Rolls-Royce Retirement Savings Trust

Trustee's annual report and financial statements for the year ended 5 April 2020

Pensions Scheme Registration Number: 10249659

Contents

Trustee and advisors

Trustee	Rolls-Royce Retirement Savings Trust Limited
Directors	Company-appointed directors Ian Farnsworth – Chairperson Rebecca Hodgson Alan Partridge (resigned 14 August 2020) Teresa Waine Member-nominated directors Gordon Frew (resigned 30 August 2020) Matthew Hill Mark Porter
Secretary	Richard Hill, Rolls-Royce Pensions Department
Sponsoring employer	Rolls-Royce plc, 62 Buckingham Gate, London SW1E 6AT
Advisor	Rolls-Royce plc Pensions Department Kings Place, 90 York Way, London, N1 9FX
Administrator	Aviva Life and Pensions UK Limited, Wellington Row, York, YO90 1WR
Banker	National Westminster Bank plc 15 Bishopsgate, London EC2P 2AP
Investment managers	Aviva Life and Pensions UK Limited, Wellington Row, York, YO90 1WR. Equitable Life Assurance Society 20-22 Bedford Row, London, WC1R 4JS (until 31 December 2019) Utmost Life and Pensions Limited Walton Street, Aylesbury, Buckinghamshire, HP21 7QW (from 1 January 2020 to 30 April 2020) The Prudential Assurance Company Limited Craigforth, Stirling, FK9 4UE
Legal advisors	Gowling WLG Two Snowhill, Birmingham, B4 6WR
Auditor	KPMG LLP One Snowhill, Snow Hill Queensway, Birmingham, B4 6GH
Investment consultant	Mercer Limited Tower Place West, London EC3R 5BU
Life assurance provider	Met Life, Invicta House, Trafalgar Place, Brighton BN1 4FR
Annuity broker	Hargreaves Lansdown Corporate Solutions (until 17 March 2020) WPS Advisory Limited (from 18 March 2020)

Trustee's report

Introduction

The Rolls-Royce Retirement Savings Trust (the "Trust") provides retirement and life assurance benefits for employees of Rolls-Royce plc and associated companies (the "Company"). The Trust was established on 6 April 2000. The Trust is governed by a Trust Deed and Rules as amended by supplementary deeds. The Trustee is a UK limited company, Rolls-Royce Retirement Savings Trust Limited (the "Trustee").

The Trust's assets are held in the name of the Trustee and are entirely separate from the assets of the Company. The Trust is registered with Her Majesty's Revenue & Customs for tax purposes. Consequently, the majority of the Trust's income and investment gains are free of taxation.

The Trust is an earmarked scheme which means that, all the benefits are secured by an insurance policy. Under the policy, each member accumulates an individual (earmarked) pension fund. The Trust provides retirement benefits for members and where applicable, life assurance benefits.

The Trustee has decided to extend the scope of the annual report and financial statements beyond that required of an earmarked scheme. Therefore this is a non-statutory annual report and financial statements.

Management of the Trust

The directors of the Trustee are appointed and removed in line with the provisions of the Trustee's Articles of Association. There are usually seven directors comprising four directors appointed by the Company (including a Chairperson) and three directors nominated by members.

In accordance with The Occupational Pension Schemes (Member-nominated Trustees and Directors) Regulations 1996, the Trustee (with the consent of the sponsoring employer), has put in place a procedure for the appointment and removal of Trustee directors, including the provision for three Trustee directors to be nominated and selected by eligible members in accordance with the Trust Deed and Rules.

The directors normally meet four times a year and more frequently as required. All directors have the same function except that the Chairperson (or, if he or she is not present at any meeting the director appointed as Chairperson of the meeting) will have a casting vote. Attendance at the regular four Trustee meetings during the year is shown in the table below:

Director	Meetings attended	Meetings applicable
Ian Farnsworth – Chairperson	4	4
Gordon Frew	4	4
Matthew Hill	4	4
Rebecca Hodgson	4	4
Alan Partridge	3	4
Mark Porter	4	4
Teresa Waine	4	4

Each director has been provided with relevant documentation required to perform their role as a pension scheme trustee and pension scheme trustee training is undertaken on a regular basis. These training arrangements are designed to meet The Pensions Regulator's pension scheme trustee training requirements, which were established by the *Pensions Act 2004*.

Changes during the year

The following changes occurred during the year:

- In 2019 the Company commenced a consultation with its management grade employees that are also members of its defined benefit pension scheme, the Rolls-Royce UK Pension Fund, to reduce the ongoing cost of benefit accrual in that scheme. The outcome of the consultation was that from 1 March 2020, benefit accrual for those employees in excess of certain limits would be pensionable on a defined contribution basis under the Trust rather than the Rolls-Royce UK Pension Fund. Consequently, a deed of amendment dated 1 March 2020 was executed and since that date, around 1,000 management grade members of the Rolls-Royce UK Pension Fund also became members of the Trust for a proportion of their pension benefits.

- In 2019 Equitable Life received approval under a statutory process to convert its "with profits" funds into regular unit-linked investment funds and transfer them to another insurance company, Utmost Life. As part of the transfer individual funds received an "uplift" to their value to reflect a distribution of available capital at Equitable Life. The retirement savings of 224 members of the Trust were invested in "with profits" funds managed by Equitable Life and consequently received the "uplift" and were transferred to Utmost Life and Pensions Limited ("Utmost Life") on 1 January 2020. In accordance with advice from its appointed investment consultant, the Trustee decided to transfer the retirement savings of these members from Utmost Life and invest them alongside the retirement savings of the majority of other members of the Trust, in unit-linked pension funds managed by Aviva Life and Pensions UK Limited ("Aviva"). The transfer to Aviva was completed after the year end on 1 May 2020.

- KPMG has been the Fund's auditor for over 10 years. In line with good governance practice, the Trustee decided that KPMG should now be replaced and commenced a review and appointment process during the year. Following this process, the Trustee agreed to appoint Deloitte as auditor with effect for the year ending 5 April 2021.

- Following a review, the Trustee decided to replace Hargreaves Lansdown and appoint WPSA, as the provider of annuity broking services to members at retirement. The range of services to be offered to members by WPSA is expected to be expanded in future.

Financial development of the Trust

The financial statements of the Trust for the year ended 5 April 2020, as set out on pages 20 to 29, have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

A summary of the Trust's financial statements is set out in the table below:

	2020	**2019**
	£'000	£'000
Member related income	99,154	89,344
Member related payments	(23,222)	(15,776)
Net additions from dealings with members	**75,932**	**73,568**
Net returns on investments	(47,457)	15,952
Net increase in the Trust	**28,475**	**89,520**
Net assets at start of year	422,627	333,107
Net assets at end of year	**451,102**	**422,627**

Statement of the Trustee's responsibilities for the non-statutory financial statements

The non-statutory financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* are the responsibility of the Trustee. The Trustee has accepted responsibility to prepare and have an audit of the non-statutory financial statements for the year. In preparing those non-statutory financial statements, the Trustee intends that the non-statutory financial statements should:

- show a true and fair view of the financial transactions of the Trust during the Trust year and of the amount and disposition at the end of the Trust year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Trust year; and
- contain the information specified in the Statement of Recommended Practice, 'Financial Reports of Pension Schemes'.

The Trustee has supervised the preparation of the non-statutory financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It has also accepted responsibility for:

- assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless it either intends to wind up the Trust, or has no realistic alternative but to do so; and
- making available each year, commonly in the form of the Trustee's annual report, information about the Trust, which it should ensure is consistent with the non-statutory financial statements it accompanies.

The Trustee is responsible for keeping records of contributions received in respect of any active member of the Trust and for procuring that contributions are made to the Trust in accordance with the Trust Deed and Rules and payment schedule.

The Trustee is responsible for such internal control as it determines is necessary to enable the preparation of non-statutory financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Trust and to prevent and detect fraud and other irregularities.

Statement of Trustee's responsibilities in respect of contributions

The Trust's Trustee is responsible under pension's legislation for ensuring that there is prepared, maintained and from time to time revised a payment schedule showing the rates of contributions payable towards the Trust by or on behalf of the employer and the active members of the Trust and the dates on or before which such contributions are to be paid. The Trust's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Trust and for procuring that contributions are made to the Trust in accordance with the payment schedule.

This summary of contributions has been prepared on behalf of, and is the responsibility of, the Trust's Trustee. It sets out the employer and member contributions payable to the Trust under the payment schedule dated 7 December 2018 in respect of the Trust year ended 5 April 2020.

Contributions payable under the payment schedule in respect of the Trust year	**£'000**
Employer:	
Normal contributions	66,219
Contributions in respect of life assurance premiums	2,453
Contributions in respect of expenses	150
Member:	
Normal contributions	1,326
Contributions payable under the payment schedule (as reported by the Trust auditor)	**70,148**

Reconciliation of contributions	**£'000**
Reconciliation to contributions payable under the payment schedule reported in the non-statutory financial statements in respect of the Trust year:	
Contributions payable under the payment schedule (as above)	70,148
Contributions payable in addition to those due under the payment schedule (and not reported on by the Trust auditor):	
Member additional voluntary contributions	21,122
Total contributions reported in the non-statutory financial statements	**91,270**

Employer contributions include contributions payable by the employer where the employee is in the salary sacrifice arrangement.

Benefits

The Trust provides defined contribution retirement benefits and life assurance benefits.

Retirement benefits are secured by an insurance policy under which each member accumulates an individual pension fund. At retirement, members potentially have the following options:

- Take their retirement savings as a cash lump sum. Generally 25% of which would be tax-free with the rest taxed as income.

- Invest their savings in an appropriate personal pension arrangement and draw money from it as and when required. This is known as "drawdown". Generally 25% can be taken as a tax free lump sum and the remainder taxed as income.

- Taking a series of cash lump sums. Generally 25% of each payment would be tax-free with the remainder taxed as income.

- Buying an annuity and taking up to 25% as a tax-free cash lump sum.

- A combination of the above options.

Life assurance benefits for certain active members are also secured by an insurance policy provided by the life assurance provider shown on page 3.

Membership

The changes in membership during the year are shown in the table below. Opening balance adjustments take account of any retirements, leavers and deaths that occurred before the end of the previous year but were not processed until after the Trustee's annual report and financial statements had been produced for that year.

Active Members[1]		
Members at 6 April 2019		18,925
Add:	New joiners[1]	3,862
	Members re-joining from deferred status[2]	84
	Members re-joining from another status[2]	2
Less:	Active members retiring	69
	Active members leaving service	942
	Deaths	17
	Transfers out	249
	Account closed	5
Members at 5 April 2020[4]		**21,591**

Deferred Members		
Members at 6 April 2019		4,562
Add:	Active members leaving service	942
	Members re-joining from another status[2]	4
Less:	Members re-joining active status[2]	84
	Deferred members retiring	91
	Deaths	11
	Transfers out	248
	Trivial commutation	5
	Account closed[3]	6
Members at 5 April 2020		**5,063**

[1]Active members represents the number of active policies and may therefore include more than one record for an individual where they have more than one policy, for example two separate types of additional voluntary contributions (AVCs). Some active members may not contribute to the Trust every month, for example where a member contributes an annual bonus payment only or makes infrequent AVCs.
[2]Ocsacionally members re-join various statuses in order for their benefits to be administered. For example, this could occur where a member leaves active status and subsequently requires additional contributions to be paid by the Company. In order to receive contributions such a member would have to temporarily re-join active status.
[3]Accounts might be closed when an account is created for a new joiner who subsequently leaves employment with the Company without making any contributions.
[4]Following an initial reconciliation of Aviva's active membership records, around 1,632 records have been identified that should potentially be changed to deferred status. Further investigation work is being undertaken to confirm appropriate action to be taken. The relevant records will subsequently be updated after the end of the Trust year.

