	**3,245**	**(2,910)**	**602**	**12,483**

*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. Transactions costs incurred during the year amounted to £4,770,000 (2019: £1,228,000). In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. Further detail on Transactions costs can be found in note 17.

8. Pooled Investment Vehicles	2020 £m	2019 £m
Bond funds	373	555
Equity funds	85	152
Absolute Return funds	487	631
Property funds	69	41
Private Equity funds	160	146
Liability driven investment funds	8,856	7,397
Private debt funds	494	158
	10,524	**9,080**

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

Bonds	9,053	8,129
Swaps	125	200
Repurchase agreements	(587)	(1,036)
Net cash	265	104
	8,856	**7,397**

9. Property

	2020 £m	2019 £m
UK		
Retail	223	176
Industrial	48	48
Residential	72	71
	343	**295**

There was no property (2019: £nil) which was leased back to Royal Mail at market rates.

10. Derivative contracts

	2020 £m	2019 £m
Assets		
Futures contracts	-	-
FX forward contracts	3	1
Swaps	9	-
	12	**1**
Liabilities		
Futures contracts	-	-
FX forward contracts	(3)	(3)
Swaps	(9)	(26)
	(12)	**(29)**

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.

Total Return Swaps

Total Return Swaps are used to decrease the Plan's risk to adverse price movements in the value of global equities.

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	2020 Asset £m	2020 Liability £m
Fixed interest – overseas*	June 2020	(6)	-	-
Fixed interest – UK*	June 2020	1	-	-
			-	**-**

Futures – exchange traded

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

*The value of the Fixed interest – UK assets was £3,000 (2019: £9,000). The value of Fixed interest – overseas assets was £103,000 (2019: £nil) and Fixed interest – overseas liabilities was £203,000 (2019: £60,000).

FX forwards

Currency Bought	Currency Sold	Notional Value £m	2020 Asset £m	2020 Liability £m
GBP	EUR	31	1	(1)
GBP	USD	82	2	(2)
USD	EUR	6	-	-
VARIOUS*	VARIOUS*	3	-	-
			3	**(3)**

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)**

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

*The value of the FX forward various assets was £75,000 (2019: £96,000) and the value of the FX forward various liabilities was £10,000 (2019: £103,000).

10. Derivative contracts (continued)

Swaps – over the counter Type of Swap	Expiration	Economic Exposure Value £m	2020 Asset £m	2020 Liability £m
Credit default swap - index*	< 5 years	3	-	-
Interest rate swap - fixed for floating	< 5 years	75	-	(2)
Interest rate swap - fixed for floating	< 40 years	47	-	(7)
Total return swap – global equity short	February 2021	62	9	-
			9	**(9)**

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)**

*The value of the credit default swap - index assets was £5,000 (2019: £42,000) and the credit default swap - index liabilities was £3,000 (2019: £nil).

Notes to the Financial Statements continued

11. Deposits and short-term investments

	2020 £m	2019 £m
Interest earning deposits		
Sterling	357	397
Foreign currency	19	61
	376	**458**

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:

	2020 £m	2019 £m
Zurich	96	97
Aviva	2	2
Standard Life	6	6
Equitable Life	12	9
	116	**114**

13. Current liabilities

	2020 £m	2019 £m
Accrued benefits	6	3
Other creditors	12	13
	18	**16**

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.

	2020 on loan £m	2020 Collateral £m	2019 on loan £m	2019 Collateral £m
Equities	23	25	8	9
Bonds*	6	7	14	14
	29	**32**	**22**	**23**

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

15. Commitments and contingent liabilities	2020 £m	2019 £m
Property	175	1
Other*	405	428
	580	**429**

*Other commitments represent funds allocated for specific private equity and alternative investments. There were nil contingent liabilities at 31 March 2020 (2019: £nil).

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 £29m (2019: £15m).

'Other investment liabilities' consists of amounts due to brokers and collateral received from counterparties. The value of collateral held from counterparties was £18m (2019: £10m).

