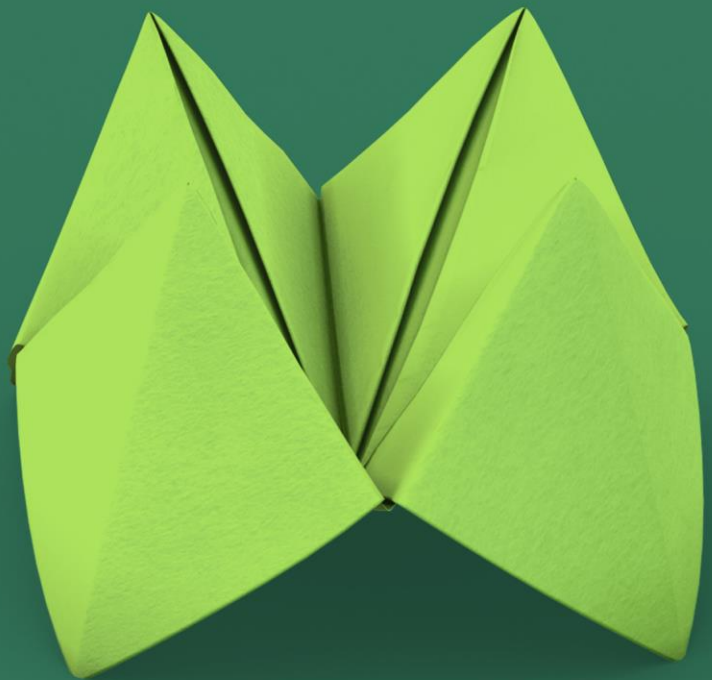


Royal SunAlliance UK Pension Scheme 2002 Implementation Statement

Year Ending 31 December 2022



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This statement has been prepared by the Trustee of the Royal & SunAlliance UK Pension Scheme 2002 (the "Trustee" and the "Scheme" respectively), on behalf of the members of the Scheme, with input from the Investment Consultant, to demonstrate how the Trustee has acted on the policies within the Statement of Investment Principles ('SIP') and is known as the Scheme's Implementation Statement.

Each year, the Trustee must produce an Implementation Statement that demonstrates how it has followed certain policies within the SIP over the Scheme year. This Implementation Statement covers the Scheme year from 1 January 2022 to 31 December 2022.

This Implementation Statement has been prepared in accordance with the Occupational Pension Schemes (Investment and Disclosure) Regulations 2005 Amendments and is in respect of the investments held by the Scheme.

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

- Members have money purchase retirement accounts in the Scheme (equivalent to a defined contribution 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.

Trustees of pension schemes are required to provide details of how, and the extent to which, their SIP policies on engagement with investee companies have been followed over the year, including a description of their voting behaviour, the most significant votes cast and any use of a proxy voter on their behalf over the year, alongside a review of any changes to the SIP over the year.

This implementation statement should be read in conjunction with the Scheme's SIP covering the year under review, which gives details of the Scheme's investment policies along with details of the Scheme's governance structure and objectives. The Scheme's latest SIP can be accessed in the following location:

<https://www.dalriadatrustees.co.uk/wp-content/uploads/2022/11/Royal-and-Sun-Alliance-2022-SIP.pdf>

How the SIP policies were followed over the year

In the opinion of the Trustee, the SIP has been followed throughout the year for the Royal & SunAlliance UK Pension Scheme 2002.

Review of the SIP over the year

The Scheme's SIP was updated in November 2022 to reflect changes to the investment strategy including the introduction of liability driven investments which aim to protect the funding level of the Scheme by hedging against interest rate and inflation risk. The investment strategy was de-risked over the Scheme year following improvements in the Scheme's overall funding level.

The Scheme's policies on ESG and Socially Responsible Investment were unchanged from previous years and remain as relevant and important under the updated investment strategy. For further detail please see the latest SIP linked above.

2 Investment Objectives

The Trustee's policies on investment objectives

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.