Investments

During the year covered by this report, the Trustee has directed Trust contributions into a range of unit-linked pension funds offered to members under a unit-linked insurance policy issued by Aviva Life and Pensions UK Limited ("Aviva").

The investment options available to members are:

- Do nothing in which case their contributions will be invested in one of two predetermined default investment programmes depending on the section of the Trust they are in. For most members the default investment programme is designed for members that expect to receive their benefits through flexible retirement or income drawdown. For members of the Top-up section of the Trust, the default investment programme is designed for members that expect to receive their benefits as a single cash sum.

- Actively choose one of three predetermined investment programmes, which in addition to the two default investment programmes described above includes an investment programme that is designed for members that expect to receive their benefits by purchasing an annuity.

- Design and manage their own investment programme using up to 16 self-select investment funds. The choice of funds offered under the Aviva policy includes a range of asset classes including an ethical fund and a Shariah-compliant fund.

The investment funds available along with their performance to 31 March 2020 and the value of members' investments in them at the same date are shown on page 10. Where funds are used as part of the predetermined investment programmes they are shown in bold.

A small amount of the Trust's assets remains invested in a unit-linked insurance policy issued by Prudential Assurance Company Limited for historical reasons. Investments are no longer made into this policy. The assets that were invested in a unit-linked insurance policy issued by Equitable Life were transferred to Utmost Life on 1 January 2020 and then subsequently transferred and invested in unit-linked pension funds offered by Aviva on 1 May 2020 as described on page 5.

The Trustee confirms that the investments of the Trust are invested in accordance with the Occupational Pensions Schemes (Investment) Regulations 1996. The Trust did not hold any direct employer related investments during the year or at the end of the year, although limited employer related investments may occur through pooled investment vehicles where specific exclusions are not possible.

Aviva, Equitable Life, Prudential and any underlying investment managers are authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and Financial Conduct Authority.

Further details about the Trust's investments are available to members online, in the Chairperson's annual governance statement on page 13 and the Trust's Statement of Investment Principles on page 33.

		1 year performance		3 year performance	
		Fund	Benchmark	Fund	Benchmark
	£'000s	%	%	%	%
Aviva My Money BlackRock (10:80:10) Currency Hedged Global Equity (Aquila C) Fund	180,812	11.9	11.7	(0.2)	(0.3)
Aviva My Money BlackRock UK Equity Index (Aquila Connect) Fund[1]	14,459	(18.4)	(18.5)	(4.0)	(4.2)
Aviva My Money BlackRock US Equity Index (Aquila Connect) Fund[1]	775	(2.5)	(2.3)	-	-
Aviva My Money BlackRock European Equity Index (Aquila Connect) Fund[1]	193	(7.9)	(7.8)	-	-
Aviva My Money BlackRock Japan Equity Index (Aquila Connect) Fund[1]	136	(1.7)	(2.0)	-	-
Aviva My Money BlackRock Pacific Rim Equity Index (Aquila Connect) Fund[1]	147	(17.3)	(17.1)	-	-
Aviva My Money BlackRock Emerging Markets Equity Index (Aquila Connect) Fund[1]	512	(14.5)	(13.9)	-	-
Aviva My Money Diversified (50:50 Standard Life GARS / Insight BOF)[2] Growth Fund	79,976	(2.3)	0.8	(0.1)	0.6
Aviva My Money Legal & General (PMC) Diversified Fund[1]	62,621	(5)	(6.5)	-	-
Aviva My Money Legal & General (PMC) Retirement Income Multi-Asset Fund	27,602	(2.8)	0.7	1.5	0.6
Aviva My Money BlackRock Over 5 Year Index Linked Gilt Index (Aquila Connect) Fund	7,217	2.0	2.4	2.8	2.9
Aviva My Money BlackRock Corporate Bond All Stocks Index (Aquilla Connect) Fund[1]	279	2.5	1.5	-	-
Aviva My Money Legal & General (PMC) Pre-Retirement Fund	8,969	5.7	5.9	4.0	3.9
Aviva My Money Legal & General (PMC) Ethical Global Equity Index Fund[1]	678	(1.9)	(3.4)	-	-
Aviva My Money HSBC Islamic Global Equity Index Fund[1]	2,180	6.2	6.5	-	-
Aviva My Money BlackRock Institutional Sterling Liquidity Fund	21,530	0.6	0.5	0.5	0.3
Aviva My Money Three Year Transition Fund[1,3]	30,145	(2.1)	(2.1)	-	-
Prudential With Profits Fund	100	-	-	-	-
Utmost Life Secure Cash Fund[4]	2,497	-	-	-	-
	440,828				

Value of investments and performance net of fees to 31 March 2020.
Sources: Aviva, Prudential and Mercer.
[1]New funds available from January 2019. 3 year performance net of fees unavailable.
[2]GARS – Global Absolute Return Strategies, BOF – Broad Opportunities Fund.
[3]As part of the review of the investment options available to members described on page 13 some members are being transferred to the new investment programmes over a three-year period, by making a partial allocation to this fund.
[4]The investments managed by Utmost Life were transferred after the end of the Trust year as described on page 5.

Internal Disputes Procedure

The Trustee operates an Internal Disputes Procedure for resolving complaints by members in accordance with statutory requirements. All complaints should be made in writing to:

The Trustee Secretary
Pensions Department
Rolls-Royce plc
Jubilee House (JH-19)
Derby
DE24 8JY

The Pensions Advisory Service

The Pensions Advisory Service (TPAS) is an independent voluntary organisation that provides free, impartial guidance to members and beneficiaries of pension schemes on a range of issues. TPAS can be contacted at:

10 South Colonnade
Canary Wharf
London
E14 4PU

The Pensions Ombudsman

The Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme. The Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
London
E14 4PU

Pension Tracing Service

The Pension Tracing Service has been established to help individuals to keep track of benefits they may have as a result of service with former employers. The Pension Tracing Service can be contacted at:

The Pension Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU

The registration number of The Rolls-Royce Retirement Savings Trust is 10249659.

The Pensions Regulator

The Pensions Regulator (TPR) is the regulatory body for occupational pension schemes in the UK. TPR can be contacted at:

Napier House
Trafalgar Place
Brighton
East Sussex
BN1 4DW

Information to members

Further information about the Trust can be requested by writing to:

The Trustee Secretary
Pensions Department
Rolls-Royce plc
Jubilee House (JH-19)
Derby
DE24 8JY

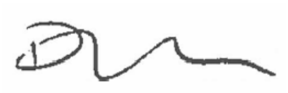
This report or other information about the Trust can be provided in large print or Braille formats upon request. The Trust Deed and Rules is available for inspection by members by writing to the same address.

Further information about all members' benefits and the Trust in general, is available online at www.rolls-roycepensions.com.

Approval of Trustee's annual report and financial statements

The Trustee's annual report and financial statements were approved at a meeting of the Trustee held on 24 September 2020.

Signed on behalf of the Trustee



Richard Hill
Trustee Secretary

30 September 2020

Chairperson's annual governance statement

Governance requirements apply to Defined Contribution ("DC") pension arrangements in order to help members achieve a good outcome from their retirement savings. In accordance with legislation set out in Regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended), the Trustee of the Rolls-Royce Retirement Savings Trust is required to produce a yearly statement (which is signed by the Chair of the Trustee) to describe how the following governance requirements have been met for inclusion in the Trustee's annual report:

- The investment options in which members' funds are invested;
- The requirements for processing financial transactions;
- The charges and transaction costs borne by members;
- An illustration of the cumulative effect of these costs and charges;
- A 'value for members' assessment;
- Trustee knowledge and understanding.

This annual governance statement covers the period 6 April 2019 to 5 April 2020 and will be made available to members through the Aviva Trustee microsite at https://vfm.aviva.co.uk/rolls-royce/ and notified to members in the distribution of their annual benefit statement.

The default investment arrangements

The Rolls-Royce Retirement Savings Trust is used by Rolls-Royce plc as a Qualifying Scheme for auto-enrolment. Members who join the Trust, but do not make any investment choices, automatically enter a default investment programme. There are currently two different default investment programmes with one for "Main" and "AVC" section members and one for "Top-up" section members. The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangements. Details of the rationale for the default investment programmes can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Trust's SIP can be found on Page 33 of this report.

The aims and objectives of the two default arrangements, as stated in the SIP, are as follows:

- To generate long term growth during the accumulation phase of the strategies whilst mitigating downside risk;
- To provide strategies that reduce investment risk for members as they approach retirement;
- For Main and AVC Members, an investment strategy that targets income drawdown at retirement is likely to reflect a typical member's choice of how they take their benefits at retirement;
- For Top-up members, an investment strategy that targets full cash withdrawal at retirement is likely to reflect a typical member's choice of how they take their benefits at retirement.

The Trustee last made significant changes to its default investment strategy in January 2019 following a focussed review. The changes were implemented by the Trustee's administrator and investment manager, Aviva Life and Pensions UK Limited ("Aviva").

The Trustee reviews the appropriateness and performance of the default investment programmes with the support of its investment consultant Mercer Limited ("Mercer"), as part of a quarterly review of investment performance and an annual review against the aims, objectives and policies of the

Trust's SIP. The quarterly review includes an analysis of fund performance and member activity to check that the risk and return levels meet expectations. In addition, the Trustee undertakes focussed reviews in response to specific events, e.g. changes in retirement experience, member demographics or the investment funds used in the default investment programmes. During the year, these reviews indicated that there were no significant concerns over the appropriateness and performance of the default investment strategy, and that both the default investment programmes were performing broadly as expected, being consistent with the aims and objectives of the default arrangements as stated in the SIP.

Requirements for processing core financial transactions

The Trustee has appointed Aviva as its administrator to process financial transactions including "core" financial transactions promptly and accurately. This includes the investment of contributions into the Trust, processing of the transfer of member assets into and out of the Trust, the transfers of assets between different investments within the Trust and the payment of benefits to Trust members and/or their beneficiaries. Aviva seeks to process financial transactions in accordance with non-contractual service levels, agreed with the Trustee, who review Aviva's performance against those service levels each quarter.

