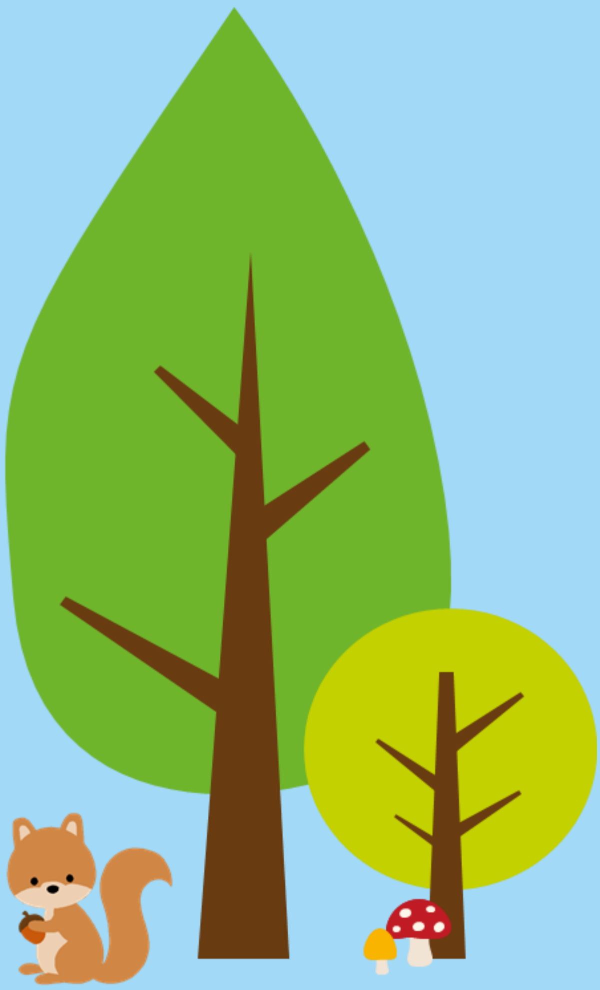
Royal Mail Pension Plan

Report and Financial Statements

For the year ended 31 March 2022

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

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Trustee Directors

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 chairs a number of other major pension schemes.

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.

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 as an Employer Nominated Trustee.

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 as a Member Nominated Trustee.

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 as a Member Nominated Trustee.

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 2016. Paul Joined the Trustee Board in August 2012 as an Employer Nominated Trustee.

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 as a Member Nominated Trustee.

Matthew Pearson is a Finance Director in Royal Mail Group. Matthew joined the Trustee Board in December 2020 as an Employer Nominated Trustee. Matthew resigned on 18 March 2022.

Trustee Board meetings

	Number of Board meetings attended	Number of Board meetings held from 1 March 2021 to 31 March 2022
Ms J Matthews	7	7
Mr P Brown	7	7
Mr P Browne	7	7
Mr G Cunningham	7	7
Mr P Kennedy *	7	7
Law Debenture Trust Corporation plc (Represented by Mr M Ashworth)	7	7
Mr L S Sampson	7	7
Mr M Pearson**	7	7

*Paul Kennedy 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 2022 to 31 March 2025.
**Matthew Pearson resigned on 18 March 2022.

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

Sponsoring Employers
Royal Mail Group
185 Farringdon Road
London
EC1A 1AA

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

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

Executive





From left to right:

Richard Law-Deeks: Chief Executive Officer
Ian McKnight: Chief Investment Officer
Balvinder Aujla: Head of Finance & Operations
Mark Rugman: Head of Membership and Benefits
Michael Airey: Head of Actuarial

Advisors

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

Legal Advisor
Sacker & Partners LLP

Performance & Risk Consultant
Lane Clark & Peacock

Property Valuer
CB Richard Ellis Ltd

Solicitors
CMS Cameron McKenna Nabarro Olswang LLP
Mills & Reeve LLP

Investment Managers
Allianz Global Investors – appointed August 2021
AM Squared Investors
Aegon Asset Management
Boussard and Gavaudan
Beach Point Capital Management
Black Creek Investment Management
BlackRock
Bluebay
BMO Global Asset Management
Brevan Howard Asset Management
Capstone Vol (Offshore) Limited
Caxton Associates
Centerbridge Partners
Crescent Capital Group
Dalton Investment
Dodge & Cox Worldwide Funds - terminated March 2021
East Lodge
Elementum Advisors
Empyrean Capital
Hamilton Lane
HBK Capital Management - terminated March 2021
Highbridge Capital Management
Hudson Bay
Insight Investment Management
Intermediate Capital Group
Glasswing Ventures – appointed October 2021
Kames Capital
Kennedy Lewis Capital Partners
LaSalle Investment Management
Loomis Sayles
Macquarie Group
Marshall Wace Asset Management – appointed November 2021
MetLife Investment Management
Oaktree Capital Management
Paamco
PAG
Phoenix Property Investors
Quantum Energy Partners
Quinbrook Infrastructure Partners
River & Mercantile Group
Rothesay Life
Sandbar Fund Limited

Investment Managers
Schroders
Sculptor Capital Management
Silver Rock
Spouting Rock Asset Management
Standard Life
Taconic Capital
TOR Investment Management
True Capital
TwentyFour Asset Management – appointed November 2021
Vivo Capital
Walter Scott & Partners

These particulars are as at 31 March 2022 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 2022.

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 are vacancies for two employer-nominated Trustee Directors. Of the current Board members two are nominated by Royal Mail Group ('RMG') and 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 7 occasions and the business matters addressed included:

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

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

Working Groups:

- Implementation Working Group (4)
- De-risking Working Group (2)

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

- Internal Disputes Resolution (2)
- Discretions (3)
- Emergency events (0)

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 environmental, social and governance issues, including climate change; transfers out; communications strategy and mortality assumptions. 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 1st 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 1st 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 31st 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 1st 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 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 £386 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 1st September 2017 to 31st 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 £193 million as at 31st March 2022 (2021: £192 million). 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 where 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 2022, the increase for Sections A, B & E pensions in payment was 3.1% (2021: 0.7%). For deferred members of these sections, pensions are revalued in the same way. The increase for Section C pensions in payment was 4.9% (2021: 1.1%) 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, in which members have been building up benefits since April 2018, provides 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 funding update at 31st March 2021 (related to members and their Cash Balance at that date) which led to a discretionary pension increase of 4.6% being awarded at 31st March 2022 (2021: 1.7%).

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) includes a summary of the main risks faced by the Plan.

Responsible Investment

The Trustee has 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 Principles for Responsible Investment (UN PRI). The Trustee is aiming to sign up to the new FRC UK Stewardship Code 2020. The new Code covers all asset classes and not just public equities.

The Trustee's policy on Responsible Investment is included in its Statement of Investment Principles.

Environmental (including climate change) Social and Governance policy

The Plan's Statement of Investment Principles reflects the ESG policy that specifically includes the consideration of climate change.

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.

- Has received reporting from the UNPRI on its compliance with the principles up to 31 March 2021;

- Has ensured that those of its investment managers who hold UK listed shares comply with the FRC's UK Stewardship Code; and

- Has received reports from Sustainalytics who engages with companies in the Plan's equity (including emerging markets) and corporate bond portfolios on ESG issues and makes recommendations. Sustainalytics engage on numerous issues including environment, human rights, labour rights and business ethics.

The Trustee recognises that engagement is a key tool in driving change. Investment managers are regularly reviewed and scored on their ESG policies and activity.

Key Events during 2021/22

Investments

The year from 1st April 2021 to 31st March 2022 saw continued volatility in capital markets following the COVID-19 pandemic, global economic growth and inflation concerns (notably energy and food costs) and the onset of war in Ukraine.

The RMG Section continued its de-risking journey, reducing exposure to the successful high-yield portfolio and building out significant short duration, lower risk credit portfolios. The DBCBS also purchased the final RMG Section holdings in the unitised private real estate portfolio. A number of revisions to the DBCBS's asset allocation saw a build-out of the attractive venture capital area as well as investments into senior loans, and a commensurate reduction in the broad secured finance holdings. This change also enabled extensions to the interest-rate and inflation hedging within that Section.

The DBCBS had a relatively light equity allocation and introduced a dynamic synthetic equity allocation designed to take advantage of volatile markets using low risk derivative financial instruments. The Section also invested meaningfully into green energy and work continues to identify impactful and profitable investment ideas in this evolving area. The absolute return portfolio (unitised between the RMG Section and DBCBS), which is actively managed, saw some repositioning during the year to focus on areas considered to be more attractive in the current market environment, and the private debt portfolio continues to reinvest its significant cash flow into relatively attractive areas of the market.

During the financial year there were a number of portfolio changes including sales of over £500m across the RMG Section and DBCBS and new investments and commitments of circa £1,000m as cash was deployed into recovering markets.

The Plan enjoyed a very successful year financially. Since its closure in 2018, the RMG Section's funding position remains in surplus, while a further increase to the guaranteed lump sum was awarded to members of the DBCBS.

The POL Section de-risked in July 2017 when it entered into a buy-in contract with Rothesay Life. At that time, the majority of the Section's assets were liquidated to facilitate the purchase of the buy-in insurance contract.

The annual independent fee and costs review conducted by specialist benchmarking company, CEM, showed continued value-add.

ESG developments

Work on ESG compliance has been carried out including the completion of an Implementation Statement which discloses significant proxy voting activity and behaviours throughout the Plan year. This Statement is included in the Reports and Accounts, (see Appendix 5).

The Plan has for many years been a signatory to UN Principle for Responsible Investment ("PRI") which acts as a framework for investors to take ESG issues into account and is working to comply with new Financial Reporting Council ("FRC") requirements for the UK Stewardship Code. The Plan was a Tier 1 Signatory to the former FRC Stewardship Code that covered public equities only (i.e. demonstrating best practice among peers). Furthermore, the Plan has invested in climate-related investments, namely renewable and net-zero carbon energy.

The Trustee signed up to the Transition Pathway Initiative ("TPI") in September 2021. This initiative is led by asset owners (like Pension Funds) that assess companies preparedness to the transition to a low carbon economy and supplies efforts to address climate change.

The initiative is partnered by Grantham House Research, The London School of Economics and the UN PRI. Data is provided by FTSE Russell covering over 4000 companies worldwide. TPI provides data for Climate Action 100+, a body that the Plan has also signed up to; they engage with around 160 companies that are the largest Green House Gas ("GHG") emitters, actively working with these companies to materially reduce their emissions in order to be in line with the Paris Agreement 2015.

The Trustee has signed up to Climate Action 100+. Climate Action 100+ is a body that engages with companies to take action to reduce their carbon intensity. The Trustee is also exploring the merits of joining other climate related initiatives.

The Task Force on Climate-Related Financial Disclosures ("TCFD") was created by the Financial Stability Board ("FSB") and requires the Plan to disclose the impacts of climate change on the investments held. The Trustee Climate report, including TCFD disclosures, can be accessed from on the Plan's website www.royalmailpensionplan.co.uk in the media library section, from 31 July 2022.

The following case studies provide examples of engagement activities undertaken.