Since all member accounts relate to deferred members of the Scheme there is no requirement to have a default investment vehicle. The Scheme's strategic investment allocation was changed over the year to 31 December 2022 as detailed under Category 2b assets in the table below. The Trustee's primary investment objectives are:

Policy	Assessment
Assets which back members' retirement accounts An appropriate range of member investment options is offered for members, within the constraints of the Trust Deed.	Category 1 assets Given these assets relate to member investment choices, the primary objective is to make available investment providers and investment vehicles offered by the selected providers within the constraints summarised in Table 1 of the Scheme's SIP. An appropriate selection of investment options exists for MICB assets.

Policy	Assessment
<p>Assets under the control of the Trustee – CPRAB and 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</p> <p>An appropriate asset allocation strategy exists for those assets under the control of the Trustee.</p>	<p>Category 2a assets</p> <p>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.</p> <p>Investing company core credit assets in this way remains an appropriate strategy.</p> <p>Category 2b assets</p> <p>The aggregated assets are invested in line with the following strategic asset allocation:</p> <ul style="list-style-type: none"> – Equities and alternatives: 37.0% – Fixed interest bonds: 15.7% – Liability driven investment: 47.3% <p>Assets invested in the Multi-Asset Fund are split into the above asset classes on a best endeavours basis.</p> <p>As part of the updated investment strategy review, which was implemented in August 2022, the Trustee replaced the Scheme’s index-linked gilts allocation with a leveraged liability driven investment (“LDI”) portfolio with the purpose of increasing the Scheme’s hedging position against interest rate and inflation sensitivity and therefore further protect the Scheme’s funding position. As part of this strategy review the Trustee also invested in a buy and maintain credit portfolio, replacing the previous corporate bond allocations with a low-turnover primarily investment grade credit portfolio.</p> <p>Category 3 assets</p> <p>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.</p> <p>An appropriate investment strategy exists to meet the costs of purchasing an annuity contract or a policy.</p>
<p>Category 2b assets</p> <p>The Category 2b assets are invested in an appropriate mix of funds to achieve the desired strategic asset allocation however this allocation is currently being reviewed as part of a wider investment strategy review to determine if the current allocation remains appropriate.</p>	<p>The Category 2b assets are invested in the following funds:</p> <ul style="list-style-type: none"> – L&G Global Equity Market Weights 30:70 Index 75% GBP Currency Hedged Index Fund – L&G Matching Core Fixed Long Fund – L&G Matching Core Real Long Fund – L&G Buy and Maintain Credit Fund.

Policy	Assessment
	<p>These funds are appropriate to achieve the strategic asset allocation. The Matching Core funds are invested in with the aim of hedging against the Scheme's liabilities' sensitivity to interest rate and inflation movements.</p> <p>A second phase investment strategy review will be undertaken in 2023 to determine whether further risk can be removed from the Scheme's investment portfolio.</p>
<p>Category 2b assets</p> <p>Assets will be kept broadly in line with the strategic benchmark by using cashflows into or out of the Scheme to rebalance towards the strategic weightings. 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 deviating by more than 2.5% from the strategic asset allocation.</p>	<p>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.</p> <p>As at 31 December 2022, the assets under the control of the Trustee are c. 10% underweight in equities and alternatives, c. 12% overweight in LDI and c. 2% underweight in fixed interest bonds, compared to the strategic allocation. These deviations from the strategic allocation are material, but <u>material, but</u> have resulted from the extreme market volatility recognised at the end of September 2022. As part of the second phase investment strategy review, the Trustee will consider whether the strategic allocation remains appropriate to achieve the Scheme's objectives.</p>
<p>For the chosen funds, the Trustee's policy is to enter arrangements with no fixed end date.</p>	<p>The Trustee has chosen to make unit-linked insurance policy funds available to members, entering arrangements where it has the power to terminate these in line with the liquidity of the underlying assets and as agreed in the mandate. This investment structure remains appropriate.</p>

The Trustee's policies on investment risk

Risk underlying the assets which back members' retirement accounts lie with the members themselves, whilst risk in assets under the control of the Trustee are met by the Scheme itself. In determining suitable investment choices available to members and the underlying investment strategy for assets under the control of the Trustee, the Trustee has considered a number of risks, including concentration risk, inflation risk, annuity risk, inherent investment risk and fund manager risk.