The Trust has a non-contractual service level agreement ("SLA") in place with the administrator, which covers the accuracy and timeliness of all core financial transactions as well as adequate internal controls. During the period of the statement, Aviva continued to develop its customer transformation initiative and a move away from the traditional service levels which measure the time taken to complete individual tasks to the total "end to end" time taken to resolve member requests and queries. Under the current target service levels, which is to process 95% of cases within five working days, Aviva achieved this service level in around 78% of cases. In conjunction with the Trustee, further investigation has revealed that this lower than expected performance level has not had an adverse impact on either members' benefits or their customer experience. The Trustee continues to work with Aviva to resolve this issue through an ongoing review of key processes under both SLA measures, and careful monitoring of the progress made from the regular quarterly service reports and monthly administration meetings held with Aviva.

Aviva also provides an annual report on its internal controls provided by an independent business assurance specialist. The latest report was produced for the year to 31 December 2019, which amongst other things covers the processing and service levels of core financial transactions (including daily monitoring of bank accounts, a dedicated contributions processing team and two individuals checking all investment and banking transactions), annual data checks, cyber security and business continuity. The latest report did not highlight any significant concerns. These checks did not highlight any significant concerns during the year and the Trustee is, therefore, satisfied that over the period of this statement, the administrator was operating appropriate procedures, checks and controls; there have been no material administration errors in relation to processing core financial transactions; and all core financial transactions have been processed promptly and accurately. The introduction of a quarterly compliance report covering various activities the Trustee must undertake involving governance, administration, regulatory reporting, data protection and security, funding and investment will provide further assurance.

Member-borne charges and transaction costs

The Trustee is required to set out the on-going charges borne by members in this statement, which are the total annual percentage charges payable by members for investing in a fund and includes the platform and administrative fees charged by Aviva in addition to the investment management and administrative fees charged by the underlying investment manager. This is also known as the Total Expense Ratio ("TER").

The absolute charge payable by members is a function of the size of their investment in a fund and will, therefore, change over time. The table below shows the TER's of the funds available in the Trust during the year. The Trustee is also required to separately disclose transaction cost figures that are borne by members. In the context of this statement, the transaction costs shown are those incurred when the Trust's fund managers buy and sell assets within investment funds.

The charges and transaction costs have been supplied by the Aviva who act as the Trust's investment manager and platform provider. Estimated transaction costs are also shown in the table below.

Transaction costs are calculated in accordance with "slippage cost" methodology prescribed by the Financial Conduct Authority. The slippage cost methodology calculates the transaction cost of buying or selling an investment as the difference between the price at which an investment is valued immediately before an order is placed into the market and the price at which it is traded.

Where transaction costs are shown as negative, this is because the average price at which units were traded was more favourable than the price at which orders were placed.

Underlying manager	Fund	TERs	Annual estimated transaction cost
BlackRock	(10:80:10) Currency Hedged Global Equity*	0.29% p.a.	-0.0676%
BlackRock	Institutional Sterling Liquidity*	0.21% p.a.	0.0109%
ASI / Insight[1]	Diversified Growth (50:50 AS GARS / IBOF)*	0.80% p.a.	0.2630%
LGIM	Retirement Income Multi Asset*	0.51% p.a.	-0.0114%
Aviva	Three Year Transition*	0.81% p.a.	0.2637%
BlackRock	Over 5 Year Index-Linked Gilt Index	0.21% p.a.	0.0551%
BlackRock	UK Equity Index	0.21% p.a.	-0.1206%
BlackRock	US Equity Index	0.22% p.a.	-0.0067%
BlackRock	European Equity Index	0.22% p.a.	-0.0429%
BlackRock	Japanese Equity Index	0.22% p.a.	0.0850%
BlackRock	Pacific Rim Equity Index	0.22% p.a.	-0.0088%
BlackRock	Emerging Markets Equity Index	0.45% p.a.	-0.0983%
BlackRock	Corporate Bond All Stocks Index	0.22% p.a.	-0.0266%
HSBC	Islamic Global Equity Index	0.51% p.a.	0.0586%
LGIM	Pre-Retirement	0.28% p.a.	0.0017%
LGIM	Ethical Global Equity Index	0.36% p.a.	0.0037%
LGIM	Diversified	0.41% p.a.	-0.0375%

[1]Aberdeen Standard Investments / Insight Broad Opportunities Fund

Other than the TER and any transaction costs, members do not currently pay any other charges in relation to the Trust, e.g. for governance, administrative or advisory fees.

The funds that are used in the default investment programmes are marked with an asterisk in the table above. The TER payable under the default investment programmes will vary depending on the mix of funds on any date, which automatically changes depending on how many years a member is from their expected retirement date.

The Aviva Three Year Transition Fund is a temporary fund being used to implement the 2019 changes to the default investment programmes gradually over a three-year transition period for some members. The components of this fund itself change gradually over the three-year transition period and therefore the TER will gradually change. The maximum TER applicable to this fund during the year is 0.81% p.a. with an annual estimated transaction cost of 0.2637%.

All the investment programmes available in the Trust, including those that are default investment programmes, will comply with charge cap legislation limiting charges to 0.75% a year. Whilst the TER of two individual funds exceeded 0.75% a year during the year, their weighting in the asset allocation of the investment programmes ensures that the aggregate TER will not exceed the charge cap.

An illustrative example of the cumulative effect of costs and charges over time in the most widely used funds in the Trust are shown below.

Fund	BlackRock (10:80:10) Currency Hedged Global Equity		LGIM Diversified		Aberdeen Standard/Insight Diversified Growth	
Growth	5% a year		4.3% a year		4.3% a year	
Costs	0.25% a year		0.37% a year		1.03% a year	
At end of year	Projected value **without** costs.	Projected value **with** costs.	Projected value **without** costs.	Projected value **with** costs.	Projected value **without** costs.	Projected value **with** costs.
1	£1,200	£1,200	£1,200	£1,200	£1,200	£1,190
2	£2,430	£2,430	£2,420	£2,410	£2,420	£2,390
3	£3,700	£3,680	£3,660	£3,640	£3,660	£3,600
4	£4,990	£4,960	£4,920	£4,880	£4,920	£4,820
5	£6,310	£6,270	£6,200	£6,140	£6,200	£6,040
10	£13,400	£13,300	£13,000	£12,700	£13,000	£12,300
15	£21,500	£21,000	£20,400	£19,800	£20,400	£18,800
20	£30,500	£29,700	£28,400	£27,300	£28,400	£25,500
25	£40,700	£39,400	£37,200	£35,400	£37,200	£32,500
30	£52,300	£50,100	£46,800	£44,100	£46,800	£39,700
35	£65,300	£62,100	£57,200	£53,300	£57,200	£47,200
40	£79,900	£75,400	£68,600	£63,200	£68,600	£55,000
45	£96,500	£90,300	£81,100	£73,900	£81,100	£63,000
50	£115,000	£107,000	£94,700	£85,300	£94,700	£71,300

Fund	LGIM Retirement Income Multi Asset		BlackRock Institutional Sterling Liquidity		BlackRock UK Equity Index	
Growth	3.8% a year		1.5% a year		5% a year	
Costs	0.51% a year		0.22% a year		0.08% a year	
At end of year	Projected value **without** costs.	Projected value **with** costs.	Projected value **without** costs.	Projected value **with** costs.	Projected value **without** costs.	Projected value **with** costs.
1	£1,190	£1,190	£1,180	£1,180	£1,200	£1,200
2	£2,400	£2,390	£2,350	£2,340	£2,430	£2,430
3	£3,630	£3,600	£3,510	£3,490	£3,700	£3,690
4	£4,870	£4,820	£4,650	£4,630	£4,990	£4,980
5	£6,130	£6,050	£5,790	£5,750	£6,310	£6,300
10	£12,700	£12,300	£11,300	£11,200	£13,400	£13,400
15	£19,600	£18,900	£16,500	£16,300	£21,500	£21,300
20	£27,000	£25,600	£21,500	£21,100	£30,500	£30,300
25	£34,900	£32,700	£26,300	£25,600	£40,700	£40,300
30	£43,300	£40,000	£30,800	£29,900	£52,300	£51,600
35	£52,200	£47,500	£35,100	£33,900	£65,300	£64,300
40	£61,700	£55,400	£39,200	£37,700	£79,900	£78,500
45	£71,900	£63,600	£43,200	£41,200	£96,500	£94,500
50	£82,700	£72,100	£46,900	£44,600	£115,000	£112,000

The above illustrations have been produced by Aviva in line with statutory guidance. The illustration assumes contributions of £100 a month increasing in line with earnings inflation of 2.5% a year. All figures are shown in today's prices.

Value for members assessment

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members. It is difficult to give a precise legal definition of "good value", but the Trustee considers its quarterly review of Aviva's performance against the service levels described on page 14 as a suitable measure because the TER's include the platform and administrative fees charged by Aviva. Whilst the Trustee still has some concerns over Aviva's service levels, steps are being taken by Aviva to address these concerns. The Trustee, therefore, considers the combination of costs and the quality of what is provided in return for those costs is appropriate for the Trust's membership, when compared to other options currently available in the market.

The Trustee reviews all member-borne charges annually (including transaction costs where available), with the aim of ensuring that members are obtaining value for money given the circumstances of the Trust. The date of the last review was 12 December 2019 and the Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. From time to time, however, the Trustee will seek to renegotiate TER's if any significant concerns over cost are highlighted. During the period of this statement, negotiations commenced with Aviva over the Annual Management Charge (AMC) contained within the overall TER and the current AMC of 0.21%. This was in response to the recent growth in membership and corresponding increase in the value of the Trust, both of which are expected to continue in the future. A reduction in the AMC to 0.16% has now been agreed with Aviva, with a further 0.01% reduction to be applied when the overall fund value reaches £1 bn.

The Trustee also reviews the appropriateness and performance of the funds offered to members on a quarterly basis with the support of Mercer, the Trustee's appointed investment consultant. Where funds offered to members are highly rated by Mercer and it is believed that they offer competitive TER's, the Trustee considers that the funds continue to offer good value for members and remain consistent with the stated investment objectives and benchmarks set in the SIP.

Finally, in carrying out the value for money assessment, the Trustee also considers the other benefits members receive from the Trust, including the quality of support services provided by Aviva in terms of its website and the quality of the communications delivered to members. Whilst the Trustee is satisfied with the service members receive from the My Money website during the period of this statement, the Trustee has now engaged with Aviva regarding the forthcoming transition to the My Aviva website and has also conducted a review of correspondence for all key processes to help improve the member experience.

