Rolls-Royce Retirement Savings Trust

Trustee's annual report and financial statements for the year ended 5 April 2024

Pensions Scheme Registration Number: 10249659

Contents

Trustee and advisors

Trustee	Rolls-Royce Retirement Savings Trust Limited
Directors	Company-appointed directors Mark Porter – Chairperson Fiona Brown Rebecca Hodgson (resigned 11 March 2024) Nick Sloan Teresa Waine
	Member-nominated directors Matthew Hill (resigned 31 December 2023) Kevin Wright Anne-Marie Smith Roger Dale (appointed 1 January 2024)
Secretary	Richard Hill, Rolls-Royce Pensions Department
Sponsoring employer	Rolls-Royce plc, Kings Place, 90 York Way, London, N1 9FX
Advisor	Rolls-Royce plc Pensions Department Trent Hall (A90), Victory Road, Derby, DE24 8BJ
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
	The Prudential Assurance Company Limited Craigforth, Stirling, FK9 4UE
Legal advisors	Gowling WLG (UK) Limited Two Snowhill, Birmingham, B4 6WR
Auditor	Deloitte LLP Four Brindleyplace, Birmingham, B1 2HZ
Investment consultant	Mercer Limited Tower Place West, London EC3R 5BU
Life assurance provider	Met Life, Invicta House, Trafalgar Place, Brighton BN1 4FR
	Aviva Life and Pensions UK Limited, Group Protection, Norwich, NR1 3ZF

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 His 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 invested in unit-linked insurance funds. 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 eight directors comprising five directors appointed by the Company (including a Chairperson and a director nominated by the Company's Central Negotiating Committee) and three directors nominated by members. On 5 April 2024 there were seven directors following the recent resignation of Ms Rebecca Hodgson.

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 hold four regular meetings a year and an annual strategy day. Additional meetings are held as frequently as required. All directors have the same function except that the Chairperson (or if he or she is not present, a Deputy Chairperson appointed by the directors) will have a casting vote. Mrs Teresa Waine acted as Deputy Chairperson during the year. Attendance at the regular meetings during the year is shown in the table below:

Director	Meetings attended	Meetings applicable
Mark Porter – Chairperson	5	5
Fiona Brown	5	5
Matthew Hill (resigned 31 December 2023)	4	4
Rebecca Hodgson (resigned 11 March 2024)	3	4
Nick Sloan	5	5
Teresa Waine	5	5
Kevin Wright	5	5
Anne-Marie Smith	4	5
Roger Dale (appointed 1 January 2024)	1	1

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

Trustee directors

Mr Mathew Hill resigned as a member nominated director on 31 December 2023. The Trustee would like to place on record its thanks to Mr Hill for his service to the Trust. In accordance with the Trustee’s member nominated director selection process, Mr Roger Dale was appointed to replace Mr Hill on 1 January 2024.

Ms Rebecca Hodgson resigned as a Company-appointed director on 11 March 2024. The Trustee would like to place on record its thanks to Ms Hodgson for her service to the Trust. A replacement Company-appointed Trustee Director will be appointed later in the year.

Trust deeds

The following deed of amendment was executed by the Trustee during the year:

- 1 January 2024 to provide life assurance benefits to employees that do not join the Trust to receive core retirement savings benefits (“life assurance only” members). These employees were previously provided with life assurance benefits under a separate trust.

Risk and Audit Committee

During the year the Trustee established a risk and audit committee to oversee a range of activities, pursuant to ensuring the integrity of the Trust’s financial statements, identifying, monitoring and controlling risks, and monitoring the cost and performance of service providers.

The committee comprises four Trustee directors (the quorum is two) including Mrs Waine who acts as the committee’s Chairperson. The committee met once during the year with all members present. It is expected that the committee will meet at least four times a year in future years.

Membership

The changes in membership during the year are shown in the table below.

Active Members[1]		
Members at 6 April 2023		20,239
Add:	New joiners	1,872
	Members re-joining from deferred status[1]	17
	Members re-joining from another status[1]	3
Less:	Active members retiring	(10)
	Active members leaving service[3]	(969)
	Deaths	(23)
	Transfers out	(17)
	Account closed[2]	(65)
Members at 5 April 2024		**21,047**

Deferred Members		
Members at 6 April 2023		14,782
Add:	Active members leaving service[3]	969
	Members re-joining from another status[1]	3
Less:	Members re-joining active status[1]	(17)
	Deferred members retiring	(165)
	Deaths	(23)
	Transfers out	(699)
	Account closed[3]	(372)
Members at 5 April 2024		**14,478**

[1]Occasionally members re-join various statuses 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. To receive contributions such a member would have to temporarily re-join active status.
[2]Accounts might be closed when an account is created for a new joiner who subsequently leaves employment with the Company without making any contributions.
[3] A number of accounts with a nil balance have been closed.

Statement of Trustee's responsibilities

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

The non-statutory financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102), are the responsibility of the Trustee. Pension Scheme regulations require and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Trust during the year and of the amount and disposition at the end of that year of its 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 Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the non-statutory financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparing of the non-statutory financial statements on a going concern basis unless it is inappropriate to presume that the Trust will not be wound up.

The Trustee is also responsible for making available certain other information about the Trust in the form of an annual report.

The Trustee also 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, including the maintenance of an appropriate system of internal control. The Trustee is responsible for the maintenance and integrity of the corporate and financial information included on the Trust's website. Legislation in the United Kingdom governing the preparation and dissemination of non-statutory financial statements may differ from legislation in other jurisdictions.

Trustee's responsibilities in respect of contributions

- The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary, revising 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; and

- The Trustee is also responsible for adopting risk-based processes to monitor whether contributions are made to the Trust by the employer in accordance with the Payment Schedule. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Financial development of the Trust

The non-statutory financial statements of the Trust for the year ended 5 April 2024, as set out on pages 16 to 25, 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:

	2024	2023
	£'000	£'000
Member related income	239,303	195,331
Member related payments	(40,817)	(38,342)
Net additions from dealings with members	**198,486**	**156,989**
Net returns on investments	173,713	(27,948)
Net increase in the Trust	**372,199**	**129,041**
Net assets at start of year	987,484	858,443
Net assets at end of year	**1,359,683**	**987,484**

Benefits

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

Retirement savings are secured by an insurance policy under which each member accumulates an individual savings fund. At retirement, members 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.

Investments

In July 2023 the Trustee, with support from its professional advisers, implemented a significant change to the Trust's default investment strategy for members that do not wish to make any active investment decisions. As a result, the investments of most members in the default investment strategy were transferred to a range of target date funds (TDFs). The investments of some members who were close to their expected retirement dates remained in the existing default investment strategy.

The TDFs are provided under a unit-linked insurance policy issued by Aviva Life and Pensions UK Limited ("Aviva"). The underlying funds are managed by BlackRock Investment Management (UK) Limited. Aviva constructs the TDF vintages to which members are allocated based on their expected retirement dates by blending two underlying funds – the BlackRock Growth Fund and the BlackRock Retirement Fund.

A small amount of the Trust's investments remain in a unit-linked insurance policy issued by Prudential Assurance Company Limited. Further contributions are no longer made into these policies.

Members that want to design and manage their own investment strategy can do so using a range of self-select investment funds.

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, 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 (included in Appendix 1) and the Trust's Statement of Investment Principles (included in Appendix 2).

		1 year performance		3 year performance		5 year performance	
		Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
	£'000s	%	%	%	%	%	%
Aviva My Money BlackRock (10:80:10) Currency Hedged Global Equity (Aquila C) Fund	93,382	21.1	21.2	8.3	8.4	10.1	10.4
Aviva My Money BlackRock UK Equity Index (Aquila Connect) Fund	23,503	6.6	8.4	7.1	8.1	4.9	5.4
Aviva My Money BlackRock US Equity Index (Aquila Connect) Fund	17,701	28.3	27.4	13.9	14.1	15.5	15.6
Aviva My Money BlackRock European Equity Index (Aquila Connect) Fund	3,817	13.3	13.7	9.1	9.5	10.0	10.3
Aviva My Money BlackRock Japan Equity Index (Aquila Connect) Fund	1,903	22.2	22.9	6.6	6.8	8.5	8.7
Aviva My Money BlackRock Pacific Rim Equity Index (Aquila Connect) Fund	1,515	4.4	5.1	0.8	1.0	4.9	5.2
Aviva My Money BlackRock Emerging Markets Equity Index (Aquila Connect) Fund	2,380	5.4	6.2	(3.1)	(2.6)	2.7	3.1
Aviva My Money Diversified (50:50 L&G Div / Insight BOF)[1] Growth Fund	16,513	6.4	5.2	(0.6)	2.5	1.3	1.7
Aviva My Money Legal & General (PMC) Diversified Fund	4,258	8.2	5.2	2.8	2.5	4.3	1.7
Aviva My Money Legal & General (PMC) Retirement Income Multi-Asset Fund	5,418	6.8	5.1	2.3	2.5	3.8	1.7
Aviva My Money BlackRock Over 5 Year Index Linked Gilt Index (Aquila Connect) Fund	5,636	(6.9)	(6.8)	(12.2)	(12.1)	(6.5)	(6.5)
Aviva My Money BlackRock Over 15 Year Gilt Index Tracker Fund	410	(4.6)	(4.7)	-	-	-	-
Aviva My Money BlackRock Corporate Bond All Stocks Index (Aquilla Connect) Fund	683	6.9	6.1	(3.2)	(3.3)	(0.3)	(0.3)
Aviva My Money Legal & General (PMC) Ethical Global Equity Index Fund	10,876	23.7	22.8	12.9	13.3	14.2	14.2
Aviva My Money Legal and General (PMC) Future World Annuity Aware[2]	6,667	4.2	(1.1)	(8.2)	(9.5)	(3.3)	(3.9)
Aviva My Money Legal & General Investment Management Future World Fund	1,135	20.0	19.5	-	-	-	-
Aviva My Money HSBC Islamic Global Equity Index Fund	34,989	30.1	30.4	14.7	15.0	17.0	17.4
Aviva My Money BlackRock Institutional Sterling Liquidity Fund	17,956	5.2	4.9	2.6	2.4	1.7	1.6
Aviva My Money BlackRock Target Date Fund 2039 to 2082[3]	677,517	-	-	-	-	-	-
Aviva My Money BlackRock Target Date Fund 2023 to 2038[4]	432,278	-	-	-	-	-	-
Prudential With Profits Fund	82	-	-	-	-	-	-
	1,358,619						

Value of investments and performance net of fees to 31 March 2024.
Sources: Aviva, Prudential and Mercer.
[1]L&G Div – Legal and General Investment Management Diversified Fund, BOF – Broad Opportunities Fund.
[2]Formerly called the Aviva My Money Legal & General (PMC) Pre-Retirement Fund.
[3]These Target Date Fund vintages are invested in the underlying BlackRock Growth Fund, which does not have a benchmark but is expected to generate returns of 7-8 % a year (performance in the 3 months to 31 March 2024 was 8.3%).
[4]These Target Date Fund vintages are invested in a blend of the underlying BlackRock Growth Fund and Black Rock Retirement Fund. The BlackRock Retirement Fund does not have a benchmark but is expected to generate returns of 3-4 % a year (performance in the 3 months to 31 March 2024 was 2.8%).

Contact details

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
Trent Hall (A90)
Victory Road
Derby
DE24 8BJ

The Money and Pensions Service

The Money and Pensions Service (MaPS) is a UK Government funded website that provides financial information and tools for the public on a range of financial issues. The website address is: https://maps.org.uk/en#

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
Post Handling Site A
Wolverhampton
WV98 1AF

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:

Telecom House
125-135 Preston Road
Brighton
East Sussex
BN1 6AF

Information to members

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

The Trustee Secretary
Pensions Department
Rolls-Royce plc
Trent Hall (A90)
Victory Road
Derby
DE24 8BJ

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 26 September 2024.

Signed on behalf of the Trustee by

Mark Porter
Chairperson

Independent auditor's report to the Trustee of the Rolls-Royce Retirement Savings Trust for the year ended 5 April 2024

Report on the audit of the non-statutory financial statements

Opinion

In our opinion the non-statutory financial statements of Rolls-Royce Retirement Savings Trust (the 'Trust'):

- show a true and fair view of the financial transactions of the Trust during the year ended 5 April 2024 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- contain the information specified in Regulation 3A of the Occupational Pension Trusts (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

We have audited the non-statutory financial statements which comprise:

- the fund account;
- the statement of net assets; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the non-statutory financial statements section of our report.

We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the non-statutory financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the non-statutory financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the non-statutory financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Trust's ability to continue as a going concern for a period of at least twelve months from when the non-statutory financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the non-statutory financial statements and our auditor’s report thereon. The Trustee is responsible for the other information contained within the annual report. Our opinion on the non-statutory financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-statutory financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the non-statutory financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the Trustee’s responsibilities statement, the Trustee is responsible for the preparation of the non-statutory financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of non-statutory financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-statutory financial statements, the Trustee is responsible for 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 the Trustee either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the non-statutory financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these non-statutory financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Trust’s industry and its control environment, and reviewed the Trust’s documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of the Trustee and pension management about their own identification and assessment of the risks of irregularities, including those that are specific to the Trust’s business sector.

We obtained an understanding of the legal and regulatory frameworks that the Trust operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the non-statutory financial statements. These included Pension Act 1995, the Pensions Act 2004, the Occupational Pension Trusts (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and the Occupational and Personal Pension Trusts (Disclosure of Information) Regulations 2013; and
- do not have a direct effect on the non-statutory financial statements but compliance with which may be fundamental to the Trust's ability to operate or to avoid a material penalty[1]. These included Trust's regulatory requirements.

We discussed among the audit engagement team the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the non-statutory financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the misappropriation of investment assets due to the significant size of investment transactions and balances. In response we have:

- obtained an understanding of the relevant controls over investment holdings and transactions;
- agreed investment holdings to independent confirmations; and
- agreed investment and cash reconciliations to independent sales and purchase reports.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing non-statutory financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the non-statutory financial statements;
- performing analytical procedures to identify unusual or unexpected relationships that may misstatement due to fraud;
- enquiring of the Trustee, pension management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of Trustee and sub-committee meetings, reviewing internal audit reports and reviewing correspondence with the Pensions Regulator.

Use of our report

This report is made solely to the Trust's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Trusts (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trust's Trustee those matters we are required to state to them in an auditor's report 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 as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

Date: 26 September 2024

Financial statements

Fund account for the year ended 5 April 2024

	Note	2024	2023
		£'000	£'000
Contributions and benefits			
Employer contributions	4	203,170	160,558
Employee contributions	4	21,878	24,712
Transfers in	5	10,368	4,364
Other income	6	3,887	5,697
		239,303	**195,331**
Benefits payable	7	(11,197)	(11,578)
Payments to and on account of leavers	8	(24,622)	(23,768)
Other payments	9	(4,677)	(2,706)
Administrative expenses	10	(321)	(290)
		(40,817)	**(38,342)**
Net additions from dealings with members		**198,486**	**156,989**
Returns on investments			
Change in market value of investments	13	175,270	(26,623)
Investment management expenses		(1,557)	(1,325)
Net returns on investments		**173,713**	**(27,948)**
Net increase in the Trust during the year		**372,199**	**129,041**
Net assets of the Trust at 6 April		987,484	858,443
Net assets of the Trust at 5 April		**1,359,683**	**987,484**

The notes on pages 18 to 25 form part of these financial statements.

Statement of net assets (available for benefits)

	Note	2024	2023
		£'000	£'000
Investment assets			
Pooled investment vehicles	13 & 14	1,358,619	986,887
Cash	13	1,060	609
		1,359,679	**987,496**
Current assets	20	2,975	3,393
Current liabilities	21	(2,971)	(3,405)
Total net assets of the Trust as 5 April		**1,359,683**	**987,484**

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. The notes on pages 18 to 25 form part of these financial statements.

These financial statements were approved by the Trustee on 26 September 2024.

Signed on behalf of the Trustee by

Mark Porter
Director

Nick Sloan
Director

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 Trustee has considered the going concern statement included in the Group's 2024 half-year results published on 1 August 2024. This concluded that under "base case" and "downside" scenarios the Group expects to continue as a going concern until 31 December 2025. On this basis, whilst the impact of various factors including the macroeconomic environment and the Russian invasion of Ukraine cannot be accurately predicted, the Trustee currently considers that the Group will 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. 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 (£1,359.7 million) almost entirely comprise investments (£1,359.7 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. Identification of the financial statements

The Trust is established as a trust under English law. The address for enquiries to the Trust is included in the annual report.

3. 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 2024 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 2024 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.

4. Contributions receivable

	2024	2023
	£'000	£'000
Employer:		
Normal	198,177	157,563
Life assurance premiums	4,677	2,706
Expenses	316	289
	203,170	**160,558**
Members:		
Normal	6,399	5,207
Additional Voluntary Contributions	15,479	19,505
	21,878	**24,712**
	225,048	**185,270**

5. Transfers in

	2024	2023
	£'000	£'000
Individual transfers	10,368	4,364
	10,368	**4,364**

6. Other Income

	2024	2023
	£'000	£'000
Claims on life assurance policies	3,860	5,685
Interest on deposit account	27	12
	3,887	**5,697**

7. Benefits Payable

	2024	2023
	£'000	£'000
Lump sum commutations	(5,623)	(4,307)
Taxation where lifetime or annual allowance exceeded	(75)	(103)
Death benefits	(5,499)	(7,168)
	(11,197)	**(11,578)**

8. Payments to and on account of leavers

	2024	2023
	£'000	£'000
Individual transfers out to other schemes	(24,594)	(23,678)
Refunds of contributions	(28)	(90)
	(24,622)	**(23,768)**

9. Other Payments

	2024	2023
	£'000	£'000
Life assurance premiums	(4,677)	(2,706)
	(4,677)	**(2,706)**

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

10. Administration expenses

	2024	2023
	£'000	£'000
Administration and processing	(34)	(22)
Audit fee	(20)	(19)
Legal and other professional fees	(61)	(22)
IT Costs	(1)	(4)
Investment advisory costs	(102)	(122)
Pensions Regulator levy	(103)	(101)
	(321)	**(290)**

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

11. Tax

The Trust is a registered pension scheme for tax purposes under the Finance Act 2004. The Trust 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.