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	53	20	-	73
Property	343	-	-	343
Bonds	615	17	10	642
Pooled investment vehicles	9,872	634	18	10,524
Insurance policies	-	-	392	392
Derivative contracts	-	-	-	-
Cash and other assets	303	62	41	406
	11,186	**733**	**461**	**12,380**

AVC investments	116
Total net assets at the end of the year	**12,496**

18. Transaction costs

Included within the purchases and sales are direct transaction costs of £4,770,000 (2019: £1,228,000) comprising fees, commissions and stamp duty. These costs are attributable to the following asset classes:

	Stamp Duty £m	Fees £m	Commission £m	2020 Total £m
Equities	-	0.1	0.2	0.3
Bonds*	-	0.1	-	0.1
Property	3.0	1.3	-	4.3
	3.0	**1.5**	**0.2**	**4.7**

	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**

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

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.

At the year end, the Plan had lent £6 million (2019: £14 million) of fixed income securities and £23 million (2019: £8 million) of quoted securities and held collateral in the form of cash and fixed interest securities with a value of 107% (2019: 108%) of stock lent.

As at 31 March 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	20	-	53	73
Bonds	282	263	97	642
Property	-	-	343	343
Pooled investment vehicles	-	8,995	1,529	10,524
Insurance policies	-	-	392	392
Derivatives	-	-	-	-
AVC investments	-	116	-	116
Cash	376	-	-	376
Other investment balances	17	-	-	17
Total	**695**	**9,374**	**2,414**	**12,483**

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**	**8,063**	**2,375**	**11,546**

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	2020 Total £m
Bonds	9,480	214	2	9,696
OTC Derivatives	125	-	-	125
Cash	641	-	-	641
Stock lending	29	-	-	29
Repurchase agreements	(587)	-	-	(587)
PIVs	89	-	1,480	1,569
Total	**9,777**	**214**	**1,482**	**11,473**

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**

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 £6 million (2019: £14 million) of fixed income securities and £23 million (2019: £8 million) of quoted securities and held collateral in the form of cash and fixed interest securities with a value of 107% (2019: 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.

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

	2020 £m	2019 £m
Qualifying investor fund	8,856	7,397
Open ended investment companies	1,558	1,122
Shares of limited liability partnerships	110	561
Total	**10,524**	**9,080**

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:

	2020 £m	2019 £m
Currency		
Euro	42	131
US Dollar	51	715
Japanese Yen	7	15
Other	38	146
Total	**138**	**1,007**

(iii) 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:

	2020 £m	2019 £m
Direct		
Bonds	642	751
Swaps	(9)	(26)
Indirect		
Bond PIVs	373	555
LDI PIVs	8,856	7,397
Other debt PIVs	494	158
Total	**10,356**	**8,835**

(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:

	2020 £m	2019 £m
Direct		
Equities	73	377
Investment properties	343	295
Indirect		
Equity funds	85	152
Absolute Return funds	487	631
Investment property funds	69	41
Private equity funds	160	146
Total	**1,217**	**1,642**

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 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.

	2020 £m	2019 £m
Fees charged for the year including amounts payable to RMPTL as at 31 March 2020 of £2 million (2019: £2 million)	25	21

22. Events after the balance sheet date

In early 2020, a new coronavirus, COVID-19, impacted a significant number of countries globally. COVID-19 has caused disruption to economic activity which has been reflected in recent fluctuations in global stock markets and, in turn, in the valuation of pension schemes assets. The emergence and spread of COVID-19 is considered to be a non-adjusting post balance sheet event. Given the inherent uncertainties, it is not practical at this time to provide a quantitative estimate of the impact of COVID-19 on the Plan. The Plan's assets include different strategies and invest across multiple sectors and locations, and so returns will vary due to these factors and the specific nature of the underlying deals, as well as the occurrence of credit events on the underling investments which would determine a write down. Assets that could be more impacted than others are equities, bonds, property mandates and pooled investments which invest in private debt, energy, merger arbitrage and illiquid credit. The Trustee has designed and implemented the investment strategy of the Plan taking a long-term view and have built in resilience to withstand short term fluctuations that may impact the Plan. At the time of approving the accounts the assets have fared well against the impact of COVID-19, although it is too early to indicate the full impact.

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

Opinion

We have audited the financial statements of the Royal Mail Pension Plan (“the Plan”) for the year ended 31 March 2020 which comprise the Fund Account and the Statement of Net Assets and related notes, including the accounting policies on pages 20 to 21.