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;
- Differing expectations as to time of retirement; and
- The option to take benefits as a lump sum or in annuity form.

The Trustee's policies on day-to-day fund management

The Trustee has entered into unit-linked insurance policies with Legal & General Assurance (Pensions Management) Limited ("L&G"), which has delegated fund management to Legal & General Investment Management Limited ("LGIM").

The day-to-day fund management of the assets is performed by a professional fund manager, LGIM, 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.

The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles. The assets of the Scheme are managed by L&G and the Investment Manager provides custodial services for investments. Custody services for the L&G funds are provided by HSBC Bank Plc and Citibank.

The Trustee's policies on manager arrangements, ESG considerations and stewardship

The Scheme's assets are invested entirely in pooled investment funds alongside other investors, and the Trustee does not therefore directly invest in underlying companies or have the ability to engage directly with these companies. It is the investment manager that is responsible for the policy on taking financially material considerations into account in the selection, retention and realisation of investments within the pooled investment vehicles and for the exercise of rights (including voting rights) attaching to these investments.

The Trustee continues to monitor the suitability of the available funds and, alongside the investment consultant, continues to monitor the Investment Manager's actions and performance.

The Trustee acknowledges that certain ESG factors including climate change are financially material and may therefore influence the risk and return characteristics of the Scheme's investments and the likelihood that the Scheme's objectives will be achieved. To confirm, the Trustee's policy is not to take into account non-financial matters in the selection, retention, and realisation of investments. Therefore, no consideration has been given to non-financial matters, nor has the Scheme's membership been consulted on such issues.

Both assets under the control of the Trustee and assets which back members' retirement accounts include exposure to shares. The Trustee does not directly exercise voting rights as these investments are through pooled funds with many other investors. Voting rights are exercised by LGIM and LGIM disclose their voting records on their website at the end of each month, including summaries of their positions for significant shareholder votes. LGIM apply a consistent voting policy across shares held through pooled funds.

In relation to those investment vehicles which are index tracking, the Trustee recognises that the investment objective for the manager is to track the specified index and that the extent to which ESG factors are considered by the manager when selecting, retaining and realising investments will depend on the specified index. However, the Trustee expects the investment manager to use its voting rights and to actively engage with the senior management of the companies in which it invests in order to influence positive change in respect of ESG considerations.

Further detail on the approach taken by LGIM to exercise voting rights is set out below.

Description of voting behaviour

The Trustee has enforced the policies in place by monitoring the engagement and voting activities of the Scheme's investment manager to ensure they are aligned with the Trustee's policies. The Trustee's voting behaviour over the Scheme year is summarised below.

The Scheme's mandates are managed by LGIM.

Over the year, the Scheme was invested in three mandates where underlying assets included publicly listed equities. These were:

- The LGIM Multi Asset (Formerly Consensus) Fund;
- The LGIM Global Equity Market Weights (30:70) Index Fund – GBP 75% Currency Hedged; and
- The Royal and SunAlliance UK Pension Scheme 2002 (Equity:Bond 50:50 Index Fund).

We have obtained voting information from the investment manager on the Multi Asset (Formerly Consensus) Fund and the Global Equity Market Weights (30:70) Index Fund – GBP 75% Currency Hedged. The Trustee's voting behaviour over the Scheme year for these funds is summarised below. Please note that the LGIM Global Equity Market Weights (30:70) Index Fund – GBP 75% Currency Hedged represents c. 50% of the Royal and SunAlliance UK Pension Scheme 2002 (Equity:Bond 50:50 Index Fund), and therefore the voting information for the Equity:Bond 50:50 Index Fund is in line with that of the Global Equity Market Weights (30:70) Index Fund – GBP 75% Currency Hedged.