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 2023	Purchases at cost	Sales proceeds	Change in market value	Market value at 5 April 2024
	£'000	£'000	£'000	£'000	£'000
Pooled investment vehicles	986,887	1,061,691	(865,229)	175,270	1,358,619
Cash deposit	609				1,060
	987,496				**1,359,679**

There are no investments that are not allocated to members.

14. Pooled investment vehicles (PIVs)

The market value of investments at 5 April 2024 can be analysed as follows:

	2024	2023
	£'000	£'000
Equity funds		
Aviva My Money BlackRock (10:80:10) Currency Hedged Global Equity (Aquila C) Fund	93,382	441,921
Aviva My Money BlackRock UK Equity Index (Aquila Connect) Fund	23,503	21,999
Aviva My Money BlackRock US Equity Index (Aquila Connect) Fund	17,701	7,447
Aviva My Money BlackRock European Equity Index (Aquila Connect) Fund	3,817	1,522
Aviva My Money BlackRock Japan Equity Index (Aquila Connect) Fund	1,903	818
Aviva My Money BlackRock Pacific Rim Equity Index (Aquila Connect) Fund	1,515	1,055
Aviva My Money BlackRock Emerging Markets Equity Index (Aquila Connect) Fund	2,380	1,893
Aviva My Money Legal & General (PMC) Ethical Global Equity Index Fund	10,876	6,154
Aviva My Money Legal & General Investment Management Future World Fund	1,135	571
Aviva My Money HSBC Islamic Global Equity Index	34,989	15,181
Fixed income funds		
Aviva My Money BlackRock Over 5 Year Index Linked Gilt Index (Aquila Connect) Fund	5,636	5,985
Aviva My Money BlackRock Over 15 Year Gilt Index Tracker Fund	410	60
Aviva My Money BlackRock Corporate Bond All Stocks Index (Aquila Connect) Fund	683	372
Aviva My Money BlackRock Institutional Sterling Liquidity Fund	17,956	28,415
Aviva My Money Legal and General (PMC) Future World Annuity Aware	6,667	7,802
Multi-asset funds		
Aviva My Money Diversified (50:50 L&G DIV / Insight BOF)[1] Growth Fund	16,513	168,044
Aviva My Money Legal & General (PMC) Diversified Fund	4,258	156,565
Aviva My Money Legal & General (PMC) Retirement Income Multi-Asset Fund	5,418	67,726
Aviva My Money Three Year Transition Fund	-	53,277
Aviva My Money BlackRock Target Dated Fund 2023	14,619	-
Aviva My Money BlackRock Target Dated Fund 2024	12,261	-
Aviva My Money BlackRock Target Dated Fund 2025	20,179	-
Aviva My Money BlackRock Target Dated Fund 2026	22,909	-
Aviva My Money BlackRock Target Dated Fund 2027	23,867	-
Aviva My Money BlackRock Target Dated Fund 2028	26,402	-
Aviva My Money BlackRock Target Dated Fund 2029	25,884	-
Aviva My Money BlackRock Target Dated Fund 2030	29,098	-
Aviva My Money BlackRock Target Dated Fund 2031	32,268	-
Aviva My Money BlackRock Target Dated Fund 2032	31,114	-
Aviva My Money BlackRock Target Dated Fund 2033	31,811	-
Aviva My Money BlackRock Target Dated Fund 2034	31,194	-
Aviva My Money BlackRock Target Dated Fund 2035	33,584	-
Aviva My Money BlackRock Target Dated Fund 2036	32,031	-
Aviva My Money BlackRock Target Dated Fund 2037	33,341	-
Aviva My Money BlackRock Target Dated Fund 2038	31,716	-
Aviva My Money BlackRock Target Dated Fund 2039 to 2082	677,517	-
With profits funds		
Prudential With Profits Fund	82	80
	1,358,619	**986,887**

[1]L&G Div – Legal and General Diversified Fund, BOF – Broad Opportunities Fund.

15. 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 fund represents an investment of 5% or more of the Trust's total net assets as at 5 April 2024:

Fund	Allocation
Aviva My Money BlackRock (10:80:10) Currency Hedged Global Equity (Aquila Connect) Fund	6.87%

16. 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.

17. 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 2024	Level (1)	Level (2)	Level (3)	Total
	£'000	£'000	£'000	£'000
Pooled investment vehicles	-	1,358,537	82	1,358,619
Cash	1,060	-	-	1,060
Total	**1,060**	**1,358,537**	**82**	**1,359,679**

At 5 April 2023	Level (1)	Level (2)	Level (3)	Total
	£'000	*£'000*	*£'000*	*£'000*
Pooled investment vehicles	-	986,807	80	986,887
Cash	609	-	-	609
Total	**609**	**986,807**	**80**	**987,496**

18. 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 Legal & General Diversified/Insight BOF) 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 Over 15 Year Gilt Index Tracker Fund	✓	-	✓	-
Aviva My Money BlackRock Corporate Bond All Stocks Index (Aquila Connect) Fund	✓	-	✓	-
Aviva My Money Legal & General (PMC) Ethical Global Equity Index Fund	-	✓	-	✓
Aviva My Money Legal & General Investment Management Future World Fund	-	✓	-	✓
Aviva My Money HSBC Islamic Global Equity Index Fund	-	✓	-	✓
Aviva My Money BlackRock Institutional Sterling Liquidity Fund	✓	-	✓	-
Aviva My Money Legal and General (PMC) Future World Annuity Aware	✓	-	✓	-
Aviva My Money BlackRock Target Dated Fund 2023 to 2038	✓	✓	✓	✓
Aviva My Money BlackRock Target Dated Fund 2039 to 2082	✓	✓	-	✓
Prudential With Profits 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.

19. 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.

20. Current assets

	2024	2023
	£'000	£'000
Bank balances	2,366	3,255
Other debtors	609	138
	2,975	**3,393**

Included in the bank balance is £47,633 (5 April 2023: £27,796) which is not allocated to members. Included in other debtors are contributions payable by the Company amounting to £30,421 (5 April 2023: £135,717).

21. Current liabilities

	2024	2023
	£'000	£'000
Other creditors and accruals	2,971	(3,405)
	2,971	**(3,405)**

Included in other creditors and accruals are benefit payments due of £2,527,209 (5 April 2023: £3,229,243) which are allocated to members. The remaining other creditors and accruals are not allocated to members.

22. Related parties

At 5 April 2024:

- 7 Trustee directors were active members of the Trust;
- 1 Trustee director was a Trustee director of another Company pension arrangement; and
- All Trustee directors were employed by the sponsoring employer.

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 reported in note 20 above. These were paid after the end of the Trust year in accordance with the Payment Schedule. There were no other disclosable related party transactions during the year.

Summary of contributions payable under the Payment Schedules

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 Schedules dated 14 November 2022 in respect of the period 6 April 2023 to 3 June 2023 and 4 June 2023 in respect of the period 4 June 2023 to 5 April 2024.

Contributions payable under the Payment Schedules in respect of the Trust year	£'000
Employer:	
Normal contributions	198,177
Contributions in respect of life assurance premiums	4,677
Contributions in respect of expenses	316
Member:	
Normal contributions	6,399
Contributions payable under the Payment Schedules (as reported by the Trust auditor)	**209,569**

Reconciliation of contributions	£'000
Reconciliation to contributions payable under the Payment Schedules reported in the non-statutory financial statements in respect of the Trust year:	
Contributions payable under the Payment Schedules (as above)	209,569
Contributions payable in addition to those due under the Payment Schedules (and not reported on by the Trust auditor):	
Member additional voluntary contributions	15,479
Total contributions reported in the non-statutory financial statements	**225,048**

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

Independent auditor's statement about contributions

We have examined the summary of contributions to the Rolls-Royce Retirement Savings Trust for the Trust year ended 5 April 2024 which is set out on page 26.

In our opinion contributions for the Trust year ended 5 April 2024 as reported in the Summary of Contributions and payable under the Payment Schedules have in all material respects been paid from 6 April 2023 to 3 June 2023 at least in accordance with the Payment Schedule dated 14 November 2022, and subsequently at least in accordance with the Payment Schedule dated 4 June 2023.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Payment Schedules. 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 Schedules.

Respective responsibilities of Trustee and the Auditor

As explained more fully in the Trustee's responsibilities statement, the Trust's Trustee is responsible for securing that a Payment Schedule is prepared, maintained and from time to time revised and for monitoring whether contributions are made to the Trust by the employer in accordance with the Payment Schedules.

It is our responsibility to provide a Statement about Contributions paid under the Payment Schedules and to report our opinion to you.

Use of our report

This statement is made solely to the Trustee, as a body, in accordance with Regulation 4 of the Occupational Pension Trusts (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to them 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 Trustee as a body for our work, for this statement, or for the opinion we have formed.

Deloitte LLP
Statutory Auditor
Birmingham, UK
Date: 26 September 2024

Appendix 1 – Chairperson’s annual governance statement

Chairperson's annual governance statement

Governance requirements apply to Defined Contribution ("DC") pension arrangements to help ensure that 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:

- Which investment option(s) the members' funds are invested in;
- An outline of the requirements for processing core financial transactions;
- What charges and transaction costs are borne by members;
- Provision of an illustration of the cumulative effect of these costs and charges;
- An estimation of the net returns of the investment options;
- A "value for members" assessment;
- An evaluation of the Trustee's knowledge and understanding.

This annual governance statement covers the period 6 April 2023 to 5 April 2024 and will be made available to members through the [Rolls-Royce Member Site (rolls-roycepensions.com)](rolls-roycepensions.com) as well as being notified to members in the distribution of both the annual benefit statement and annual Trustee newsletter.

The default investment arrangements

The Rolls-Royce Retirement Savings Trust is used as a "Qualifying Scheme" for Rolls-Royce plc to fulfil its obligations for auto-enrolment.

Members who join the Trust, but do not make any investment choices, automatically enter the default investment programme. The Trustee continues to be 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 is appended to the Trustee's annual report and financial statements. The aims and objectives of the default arrangements, as stated in the SIP, are as follows:

- To make available a range of investment funds and strategies that should enable members to tailor their own investment strategy to meet their own individual needs, should they wish to do so;
- Offer individual funds and retirement date targeted 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 decision.

The Trustee carries out regular reviews of the appropriateness and performance of the default investment strategy with the support of its investment consultant Mercer Limited ("Mercer"). These reviews typically comprise quarterly reviews of investment performance and an annual review of the aims, objectives, and policies in the Trust's SIP. The quarterly reviews include an analysis of fund performance to check that the risk and return levels still meet the Trust's objectives. The Trustee also undertakes strategic reviews in response to specific events such as changes in member demographics, member activity and retirement experience, and developments affecting the investment funds used in the default investment strategy. Strategic reviews are undertaken at least every three years. The default investment strategy was not reviewed during the period covered by this statement, but following completion of the last review on 15 December 2022, the change to a target date fund (TDF) structure with annual vintages and a de-risking phase of 15 years was implemented on 30 June 2023. This change was carried out by Aviva Life and Pensions UK Limited ("Aviva"), which acts as the Trust's administrator, with BlackRock managing the investment funds. The Trustee is satisfied that this default investment strategy is appropriate and consistent with the aims, objectives, and policies in the Trust's SIP. The next review of the default investment strategy is expected to take place by 15 December 2025. A review of the self-select range of investment funds is planned to take place later this year.

Requirements for processing core financial transactions

The Trustee has appointed Aviva as its administrator and has a non-contractual service level agreement ("SLA") in place with the administrator, which covers the timeliness and accuracy of all "core" financial transactions, as well as the adequacy of its internal controls. 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 processes financial transactions in accordance with the service agreement for the Trustee, who review Aviva's performance each quarter against those service levels.

During the period covered by this annual statement, Aviva continued to measure customer satisfaction by providing the Trustee with both end-to-end service times in resolving member requests and obtaining customer feedback, as well as more traditional service levels, which measure the time taken to complete individual tasks. Under the former measure, the average case completion time remained consistent at 11 working days during the scheme year. In respect of the traditional service levels, which is to process 95% of cases within five working days, Aviva achieved this service level in around 91% of all cases, but with 99.9% achieved in respect of core financial transactions, such as contribution payments, transfers, retirements, and death cases. The Trustee has continued to review Aviva's performance through quarterly service reports and monthly administration meetings.

Aviva also provides an annual report on its internal controls undertaken by an independent business assurance specialist. The last report produced was for the year to 31 December 2023, which amongst other things covered 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), full cyber security and business continuity, as well as annual data checks. This report did not highlight any significant concerns.

As a result of the quarterly reviews, internal controls report and the annual external audit, the Trustee is satisfied that over the period covered by 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 both accurately and promptly. The establishment of a risk and audit sub-committee and an ongoing quarterly compliance report also provides additional assurance on governance, which covers various activities the Trustee must oversee involving funding and investment, board governance, administration, regulatory reporting under the new code of practice, data protection, as well as cyber security.

Member-borne charges and transaction costs

The Trustee is also required to set out in this statement the on-going charges borne by members for investing in each fund. These include 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 table below shows the TERs 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 absolute charge payable by members is a function of the size of their investment in a fund and will, therefore, change over time.

The charges and transaction costs have been supplied by Aviva who act as the Trust's investment manager and platform provider. Estimated transaction costs are also shown in the table below. When preparing this section of the statement the Trustee has taken account of the relevant statutory guidance. 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 to members than the price at which orders were placed.

Investment manager	Fund	TERs per year	Annual estimated transaction cost
BlackRock	Target Date Fund 2023-2082†	0.30%	0.0000%
BlackRock	(10:80:10) Currency Hedged Global Equity*	0.24%	-0.0261%
BlackRock	Institutional Sterling Liquidity*	0.15%	0.0154%
LGIM / Insight	Diversified Growth (50:50 LGIM Div[1]/IBOF[2])*	0.61%	0.1880%
LGIM	Retirement Income Multi Asset*	0.45%	0.0741%
BlackRock	Over 5 Year Index-Linked Gilt Index	0.16%	0.0000%
BlackRock	Over 15 Year Gilt Index	0.15%	0.0273%
BlackRock	UK Equity Index	0.23%	0.0881%
BlackRock	US Equity Index	0.17%	0.0745%
BlackRock	European Equity Index	0.18%	-0.0429%
BlackRock	Japanese Equity Index	0.17%	-0.0118%
BlackRock	Pacific Rim Equity Index	0.17%	0.0411%
BlackRock	Emerging Markets Equity Index	0.41%	0.0000%
BlackRock	Corporate Bond All Stocks Index	0.17%	0.0000%
HSBC	Islamic Global Equity Index	0.45%	0.0038%
LGIM	FTSE4Good Developed Equity Index**	0.30%	0.0000%
LGIM	Future World	0.43%	0.1555%
LGIM	Diversified	0.34%	0.0000%

† Individual TDF vintages for each year in line with a member's selected retirement date
[1] LGIM Diversified fund / [2] Insight Broad Opportunities Fund
** Formerly called the Ethical Global Equity Index

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 were used in the former default investment strategy available at the start of the scheme year are marked with an asterisk in the table above. The TER payable under the new TDF default investment programmes are the same regardless of the mix of funds on any date, which automatically changes depending on how many years a member is from their own retirement vintage.

All the available investment options in the Trust including the default investment strategy, will comply with charge cap legislation limiting charges to 0.75% a year.

Over time the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The Trustee has set out below illustrations of the impact of charges and transaction costs on different investment options in the Trust.

The illustrations have been prepared in accordance with the DWP's statutory guidance on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes" on the projection of an example member's pension savings.

As each member has a different amount of savings within the Trust and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has had to make a number of assumptions about what these might be. The assumptions are explained below:

The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs.

The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.

The transaction cost figures used in the illustration are based on those provided by the managers over the past five years.

Fund	**BlackRock Target Date Fund 2074* Default Investment Programme**	
Growth	**5.7% a year**	
Costs	**0.30% a year**	
At end of year	Projected value **without** costs.	Projected value **with** costs.
1	£1,210	£1,210
2	£2,450	£2,440
3	£3,730	£3,720
4	£5,060	£5,030
5	£6,420	£6,370
10	£13,900	£13,700
15	£22,600	£22,100
20	£32,800	£31,800
25	£44,700	£42,900
30	£58,600	£55,700
35	£74,700	£70,300
40	£93,500	£87,200
45	£115,000	£107,000
50	£141,000	£129,000

*The BlackRock Target Date Funds are based on annual vintages from 2023-82 inclusive. The 2074 vintage best illustrates the suggested timeframe for the growth cost projection.

