Investment Options

How your retirement savings are invested can make a big difference to the value of your benefits at retirement. You can choose to invest your retirement savings in an investment programme or in individual funds. If you do not make any investment decisions, an investment programme will be selected for you.

Investment programmes

If you choose an investment programme your retirement savings will be invested for you, all the way up to the date you expect to retire (known as your investment programme end date). The investment programmes provide exposure to growth and risk in the early years of saving and gradually move towards more defensive and cautious fund choices as you approach your investment programme end date. A feature on the de-risking of your investments as you near retirement is included below.

There are currently three different default investment programmes to choose from, each designed to target a different way to access your retirement savings:

1. Drawdown

For members who would like to receive their benefits in a flexible way when they retire (also known as 'income drawdown').

2. Cash

For members who would like to use their retirement savings to secure a single one-off cash lump sum (net of tax).

3. Annuity Lifestyle

For members who would like to use their retirement savings to secure a guaranteed income for life (also known as an 'annuity').

Your investment programme end date is important because it is used to determine the appropriate mix of funds for your own personal circumstances. Your investment programme end date should be aligned with the date you expect to retire. You can review and change your chosen investment programme end date using the Aviva website which can be accessed at www.avivamymoney.co.uk/Login

Individual funds

If you would like to design and manage your own investment programme, you can invest your retirement savings in a range of 'self-select' investment

funds. You can download factsheets for the available funds and change your fund selection using the Aviva website which can be accessed at www.avivamymoney.co.uk/Login

Responsible Investment

The Trust has over £540 million of assets invested within the Aviva platform and the Trustee has spent some significant time in consideration of responsible investment. In conjunction with the Trustee's investment adviser Mercer, an ESG (Environment, Social and Governance) rating has been introduced within the quarterly investment performance review and the Trustee has written to some of the individual investment managers for their current and long-term strategies on responsible investment.

An Ethical Fund was also added to the Trust's investment platform in 2019 and responsible investment remains a key consideration to the Trustee's future investment strategy, with further developments expected in this area as the market develops.

De-risking your investments as you approach retirement

The Trustee and its advisers have agreed a strategy, which is continuously reviewed for its effectiveness on an ongoing basis, and which aims to maximise your investments while providing some protection from downturns. Traditionally, investment wisdom has been that, over the long term, more risky assets such as equities (stocks and shares) will provide the best return. To a great extent this is still believed to be the case, but equities and risky assets can fluctuate in value enormously. This doesn't matter too much when you are many years away from wanting to take your retirement savings but is extremely important as you get older and nearer to retirement.

In the Rolls-Royce Retirement Savings Trust, if you do not make any investment decisions your contributions are automatically invested in a pre-determined investment programme. When you are 30 years or more from your expected retirement date, the investment programme invests your contributions to buy units in a global equity fund. This is expected to provide you with the best long-term returns, but the value of your retirement savings can fluctuate as previously mentioned. It should be noted that there is a benefit to these fluctuations – when valuations are low your contributions paid in will buy more units because they are cheaper.

When you are less than 30 years from your expected retirement date, the investment programme switches your retirement savings and contributions gradually, to buy units in "pre-retirement funds". This happens in two stages:

1. Less than 30 years from expected retirement date – your investments are switched into lower risk funds to continue to provide good returns but also provide some protection from downside risk and drops in investment values.

2. Less than 10 years from expected retirement date – your investments are switched into funds that are most likely to support the type of benefits you would like to receive when you retire (e.g. cash and/or drawdown/flexible retirement).