Case study 1: Encouraging Managers to sign up to UN PRI and other ESG/ Climate related bodies:

Spouting Rock, the Small Cap Global Equities manager for the DBCBS signed up to UN PRI in early 2022 as a result of the regular ESG meetings. Beach Point continue to develop their ESG capabilities by signing as a partner to the Carbon Disclosure Project (CDP) as a founding member of the Technical Group for CDP's private markets pilot. This involves Beach Point actively engaging with companies in this space on climate-related opportunities.

Case Study 2: Green Gilts

The majority of the Plan's assets are in UK Government Gilts managed by BlackRock as part of the liability hedging strategy in the RMG Section. BlackRock bought the Plan's first UK Conventional Green Gilt (2053) at £21m in late 2021.

Case Study 3 – Sustainalytics Engagement: Aberdeen managed a corporate bond of Volkswagen. Volkswagen had received a €0.5 billion fine as a result of 'diesel gate'. Sustainalytics carried out engagement to ensure that the company had reformed its corporate culture and that risk measures were introduced including the involvement of an external compliance auditor and a more dedicated attention to ESG performance. i.e. that it was tied to the remuneration of both top and middle management. Sustainalytics was satisfied that these requirements were met and have considered the case as being resolved.

ESG risk

The Trustee acknowledges that ESG including climate change is a material risk which has been added to the Plan's risk register. The risk is monitored by the Trustee through the Plan's risk management process.

The Trustee continues to focus on ESG. The Plan has comprehensively reviewed its approach to ESG which has included setting an ESG ambition and a comprehensive roadmap of actions to undertake to achieve that ambition. The ESG Road Map is progressing well and an action control sheet is in place to monitor the achievement milestones against the agreed ESG ambitions set by the Trustee.

Liaison with Royal Mail Statutory Pension Scheme

The Trustee has continued to work with RMSPS to ensure service to members with benefits in both schemes 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 £12,974 million at 31st March 2021 to £13,571 million at 31st March 2022. There were receipts from contributions, including additional voluntary contributions of £386 million and benefit and transfer payments were £154 million.

The increase in the market value of investments during the year was £347 million (shown in the financial statements in Note 7). Investment income totalled £46 million and there were expenses of £28 million.

Membership Summary

Total membership marginally decreased from 123,944 to 123,874 during the year. The number of employee members decreased from 76,159 to 71,732 as at 31st March 2022. The number of deferred members has increased from 18,578 to 19,519 and the number of pensioners has also increased from 29,207 to 32,623.

A full analysis of membership appears in Appendix 1 (page 44).

Actuarial Valuation and Funding Update

The table below includes the results of the latest funding updates.

The latest RMG Section results will be distributed to members later this year.

For the POL Section, the Post Office informed the Trustee, in February 2020, that it had found some errors in the salary data provided to Pensions Service Centre.

The Trustee is currently working with the Post Office to support the corrections that will be required. The 31 March 2021 actuarial valuation for the POL Section cannot be completed until the salary data is finalised. The errors existed prior to the actuarial valuation and therefore the previous 2018 valuation results and 2019 funding update may not be accurate for the POL Section.

The DBCBS reported a surplus of £30m at 31st March 2021 which led to a discretionary pension increase being awarded at 31st March 2022.

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	Annual funding update 31 March 2020 £m	Actuarial valuation 31 March 2021 £m
RMG Section				
Assets	9,986	10,464	11,183	11,302
Liabilities	9,854	10,411	10,664	10,641
Surplus	132	53	519	661
DBCBS				
Assets	n/a	396	735	1,181
Liabilities	n/a	386	717	1,151
Surplus	n/a	10	18	30
POL Section				
Assets	438	455	See above update	See above update
Liabilities	414	427	See above update	See above update
Surplus	24	28	See above update	See above update

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 it would be appropriate 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 reviewing and updating 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 contract at 31st March 2022 was £420m (2021: £413m). 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 31st March 2018 triennial valuation, adjusted for market conditions (in particular the discount rate and inflation assumptions) to 31st March 2022. The assumptions are considered reasonable under the flexibility provided by the Pensions Statement of Recommended Practice.

Royal Mail Collective Pension Plan (RMCPP)

The Company has been working closely with the CWU and other stakeholders to make the Collective Pension Plan a reality for Royal Mail and its people. It will contain a Collective Defined Contribution section and a Lump Sum section (similar in nature to the DBCBS). The RMCPP will replace the transitional DBCBS.

Royal Mail expects to launch the Plan early in 2023.

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; and
- Compliance with, and review of, the SIP.

Separate SIPs have been agreed with RMG and POL. Both SIPs were updated as in December 2021. 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 from page 46 and can be accessed on the Plan's website www.royalmailpensionplan.co.uk in the media library section The SIPs are also 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

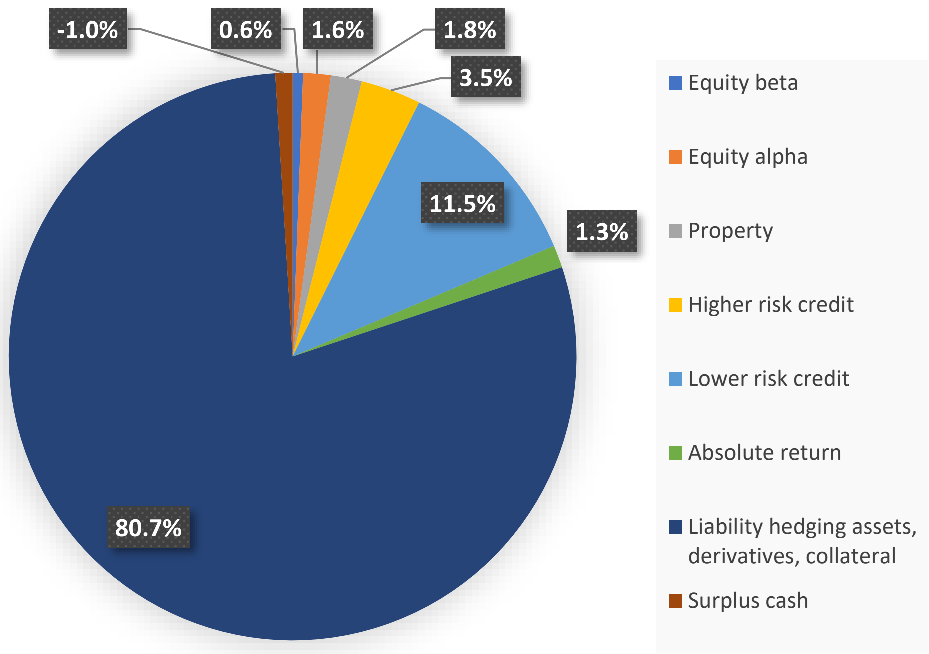
The investment strategy of the Plan aims to safeguard the assets and to provide, together with contributions, the financial resource from which benefits are paid. Investing assets inevitably exposes the Plan to risks. These risks can be broadly classified as those inherent in the safe custody and record-keeping 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 12 to 14, show the weightings of the different types of asset held at 31 March 2022 for the RMG, DBCBS and POL Sections along with the weightings for the previous year, which visually illustrates the portfolio restructuring which took place.

The RMG Section and DBCBS invest 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.

RMG Section Asset allocation up to 31 March 2022



Swaps (inc TRS) 1.4% **Repo 4.5%** i.e. the absolute value of the derivatives' underlying amounts as a percentage of the total asset value of the RMG Section

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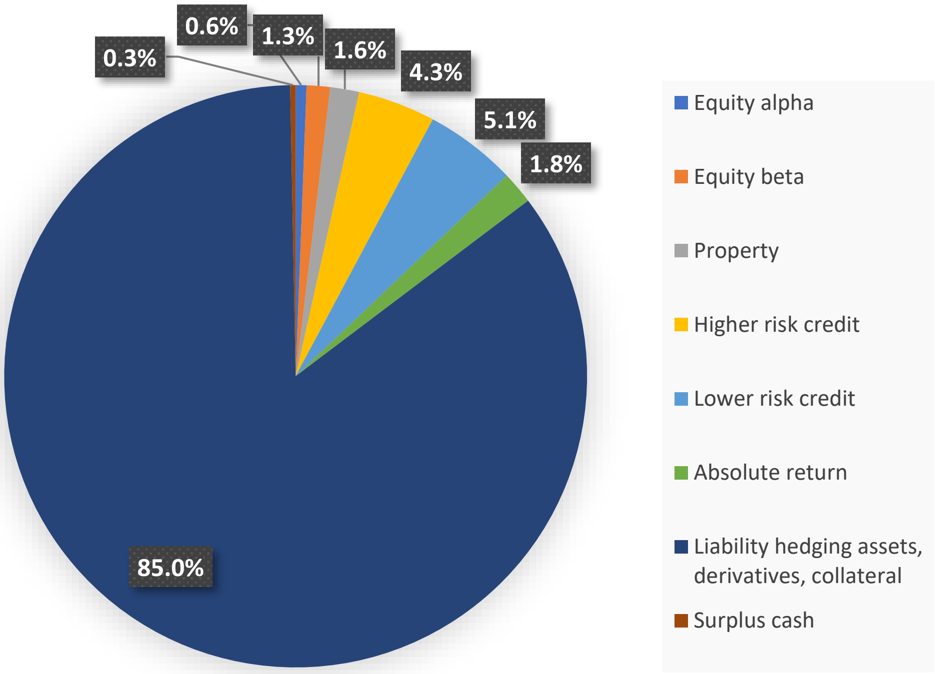
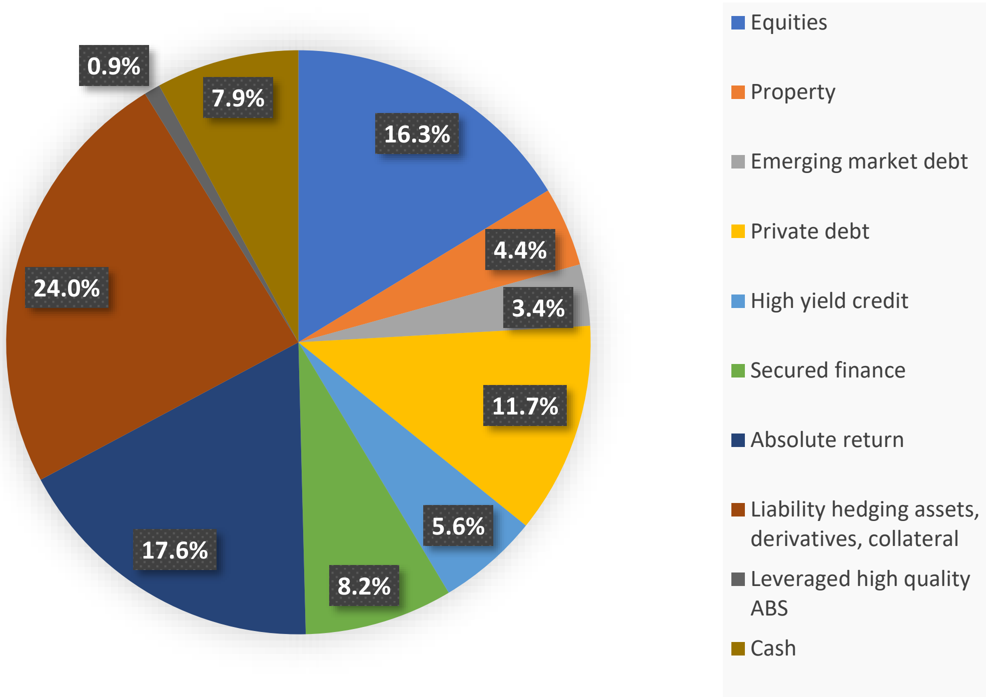
RMG Section Asset allocation up to 31 March 2021