Fund Growth Costs	LGIM / Insight Diversified Growth (50:50 LGIM Div / IBOF) 4.00% a year 0.95% a year (Highest Cost)		BlackRock Institutional Sterling Liquidity 2.00% a year 0.17% a year (Lowest cost)	
At end of year	Projected value **without** costs.	Projected value **with** costs.	Projected value **without** costs.	Projected value **with** costs.
1	£1,200	£1,190	£1,180	£1,180
2	£2,410	£2,390	£2,360	£2,360
3	£3,640	£3,590	£3,530	£3,520
4	£4,890	£4,800	£4,700	£4,680
5	£6,160	£6,010	£5,860	£5,830
10	£12,800	£12,200	£11,600	£11,500
15	£19,900	£18,500	£17,200	£16,900
20	£27,600	£25,000	£22,600	£22,200
25	£35,800	£31,600	£27,900	£27,400
30	£44,600	£38,400	£33,100	£32,300
35	£54,200	£45,400	£38,200	£37,100
40	£64,400	£52,600	£43,100	£41,700
45	£75,400	£60,000	£47,900	£46,200
50	£87,300	£67,500	£52,600	£50,600

[1] LGIM Diversified fund / [2] Insight Broad Opportunities Fund

Values shown are estimates and are not guaranteed, with the current TDF default investment programme shown together with the lowest and highest charging self-select fund outside the default programme. The illustrations do not indicate the likely variance and volatility in the possible outcomes from each fund.

The numbers shown in the illustration are rounded to the nearest £100 for simplicity. Projected pension fund values are shown in today's terms, and do not need to be reduced further for the effect of future inflation. 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. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values. The starting pot size used is £0.00. The projection is for 50 years, being the approximate duration that the youngest scheme member has until they reach the scheme's Normal Pension Age. The projected annual returns above inflation and costs used are highlighted in each illustration for each fund. No allowance for active management has been made.

Investment returns

This section states the annual return, after the deduction of member borne charges and transaction costs, for all default arrangements and investment options that members are able, or were previously able, to select and in which members' assets were invested during the scheme year. When preparing this section of the statement the Trustee has taken account of the relevant statutory guidance.

For the arrangements where returns vary with age, such as for the former default investment strategy available to members at the beginning of the scheme year, the returns are shown below for a member aged 25, 45 and 55 at the start of the period:

Former Default Investment Strategy Age of member at start of period	**1 year % annually**	**5 years % Annually**
25	21.7% a year	10.1% a year
45	12.1% a year	5.2% a year
55	11.8% a year	4.8% a year

The returns for the new TDF default investment programmes are not shown in this statement because the data is currently unavailable from Aviva due to the implementation date being less than 12 months ago. Aviva have confirmed that the relevant data will be available for next year's statement.

For the self-select investment funds, the net returns over periods to scheme year end are estimated as follows:

Investment manager and fund	1 Year % annually	5 years % annually
BlackRock (10:80:10) Currency Hedged Global Equity*	21.7%	10.1%
BlackRock Institutional Sterling Liquidity*	5.1%	1.6%
LGIM / Insight Diversified Growth (50:50 LGIM Div[1]/IBOF[2])*	6.2%	1.1%
LGIM Retirement Income Multi Asset*	6.6%	3.6%
BlackRock Over 5 Year Index-Linked Gilt Index	-7.8%	-6.8%
BlackRock Over 15 Year Gilt Index	-4.7%	-8.2%
BlackRock UK Equity Index	7.3%	4.8%
BlackRock US Equity Index	30.3%	15.6%
BlackRock European Equity Index	13.6%	10.1%
BlackRock Japanese Equity Index	22.0%	8.3%
BlackRock Pacific Rim Equity Index	4.2%	4.8%
BlackRock Emerging Markets Equity Index	5.3%	2.8%
BlackRock Corporate Bonds All Stocks Index	6.7%	-0.4%
HSBC Islamic Global Equity Index	29.9%	16.8%
FTSE4Good Developed Equity Index**	23.5%	14.0%
LGIM Future World	4.0%	-3.5%
LGIM Diversified	8.7%	4.4%

[1] LGIM Diversified fund / [2] Insight Broad Opportunities Fund
** Formerly called the Ethical Global Equity Index

The funds used in the former default investment strategy are marked with an asterisk in the table above. The charges assumed are those currently applicable to a single contribution of £10,000 paid in at the beginning of the reporting period. Returns are the annualised, geometric mean over the time periods displayed. For example, if a net fund return over a five-year period was 15.9% this would be shown as 3.00% in the '5 years' column. Returns are net of all costs and charges borne by members, including platform or product administration charges, fund management charges, additional fund expenses and transaction costs. When comparing charges, it is important to ensure that comparator schemes have included all charges, including any initial contribution-based charges. The net returns reflect the current charge arrangement. These charges could vary in the future.

For age specific returns, a normal retirement age of 65 has been used. Please note when comparing returns with a comparator scheme that has chosen a later retirement age this will generally inflate the comparator scheme returns.

Value for members assessment

Within this annual statement the Trustee is also required to assess the extent to which the 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 above as a suitable measure because the TERs include the platform and administrative fees charged by Aviva. Following the ongoing close monitoring of Aviva's service levels by the Trustee and the successful implementation of the new default investment strategy, the Trustee 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 the other options currently available in the market.

The assessment was undertaken taking account of the Pensions Regulator's regulation 23 of The Occupational Pensions Schemes (Scheme Administration) Regulations 1996 and new General Code of Practice (Communications and disclosure: Information to members), which came into effect on 27 March 2024. The Trustee review all member-borne charges (including transaction costs where available) annually, 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 14 December 2023. The Trustee also notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has again been considered in this assessment. The Trustee will continue to a review the TERs for value for money and following the agreement with BlackRock in June 2023, the platform charge will automatically be reduced by a further 0.01% when the overall fund value reaches £2bn.

With the support of Mercer, the Trustee's appointed investment consultant, the Trustee also reviews, on a quarterly basis, the appropriateness and performance of the funds offered to members. Where the funds offered to members are highly rated by Mercer and are believed to offer competitive TERs, 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, while carrying out a 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. Following the implementation of the default investment changes, simplification of the annual benefit statement and the implementation of Aviva's MyWorkplace product allowing members to see historical investment performance, both in real time and through the annual investment "snapshot" tool, the Trustee is satisfied with the service members receive. The Trustee also monitors the quality and efficiency of Aviva's administration processes and believe the transaction costs provide value for members as the ability to transact efficiently forms an integral part of the investment approach, and the Trustee expects this to lead to greater investment returns net of fees over time. Overall, the Trustee believes that members of the Trust are receiving good value for money based on the costs and charges that they incur. The Trustee will continue to engage with Aviva regarding improvements to its regular and annual communications to help further improve the experience for members.

Trustee knowledge and understanding

The Trustee is required in accordance with sections 247 and 248 of the Pensions Act 2004, 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.

In addition, the Trustee Directors of schemes that are subject to the Climate Change Governance and Reporting Requirements in Part 1 of the Schedule to the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 must have knowledge and understanding of the identification, assessment and management of risks and opportunities relating to climate change for occupational pension schemes, including risks and opportunities arising from steps taken because of climate change. The Trustee has measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below.

- In line with best practice, the Trustee maintains an individual training plan and register to record all training and development activities with a view to achieving a minimum of 15 hours continuing trustee development each year. Both the training plan and the CPD 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 21 March 2024;

- The Trust has in place a structured induction process designed for new Trustee Directors, which includes designated sessions on the history of the Trust, investment, discretionary cases and the format and structure of meetings. During the period of this statement, induction training was completed for a new Member Nominated Director. Additional training is also provided to address specific gaps in initial knowledge and understanding;

- 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). At the date of this statement, all the Trustee directors are compliant with this requirement and have completed the Pension Regulator's Trustee Toolkit within the required time limit;

- 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 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 carbon metrics, and by Trustee Directors' attendance at multiple sessions while attending the Pension & Lifetime Savings Association's annual conference as part of the annual Trustee strategy event;

- 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 annual review was carried out on 14 December 2023, with the help of a self-assessment questionnaire and subsequent recommendations in order to meet the new code of practice;

- On an annual basis the Trustee also 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, negotiation, and regulatory compliance. In addition, a Trustee strategy event was conducted on 19 October 2023, where a series of online questionnaires were used to carry out the annual evaluation of the performance and effectiveness of the Trustee Board. This was combined with an internal Trustee effectiveness exercise to consider the wider skills, future objectives, and strategy of the Trustee Board alongside other related matters, including investment and current developments in Environmental, Social and Governance (ESG) issues, communications, developments in DC retirement savings, as well as diversity and inclusion. After an analysis of the effectiveness exercise and self-assessment questionnaire, the Trustee appointed an external service provider to carry out an independent board effectiveness exercise during 2024.

In light of the above, 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 all 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 and was approved at a meeting on 19 June 2024.

Signed on behalf of the Trustee by

Mark Porter
Chairperson

Appendix 2 – Statement of Investment Principles

STATEMENT OF INVESTMENT PRINCIPLES

JULY 2024

ROLLS-ROYCE RETIREMENT SAVINGS TRUST

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, it 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 it has 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 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), 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, which may include different working patterns post State Pension Age. 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 strategies that should enable members to tailor their own investment strategy to meet their own individual needs.
- Offer funds and strategies that facilitate diversification and long-term capital growth.
- Offer funds and 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 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 strategies to offer to members. In determining what types of funds and 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. 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 investment managers are also required to provide periodic written reports to the Trustee regarding their exercise of voting rights on the Trustee’s behalf.

The Trustee believes its key themes and priorities in relation to ESG and sustainability risks are in relation to:

- **Environmental:** Climate Change
- **Governance:** Board Diversity

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022, updated guidance was produced which is effective for all scheme year-ends on or after 1 October 2022. The updated guidance requires trustees to include a description of what they believe to be a significant vote within the Implementation Statement. The Trustee will disclose relevant voting information in their SIP Implementation Statement in connection with these two key themes.

The Trustee considers how ESG, climate change and stewardship are 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 specific funds in the self-select fund range that are aimed at integrating ESG matters.

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.

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 Trust 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.

For the default option, the Trustee has set out specific risk and return guidelines for the strategy and the selected manager is contractually obliged to adhere to these guidelines.

For the self-select range, the Trustee invests in pooled investment vehicles so accepts that it has 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 appointments are 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 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:

- The strategic guidelines for the default investment option are not adhered to;
- 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;
- There is a significant change to the Investment Consultant's rating of the manager; or
- 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, assessing 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 decides to terminate the mandate.
- The approach and guidelines agreed with the selected manager for the default investment option is not adhered to by that manager.

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 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 the list is not exhaustive 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 and allowing for any changes to retirement age beyond State Pension 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 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.

Following an investment strategy review carried out in 2022/23, the Trustee decided to change the drawdown-targeting default investment option from a lifestyle arrangement to a Target Date Fund solution and make the two other lifestyle options (targeting annuity purchase and a cash lump sum at retirement respectively) only available to members that are already invested in them and are within three years away from retirement as at June 2023.

5.2 Default Investment Options

5.2.1 Current Defaults

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.
    - The Default Investment Option for these members who are within three years of retirement (as at June 2023) remains as the Cash Lifestyle.
- **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.
    - The Default Investment Option for these two cohorts is the Target Date Fund arrangement.

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 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 using a range of Target Date Funds that are deployed as the main default investment option. This strategy will begin to de-risk 15 years from a member's target retirement date. Investments are gradually switched from the Growth Fund, which aims to maximise members' returns by providing exposure to growth-seeking assets, to the Retirement Fund, which aims to preserve capital by protecting against risks.

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.

This strategy is only available to members that are already invested within it that are less than 3 years away from retirement as at June 2023.

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

5.2.2 Legacy Defaults

Historic changes from previous strategies and moving members to new strategies without member consent results in these strategies also being determined as 'default investment options' according to legislation and as such, requires additional disclosures. The Annuity Lifestyle strategy is therefore classed as a legacy default investment option.

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.

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 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 liquid assets. The pooled funds are commingled investment vehicles that 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.

In time, members that are invested in some of the default investment options will fall to none. The Trustee is expected to remove these options from the Trust at the appropriate time.

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

5.3 Illiquid investments

The Trustee considers illiquid assets as assets of a type which cannot easily or quickly be sold or exchanged for cash; including where such assets are invested as a component of a daily-dealing multi-asset fund. The Trust's default arrangement includes no direct allocation to illiquid investments or to investments via a collective investment scheme.

The Trustee understands the potential for higher returns and benefits of diversification benefits relative to more traditional asset classes (such as bonds or equities) that illiquid assets can offer. While these potential benefits are recognised by the Trustee, they are also aware of the risks of illiquid assets to members. Given the potential for valuations of illiquid assets to not reflect their true value at a given time,; the Trustee considers direct investment into an illiquid asset fund as not currently suitable for members of the Trust. The Trustee remains comfortable with the funds used in the default, and annually assess whether the funds used provide value for members.

In selecting investments for the default arrangement, the Trustee uses both qualitative and quantitative analysis to consider the expected impact of different strategic allocation mixes. For any future investment, the Trustee carefully considers whether the investment provides value for members, taking account of the return potential and associated risks. It is the Trustee's policy to review the allocation of the default investment strategy on at least a triennial basis. Such reviews will include whether the incorporation of an allocation to illiquid asset investments is appropriate, working in tandem with the investment manager of the default.

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 With Profits Funds through policies 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.

Appendix 3 - Statement of Investment Principles: Appendix

STATEMENT OF INVESTMENT PRINCIPLES: APPENDIX – JULY 2024

ROLLS-ROYCE RETIREMENT SAVINGS TRUST

1. 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").

2. Fund Range

2.1 The Trustee has selected the Provider to manage and administer the Trust's assets on its behalf.

2.2 The fund benchmark and performance objectives of the current fund range are set out below:

Fund	Mandate Benchmark	Performance Objectives	Fund Type	Risk Rating
BlackRock Growth	Composite	To provide long-term investment growth through exposure to a diversified range of asset classes	Growth	Medium to Higher
BlackRock Retirement	Composite	This fund is designed for members who wish to stay invested post-retirement and draw down an income	Defensive	Lower to Medium
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

Fund	Mandate Benchmark	Performance Objectives	Fund Type	Risk Rating
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 Legal & General Diversified /Insight BOF)	50% Sterling Overnight Index Average, 50% Bank of England Base Rate	The fund aims to provide a return of c3.75% p.a. net of fees, in excess of cash over the long term by investing in a 50:50 blend of two diversified growth funds. The underlying funds invest in a broad range of assets. The fund aims to achieve long-term 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

Fund	Mandate Benchmark	Performance Objectives	Fund Type	Risk Rating
Aviva Pension MyM Legal & General Ethical Global Equity Index	FTSE4Good Global Equity Index	To match benchmark performance.	Growth	Medium to Higher
Aviva Pension MyM Legal & General Future World Global Equity Hedged	FTSE All-World ex CW Climate Balanced Factor index GBP Hedged	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) Future World Annuity Aware	FTSE Annuities Index (comparator)	To provide diversified exposure to assets that reflect the broad characteristics of investments underlying a typical traditional level annuity product, incorporating ESG considerations as part of the investment strategy.	Defensive	Lower to Medium
Aviva Pension MyM BlackRock Institutional Sterling Liquidity	Sterling Overnight Index Average	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

Fund	Mandate Benchmark	Performance Objectives	Fund Type	Risk Rating
Aviva Pension MyM BlackRock Over 15 Year Gilt Index Fund	FTSE UK Gilts Over 15 Years	To match benchmark performance.	Defensive	Lower to Medium

3. Target Date Fund Investment Strategies

3.1 This strategy was introduced in June 2023.

3.1.1 Target Date Fund (default for 2008, Energy and Standard and AVC members and member previously invested in the Transition Lifestyles before June 2023)

Years to Retirement Date	BlackRock Growth Fund	BlackRock Retirement Fund
Over 15	100.0	0.0
15	100.0	0.0
14	93.3	6.7
13	86.7	13.3
12	80.0	20.0
11	73.3	26.7
10	66.7	33.3
9	60.0	40.0
8	53.3	46.7
7	46.7	53.3
6	40.0	60.0
5	33.3	66.7
4	26.7	73.3
3	20.0	80.0
2	13.3	86.7
1	6.7	93.3
0 (and into post-retirement)	0.0	100.0

This 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.

4. Lifestyle Investment Strategies

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

4.1.1 Cash Lifestyle (default for Top Up members within 3 years from retirement at June 2023)

Years to Retirement Date	Aviva Pension MyM Diversified Growth (50:50 Legal & General Diversified /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.

Members with more than three years to retirement (as at June 2023) invested in the legacy lifestyles were mapped to the new Target Date Fund default investment option.

Please note, this lifestyle will only continue to be available for members who are within 3 years to retirement (as at June 2023) and will be removed after 3 years.

4.1.2 Annuity Lifestyle

Years to Retirement Date	Aviva Pension MyM Diversified Growth (50:50 Legal & General Diversified /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.

Members with more than three years to retirement (as at June 2023) invested in the legacy lifestyles were mapped to the new Target Date Fund default investment option.

Please note, this lifestyle will only continue to be available for members who are within 3 years to retirement (as at June 2023) and will be removed after 3 years.

5. Legacy Lifestyle Strategies

5.1 There are three legacy lifestyle strategies that remain, which are closed to new members. These lifestyle strategies are the Higher Risk Cash Lifestyle, Medium Risk Cash Lifestyle and Medium Risk Drawdown Lifestyle.

Members with more than three years to retirement (as at June 2023) invested in the legacy lifestyles were mapped to the new Target Date Fund default investment option. All members in the Higher Risk Drawdown Lifestyle, the Higher Risk Annuity Lifestyle and the Medium Risk Annuity Lifestyle were more than 3 years to retirement and therefore were removed (as at June 2023).

The three remaining lifestyle will only continue to be available for members who are within 3 years to retirement (as at June 2023) and will be removed after 3 years.

