



Royal Mail Defined Contribution Plan

Statement of Investment Principles

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Section 1: Introduction

Background

- 1.1 Under legislation set out in the Occupational Pension Plans (Investment) Regulations 2005 (S.I. 2005/3378) (“the Investment Regulations”), it is a requirement for trustees to prepare a statement of the principles that govern their investment decisions. For the Trustees of the Royal Mail Defined Contribution Plan (“the Plan”), this document serves that purpose.
- 1.2 In preparing this document, the Trustees have given due consideration to the reasons why the Plan uses an insurance policy and their policy for securing compliance with the requirements of section 36 of the Pensions Act 1995 (*choosing investments*).
- 1.3 In addition, the Trustees have consulted the principal employer (Royal Mail Group Limited) and have sought advice from Towers Watson Limited, the Plan’s advisers, in drawing up this document. However, the ultimate power of responsibility for deciding investment policy lies with the Trustees.
- 1.4 It is the intention of the Trustees to review this document at least every three years or without delay after any significant changes take place to the Plan’s investment policy.
- 1.5 Copies of this document have been given to the employer, the Plan’s adviser and the provider. Copies are available to members of the Plan on request.

Plan details

- 1.6 The Plan’s invested assets are held in an insurance policy issued by Zurich Assurance Limited. The Plan is a registered pension scheme as defined in section 153 of the Finance Act 2004. The Plan operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries.
- 1.7 Members of the Plan are not contracted out of the State Second Pension (S2P).

Section 2: Policy for securing compliance with the Pensions Act 1995

- 2.1 In preparing this document the Trustees have had regard to the requirements set out in section 36 of the Pensions Act 1995 concerning diversification, in so far as appropriate to the circumstances and membership of the Plan. In this regard, the Trustees make available a range of pooled funds through the Plan's insurance policy in which members of the Plan are able to invest (a list of these funds is contained in appendix A of this document). From time to time additional funds may be added or deleted or the funds are amended as considered appropriate by the Trustees.
- 2.2 These funds cover a broad range of asset classes including equities, index linked gilts, cash and fixed interest, as well as alternative assets such as property, high yield bonds and emerging market sovereign debt, which the Trustees believe will enable members to invest in a manner which reflects their attitude to risk and proximity to retirement.
- 2.3 In addition to the range of funds shown in Appendix A, the Trustees also provide a "Lifecycle" option to members, with the choice of a five or ten year switching period. The Lifecycle strategy is described in Appendix B. The Trustees recognise that the design may not be suitable for all members, but believe that, they will provide a useful investment strategy for many members.
- 2.4 The Lifecycle option with a ten year switching period is the "default" investment option for the Plan. Having taken advice from Towers Watson, the Trustees consider that, in the absence of an explicit member nominated alternative, this Lifecycle option is the most appropriate default investment strategy. However, the Trustees' intention is that all members, including those investing through the Lifecycle strategy, should understand the investment choices they make so that their chosen strategies are appropriate to their own circumstances.
- 2.5 The Plan's fund range has been "white-labelled". The Trustees made the decision to do so for the following reasons:
- In order to help focus the communications message to members.
 - To simplify the ongoing administration of the Plan in the event of a change in investment manager.
 - To increase the investment flexibility of the Plan so that the current framework can accommodate potential future enhancements without undue disruption.
- 2.6 Although the Trustees have ultimate responsibility for decisions regarding the Plan's investment policy, in accordance with section 34 of the Pensions Act 1995 (*power of investment and delegation*), they have delegated the day-to-day management of the assets to the issuer of the Plan's insurance policy and the associated underlying fund managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Plan competently and will be responsible for investing in diversified portfolios of assets.
- 2.7 The Trustees will obtain advice and consider these requirements on any review of this document or any change to the Plan's investment policy. As appropriate, the Trustees will

also monitor the Plan's insurance provider and the underlying investment managers in consideration of the need for diversification of investments.

- 2.8 The Trustees have obtained and considered proper advice from the Plan's advisers on the suitability of the investment funds offered through the insurance policy to members of the Plan to ensure adherence to the principles contained in this statement.
- 2.9 The Trustees policy is to obtain the advice mentioned in 2.7 at least every three years or sooner in the event of there being consideration of any significant changes in the Plan's investment policy and will consider such advice accordingly.

Objectives

- 2.10 The Trustees' objective is to make available to members of the Plan an appropriate range of investment options designed to generate income and capital growth which, together with new contributions from members and the employer, will provide a fund at retirement with which to purchase a pension annuity (or other type of retirement product).
- 2.11 Members' investment needs change as they progress towards retirement age. Younger members, e.g. those with more than 10 years to retirement, have a greater need for real growth in the value of their Member Accounts to attempt to ensure their investment accounts keep pace with inflation and, if possible, salary escalation. Younger members will also, all other things being equal, have a greater tolerance for volatility of returns, as they have a greater time to retirement in which markets may recoup temporary declines. Older members, e.g. those with 10 or less years to retirement, and especially those with 5 years or less, will require a greater level of stability in the value of their account, to protect the amount of pension they are able to purchase.
- 2.12 Members also have different levels of risk tolerance, regardless of age, and differing levels and types of personal investments. Therefore members should have the facility to invest in vehicles that broadly reflect their own preferences and personal beliefs, whilst maintaining a suitable spread of investments.