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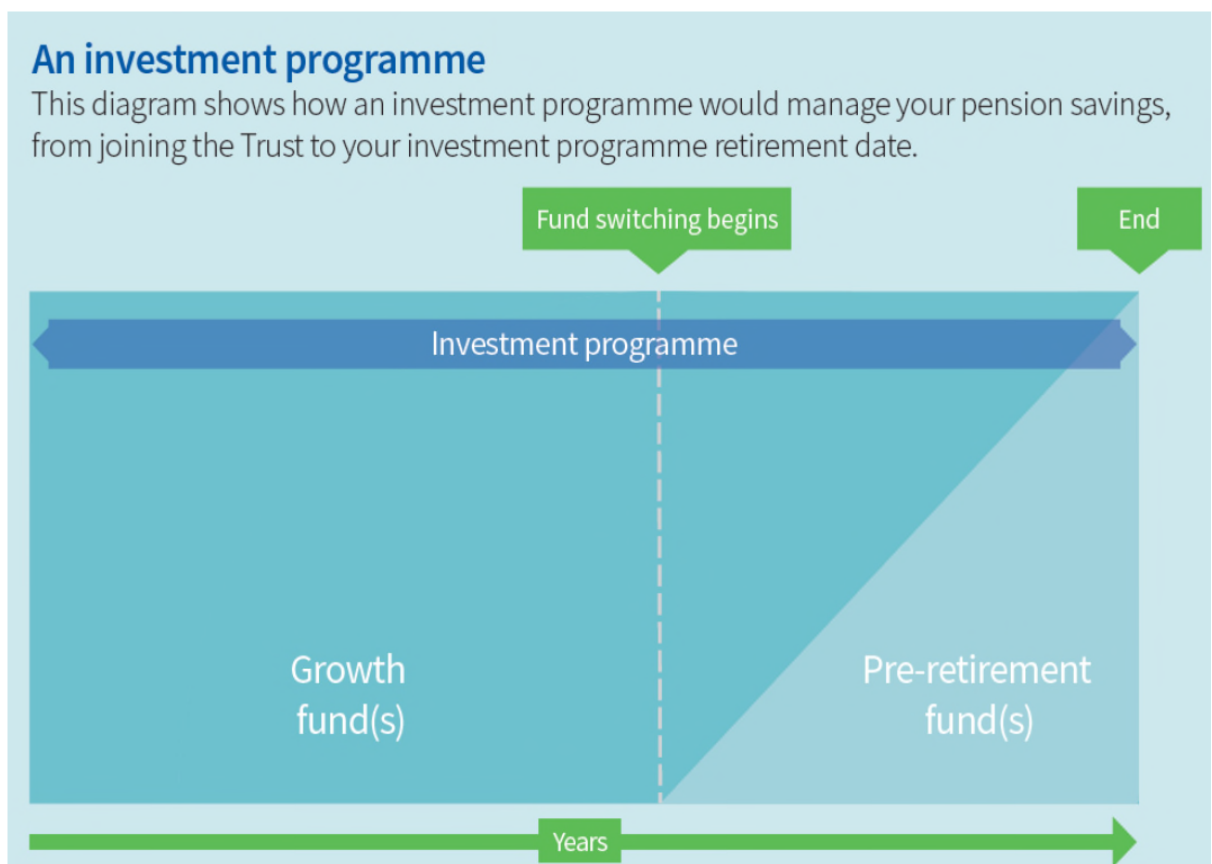
- Change "End" in green box at top right to "Expected retirement date".
- Remove paragraph of text under the chart title (not required).



The remainder of this article focusses on the first of these switches – into lower risk funds to continue to provide good returns but also provide some protection from downside risk and drops in investment values. It also focusses on the features of one of the funds – the diversified growth fund.

The first stage results in your investments gradually being split between the following three funds:

- Global equity fund. It is important that you continue to seek good returns at this stage, in order to maximise your ultimate retirement savings.

- Multi-asset fund. The aim of this fund is to provide a good level of return, but with lower fluctuations in short-term value than equities. This is achieved by investing in different asset types, some of which are less risky than equities. Over a period of time, the theory is that if investments are diverse, even if some of the assets do badly, others will do well or better. This fund provides some downside protection, but its value is still likely to be reasonably well correlated with global equities.

- Diversified growth fund (DGF). The DGF aims to provide reasonable levels of return with more protection from downside risk and drops in investment values than the multi-asset fund. This is because it is actively managed and can invest in a very diverse range of underlying investments. Importantly the DGF used in the investment programmes has a low historic correlation with global equities. This is not true of all DGFs. It is also a mix of two underlying funds, which should reduce the risk of an individual manager making a bad decision.

Note: suggest insert coloured box or graphic (see suggested example below) “pull out” the following features of a DGF.

In general, diversified growth funds:

▪ Are invested in a diverse mixture of UK and overseas equities and other assets such as bonds, cash, currencies, alternative assets including commodities, property and derivatives.

▪ Give investors indirect access to types of assets such as commodities and hedge funds which cannot readily be bought and sold on a daily basis.

▪ Allow the manager the discretion to change the amounts held in different types of investment, depending on their outlook for markets at that time.

▪ Are affected by rises and falls in wider market values but, because their holdings are spread across several types of assets, their values should be less volatile than funds investing only in equities.

▪ Are expected to provide higher returns over the long-term than bonds, cash and inflation, but not necessarily as high as funds investing solely in equities.

▪ Always have some active management.

The graphic below illustrates the different types of assets that will make up a DGF fund from time to time. The DGF fund manager will decide how to invest, and he or she will change the portfolio in line with the fund's specific objectives