6. Fees

Fund Option	Total Expense Ratio (% p.a.)
BlackRock Growth	0.305
BlackRock Retirement	0.305
Aviva Pension MyM BlackRock (10:80:10) Currency Hedged Global Equity (Aquila C)	0.250
Aviva Pension MyM BlackRock UK Equity Index (Aquila C)	0.180
Aviva Pension MyM BlackRock European Equity Index	0.180
Aviva Pension MyM BlackRock Japanese Equity Index	0.170
Aviva Pension MyM BlackRock Pacific Rim Equity Index	0.180
Aviva Pension MyM BlackRock US Equity Index	0.170
Aviva Pension MyM BlackRock Emerging Markets Equity Index	0.420
Aviva Pension MyM Diversified Growth (50:50 Legal & General Diversified /Insight BOF)	0.460
Aviva Pension MyM Legal & General Diversified	0.350

Fund Option	Total Expense Ratio (% p.a.)
Aviva Pension MyM HSBC Islamic Global Equity Index	0.460
Aviva Pension MyM Legal & General Ethical Global Equity Index	0.310
Aviva Pension MyM Legal & General Future World Fund	0.440
Aviva Pension MyM BlackRock Over 5 Year Index-Linked Gilt Index (Aquila C)	0.160
Aviva Pension MyM BlackRock Corporate Bond All Stocks Index	0.160
Aviva Pension MyM Legal & General (PMC) Future World Annuity Aware	0.230
Aviva Pension MyM BlackRock Institutional Sterling Liquidity	0.160
Aviva Pension MyM Legal & General (PMC) Retirement Income Multi-Asset	0.460
Aviva Pension MyM BlackRock Over 15 Year Gilt Index	0.160

Source: Aviva, as at December 2023.

7. Investment Restrictions

7.1 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.

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

Appendix 4 – Annual implementation statement

Mercer

Rolls Royce Retirement Savings Trust

Annual Implementation Statement 2024

Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles (‘SIP’) produced by the Trustee has been followed during the year to 5 April 2024. This statement has been produced in accordance with The Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the statutory guidance on reporting on stewardship in the implementation statement dated 17 June 2022. The table later in the document sets out the how, and the extent to which, the policies in the Trust’s SIP have been followed.

The statement is based on, and should be read in conjunction with, the SIP. A copy of the SIP is appended to the Trustee’s annual report and financial statements and is available in the help and resources section of the Rolls-Royce pensions website at https://www.rolls-roycepensions.com/Homepage.

Investment Objectives of the Trust

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. The objectives of the Trust included in the SIP are as follows:

- 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.

Review of the SIP

During the year, the Trustee reviewed and amended the SIP, taking formal advice from its Investment Consultant (Mercer Limited (“Mercer”)). A revised SIP was signed on 22 June 2023 in order to reflect the changes to the default arrangement, where the drawdown-targeting default option was changed from a lifestyle arrangement to a Target Date Fund (TDF) solution. The interim Lifestyle was removed from the SIP following its closure in June 2023. Finally, the SIP was also amended to reflect the Trustee’s key themes and priorities in relation to ESG matters.

Assessment of how the policies in the SIP have been followed for the year to 5 April 2024

The information provided in this section highlights the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work followed the Trustee‘s policies in the SIP, relating to the Trust as a whole and the default investment arrangement. The SIP is attached as an Appendix and sets out the policies referenced below.

In summary, it is the Trustee’s view that the policies in the SIP have been followed during the year to 5 April 2024.

	Requirement	Policy	In the year to 5 April 2024
1	Securing compliance with the legal requirements about choosing investments	As required by legislation, the Trustee consults a suitably qualified person when making investment selections by obtaining written advice from its Investment Consultant. The policy is detailed in Section 1 of the SIP.	The Default Investment Options are monitored quarterly, with the Trustee reviewing investment reports at Trustee meetings to ensure the net of fees returns are consistent with the aims of the strategy. The investment consultant attends all meetings to provide advice as required. During the Trust Year, the following changes were made to the investment arrangements: • Use a range of bespoke Target Date Funds ("TDFs") managed by BlackRock via Aviva's platform as the default investment strategy, replacing the current default lifestyle arrangement; • Use a 15 year de-risking glidepath, with members invested in global equities (or assets with a similar level of expected return) before this period; • Maintain income drawdown as the objective for the default strategy; • The changes to the Default Investment Option were implemented in June 2023. • The previous Default Investment Option, the Drawdown Lifestyle, was removed. • The Interim Transition Lifestyles (for Drawdrown, Cash and Annuity) were removed with alternative lifestyles for Cash and Annuity remaining. • In addition, following the closure of the abrdn Global Absolute Returns (GARS) Fund, the Trustee selected the LGIM Diversified Fund as a suitable replacement within the Aviva Pension MyM Diversified Growth (50:50Abrdn GARS/Insight BOF) following advice from their investment advisor. This change to the Diversified Growth Fund was successfully implemented on 15 November 2023. In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of a suitably qualified investment advisor. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

	Requirement	Policy	In the year to 5 April 2024
			During the Trust year, the Trustee also reviewed and updated Mercer's Investment Consultant objectives. These objectives cover the following areas: support on investment strategy, implementation, investment reporting, Trustee knowledge and understanding and climate-related risks and opportunities.
2	Kinds of investments to be held, the balance between different kinds of investments and expected return on investments	Members can combine the investment funds in any proportion in order to achieve the desired level of return and risk in line with their own attitude towards, and tolerance of risk. This is outlined in Section 5 of the SIP. Within the Default Investment Options, the strategic asset allocation is set to achieve the expected return required, taking into consideration the risk, to meet the objective of the defaults.	The Trustee believes that the currently available range of funds/types of investments available to members are appropriate and provided members with options across the risk/return spectrum to implement the policy. The Trustee recognises that the Default Investment Options will not meet the needs of all members and as such, alternative investment options are available for members to choose from. Investment performance reports are reviewed by the Trustee on a quarterly basis – this includes the risk and return characteristics of the Default Investment Options and the actively managed additional investment fund choices. The investment performance report includes how each investment manager is delivering against their specific mandates.
3	Realisation of investments	The Trustee's policy is that there should be sufficient liquidity within the Trust's assets to meet short term liquidity requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt the Trust's overall investment policy. Further details of the Trustee's investment objectives are set out in the Section 4 in the SIP and Section 7 outlines their policy for the realisation of investments.	All funds are daily dealt pooled investment vehicles, accessed by an insurance contract.

	Requirement	Policy	In the year to 5 April 2024
4	Risks, including the ways in which risks are to be measured and managed	The Trustee recognises risk (both investment and operational) from a number of perspectives in relation to the self-select funds and the Default Investment Options. The risks the Trustee considers are set out in Section 4.4 of the SIP.	As detailed in the SIP, the Trustee considers various risks when setting the investment strategy for the Trust. The Trust maintained a risk register of the key risks, including the investment risks. This rates the impact and likelihood of the risks and summarise existing mitigations and additional actions. The risk register is regularly reviewed by the Trustee's Risk and Audit Committee. ESG risk was also managed throughout the year, with considerations given to the climate-related disclosures as requested by the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulation - although we note these regulations (part of the Task Force for Climate Change Financial Disclosures ('TCFD') requirements) do not currently apply to the Trust. The Trustee's second Task Force for Climate Change Financial Disclosures ('TCFD') report as at 5 April 2024 is currently being produced – this is again a voluntary disclosure and will include information on climate metrics and scenario analysis.

	Requirement	Policy	In the year to 5 April 2024
5	Financially and non-financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments	The Trustee considers financially material considerations in the selection, retention and realisation of investments. Section 4.2 of the SIP outlines the Trustee's beliefs on ESG factors (including climate change). The Trustee keeps its policies under regular review. Non-financial matters, such as member views, are not taken into consideration.	The investment performance report was reviewed by the Trustee on a quarterly basis – this includes ratings (both general and specific ESG) from the investment advisers. All of the managers remained highly rated during the year and the Trustee retains the view that these managers are appropriate to meet the strategic objectives for the current strategy (noting this will change when the new strategy is implemented and be focused on a single TDF manager). When implementing a new manager, the Trustee considers the ESG rating of the manager as well as any ratings in relation to expected performance – these were considered for the funds proposed as part of BalckRock's appointment for the TDF mandate as well as the exercise to find a suitable replacement for the abrdn GARS fund, where the LGIM Diversified fund was selected. The Trustee acknowledges that certain asset classes, such as fixed income do not have a high ESG rating assigned by the investment consultant due to the nature of the asset class where it is harder to engage with the issuer of debt. The Trustee does not take into account ethical views when choosing the funds available to members but is very mindful to take ESG factors into consideration. The Trustee does offer a specific ethical fund in the self-select fund range.

	Requirement	Policy	In the year to 5 April 2024
6	The exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters)	The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Trust's investments to the investment managers. Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice. Further details are set out in Section 4.2 in the SIP. It is the Trustee's policy to obtain reporting on voting and engagement and to periodically review the reports to ensure the policies are being met.	The Trustee has delegated voting rights to the investment managers. Investment managers are expected to provide voting summary reporting on a regular basis, at least annually. The reports are reviewed by the Trustee to ensure that they align with the Trustee's policy. Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022, the Trustee agreed to the items below of focus for the Trust: • Environmental: Climate change • Governance: Board Diversity Over the period, the Trustee had equity exposure through the following funds: - Abrdn Global Absolute Return Strategies (removed in November 2023) - BlackRock Growth (Component of the TDFs, introduced June 2023) - BlackRock Retirement (Component of the TDFs, introduced June 2023) - BlackRock (10:80:10) Currency Hedged Global Equity - BlackRock Emerging Market Equity - BlackRock European Equity Index - BlackRock Japanese Equity Index - BlackRock Pacific Rim Equity Index - BlackRock US Equity Index - BlackRock UK Equity Index - HSBC Islamic Global Equity Index - Insight Broad Opportunities Fund - LGIM Ethical Global Equity Index - LGIM Retirement Income Multi-Asset - LGIM Diversified Growth - LGIM Future World The key voting activity on behalf of the Trustee for the last 12 months is summarised later in this statement.

	Requirement	Policy	In the year to 5 April 2024
7	How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the trustees policies, make decisions based on assessments about medium to long-term financial and non-financial performance.	The Trustee's policy is set out in Section 4.3.1 (Aligning Investment Manager Appointments with the Trustee's Investment Strategy) of the SIP.	As the Trustee invests exclusively in pooled investment funds, it accepts that it cannot specify the risk profile and return targets for these funds. Over the year, the Trustee remained satisfied that the contractual arrangement in place with Aviva and the various investment managers remained appropriate.
8	How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustee's policies.	The Trustee recognises their time horizon is long. The Trustee's policy is set out in Section 4.3.2 (Evaluating Investment Manager Performance) of the SIP.	The performance of each of the Trust's funds were reviewed by the Trustee at each of its quarterly meetings. This included fund performance against their benchmarks over both quarter and longer-term periods. The charges paid to Aviva for their services were analysed as part of the annual Value for Members assessment. As part of the move of the Default Investment Option to bespoke TDFs managed by BlackRock, the average Total Expense Ratio for members across the investment journey was lower (compared to the previous default investment option) and the Trustee negotiated a discount with BlackRock on their standard fees for this strategy.

	Requirement	Policy	In the year to 5 April 2024
9	How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range.	The Trustee's policy is set out in Section 4.3.3 (Portfolio Turnover Costs) of the SIP.	Transaction costs were reviewed by the Trustee and were disclosed in the annual Chair's Statement. The transaction costs for each fund covers the buying, selling, lending and borrowing of the underlying securities in the fund by the investment manager.
10	The duration of the arrangement with the asset manager	The Trustee's policy is set out in Section 4.3.4 (Manager Turnover) of the SIP.	The abrdn GARS mandate was terminated in November 2023, due to the fund closing down. No other mandates were terminated during the year in relation to the DC and AVC assets.

Voting Activity and Engagement Policy Statement

Section 4.2 of the SIP sets out the Trustee's policy on Environmental, Social and Governance (ESG) factors, stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship.

Following the DWP's requirements, which came into force on 1 October 2019, the Trustee reviewed the SIP setting out how they take account of financially material considerations, including ESG considerations, and explicitly climate change. In addition, in line with the requirements, the SIP also includes the approach to the stewardship of the investments and how the Trustee take account (if at all) of member views on 'non-financial matters'.

Voting Activity during the Trust year

The Trustee has delegated their voting rights to the investment managers. The SIP states "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".

New guidance from the Department of Work and Pensions (DWP) came into effect for schemes with a reporting period on or after 1 October 2022. This guidance requires specific details around why Trustees consider votes to be significant, the size of the holdings and next steps on developing well-informed and precise objectives for engagement. The Trustee has requested key voting activities from their managers during the period under assessment to reflect this new guidance. In particular, focus has been given on the stewardship priorities that the Trustee believes constitutes a "significant" vote. Further details and the information received is summarised in the voting section that follows.

It is the Trustee's view that the policy has been followed during the Trust year. The majority of voting activity will arise in public equity funds. However, voting opportunities may arise in other asset classes such as certain bonds, property, private equity and multi-asset funds. The Trustee has only received information relating to public equity funds this year. The assets of the Trust are invested via the Aviva platform.

Overview of voting activity, on behalf of the Trustee, for the funds containing equity for the 12 months to 31 March 2024

Voting activity information from each of the underlying investment managers (where provided) over the prior 12 months to 31 March 2024 is summarised in the table below.

Fund	How many resolutions were you eligible to vote on?	What % of resolutions did you vote on for which you were eligible?	Of the resolutions on which you voted, what % did you vote with management?	Of the resolutions on which you voted, what % did you vote against management?	Of the resolutions on which you voted, what % did you abstain from voting?
BlackRock Growth*	100,152	96.7	91.6	8.4	1.0
BlackRock Retirement*	80,800	96.0	90.9	9.1	1.1
BlackRock 10/80/10 Currency Hedged Global Equity Index	59,838	96.7	91.9	8.1	1.4
BlackRock Emerging Markets	23,079	98.7	87.1	12.9	2.7
BlackRock European Equity Index	8,380	93.4	89.5	10.5	1.3
BlackRock Japanese Equity Index	5,893	100.0	96.2	3.8	0.0
BlackRock Pacific Rim Equity Index	3,119	100.0	89.8	10.2	0.0
BlackRock US Equity Index	7,547	99.5	97.4	2.6	0.0
BlackRock UK Equity Index	14,654	96.7	96.3	3.6	1.1
HSBC Islamic Global Equity	1,702	96.0	76.7	23.3	0.1
Insight Broad Opportunities	164	100.0	100.0	0.0	0.0
LGIM Ethical Global Equity	16,564	99.8	81.4	18.5	0.2
LGIM Retirement Income Multi-Asset Fund (RIMA)	102,982	99.8	77.4	22.4	0.2
LGIM Diversified Fund	93,090	99.8	76.6	23.1	0.3
LGIM Future World	21,925	99.8	79.7	20.1	0.2

Source: Investment Managers. Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a vote of 'Abstain' is also considered a vote against management.

*Voting covers the 1 year period to 31 March 2024, although the fund was only introduced into the Trust in June 2023.
Abrdn Global Absolute Return Strategies was available to members during part of the Trust year, however the fund was closed and removed from the fund range in November 2023 following termination of the mandate. As a result, voting information was requested but not available as at 31 March 2024.

Engagement Case Studies

The following are examples of engagement activity undertaken by the Trust's equity investment managers.

BlackRock: Kumho Petrochemical Co., Ltd. (Kumho Petrochemical)

Background

Kumho Petrochemical is a multinational petrochemical company based in South Korea, with a primary focus on manufacturing synthetic rubbers. The company has identified increasing customer demand for low-carbon products, as well stricter carbon emissions regulation given the country's 2030 Nationally Determined Contributions (NDC), as significant transition risks to its business. At the same time, it recognizes that increased demand for eco-friendly products and market expansion can represent business opportunities.

Engagement

To better understand how the company plans to remain competitive in light of these self-identified risks and opportunities related to the transition, BIS has engaged with senior management for several years, including meeting with the CEO and CFO in 2023 to discuss the company's corporate governance practices, the developments in climate-related reporting, and its recent climate risk-related plans for 2024.

Outcome

Over the past few years, Kumho Petrochemical has strengthened its approach to material climate-related risks and opportunities. In 2021, the company established a board-level committee to oversee climate-related risks. In the following year, the company started to disclose scope 1 and 2 emissions and medium- and long-term emissions targets for carbon neutral growth. In the latest sustainability report, released in 2023, the company also announced that it had established a framework to identify business relevant environmental and social risks when evaluating investment decisions.

Source: BlackRock Annual Stewardship Report 2023

LGIM: ExxonMobil

Background

As one of the world's largest public oil & gas companies, we believe that ExxonMobil's climate policies, actions, disclosures and net-zero transition plans have the potential for significant influence across the industry as a whole, and particularly in the US.

Engagement

We have been engaging with Exxon since 2016 under our Climate Impact Pledge. Our engagements were centred around time-bound emissions targets setting, capital allocation and business resilience, and the approach to the energy transition, with transparency on asset retirement obligations (AROs) being a focus area this year. Although we note some progress has been made since our decision in 2019 to divest the company from applicable LGIM funds under our Climate Impact Pledge, primarily on account of the state of the company's commitments and disclosure, we have identified several persistent gaps in disclosure which we are continuing to engage on with the company.

As part of our continuing engagement and escalation steps, in 2022 we supported two climate-related shareholder resolutions at Exxon's AGM, reflecting our wish for the company to take sufficient action on climate change in line with our minimum expectations. Further escalating our engagement with the company, LGIM and Christian Brothers Investment Services (CBIS) co-filed a shareholder resolution at Exxon's 2023 AGM, requesting the company disclose the quantitative impact of the International Energy Agency (IEA) net-zero scenario on all AROs. The proposal was centred around disclosure and seeking greater insight into the potential costs associated with the decommissioning of Exxon's assets in the event of an accelerated energy transition. We believe this is a fundamental level of information for the company's shareholders, in light of growing investor concerns about asset-retirement obligations in a carbon-constrained future, and that it is financially material information. In our regular engagements with Exxon, we raised this issue with them, and a member of our Investment Stewardship team also spoke at the company's 2023 AGM.