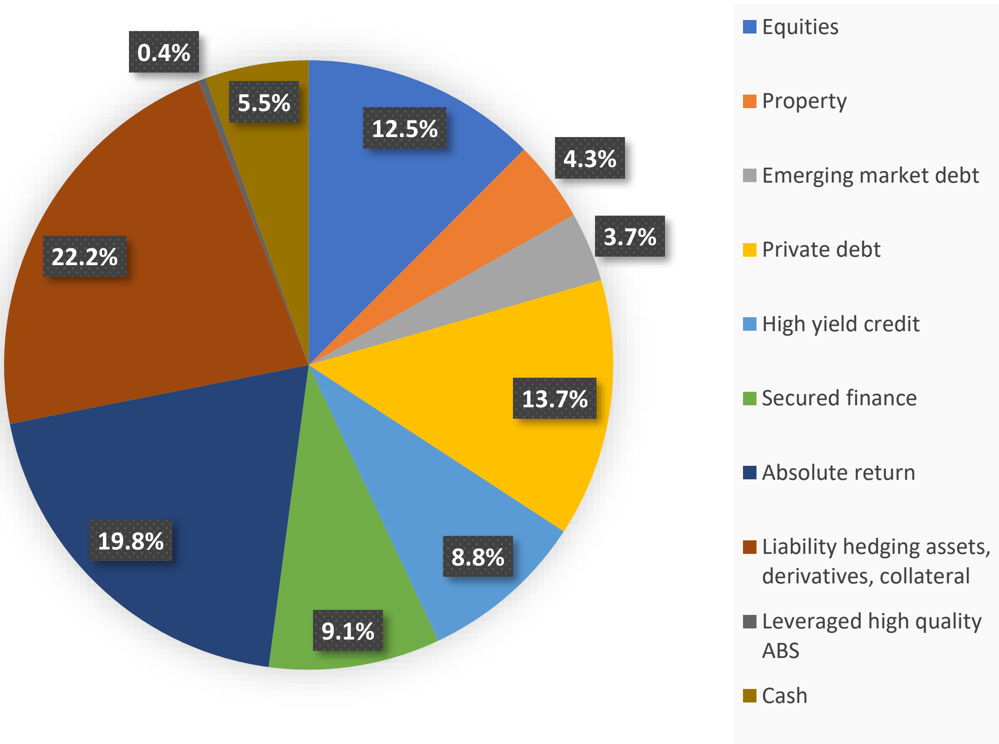
Swaps (inc TRS) 9.3% **Repo 2.1%** i.e. the absolute value of the derivatives' underlying amounts as a percentage of the total asset value of the RMG Section

DBCBS Asset allocation up to 31 March 2022



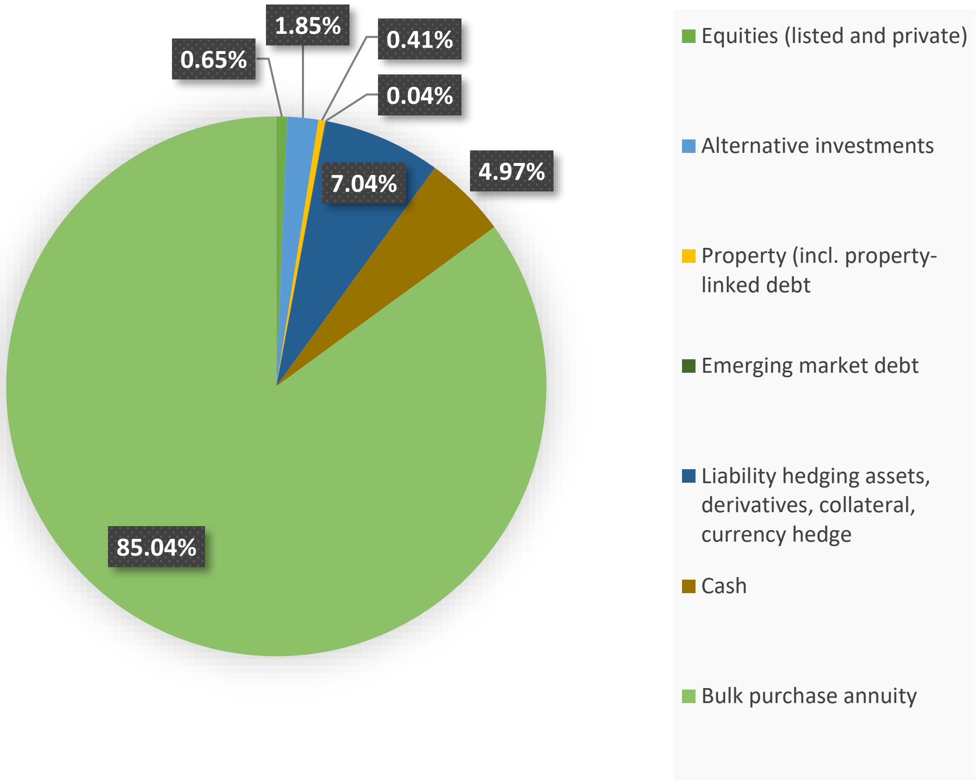
Swaps (inc TRS) 15.5% **Repo 23.6%** i.e. the absolute value of the derivatives' underlying amounts as a percentage of the total asset value of the DBCBS

DBCBS Asset allocation up to 31 March 2021

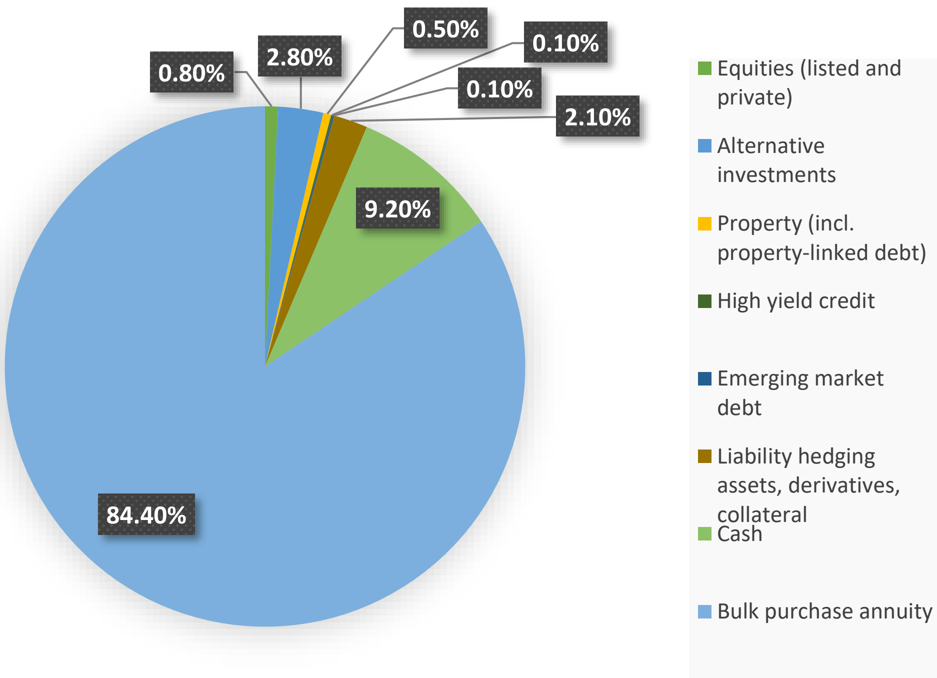


Swaps (inc TRS) 19.3% **Repo 17.0%** i.e. the absolute value of the derivatives' underlying amounts as a percentage of the total asset value of the DBCBS

POL Section Asset allocation up to 31 March 2022



POL Section Asset allocation up to 31 March 2021



Investment Managers

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

Manager	Mandate	£m
Allianz Global Investors	Real estate	4
AM Squared	Alternatives	55
Aegon Asset Management	Secured Finance	176
Boussard and Gavaudan	Alternatives	26
Beach Point Capital Management	High Yield Debt and Fixed Income	165
Black Creek Investment Managament Inc	Global Unconstrained Equities	60
BlackRock*	Liability Driven Investment, Infrastructure Debt and Gilts	8,397
Bluebay	Emerging Market Debt	52
BMO Global Asset Management*	Liability Driven Investment	315
Brevan Howard Asset Management	Alternatives	39
Capstone Vol (Offshore) Limited	Alternatives	25
Caxton Associates	Alternatives	44
Centerbridge Partners	Private Debt	36
Crescent Capital Group	Private Debt	38
Dalton Investment	Emerging Market Equities	23
East Lodge	Alternatives	0
Elementum Advisors	Alternatives	10
Ellington Management Group LLC	Private Debt	1
Empyrean Capital	Alternatives	28
Glasswing Ventures	Alternatives	0
Hamilton Lane	USA Private Equity	51
Highbridge Capital Management	Private Debt	23
Hudson Bay	Alternatives	39
Insight Investment Management	Private Debt	168
Intermediate Capital Group	Private Debt	156
Kames Capital	Absolute Return Bonds	52
Kennedy Lewis Capital Partners	Private Debt	14
LaSalle Investment Management	UK Property and Real Estate Debt	670
Loomis Sayles	Global Investment Grade Credit	191
Macquarie Group	Asian Infrastructure	28
Marshall Wace	Absolute Return Bonds	15
MetLife Investment Management	Infrastructure Debt	62
Oaktree Capital Management	Private Debt, E.M., Mezzanine, & Real Estate	133
Paamco	Absolute Return Emerging Manager	85
PAG	Alternatives	117
Phoenix Property Investors	Real Estate Debt	10
Quantum Energy Partners	Private Equity	83
Quinbrook Infrastructure Partners	Private Equity & Real Assets	135
Rothesay Life	Insurance Contract	420
Sandbar Fund Limited	Alternatives	30
Schroders	Credit, Gilts, Private Debt and Equity TRS	530
Sculptor Capital Management	Real Estate Debt	22
Silver Rock	Private Debt	10
Spouting Rock Asset Management	Global Small Cap Equity	19
Standard Life	Global Investment Grade Credit	299
Taconic Capital	Alternatives	30
TOR Investment Management	Alternatives	57
True Capital	Private Equity	2
Vivo Capital	Private Equity	20
Walter Scott & Partners	Global Unconstrained Equities	76
TwentyFour Asset Management	Credit	198
Other residual assets	Residual assets	2
Other non investment assets and liabilities		-13
Cash and other assets		202
AVC Investments		141
TOTAL		**13,571**

*BlackRock and BMO Global Asset Management manage the Liability Driven Investment Portfolios through Pooled Investment Vehicles. 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 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).

