The Reserve Bank of Australia UK Pension Scheme

Statement of Investment Principles – December 2021

1. Introduction

The Trustees of the Reserve Bank of Australia UK Pension Scheme (the "Trustees" of the "Scheme") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments.

In preparing this Statement the Trustees have consulted the Reserve Bank of Australia (the "Bank"), to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme's investment arrangements. The Trustees have also taken into consideration the requirements of section 35 of the 1995 Pensions Act ("Investment Principles"), as amended.

2. Investment Objectives

The Trustees' ultimate objective is to ensure the security of the members' benefits. In light of this objective, the Trustees entered into a bulk annuity policy covering 100% of the Scheme's liabilities, underwritten by Aviva Life & Pensions UK Ltd ("Aviva") in May 2018. Then, in May 2020, the Trustees completed the insurance transaction with Aviva, by paying a balancing premium and triggered the wind up of the Scheme. As at the date of authoring this document, December 2021, the enactment of the bulk annuity policy has been completed and there are no outstanding premiums due to the insurer.

Aviva is an insurance company authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The policy has not been structured with expected return in mind, but instead aims to exactly match the Scheme's benefit obligations.

The Trustees' key short-term objective is to ensure an efficient progression towards the wind-up of the Scheme. The aim is to complete this as soon as practicable.

3. Process for Choosing Investments

The Trustees have entered into a bulk annuity contract with Aviva. As a result, all of the Scheme assets are represented by this contract, with the exception of:

- Assets held with Legal & General Investment Management ("LGIM") in order to meet any residual cashflow requirements, which may pertain to but are not limited to:
  - Trustee indemnity insurance;
  - Any tax payment in relation to a refund of the surplus assets to the Bank; *and*
  - Any other remaining fees.

In considering the appropriate investments for the Scheme, the Trustees selected Aviva as their annuity provider having obtained and considered the written advice of Mercer Limited, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended). Should anything change that brings into question the suitability of Aviva the Trustees will take appropriate advice.

4. Risk Management and Measurement

The Trustees recognise the following main sources of risk as relevant to their situation in relation to investment:

- A mismatch between the Scheme's assets and its liabilities. In order to remove this risk, the Trustees have entered into a bulk annuity contract with Aviva covering 100% of the liabilities.
- Lack of diversification. The Trustees recognise that a decision to invest in an annuity contract with a single provider represents a concentration of risk and has addressed this through scrutiny of the provider.
- Illiquidity. The Trustees do not expect to be able to obtain cash from the bulk annuity policy other than to meet promised benefits as agreed with the provider.

In relation to the small amount of assets held with LGIM until such time as the Scheme finalises the wind-up, the Trustees recognise the following risks:

- Residual Expense Risk: The assets may not be sufficient to cover any significant residual expenses or cash requirements. The Trustees have mitigated this risk by investing in a low risk manner and the Bank has agreed to meet any expenses not covered by the remaining assets of the Scheme.
- Shortfall Risk: Risk that in the case where assets are not sufficient, the sponsor is unable to meet the shortfall. The Trustees have mitigated this risk by achieving a buffer on the assets held that is expected to be sufficient to cover additional expenses. In the context of the strong covenant, the Trustees believe this risk has been largely minimised.

5. Additional Assets

In addition to the bulk annuity contract with Aviva, the Scheme has some residual holdings in a unit trust with LGIM, namely the UK Cash Trust. This holding has been maintained to ensure that the Trustees have an appropriate level of cash for residual payments anticipated prior to the finalisation of wind-up. The Trustees therefore seek to preserve the capital value of these assets by investing them in a low risk manner.

The Trustees have adopted the following control framework in structuring the Scheme's investment with LGIM:

6. The Trustees have appointed an investment manager who is authorised under the Financial Services and Markets Act 2000 to undertake investment business. Investment Strategy of Additional Assets

Following an investment strategy review carried out in early 2018 and further advice from their investment consultant, Mercer Limited in December 2021, the Trustees decided to implement the strategy below.The Trustees are now in the final stages of winding up the Scheme and any surplus remaining assets, once the wind-up has been completed, will be repaid to the Bank. The assets of the Scheme held with LGIM were distributed as follows:

Asset Class	Benchmark Allocation (%)	Fund Objective	Benchmark
Cash	**100.0**		
Cash Trust	100.0	To maintain capital and to provide a return in line with money market rates	IA Short Term Money Market peer group
Total	**100.0**		

The Trustees invest in one unit trust with LGIM, namely the UK Cash Trust .

No rebalancing ranges are in place.

7. Performance Objective and Tracking Error Targets

The UK Cash Trust invests in money market instruments on an active basis. It aims to maintain capital and provide a return in line with money market rates.

8. Day-to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets to LGIM. As such, LGIM has responsibility for the selection, retention and realisation of the underlying investments within the pooled fund that they manage. LGIM also has discretion to incorporate social, environmental and ethical considerations in exercising their delegated responsibilities.