The proposal received over 16% support from shareholders which, although lower than we would have liked, demonstrates an increasing recognition of the importance of this issue for investors.

Outcome

We were pleased to see progress from Exxon in terms of joining the Oil & Gas Methane Partnership (OGMP) 2.0, of which many global oil & gas companies, including BP and Shell, are already members. We have been working closely and collaboratively with the Environmental Defense Fund (EDF) and other relevant organisations to raise awareness of the issue of methane emissions through letters, meetings and public statements; and have been applying pressure on oil & gas companies to join the OGMP initiative since 2021 – Exxon being one of them. Exxon had previously demonstrated reluctance to sign up to the OGMP and LGIM voted in favour of a separate shareholder resolution tabled at its 2023 AGM, requesting that the company produce a report on methane emission disclosure, which received 36.4% support from shareholders.

Public and shareholder pressure, growing membership of the OGMP and Exxon's recent acquisition of OGMP member Pioneer Natural Resources appear to have swayed the company towards greater transparency. Greater transparency is crucial in terms of enabling investors to accurately price climate-related risks and opportunities which, in turn, is an incentive for companies to make the changes we are seeking.
We will continue our direct engagements with the company under our Climate Impact Pledge and to challenge Exxon on their approach to the energy transition. We will also be engaging with proxy advisers and fellow investors to better understand their voting rationale.

Source: LGIM Active Ownership: 2023

Sample of the most significant votes

To ensure voting behaviour is consistent with the Trust's investment objectives and stewardship priorities, the Trustee has classified 'significant votes' as those which consider any one of the following factors with relevant (but not exhaustive) examples:

- Environmental: climate change
- Governance: board diversity

The Trustee has reviewed voting records from the managers in each of their priorities listed above. The information in this section has been provided directly by the investment managers. The managers have provided detailed information on their voting. The Trustee has considered this information and disclosed the votes that it seems to be most significant. A "significant vote" is defined as one that is linked to the Trust's stewardship priorities/themes. These priorities are set out above. The Trustee has weighted this analysis towards the funds used in the default strategy, where the majority of members' assets are invested and companies that have the largest holdings within those funds (i.e. significant holdings).

On the page that follows, the 'Vote' highlights whether the investment manager voted for (✓) or against (×) the sample proposals shown. The resolution passing is represented by a (✓) in the "Outcome" column or is represented by a (×) if the resolution did not pass.

Manager	Fund	Company	Date of vote	% of fund	Engagement Priority	Proposal	Vote	Rationale of vote	Outcome
BlackRock	BlackRock Growth*	-	-	-	-	-	-	-	-
	BlackRock Retirement*	-	-	-	-	-	-	-	-
	Global Equity 10/80/10	Shell plc	23 May 2023	0.70%	Climate Change	Approve the Shell Energy Transition Progress	☑	BIS supported this management proposal in recognition of the delivery to date against the company's Energy Transition Strategy. Overall, Shell has and continues to provide a clear assessment of their plans to manage climate-related risks and opportunities and has demonstrated continued delivery against their Energy Transition Strategy. Given that the speed and shape of a low carbon transition are unclear, company disclosures that include scenario analysis and provide context on the transition plan and targets, help investors' understanding of company-specific risks and opportunities. In our view, Shell's reporting and approach are aligned with our clients' long-term financial interests; therefore, we	✓

Manager	Fund	Company	Date of vote	% of fund	Engagement Priority	Proposal	Vote	Rationale of vote	Outcome
								supported the management resolution	
LGIM	Diversified	Shell Plc	23 May 2023	0.30%	Climate Change	Approve the Shell Energy Transition Progress	☒	A vote against is applied, though not without reservations. We acknowledge the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, we remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both of these are key areas to demonstrate alignment with the 1.5C trajectory.	✓
	Diversified	American Tower Corporation	24 May 2023	0.22%	Board Diversity	Elect Director Robert D. Hormats	☒	A vote against is applied due to the lack of gender diversity at executive officer level. LGIM expects executives officers to include at least 1 female.	✓
	Diversified	Toyota Motor Corp.	14 June 2023	0.21%	Climate Change	Amend Articles to Report on Corporate Climate Lobbying Aligned with Paris Agreement	☒	LGIM views climate lobbying as a crucial part of enabling the transition to a net zero economy. A vote for this proposal is warranted as LGIM believes that companies should advocate for public policies that support global climate ambitions and not stall progress on a Paris-aligned regulatory environment. We	✗

Manager	Fund	Company	Date of vote	% of fund	Engagement Priority	Proposal	Vote	Rationale of vote	Outcome
								acknowledge the progress that Toyota Motor Corp has made in relation to its climate lobbying disclosure in recent years. However, we believe that additional transparency is necessary with regards to the process used by the company to assess how its direct and indirect lobbying activity aligns with its own climate ambitions, and what actions are taken when misalignment is identified. Furthermore, we expect Toyota Motor Corp to improve its governance structure to oversee this climate lobbying review. We believe the company must also explain more clearly how its multi-pathway electrification strategy translates into meeting its decarbonisation targets, and how its climate lobbying practices are in keeping with this.	
	RIMA	Public Storage	2 May 2023	0.14%	Climate Change	Report on GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal	☑	A vote in favour is applied as LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-, medium- and long-term GHG emissions reduction	⊗

Manager	Fund	Company	Date of vote	% of fund	Engagement Priority	Proposal	Vote	Rationale of vote	Outcome
								targets consistent with the 1.5°C goal.	
	RIMA	Realty Income Corporation	23 May 2023	0.12%	Climate Change	Elect Director Michael D. McKee	☒	A vote against is applied as the company is deemed to not meet minimum standards with regard to climate risk management. LGIM expects the Chair of the Board to have served on the board for no more than 15 years and the board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.	✓

Source: Investment Managers.

Note: Insight Broad Opportunities Fund invests in listed closed-end investment companies with a focus on cash-generative investments in social and public, renewable energy and economic infrastructure sectors. This governance framework that is with an independent board acting on behalf of shareholders generally limits contentious issues that can arise with other listed entities. As a result, examples of significant votes cast that may be comparable to other listed entities are not applicable to the strategy's exposures.

*These funds were introduced into the Trust in June 2023 and there are no significant votes relating to the Trustee's priorities greater than 1% of the Fund size between July 2023 and April 2024.
**Size is estimated as it was not provided by the fund manager by the time of writing this report. Calculations are based upon the underlying funds' benchmarks constituent's allocation as at 31 March 2024 and the funds allocation to underlying funds as at 30 June 2024.

Appendix 5 – Taskforce on Climate-related Financial Disclosures report

Chair’s introduction

The Trustee of the Rolls Royce Retirement Savings Trust (“the Trust”) recognises climate change is one of the most important issues of our time and recognises it as a risk that could impact the financial security of members’ benefits if it is not properly measured and managed. It also presents an opportunity, through investment in companies or assets that are expected to perform well in an economy that is positioned to address climate change. The response to climate change will influence the health and prosperity of the world now and in future; its impacts are already being felt and observed around the globe.

The Trustee supports the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”), and has prepared this report accordingly and in compliance with relevant legislation i.e. The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021 (“the Regulations”). The TCFD framework helps the Trustee to manage and report on the actions the Trustee, and others involved in the management of the Trust, take to identify, assess and manage climate change related risks and opportunities.

This is the second year that the Trustee has produced a TCFD report. This report covers the 12 month period to 5 April 2024. In drafting this report we have considered the Regulations using the Department for Work & Pensions’ (DWP) statutory guidance. The report explains how the Trustee has established and maintained oversight and processes to satisfy themselves that the Trust’s relevant climate-related risks and opportunities are considered appropriately by all stakeholders involved in the day-to-day management of the Trust.

This statement outlines where governance of climate risk and opportunities has been applied, focusing on the Default Investment Option, as it makes up a significant portion of the Trust’s assets (c.82%).

We are pleased to report the continued positive momentum in moving towards the Trustee’s emission intensity reduction target, however we have been cognisant of the importance to fully understand and explain the reason for the change in our climate-related metrics year-on-year. Further details are provided in the ‘Targets’ Section of the report.

This report is available online in the help & resources section of the Trust’s website at https://www.rolls-roycepensions.com/Homepage. Members are encouraged to contact the Trustee if there are comments they wish to raise and they can contact the Trustee at Secretary to the Trustee – Rolls-Royce Retirement Savings Trust, Rolls-Royce Pensions (A-90), PO Box 31, Derby, DE24 8BJ.

Mark Porter, Chair - Rolls-Royce Retirement Savings Trust

Executive Summary

This report covers the Trust year ending 5 April 2024 and it focuses on the following four areas which comprise the current TCFD framework:

- **Governance**: How the Trustee maintains oversight and incorporates climate change into its decision making;
- **Strategy**: How potential future climate warming scenarios could impact the Trust;
- **Risk Management**: How the Trustee incorporates climate–related risk in its risk management processes; and
- **Metrics and Targets**: How the Trustee measures, and monitors progress against different climate related indicators known as metrics and targets.

Steps taken over the year

The Trustee has considered climate change and other environmental issues in its investment strategy for many years.

During the year to 5 April 2024, the key steps taken by the Trustee have been:

- Changing the Default Investment Option following the triennial strategy review. The previous option, the Drawdown Lifestyle, was removed and replaced with a range of bespoke Target Date Funds managed by BlackRock. The new investment strategy uses a 15 year de-risking glidepath and maintains income drawdown as the objective. The changes were implemented in June 2023. Further details can be found in Appendix 1.
- Carrying out updated 'top down' scenario analysis and a 'bottom up' carbon metrics analysis, in light of the new Default Investment Option, which provides an indication of the Trust's greenhouse gas emissions exposure and its risk, over multiple time periods, from different climate change scenarios.
- Retaining the five metrics chosen monitor the progress against climate change risk: measured absolute emissions, carbon intensity (as measured by Weighted Average Carbon Intensity – "WACI" and Carbon Footprint), portfolio alignment (as measured Science Based Targets Initiative – SBTi – approved transition plans) and a non-emissions based metric (data quality).
- Reviewing the Trustee targets to reduce greenhouse gas emissions to ensure they remain appropriate. The Trustee has set a target to reduce greenhouse gas emissions by 50% or more by 2030, as measured by WACI with a 31 December 2019 baseline – and fully (i.e. to net zero) by 2050. This is for all listed equity and corporate bond mandates within the Trust's default investment arrangement and includes Scope 1 and 2 emissions only. This target was retained.
- Monitoring progress against the target – the trustee notes that, based on the measure described above, greenhouse gases have reduced by c.49% compared to the baseline.

Next steps

The Trustee recognises that further progress needs to be made to consider climate-related risks and opportunities in a balanced and proportionate approach. The ultimate responsibility of the Trustee is to maximise DC member outcomes at retirement and the Trustee is aiming to do this in a sustainable way.

The Trustee supports the goals of the Paris Agreement that seeks to limit warming to well below 2°C relative to pre-industrial temperatures. The Trustee believes that climate risk is likely to have an impact on long-term financial returns and considering climate risk is in the best long-term interest of members.

The Trustee will continue to work with the underlying investment managers to determine an appropriate decarbonisation plan that covers the following principles:

- Stewardship: Work with investment managers to target the top contributors to WACI including companies in the Utilities, Materials and Energy sectors.
- Understand drivers for change over time through attribution analysis.
- Discuss with investment managers what engagement they are having with underlying companies.

The TCFD Framework

The Financial Stability Board, an international body established by the G20 that monitors and makes recommendations about the global financial system, created the TCFD framework in 2015. TCFD was created to improve and increase reporting of climate-related financial information that can promote more climate-informed investments.

This TCFD report is prompted by that drive for transparency and fulfils the Trustee's regulatory obligation in relation to climate change and governance reporting. The Trustee's aim is that members and stakeholders can better understand the climate-related risks and opportunities within the Trust through its ownership of companies and other investments.

Figure 1: TCFD Framework

The recommendations are in four key areas: Governance, Strategy, Risk Management, Metrics and Targets.

Governance: How the Trustee incorporates climate change into its decision making;

Strategy: How potential future climate warming scenarios could impact the Trust;

Risk Management: How the Trustee incorporates climate-related risk in its risk management processes; and

Metrics and Targets: How the Trustee measures and monitors progress against different climate-related indicators known as metrics.

Asset owners like the Trust sit at the top of the investment chain and, therefore, have an important role to play in influencing the organisations through which they invest (such as asset managers) and companies in which they ultimately invest to provide better climate-related financial disclosures. Disclosure of climate-related risks and opportunities by asset owners allows beneficiaries and other audiences to assess the asset owner's investment considerations and approach to climate change.

In monitoring, reviewing and selecting the Trust's investment strategy, the Trustee has incorporated the available and relevant climate-related financial information into its investment decision-making. The Trustee believes that their climate-related financial disclosures encourage better disclosures across the investment chain, from asset owners to asset managers to underlying companies.

Investment Arrangements

Summary of Trust's Assets

This section sets out the Trust's invested assets and highlights parts of the asset portfolio which are within the scope of climate-change related reporting requirements and therefore considered as part of the scenario analysis and metrics (where available) in this report.

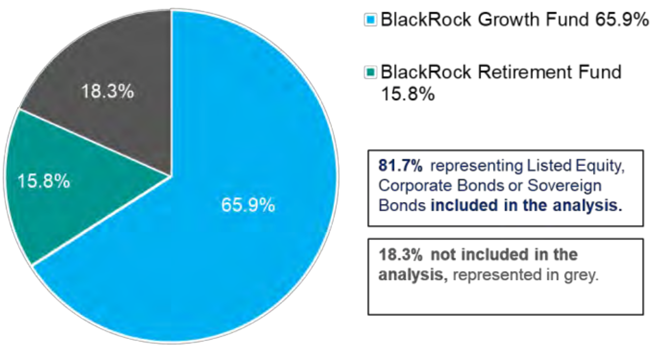
The Trust provides defined contribution ("DC") pension benefits with a total asset size of £1.2bn (as at 31 December 2023). The Trust's investment arrangements are managed and provided by Aviva under a bundled arrangement.

As a minimum, the scope of reporting for DC arrangements is expected to cover popular arrangement(s), which meet one of the following criteria:

- £100m or more of invested DC assets; or
- accounts for 10% or more of the assets used to provide money purchase benefits.

For the purposes of this report the Trustee has considered the Default Investment Option, the Target Date Fund, along with its component funds as this strategy meets both of the criteria listed above.

Figure 2: Summary of assets within the Trust as at 31 December 2023



As at 31 December 2023, the vast majority of assets in the Trust are invested in the Default Investment Option, c.82% (c.£984m), more details on this can be found in the Appendix.

The remaining c.18% of assets are invested in the alternative lifestyle strategies and self-select funds and have not been included within the analysis contained in this TCFD report.

This report presents direct analysis of the:

- BlackRock Growth Fund, which comprises of c.66% of the Portfolio. This Fund is comprised largely of equity (c.99%).
- BlackRock Retirement Fund, which comprises of c.16% of the Portfolio. BlackRock Retirement Fund includes equity (c.38%), corporate bonds (c.7%) and sovereign bonds (c.51%). The remaining assets are not covered by this analysis (e.g. alternatives).

Sovereign analysis includes the sovereign proportion of the BlackRock Retirement Fund

Governance

The Trustee’s approach to climate-related risks and opportunities

The Trustee has ultimate responsibility for ensuring effective governance of climate-related risks and opportunities. There are no sub-committees or responsibilities delegated. The Trustee is supported by the in-house pensions team, but that team has no formal decision making authority.

The Trustee’s approach to the oversight and management of climate-related risks and opportunities is consistent with its approach to considering other financially material risks and opportunities facing the Trust. The Trustee’s Statement of Investment Principles (the “SIP”) details the key objectives, risks and approach to considering environmental, social and corporate governance (“ESG”) factors, including climate change, as part of its investment decision making. The SIP is reviewed on an annual basis or more frequently as required.

The Trustee’s overall investment beliefs on ESG are:

- The Trustee believes that ESG 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.

Ongoing actions are embedded into the Trustee’s business plan, and ESG risks are included in the Trustee’s risk register. All TCFD items and training are tabled at relevant Trustee Board meetings.

Investment performance and risk management are reviewed at least quarterly, of which ESG factors, stewardship and climate change form part of the wider assessment. The Trustee recognises a balance needs to be maintained between meeting the investment objectives of the Trust and considering these risks and opportunities.

The Trustee expects all advisers to act with integrity and diligence in fulfilling the set objectives and uses meetings with the advisers to assess and challenge them and guide how best to challenge the investment manager for the popular arrangement. Where relevant, this includes discussion of the steps taken by advisers to identify and assess any climate-related risks and opportunities.

The role of the investment adviser is set out below:

- Advises on investment arrangements, including the default investment strategy, taking into account climate risk, supported through the provision of climate scenario analysis;
- Advises on the choice of climate-related metrics and targets as well as changes to investment mandates;

- Advises on manager selection, taking into account the Trustee's sustainability beliefs and climate-related targets;
- Supports the Trustee with stewardship activities, which may be related to climate change, such as monitoring and reporting on voting and engagement activities of the invested assets.
- Monitors investment manager performance against relevant climate-related targets;
- Liaises with investment managers and other professional advisers to provide training to the Trustee on climate change, as appropriate; and
- To assist the Trustee in producing the Trust's TCFD report on an annual basis

The investment adviser's approach to climate change and how it is integrated into its advice and services is assessed as part of the adviser selection and monitoring process. The Trustee sets its investment adviser objectives, including ones related to ESG and climate change competency (which have to be reviewed at least every 3 years). The investment adviser is formally assessed against these objectives annually. The last assessment was in December 2023 with positive feedback received. There were no new actions and the objectives set for the investment adviser were maintained.