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, small cap equities and the baseline of the synthetic equity mandate.
Property	UK and overseas property (excluding HLV property which forms part of liability hedging assets).
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.
Alternatives	Private debt and absolute return.
Annuity	Bulk purchase annuity that insures a subset of members for the POL scheme.
Liability hedging	Government bonds, swaps and other instruments designed to hedge the interest rate and inflation sensitivity of the liabilities.
Cash	Cash and money market funds.
Leveraged high quality ABS (asset backed securities)	Investment grade asset backed securities.

Liquidity of Investments

The Trustee regards the majority of the investments as readily realisable, apart from the buy-in policy in the POL Section. Other exceptions include certain pooled investments, private equity, private debt, 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 31st March 2022 as well as annualised returns for the three years to the same date, split by Section.

RMG Section	Year to 31 March 2022	3 years to 31 March 2022
Return on return-seeking assets (%) p.a.	7.9%	6.1%
Target (3M Libor to 31Dec21 and overnight SONIA thereafter)	0.2%	0.4%
Return on liability-matching assets and cash p.a.	1.5%	3.5%
DBCBS	**Year to 31 March 2022**	**3 years to 31 March 2022**
Return on return-seeking assets (%) p.a. (MWR)	7.9%	7.6%
Return on liability-matching assets and cash p.a.	(2.3%)	0.1%
Total assets (MWR)	4.7%	4.3%
Target (gilts + 3.6% p.a.) *	(1.5%)	3.1%
POL Section	**Year to 31 March 2022**	**3 years to 31 March 2022**
Return on return-seeking assets (%) p.a.**	47.5%	19.4%
Target (3M Libor to 31Dec21 and overnight SONIA thereafter)	0.2%	0.4%
Return on liability-matching assets and cash p.a.***	3.4%	1.3%

* 90% FTSE Actuaries UK Conventional Gilts All Stocks Index, 5% FTSE Actuaries UK Conventional Gilts 5 to 15 Yr Index, 5% FTSE Actuaries UK Conventional Gilts under 5 Yr Index

** The POL Section's relatively small allocation to return seeking assets are legacy illiquid holdings now in run-off

*** 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.

MWR Money-weighted return basis

All performance figures quoted are calculated on a time-weighted return basis, unless otherwise indicated.

Conclusion

We have continued to deliver for the members of the Plan.

In May 2022 the RMG Section's triennial actuarial valuation as at 31 March 2021 was completed which resulted in an increase in the surplus from the 2018 valuation of £132 million to £661 million.

Work is underway for the POL 'Partial Buy-out'.

Investment activity included reductions in the Plan's exposure to market risk, moving the DBCBS towards its target asset allocation and further development of the Plan's ESG approach.

The DBCBS has received £365 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 a pension increase of CPI +1.5%.

The RMG Section achieved a return of 2.9% over the 12 months to 31st March 2022, driven by the liability- hedging portfolio and the return seeking portfolio which achieved 7.9% over the period. Over the 3-year period the Section returned 3.8% per annum, with the return seeking assets returning 6.1% per annum. Since 1st April 2012, the Section delivered a return of 11.8% per annum, with the return-seeking portfolio contributing 6.8% per annum. The Section remains fully funded at 31st March 2022.

With regards to Trustee developments, Matthew Pearson resigned as an Employer Nominated Trustee Director on 18 March 2022. The Trustee Board would like to thank Matthew for his contribution to the Board. Paul Kennedy was re-elected as a Member Nominated Trustee Director for a new three-year term of office from 1 April 2022.

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
July 2022

Statement of Trustee's Responsibilities for the Financial Statements

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

(i) 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

(ii) 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 Trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

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

The Trustees also have certain responsibilities in respect of contributions which are set out in the statement of Trustees' responsibilities accompanying the Trustees' summary of contributions.

The Trustees are responsible for 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, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities.

Statement of Trustee's Responsibilities in respect of Contributions

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

Royal Mail Pension Plan Financial Statements

Fund Account
for the year ended 31 March 2022

	Notes	2022 £m	2021 £m
Contributions and Benefits			
Employer Contributions	1	262	279
Employee Contributions	1	124	116
Benefits	2	(125)	(110)
Payment to and on account of leavers	3	(29)	(15)
		232	**270**
Administrative expenses	4	(12)	(10)
Net additions from dealings with members		**220**	**260**
Return on investments			
Investment income	6	46	44
Change in the market value of investments	7	347	185
Investment management expenses	5	(16)	(11)
Net return on investments		**377**	**218**
Net increase in the fund during the year		**597**	**478**
Net Assets of the Plan			
At start of the year		12,974	12,496
At end of the year		**13,571**	**12,974**

The Accounting Policies and Notes on pages 22 to 35 form an integral part of the financial statements.

Statement of Net Assets (available for benefits) as at 31 March 2022

	Notes	2022 £m	2021 £m
Investment Assets			
Equities	7	75	99
Property	7,9	626	453
Bonds	7	1,312	669
Pooled investment vehicles	7,8	10,616	10,785
Insurance policies	7	420	413
Derivative contracts	7,10	11	6
AVC investment	7,12	141	130
Cash	7,11	367	420
Other investment assets	7,16	109	77
		13,677	**13,052**
Investment Liabilities			
Derivative contracts	7,10	(5)	(8)
Other investment liabilities	7,16	(88)	(69)
		(93)	**(77)**
Net Investment assets			
		13,584	**12,975**
Current assets		22	33
Current liabilities	13	(35)	(34)
Net assets of the Plan			
		13,571	**12,974**

The Accounting Policies and Notes on pages 22 to 35 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 42 and these financial statements should be read in conjunction with that report.

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

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 2021 (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 it believes that the Plan has adequate resources to realise its assets and meet benefit obligations in the normal course of affairs for at least the next twelve months from the approval of these financial statements. In reaching this conclusion, the Trustee considered the impact of the funding level, investment strategy, 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 Plan 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 Bonds 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 on the actuarial basis 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.

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 yearend 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. The valuations 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		2022 £m	2021 £m
Contributions by employer	- normal	262	279
Contributions by employee	- normal	103	110
	- additional voluntary	21	6
		386	395

2. Benefits	2022 £m	2021 £m
Retirement pensions	49	43
Lump sum/retirement benefits	64	48
Death benefits	12	19
	125	110

3. Payments to and on behalf of leavers	2022 £m	2021 £m
Individual transfer values	29	15
	29	15

4. Administrative expenses	2022 £m	2021 £m
Administrative expenses	12	10
	12	10

Administration expenses include costs totalling £166,000 in respect of Scheme and Risk Based Levies for the Pension Protection Fund (2021: £155,000). Administration expenses also include fees payable to the Plan's Auditors (KPMG) of £127,000 (2021: £106,000).

5. Investment management expenses	2022 £m	2021 £m
Investment manager's base fees	8	4
Investment manager's performance fees	4	2
Other expenses	4	5
	16	11

6. Investment income	2022 £m	2021 £m
Dividends from equities	2	3
Income from bonds	20	21
Income from pooled investment vehicles	1	2
Net rental income	17	13
Annuity income	6	5
	46	44

Net rental income is stated after deduction of £3m (2021: £3m) 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 withholding tax relating to overseas income.

Notes to the Financial Statements continued

7. Reconciliation of investments

This includes profits and losses on investments sold as well as increases and decreases in the value of investments held at 31 March 2022. An analysis of the change in market value of net assets is shown below:

Investment assets	Market value at 31 March 2021 £m	Purchases at cost and derivative payments £m	Sale proceeds and derivative receipts £m	Change in value £m	Market value at 31 March 2022 £m
Equities	99	25	(52)	3	75
Property	453	217	(82)	38	626
Bonds	669	1,184	(539)	(2)	1,312
Pooled investment vehicles	10,785	897	(1,362)	296	10,616
Insurance policies	413	-	-	7	420
AVC investments	130	22	(17)	6	141
Cash	420	22	(75)	-	367
Derivative contracts*	(2)	45	(37)	-	6
	11,267	2,412	(2,164)	348	13,563
Other investment assets and liabilities	8	24	(10)	(1)	21
Net investment assets	12,975	2,436	(2,174)	347	13,584

*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 £3,670,755 (2021: £5,270,000). 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 18.

8. Pooled Investment Vehicles	2022 £m	2021 £m
Bond funds	192	168
Equity funds	178	138
Absolute Return funds	470	436
Property funds	84	68
Private Equity funds	327	217
Liability driven investment funds	8,540	8,964
Private Debt funds	825	794
	10,616	10,785

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

Bond	9,347	9,252
Swaps	31	(24)
Repurchase agreements	(900)	(457)
Net cash	62	193
	8,540	8,964

Notes to the Financial Statements continued

9. Property

	2022 £m	2021 £m
UK		
Retail	418	322
Industrial	79	57
Residential	129	74
	626	**453**

There was no property (2021: £nil) which was leased back to Royal Mail at market rates.

10. Derivative contracts

	2022 £m	2021 £m
Assets		
Futures contracts	5	-
FX forward contracts	1	1
Swaps	5	5
	11	**6**

	2022 £m	2021 £m
Liabilities		
Futures contracts	-	-
FX forward contracts	(3)	(1)
Swaps	(2)	(7)
	(5)	**(8)**

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

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

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

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

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

Notes to the Financial Statements continued

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

Futures - exchange traded Type of Future	Expiration	Economic Exposure Value £m	2022 Asset £m	2022 Liability £m
Fixed interest - overseas	June 2022	(174)	5	-
Fixed interest - UK	None	-	-	-
			5	-

Futures - exchange traded Type of Future	Expiration	Economic Exposure Value £m	2021 Asset £m	2021 Liability £m
Fixed interest - overseas	June 2021	2	-	-
Fixed interest - UK	June 2021	(1)	-	-
			-	-

The value of the Fixed interest– overseas assets in the prior period was £90,000, the value of Fixed interest – overseas liabilities was £nil (2021: £20,000). The value of the Fixed interest – UK assets was £nil (2021: £7,000).

FX forwards

Currency Bought	Currency Sold	Notional Value £m	2022 Asset £m	2022 Liability £m
GBP	EUR	143	-	(2)
GBP	USD	180	-	(1)
USD	EUR	8	1	-
VARIOUS*	VARIOUS*	3	-	-
			1	(3)

Currency Bought	Currency Sold	Notional Value £m	2021 Asset £m	2021 Liability £m
GBP	EUR	36	-	-
GBP	USD	100	-	(1)
USD	EUR	16	1	-
VARIOUS*	VARIOUS*	2	-	-
			1	(1)

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

*The value of the FX forward GBP/EUR assets was £30,000 (2021: nil) and the value of the FX GBP/EUR liabilities held in prior year was nil.

The value of the FX forward GBP/USD assets was £610,000 (2021: nil)

The value of the FX forward USD/EUR assets was £240,000 (2021: £1m) and the value of the USD/EUR liabilities was £24,000 (2021: nil)

The value of the FX forward various assets was £27,000 (2021: £7,000) and the value of the FX forward various liabilities was £45,000 (2021: nil).