The following table shows LGIM's voting summary covering the Scheme's investment in the Multi Asset (Formerly Consensus) Fund:

LGIM Multi Asset (Formerly Consensus) Fund	1 January 2022 – 31 December 2022
Number of meetings LGIM was eligible to vote at over the year	9,719
Number of resolutions LGIM was eligible to vote on over the year	98,805
Of the eligible resolutions, percentage that LGIM voted on.	99.8%
Of the resolutions voted, percentage that LGIM voted with management.	77.5%
Of the resolutions voted, percentage that LGIM voted against management.	21.8%
Of the resolutions voted, percentage where LGIM abstained.	0.7%
Percentage of eligible meetings where LGIM voted at least once against management.	71.0%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	12.5%

Totals may not sum due to rounding.

The following table shows LGIM's voting summary covering the Scheme's investment in the Global Equity Market Weights (30:70) Index Fund – GBP 75% Currency Hedged:

LGIM Global Equity Market Weights (30:70) Index Fund – GBP 75% Currency Hedged	1 January 2022 – 31 December 2022
Number of meetings LGIM was eligible to vote at over the year	7,259
Number of resolutions LGIM was eligible to vote on over the year	75,300
Of the eligible resolutions, percentage that LGIM voted on.	99.9%
Of the resolutions voted, percentage that LGIM voted with management.	80.5%
Of the resolutions voted, percentage that LGIM voted against management.	18.3%
Of the resolutions voted, percentage where LGIM abstained.	1.2%
Percentage of eligible meetings where LGIM voted at least once against management.	61.1%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	9.7%

Totals may not sum due to rounding.

Over the Scheme year the Scheme invested in the LGIM Buy and Maintain Fund which, despite being a credit fund, was eligible to vote in a small number of instances. We have therefore included the voting summary for this fund in the table below. Note that LGIM is not currently able to provide part period voting information so we have included the voting statistics for the full Scheme year.

LGIM Buy and Maintain Fund	1 January 2022 – 31 December 2022
Number of meetings LGIM was eligible to vote at over the year	2
Number of resolutions LGIM was eligible to vote on over the year	3
Of the eligible resolutions, percentage that LGIM voted on.	100.0%
Of the resolutions voted, percentage that LGIM voted with management.	100.0%
Of the resolutions voted, percentage that LGIM voted against management.	0.0%
Of the resolutions voted, percentage where LGIM abstained.	0.0%
Percentage of eligible meetings where LGIM voted at least once against management.	0.0%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	0.0%

Totals may not sum due to rounding.

LGIM votes by proxy through the Institutional Shareholder Service's ('ISS') electronic voting platform as given the scale of its holdings the manager cannot be present at shareholder meetings to cast votes. It should be noted that all voting decisions are made by LGIM using its individual market specific voting policies, with LGIM's own research only supplemented by ISS recommendations and research reports produced by the Institutional Voting Information Service ('IVIS'). LGIM regularly monitors the proxy voting service provided by ISS through quarterly due diligence meetings.

LGIM are evolving their approach in line with the new regulation and are committed to providing clients access to 'significant vote' information. In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and/or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

Reviewing this voting information, it is clear to the Trustee that LGIM has used the vast majority of its votes available to it. LGIM showed its independence by voting against management and also contrary to its proxy advisor on a large number of occasions. It has also used its engagements with a number of investee companies to discuss Environmental, Social and Governance topics.

An analysis of the voting information provided by LGIM reveals that significant votes in respect of the Multi Asset (Formerly Consensus) Fund and the Global Equity Market Weights (30:70) Index Fund – GBP 75% Currency Hedged included predominantly voting against approving the election of certain directors, especially where the company is not deemed to meet minimum standards with regards to climate risk management and disclosure or gender and/or racial diversity, and with LGIM advocating for the separation of the roles of CEO and board chair. LGIM also voted against certain climate change plans where there was an absence of quantifiable targets for climate change. However, LGIM cast significant votes in favour of climate change plans that were deemed to be sufficient action.

How engagement policies have been followed

The Trustee intends to review a summary of the voting and engagement activity taken on their behalf on an annual basis going forwards. The information published by the Investment Managers on their voting policies has provided the Trustee with comfort that their voting and engagement policies have been followed during the Scheme year.

A summary of the voting and engagement topics that the Trustee expects LGIM to engage on are shown in the following table.

