The Royal Blind Group Pension Scheme

Statement of Investment Principles

September 2020

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1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustees of The Royal Group Pension Scheme (the Scheme). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
- the Occupational Pension Schemes (Charges and Governance) Regulations 2015;
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. In preparing this statement the Trustees have consulted The Royal Blind Asylum and School ("Royal Blind"), the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3. This statement has been prepared with regard to the Scheme Funding legislation.

1.4. The Trustees will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustees are set out in the 2017 Trust Deed & Rules. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in Appendix 1 of this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' main investment objectives are:

- to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long-term positive real return;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the participating employer, the cost of current benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to manage the long-term costs of the Scheme.

3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

4.2. The Trustees do not expect to incur any employer-related investment. The Trustees' auditor carries out an annual check to ensure that the Scheme has not breached employer-related investment restrictions.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within Appendix 1 of this Statement.

5.2. The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in Appendix 1 of this Statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6. Risks

6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Covenant risk	The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material and will continue to develop their policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators (in practice, the appointed third party administrators, collaborating with the Employer's in-house finance team) assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed by some of the Scheme's investment managers to manage the impact of exchange rate fluctuations.

Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustees review of the internal controls and processes of each of the investment managers from time to time.

7. Expected return on investments

7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their investment consultants (currently Barnett Waddingham LLP) on these matters, who have confirmed they are appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's investment managers as frequently as is appropriate in order to review performance.

8. Realisation of investments

8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. Financially material considerations, non-financial matters, the exercise of voting rights, and engagement activities

Policy on environmental, social and governance (ESG) factors

9.1. The Trustees have considered long-term financial risks to the Scheme and believes that ESG factors, including but not limited to climate change, are financially material and therefore has a policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments.

9.2. Taking into account the maturity profile of the Scheme, the Trustees have a long-term time horizon over which it takes into account the financial materiality of ESG factors (including, but not limited to, climate change).

9.3. Based on research findings and their discussions the Trustees agree that ESG factors have the potential to impact the risk and/or return profile of the Scheme's investments, however, the Trustees appreciate that this impact will vary between different asset classes and be different for active and passive investments.

9.4. When selecting new investments, the Trustees will request information on ESG integration credentials as part of the proposals. An investment manager's excellence is this area is one of a number of factors that would be considered by the Trustees.

9.5. The Trustees will request that any future manager presentations include an update on ESG considerations. The Trustees may also obtain further training on ESG factors from the Scheme's investment consultant to consider any future market developments or if there are any changes to their investments that require reassessment or expansion of the Trustees' policy on ESG factors.

9.6. The Trustees' views on how the ESG factors are taken into account for the Scheme's investments are set out below.

9.6.1. **Passively managed equity funds:**

- The Trustees believe that ESG factors will be financially material to the risk-adjusted returns for equities.
- However, the Trustees accept that for passively managed funds the investment managers are constrained to invest in line with the specified index and therefore may not be able to select, retain or realise investments based on ESG related risks and opportunities.
- The Scheme's current passive manager, LGIM, is a large and long-term investor, and engages with companies (including those in the indices that the Scheme invests in) on matters including wider ESG factors and climate change on a regular basis. These engagement activities are set our under the Trustees' stewardship policy below.

9.6.2. **Passively managed liability driven investment (LDI) and cash funds:**

- The Trustees do not believe there is significant scope for ESG issues to improve risk-adjusted returns within the Scheme's LDI and cash holdings.

9.6.3. **Actively managed funds:**

- The Trustees believe that ESG factors will be financially material to the risk-adjusted returns achieved by the Scheme's diversified growth fund, multi-asset credit and property holdings.
- These funds are actively managed and aim to achieve their outperformance targets with managed volatility and the managers are therefore expected to consider all financially material considerations, including but not limited to ESG factors, when managing the funds.
- The Trustees are satisfied that the managers have suitable processes to consider ESG factors and take them into account, where relevant, in the selection, retention and realisation of the underlying investments within the funds.

Policy on non-financial matters

9.7. The Trustees do not take into account the Scheme members' and beneficiaries' views on ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme (i.e., "non-financial matters" in the relevant regulations) in the selection, retention and realisation of investments.

Policy on stewardship

9.8. The Trustees acknowledge the importance of ESG and climate risk within their investment decision making framework. When delegating investment decision making to their investment managers the Trustees provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

9.9. The Trustees are firmly of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

9.10. The Trustees consider it to be a part of their investments managers' roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units. The Trustees also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme. Where the Trustees use pooled funds the Trustees expect the investment manager to employ the same degree of scrutiny.

9.11. Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

9.12. The Scheme's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, along with Scheme-specific conflicts management plan which is in place, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest in this area.