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 2020 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 Plans (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Plan in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Trustee has prepared the financial statements on the going concern basis as they do not intend to wind up the Plan, and as they have concluded that the Plan’s financial position means that this is realistic. They have 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 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), 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 17, the Plan’s Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine 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 they either intend to wind up the Plan, or have 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 Plan, 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

10 July 2020

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 2020 which is set out on page 40.

In our opinion contributions for the Plan year ended 31 March 2020 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 21 March 2017, 27 March 2018, 19 July 2019 and 25 September 2019.

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
E14 5GL

10 July 2020

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 perparation and disssemination of fiancial 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	2020 Per Schedule £m	2020 Additional £m	2020 Total £m	2019 Per Schedule £m	2019 Additional £m	2019 Total £m
Employers' normal contributions*	283	-	283	293	-	293
Members' normal contributions	111	-	111	117	-	117
Employers' augmentation contributions	-	-	-	1	-	1
Payable under the Schedule of Contributions	**394**	**-**	**394**	**411**	**-**	**411**
Members' additional voluntary contributions	-	10	10	-	6	6
Total contributions (see Note 1 to the statements)	**394**	**10**	**404**	**411**	**6**	**417**

* 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

09 July 2020

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 adequecy 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 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 25 September 2019.

The certification of the adequecy 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

25 September 2019

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 2018.

The value of the technical provisions for the Plan as at 31 March 2019 was:

The value of the Technical Provisions for the Plan was:	The market value of the assets at that date was:
£10,797 million for RMG Section	£10,860 million for RMG Section
£427 million for POL Section	£455 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.

<table>
<tr><th></th><th colspan="2">RMG</th><th colspan="2">POL</th></tr>
<tr><th></th><th>Base Table</th><th>Improvements</th><th>Base Table</th><th>Improvements</th></tr>
<tr><td>Male members</td><td rowspan="2">118% S2PMA
99% S2PMA_H</td><td rowspan="4">CMI 2017 with 1.5% trend and smoothing parameter of 8</td><td rowspan="2">91% S2PMA</td><td rowspan="4">CMI 2014 with 2% trend</td></tr>
<tr><td>Male dependants</td></tr>
<tr><td>Female members</td><td>116% S2PFA_H</td><td>89% S2PFA</td></tr>
<tr><td>Female dependants</td><td>106% S2PFA_H</td><td>96% S2DFA</td></tr>
</table>

Appendices

Appendix 1 – Membership Analysis as at 31 March 2020

RMG Section	2020	2019
Active Members		
Employee members	62,966	68,080
Dual Status - deferred members with part benefits in payment	11,452	10,440
Total Active members	**74,418**	**78,520**
Deferred Members		
Deferred members	13,618	13,319
Dual Status - deferred members with part benefits in payment	2,061	1,820
Total Deferred members	**15,679**	**15,139**
Pensioner members		
Pensioner members	24,097	20,958
Total Pensioner members (excluding dual status)	**24,097**	**20,958**
Total Membership – RMG Section	**114,194**	**114,617**

POL Section	2020	2019
Active Members*		
Employee members	1,186	1,748
Dual Status - deferred members with part benefits in payment	174	207
Total Active members	**1,360**	**1,955**
Deferred Members		
Deferred members	2,229	2,018
Dual Status - deferred members with part benefits in payment	380	221
Total Deferred members	**2,609**	**2,239**
Pensioner members		
Pensioner members	1,614	1,419
Total Pensioner members (excluding dual status)	**1,614**	**1,419**
Total Membership – POL Section	**5,583**	**5,613**

*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	2020	2019
Active Members		
Employee members	4,380	4,168
Dual Status - deferred members with part benefits in payment	-	-
Total Active members	**4,380**	**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	**4,380**	**4,168**

Appendix 2 - Five Year History of the Fund

	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m
Income					
Employers' contributions	417	363	150	294	283
Member contributions and transfers-in	139	125	111	123	121
Investment income	55	69	74	72	58
Benefits Paid					
Retirement pension	11	18	23	30	36
Lump sum retirement benefits	27	25	32	30	37
Death benefits and leavers	22	16	14	9	24
Assets					
Assets	7,554	10,257	10,651	11,554	12,496

Appendix 3 - Royal Mail Group Section Statement of Investment Principles – June 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 the 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 & 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 Pensions Act 1995 and the Occupational Pension 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, and subject to the constraints set out within the Trust Deed & Rules, 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 the Appendix.

