Royal Mail Pension Plan – Post Office Limited Section
Statement of Investment Principles - September 2022

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"). The Trustee seeks to maintain good working relationships with POL and RMG. Investment policy is determined separately for each Section and reflects separate consultations with POL and RMG.

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

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

1.5 The Statement is designed to meet the requirements of Section 35 of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.

1.6 The Trustee has obtained written professional advice from the Plan's Investment Consultant in preparing this Statement. The Trustee believes that the Investment Consultant meets the relevant requirements under Section 35 (3) of the Pensions Act 1995. In matters where the investment policy may affect the Section's funding policy, advice has also been obtained from the Scheme Actuary. The Trustee will obtain similar advice whenever it reviews this Statement.

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

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

2. Fund Governance

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

2.2 The Trustee has established the Investment Sub-Committee ("ISC") to focus on investment issues. Details of the ISC's duties and responsibilities are included in separate Terms of Reference.

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

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

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

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

3. Investment Objective

3.1 Meeting the Section's Liabilities

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

4. Risk and Return

4.1 Given the current circumstances of the Section, the Trustee seeks to adopt a low risk investment strategy relative to the Section's liabilities.

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

- Over any time period, the assets might not achieve the anticipated excess return relative to the liabilities. This would result in the deterioration of the Section's financial position.

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

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

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

	POL (%)
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.

7. Investment Managers

<u>Selection and Appointment of Investment Managers</u>

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 retain an 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 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.

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 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. 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 a signatory of the UK Stewardship 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: **Date:** September 2022

Position: Chair

Appendix – 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 advisers are set out below.

A1. Trustee

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

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

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

The Covenant Adviser is PricewaterhouseCoopers.