Key Trustee responsibilities and oversight of climate change risks

The Trustee takes independent advice from its professional advisers and input from its investment managers to help assess and manage climate risks and opportunities. The Trustee considers, discusses, questions and challenges the advice provided to ensure that any decisions continue to be integrated into a coherent investment strategy that supports the Trust's ability to provide pensions.

Regular monitoring

The Trustee monitors the investment managers on a regular and ongoing basis, including with respect to ESG factors, stewardship and climate change. This includes the Investment Adviser's ESG ratings which are the assessment of how well each underlying investment manager embeds ESG considerations and active ownership into their investment processes. The investment managers have been appointed based on their credentials, which includes the integration of ESG factors.

The Trustee has worked with its Investment Adviser to ensure that the appropriate governance framework is in place to consider climate risks and expect to review the processes in place going forwards.

The Trustee or the Investment Adviser, acting on behalf of the Trustee, will engage with underlying investment managers where they are perceived to be lagging their peers in terms of ESG integration and climate risk management, and to ensure the investment managers are voting and engaging with the investee companies in accordance with the principles underlying the UK Corporate Governance Code and the UK Stewardship Code, in respect of all resolutions at annual and extraordinary meetings.

The approach of the investment adviser to climate change and how it is integrated into its advice and services is assessed as part of the adviser selection and monitoring process. The investment adviser is also expected to drive and support engagement with the investment manager.

The Trustee will also review the climate scenario analysis (see ‘Strategy’ for further detail) at least once every three years.

Day-to-day implementation

The Trustee has delegated responsibility for the selection, retention, and realisation of investments to its underlying investment managers.

The Trustee expects the overall approach to climate-related financial risks and opportunities for each of the Trust’s investment managers to be consistent with the Financial Stability Board’s TCFD framework. Disclosures consistent with the TCFD recommendations are also expected of appointed investment managers. The Trustee works with their Investment Adviser to ensure that the investment managers adopt a consistent approach.

The Investment Adviser provides advice to the Trustee on the investment strategy and investment manager appointments. This includes advice on managing and monitoring investment-related risks, such as ESG factors, stewardship and climate from a strategic asset allocation perspective and with the appointed investment managers.

The Investment Adviser provides climate-related scenario analysis, advice and training on the selection of climate-related metrics for the Trust to monitor. The Investment Adviser will assist the Trustee in producing the Trust’s TCFD report on an annual basis.

The Rolls Royce in-house pensions team engage with managers, supported by the Investment Adviser e.g. on ESG integration. The in-house pensions team supports the governance and implementation of the Trustee’s approach to managing climate-related risks. The effectiveness of the in-house pensions team is assessed on an annual basis.

Time and resources spent on climate change-related matters

The Trustee Chair, with support from the in-house support team, is responsible for ensuring that sufficient time is allocated for consideration and discussion of climate matters by the Trustee and its advisers. The Trustee, as part of its regular meeting schedule, will allocate agenda time to climate change topics, amongst other ESG topics. Climate change will form an explicit agenda item at least annually for the Trustee when the Trustee’s annual TCFD report is updated. It will also be covered as part of other agenda items as part of a wider discussion of funding or investment strategy, or as part of the investment manager appointment and review discussions. The topics covered at Trustee meetings over the year included:

- June 2023: Discussion on climate metrics and target setting.
- March 2024: Revisit rationale and discussion for renewed scenario analysis, climate metrics and target setting in light of the new default investment strategy.

There are a number of workstreams that are to be completed regularly in order for the Trustee to fulfill its responsibility for managing climate risks and opportunities. It is important to note that many of the workstreams will cover wider ESG risks other than just climate change risk, as the Trustee does not consider climate risks in isolation but holistically alongside the various other ESG risks the Trustee may be facing. Over the Plan Year, the following workstreams were completed:

Strategy

The Trustee's approach to managing strategic climate change risks and opportunities

Climate change timescales, risks and opportunities

The time horizons identified by the Trustee for the purposes of the scenario analysis are detailed below.

Figure 3: Timeframes of short, medium and long-term horizons to identify relevant climate-related risks and opportunities.

Term	Duration	Rationale
Short term	5 years	Members approaching retirement age.
Medium term	20 years	Older members transitioning into de-risking retirement phase, Younger members invested in higher risk growth phase.
Long term	40 years	Current young members in early stages of career.

These time horizons have been chosen as they reference the expected lifetime of a typical member, as a new joiner. Further detail is set out in the rationale section of the table above.

As a long-term investor, the Trustee recognises the risks and opportunities arising from climate change are diverse and continuously evolving. Climate change presents risks over the short, medium and long-term, which the Trustee aims to better understand and mitigate where possible. The Trustee will consider the following short, medium and long term drivers of risk going forwards.

Over the short term (5 years), transition risks (i.e. risks and opportunities relating to transitioning the economy to emit lower levels of greenhouse gasses) are expected to dominate and may present themselves through rapid market re-pricing risks as:

- Scenario pathways become clearer. For example a change, in the likelihood of a below 2°C scenario occurring becoming higher and driving the transition risk to occur.
- Market awareness grows. For example, the implications of the physical impacts of climate change become clearer to markets and impact asset valuations.

- If policy changes unexpectedly surprise markets. For example, if a carbon price or significant regulatory requirements are introduced across key markets to which the Trust's assets are exposed.

- Perceived or real increased pricing of greenhouse gas emissions.

- Substitution of existing products and services with lower emission alternatives may impact funds available to DC schemes.

- Litigation risk relating to dangerous warming becoming more prevalent.

- Increases in the energy/heat efficiency of buildings and infrastructure.

- Investments in transition aligned strategies may provide the Default Investment Option a partial hedge against climate transition risks.

The ability of the Trustee and investment managers to consider these short-term changes can position the Trust favourably, for example taking advantage of the climate transition by avoiding and reducing investment in high-emitting carbon sensitive businesses that do not support the transition to a low carbon economy (where available and appropriate).

Over the medium term (20 years), transition risks associated with the transition to a low carbon economy are still likely to dominate, with the introduction of some physical risks. These include the development of technology and low carbon solutions. Policy, legislation and regulation are likely to also play a key role at the international, national and subnational level. Technology and policy changes are likely to produce winners and losers both between and within sectors. Advancement of transition is likely to have started to crystallise stranded asset risks over the medium term. The ability of the Trustee and investment managers to understand these changes can position the Trust favourably, for example by increasing investments in new emerging technologies. The Trustee seeks to select managers and choose indices (where available and appropriate) that can identify potential emergence of low carbon opportunities and the decline of some traditional sectors.

Over the long term (40 years), physical risks are expected to come to the fore. This includes the impact of natural catastrophes leading to physical damages through extreme weather events. Availability of resources is expected to become more important if changes in weather patterns (e.g. temperature or precipitation) affect the availability of natural resources such as water. A changing climate may directly impact the viability of some assets or business models (for example, flood risk for real estate, or drought / fire risk for timberland assets). The ability of the Trustee and investment managers to understand these changes can position the Trust favourably, for example by increasing investments in infrastructure projects that display a high level of climate resilience (where available and appropriate).

One of the greatest impacts to the Trust from climate change is investment risk. The performance of the Trust's investments is directly aligned to the value of the underlying assets, which are increasingly impacted by climate-related risks and opportunities.

The Trustee ensures that the Trust's investment strategy is well-diversified, and that the investment managers have an appropriate understanding of both the companies and assets in which they invest in and the risks to which they are exposed. The Trustee aims to, where possible and appropriate, seek to maximise exposure to positive ESG factors within the Trust's Default Investment Option.

The Trustee monitors the carbon emissions of the Trust's Default Investment Option on an annual basis and how this changes over time, where the information is available. The carbon emissions for each of the component funds used in the Default Investment Option has been reported (where available) within the "Metrics and Targets" section of this report.

There are significant opportunities for investing in companies and assets that may benefit as we transition to a lower carbon environment.

The Trustee notes that a sustainable fund option is available within the self-select fund range for members who wish to invest in a more sustainable way.

As part of the Trust's triennial investment strategy review carried out during 2022/2023, the Trustee has considered opportunities to further integrate ESG and climate change into the Trust's investment strategy and has sought to integrate this into the review process at every stage. The new Default Investment Option, the Target Date Funds, includes ESG integration across equity, fixed income and alternatives. The investment manager is encouraged to seek out further asset class opportunities that facilitate integration.

The Trustee expects the Trust's Investment Adviser, to provide support and consider potential investment and implementation opportunities to reduce the Trust's exposure to climate-related risks over time.

However, the Trustee recognises a balance is needed to be maintained between meeting the investment objectives of the Trust and considering these risks. Climate-related risks, but also opportunities, will be monitored as part of future triennial investment strategy reviews for the Trust.

Climate change scenarios

The Trustee supports the goals of the Paris Agreement that aim deliver a well below 2°C temperature increase above pre-industrial levels and pursing efforts to limit the increase to 1.5°C and believes that climate-risk may impact long-term financial returns and considering climate-risk is in the best long-term interests of members.

Climate change scenario analysis has been undertaken on the strategic asset allocation of the Trust's Default Investment Option, the Target Date Funds, to test the resilience of the investment strategy and assess the potential implications of climate change under three core scenarios ("Rapid", "Orderly" and "Failed" Transitions) and over three time periods (5, 20 and 40 years).

- **A Rapid / Disorderly Transition –** Average temperature increase of 1.5°C by 2100 (relative to pre-industrial average). This scenario assumes sudden downward re-pricing across assets in 2025. This could be driven by a change in policy, consideration of stranded assets or expected costs. The shock is partially sentiment driven and so is followed by a partial recovery. Physical damages are most limited under this scenario.

- **An Orderly Transition -** Average temperature increase is less than 2.0°C by 2100. Political and social organizations to act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C. Transition impacts do occur but are relatively muted across the broad market.

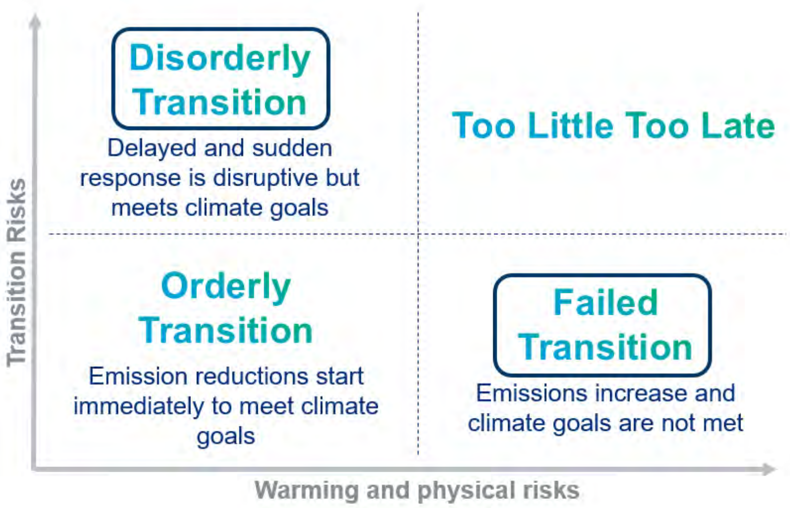
- **A Failed Transition** – Average temperature increase above 4°C by 2100. The world fails to co-ordinate a transition to a low carbon economy and global warming exceeds 4°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events. These are reflected in repricing events in the late 2020s and late 2030s.

The analysis is based on scenarios developed by Mercer working with Ortec Finance. These scenarios were selected by the Trustee to test a broad range of feasible outcomes and the Trust's exposure to both transition and physical risks

At a market level, transition risks are reasonably priced in, however, longer term physical risks are more likely to be mispriced. Transition risks remain at sector level and at the market level due to the potential for more extreme transition scenarios to occur. We express this view by modelling scenarios relative to a baseline scenario. Mercer's baseline assumes a composite scenario with the following weightings priced in: 40% Orderly Transition, 10% Rapid Transition, 10% Failed Transition, the remaining 40% represents low impact scenarios and the potential for the transition to have an overall positive impact.

One way to illustrate scenarios is by plotting the transition risk against the physical risk. This is shown in the chart below, which builds upon the Climate Scenarios Framework developed by the Network for Greening the Financial System.

Figure 4: Summary of climate change scenario analysis



Climate scenario analysis is an ever evolving space and, as such, the scenarios modelled and reported may be subject to review in future periods. Appendix 2 of this report summarises the key assumptions and limitations of the climate scenario modelling. It is important to note that the modelling may understate the true level of risk due to the uncertainty around the future economic impacts of climate change.

The chosen scenarios help the Trustee understand the resilience of the Trust's Default Investment Option to different potential warming pathways covering eventual temperature increases over different timeframes. While a lower warming pathway (sub-2°C scenario) is one which governments, businesses and society should aim for, there is a possibility that a failure to reduce greenhouse gas emissions quickly enough could set off irreversible feedback loops that significantly warms the planet (4°C scenario).

The Trustee notes that the modelling may understate the true level of risk and uncertainty is likely to be greater for higher warming scenarios, in particular due to the difficulty in being able to accurately predict the future. Please note, climate-related scenario analysis is an ever evolving space and as such the scenarios modelled may be subject to review in future periods.

The scenario analysis is based on the asset allocation of the Target Date Fund (set out in Appendix 1) which varies as members approach retirement. The scenario analysis has been conducted for the following member cohorts:

- Members who are 40 years from retirement
- Members who are 35 years to retirement, who might be described as the average member.

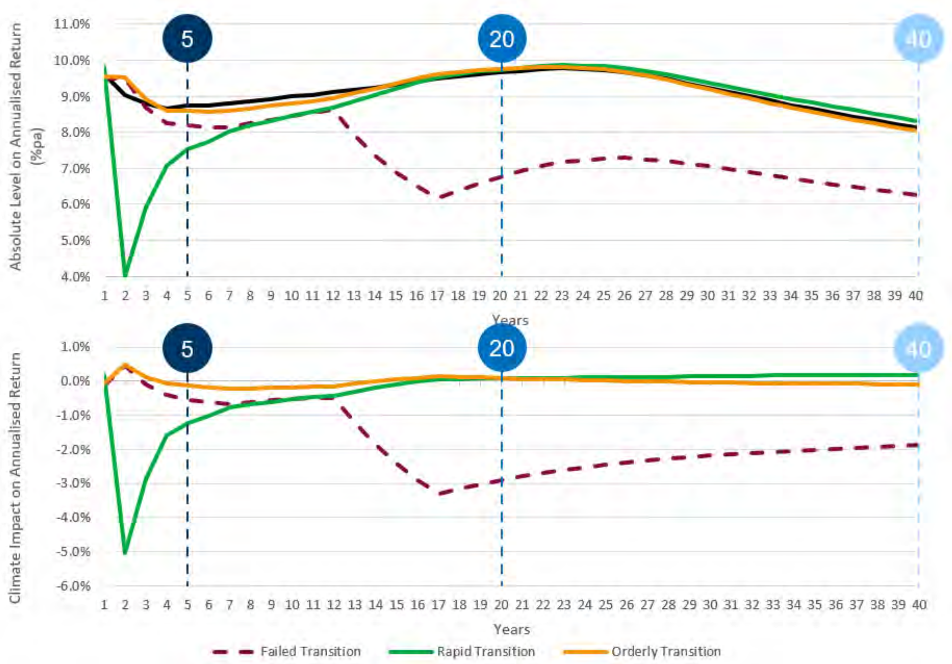
Whilst both of these members will be invested in a similar way at outset, their paths and projected outcomes will be different in 10 years as the latter enters the glidepath.

We have assumed a starting asset value of £100 with no contributions. This will allow an assessment of the climate impact upon investment returns.

The charts below represent the output of the Trustee's quantitative analysis of the Default Investment Option. The charts represent projections of annualised returns and asset values from an analysis date of 31 December 2023 over a period of 40 years.

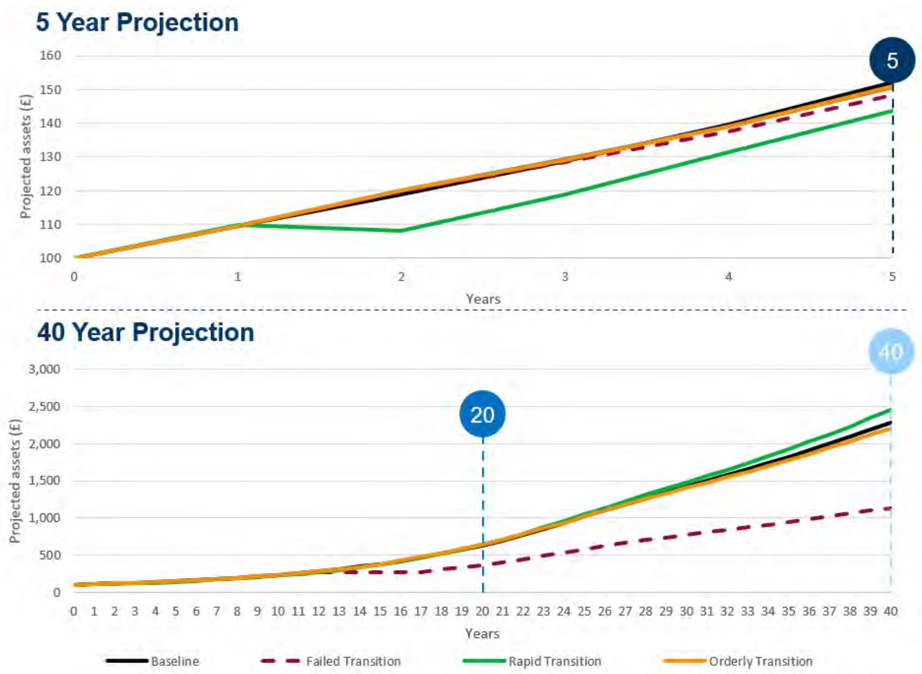
Figure 5: Annualised Returns

Target Date Funds (40 years to retirement)



Our analysis has considered "stress tests". In this analysis repricing shocks are included within scenarios. Our rapid transition includes a shock around 2025 pricing in (and over reacting to a degree) to transition costs.