9.13. The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations, and will review these as part of ongoing monitoring provided by their Investment Consultant. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

10. Arrangements with asset managers

10.1. The Trustees have a policy on arrangements with asset managers, this is set out in Appendix 2.

11. Agreement

11.1. This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, the actuary and the Scheme auditor upon request.

Date:........................ 22 September 2020

On behalf of The Royal Blind Group Pension Scheme

Appendix 1 - Note on investment policy of the Scheme as at September 2020 in relation to the current Statement of Investment Principles

The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Rebalancing

The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances, whilst also taking into account movements in the value & profile of the Scheme's liabilities.

Portfolio	Asset class	Allocation (%)
Growth portfolio	Global Equities	25.0
	Diversified Growth Fund (DGF)	20.0
	Multi Asset Credit (MAC)	20.0
	UK Property	10.0
Protection portfolio	Liability Driven Investment (LDI)	25.0
Total		**100.0**

Choosing investments

The Trustees have appointed the following investment managers to carry out the day-to-day investment of the Scheme:

- Legal & General Investment Management (Global Equities & LDI);
- Aberdeen Standard Investments (DGF & UK Property);
- Janus Henderson Investors (MAC).

The Trustees also have AVC contracts with The Equitable Life Assurance Society and Standard Life Assurance Limited for the receipt of members' Additional Voluntary Contributions (AVCs).

The investment managers and AVC providers are authorised and regulated by the Financial Conduct Authority.

The investment benchmarks and objectives for each investment manager and AVC provider are given below:

Investment manager	Fund	Benchmark	Objective
Legal & General Investment Management	World Equity Index (MSCI)	MSCI World Index	Track benchmark gross of fees.
	Matching Core Fixed Long Duration Fund	Provide leveraged exposure to changes in nominal interest rates with a target duration at launch and rolling down over time.	
	Matching Core Real Short Duration Fund	Provide leveraged exposure to changes in real interest rates with a target duration at launch and rolling down over time.	
	Matching Core Real Long Duration Fund		
	Sterling Liquidity Fund	LIBID GBP 7 Day	To provide capital stability, liquidity and diversification while providing a competitive level of return.
Aberdeen Standard Investments	Diversified Growth Fund	1 Month LIBOR	Outperform the benchmark by 4.5% p.a. net of fees over rolling 5 year periods.
	UK Property	ABI UK Direct Property Life	To provide exposure to an actively managed portfolio, the majority of which invests in a balanced commercial property portfolio.
Janus Henderson Investors	Multi Asset Credit Fund	3 Month LIBOR	Outperform the benchmark by 5.0% p.a. gross of fees over rolling 3 to 5 year periods.

The performance of the investment managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The AVC arrangement is reviewed from time to time.

Fee agreements

The fee arrangements with the investment managers are set out in the Trustees' Investment Manager Arrangement Summary document.

Investments and disinvestments

Investments and disinvestments are usually made so as to move the actual asset allocation more in line with the target asset allocation, taking into account market conditions and the progression of the Scheme's liabilities.

Appendix 2 - Note on investment manager arrangements as at September 2020 in relation to the current Statement of Investment Principles

Aligning the investment strategy and decisions of investment managers with the Trustees' investment policies

Prior to appointing an investment manager, the Trustees discuss the investment manager's benchmark and approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how they are aligned with the Trustees' own investment aims, beliefs and constraints.

When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they may use another manager for the mandate.

The Trustees carry out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the scheme and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

In the event that the investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated. The investment managers have been informed of this by the Trustees.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback is expected to be provided to the investment manager by the investment consultant.

Time horizon for making decisions and engagement

The Trustees are mindful that the impact of ESG and climate change may have a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustees have acknowledged this in their investment management arrangements.

When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over an agreed predetermined rolling timeframe. The Trustees believe the use of rolling timeframes, typically three to five years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this to be sufficient to ensure an appropriate alignment of interests.

The Trustees expect investment managers to be voting and engaging on behalf of the fund's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts.

The Trustees do not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

Manager performance and remuneration

Evaluation of investment managers' performance

The Trustees monitor the performance of their investment managers over the medium to long time periods that are predetermined and consistent with the Trustees' investment aims, beliefs and constraints.

Remuneration of investment managers

Details of the fee structures for the Scheme's investment managers are contained in the Trustees' Investment Manager Arrangement Summary document.

The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the actively managed funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. In some instances, a performance fee may also be applied.

The Trustees believe that this fee structure, including the balance between any fixed and performance related element, enables the active investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustees ask the Scheme's Investment Consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered every three years as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

The Trustees acknowledge that portfolio turnover costs can impact on the performance their investments. Overall performance is assessed as part of the regular investment monitoring process.

During the investment manager appointment process, the Trustees consider both past and anticipated portfolio turnover levels. When underperformance is identified deviations from the expected level of turnover may be investigated with investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

The Trustees acknowledge that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

The duration of the arrangements with investment managers

For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment aims, beliefs and constraints is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.