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 Measurer 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 & 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 anticipated 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 tolerances 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 The Trustee considers a range of potentially financially material factors to which the pension scheme is exposed. In considering the impact and management of these factors, outlined in this section and section 10, the Trustee has taken into account the anticipated lifetime of the assets relating to benefits accrued prior to 1 April 2018 and, separately, to the assets relating to benefits accrued after 1 April 2018.

5.2 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.

5.3 The principal asset categories used by the Section are set out below.

5.3.1 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.

5.3.2 Non-Government Sterling bonds – carry interest rate risk, inflation risk and credit risk.

5.3.3 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.

5.3.4 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 and equity 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.

5.3.5 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.

5.3.6 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.

5.4 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 selected lack the skill to outperform their benchmarks with a sufficiently high degree of confidence.

5.5 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.

5.5.1 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.

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

5.6 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 environments subject to unstable regimes.

5.7 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.

5.8 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
Other	0-20

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. Whilst staying within the risk control of 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 multi-asset funds)	0-100
Investment grade credit	0-50
Emerging market debt	0-30
Other	0-30

The Trustee will review the return-seeking asset strategy above on a regular basis to ensure that it remains reasonably consistent with its best estimate of what is required to achieve in future the long-term return objective, within the risk control set out in the investment rule within the Trust Deed & Rules.

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 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. 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 financially material environmental, social and governance ("ESG") factors within investment managers' investment processes is not detrimental to the risks and may enhance the sustainable long term expected returns from the Section's investments. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that may increasingly require explicit consideration.

10.1.2 Together with the other factors outlined above in section 5, ESG factors (including climate change) are integrated into the Trustee's investment process. As the Trustee does not directly manage the Plan's assets, it aims to appoint and retain managers whose beliefs and practices are consistent with the Trustee's beliefs on ESG risks and opportunities, in so far as relevant to the mandate in question. The Trustee investment consultants are asked to assess current and potential managers in relation their ESG policies and practices, and such assessment is taken into account in relation to manager appointment, retention and withdrawal decisions.

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.

10.1.4 Non-financial factors are not taken into account in the selection, retention and realisation of investments. This position is reviewed periodically.

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. The Trustee monitors a manager voting summary on a quarterly basis.

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 that they invest in accordance with the UK Stewardship Code drawn up by the Financial Reporting Council. On an annual basis, the Plan's investment managers are required to provide the Trustee with a statement of their compliance with the UK Stewardship Code, where applicable. 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.

10.2.4 The Trustee uses the services of a third-party specialist to assist with the engagement of individual companies within the equity portfolios that the Section holds on ESG matters. An ESG engagement update is reported to the Trustee quarterly.

10.3 Investment Restrictions

10.3.1 The segregated portfolio 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 1.9 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 Measurer and Custodian.

Signed on behalf of Royal Mail Pensions Trustees Limited (the Trustee of the Royal Mail Pension Plan).

Signed: Date: 09 July 2020

Position: Chair

Appendix A to Appendix 3 – Plan Governance

This appendix 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 advisors 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 advisors.

A2. Administrator

Royal Mail Pension 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 Limited, regulated by the Financial Conduct Authority.

A5. Performance and Risk Consultant

The Performance Measurer is JP Morgan Chase Bank. 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 JP Morgan Bank.

A6. Covenant Advisor

The Covenant Advisor is PricewaterhouseCoopers.

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 Royal Mail Group ("RMG"). 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 the 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 Pensions Act 1995 and the Occupational Pension 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 the Appendix.

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

3.1 Meeting the Section's Liabilities

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 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 Advisor, 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 The Trustee considers a range of potentially financially material factors to which the pension scheme is exposed. In considering the impact and management of these factors, outlined in this section and section 10, the Trustee has taken into account the anticipated lifetime of the assets of the Section.

5.2 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.

5.3 The principal asset categories used by the Section are set out below.

5.3.1 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.

5.3.2 Non-Government Sterling bonds – carry interest rate risk, inflation risk and credit risk.

5.3.3 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.

5.3.4 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 may use derivatives in combination with or as an alternative to bonds and as a means of managing equity and 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. The Trustee has also transacted a bulk annuity which provides cashflows matched to specific benefit cashflows. The bulk annuity is in the form of an insurance policy and there is an associated counterparty risk relating to the insurer.