Risk

- 2.13 The Trustees have considered risk from a number of perspectives. These are:
- 2.14 The risk that the investment return over members' working lives does not keep pace with inflation – "inflation risk"
- 2.15 The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in the pension and cash lump sum secured – "conversion risk"
- 2.16 The risk that members end up with insufficient funds at retirement with which to secure a reasonable income – "opportunity cost" risk
- 2.17 The risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed – "manager risk"
- 2.18 The risk of a fall in the value of the members' funds – "capital risk"

- 2.19 The funds offered through the Plan have been chosen, in part, to help members mitigate these risks through appropriate fund selection.

Policy

- 2.20 The Trustees' policy is to seek to achieve the objectives through providing a suitable range of funds, and by monitoring the use of the funds as a form of risk measurement.
- 2.21 For those members who are willing to accept a greater level of volatility in pursuit of achieving a higher value of their investment account, a Global Equity fund is available. In addition, for members with specific beliefs, there are Ethical and Shariah equity fund options.
- 2.22 For those members who are less comfortable with the likely volatility of the Global Equity fund, there is a Diversified Assets fund, which forms part of the Lifecycle, together with a range of other asset classes available for investment: fixed interest, inflation-linked bonds and cash.
- 2.23 Members of the Plan are responsible for selecting the fund or combination of funds in which they wish to invest their pension accounts, from the available range. Before making an investment decision members are expected to read the available information on the fund range, and any appropriate materials that the Trustees make available. They are told about the availability of independent financial advice.
- 2.24 The investment funds available trade daily and, as such, are readily realisable.
- 2.25 The investment managers or the Trustees will not borrow money or act as a guarantor for the purpose of providing liquidity (unless it is temporary).

Social, Environmental and Ethical issues

- 2.26 The Trustees invest in pooled funds through an insurance policy, and as such have delegated responsibility for the selection, retention and realisation of investments to the investment managers in whose funds they invest.
- 2.27 The Trustees' policy is that the extent to which social, environmental or ethical considerations are taken into account in these decisions is left to the discretion of the investment managers.
- 2.28 An investment option that specifically targets socially responsible investments is provided to members of the Plan.

Rights attaching to investments

- 2.29 The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.
- 2.30 Where appropriate, the Trustees seek to monitor the rights exercised by the underlying investment managers.

Section 3: Using an Insurance Policy

- 3.1 The Plan's invested assets are held through an insurance policy with Zurich. It has no other investments other than this qualifying insurance policy. The Plan is, therefore, "wholly insured" for the purposes of regulation 8 of the Investment Regulations,
- 3.2 The reasons why the Trustees believe that an insurance policy is most suited to their circumstances, and those of the Plan beneficiaries, are as follows:
- The Zurich policy offers the Trustees the facility to design a good quality retirement package that would enable members of the Plan to invest in a range of asset classes at a reasonable cost;
 - The financial strength of Zurich and its level of commitment displayed to the Plan;
 - The security given by Zurich's regulation by the Financial Services Authority and the Financial Services Compensation Plan;
 - The professional management of the investment funds available through Zurich's contract and its willingness to keep the product competitive in the future;
 - Zurich's capabilities in relation to pension Plan administration and communication to employees; and
 - The overall value-for-money offered by investing in a packaged product with Zurich.
- 3.3 The Trustees continue to believe that this approach is in the best interests of its members, but will regularly review this decision, with the assistance of their investment advisors, to ensure that it remains so.

Appendix A: List of current fund options

'White-labelled' fund name	Active/ Passive	Underlying fund(s)	Objective
Global Equity	Passive	L&G 30:70 Global Equity	Achieve long term growth but accepting some shorter term volatility associated with investing in equities (and potentially other asset classes).
Bonds	Passive	L&G Pre-Retirement	Broadly match the cost of buying a pension that does not increase with inflation.
Inflation Linked Bonds	Passive	L&G Over 5 Year Index-Linked Gilts	Broadly match the cost of buying a pension that increases with inflation.
Cash	Passive	BGI Sterling Liquidity First	Provide protection to the value built up.
Ethical	Passive	L&G Ethical Global Equity Index	Achieve long term growth via socially responsible investments but accepting some shorter term volatility associated with investing in equities.
Shariah	Passive	HSBC Amanah	Achieve long term growth via investments which comply with Islamic Shariah Principles but accepting some shorter term volatility associated with investing in equities.
Diversified Assets	Passive	BlackRock Aquila Life Market Advantage	Achieve capital growth by investing in a highly diversified mix of asset classes in a risk controlled way to reduce volatility.
Managed Diversified	Active	Newton Real Return	Achieve significant real rates of return in sterling terms.

Appendix B: Lifecycle Options

The Plan's Lifecycle option invests in the Diversified Assets fund and Global Equity Fund in a ratio of 60:40, before gradually transitioning into a consolidation portfolio consisting of 75% Bonds fund and 25% Cash fund over either 5 or 10 (default option) years. The transition period occurs prior to a member's selected retirement age. The default retirement date is 65 however members can select a lower retirement age of between 55 and 64. Members who do not take their benefits at their selected retirement age, and do not either switch funds (or, if aged less than 65, select a new selected retirement age) will remain invested in their final consolidation phase asset allocation.