The Trustees have taken steps to satisfy themselves that the LGIM have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

The Trustees review the continuing suitability of the Scheme's investments and LGIM, which may be changed from time to time. However, any such changes will be made with the aim of ensuring the overall level of risk is consistent with the Trustees' objectives, as set out in Section 3.

9. Investment manager Appointment, Engagement and Monitoring

9.1 Aligning Manager Appointments with Investment Strategy

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.

The Trustees look to their investment consultant, where appropriate, for their forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The consultant's manager research ratings assist with due diligence and are used in decisions around selection, retention and realisation of manager appointments.

When selecting and appointing investment managers, the Trustees will take into account how environmental social and corporate governance ("ESG"), climate change and stewardship factors are integrated within the managers' investment processes. This will be balanced against other manager selection criteria such as (but not limited to) idea generation, portfolio construction, implementation, business management and fees and charges.

If the investment objective of a particular fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

The Trustees invest in pooled investment vehicles and therefore they accept that they have no ability to specify the risk profile and return targets of the managers, but appropriate mandates can be selected to align with the overall investment strategy.

The Trustees will also seek to understand the investment manager's approach to sustainable investment (including engagement).

9.2 Evaluating Investment Manager Performance

The Trustees receive investment manager performance reports from the manager on a quarterly basis, which present performance information over 3 month, 1 year and 3 years. The Trustees review absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and against the manager's stated performance target (over the relevant time period). As noted above, the Trustees may review a manager's appointment if:

(a) There are sustained periods of underperformance;

(b) There is a change in the portfolio manager;

(c) There is a change in the underlying objectives of the investment manager;

(d) There is a significant change to the Investment Consultant's rating of the manager.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustees may initially ask the manager to review their fees instead of terminating the appointment.

9.3 Portfolio Turnover Costs

The Trustees do not currently monitor portfolio turnover costs.

9.4 Manager Turnover

For open-ended funds, there is no set duration for the manager appointments. The Trustees will therefore retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

- The manager appointed has been reviewed and the Trustees have decided to terminate the mandate.

10. Additional Voluntary Contributions ("AVCs")

Under the terms of the trust deed, the Trustees are responsible for the investment of AVCs paid by members.

The Trustees formerly invested members' AVCs in a managed fund, with profits and deposit arrangement with the Prudential Pensions Limited. However, following the triggering of wind-up in May 2020 and the completion of the bulk annuity policy, all AVC policies attached to the Scheme were migrated to the arrangement with Aviva.

11. Realisation of Investments

The investment managers have discretion in the timing of realisation of the underlying investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

12. Responsible Investment and Corporate Governance

The assets of the Scheme are invested in one LGIM unit trust. The underlying assets are managed in pooled vehicles; the Trustees accept that the assets are subject to the Investment Manager's own policies on social, environmental and ethical investment. The Trustees are comfortable with the arrangements in place.

The Trustees believe that ESG issues can affect the performance of portfolios and should therefore be considered as part of the Scheme's investments The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustees will take into account the expected lifetime of the Scheme when considering how to integrate these issues into the investment decision-making process.

The Trustees have given their investment managers discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to the Scheme's investments. The Trustees consider how ESG is integrated within investment processes when monitoring existing investment managers or appointing new managers.

It is accepted that pooled investments will be governed by the individual policies of the investment managers. These policies are reviewed as part of the consideration of pooled investments and appointment of new managers or funds.

The Trustees believe that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty.

The Trustees do not currently have a formal process for seeking the views of members on non-financial matters such as ethical considerations or issues such as social and environmental impact when considering the selection, retention and realisation of assets. However, they will consider views expressed by members, provided that they are consistent with the Scheme's investment objectives as set out in section 3 above.

The Trustees wish to encourage best practice in terms of activism. The Trustees request copies of the Investment Manager's corporate governance policy from time to time.

13. Custodian and Advisors

Custodian

The role of a custodian is to ensure the safekeeping of the assets managed by LGIM and facilitate all transactions that they enter into.

The Trustees are not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. However, the Trustees are comfortable that LGIM has procedures in place for the appointment and monitoring of the relevant custodians and for conducting periodic reviews.

Actuary

Sam Eida of Mercer Limited is the appointed Scheme Actuary.

14. Fee Structures

LGIM is paid a management fee on the basis of Assets under Management. The fee payable is 0.15% per annum for the UK Cash Trust.

The Scheme Actuary and Investment Consultant typically work on a time and expenses basis with indicative fees agreed in advance by the Trustees on a project basis.

15. Compliance with this Statement

The Trustees monitor compliance with this Statement annually and obtain written confirmation from the Investment Manager that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

16. Review of this Statement

The Trustees will review this Statement at least once every three years and immediately after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

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Trustee Trustee

8 / Dec / 2021
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Date

The Trustees of the Reserve Bank of Australia UK Pension Scheme