5.3.5 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.

5.3.6 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.

5.4 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 selected lack the skill to outperform their benchmarks with a sufficiently high degree of confidence.

5.5 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.

5.5.1 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.

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

5.6 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 environments subject to unstable regimes.

5.7 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.

5.8 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 31 May 2019 is set out in the table below:

	(%)
Equities (listed and private)	0.8
Property (incl. property-linked debt)	0.3
Private debt	2.3
Liability-hedging assets, bulk annuity and collateral	96.6*
	100.0

*Comprised mainly of the bulk annuity assets (87.7% of the total assets as at 31 May 2019).

6.2 The strategic target allocation shown in the table is the target as at 31 May 2019. Allocations to private equities, property 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.

6.3 The Section's current strategic target for liability-hedging assets consists mainly of a bulk annuity insurance contract.

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.

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. 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 environmental, social and governance ("ESG") factors within investment managers' investment processes is not detrimental to the risks and may enhance the sustainable long term expected returns from the Section's investments. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that may increasingly require explicit consideration.

10.1.2 As the majority of the Section assets are invested in liability hedging assets (principally in the form of a bulk-annuity contract), the integration of ESG factors will only apply to less than 10% of the Section's assets which are made up of private debt, equities and property (including property-linked debt). The Trustee's policy in relation to such assets is to seek to appoint managers who will (were appropriate) take ESG factors into account in the selection, monitoring and withdrawing from investments in a manner consistent with the Trustee's beliefs. [In addition, the Trustee monitors its managers' performance with input from its investment advisors [whose advice includes input on relevant ESG metrics].]

10.1.3 The Trustee has not set any ESG-related investment restrictions on the appointed investment managers.

10.1.4 Member views are not taken into account in the selection, retention and realisation of investments. This position is reviewed periodically.

10.1.5 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, where applicable.

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 that they invest 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, where applicable. The Trustee holds the Investment Managers accountable for their decisions in the use of voting rights.

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 1.6 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 Measurer and Custodian.

Signed on behalf of Royal Mail Pensions Trustees Limited (the Trustee of the Royal Mail Pension Plan).

Signed:

Date: 09 July 2020

Position: Chair

Appendix A to Appendix 3 – Plan Governance

This appendix 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 advisors 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. The ISC also has delegated powers in certain areas, including over the appointments of investment managers and advisors.

A2. Administrator

Royal Mail Pension Service Centre administers the benefits of the Section 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.

The Investment Consultant is Mercer, regulated by the Financial Conduct Authority.

A5. Performance Measurer

The Performance Measurer is JP Morgan Chase Bank. 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 JP Morgan Bank.

A6. Covenant Advisor

The Covenant Advisor 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.

In 2016 the Plan became a Tier 1 signatory that demonstrates best practice in Stewardship. The Plan is undergoing a review of the Stewardship Code after the Financial Reporting Council FRC further developed their requirements in 2020.

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).

3.1 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

Oversight of risk management and internal controls within RMPP has been delegated by the Trustee Board to the Audit, Risk and Finance 'ARF' Sub-Committee. The ARF Sub-Committee is responsible for agreeing the framework for assessing, monitoring and managing the key risks within RMPP and provide recommendations on these risk matters to the Board.

Risks identified and action plans for their management are recorded in the Risk Register. The Trustee and ARF have oversight of all risks, with controls for each delegated to a risk-owner within the Executive team and a relevant sub-committee. Through support from the Executive, the sub-committees provide continuous monitoring of the risks in the register.

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.

Following the 2019 risk review, strategic risk has replaced funding risk as one of the most important risks. Since the Plan closed to future accrual of career salary defined benefits in 2018, a funding shortfall is much less likely and therefore represents a lower risk to the Trustee. Instead, agreeing the future strategy is more important, and the Trustee has introduced a de-risking working group to manage this risk. RMSPS transition risk has been added to the register due to the recent change of RMSPS administration provider for dual members with RMPP and RMSPS benefits. Investment risks have been re-categorised into liability hedging and investment strategy risks following the 2019 risk review.