Notes to the Financial Statements continued

Swaps - over the counter Type of Swap	Expiration	Economic Exposure Value £m	2022 Asset £m	2022 Liability £m
Credit default swap - index*	< 5 years	-	-	-
Interest rate swap - fixed for floating	< 5 years	-	-	-
Interest rate swap - fixed for floating	< 40 years	125	4	-
Total return swap - equity index long	February 2023	74	1	(2)
			5	(2)

Swaps - over the counter Type of Swap	Expiration	Economic Exposure Value £m	2021 Asset £m	2021 Liability £m
Credit default swap - index*	< 5 years	10	-	-
Interest rate swap - fixed for floating	< 5 years	78	-	(2)
Interest rate swap - fixed for floating	< 40 years	79	5	(2)
Total return swap - equity index long	February 2022	63	-	(3)
			5	(7)

*The value of the credit default swap - index assets was £nil (2021: £75,000) and the credit default swap - index liabilities was £nil (2021: £148,000). Interest rate swap less than 5 years asset was nil (2021: £287,000) and liability was nil (2021: £2m).

11. Deposits and short-term investments	2022 £m	2021 £m
Interest earning deposits		
Sterling	319	345
Foreign currency	48	75
	367	420

12. AVC investments

Members' Additional Voluntary Contributions are invested separately from the principal Plan on a money purchase basis with Scottish Widows. There are legacy 'with profits' arrangements with Aviva and Standard Life. 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:

	2022 £m	2021 £m
Scottish Widows	134	123
Aviva	2	2
Standard Life	5	5
	141	130

Notes to the Financial Statements continued

13. Current liabilities	2022 £m	2021 £m
Accrued benefits	20	14
Other creditors	15	20
	35	34

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.

	2022 on loan £m	2022 Collateral £m	2021 on loan £m	2021 Collateral £m
Equities	6	6	1	1
Bonds	55	57	24	25
	61	63	25	26

15. Commitments and contingent liabilities	2022 £m	2021 £m
Property	323	190
Others*	496	459
	819	649

*Other commitments represent funds allocated for specific private equity and alternative investments. There were £nil contingent liabilities at 31 March 2022 (2021: £nil).

16. Other investment assets and investment liabilities

'Other investment assets' consists of accrued income of £6m (2021: £5m), amounts due from brokers of £73m (2021: £50m) and collateral placed with counterparties of £30m (2021: £22m).

'Other investment liabilities' consists of amounts due to brokers of £54m (2021: £43m) and collateral held from counterparties of £34m (2021: £24m).

Notes to the Financial Statements continued

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	50	25	-	75
Property	626	-	-	626
Bonds	1,260	52	-	1,312
Pooled investment vehicles	9,270	1,300	46	10,616
Insurance policies	-	-	420	420
Derivative contracts	5	1	-	6
Cash and other assets	183	165	27	375
	11,394	1,543	493	13,430
AVC investments	131	-	10	141
Total net assets at the end of the year	11,525	1,543	503	13,571

18. Transaction costs

Included within the purchases and sales are direct transaction costs of £3,670,755 (2021: £5,270,000) comprising fees, commissions and stamp duty. These costs are attributable to the following asset classes:

	Stamp Duty £m	Fees £m	Commission £m	2022 Total £m
Equities	-	-	-	-
Bonds*	-	-	-	-
Property	3.7	-	-	3.7
	3.7	-	-	3.7

	Stamp Duty £m	Fees £m	Commission £m	2021 Total £m
Equities	-	0.1	0.1	0.2
Bonds*	-	-	-	-
Property	3.5	1.6	-	5.1
	3.5	1.7	0.1	5.3

*There were fees and commissions of £0.1m relating to Equities and Bonds in the current 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.

Notes to the Financial Statements continued

19. Investment Fair Value Hierarchy

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

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

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

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

As at 31 March 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	22	-	53	75
Bonds	354	817	141	1,312
Property	-	-	626	626
Pooled investment vehicles	52	8,770	1,794	10,616
Insurance policies	-	-	420	420
Derivatives	5	1	-	6
AVC investments	-	141	-	141
Cash	363	4	-	367
Other investment balances	21	-	-	21
Total	**817**	**9,733**	**3,034**	**13,584**

As at 31 March 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	41	-	58	99
Bonds	272	262	135	669
Property	-	-	453	453
Pooled investment vehicles	-	9,171	1,614	10,785
Insurance policies	-	-	413	413
Derivatives	-	-	(2)	(2)
AVC investments	-	130	-	130
Cash	420	-	-	420
Other investment balances	8	-	-	8
Total	**741**	**9,563**	**2,671**	**12,975**

Notes to the Financial Statements continued

20. Investment Risks

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

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

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

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

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

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

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

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

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

The following tables will recognise assets held in pooled investments and thus will differ from other notes in the financial statements.

Notes to the Financial Statements continued

Analysis of direct credit risk	Investment grade £m	Non investment grade £m	Unrated £m	2022 Total £m
Bonds	10,221	383	53	10,657
OTC Derivatives	37	-	-	37
Cash	463	-	-	463
Stock lending	61	-	-	61
Repurchase agreements	(900)	-	-	(900)
PIV's	205	-	1,869	2,074
Total	**10,087**	**383**	**1,922**	**12,392**

Analysis of direct credit risk	Investment grade £m	Non investment grade £m	Unrated £m	2021 Total £m
Bonds	9,679	196	46	9,921
OTC Derivatives	(24)	-	-	(24)
Cash	612	-	-	612
Stock lending	25	-	-	25
Repurchase agreements	(457)	-	-	(457)
PIV's	156	-	1,666	1,822
Total	**9,991**	**196**	**1,712**	**11,899**

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.

Notes to the Financial Statements continued

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 £24 million (2021: £6 million) of fixed income securities and £1 million (2021: £23 million) of quoted securities and held collateral in the form of cash and fixed interest securities with a value of 106% (2021: 107%) 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:

	2022 £m	2021 £m
Qualifying investor fund	8,541	8,964
Open ended investment companies	1,777	1,620
Shares of limited liability partnerships	297	201
Other	1	-
Total	**10,616**	**10,785**

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:

	2022 £m	2021 £m
Currency		
Euro	6	63
US dollars	117	107
Japanese Yen	2	2
Other	15	36
Total	140	208

Notes to the Financial Statements continued

(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:

	2022 £m	2021 £m
Direct		
Bonds	1,312	669
Swaps	3	1
Indirect		
Bond PIVs	192	168
LDI PIV's	8,540	8,964
Other debt PIV's	825	794
Total	**10,872**	**10,596**

(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:

	2022 £m	2021 £m
Direct		
Equities	75	99
Investment properties	626	453
Indirect		
Equity funds	178	138
Absolute Return funds	470	436
Investment property funds	83	68
Private equity funds	327	217
Total	**1,759**	**1,411**

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.

	2022 £m	2021 £m
Fees charged by RMPTL for the year	16	15
Amounts payable to RMPTL at year end	2	7
Total	**18**	**22**

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

Opinion

We have audited the financial statements of Royal Mail Pension Plan ("the Plan") for the year ended 31 March 2022 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies on pages 22 to 23.

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 2022 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 3A of the Occupational Pension Schemes (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 Trustees have 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").

In our evaluation of the Trustees' 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.

Our conclusions based on this work:

- we consider that the Trustees use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Trustees' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Plan's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Plan will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Trustees, and inspection of policy documentation, including risk register, as to the Plan's high-level policies and procedures to prevent and detect fraud, as well as enquiring whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Trustees' Board; Audit, Risk and Finance Sub-Committee; Administration Sub-Committee; Funding Sub-Committee; Investment Sub-Committee and Discretions Committee Meeting minutes and the Plan's risk incident report.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Trustees (or their delegates, including Plan administrators) may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as Level 3 Pooled Investment Vehicles. On this audit we do not believe there is a fraud risk related to revenue recognition because relates to contributions receivable as paid under an agreed schedule or predetermined by the Trustees with limited judgements required.

We did not identify any additional fraud risks
In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of some of the Plan-wide fraud risk management controls. We also performed procedures including:

- Identifying journal entries posted after the first draft of the financial statements have been prepared and comparing the identified entries to supporting documentation.

Identifying and responding to risks of material misstatement due to noncompliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Trustees and its delegates (as required by auditing standards) and discussed with the Trustees the policies and procedures regarding compliance with laws and regulations.

As the Plan is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Plan's procedures for complying with regulatory requirements and reading the minutes of Trustees' meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Plan is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions legislation) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Plan is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, or the loss of the Plan's registration. We identified the following areas as those most likely to have such an effect: pensions legislation and data protection legislation, recognising the financial and regulated nature of the Plan's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustees and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We have reported separately on contributions payable under the Schedules of contributions in our statement about contributions on page 39 of the annual report.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing noncompliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Trustees are responsible for the other information, which comprises the Trustees' report, including Task Force on Climate-Related Financial Disclosures, Trustees' Summary of Contribution, Actuary's Certification of Schedules of Contributions, Report on Actuarial Liabilities, Implementation Statement and Appendices. 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.

Trustees' responsibilities

As explained more fully in their statement set out on page 19 the Plan Trustees are 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 Trustees, as a body, 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 Trustees those matters we are required to state to them 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 Trustees, as a body, 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
July 2022

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 2022 which is set out on page 40.

In our opinion contributions for the Plan year ended 31 March 2022 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedule of contributions certified by the actuary on 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 19, 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
July 2022

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	2022 Per Schedules £m	2022 Additional £m	2022 Total £m	2021 Per Schedules £m	2021 Additional £m	2021 Total £m
Employers' normal contributions*	262	-	262	279	-	279
Members' normal contributions	103	-	103	110	-	110
Employers' augmentation contributions	-	-	-	-	-	-
Payable under the Schedules of Contributions	**365**	**-**	**365**	**389**	**-**	**389**
Members' additional voluntary contributions	-	21	21	-	6	6
Total contributions (see Note 1 to the statements)	**365**	**21**	**386**	**389**	**6**	**395**

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

Approved by the Trustee and signed on behalf of the Directors by
J Matthews – Chair
July 2022

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 2021 to be met by end of 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 17 May 2022.

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

C G Singer
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited
Watson House
London Road
Reigate
Surrey
RH2 9PQ

17 May 2022

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

C G Singer
Fellow of the Institute and Faculty of Actuaries
Willis Towers Watson
Watson House
London Road
Reigate
Surrey
RH2 9PQ

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.

For the RMG Section, this objective relates to the RMG Section as a whole, including both the 2012 Section and the DBCB Section, however, in practice, the liabilities and assets relating to the 2012 Section and DBCB Section are to be valued as if they are in separate arrangements.

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 2021.

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 for POL and as at 31 March 2021 for RMG was:

The value of the Technical Provisions for the Plan was:	The market value of the assets at that date was:
£10,641 million for 2012 Section £1,151 million for DBCB Section £11,792 million total for RMG Section £427 million for POL Section	£11,302 million for 2012 Section £1,181 million for the DBCB Section £12,483 million total for the RMG 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. For the 2012 Section, the technical provisions will include an explicit margin for prudence as 10% of the liabilities. This prudence is in addition to the implicit prudence adopted in the discount rate.

Significant actuarial assumptions

Where applicable, the significant assumptions for the DBCB Section have been shown separately.

