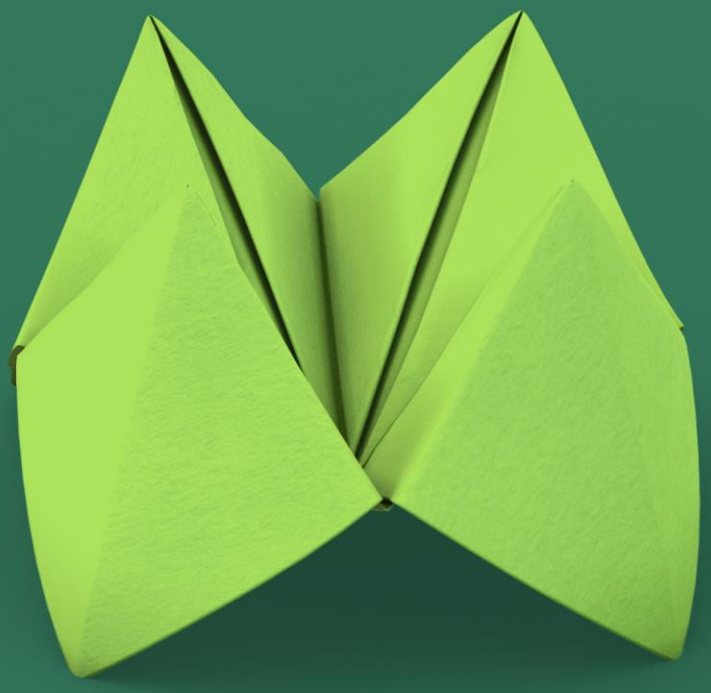
ROYAL & SUN ALLIANCE UK PENSION SCHEME 2002

Statement of Investment Principles

September 2020



Dalriada.
A better way

This Statement of Investment Principles ("the Statement") has been commissioned by and addressed to Royal & Sun Alliance UK Pension Scheme 2002("the Scheme").

This document has been produced by the Trustees after advice from Deloitte Total Rewards and Benefits Ltd ("DTRB")

It has been prepared to comply with Section 35 of the Pensions Act 1995 as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.

For the purposes of this report, Royal Sun Alliance Insurance PLC is referred to as the "Principal Employer".

Contents

01 Introduction

The Trustee, acting on behalf of the members of the Royal & Sun Alliance UK Pension Scheme ("the Scheme") and after having consulted the Scheme's employers, has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and successor legislations including the Occupational Pension Schemes (Investment) Regulations 2005.

This written Statement outlines the principles and policies governing determinations about investments made by or on behalf of the Trustee in the management of the Scheme's assets. This Statement also reflects the Myners principles and subsequent IGG Principles for institutional investment decision-making.

This Statement will be uploaded to the Scheme's website where it will be available to the members and beneficiaries.

The Scheme is a "hybrid" benefits pension scheme under which:

- members have money purchase retirement accounts in the Scheme, but
- the Scheme was contracted-out of the second state pension scheme on the reference scheme basis provided for in Section 9(2B) of the Pension Schemes Act 1993

and so a member's retirement benefits are the greater of the retirement benefits which may be provided with the member's retirement account balance and the minimum defined benefit required under the Scheme's Trust Deed and Rules for contracting-out of the second state pension scheme.

The Scheme is a registered pension scheme.

02 Governance of the Pension Scheme

Investment powers and compliance with the Act

Section 34 of the Act provides that the Trustee has, subject to the provisions of Section 36 and any restrictions imposed by clause 6 of the Scheme's Trust Deed and Rules, the same power to make investments of any kind as if they were absolutely entitled to the Scheme's assets. Section 36 of the Act provides that the Trustee must exercise its investment powers in accordance with the regulations regarding the selection and diversification of investments, the requirement in Section 36(3) of the Act to obtain and consider proper advice before investing in any manner and the requirement in Section 36(4) to obtain and consider proper advice before determining whether to retain an existing investment. When exercising its power to invest, the Trustee will have regard to these provisions and will also consider the interests of current and potential beneficiaries of the Scheme.

The Trustee is responsible for the governance and investment of the Scheme's assets. The Trustee is satisfied that it has sufficient expertise, information and resources to carry out their role effectively.

As required under the Act, the Trustee has consulted a suitably qualified person by obtaining written advice from Deloitte Total Reward and Benefits Limited ("DTRB") on the suitability of the investments in respect of their security, quality, liquidity and profitability, the need for diversification and the principles contained in this Statement. DTRB is authorised and regulated by the Financial Conduct Authority.