Trustee knowledge and understanding

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee is required to maintain an appropriate level of knowledge and understanding that, together with professional advice, enables it to properly exercise its functions and duties in helping to run the Trust effectively. Each Trustee Director must:

- Be conversant with the Trust's Deed and Rules and its SIP and any other document recording policy adopted by the Trustee relating to the administration of the Trust generally;

- Have, to the degree that is appropriate for the purpose of enabling the individual properly to exercise his or her functions as a Trustee Director, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment of the assets of an occupational pension arrangement.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. During the period covered by this statement, the requirements have been met as set out below:

- In line with best practice, the Trustee maintains a training plan and register to record all training and development activities. Both the training plan and the register are reviewed on an annual basis to ensure it is up to date and to highlight and address any potential gaps in knowledge and understanding. The last review was conducted on 26 March 2020;

- All the Trustee Directors are familiar with and have access to copies of the current Scheme governing documentation, including the Trust Deed and Rules, the SIP and key policies and procedures. In particular, the Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Trust and, where relevant, deciding individual member cases, and the SIP is formally reviewed annually as part of making any change to the Trust's investments;

- The Trustee, with the help of its advisers, also regularly considers training requirements to identify any additional knowledge gaps. The Trustee's advisers would typically deliver training on such matters at Trustee meetings if they were material and the Trustee's investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them;

- The Trust has in place a structured induction process designed for new Trustee Directors. Additional training is also provided to address specific gaps in initial knowledge and understanding. During the period of this statement additional training on trustee death recommendations was provided to Rebecca Hodgson and Alan Partridge;

- Trustee Directors are expected to complete the Pensions Regulator's Trustee Toolkit within six months of appointment, either at the relevant meetings or by personal study (the Trustee Toolkit is a free online learning programme from the Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustees meet the minimum level of knowledge and understanding required by law). Currently all the Trustee directors are compliant with this requirement and have completed the Pension Regulator's Trustee Toolkit within the required time limit;

- The Trustee receives focussed training and advice from its appointed advisors in advance of making significant decisions, e.g. from its legal advisor before signing a trust deed, or from its investment consultant before authorising its agreement to a bulk transfer of members from one investment to another within the Trust. During the period covered by this statement, such training was provided by Mercer on the bulk transfer of legacy AVC funds formerly held with the Equitable Life Assurance Society and on engagement with the underlying investment managers in respect of Environmental, Social and Governance (ESG) factors;

- The Trustee undertakes an annual review of the support and advice it has received from its appointed advisors. During the period of this statement, the Trustee considered both the future appointment of a new auditor from the year ending 5 April 2021 and commissioned a desk-based review of its legal adviser;

- On an annual basis the Trustee assesses its effectiveness using the Pensions Regulator's code of practice on governance and administration of occupational trust-based schemes providing money purchase benefits. Any gaps in knowledge and understanding identified during this assessment are added to the training plan register. The current Trustee Board has a range of wider skills and experience which benefit the running of the Trust including auditing, project and financial management, technical inspection, service procurement, employee relations and negotiation and regulatory compliance. In addition, a Trustee strategy event is planned for 8 October 2020, where the annual evaluation of the performance and effectiveness of the Trustee Board will be combined with an internal Trustee effectiveness exercise. This exercise will consider the wider skills, future objectives and strategy of the Trustee Board alongside other related matters, including technology, communications, developments in DC retirement savings, and diversity and inclusion.

The Trustee Directors consider that they have sufficient knowledge and understanding of the law relating to pensions and trusts, as well as the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties. When combined with advice and support from their appointed specialist advisors (both in writing and whilst attending meetings), the Trustee Directors can exercise their function as a trustee board properly and effectively.

Chairperson’s declaration

I confirm that the above statement has been produced by the Trustee.

Ian Farnsworth
Chairperson

30 September 2020

Financial statements

Fund account for the year ended 5 April 2020

	Note	2020	2019
		£'000	£'000
Contributions and benefits			
Employer contributions	3	68,822	60,577
Employee contributions	3	22,448	16,475
Transfers in	4	5,830	11,530
Other income	5	2,054	762
		99,154	**89,344**
Benefits payable	6	(5,874)	(3,260)
Payments to and on account of leavers	7	(14,748)	(9,958)
Other payments	8	(2,453)	(2,357)
Administrative expenses	9	(147)	(201)
		(23,222)	**(15,776)**
Net additions from dealings with members		**75,932**	**73,568**
Returns on investments			
Change in market value of investments	13	(46,578)	16,646
Investment management expenses		(879)	(694)
Net returns on investments		**(47,457)**	**15,952**
Net increase in the Trust during the period		**28,475**	**89,520**
Net assets of the Trust at 6 April 2019/6 April 2018		422,627	333,107
Net assets of the Trust at 5 April 2020/5 April 2019		**451,102**	**422,627**

Statement of net assets (available for benefits) as at 5 April 2020

	Note	2020	2019
		£'000	£'000
Investment assets	13		
Pooled investment vehicles		440,828	421,602
Cash		10,294	1,049
		451,122	**422,651**
Current assets	19	848	378
Current liabilities	20	(868)	(402)
Total net assets of the Trust as 5 April 2020/2019		**451,102**	**422,627**

The financial statements summarise the transactions of the Trust and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the year.

These financial statements were approved by the Trustee on 24 September 2020.

Signed on behalf of the Trustee

Director

Director

30 September 2020

Notes (forming part of the financial statements)

1. Basis of preparation

The Trust is an earmarked scheme which means that, all the benefits are secured by an insurance policy. Under the policy, each member accumulates an individual (earmarked) pension fund. These non-statutory financial statements have been prepared at the wish of the Trustee of the Trust. The Trust is exempt from the requirement to have an audit under the Pensions Act 1995 and therefore these financial statements do not constitute statutory annual financial statements. The financial statements have been prepared in accordance with Financial Reporting Standard 102 (as amended) - the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial reporting Council and with the guidance set out in the Statement of Recommended Practice (SORP) (revised November 2018).

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Principal Employer, Rolls-Royce plc, is also a going concern as described below. The Trust currently relies on Rolls-Royce plc to pay its administrative expenses and in accordance with the Trust Deed and Rules of the Trust, it is likely that the Trust would be wound up if the Principal Employer became insolvent.

Rolls-Royce plc is a significant part of the Rolls-Royce group of companies which are ultimately owned by Rolls-Royce Holdings plc (the "Group"). The outbreak of the Covid-19 virus has created significant challenges and high levels of uncertainty for the Group given its significant exposure to the civil aerospace industry. The Trustee has been closely monitoring the strength of the Group and the action it is taking to mitigate the impact of Covid-19. The Trustee has considered the going concern statement included in the Group's 2020 half-year results published on 27 August 2020. This concluded that the Group is a going concern, albeit that the inherent uncertainty over the severity, extent and duration of the disruption caused by the Covid-19 pandemic and therefore the timing of recovery of commercial aviation to pre-crisis levels and the availability of sufficient funding, represent material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. The Trustee also considered the assessment that, in the event of a severe but plausible downside involving a "second wave" of Covid-19 infections that results in further stringent lockdown restrictions, the Group would need to refinance £1.9bn of borrowing facilities maturing in October 2021. On this basis, whilst the impact of Covid-19 on the Group cannot be accurately predicted, the Trustee currently considers that the Group will nevertheless continue to operate for the next twelve months, and therefore the Trustee believes that it remains appropriate to prepare the Trust's financial statements on a going concern basis. However, in accordance with the Trust Deed and Rules of the Trust, it is likely that the Trust would be wound up if the Principal Employer became insolvent. Therefore the circumstances of the possible impact on the Group of a possible second wave of Covid-19 and associated government action to limit the spread of the virus constitute a material uncertainty that may cast significant doubt on the Trust's ability to continue as a going concern and hence to realise its assets and meet accrued benefit payments in the normal course of affairs. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate. It should also be noted that the net assets in the financial statements (£451.1 million) almost entirely comprise investments (also £451.1 million). Investments are recognised at fair value and this would not change if the financial statements were not prepared on a going concern basis.

2. Accounting policies

The principal accounting policies of the Trust are as follows:

a) Contributions, Benefits and Transfers

Contributions and benefits accrued and due in respect of the year ended 5 April 2020 are included in these financial statements. Transfers in and transfers out are accounted for in the period in which they are received or paid.

b) Valuation of Investments
Investments are stated at market value at 5 April 2020 determined as follows:

(i) Pooled investment vehicles are included at bid price as advised by the investment manager; and
(ii) The change in market value is the difference between the opening and closing balances of market value, adjusted for the net investment, and includes both realised and unrealised gains and losses against opening market value.

c) Exchange rates
All assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the year end. Income and expenditure denominated in foreign currencies is translated into sterling at the rate ruling at the date on which it is receivable or payable. Profits and losses on exchange rate movements are included in change in market value during the period.

d) Expenses
Expenses are borne by the Trust. Where such expenses exceed available undesignated cash funds the sponsoring employer currently bears the cost in the form of matching employer contributions.

e) Transaction costs
Expenses relating specifically to purchases or sales of investments are included in the costs of the investments or deducted from the proceeds of sales respectively in these financial statements and disclosed separately.

3. Contributions receivable

	2020	2019
	£'000	£'000
Employer:		
Normal	66,219	57,986
Life assurance premiums	2,453	2,357
Expenses	150	234
	68,822	**60,577**
Members:		
Normal	1,326	1,346
Additional Voluntary Contributions	21,122	15,129
	22,448	**16,475**
	91,270	**77,052**

4. Transfers in

	2020	2019
	£'000	£'000
Individual transfers	5,830	3,467
Bulk transfer from the CDS Group Personal Pension Plan	-	1,021
Bulk transfer from the Rolls-Royce Group Personal Pension Plan	-	7,042
	5,830	**11,530**

The above bulk transfers in the Trust year ending 5 April 2019 were paid in cash.

5. Other Income

	2020	2019
	£'000	£'000
Claims on life assurance policies	2,054	762
	2,054	**762**

6. Benefits Payable

	2020	2019
	£'000	£'000
Purchase of annuities	(977)	-
Lump sum commutations	(2,146)	(2,258)
Death benefits	(2,751)	(1,002)
	(5,874)	**(3,260)**

7. Payments to and on account of leavers

	2020	2019
	£'000	£'000
Individual transfers out to other schemes	(14,748)	(9,958)
	(14,748)	**(9,958)**

8. Other Payments

	2020	2019
	£'000	£'000
Life assurance premiums	(2,453)	(2,357)
	(2,453)	**(2,357)**

Life assurance benefits are secured by an insurance policy provided by the life assurance provider shown on page 3.

9. Administration expenses

	2020	2019
	£'000	£'000
Administration and processing	(30)	(9)
Audit fee	(13)	(13)
Legal and other professional fees	(20)	(35)
IT Costs	(4)	(5)
Investment advisory costs	(59)	(121)
Pensions Regulator levy	(21)	(18)
	(147)	**(201)**

All other costs of administration are borne by the sponsoring employer.

10. Tax

The Trust is a registered pension scheme for tax purposes under the Finance Act 2004. The Plan is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate.