Nominal discount rate:

RMG	DBCB	POL
Term-dependent discount rate equal to the forward yield on UK nominal gilts.	Term-dependent discount rate based on target returns for the RMG Cash Balance Assets less a prudential margin of 0.5% pa.	Term-dependent discount rate equal to the spot yield on UK nominal gilts less a margin of 0.35% per annum for non-pensioners and plus a margin of 0.25% per annum for pensioners.

Price inflation:
Term-dependent RPI 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 (2012 Section) and 1.0% per annum (DBCB Section) up to 2030 and 0% thereafter. Annual CPI inflation to be assumed lower than the assumed annual RPI inflation by 0.7% 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 capped at 5% plus 0.24% per annum allowance for promotions and increments.	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, allowing for inflation volatility and the anticipated impact of the caps and floors. For the DBCB Section, cash balance increases are assumed to be at the level which results in DBCB Section Liabilities of equal value to the DBCBS assets, subject to a minimum of nil.

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

	RMG		POL	
	Base Table	**Improvements**	**Base Table**	**Improvements**
Male members	96% S3NMA_H	CMI 2020 with 1.5% trend and smoothing parameter of 7.5, no initial addition and no weighting to 2020 experience	121% S2PMA	CMI 2017 with 1.5% trend and smoothing parameter of 8
Male dependants	109% S3DMA		108% S2PFA	
Female members	113% S3PFA_H		122% S2PFA_H	
Female dependants	103% S3PFA_H		106% S2PFA_H	

Appendices

Appendix 1 – Membership Analysis as at 31 March 2022

RMG Section	**2022**	**2021**
Active Members		
Employee members	53,227	58,103
Dual Status - active members with part benefits in payment	12,490	12,263
Total Active members	**65,717**	**70,366**
Deferred Members		
Deferred members	14,219	13,701
Dual Status - deferred members with part benefits in payment	2,799	2,318
Total Deferred members	**17,018**	**16,019**
Pensioner members		
Pensioner members	30,560	27,365
Total Pensioner members (excluding dual status)	**30,560**	**27,365**
Total Membership – RMG Section	**113,295**	**113,750**

POL Section		
Active Members		
Employee members	991	1,056
Dual Status - active members with part benefits in payment	190	169
Total Active members	**1,181**	**1,225**
Deferred Members		
Deferred members	1,979	2,182
Dual Status - deferred members with part benefits in payment	312	306
Total Deferred members	**2,291**	**2,488**
Pensioner members		
Pensioner members	2,063	1,842
Total Pensioner members (excluding dual status)	**2,063**	**1,842**
Total Membership – POL Section	**5,535**	**5,555**

*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.

Appendix 1 – Membership Analysis as at 31 March 2022 (continued)

DBCBS		
Active Members		
Employee members	4,834	4,568
Dual Status - active members with part benefits in payment	-	-
Total Active members	**4,834**	**4,568**
Deferred Members		
Deferred members	210	71
Dual Status - deferred members with part benefits in payment	-	-
Total Deferred members	**210**	**71**
Pensioner members		
Pensioner members	-	-
Total Pensioner members (excluding dual status)	**-**	**-**
Total Membership – DBCBS	**5,044**	**4,639**

Appendix 2 - Five Year History of the Fund

	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m
Income					
Employers' contributions	150	294	283	279	262
Member contributions and transfers-in	111	123	121	116	124
Investment income	74	72	58	44	46
Benefits Paid					
Retirement pension	23	30	36	43	49
Lump sum retirement benefits	32	30	37	48	64
Death benefits and leavers	14	9	24	34	41
Assets					
Total Assets	10,651	11,554	12,496	12,974	13,571

Appendix 3 - Royal Mail Group Section Statement of Investment Principles – December 2021

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 (incl. property-linked debt)	0-30
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 (incl. property-linked debt)	0-30
Absolute return (including Diversified Growth/Multi-Asset Funds)	0-100
Investment grade credit	0-50
Emerging market debt	0-30
Other	0-30

The Trustees 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

Selection and Appointment of 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. Each specified mandate is chosen by the Trustee to implement a part of its strategic asset allocation and, in combination, to implement the Trustee's strategic policy as a whole.

7.2. When selecting and appointing investment managers, the Trustee will take into account how ESG, climate change and stewardship are integrated within the managers' investment processes. This will be balanced against other manager selection criteria such as (but not limited to) idea generation, portfolio construction, implementation, business management and fees and charges.

7.3. 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.

7.4. 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.

7.5. The managers are incentivised through remuneration (including, in some cases, via performance related fees) and performance targets. Investment managers are aware that their continued appointment is based on their success in delivering the mandate, which they have been appointed to manage. If the Trustee is dissatisfied, then it will look to replace the manager.

Review of Investment Manager Appointments

7.6. The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis.

7.7. For open-ended funds there is no set duration for the manager appointments. The Trustee will therefore retain an investment manager unless:

7.7.1. There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

7.7.2. The manager appointed has been reviewed and the Trustee has decided to terminate the mandate. This may be on the grounds of sustained underperformance; a change in the portfolio management team; or a change in the investment approach or processes of the investment manager or the investment management firm that means the mandate is no longer in line with the Trustee's investment principles.

7.8. The Plan is invested in private equity, private debt and some property/real estate mandates, which are in closed-ended funds. The Trustee expects to remain invested for the lifetime of those funds, although secondary market sales of fund holdings may take place where changes to strategic policy make such sales appropriate and the sale price is sufficiently attractive. At the time of each fund appointment, the investment managers provided an indication of the expected investment duration of their fund and have the discretion to extend the lifetime of the fund in line with the Investment Management Agreement between each fund and the Plan.

7.9. The Trustee receives and discusses investment performance reports on a quarterly basis. Separate reports are made for assets relating to benefits accrued pre 1 April 2018 and for assets relating to accrual from that date. The reports present performance information over 3 months, 1 year and longer periods for the investment managers and at the total portfolio level. The Trustee reviews the absolute performance and the relative performance against any agreed benchmark and against the manager's stated performance target (over the relevant time period). For the liability hedging assets specifically, the focus is on maintaining the portfolio in line with the Trustee's stated hedge ratios relative to a liability benchmark. The Trustee's focus is on long term performance but will put a manager 'on watch' if there are sustained short term performance concerns.

Portfolio Turnover Costs

7.10. The Trustee collects Cost Transparency Initiative (CTI) template information from all non-alternatives managers and equivalent cost information from the absolute return and private markets managers.

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 Trustees 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. The Plan has also signed up to multiple climate initiatives, such as Climate Action 100+ and the Transition Pathway Initiative ("TPI"), which commit the Plan to curbing emissions, strengthening climate-related financial disclosures, improve governance on climate change and ensure Responsible Investment is considered as part of decision making.

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 is working towards being a signatory of the 2020 Code.

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 and corporate credit 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: Joanna Matthews 13th December 2021

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.

Post Office Limited Section
Statement of Investment Principles – December 2021

1. Introduction

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

4.5. The Trustee will also monitor the Section's financial position and liability profiles, with a view to reviewing the investment objectives, risk tolerance and/or return targets should there be a significant change in either or there are developments in risk management options available.

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

5. Diversification of Risks

5.1. 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 30 September 2021 is set out in the table below:

	(%)
Equities (private)	0.7
Property (incl. property-linked debt)	0.4
Private debt	2.1
Liability-hedging assets, bulk annuity and collateral	96.9*
	100%

*Comprised mainly of the bulk annuity assets (85.1% of the total assets as at 30 September 2021).

6.2. The strategic target allocation shown in the table is the target as at 30 September 2021. 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

Selection and Appointment of 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. Each specified mandate is chosen by the Trustee to implement a part of its strategic asset allocation and, in combination, to implement the Trustee's strategic policy as a whole.

7.2. Other than cash holdings (including via cash funds) and gilt investments, the Section's assets are invested in illiquid, closed-ended private markets vehicles and the bulk annuity policies. The Section's strategic policy is to remove but not replace the private markets assets via run-off or, if feasible and sufficiently attractively priced, via secondary market sales. The Trustee expects that the appointment of new investment managers in future will be restricted to liability hedging investments in gilt markets, or in cash. The Trustee will take into account how ESG, climate change and stewardship are integrated within the managers' investment processes where there is scope to do so, but this is expected to be limited given the asset classes in which new investments will be made. Other manager selection criteria, such as (but not limited to) idea generation, portfolio construction, implementation, business management and fees and charges are likely to be decisive.

7.3. 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.

7.4. 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.

7.5. The managers are incentivised through remuneration (in some cases via performance related fees) and performance targets. Investment managers are aware that their continued appointment is based on their success in delivering the mandate which they have been appointed to manage. If the Trustee is dissatisfied, then it will look to replace the manager.

Review of Investment Manager Appointments

7.6. The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis.

7.7. For investments in cash funds and liability-hedging gilt mandates, there is no set duration for the manager appointments. The Trustee will therefore retainan investment manager unless:

7.7.1. There is a change to the overall strategy that no longer requires exposure to that asset class or manager;

7.7.2. The manager appointed has been reviewed and the Trustee has decidedto terminate the mandate. This may be on the grounds of sustained underperformance; a change in the portfolio management team; or a change in the investment approach or processes of the investment manager or the investment management firm.

7.8. The Plan is invested in private equity, private debt and some property/real estate mandates, which are in closed-ended funds. The Trustee expects to remain invested for the lifetime of those funds, although secondary market sales of fund holdings may take place where the sale price is sufficiently attractive. At the time of each fund appointment, the investment managers provided an indication of the expected investment duration of their fund and have the discretion to extend the lifetime of the fund in line with the Investment Management Agreement between each fund and the Plan.

7.9. Given the assets are very largely invested in a bulk annuity and a significant part of the balance is invested in an illiquid asset portfolio, the performance of assets is no longer monitored quarterly, but the Trustee does report on performance in its annual report.

Portfolio Turnover Costs

7.10. Given the illiquid and buy-and-hold nature of the Section’s investments, the Trustee does not currently actively monitor portfolio turnover costs within the Section. The Trustee will obtain reporting from the gilt portfolio manager on the costs of any changes to that portfolio, but these are expected to be infrequent.

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. All of the Section's investment managers are encouraged to take these factors into account within their respective investment processes. The Trustees note that as the majority of the Section assets are invested in liability hedging assets, the integration of ESG factors will only apply to less than 10% of the Section's assets.

10.1.2. The Trustee considers, amongst other factors, including those outlined in section 5, how ESG, climate change and stewardship is integrated within investment processes in appointing, monitoring and withdrawing from investment managers.

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

10.1.4. Non-financial factors, such as 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. The Plan has also signed up to multiple climate initiatives, such as Climate Action 100+ and the Transition Pathway Initiative ("TPI"), which commit the Plan to curbing emissions, strengthening climate-related financial disclosures, improve governance on climate change and ensure Responsible Investment is considered as part of decision making.

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 is working towards being a signatory of the 2020 Code.

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: Joanna Matthews Date: 13t December2021

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 advisers.

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.

A4. Investment Consultant
The Investment Consultant is Mercer Limited, 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 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.