Day-to-day fund management

The Trustee having taken "proper advice" for the purposes of Section 36 of the Act has entered into unit-linked insurance policies with Legal & General Assurance (Pensions Management) Limited, which has delegated fund management to Legal & General Investment Management Limited.

The day-to-day fund management of the assets is performed by a professional fund manager, Legal & General Investment Management Limited (L&G), who are authorised and regulated by the Financial Conduct Authority. The Trustee is satisfied that the appointed fund manager has sufficient expertise and experience to carry out their role.

03 Categorisation of Assets of the Scheme

The Scheme's assets can be viewed for the purposes of this Statement as being divided into 3 broad categories (although forming one undivided fund):

- **Category 1**: those assets which back members' retirement accounts that are referred to as Members' Investment Choice Balance ("MICB"). For the avoidance of doubt, Category 1 assets comprise of members' contributions, including AVCs and company matching contributions.

- **Category 2a:** those assets of the Scheme referred to as the Company Part Retirement Account Balance ("CPRAB"). Category 2a assets comprise of company core credits.

- **Category 2b:** those assets of the Scheme not allocated to back members' retirement accounts but available, for amongst other purposes, to meet the Scheme's defined benefit obligations to the extent not covered by Category 2a or Category 3 as defined here.

- **Category 3:** any annuity contract or policy backing in whole or in part a pension in payment from the Scheme.

- Transferred-in sums or benefit augmentations may be allocated to Category 1, Category 2a, Category 2b or Category 3, depending on their nature.

04 Strategic Management of Scheme Assets

Investment objectives and constraints: Category 1 assets

The Trustee's primary objective in relation to Category 1 assets, given these relate to member investment choices, is to comply with its obligations under the Scheme's Trust Deed.

Clause 6 of the Trust Deed requires the Trustee to select investment providers and investment vehicles offered by the selected providers within the constraints which are summarised in Table 1 below.

Table 1

Investment category	Fund	Benchmark	Performance Objective
1. Multi-Asset fund (exposure predominantly to equities and bonds; also include exposure to listed infrastructure, private equity and real estate companies)	L&G Multi-Asset Fund (formerly Consensus Fund)	Given the nature of the fund there is no defined benchmark. Instead performance is assessed against the performance objective.	To provide long- term investment growth through exposure to a diversified range of asset classes, excluding physical property.
2. Global equity	L&G Global Equity Market Weights 30:70 Index 75% GBP Currency Hedged Fund	30% FTSE All Share 70% FTSE AW - All World (ex-UK) Index (GBP hedged)	To track the benchmark within an acceptable range
3. Bonds (exposure predominantly to medium to long dated (i.e. at least 5 years to maturity) bonds)	L&G Over 15 Year Gilts Index Fund	FTSE A Over 15-year gilt index	To track the benchmark within an acceptable range
	L&G Over 5 Year Index-Linked Gilt Fund	FTSE A Over 5 Year Index-Linked Gilt Index	To track the benchmark within an acceptable range
4. Cash (predominantly short-term cash deposits or other investments having equivalent investment attributes)	L&G Cash Fund	7 Day LIBID	To perform in line the benchmark without incurring excessive risk

Since all member accounts relate to deferred members of the Scheme there is no requirement to have a default investment vehicle.

Investment objectives and constraints: Category 2a assets

Category 2a assets are invested as below:

- For contributions paid pre-1 May 2004 – these assets are invested in the Mixed Fund (which currently is the L&G Multi-Asset Fund)
- For contributions paid on or after 1 May 2004 – these assets are invested in the L&G Equity: Bond 50:50 Index fund.

Investment objectives and constraints: Category 2b assets

The Trustee has adopted an asset allocation strategy for the assets controlled by the Trustee (i.e. categorises 2a and 2b) following an investment strategy review in December 2015. The assets which are allocated as Category 2b assets are invested in a way such that the strategy for Trustee controlled assets in aggregate are in line with the following weightings:

	Strategic Asset Allocation (%)
Equities and alternatives	37.0%
Fixed interest bonds	15.7%
Index-linked gilts	47.3%
Total	100.0%

*Assets invested in the Multi-Asset Fund are split into the above asset classes on a best endeavours basis

The index-linked gilt holding is invested through a single long-dated single issue fund with the aim of hedging as much of the interest rate and inflation rate within the Scheme as is possible without the use of leverage.