1. Membership data is incorrect

Inaccurate or missing data can cause errors in Plan administration or incorrect information being sent to members. RMPP's administrator, the Pensions Service Centre "PSC" has a dedicated data integrity team working on verifying data. The Scheme Actuary helps the PSC in setting out the calculations processes that should be followed. Independent audit is used to check data quality and ensure that the correct calculation processes are well-documented and followed.

2. Cyber attack

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, and their IT security team keep the Executive 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.

3. Transition of RMSPS administration risk

The government recently transferred the administration for members' RMSPS benefits to Capita. There is a risk that member service is adversely impacted due to a lack of knowledge or resource at Capita. PSC hold regular calls with Capita to monitor the status of the administration and escalate issues to the Admin Sub-Committee and Trustee where necessary. A formal data sharing agreement has been put in place between the Trustee and Cabinet Office specifying the data and timing requirements that must be met for members to receive a quality level of service. Performance against these requirements is reviewed quarterly by the Trustee.

4. Strategic risk

This is the risk that the Trustee cannot reach agreement with the Sponsors on the future strategy of the plan due to the insufficient engagement or different objectives between the Sponsors and the Trustee. This could lead to a sub-optimal strategy being adopted and a delay to the Trustee achieving its strategic objectives. To mitigate this risk, the Executive holds regular dialogue with the Sponsors, with further engagement from the Trustee Board and Chair. The Executive uses an independent advisor to monitor investment performance and funding levels. This information is shared with the sponsor to keep it informed as to progress against the strategic objectives. The Trustee has introduced a de-risking working group into its governance structure to help deliver the Trustee's strategy.

5. Liability matching risk

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 holds a portfolio of liability matching assets to mitigate the impact of movements in interest rates and inflation expectations on the Plans funding position. The structure of these matching assets are regularly reviewed to ensure they remain appropriate for the current market conditions and the Plans liabilities. The Trustee uses its investment advisor to support the development of the liability matching portfolio.

6. Investment strategy risk

This is the risk that the assets do not achieve the plans strategic target investment return, leading to an impairment to the funding position. For the Defined Benefit Cash Balance Section, this could result in the target discretionary pension increase not being achieved. To mitigate this risk the Trustee appoints investment professionals to its Investment Sub-committee and takes professional independent advice to ensure it has the right level of knowledge and understanding to take the necessary decisions. The strategy is suitably diversified and fully documented in the Plan's Statement of Investment Principles.

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 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	Jul 2019
Statement of Funding Principles	Jul 2019
Annual Actuarial Report	Jul 2019
Summary Funding Statement	Jul 2019
Schedule of Contributions	Jul 2019 and Sep 2019
Recovery Plan (if required)	N/A
Investment	
Statement of Investment Principles	Jun 2019
Responsible Investment Policy	Dec 2019
Myners Compliance Report	Mar 2018
Quarterly Investment Reports	Mar 2020
Rebalancing Policy	Jul 2019
Administration	
Pensions Service Centre ('PSC') Pricing and Service Level Agreement	Mar 2018
Internal Dispute Resolution Procedure	Dec 2018
PSC Compliance Statements	Mar 2018
Member Communications Strategy	Jul 2018
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	Dec 2019
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	Sept 2019
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 2019
Anti Bribery Policy	Jul 2019
Data Protection, Data Retention, Data Breach, Equipment Use	Dec 2019
Anti-Bribery Policy and Business Travel, Hospitality and Gift Policy	Jul 2019
Taxation Strategy	Mar 2020

Key Policies and Procedures continued

Policy/Procedure		Date Last Reviewed
Sub-Committees' Terms of Reference:		
Investment		Mar 2018
Funding		Jan 2018
Audit, Risk & Finance		Jan 2018
Administration		Jan 2018
Discretions		Sep 2012
Internal Dispute Resolution		Sep 2012
Working Groups' Terms of Reference:		
Investment Working Group ('IWG')		Jan 2020
De-risking Working Group		Jan 2020
Assessment of Advisors:		
Lawyer:	Sackers & Partners LLP	Jan 2017
Actuary:	Willis Towers Watson	Jan 2017
Covenant Reviewer:	PricewaterhouseCoopers LLP	Jan 2017
Auditor:	KPMG LLP	Mar 2018
Investment Consultant:	Mercer Investment Consulting	Nov 2016
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

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 the 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

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

Members' queries about the Plan generally or about individuals' entitlement to benefits should be addressed to:

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