Appendix 4 - The Principles for Responsible Investment (continued)

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 5 - Implementation Statement

Implementation Statement

This Implementation Statement is designed to set out how and the extent to which the Trustee's policy in relation to the exercise of voting rights and the undertaking of engagement activities has been followed during the Scheme Year ending 31 March 2022.

The Trustee's Statement of Investment Principles (SIP) was last updated in December 2021 and sets out, amongst other things, the Trustee's principles for Responsible Investment. This Statement is specifically to demonstrate the extent to which the actions of the Trustee have followed the intent set out in those principles. The SIPs are available online at:

Royal Mail Section SIP:

https://www.royalmailpensionplan.co.uk/sites/default/files/library_documents/statement_of_investment_principles-_rmg_final_13122021.pdf

Post Office Section SIP:

https://www.royalmailpensionplan.co.uk/sites/default/files/library_documents/statement_of_investment_principles-_pol_final_131220211.pdf

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"). Investment policy is determined separately for each section and reflects separate consultations with POL and RMG, and this Implementation Statement covers both sections.

Voting and Rights

With regards to voting and exercise of rights, the Trustee gives full discretion for these decisions to the investment managers hired for each mandate. Each manager provided the Trustee with a copy of their voting policy, as well as confirming, as they are required by the SIP to do annually, that their voting is in compliance with the SIP, highlighting any exceptions if they exist. No exceptions were reported by any of the managers this year.

Traditionally, listed equities are the only asset class to which voting rights are attached. The assets of the Plan are invested across many different asset classes, and due to the funding level of Plan, the allocation to some asset classes, including listed equity, is relatively small. In the relevant period, the Plan was invested with four different listed equity managers who were able to participate in voting activities.

Through its Investment Sub-Committee, the Trustee has:

- received and reviewed quarterly manager voting summaries specifically highlighting situations where voting is different from that recommended by the proxy service provider;
- 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 Financial Reporting Council's (FRC's) UK Stewardship Code

All of the managers were able to provide their annual voting data in the format suggested by the Pensions and Lifetime Savings Association and provide details about the most significant votes during the reporting period.

In aggregate, the Trustee's managers were eligible to vote on 2242 shareholder resolutions over the year, and voted on 100% of these. While three of the four managers employ a proxy voting service to vote and provide recommendations, all of the managers followed their own voting policies. The three managers who employed a proxy voting service voted against the proxy advisor recommendation on 5% of the votes and in total the four managers voted against the management recommendation 13% of the time. We provide a summary below of the voting behaviours for each of the equity managers during the year as well as further detail on specific significant votes by each where the information was available.

The Plan engages in a stock lending program run by the Plan's custodian, JPMorgan. All managers have the ability to recall lent stock for voting purposes and indeed there have had instances of managers requesting a recall of lent stock in order to vote during the reporting period. Manager feedback and the high level of voting on eligible shareholder resolutions gives the Trustee confidence that the lending program has not impeded voting or good stewardship by the managers.

Black Creek Investment Management

The Plan invests in a segregated global equity portfolio managed by Black Creek. In contrast to the Plan's other equity managers, Black Creek does not use the services of a proxy voting manager. A summary of their voting statistics is provided below:

VOTING STATISTICS (APPLICABLE TO THE SCHEME'S REPORTING PERIOD)	RESPONSE
How many meetings were you eligible to vote at?	20
How many resolutions were you eligible to vote on?	380
What % of resolutions did you vote on for which you were eligible?	100%
Of the resolutions on which you voted, what % did you vote with management?	95%
Of the resolutions on which you voted, what % did you vote against management?	5%
Of the resolutions on which you voted, what % did you vote to abstain?	0%
In what % of meetings, for which you did vote, did you vote at least once against management?	55%
Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?	BCIM does not rely on any external third-party proxy voting service provider, nor does BCIM subscribe or endorse any standard voting guidelines prescribed by any external organization. BCIM relies solely on its proxy voting guidelines as a foundation for making its own voting
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	Not applicable. See response above.

In addition, Black Creek as provided a summary of the most significant votes over the reporting period. Black Creek classified votes as significant where they were to protect client interests against dilution and avoid aggressive incentive packages, to protect board independence, or where specific circumstances led to voting differently to how they would 'normally' vote on similar resolutions.

- DBS Group Holdings Ltd – Voted against management on authorisation of equity issuance and grant of convertible instruments, to protect from dilution of greater than 10%;
- OC Oerlikon Corporation AG – Voted with management for the election of a new director. Generally Black Creek would vote against an executive returning as a board director shortly after leaving the company, but made an exception in this case as the proposed director was the ex CFO during a period of high management turnover and would add significant business knowledge to the board;
- Becle, S.A.B. De C.V – Voted against the company on appointment/ratification of the board. Black Creek would like the company to separate the votes on board directors rather than bundling them together in a single vote;
- Schneider Electric SE – Voted against management on delegation of authority to the board to increase share capital, to protect from excessive dilution;
- Schneider Electric SE – Voted against management on delegation of authority to the board to increase number of shares issued in the event of a capital increase, to protect from excessive dilution;
- Schneider Electric SE – Voted against management on delegation of authority to the board to increase share capital by incorporating premiums, reserves, profits or others, to protect from excessive dilution;
- Weir Group – Voted against management on authorisation to issue of equity, to avoid dilution greater than 10%.
- Bae Systems PLC – Voted with management for the remuneration report after engaging with the Chairman by email and phone call to understand the background to the CEO compensation package. It

was concluded that it was in shareholders best interests to retain the CEO and compensate him accordingly;

- Convatec Group PLC - Voted against management on authorisation to issue equity, to avoid dilution greater than 10%;
- Oracle Corporation – Voted for a shareholder proposal to establish an independent chair, consistent with the policy of supporting board independence;
- Oracle Corporation – Voted against management on proposed compensation of named directors as the compensation was viewed as egregious and voting policy tries to protect clients from aggressive incentive packages that are not their best interest.

Walter Scott and Partners Limited

Walter Scott manages a segregated portfolio of global equities for the Plan, and a summary of their voting statistics for the Plan is provided below.

VOTING STATISTICS (APPLICABLE TO THE SCHEME'S REPORTING PERIOD)	RESPONSE
How many meetings were you eligible to vote at?	50
How many resolutions were you eligible to vote on?	767
What % of resolutions did you vote on for which you were eligible?	100%
Of the resolutions on which you voted, what % did you vote with management?	97%
Of the resolutions on which you voted, what % did you vote against management?	3%
Of the resolutions on which you voted, what % did you vote to abstain?	0%
In what % of meetings, for which you did vote, did you vote at least once against management?	18%
Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?	ISS
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	10%

In addition to the summary data, Walter Scott provided a listing of the most significant votes to the Plan. In determining significant votes, Walter Scott suggests specific votes where it voted against company management recommendation or, where a vote was with the company management, if it was either contentious, or potentially having a long-term impact on shareholders' interests.

Significant votes included:

- Compass Group – Vote against management on three resolutions regarding authorisation of equity issuance, due to the potential for dilution greater than 10%;
- LVMH – Vote against management on re-election of a director due to integrity concerns;
- LVMH – Vote against management on six different resolutions regarding authorisation of equity issuance, due to the potential for dilution greater than 10%;
- L'Oreal – Vote against management on authorisation of equity issuance, due to the potential for dilution greater than 10%;
- Jardine Matheson – Vote against management on authorisation of equity issuance, due to the potential for dilution greater than 10%;
- Amphenol – Vote against management on authorisation of equity issuance, due to the potential for dilution greater than 10%;
- Reckitt Benckiser – Vote against management on four different resolutions to authorise equity due to potential for dilution greater than 10%;
- Experian – Vote against management on three different resolutions to authorise equity issuance, due to the potential for dilution greater than 10%.

Dalton Investments LLC

Over the reporting period, Dalton managed a segregated fund of Global Emerging Market Equities for the Plan. The portfolio was recently transitioned to a pooled fund holding, still managed by Dalton. A summary of their voting statistics for the Plan is provided below.

VOTING STATISTICS (APPLICABLE TO THE SCHEME'S REPORTING PERIOD)	RESPONSE
How many meetings were you eligible to vote at?	50
How many resolutions were you eligible to vote on?	562
What % of resolutions did you vote on for which you were eligible?	100%
Of the resolutions on which you voted, what % did you vote with management?	74%
Of the resolutions on which you voted, what % did you vote against management?	11%
Of the resolutions on which you voted, what % did you vote to abstain?	11%
Please use this field if you wish to comment on any unusual circumstances or trends	There are 87 resolutions with no management recommendations. Votes for these are neither against or for management
In what % of meetings, for which you did vote, did you vote at least once against management?	46%
Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?	Dalton utilizes ISS Proxy Exchange for proxy advisory services and does not have a bespoke policy implemented.
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy advicer? (if applicable)	3%

Dalton also provided more detail on the most significant votes for the Plan, defined by them as votes against management or their proxy voting service (ISS) recommendation or where a significant portion of the shareholder base voted against company management.

These significant votes included:

- Accton Technology Corp. – Voted against ISS recommendation on a director appointment as it was felt the director's knowledge would be beneficial for accretive M&A going forward;
- Meritz Financial Group Inc – Voted with management but against ISS recommendation on approval of Directors' remuneration as it was felt the ISS recommendation was mechanistic and did not show a contextual or comprehensive understanding of the issues;
- SK Holdings Co., Ltd - Voted against ISS recommendation and voted for the election of an outside director as it was Dalton's view that the candidate was one of the best female CEO's in Korea and improved board diversity
- SK Holdings Co., Ltd - Voted against ISS recommendation and voted for the election of an inside director as it was Dalton's view that the candidate had proven his management competence and was one of the company's most important managers;
- MultiChoice Group Ltd. – Voted against management recommendation and in agreement with ISS to not support the re-election of a non-independent director, as this made for an absence of an independent majority on the Remuneration and Nomination committees;
- Tencent Holding Limited – Voted with ISS recommendation against two management proposals to authorise the issuance of equity as Dalton viewed the stock as undervalued and, as such, equity issuance would be a poor capital allocation decision;
- Xiabuxiabu Catering Management (China) Holdings Co., Ltd. - Voted with ISS recommendation against management proposal to authorise the issuance of equity as Dalton viewed the stock as undervalued and, as such, equity issuance would be a poor capital allocation decision;
- Health and Happiness (H&H) International Holdings Limited - Voted with ISS recommendation against management proposal on the issuance of equity or equity-linked securities without pre-emptive rights as Dalton viewed the stock as undervalued and, as such, equity issuance would be a poor capital allocation decision;
- Fu Shou Yuan International Group Limited - Voted with ISS recommendation against management proposal to authorise reissuance of repurchased shares, as Dalton viewed the stock as undervalued and, as such, equity issuance would be a poor capital allocation decision.

Spouting Rock Asset Management

Spouting Rock manage a Global Small Cap Equity segregated fund for the Plan and have provided summary voting statistics for the voting activity below.