Voting and Engagement topic	Policy followed in the opinion of the Trustee?	Comments
Performance of debt or equity issuer	✓	The Investment Manager's voting and engagement policies do not cover the past financial performance of investee companies. However, the voting and engagement which the Investment Manager undertakes aims to improve the long-term future performance of these companies.
Strategy	✓	The Trustee believes that the board's duty is to decide the appropriate company strategy, with the CEO in turn responsible for executing the strategy. For this structure to work effectively, the Trustee also believes that the appropriate governance structures need to be in place. These include the separation of duties between the Board and the CEO, as well as policies covering independence, diversity and remuneration. The Investment Manager has clear voting policies covering each of these topics.
Risks	✓	As an example of reducing risk, the Investment Manager encourages all audit committee chairs globally to have a financial background and, in the UK, votes against the audit committee chair's appointment if this is not the case.
Social and Environmental impact	✓	The Investment Manager has stated that it will vote against the chair of the board if it believes insufficient action is being taken on the issue of climate change. Also, if there are no women on the board, the investment manager will vote against the chair and / or the chair of the nomination committee.
Corporate Governance	✓	The Investment Manager's policy is to vote against all elections which combine the roles of CEO and Chair.

Engagement with investee companies

Exercising voting rights is not the only method of influencing behaviours of investee companies. Non-equity investments such as the Scheme's corporate bond holdings can also include engagement activities, but these investments do not carry voting rights. In such cases, LGIM actively engages with the investee companies via direct messages and meetings with management and engagements via email to influence positive ESG practice.

It is also noted that there is substantial overlap between the companies in which LGIM holds debt and equity and so while certain funds do not hold voting rights, LGIM's position as the equity holder elsewhere will likely result in them having voting rights to compound the impact and influence that LGIM has on each company's practices.

The Trustee expects the investment manager to engage with investee companies on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee's investments.

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for clients. LGIM's voting policies are reviewed annually and take into account client feedback.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of LGIM's Investment Stewardship team. The views expressed by attendees during this event form a key consideration as LGIM continue to develop voting and engagement policies and define strategic priorities.

LGIM has provided an engagement breakdown for each fund held by the Scheme over the Scheme year categorised by Environmental, Social, Governance or Other topics. This is detailed in the table below:

Fund	Environmental	Social	Governance	Other
Over 15 Year Gilts Index Fund	16	2	15	1
Over 5 Year Index-Linked Gilts Index Fund	16	2	15	1
Multi-Asset (formerly Consensus) Fund	456	142	265	97
Global Equity Market Weights (30:70) Index Fund - GBP 75% Ccy Hgd	418	135	270	92
Over 15 Year Investment Grade Corporate Bond Fund	29	9	31	6
AAA-AA-A Corporate Bond Over 15 Year Index Fund	26	7	21	5
Buy and Maintain Credit Fund	62	35	53	7
Matching Core Fixed Long Fund	16	2	15	1
Matching Core Real Long Fund	16	2	15	1
Cash Fund	-	-	1	-

Extent to which the Trustee's policies have been followed during the year

Having reviewed the actions taken by LGIM on behalf of the Trustee, the Trustee believes that their policies on voting rights (where applicable) and engagement have been implemented appropriately over the year and in line with the Investment Manager's policies. The Trustee will continue to monitor the actions taken on its behalf each year, and press for improved information from the Investment Manager.

If the Investment Manager deviates substantially from the Trustee's stated policies, the Trustee will initially discuss this with the relevant manager. If, in the opinion of the Trustee, the difference between the policies and the investment manager's actions is material, the Trustee will consider terminating the mandate.

It should be noted that the Trustee updated the Scheme's investment strategy over the Scheme year with a view to reducing the Scheme's investment risk position. A second phase investment strategy review will be undertaken over 2023 to determine whether the strategic allocation remains appropriate to achieve the Scheme's objectives in the light of investment market dynamics and the Scheme's improved funding position.

In the opinion of the Trustee, the wider policies and objectives stated in the SIP have been mostly followed throughout the year for the Scheme.

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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

St James Tower
7 Charlotte Street
Manchester
M1 4DZ