11. Pooled investment vehicles (PIVs)

The market value of investments at 5 April 2020 can be analysed as follows:

	2020	2019
	£'000	£'000
Aviva My Money BlackRock (10:80:10) Currency Hedged Global Equity (Aquila C) Fund	180,812	182,430
Aviva My Money BlackRock UK Equity Index (Aquila Connect) Fund	14,459	18,679
Aviva My Money BlackRock US Equity Index (Aquila Connect) Fund	775	280
Aviva My Money BlackRock European Equity Index (Aquila Connect) Fund	193	131
Aviva My Money BlackRock Japan Equity Index (Aquila Connect) Fund	136	59
Aviva My Money BlackRock Pacific Rim Equity Index (Aquila Connect) Fund	147	116
Aviva My Money BlackRock Emerging Markets Equity Index (Aquila Connect) Fund	512	296
Aviva My Money Diversified (50:50 Standard Life GARS / Insight BOF)[1] Growth Fund	79,976	75,124
Aviva My Money Legal & General (PMC) Diversified Fund	62,621	57,957
Aviva My Money Legal & General (PMC) Retirement Income Multi-Asset Fund	27,602	21,185
Aviva My Money BlackRock Over 5 Year Index Linked Gilt Index (Aquila Connect) Fund	7,217	6,584
Aviva My Money BlackRock Corporate Bond All Stocks Index (Aquila Connect) Fund	279	51
Aviva My Money Legal & General (PMC) Pre-Retirement Fund	8,969	8,143
Aviva My Money Legal & General (PMC) Ethical Global Equity Index Fund	678	86
Aviva My Money HSBC Islamic Global Equity Index	2,180	265
Aviva My Money BlackRock Institutional Sterling Liquidity Fund	21,530	19,096
Aviva My Money Three Year Transition Fund	30,145	29,185
Prudential With Profits Fund	100	99
Equitable Life With Profits Fund	-	1,836
Utmost Life Secure Cash Fund	2,497	-
Cash deposit	10,294	1,049
	451,122	**422,651**

[1]GARS – Global Absolute Return Strategies, BOF – Broad Opportunities Fund

12. Additional voluntary contributions (AVC's)

Members' AVC's are invested together with the main assets of the Trust.

13. Investment reconciliation

	Market value at 6 April 2019	Purchases	Sales	Change in market value	Market value at 5 April 2020
	£'000	£'000	£'000	£'000	£'000
Pooled investment vehicles	421,602	94,497	(19,448)	(55,823)	440,828
Cash deposit	1,049	-	-	-	10,294
	422,651	**94,497**	**(19,448)**	**(55,823)**	**451,122**

There are no investments that are not allocated to members.

14. Concentration of investment risk

The assets of the Trust are mainly invested in unit linked insurance funds provided by Aviva Life and Pensions UK Limited. The following 5 funds each represent an investment of 5% or more of the Trust's total net assets as at 5 April 2020:

Fund	Allocation
Aviva My Money BlackRock (10:80:10) Currency Hedged Global Equity (Aquila Connect) Fund	40.08%
Aviva My Money Diversified (50:50 Standard Life GARS / Insight BOF)* Growth Fund	17.73%
Aviva My Money Legal & General 9PMC) Diversified Fund	13.88%
Aviva My Money Three Year Transition Fund	6.68%
Aviva MyMoney Legal & General (PMC) Retirement Income Multi-Asset Fund	6.12%

15. Transaction costs

Transaction costs include fees, commissions, stamp duty and other duties. Indirect transaction costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect transaction costs are not separately provided to the Trust. There are no direct transaction costs incurred by the Trust.

16. Investment fair value hierarchy

The fair value of investments has been determined using the following fair value hierarchy:

Level (1) - the quoted price for an identical asset in an active market.

Level (2) - when quoted prices are unavailable, the price of a recent transaction for an identical asset adjusted if necessary or observable market data.

Level (3) - where a quoted price is not available and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is determined by using a valuation technique which uses non-observable data.

For the purpose of this analysis daily priced funds have been included in (1), weekly priced funds in (2), and monthly net asset values in (3).

The Trust's investment assets and liabilities have been fair valued using the above hierarchy levels as follows:

At 5 April 2020	Level (1)	Level (2)	Level (3)	Total
	£'000	£'000	£'000	£'000
Pooled investment vehicles	-	440,728	100	440,828
Cash	10,294	-	-	10,294
Total	**10,294**	**440,728**	**100**	**451,122**

At 5 April 2019	Level (1)	Level (2)	Level (3)	Total
	£'000	*£'000*	*£'000*	*£'000*
Pooled investment vehicles	-	419,667	1,935	421,602
Cash	1,049	-	-	1,049
Total	**1,049**	**419,667**	**1,935**	**422,651**

17. Investment Risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by defaulting on an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trust has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee's report on page 9. The Trustee manages investment risks, including credit risk and other market risks, within agreed risk limits which are set taking into account the Trust's strategic investment objectives relative to its liabilities. These investment objectives and risk limits are implemented through the investment management agreements in place with the Trust's investment managers and are monitored by the Trustee through quarterly reviews of the investment strategy and performance with the Trustee's Investment Consultant.

Further information on the Trustee's approach to risk management and the Trust's exposures to credit and market risks are set out below:

Direct credit risk

The Trust is subject to direct credit risk in relation to Aviva through its holding in unit linked insurance funds.

Aviva is authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority. Aviva maintains separate funds for its policy holders. In the event of default by Aviva the Trust is not protected by the Financial Services Compensation Scheme.

Indirect credit and market risks

The Trust is also subject to indirect credit and market risk arising from the underlying investments held in the range of unit linked insurance funds made available to members. The funds which have significant exposure to these risks are set out below:

	Credit risk	Foreign exchange risk	Interest rate risk	Other price risk
Aviva My Money BlackRock (10:80:10) Currency Hedged Global Equity (Aquila Connect) Fund	-	✓	-	✓
Aviva My Money BlackRock UK Equity Index (Aquila Connect) Fund	-	-	-	✓
Aviva My Money BlackRock US Equity Index (Aquila Connect) Fund	-	✓	-	✓
Aviva My Money BlackRock European Equity Index (Aquila Connect) Fund	-	✓	-	✓
Aviva My Money BlackRock Japan Equity Index (Aquila Connect) Fund	-	✓	-	✓
Aviva My Money BlackRock Pacific Rim Equity Index (Aquila Connect) Fund	-	✓	-	✓
Aviva My Money BlackRock Emerging Markets Equity Index (Aquila Connect) Fund	-	✓	-	✓
Aviva My Money Diversified (50:50 Standard Life GARS/Insight BOF)[1] Growth Fund	✓	✓	✓	✓
Aviva My Money Legal & General (PMC) Diversified Fund	✓	✓	✓	✓
Aviva My Money Legal & General (PMC) Retirement Income Multi-Asset Fund	✓	✓	✓	✓
Aviva My Money BlackRock Over 5 Year Index Linked Gilt Index (Aquila Connect) Fund	✓	-	✓	-
Aviva My Money BlackRock Corporate Bond All Stocks Index (Aquila Connect) Fund	✓	-	✓	-

Aviva My Money Legal & General (PMC) Pre-Retirement Fund	✓	-	✓	-
Aviva My Money Legal & General (PMC) Ethical Global Equity Index Fund	-	✓	-	✓
Aviva My Money HSBC Islamic Global Equity Index Fund	-	✓	-	✓
Aviva My Money BlackRock Institutional Sterling Liquidity Fund	✓	-	✓	-
Aviva My Money Three Year Transition Fund	✓	✓	✓	✓
Prudential With Profits Fund	✓	-	✓	-
Equitable Life With Profits Fund	✓	-	✓	-

[1]GARS – Global Absolute Return Strategies, BOF – Broad Opportunities Fund

The analysis of these risks as set out above are at a Trust level. Member level risk exposures will depend on the funds invested in by members.

The Trustee has selected the above funds and considered the indirect risks in the context of the investment strategy described in the Trustee's report.

18. Self-investment

The Trust did not hold any direct employer related investments during the year or at the end of the year, although limited employer related investments may occur through pooled investment vehicles where specific exclusions are not possible.

19. Current assets

	2020	2019
	£'000	£'000
Bank balances	248	89
Other debtors	600	289
	848	**378**

Included in the bank balance is £16,848 (no change since 5 April 2019) which is not allocated to members. Included in other debtors are contributions payable by the Company amounting to £99,000 (£0 as at 5 April 2019), which were subsequently received following the end of the Trust year.

20. Current liabilities

	2020	2019
	£'000	£'000
Other creditors and accruals	(868)	(402)
	(868)	**(402)**

Included in other creditors and accruals are benefit payments due of £228,022 (5 April 2019: £72,227) which are allocated to members. The remaining other creditors and accruals are not allocated to members.

21. Related parties

At 5 April 2020:

- 7 Trustee directors were active members of the Trust; and
- 2 Trustee directors were Trustee directors of other Company pension arrangements.

Contributions in respect of the Trustee directors have been paid in accordance with the payment schedule. Contributions due from the Company at the end of the Trust Year are included in note 19. There were no other disclosable related party transactions during the year.

22. Covid-19 impact on valuations

The impact of Covid-19 on the valuation of investments was most significant around the 5 April 2020 reporting date. The impact is likely to have be reflected in the financial statements for most investments given they are traded frequently in liquid markets. The value of the Fund's investments had broadly recovered to pre Covid-19 levels by 30 June 2020.

Independent auditor's report

Independent auditor's report to the Trustee of the Rolls-Royce Retirement Savings Trust

Opinion

We have audited the non-statutory financial statements of the Rolls-Royce Retirement Savings Trust for the year ended 5 April 2019 which comprise the Fund Account, the Statement of Net Assets and related notes, including the accounting policies in note 2. In our opinion these non-statutory financial statements:

- show a true and fair view, of the financial transactions of the Trust during the Trust year ended 5 April 2020 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Trust year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995, as if those regulations applied.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and the terms of our engagement letter dated 23 July 2018. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Trust in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which indicates that the sponsoring employer has disclosed the existence of a material uncertainty related to going concern as a result of a possible second wave of COVID-19 and associated lockdown measures introduced to limit the spread of the virus. The ability of the sponsoring employer to continue as a going concern may have an effect on both the Trust's constitution and funding from the Principal Employer. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the Trust's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report, the Chair's Statement and the payment schedule. Our opinion on the non-statutory financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our non-statutory financial statements audit work, the information therein is materially misstated or inconsistent with the non-statutory financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in its statement set out on page 6, the Trustee is responsible for supervising the preparation of financial statements which show a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to wind up the Trust, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the non-statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the non-statutory financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made to the Trust's Trustee, in accordance with the agreed terms of our engagement. It has been released to the Trustee on the basis that this report shall not be copied, referred to or disclosed, in whole (save for the Trustee's own internal purposes) or in part, without our prior written consent. We consent to its disclosure in full to the Trust's members to enable them to verify that a report from auditors has been obtained by the Trustee in connection with the non-statutory financial statements but without assuming or accepting any responsibility or liability to the Trust members in connection with our audit work for the Trustee or this report.

This report was designed to meet the agreed requirements of the Trustee determined by its needs at the time. This report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Trustee, as a body, for any purpose or in any context. Any party other than the Trustee that obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our audit work, this report, or for any opinions we have formed, to any other party.

N. Dabbagh-Hobrow

Nadia Dabbagh-Hobrow

30 September 2020

for and on behalf of KPMG LLP, Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

Independent auditor's statement about contributions

Independent auditor's statement about contributions to the Trustee of the Rolls-Royce Retirement Savings Trust

Statement about contributions

We have examined the summary of contributions for the Rolls-Royce Retirement Savings Trust in respect of the Trust year ended 5 April 2020 which is set out on page 7.

In our opinion contributions for the Trust year ended 5 April 2020 as reported in the summary of contributions and payable under the payment schedule have in all material respects been paid at least in accordance with the payment schedule dated 7 December 2018.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the payment schedule. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Trust and the timing of those payments under the payment schedule.