- This Category 2b assets are invested in the following funds to achieve the above:
- L&G Global Equity Market Weights 30:70 Index 75% GBP Currency Hedged Index Fund
- L&G 2068 Index-linked Gilt Fund
- L&G Investment Grade Corporate Bond Over 15 Year Index Fund
- L&G AAA-AA-A Bond Fund

Assets will be kept broadly in line with the above strategic benchmark by using cashflows into or out of the Scheme to rebalance towards the strategic weightings. As such, it is recognised by the Trustee that where such cashflows are minimal it is possible for market movements to cause the actual weighting of these assets to drift from the strategic weighting over time. Rebalancing will be undertaken, subject to a qualitative overlay or sense check being applied, if the Trustee considers that the actual weightings are materially different to those set out above at a quarter end with this being reviewed at each Trustee Board meeting. A material difference will be defined as the actual asset allocation being more than 2.5% different from the strategic asset allocation. Weightings will usually be rebalanced to their central allocations.

The impact on the level of liability hedging of any rebalancing action will be considered on a case-by-case basis rather than a specific policy being put in place.

It has been agreed with the Company that the Scheme's aggregate equity exposure will be reduced as the deficit reduces, with a 7% switch out of equities and into index-linked gilts for each £1m improvement in the deficit. The first action will be taken when the deficit falls beneath £3m. Ultimately, this will result in the equity allocation reaching c16% (or as low as it is possible to go without changing the allocation within the Category 2a assets) when the deficit reaches £1m. The deficit will be approximated on a half-yearly basis by Deloitte on a Technical Provisions basis with action, where necessary, being taken as soon as possible thereafter.

Investment objectives and constraints: Category 3 assets

Where the Trustee is required under the Trust Deed and Rules to secure a pension in payment through the purchase of an annuity contract or a policy, the Trustee is required to provide for an annuity to be purchased from a panel insurer.

It is the Trustee's policy objective to comply with the requirements of the Trust Deed and Rules and to hold **Category 3 assets** to match specific obligations of the Scheme.

Additional Voluntary Contributions

These are to be invested in the same way as the Member's Investment Choice Balance

Cash balances

The Trustee maintains part of the **Category 2b assets** as small working cash balances in a bank account administered by Deloitte, the Scheme's administrator.

Duration of Asset Arrangements

The Trustee has chosen to make unit-linked insurance policy funds available to members.

For the chosen funds, the Trustee's policy is to enter arrangements with no fixed end date. However, in this case the Trustee will seek to enter arrangements where it has the power to terminate these in line with the liquidity of the underlying assets and as agreed in the mandate. The Trustee will determine whether to terminate such arrangements on an ongoing basis through its regular monitoring of the manager's performance against objectives. The Trustee may also elect to terminate the arrangement with the investment manager when performing ongoing reviews of the suitability of the funds available to members over time.

05 Fee Arrangements

The table below reflects the annual management charges agreed between the Trustee and the investment manager for each of the available funds.

	Annual Management Charge (% p.a.)
Equity:Bond 50:50 Index Fund	0.150
Global Equity Market Weights (30:70) – 75% GBP Hedged Index Fund	0.200
Over 5 Year Index-Linked Gilts Index Fund	0.100
Over 15 Year Gilts Index Fund	0.100
Multi-Asset (formerly Consensus) Fund	0.250
Investment Grade Corporate Bond – Over 15 Year – Index Fund	0.150
AAA-AA-A Corporate Bond Over 15 Year Index Fund	0.150
2068 Index-Linked Gilt Fund	0.100
Cash Fund	0.125

As well as the annual management charges, additional fund expenses will apply (and vary from quarter to quarter) taking account of custodian, legal, accounting and auditing fees for each fund.

The Trustee monitors the overall level of costs. This includes reviewing the fees charged by the investment manager on a quarterly basis as part of its monitoring framework to ensure fees remain reasonable in the context of the Scheme's size and complexity.

The Trustee reviews investment manager costs and charges (including portfolio turnover costs) on a quarterly basis, and on the selection of any fund, to ensure that they are appropriate and competitive for the service being provided. The Trustee also monitors the portfolio turnover (the frequency that assets are bought and sold) in the context of what the Trustee expects to be reasonable given the nature of each fund. By also monitoring performance net of all costs, the investment manager is incentivised to consider the impact of portfolio turnover on investment performance.

Of the funds available to members, some are passively-managed funds that replicate benchmark indices and therefore require assets to be bought and sold when the constituents of the underlying index change. To avoid being a forced buyer/seller of stocks and to reduce transaction costs when the index changes, the investment manager gives itself some flexibility on exactly when to buy and sell and what proportions of each asset in the index to hold to minimise transaction costs.