Figure 6: Asset Projection (40 years to retirement)



5

5 Years – Over this time period, transition risk dominates. The Rapid Transition is the most impactful scenario. Under this scenario there is a shock to asset values of about 9.1% in year 2 followed by a recovery in the following year. Overall, projected asset values at this time point are reduced by 5.5% in the Rapid Transition. This will impact younger members and average aged members equally, mainly through equity exposure which will bear the majority of the impact.

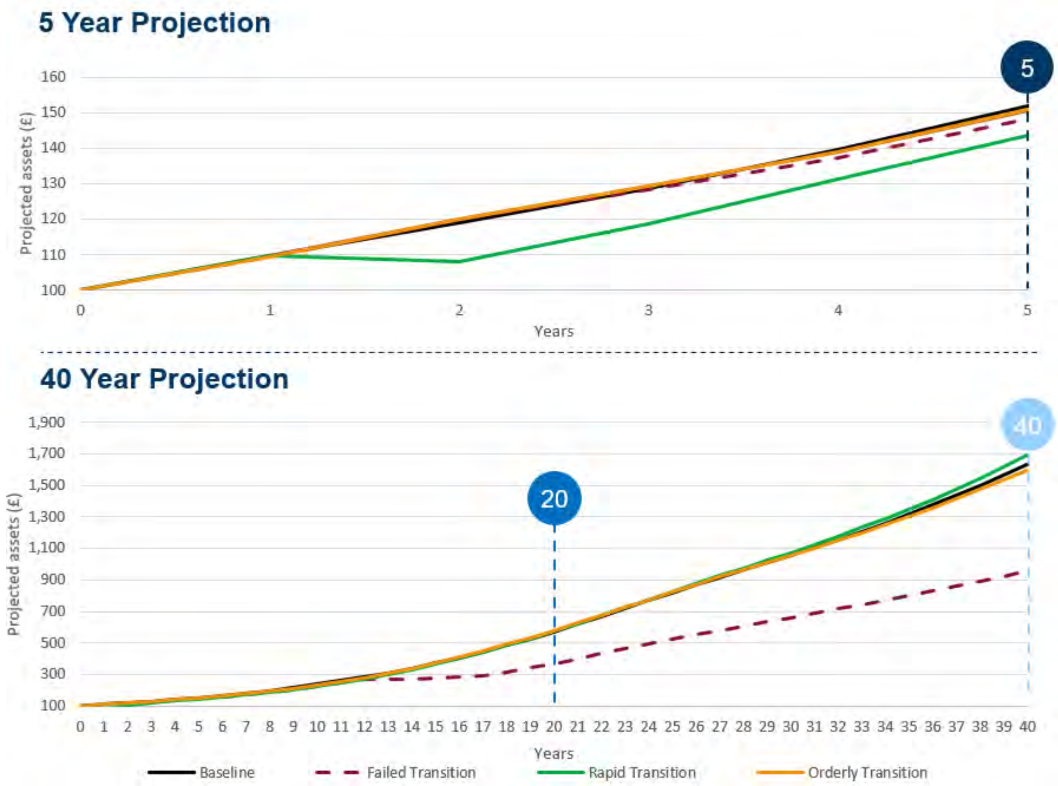
20

20 years – As longer term physical damages begin to be priced in, the Failed Transition becomes the most impactful scenario. Failed Transition reduces the asset value by 41.6%.

40

40 years – Over the long term, physical damages are the dominant driver and the Failed Transition is by far the worst scenario. Failed Transition reduces the asset value by 50.3%. In addition, we see the additional warming and hence damage in the Orderly Transition (compared to the Rapid Transition) meaning it becomes a more negative scenario.

Figure 7: Asset Projection (25 years to retirement)



5

5 Years – Over this time period, transition risk dominates. The Rapid Transition is the most impactful scenario. Overall, projected asset values at this time point are reduced by 5.5% in the Rapid Transition.

20

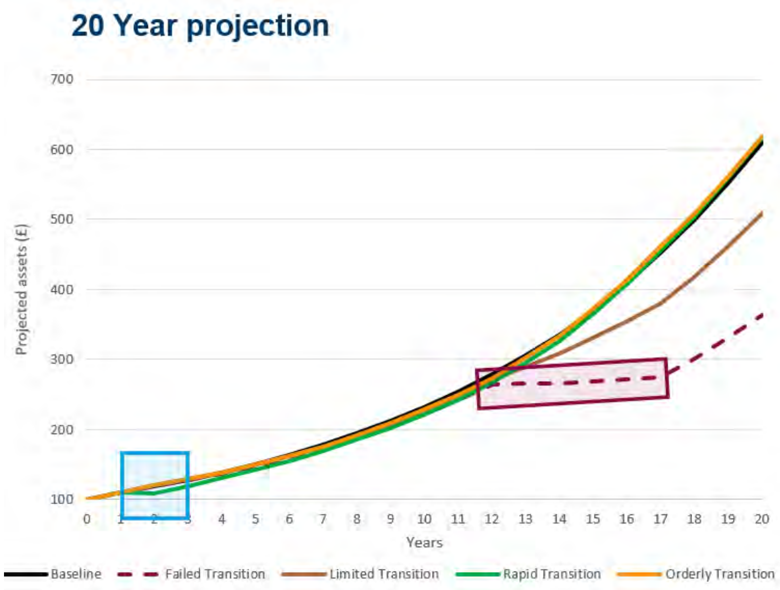
20 years – As longer term physical damages begin to be priced in, the Failed Transition becomes the most impactful scenario. Failed Transition reduces the asset value by 35.3%. The average member will be somewhat protected in this scenario compared to younger members.

40

40 years – Over the long term, physical damages are the dominant driver and the Failed Transition is by far the worst scenario. Failed Transition reduces the asset value by 41.4%. The average member will be impacted significantly at the point they might be seeking to crystallise benefits.

Our analysis illustrates that a failed transition is by far the worst in terms of long term returns. This supports the view that long term investors collectively trying to bring about an effective and orderly transition is aligned to their fiduciary duty to seek the best return within risk, liquidity and complexity restraints.

Figure 8: Climate stress testing



In reality, sudden changes in return impacts are more likely than neat, annual averages. This means that longer-term impacts, including transition impacts and particularly physical damages, could impact portfolios earlier than they occur. Our analysis has considered this through what we call "stress tests". In this analysis repricing shocks are included within scenarios.

Our rapid transition includes a shock around 2025 pricing in (and over-reacting to a degree) to transition costs, see blue box. Our failed transition includes shocks towards the end of the 2020s and 2030s pricing in future damage, see pink box. While the exact timing of such shocks is unknowable, considering such shocks is important to risk analysis.

Key conclusions

- **A successful transition remains imperative**: Over the long term, for nearly all investors, a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes due to lower physical damages. In some cases, a rapid transition leads to better overall outcomes over the long term, accounting for the negative impact over the short term.
- **Sustainable allocations protect against transition risk, growth assets are highly vulnerable to physical risk:** Asset class returns vary significantly by scenario depending on their respective exposure to transition and physical risks.
- **Sector exposure is key:** Differences in return impact are most visible at an industry-sector level, with significant divergence between scenarios. Oil and gas, fossil fuel-based utilities and renewables are most impacted by the transition.
- **Investors should be aware of future pricing shocks:** As markets react to new information, as a result of changing physical and policy / transition risks, investors will be vulnerable to rapid repricing shocks. Exploring the potential impact that repricing events can have on investment strategy and positioning portfolios ahead of time is critical.

Risk Management

The Trustee recognises that climate-related risks can be financially material and that due consideration of climate risk falls within the scope of the Trustee's fiduciary duty. Given the long-term nature of the Trust's investments and the timeframe in which climate risks could materialise, a total portfolio approach to risk management covering all sectors and all relevant asset classes has been taken, with specific focus given to the Default Investment Option, the Target Date Funds, since c.82% of the total Trust assets are invested in this investment strategy.

A summary of the investment managers' voting statistics and a selection of significant votes cast over the year are disclosed in the Trust's Implementation Statement which is reviewed on an annual basis by the Trustee. The Trustee has included climate change as a significant vote criteria.

The Trustee annually reviews Trust documentation including the SIP and risk register. The risk register is used to identify, prioritise, manage and monitor risks associated with the Trust and the escalations of risk are managed by internal controls in place. The Trustee manages risk by prioritising those risks that it believes may be most financially material. These risks are identified in the SIP.

Governance

- The Trustee's **SIP** is reviewed at least annually and sets out how ESG risks including climate change are managed and monitored.

- The Trustee maintains a **risk register** to monitor and mitigate financially material risks to the Trust. On at least an annual basis, the Trustee reviews the Trust's risk register which includes reference to ESG risks (including climate change) to ensure the assessment of the likelihood and impact continue to remain appropriate for the Trust.

- The Trustee receives regular **training** on climate-related issues, including market updates. The training allows the Trustee to better understand how climate-related risks and opportunities can have an impact on the Trust.

- The Trustee reviews climate change developments to identify risks and opportunities for the Trust regularly. In particular, the Trustee reviews quarterly the ESG ratings for the funds, provided by the Investment Adviser.

- The Trustee reviews the advice and services provided by its advisers as part of the selection and monitoring process.

Strategy

- The Investment Adviser will take ESG risks and opportunities (including climate change) into account as part of any wider strategic investment advice provided to the Trustee. This includes highlighting the expected change in climate-risk exposure through proposed asset allocation changes.

- Climate scenario analysis for the Trust, focusing on the Default Investment Option will be reviewed at least every three years. A summary of the Trustee's latest climate scenario analysis has been included in this report and is the primary tool to help the Trustee understand the materiality of climate-related risks that could impact the Trust over time.

- The Trustee has set strategic objectives for its Investment Adviser which includes an expectation that ESG risks and opportunities (including climate change) are given due consideration. An assessment against these objectives is carried out by the Trustee annually.

Reporting

- Annual reports of climate-related metrics and progress against climate-related targets are reviewed by the Trustee. The Trustee may use the information to engage with the investment managers and will take the information into account in triennial investment strategy reviews.

- The Trustee produces an annual Implementation Statement which includes commentary on how the investment managers choose to vote and engage on climate-related issues (among other ESG issues), where applicable. Climate change is a key priority of the Trustee and hence voting information if provided in line with this.

- The Trustee recognises the challenges with various metrics, tools and modelling techniques used to assess climate change risks. The Trustee aims to work with its investment adviser and investment managers to improve its approach to assessing and managing risks over time.

Manager selection, monitoring and retention

- The Trustee, with advice from the Investment Adviser, will consider an investment manager's firm-wide and strategy-specific approach to managing climate-related risks and opportunities alongside other ESG factors when either appointing a new manager, in the ongoing review of a manager's appointment, or as a factor when considering the termination of a manager's appointment.

- The Investment Adviser's Manager Research Team reviews investment managers on the extent of integration of ESG factors (including climate change) into their processes. A manager's stewardship process forms part of the rating assessment. This is considered at the firm level and at the investment strategy/fund level. The ratings are presented in quarterly investment performance reports and are reviewed by the Trustee. A downgraded ESG rating may (taking into account other factors) lead to an investment manager being put 'on watch' or removed from the Trust.

- The Trustee will engage with managers where they are perceived to be lagging their peers in terms of ESG integration or active ownership, including where this relates to climate change risks.

Stewardship

- The Trustee engaged with BlackRock in relation to the Trust's Target Date Funds. The Trustee analysed the top contributors to its carbon footprint and is working with BlackRock to understand how they engage with the underlying companies as well as developing further integration.

Metrics

Key metrics for climate change related risks

This report presents climate metric analysis for the Trust's Default Investment Option, the Target Date Funds as at 31 December 2023.

Due to practical data availability, the Trust-level figures quoted in the report assume that companies not covered by the analysis are represented within the range of companies that have been covered in the analysis, the 'pro-rata approach' (i.e. it is not assumed that companies not covered have emissions of 0) in line with statutory guidance.

The Trustee recognises that the availability of accurate data for some asset classes is an industry-wide issue and will look to engage with the investment managers to improve their climate reporting. In particular, the Trustee notes that positions taken in derivatives present considerable reporting challenges around its ESG and carbon profile.

Carbon risk metrics aid the assessment of potential climate-related risks to which the Trust is exposed, and help to identify areas for further risk management, including engagement, monitoring, retention and selection.

The Trustee has agreed to report on the following metrics:

Metric type	Description
1. Absolute emissions: Total greenhouse gas emissions	Total greenhouse gas (GHG) emissions: metric tons of CO2 and equivalents (tCO2e). Calculates an investor's share of the total emissions for each company/holding. It seeks to answer what emissions the investor is responsible for. For sovereigns: Total GHG emissions: metric tons of CO2 and equivalents (tCO2e). A measure of how much emissions the investor is responsible for. It is calculated as an investor's share of the total emissions for each sovereign.
2a. Emissions intensity: Carbon Footprint	tCO2e / $million invested. Total GHG Emissions figure normalised to take account of the size of the investment made. It seeks to answer how carbon intensive the portfolio is.
2b. Alternative emissions intensity: Weighted Average Carbon Intensity ("WACI")	tCO2e / $million revenue. Average exposure (weighted by portfolio allocation) to GHG emissions normalised by revenue. It seeks to answer how carbon intensive the companies in the portfolio are. For sovereigns: tCO2e/$million PPP-Adjusted GDP. A measure of how carbon intensive the sovereign countries held in the portfolio are. Sovereign emissions are

	normalised by PPP-adjusted GDP to take into account the size of the country's economy.
3. Portfolio alignment: % of portfolio with Science Based Targets Initiative (SBTi)	A measure of how many companies in a portfolio have submitted climate transition plans that have been approved by the Science Based Targets Initiative.
4. Data quality	The percentage of the portfolio which is either verified, reported, estimated or unavailable.

Absolute emissions for corporate assets include various scopes of emissions:

- Scope 1 "direct" emissions: those from sources owned or controlled by the company (e.g. direct combustion of fuel from vehicles); and
- Scope 2 "indirect" emissions: those caused by the generation of energy (e.g. electricity) purchased by the company.
- Scope 3 "indirect" emissions: in this category go all the emissions associated, not with the company itself, but that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Scope 3 emissions are included in this analysis but we note that Scope 3 data is estimated.

For sovereign emissions, the emissions are defined as those that relate to production (scope 1) and consumption (scope 1, 2 and 3 minus exported emissions) in line with the PCAF guidance. Emissions include those from land use, land use change and forestry.

- Production emissions: those attributable to emissions produced domestically and include domestic consumption and exports; and
- Consumption emissions: these include production emissions, minus exported emissions, plus imported emissions (emissions related to energy and non-energy imports from goods or services from outside the country territory as a result of activities taken place in the country territory).

The Trustee has selected to use % of portfolio with SBTi targets as a means to measure portfolio alignment. SBTi provides a useful third party indication as to whether companies' decarbonisation targets are credible or not. In addition, a non-emissions based metric (data quality) has been introduced into the reporting this year.

The Trustee recognises the challenges with various metrics, tools and modelling techniques used to assess climate change risks. The Trustee aims to work with its Investment Adviser and investment managers to continuously improve the approach to assessing and managing risks over time as more data becomes available.

The Trustee notes that the Default Investment Option changed in June 2023 and therefore the underlying funds will have changed since last year's analysis.

Results

Figure 9: Climate-Related Metrics (31 December 2019 & 31 December 2023)

a) 31 December 2019 – Default Investment Option (Drawdown Lifestyle Option)

Fund	Value	% of Trust Assets	Absolute Emissions (tons CO2e)		Carbon Footprint (tons CO2e / $m invested)		WACI (tons CO2e / $m revenue)		SBTi Alignment
	(£m)	Total	Coverage	Scope 1 & 2 (Exc Sov)	Coverage	Scope 1 & 2 (Exc Sov)	Coverage	Scope 1 & 2 (Exc Sov)	(%)
BlackRock 10:80:10 Global Equity (hedged)	223.6	43.6	91.9	26,815	90.5	90.5	95.9	171.8	n/a
LGIM Diversified Fund	71.9	14.0	n/a	n/a	61.3	121.3	64.2	359.2	n/a
LGIM Retirement Income Multi-Asset Fund	29.6	5.8	n/a	n/a	55.5	117.1	58.3	487.0	n/a
Total	325.1	63.4	-	n/a	-	97.6	-	225.6	n/a

Source: Aviva (asset valuation) and Mercer (climate metrics) as at 31 December 2019. We note that data on sovereigns, absolute emissions and SBTi Alignment was not available at this time.
BlackRock 10:80:10 Global Equity (hedged) consists of 100% listed assets (equities and corporate bonds)
LGIM Diversified Fund consist consists of 71.4% listed assets (equities and corporate bonds) and 11.8% sovereigns.
LGIM RIMA Fund consists of 66.5% listed assets (equities and corporate bonds) and 17.1% sovereigns.
Note: Scope 1+2 only. % of fund directly analysed reflects coverage for listed assets and sovereigns used in this analysis.
The actual allocation weight is adjusted to reflect the sub asset classes within multi-asset class mandates. These percentages may not sum up to the mandate total allocation due to asset classes not included in the analysis (e.g. cash, derivatives, forwards, etc.).
Sovereign analysis has been conducted in line with LGIM's ongoing methodology: absolute emissions = CO_2e/GBP, Carbon Emissions Footprint = CO_2e/Total Capital Stock, WACI = CO2e/GDP.