Respective responsibilities of the Trustees and auditor

As explained more fully in the Statement of the Trustee's Responsibilities set out on page 6, the Trust's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a payment schedule showing the rates and due dates of certain contributions payable towards the Trust by or on behalf of the employer and the active members of the Trust. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Trust and for monitoring whether contributions are made to the Trust by the employer in accordance with the payment schedule.

It is our responsibility to provide a statement about contributions paid under the payment schedule to the Trust and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Trust's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Trust's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust's Trustee, for our work, for this statement, or for the opinions we have formed.

Nadia Dabbagh-Hobrow

N. Dabbagh-Hobrow

30 September 2020

For and on behalf of KPMG LLP, Auditor
Chartered Accountants
One Snow Hill
Snow Hill Queensway
Birmingham B4 6GH

Statement of Investment Principles

1. Introduction

The Rolls-Royce Retirement Savings Trust (the "Trust") is a wholly-insured scheme as defined in Regulation 8 (2) of The Occupational Pension Plans (Investment) Regulations 2005. As a result, the asset held by the Trustee is the policy of insurance issued by the Provider. This Statement of Investment Principles ("SIP") sets out the required principles governing decisions about the investment options available under this Policy for the Trust and the reasons why it is a wholly-insured scheme.

The Pensions Act 1995, and subsequent legislation, requires the Trustee to document matters in the Statement which include the Trustee's policy to choosing investments, the kinds of investments to be held, the balance between different kinds of investments, risk, the expected return on investments, the realisation of investments, and such other matters as may be prescribed.

Before preparing this Statement of Investment Principles, the Trustee has consulted with the Employer (Rolls-Royce Plc), and obtained and considered written professional advice from Mercer Limited, the Trust's investment consultants, regarding the Trust's investment strategy.

2. The Trustee

The Trustee's investment powers are set out within the Trust's governing documentation and relevant legislation. If necessary, the Trustee will take legal advice regarding the interpretation of these. The Trustee notes that, according to the law, the Trustee has ultimate power and responsibility for the Trust's investment arrangements. The Trustee will regularly review the Trust's investment policies and their implementation against the DC Code of Practice. The Trustee appoints a professional consultant (the "Investment Consultant") to provide them with relevant advice where necessary. The Trustee also takes advice as appropriate from other professional advisers.

The Trustee remains accountable for the investment of the Trust's assets, but may delegate some aspects of the investment arrangements. When determining which decisions to delegate, the Trustee has taken into account whether they have the appropriate training and are able to secure the necessary expert advice in order to take an informed decision.

3. Reasons for the wholly insured approach

A wholly-insured scheme is where all the assets (excluding cash held in the Trustee's bank account) are held in one or more qualifying insurance policies. The Trustee, having reviewed the different options available in 2014 and having received the advice of its Investment Advisors, Mercer, continues to consider that a wholly-insured approach is an appropriate arrangement, having regard to the needs of the membership and the preferences of the Sponsoring Company.

This route enables the Trustee to provide Trust members with access to a comprehensive range of investment options that are sufficient to meet the Trustee's objectives (as set out in 4.1 below). These investment options are managed by a number of leading fund managers, via a single contractual relationship with the chosen provider, Aviva (formerly Friends Life), who deliver investment, administration and communications services, for the Trust. Fund switches and manager changes can be processed more efficiently with less risk than through alternative options, and members gain access to a reasonable range of services in addition to the Trust's investment options.

The Trustee will review the continued appropriateness of the wholly-insured approach at least triennially or more frequently if required.

4. Investment Policy

4.1 Objectives

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have different attitudes to risk. The members are responsible for their own investment decisions based on their individual circumstances. However, the Trustee recognises that members may not believe themselves qualified to take investment decisions.

The following encapsulates the Trustee's objectives:

- To make available a range of investment funds and lifestyle strategies that should enable members to tailor their own investment strategy to meet their own individual needs.

- Offer funds and lifestyle strategies which facilitate diversification and long term capital growth.

- Offer funds and lifestyle strategies that enable members to reduce risk in their investments as they approach retirement.

- Offer funds which mitigate the impact of sudden and sustained reductions in capital values or rises in the cost of providing benefits at retirement (cash, annuity purchase or drawdown).

- To structure the range of funds and lifestyle strategies, to provide a suitable number of funds and present this range in a manner which may make it easier for members to make investment decisions.

- To provide a default investment option for members until they make their own investment decisions.

The Trustee is responsible for deciding the range of funds and lifestyle strategies to offer to members. In determining what types of funds and lifestyle strategies are offered, the Trustee has taken investment advice regarding the suitability of investment vehicles considering factors such as: the asset class (or classes), the level of diversification and the nature of the investment objectives.

However, the Trustee has no influence over the investment aims of each fund used or how the investment managers choose the underlying investments within each fund, as the assets are pooled with many other investors to obtain economies of scale. Nevertheless, notwithstanding how the assets of each fund are managed, the Trustee regularly obtains professional advice to monitor and review the suitability of the funds provided and from time to time may change the managers or investment options.

The Trustee takes account of what it considers 'financially material considerations'. The above, as well Section 4.3 (Risk), sets out the Trustee's policies in relation to financially material considerations. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and when they expect to retire.

4.2 Environmental, Social and Corporate Governance (ESG) including Climate Change

The following encapsulates the Trustee's ESG beliefs:

- The Trustee believes that environmental, social, and corporate governance factors can have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole.

- The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration within the investment decision making process.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. Managers are also expected to be signatories to the United Nations-supported Principle for Responsible Investment (PRI) unless a suitable reason is provided for not being. As the assets of the Trust are invested in wholly insured arrangements with investments in pooled vehicles the Trustee accepts that the assets are subject to the investment fund managers' own policies in this area.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes when appointing new investment managers and monitoring existing investment managers. The Trustee has set a target that all equity investment managers be highly rated by Mercer for ESG integration and active ownership with a minimum rating of ESG3 or better, where possible. Monitoring is undertaken on a regular basis and is documented at least annually. The Trustee does not take into account ethical views when choosing the funds available to members and in the investment strategies. However, the Trustee does offer a specific ethical fund in the self-select fund range.

The Trustee will engage with the provider and the investment managers as appropriate, and will ask investment managers to include appropriate risk metrics within their portfolio reporting within the framework of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD).

The Trustee also periodically reviews the appropriateness of offering individual ESG or sustainable investment choices available to members.

4.3 Implementation and Engagement Policy

4.3.1 Aligning Manager Investments Strategy and Decisions with Trustee's policies

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 being selected. These characteristics will differ for each asset class so appointing a single manager is unlikely to be the most appropriate approach.

The Trustee will seek guidance from the 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 Investment Consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan offers to its members. The Investment Consultant's manager research ratings assist with due diligence and are used in decisions around selection, retention and realisation of manager appointments. The manager ratings are incorporated into the Trustee's monitoring reports,

The Trustee will review an appointment if the investment objective for a manager's fund changes to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

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

The Trustee accesses funds via a platform, the chosen investment managers' continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then it will look to review the appointment.

4.3.2 Evaluating Investment Manager Performance

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and 5 years (where available). The Trustee reviews the absolute performance and relative performance against a suitable index used as the benchmark and against the manager's stated target performance objective for both active and passive managers (over the relevant time period) on a net of fees basis.

The Trustee focuses on long-term performance but as noted above, may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager;
- There is a change in the underlying objectives of the investment manager; or
- There is a significant change to the Investment Consultant's rating of the manager.
- There is a material change to the process used by the managers that will impact on its ability to meet the objectives set.

The investment manager is remunerated by way of a fee calculated as a percentage of assets under management.

4.3.3 Portfolio Turnover Costs

The Trustee receives some Markets in Financial Instruments Directive (MiFID II) reporting from the investment manager. The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee may ask managers to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

The Trustee considers portfolio turnover costs as part of the transaction cost charges disclosures provided for the annual Value For Members' assessment.

4.3.4 Manager Turnover

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. For open-ended funds, there is no set duration for the manager selections. The Trustee 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 basis on which the manager was selected changes materially (e.g. manager fees or investment process); or
- The manager selected has been reviewed in line with 4.3.2 and the Trustee has decided to terminate the mandate.

4.4 Risk and Return

The Trustee has considered risk from a number of perspectives. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. The risks considered include:

- Risk of capital loss in nominal terms. The protection of capital, in the approach to retirement, in supporting the provision of benefits from the members' individual accounts is considered important and is managed by offering lifestyle options that naturally reduce risk over time and giving members access to options where loss of capital might be low. .

- Risk of erosion by inflation. If investment returns lag inflation over the period of membership, the real (i.e.net of inflation) value of the members' individual accounts will decrease. The Trustee acknowledges that unexpectedly high future inflation is likely to cause a reduction in the real value of members' accounts. Members are provided with a choice of funds with a number expected to protect the real value of their savings. The impact is measured by considering long term performance trends.

- Risk of returns from day-to-day management not meeting expectations. This will lead to lower than expected returns to members. The Trustee recognises that the use of active investment management involves such a risk and offer a range of passive options to manage this risk. Manager performance is measured in the quarterly performance reports..

- Market risk. The value of securities, including equities and interest bearing assets, can go down as well as up. Members may not get back the amount invested. However, the Trustee realises that this risk is implicit in trying to generate returns above that earned by cash and accept this by investing in assets other than cash. The market risk experienced is considered within the triennial investment strategy reviews, which is an appropriate timeframe.

- Liquidity risk. Members are able to switch between investments on short notice, and may withdraw assets from the Trust when leaving employment, retiring or opting out of the Trust. The Trustee has been mindful of these liquidity requirements when selecting the range of fund options available to members and all options are daily dealing to mitigate this risk..

- Default risk. The value of interest bearing securities would be at risk if a bond issuer or licensed deposit taker defaults on their commitments. The Trustee offers options to members that offer investment grade or above bond investments to manage this risk

- Conversion risk. The costs of converting a member's accumulated defined contribution account into pension benefits at retirement is influenced by a number of factors and depends on how the member intends to take their benefits at retirement.

- Environmental, social and corporate governance (ESG) risks. ESG factors present financially material risks for companies and investors. These risks can take many forms but are often operational and/or reputational in nature. The Trustee's policy on managing these risks is provided in 4.2

- Climate change risk. Climate change is a systemic risk which may materially affect the financial performance of certain asset classes, sectors and companies.

The Trustee recognises that all forms of investment carry some degree of risk. The Trustee has considered these risks when setting the investment strategy and ultimately the choice of funds and lifestyle strategies made available to members. Fund selections are also based on the Investment Managers' perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for. The Trustee understands that this is not an exhaustive list of all the risks that the Trust faces.

The above items are in relation to what the Trustee considers 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and their Selected Retirement Age.

5. Investment Strategy

5.1 Range of Funds

The Trustee believes, having taken expert advice, that it is appropriate to offer a range of investment funds and lifestyle strategies to allow members to tailor their own investment strategy.

The Trustee will determine the range of funds and lifestyle strategies to be made available to meet a range of member needs taking into account the risks set out above. Members can combine the investment funds in any proportion in order to determine the balance between different kinds of investments. This will also determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerances. Each of the available funds is considered to be diversified across a reasonable number of underlying holdings / issuers.