06 Risk Measurement and Management

The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

The Trustee has considered risk from the following perspectives:

- "Concentration risk" - The risks that may arise from the lack of diversification of investments.
- "Inflation risk" - The risk that the investment returns over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate pension.
- "Annuity risk" - The risk of deterioration in the rate of exchange of accumulated funds for pension.
- "Inherent investment risk" - The risk that the investment vehicles in which the monies are invested do not meet the defined benefit obligations.
- "Fund manager risk" - Actions by the fund manager in the day-to-day management of the assets such that they will not achieve the rate of investment return assumed by the Trustee.

The Trustee considers that there is an adequate range of Investment Vehicles in relation to the investment of Members' Investment Choice Balance, providing different investment risk and reward profiles to meet the different return and diversification objectives of the different members of the Scheme having given regard to:

- their differing ages,
- expectations as to time of retirement, and
- the option to take benefits as a lump sum or in annuity form

07 Socially Responsible Investment and Corporate Governance

The Trustee defines ESG factors as the interaction of the Scheme's investments with the physical environment (environmental), wider society and economies (social), and the governance structures of the organisations and markets the Scheme invests in (governance). We believe considering these factors will help the Scheme and its agents make more informed and better long-term investment decisions.

The Trustee has considered how environmental, social and corporate governance (ESG) factors should be taken into account in the selection, retention and realisation of long-term investments. Its view is that ESG factors form one of the elements of the investment decision-making process and, therefore, should largely be delegated to managers to consider as part of their overall management of this process. However, as exercising ownership rights, collaborative engagement with its agents and portfolio companies (and other relevant persons including, but not limited to, investment managers, issuers/other holders of debt and equity and other stakeholders), as well as active management of physical assets can improve long-term risk adjusted returns, the Trustee expects the investment manager to have integrated ESG factors as part of its investment analysis and decision-making process and will hold the manager to account in this regard as part of its regular monitoring process. The extent to which these factors are integrated will also form an important consideration when selecting any new fund manager.

Having reviewed L&G's approach to corporate governance and responsible investment, the Trustee is comfortable that where ESG factors are material to the financial performance of an investment, L&G can integrate them into their decision making on selection, retention and realisation of investments. In addition, the Trustee is also comfortable with how L&G actively engage with companies on climate change policies. The Trustee has delegated the responsibility for the exercise of all rights (including voting rights) attaching to the investments to the Investment Manager. L&G provide regular update on how they exercise those rights and what impact on the portfolio they might have.

The Trustee will monitor L&G's ESG approach on an ongoing basis to ensure they are in line with relevant regulatory codes.

The Trustee has not considered non-financially material matters in the selection, retention and realisation of investments.

08 Investment Manager Arrangements

If the Trustee believes that the Scheme's investment manager is no longer acting in accordance with the Trustee's policies, including those regarding ESG and engagement with investee organisations to assess and improve the medium to long-term financial and non-financial performance, the Trustee will take the following steps:

- engage with the investment manager in the first instance, in an attempt to influence its policies on ESG and stewardship; and
- if necessary, look to appoint a replacement investment manager or managers which are more closely aligned with the Trustee's policies and views.

The Trustee believes that this approach will incentivise the investment manager to align its actions with the Trustee's policies.

If the Trustee believes that the Scheme's investment manager is no longer acting in accordance with the Trustee's policies, including those regarding ESG and engagement with investee organisations to assess and improve the medium to long-term financial and non-financial performance, the Trustee will take the following steps:

engage with the investment manager in the first instance, in an attempt to influence its policies on ESG and stewardship; and

if necessary, look to appoint a replacement investment manager or managers which are more closely aligned with the Trustee's policies and views.

The Trustee believes that this approach will incentivise the investment manager to align its actions with the Trustee's policies.

09 Review of this Statement

The Trustee expects to review this Statement at least every three years and monitor compliance at regular intervals, normally annually. The Trustee would intend, if there were a significant change in the Scheme's circumstances, for a review to be undertaken without delay.

Agreed as final version on behalf of the Trustee(s) of Royal and Sun Alliance UK Pension Scheme 2002.

Dated: 18th September 2002

Version: 1

For and on behalf of the Royal and Sun Alliance UK Pension Scheme 2002.

Dalriada. A better way

Belfast

Linen Loft
27-37 Adelaide Street
Belfast
BT2 8FE

Birmingham

Edmund House
12-22 Newhall Street
Birmingham
B3 3AS

Bristol

Castlemead
Lower Castle Street
Bristol
BS1 3AG

Glasgow

The Culzean Building
36 Renfield Street
Glasgow
G2 1LU

Leeds

Princes Exchange
Princes Square
Leeds
LS1 4HY

London

46 New Broad Street
London
EC2M 1JH

Manchester

82 King Street
Manchester
M2 4WQ