VOTING STATISTICS (APPLICABLE TO THE SCHEME'S REPORTING PERIOD)	RESPONSE
How many meetings were you eligible to vote at?	50
How many resolutions were you eligible to vote on?	533
What % of resolutions did you vote on for which you were eligible?	100%
Of the resolutions on which you voted, what % did you vote with management?	82%
Of the resolutions on which you voted, what % did you vote against management?	18%
Of the resolutions on which you voted, what % did you abstain from voting?	0%
In what % of meetings, for which you did vote, did you vote at least once against management?	64%
Which proxy advisory service does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?	Spouting Rock has adopted a written proxy voting policy (the "Proxy Policy") as required under the Advisers Act. For clients that give Spouting Rock the right to vote proxies, Spouting Rock will vote proxies in accordance with its Proxy Voting Policy, which is designed to vote proxies in a manner consistent with what Spouting Rock believes is in the client's best interest. Some clients contractually reserve the right to either vote their own proxies or direct Spouting Rock to vote their proxies in a certain manner. Spouting Rock votes proxies based on a client's instruction, or a client's legal structure (e.g., an ERISA-covered pension plan). Spouting Rock uses Broadridge Financial Solutions' ProxyEdge web-based platform. an independent third-party proxy voting platform, to provide Broadridge data driven guidelines based on meeting information and historical vote results provided through Broadridge's Proxy Policies and Insight solution to determine our recorded vote. Spouting Rock will consider the data driven guidelines from Broadridge as part of its ultimate decision-making process, but will exercise its independent judgment in making voting decisions. Spouting Rock reserves the right to vote contrary to the data driven guidelines in the event that Spouting Rock determines that such vote is in the client's best interest.
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	0%

After not being able to provide details on most significant votes last year, the Trustee is pleased that some detail has been provided on some of the most significant votes this year. Spouting Rock believes the most significant votes to be those for shareholder proposals.

- First Service Corporation – Votes against management on three proposals related to amending stock option plan, executive compensation and election of directors, on the basis of lack of board diversity, and arbitrary compensation policy;
- R1 RCM Inc. – Votes against management on a total of 12 proposals regarding the election of directors, on the basis that the board is not majority independent.

The Trustee continues to work with Spouting Rock for fully compliant disclosure with detail provided across at least 10 of the most significant votes going forward.

Stewardship

While specific voting rights are broadly confined to the realm of listed equities, the Trustee is engaged in stewardship activities with all of the Plan's managers, regardless of asset class.

The Plan schedules ESG (including climate risk) monitoring meetings with managers across all asset classes including Liability Driven Investment (LDI) managers (that make up c.75% of the whole Plan's investment portfolio) to engage on their development of ESG and climate risk integration in their investment process and to ensure that they are prepared for complying with the reporting required by Task-Force for Climate-Related Financial Disclosures (TCFD).

The Trustee continues to believe strongly in the principles set out in the SIP and has been demonstrably committed to good stewardship for many years. The Plan became a signatory to the United Nations Principles of Responsible Investment (UNPRI) in 2009, and after having adopted the Financial Reporting Council's (FRC's) UK Stewardship Code in 2011 has applied to be a signatory to the updated code in 2022.

In furtherance of the Sustainable Investment and Corporate Governance sections of the SIP, this year the Trustee has:

- Completed an Environmental, Social and Governance (ESG) review of all the non-alternatives and alternatives managers to set the baseline for ongoing monitoring;

- Completed an ESG ambition project with PWC to further strengthen the integration of ESG considerations into the Plan's strategic, operational, and investment decision-making process. The project summarised the Trustee's level of ESG ambition, a review of current processes, and set out an ESG roadmap outlining actions to support the Trustee to achieve its ESG ambitions, across the short, medium and longer term. The roadmap sets out a number of actions across Governance, Investment Strategy, Risk Management, Engagement, and Reporting and Transparency to be undertaken over varying time periods;
- Had regular meetings of the ESG and Climate Steering Group to ensure that ESG factors are integrated into the Investment Process and specifically to take forward aspects of the ESG roadmap;
- Commenced a Carbon Measurement project with Urgentem. The first step in reducing the Plan's carbon footprint is to measure it. The project is focusing first on listed equities and bond positions to measure their carbon footprint and to analyse how well aligned the portfolio is as a whole with various global carbon reduction goals;
- Devised an ESG (including climate risk) RAG Scoring chart for all managers which is being further developed to include specific TCFD actions as the Plan gets more advanced into its TCFD reporting Received a report from the UNPRI on its compliance with the principles;
- Ensured that those of its investment managers who hold UK listed shares confirm their compliance with the FRC's UK Stewardship Code;
- Received reports from Sustainalytics (appointed by trustee to provide a bespoke responsibility engagement overlay), who engages with companies in the Plan's equity (including emerging markets) and corporate bond portfolios, on ESG issues and makes recommendations. Sustainalytics engage on numerous issues including environment, human rights, labour rights and business ethics;
- Joined the Transition Pathway Initiative, a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy;
- Continued engagement with Climate Action 100+, a body that engages with one hundred plus companies to take action to reduce their carbon intensity and to align themselves with the TCFD recommendations to substantially reduce greenhouse gases; and
- Continues to explore the merits of joining other climate related initiatives and is working with the Employer to ensure that it is properly aligned with compliance and reporting on TCFD.

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.

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. Training was provided to the Trustee and the Executive this year to help mitigate fraud from a cyber attack. 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. 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.

4. 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 6 - Statement on Risk Management and Internal Controls (continued)

5. Climate/ESG risks

Climate change as a risk may have material adverse consequences for the Plan due to transition as well as physical risks. Transition risks include changes in climate and energy policies (i.e. the inevitable policy response), such as a shift to low carbon technologies and liability issues, potentially leaving heavy emitters of carbon unprofitable (stranded assets). Physical risks such as flooding, droughts and wildfires can impact water availability, food security, supply chains and employee safety, and consequently financial stability. Physical risks are relevant for all time horizons, although their impact is expected to increase over time as climate conditions become increasingly volatile. Transition risks are likely to be most relevant over short and medium term horizons.

The Trustee has established a low-risk appetite related to climate and seeks to reduce the risk wherever possible.

The Trustee's initial risk assessment was it was likely that Climate/ESG risks would have a Moderate impact on the Plan (Inherent Risk). The Trustee put in place a series of business operation, independent assurance, and oversight controls to mitigate the risks. The subsequent risk assessment was that it was likely that ESG risks would have a minor impact on the Plan (Residual Risk). The controls are assessed on at least an annual basis. The Trustee also monitors a number of metrics on at least a quarterly/annual basis.

6. Longevity risks

Longevity risk is the risk that members live for longer than is currently expected. That results in pensions being paid for longer than expected, thus costing the Plan more than has been assumed in the actuarial valuation. Over recent years there has been a general trend for longevity expectations and hence longevity risk to increase. In-depth analysis is completed as part of the actuarial valuation to understand the expected mortality of RMPP's membership. However, there is uncertainty as to whether past mortality trends will continue into the future, or whether there will be a step change in mortality, for instance due to improvements in healthcare. The plan currently incorporates prudence into the assumptions, such that the plan has sufficient funding, in case the longevity of RMPP's membership is greater than expected. Longevity risk is one of the more significant risks facing the plan, and the Trustee will consider whether there are alternative means of mitigating this risk, for instance through insurance.

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 administer the Plan to a high standard for its members**
- **To educate and engage with the Plan's members and ensure effective communications**
- **Maintain and, subject to risk constraints, enhance, over time, the security of accrued benefits in the 2012 Section whilst keeping under review the various ultimate 'endgame' options'***
- **Aim to manage the investment strategy of the 2018 Section with an expected return of gilts+3.6% per annum and a modelled volatility level of less than 9.36% p.a.****
- **To be committed to a high level of compliance with relevant legislation, regulation, industry codes and standards as well as internal policies and sound corporate governance principles.**

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.

*Be it self-sufficiency or settlement with insurance or some combination.

**Gradually migrating over time to gilts+1.4% and maximum modelled volatility of c3.64% p.a. as the Plan matures.

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 82 to 83.

Appendix 7 - Governance Policy (continued)

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. 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.

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
- Emergency events

Other Sub-Committees are established on an ad hoc basis as and when required. 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.

Appendix 7 - Governance Policy (continued)

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

Policy/Procedure	Date last reviewed
Triennial Valuation Report	POL Jul 2019 RMG May2022
Statement of Funding Principles	POL Jul 2019 RMG May2022
Annual Actuarial Report	POL Nov2019 RMG Dec2020
Summary Funding Statement	POL Jul 2019 RMG Mar2022
Schedule of Contributions	POL Jul 2019 RMG May2022
Recovery Plan (if required)	N/A
Investment	
Statement of Investment Principles	Dec 2021
Responsible Investment Policy	Sept 2020
Myners Compliance Report	Mar 2018
Quarterly Investment Reports	Mar 2022
Rebalancing Policy	Feb 2021
Administration	
Pensions Service Centre (‘PSC’) Pricing and Service Level Agreement	Mar 2018
Internal Dispute Resolution Procedure	Dec 2018
PSC Compliance Statements	Jul 2021
Member Communications Strategy	Jul 2020
Review of Discretionary Powers	Mar 2018
Governance	
Trust Deed and Rules	Mar 2018
RMPTL Memorandum and Articles	Jan 2018
Trustee Board and Sub-Committee Meetings Schedule	Jul 2021
Business Plan	Dec 2019
Business Continuity Plans for RMPTL and Key Service Providers	Jan 2019
Member Nominated Trustee Nomination and Selection Process	Oct 2016
Induction Process for new Trustee Directors	Nov 2020
Conflicts of Interest Policy	Jul 2017
Risk Register	Dec 2021
Notifiable Events Whistle-blowing Report	May 2021
Review of Compliance with The Pensions Regulator’s Codes of Practice	Sept 2018
Board Effectiveness Review	Dec 2019
Trustee Knowledge & Understanding Review	Jul 2021
Anti-Bribery Policy	Jun 2022
Data Protection, Data Retention, Data Breach, Equipment Use	Dec 2019
Business Travel, Hospitality and Gift Policy	Jun 2022
Taxation Strategy	Mar 2020

Annex A to Appendix 7 - Key Policies and Procedures (continued)

		Date last reviewed
Sub-Committees' Terms of Reference		
Investment		Mar 2018
Funding		Jan 2018
Audit, Risk & Finance		Jan 2018
Administration		Jan 2018
Discretions		Sept 2012
Internal Dispute Resolution		Sept 2012
Working Groups' Terms of Reference		
Implementation Working Group ('IWG')		Dec 2021
De-risking Working Group		Jan 2020
Assessment of Advisors:		
Lawyer:	Sackers & Partners LLP	Jul 2020
Actuary:	Willis Towers Watson	Jul 2020
Covenant Reviewer:	PricewaterhouseCoopers LLP	Jun 2022
Auditor:	KPMG LLP	Dec 2021
Investment Consultant:	Mercer Investment Consulting	Jul 2020
Custodian:	JP Morgan Chase Bank	Jun 2022

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.

Glossary of terms (continued)

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.

Glossary of terms (continued)

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 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
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.

Glossary of terms (continued)

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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Email:
pensions.helpline@royalmail.com

The Plan website is:
www.royalmailpensionplan.co.uk

Write to us:
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Pond Street
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S98 6AB

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Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published These matters are the responsibility of the Trustee but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Royal Mail Pension Plan