A range of asset classes has been made available, including: developed market equities, emerging market equities, money market investments, gilts, index-linked gilts, diversified growth funds and pre-retirement funds. Details of the range of funds available, including fees, benchmark and objectives are set out in the Appendix to the SIP.

The Trustee has also provided the option for members to select one of three lifestyle strategies targeting an annuity purchase, withdrawing savings in the form of income drawdown and thirdly, a cash lump sum at retirement. Two of these lifestyle strategies are also default investment options (see Section 5.2), where members who do not make their own choices are automatically invested, depending on their categorisation.

Following an investment strategy review carried out in 2018, the Trustee decided to consolidate the lifestyle strategies from six to the three strategies noted above to offer one lifestyle strategy per targeted retirement objective. In moving members to these new lifestyle strategies, the Trustee decided to introduce a temporary Interim Lifestyle for three years to facilitate the change, specifically for members in the previous Medium Risk Lifestyles with 39 to 20 years to retirement, with the view to avoid an immediate significant change in their equity allocation. Further details of the lifestyle strategies and the interim lifestyle strategy, including the underlying allocations of the lifestyle strategies throughout a member's working life are set out in the Appendix to the SIP. Members within two years from their selected retirement dates at 23 January 2019 i.e. the transition date remained in the legacy lifestyle strategies unless they chose otherwise. These legacy lifestyle strategies are closed to new members but will continue to be monitored by the Trustee until members are no longer invested and are noted under 5.2.2.

The Trustee regularly reviews the suitability of the funds provided and from time to time may change funds or introduce additional investment options.

5.2 Default Investment Options

5.2.1 Current Lifestyle Strategies

The Trustee recognises that the Trust has three distinct groups of members:

- Top-up members - who have a Defined Benefit entitlement through a separate occupational pension arrangement with the Sponsoring Company;

- AVC members - who have a Defined Benefit entitlement through a separate occupational pension arrangement with the Sponsoring Company and whose money purchase AVCs were transferred into the Trust in late 2016; and

- 2008, Energy and Standard ("2008") members - who have only DC benefits.

Following the investment strategy review carried out in 2018, the Trustee has chosen default investment options which they believe to be suitable, for each group. The Default Investment Option for AVC and for 2008 members is the Drawdown Lifestyle and, for Top-up members, is the Cash Lifestyle.

The aims of the Default Investment Options, and the ways in which the Trustee seeks to achieve these aims, are detailed below:

- To generate long term growth during the accumulation phase of the strategies whilst mitigating downside risk.

  The default investment options' growth phase invests in equities and other growth-seeking assets (through two multi-asset diversified growth funds) to reduce the risk of poor investment outcomes.

- To provide strategies that reduce investment risk for members as they approach retirement.

  As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. Moreover, as members approach retirement, the Trustee believes the primary aim should be to provide protection against a mismatch between asset values and the expected costs of retirement benefits.

2008, Energy and Standard and AVC Members

Based on the Trustee's understanding of 2008 and AVC members' circumstances, and having regard to likely future developments, the Trustee believes that an investment strategy that targets income drawdown at retirement is likely to reflect a typical member's choice of how they take benefits at retirement.

These aims are achieved via automated lifestyle switches over the 10 year period to a member's target retirement date. Investments are gradually switched from the growth investment with a significant equity content into a blend of multi-asset diversified growth funds (that aim to deliver the potential for future investment growth while gradually reducing the level of volatility experienced by members) and Cash, for capital preservation purposes and in the expectation that members will typically want to take maximum permitted tax free cash at retirement.

Top-Up members

Based on the Trustee's understanding of Top-Up members' circumstances, the Trustee believes that an investment strategy that targets full cash withdrawal at retirement is likely to reflect a typical member's choice of how they take benefits at retirement.

These aims are achieved via automated lifestyle switches over the 10 year period to a member's target retirement date. Investments are gradually switched from the growth investment with a significant equity basis into Cash, for capital preservation purposes, at retirement.

5.2.2 Interim and Historic Arrangements

The Trustee regularly reviews the lifestyle strategies and self-select fund range and, if deemed appropriate, makes changes to the managers. Making changes within the lifestyle strategies and moving members to these new allocations without member consent results in these funds also being determined to be 'default investment options' according to legislation and as such, requires additional disclosures. Therefore, from 6 April 2018, changes made as a result of the investment strategy review in 2017-8 meant the following lifestyle strategies are considered default investment options:

- Annuity Lifestyle
- Interim Lifestyle

Annuity Lifestyle

The Annuity Lifestyle aims to protect members' investments against annuity price fluctuations in the run up to retirement and is suitable for members considering taking a level or fixed annuity in retirement. These aims are achieved via automated lifestyle switches over the ten year period to a member's target retirement date. Investments are gradually switched from the growth investment with significant equity content to the Pre-Retirement Fund (a fund whose aim is to match ongoing changes in annuity prices) and Cash, for capital preservation purposes and in the expectation that members will typically want to take the maximum permitted tax free cash at retirement.

Further details of the Annuity Lifestyle option are set out in the Appendix to the SIP.

Interim Lifestyle

The Trustee has introduced a temporary Interim Lifestyle over three years, for members in the Medium Risk Lifestyles with 39 to 20 years to retirement, with the view to avoid an immediate significant change in their equity allocation. This however, excluded all members who joined the Trust less than one year before the implementation date.

The interim lifestyle strategy intends to smooth the change in asset allocation of members 39 – 20 years to retirement, over a three year period, on the basis that these members would likely experience the most significant change in fund value due to equity market volatility. The interim lifestyle strategy contains a transition portfolio that would gradually increase its equity allocation over the three years so that members reach the desired new strategy allocation by the start of the fourth year. The shape of the allocation to the Transition Portfolio was designed to minimise (but not completely remove) the short term trades arising due to equities being sold in the interim lifestyle glidepath and bought in the transition portfolio.

Further details of the Interim Lifestyle option are set out in the Appendix to the SIP.

The Trustee will continue to review the Default Investment Options over time, taking into consideration retirement experience and changes in member demographics and apply the necessary governance actions for default investment options.

5.2.3 Default Policies

The Trustee's policies in relation to the Default Investment Options are detailed below:

- The Default Investment Options manage investment risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the Default Investment Options, the Trustee has explicitly considered the trade-off between risk and expected returns. All the risks outlined in Section 4.3 are also considered as part of designing the Default Investment Options.

- Assets in the Default Investment Options take into account the objectives in section 4.1 and the policies in relation in risk in 4.4 and are considered together to ensure that assets are invested in the best interests of members, taking into account the profile of members and which investment option would be suitable for them. In particular, the Trustee considered the make-up of the Trust's membership when deciding on the Default Investment Options.

- Members are supported by clear communications regarding the aims of the Default Investment Options and the access to alternative investment approaches. If members wish to, they can opt to choose their own investment strategy or an alternative Lifestyle Fund on joining but also at any other future date. Moreover, members do not have to take their retirement benefits in line with those targeted by the Default Investment Options; the target benefits are merely used to determine the investment strategy held pre-retirement.

- Assets in the Default Investment Options are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by various Investment Managers. The selection, retention and realisation of assets within the pooled funds are managed by the respective Investment Managers in line with the mandates of the funds. Likewise, the Investment Managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. The Trustee's full policies on social, environmental or ethical considerations are detailed in Section 4.2 of this statement.

Taking into account the demographics of the Trust's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the current Default Investment Options are appropriate and will continue to review these over time, at least triennially, or after significant changes to the Trust's demographic, if sooner. The Trustee does not take into account member views when choosing the funds available to members and in the investment strategies.

Further details of the Default Investment Options are set out in the Appendix to the SIP.

6. Day-to-Day Management of the Assets

The Trustee delegates the day-to-day administration and management of the assets to the Provider and the underlying investment managers. The Trustee has taken steps to satisfy themselves that the Provider and underlying fund managers have the appropriate knowledge and experience for managing the Trust's investments and they are carrying out their work competently.

The Trustee regularly reviews the continuing suitability of the Trust's investments including the appointed Provider and the funds and lifestyle strategies utilised, and these may be amended from time to time. However, any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that targeted.

7. Realisation of assets

The Investment Managers have responsibility for the realisation and trading of the underlying assets. The day-to-day activities which the Investment Managers carry out for the Trustee are governed by the arrangements between the Investment Managers and the Provider. All funds available are daily priced and trade daily.

8. Compliance

The Trustee will monitor compliance with this Statement regularly, and in any event will review this Statement at least once every three years or sooner if there is any significant change in investment strategy. The Statement will also be reviewed in response to any material changes to any aspects of the Trust and its finances, which are judged to have a bearing on the stated investment policy. Any such review will be based on written expert investment advice and will be in consultation with the Trustee and Sponsoring Company.

9. Legacy Additional Voluntary Contributions ("AVCs")

In addition to the current investment arrangements, the Trust also has legacy AVC investments (which are closed to future contributions) in a With Profits Fund through a policy with Prudential.

Following the sale of Equitable Life to Utmost, the assets held in the Equitable Life With Profits Fund moved to Utmost in January 2020. These assets were subsequently moved across to Aviva in May 2020. Members' assets were invested in the current Default Investment Option for AVC members, the Drawdown Lifestyle, unless they chose otherwise.

Approved by the Trustee on 24 September 2020

Statement of Investment Principles: Appendix

Introduction

This Appendix to the Statement of Investment Principles (“SIP”) has been prepared by the Trustee of the Rolls-Royce Retirement Savings Trust (the “Trust”) and sets out the detail of the Trust’s investment arrangements, based on the principles documented in the Statement of Investment Principles (the “Statement”) dated September 2020.

Fund Range

The Trustee has selected the Provider to manage and administer the Trust’s assets on its behalf. The fund benchmark and performance objectives of the current fund range are set out below:

Fund	Mandate Benchmark	Performance Objectives	Fund Type	Risk Rating
Aviva Pension MyM BlackRock (10:80:10) Currency Hedged Global Equity	10% FTSE All Share, 80% Developed Overseas Equities (Hedged to Sterling),10% MSCI Emerging Markets Index	To provide returns consistent with the markets in which it invests. This includes the performance of developed overseas equity markets in local terms (i.e. without the impact of changes in Sterling exchange rates)	Growth	Medium to Higher
Aviva Pension MyM BlackRock UK Equity Index	FTSE All-Share Index	To match benchmark performance.	Growth	Medium to Higher
Aviva Pension MyM BlackRock European Equity Index*	FTSE Developed Europe ex UK Index	To match benchmark performance.	Growth	Highest
Aviva Pension MyM BlackRock Japanese Equity Index*	FTSE All-World Japan Index	To match benchmark performance.	Growth	High
Aviva Pension MyM BlackRock Pacific Rim Equity Index*	FTSE Developed Asia Pacific ex Japan Index	To match benchmark performance.	Growth	High

Aviva Pension MyM BlackRock US Equity Index*	FTSE All-World USA Index	To match benchmark performance.	Growth	Medium to Higher
Aviva Pension MyM BlackRock Emerging Markets Equity Index*	MSCI Emerging Market Index	To match benchmark performance.	Growth	Highest
Aviva Pension MyM Blended Diversified Growth (50:50 ASI GARS /Insight BOF)	50% 6 Month LIBOR, 50% 3 Month GBP LIBID	To provide an absolute return, in excess of that available from an investment in cash, over the long term by investing in a broad range of traditional and alternative asset classes. The fund aims to achieve long-term investment growth, with less risk than is associated with equity funds.	Growth	Medium
Aviva Pension MyM Legal & General Diversified*	FTSE Developed TR in GB 50%, FTSE Developed Hedged GBP TR in GB 50%	To provide long-term investment growth through exposure to a diversified range of asset classes.	Growth	Medium
Aviva Pension MyM HSBC Islamic Global Equity Index*	Dow Jones Titans 100 Index	To match benchmark performance.	Growth	Medium to Higher
Aviva Pension MyM Legal & General Ethical Global Equity Index*	FTSE4Good Global Equity Index	To match benchmark performance.	Growth	Medium to Higher
Aviva Pension MyM BlackRock Over 5 Year Index-Linked Gilt Index	FTSE UK Index-Linked Gilts Over 5 Years Index	To match benchmark performance.	Defensive	Lower to Medium

Aviva Pension MyM BlackRock Corporate Bond All Stocks Index*	iBoxx £ Non-Gilts Index	To match benchmark performance.	Defensive	Lower to Medium
Aviva Pension MyM Legal & General (PMC) Pre-Retirement	The benchmark asset allocation for the fund is a composite of gilts and corporate bond funds.	To provide diversified exposure to fixed income assets, reflecting the investments underlying a typical traditional level annuity product.	Defensive	Lower to Medium
Aviva Pension MyM BlackRock Institutional Sterling Liquidity	7 Day GBP LIBID	To maximise the income generated on an investment consistent with maintaining capital and ensuring its underlying assets can easily be bought or sold in the market in normal market conditions.	Defensive	Lowest
Aviva Pension MyM Legal & General (PMC) Retirement Income Multi-Asset (RIMA)	Bank of England base rate + 3.5% TR in GBP	To provide long-term investment growth up to and during retirement, and to facilitate the drawdown of retirement income. To maintain a risk level of less than half of the volatility of a global developed equity portfolio, over the long term.	Defensive	Medium

*New self-select fund introduced in February 2019

Lifestyle Investment Strategies

The switching periods for the lifestyle strategies available to members are outlined in the tables that follow:

Drawdown Lifestyle (default for 2008, Energy and Standard and AVC members)

Years to Retirement Date	Aviva Pension MyM Diversified Growth (50:50 ASI GARS /Insight BOF)	Aviva Pension MyM Legal & General Diversified	Aviva Pension MyM Legal & General (PMC) Retirement Income Multi-Asset	Aviva Pension MyM BlackRock (10:80:10) Currency Hedged Global Eq (Aq C)	Aviva Pension MyM BlackRock Institutional Sterling Liquidity
Over 30	0.00	0.00	0.00	100.00	0.00
30 – 20*	0.00 - 33.30	0.00 - 33.40	0.00	100.00 - 33.30	0.00
20 - 10	33.30	33.40	0.00	33.30	0.00
9	30.83	30.84	7.50	30.83	0.00
8	28.33	28.34	15.00	28.33	0.00
7	25.83	25.84	22.50	25.83	0.00
6	23.33	23.34	30.00	23.33	0.00
5	20.49	20.49	37.50	21.52	0.00
4	16.39	16.39	45.00	17.22	5.00
3	12.29	12.29	52.50	12.92	10.00
2	8.19	8.19	60.00	8.62	15.00
1	4.09	4.09	67.50	4.32	20.00
0	0.00	0.00	75.00	0.00	25.00

**De-risks linearly to this allocation over 10 years.*

This lifestyle strategy may be suitable for members who are prepared to take higher risk in the growth phase (with the aim of higher return) and who are considering taking benefits through income drawdown at retirement.

Cash Lifestyle (default for Top Up members)

Years to Retirement Date	Aviva Pension MyM Diversified Growth (50:50 ASI GARS /Insight BOF)	Aviva Pension MyM Legal & General Diversified	Aviva Pension MyM BlackRock (10:80:10) Currency Hedged Global Eq (Aq C)	Aviva Pension MyM BlackRock Institutional Sterling Liquidity
Over 30	0.00	0.00	100.00	0.00
30 – 20*	0.00 - 33.30	0.00 – 33.40	100.00 – 33.30	0.00
20 - 10	33.30	33.40	33.30	0.00
9	33.30	33.40	28.30	5.00
8	33.30	33.40	23.30	10.00
7	33.30	33.40	18.30	15.00
6	33.30	33.40	13.30	20.00
5	33.30	33.40	8.30	25.00
4	30.00	30.00	0.00	40.00
3	22.50	22.50	0.00	55.00
2	15.00	15.00	0.00	70.00
1	7.50	7.50	0.00	85.00
0	0.0	0.0	0.0	100.0

**De-risks linearly to this allocation over 10 years.*

This lifestyle strategy may be suitable for members who are considering the full value of their retirement savings as a cash lump sum (25% tax free, 75% taxable) at or near retirement.

Annuity Lifestyle

Years to Retirement Date	Aviva Pension MyM Diversified Growth (50:50 ASI GARS /Insight BOF)	Aviva Pension MyM Legal & General Diversified	Aviva Pension MyM BlackRock (10:80:10) Currency Hedged Global Eq (Aq C)	Aviva Pension MyM Legal & General (PMC) Pre-Retirement	Aviva Pension MyM BlackRock Institutional Sterling Liquidity
Over 30	0.00	0.00	100.00	0.00	0.00
30 – 20*	0.00 - 33.30	0.00 – 33.40	100.00 - 33.30	0.00	0.00
20 - 10	33.30	33.40	33.30	0.00	0.00
9	33.30	33.40	23.30	10.00	0.00
8	33.30	33.40	13.30	20.00	0.00
7	33.30	33.40	3.30	30.00	0.00
6	30.00	30.00	0.00	40.00	0.00
5	25.00	25.00	0.00	50.00	0.00
4	20.00	20.00	0.00	60.00	0.00
3	15.00	15.00	0.00	70.00	0.00
2	10.00	10.00	0.00	75.00	5.00
1	5.00	5.00	0.00	75.00	15.00
0	0.00	0.00	0.00	75.00	25.00

**De-risks linearly to this allocation over 10 years.*

This lifestyle strategy may be suitable for members who are considering taking a level or fixed increasing annuity in retirement.

Interim Lifestyle (default for all members who were invested in the Medium Risk Lifestyles between 39 and 20 years to retirement in February 2019)

This lifestyle strategy was used to phase members to the new lifestyle growth phase allocation. It applied to all members in the Medium Risk Lifestyles between 39 and 20 years to retirement, unless they chose differently.

The interim lifestyle strategy contains a transition portfolio that gradually increases its equity allocation over the three years so that members reach the desired new strategy allocation by the start of the fourth year.

Years to Retirement Date	Aviva Pension MyM Diversified Growth (50:50 ASI GARS /Insight BOF)	Aviva Pension MyM Legal & General Diversified	Aviva Pension MyM BlackRock (10:80:10) Currency Hedged Global Eq (Aq C)	Transition Portfolio (changing allocation over three years)*
Over 40	0.00	0.00	100.00	0.00
39	0.00	0.00	90.00	10.00
38	0.00	0.00	87.00	13.00
37	0.00	0.00	84.00	16.00
36	0.00	0.00	80.00	20.00
35	0.00	0.00	75.00	25.00
34	0.00	0.00	70.00	30.00
33	0.00	0.00	65.00	35.00
32	0.00	0.00	60.00	40.00
31	0.00	0.00	55.00	45.00
30	0.00	0.00	50.00	50.00
29	3.30	3.30	48.30	45.00
28	6.70	6.70	46.60	40.00
27	10.00	10.00	45.00	35.00

Years to Retirement Date	Aviva Pension MyM Diversified Growth (50:50 ASI GARS /Insight BOF)	Aviva Pension MyM Legal & General Diversified	Aviva Pension MyM BlackRock (10:80:10) Currency Hedged Global Eq (Aq C)	Transition Portfolio (changing allocation over three years)*
26	13.30	13.30	43.40	30.00
25	16.70	16.70	41.60	25.00
24	20.00	20.00	40.00	20.00
23	23.30	23.30	38.40	15.00
22	26.60	26.60	36.80	10.00
21	30.00	30.00	35.00	5.00
20	33.30	33.40	33.30	0.00

*Transition portfolio allocation over three years				
	T	T+365	T+730	T+1095
Equity	0%	33.3%	66.7%	100%
LG DF	0%	0%	0%	0%
Blended DGF	100%	67.7%	33.3%	0%

Legacy Lifestyle Strategies

There are six legacy lifestyle strategies, which are closed to new members. These lifestyle strategies are a Higher and Medium Risk version of each targeted retirement outcomes; purchasing an annuity, cash lump sum and accessing income drawdown. The Higher and Medium Risk versions have different growth phases over 20 years to retirement. Members who were within two years from their selected retirement dates during the investment strategy changes carried out in January 2019, remained in the legacy lifestyle strategies unless they chose otherwise.

Fees

Fund Option	Fee (% p.a.)
Aviva Pension MyM BlackRock (10:80:10) Currency Hedged Global Equity (Aquila C)	0.29
Aviva Pension MyM BlackRock UK Equity Index (Aquila C)	0.21
Aviva Pension MyM BlackRock European Equity Index	0.22
Aviva Pension MyM BlackRock Japanese Equity Index	0.22
Aviva Pension MyM BlackRock Pacific Rim Equity Index	0.22
Aviva Pension MyM BlackRock US Equity Index	0.22
Aviva Pension MyM BlackRock Emerging Markets Equity Index	0.45
Aviva Pension MyM Diversified Growth (50:50 ASI GARS /Insight BOF)	0.80
Aviva Pension MyM Legal & General Diversified	0.41
Aviva Pension MyM HSBC Islamic Global Equity Index	0.51
Aviva Pension MyM Legal & General Ethical Global Equity Index	0.36
Aviva Pension MyM BlackRock Over 5 Year Index-Linked Gilt Index (Aquila C)	0.21
Aviva Pension MyM BlackRock Corporate Bond All Stocks Index	0.22
Aviva Pension MyM Legal & General (PMC) Pre-Retirement	0.28
Aviva Pension MyM BlackRock Institutional Sterling Liquidity	0.21
Aviva Pension MyM Legal & General (PMC) Retirement Income Multi-Asset	0.51

As at 31 March 2020. ASI GARS AMC was reduced on 26 October 2018 to 0.45% p.a. subject to increase each calendar year based upon 3-year annualised gross outperformance above cash + 2%.

Investment Restrictions

The Trustee acknowledges that they have no ability to restrict the holdings within the underlying funds. The Trustee has considered the investment restrictions attaching to the pooled funds prior to investing in the pooled funds and is comfortable with these.

The governing documents of the pooled funds contain the restrictions under which the investment managers operate.