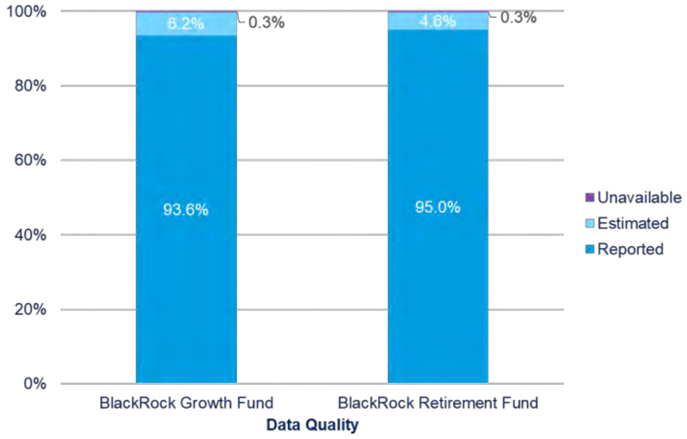
b) 31 December 2023 – Default Investment Option (Target Date Funds, from June 2023)

Scope 1 and 2 emissions - Listed Equity and Corporate Bonds

Asset Class	Mandate	WACI (tCO2e / $M sales)		Carbon Footprint (tCO2e / $M invested)		Absolute Emissions (tCO2e)		SBTi	Allocation Weight*
		Metric	Coverage	Metric	Coverage	Metric	Coverage		
Listed Equity	BlackRock Growth Fund**	**86.6**	99.6%	**38.2**	99.7%	**38,235**	99.7%	**41.5%**	65.2%
BlackRock Growth Fund		86.6	99.6%	38.2	99.7%	38,235	99.7%	41.5%	65.2%
Listed Equity	BlackRock Retirement Fund**	**72.1**	99.6%	**33.5**	99.8%	**3,114**	99.8%	**43.6%**	6.1%
Corporate Bond	BlackRock Retirement Fund**	**73.2**	98.9%	**24.9**	80.6%	**416**	80.6%	**34.9%**	1.1%
BlackRock Retirement Fund		72.3	99.5%	32.4	96.8%	3,554	96.8%	42.3%	7.1%
Default BlackRock Target Date Fund		85.2	99.6%	37.6	99.4%	41,789	99.4%	41.5%	72.4%

Source: MSCI and Mercer. All data as at 31 December 2023. Allocation weights represent the actual asset allocation for that mandate or, for Mixed Mandates, the actual allocation to Listed Equity or Corporate Bonds within the mixed mandate.
**Allocation as a percentage of total Fund AUM. **Percentages considering the respective asset class allocation. For BlackRock Growth Fund these represent a c.98.9% fund allocation to Equity portion. The remainder of c.1.1% of the funds is allocated to Corporate Bonds and Sovereign Bonds, which is not included in the analysis due to low allocation. For BlackRock Retirement Fund these represent a c.38.4% fund allocation to Equity portion, c.6.9% allocation to Corporate Bonds and c.51.1% allocation to Sovereign Bonds. The remainder of the funds is allocated to asset classes not covered by the analysis.*

Scope 1 and 2 emissions – Listed Equity and Corporate Bonds



Source: MSCI and Mercer. Data as at 31 December 2023. Data Quality is presented for: BlackRock Growth Fund and BlackRock Retirement Fund (Equity Portion c.38.4% and Corporate Bond Portion c.6.9%).
Please note that:
1) The 0.3% in BlackRock Growth Fund and the BlackRock Retirement Fund in the chart refers to Unavailable data.
2) Scope 3 data quality is 100% estimated.

Production Emissions - Sovereign Bonds

Asset Class	Mandate	Sovereign Carbon Intensity (tCO2e / $M PPP-Adjusted GDP)		Absolute Emissions (tCO2e)		Allocation Weight*
		Metric	Coverage	Metric	Coverage	
Sovereign Bonds	**BlackRock Retirement Fund****	**149.7**	94.2%	**18,523**	94.2%	8.1%
Total Sovereign Bonds		**149.7**	**94.2%**	**18,523**	**94.2%**	**8.1%**

*Source: MSCI and Mercer. All data as at 31 December 2023. Allocation weights represent the actual asset allocation for that mandate or, for Mixed Mandates, the actual allocation to Sovereign Bonds within the mixed mandate. Production Emission comprise of Scope 1 Emissions.*Allocation as a percentage of total Fund AUM. **Percentages considering the respective asset class allocation. For BlackRock Growth Fund these represent a c.98.9% fund allocation to Equity portion. The remainder of c.1.1% of the funds is allocated to Corporate Bonds and Sovereign Bonds, which is not included in the analysis due to low allocation. For BlackRock Retirement Fund these represent a c.38.4% fund allocation to Equity portion, c.6.9% allocation to Corporate Bonds and c.51.1% allocation to Sovereign Bonds. The remainder of the funds is allocated to asset classes not covered by the analysis.*

Consumption Emissions - Sovereign Bonds

Asset Class	Mandate	Sovereign Carbon Intensity (tCO2e / $M PPP-Adjusted GDP)		Absolute Emissions (tCO2e)		Allocation Weight*
		Metric	Coverage	Metric	Coverage	
Sovereign Bonds	**BlackRock Retirement Fund****	**194.3**	94.2%	**24,032**	94.2%	8.1%
Total Sovereign Bonds		**149.7**	**194.3**	**94.2%**	**24,032**	**94.2%**

*Source: MSCI and Mercer. All data as at 31 December 2023. Allocation weights represent the actual asset allocation for that mandate or, for Mixed Mandates, the actual allocation to Sovereign Bonds within the mixed mandate. Consumption Emissions comprise of Scope 1, 2 & 3 Emissions..*Allocation as a percentage of total Fund AUM. **Percentages considering the respective asset class allocation. For BlackRock Growth Fund these represent a c.98.9% fund allocation to Equity portion. The remainder of c.1.1% of the funds is allocated to Corporate Bonds and Sovereign Bonds, which is not included in the analysis due to low allocation. For BlackRock Retirement Fund these represent a c.38.4% fund allocation to Equity portion, c.6.9% allocation to Corporate Bonds and c.51.1% allocation to Sovereign Bonds. The remainder of the funds is allocated to asset classes not covered by the analysis.*

Scope 3 emissions – Listed Equity and Corporate Bonds

Asset Class	Mandate	WACI (tCO2e / $M revenue)				Carbon Footprint (tCO2e / $M invested)				Absolute Emissions (tCO2e)				Allocation Weight*
		Upstream		Downstream		Upstream		Downstream		Upstream		Downstream		
		Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage	
Listed Equity	BlackRock Growth Fund**	**242.0**	99.7%	**321.8**	99.7%	**100.3**	99.5%	**174.2**	99.5%	**95,194**	99.7%	**166,031**	99.7%	65.2%
BlackRock Growth Fund		**242.0**	**99.7%**	**321.8**	**99.7%**	**100.3**	**99.5%**	**174.2**	**99.5%**	**95,194**	**99.7%**	**166,031**	**99.7%**	**65.2%**
Listed Equity	BlackRock Retirement Fund**	**245.0**	99.8%	**326.9**	99.8%	**106.6**	99.5%	**181.9**	99.5%	**9,399**	99.7%	**15,981**	99.7%	6.1%
Corporate Bonds	BlackRock Retirement Fund**	**202.3**	98.3%	**275.8**	98.3%	**81.6**	80.4%	**97.4**	80.4%	**1,331**	80.5%	**1,650**	80.5%	1.1%
BlackRock Retirement Fund		**238.6**	**99.5%**	**319.2**	**99.5%**	**103.4**	**96.6%**	**171.2**	**96.6%**	**10,791**	**96.8%**	**17,839**	**96.8%**	**7.1%**
Default BlackRock Target Date Fund		**241.7**	**99.7%**	**321.5**	**99.7%**	**100.6**	**99.2%**	**173.9**	**99.2%**	**105,986**	**99.4%**	**183,870**	**99.4%**	**72.4%**

*Source: MSCI and Mercer. All data as at 31 December 2023. Allocation weights represent the actual asset allocation for that mandate or, for Mixed Mandates, the actual allocation to Listed Equity or Corporate Bonds within the mixed mandate.*Allocation as a percentage of total Fund AUM. **Percentages considering the respective asset class allocation. For BlackRock Growth Fund these represent a c.98.9% fund allocation to Equity portion. The remainder of c.1.1% of the funds is allocated to Corporate Bonds and Sovereign Bonds, which is not included in the analysis due to low allocation. For BlackRock Retirement Fund these represent a c.38.4% fund allocation to Equity portion, c.6.9% allocation to Corporate Bonds and c.51.1% allocation to Sovereign Bonds. The remainder of the funds is allocated to asset classes not covered by the analysis. We note that Scope 3 coverage is based on estimated data.*

Analysis

The tables above show the funds that are used within the Default Investment Option and are within the scope of this TCFD report.

The Trustee notes that the data from 2019 is more limited than 2023 due to data availability at the time. In addition, the Default Investment Option changed in June 2023 and therefore the underlying funds will have changed since last year's analysis. This makes comparisons between the two periods at an underlying level more challenging. Going forwards, comparisons will be less challenging due to ongoing analysis of the new Default Investment Option.

As at 31 December 2019, the Default Investment Option was the Drawdown Lifestyle Option. The BlackRock 10:80:10 Global Equity (hedged) held the largest allocation of DC Section assets and it is the largest contributor to total absolute emissions.

As at 31 December 2023, the Default Investment Option was the Target Date Funds. The BlackRock Growth Fund held the largest allocation of DC Section assets and it is the largest contributor to total absolute emissions (for Scope 1, 2 and 3 emissions) and the largest contributor to carbon footprint and WACI (for Scope 1 and 2 emissions).

Targets

The Trustee will keep the following target under review to ensure it remains appropriate and relevant, taking into account any changes to the investment strategy of the Trust, the availability of data and wider market developments.

The Trustee has set a target to reduce greenhouse gas emissions by 50% or more by 2030, as measured by WACI with a 31 December 2019 baseline – and fully (i.e. to net zero) by 2050. This is for all listed equity and corporate bond mandates within the Trust's default investment arrangement and includes Scope 1 and 2 emissions only.

The Trustee will review its targets at least annually and include Scope 3 emissions, when the available data has improved and there are suitable methodologies. The Trustee will exclude sovereigns from the target at this stage due to the limited impact the Trustee can have.

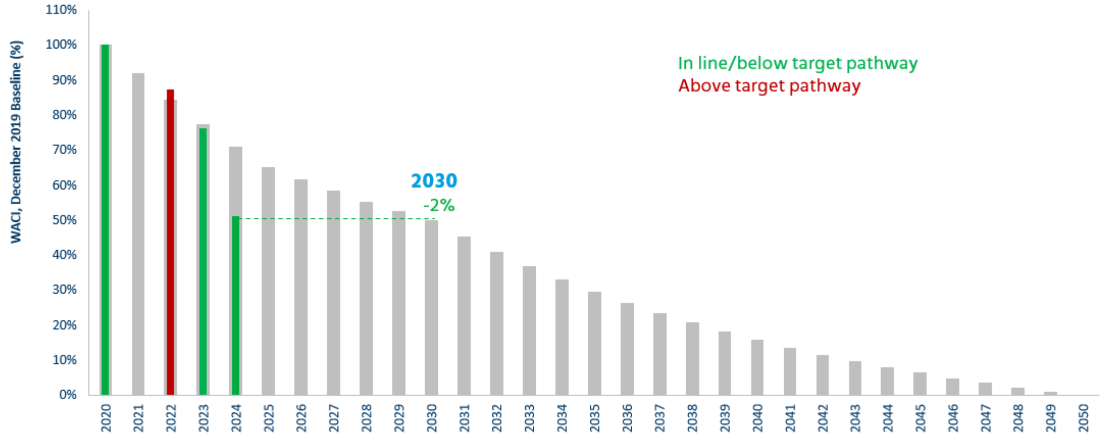
The Trustee notes that the assets covered by the target have changed following the implementation of the strategy changes. The Trustee reviewed the appropriateness of the target following the change to the Default Investment Option to the Target Date Funds – and believes that the current target remains appropriate noting that there will be changes in the decarbonisation curve as a result of these changes. The Trustee notes that the target now covers c.82% of Trust assets (previously c.51%) and will seek to engage to keep improving this number..

A summary of the progress to date against the target is shown in the table below for the four year-period; 31 December 2019 to 31 December 2023.

It should be noted that the target applies for the assets where WACI data is reportable and that any improvement in the consistency, comparability and quality of climate related data is likely to have an impact on the Trust's climate metrics.

Figure 10: Progress to date of target

WACI (tCO2e/$m revenue)	*Baseline* 31 December 2019	31 December 2022	*Current* 31 December 2023	*Change* (2019 – 2023)
Listed Equities and Corporate Bonds (Default Investment)	167.0	127.4	85.2	-49%



A wide range of factors will affect whether the Trustee achieves its target and the Trustee has varying degrees of control over these factors. For example, the quality and availability of data means that the quoted greenhouse gas emissions are likely to change.

We note that the Trustee has made significant progress to date in regards to its target. The fall of c.49% in greenhouse gas emissions (based on WACI) over the past four years is driven by a number of factors including:

- A reduction in year-on-year WACI based on the previous default strategy as the underlying funds became less carbon intensive over time
- A change in the default investment strategy to the Target Date Funds which are significantly less carbon intensive on a like-for-like basis across asset classes.
- We also note that others factors could be driving the reduction (e.g. high inflation) and hence the Trustee will continue to monitor progress against the target in light of other economic factors.

Ultimately achieving the desired level of decarbonisation will depend on global economies overall successfully decarbonising. Notwithstanding that there are factors outside of the Trustee's control, the Trustee's intention is to meet its targets and it engages with its investment managers to make clear its requirements.

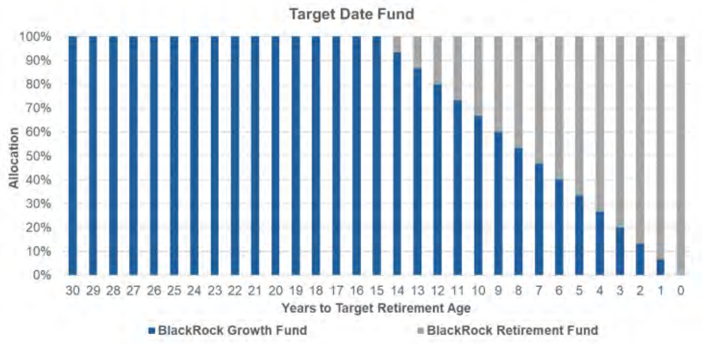
Actions and next steps

The Trustee, with support from Mercer, will continue to work with the underlying investment managers to determine an appropriate decarbonisation plan that covers the following principles:

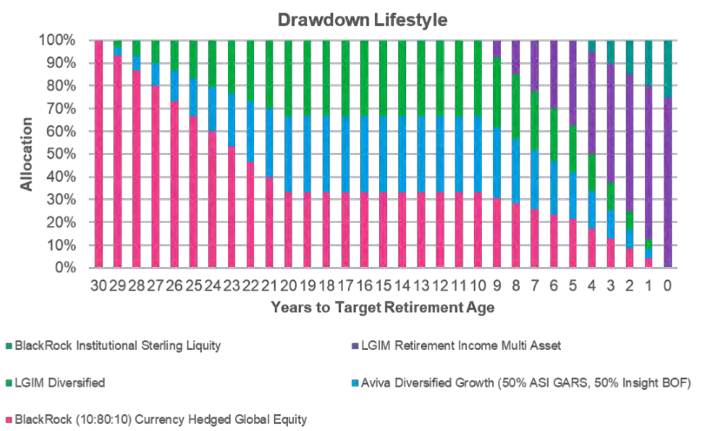
- Stewardship: Work with investment managers to target the top contributors to WACI including companies in the Utilities, Materials and Energy sectors.
- Understand drivers for change over time through attribution analysis.
- Discuss with investment managers what engagement they are having with underlying companies.

Appendix 1: Default Investment Option, Fund Allocations & Strategic Asset Allocation

Current Default Investment Option: Target Date Fund (from June 2023)



Previous Default Investment Option: Drawdown Lifestyle (up to June 2023)



Fund Allocations – 31 March 2024

	Default component funds

	Asset Value (£M)	% of Trust assets
BlackRock Target Date Funds[1]	1,085.2	81.6%
BlackRock (10:80:10) Currency Hedged Global Equity	92.2	6.9%
BlackRock Institutional Sterling Liquidity	18.3	1.4%
Aviva Diversified Growth (50:50 LGIM Diversified/Insight BOF)[2]	16.4	1.2%
LGIM Diversified	4.2	0.3%
LGIM Retirement Income Multi-Asset	5.4	0.4%
LGIM Future World Annuity Aware	6.7	0.5%
BlackRock UK Equity Index	23.1	1.7%
BlackRock US Equity Index	16.9	1.3%
BlackRock European Equity Index	3.7	0.3%
BlackRock Japanese Equity Index	1.9	0.1%
BlackRock Pacific Rim Equity Index	1.5	0.1%
BlackRock Emerging Markets Equity	2.2	0.2%
HSBC Islamic Global Equity Index	34.8	2.6%
LGIM Ethical Global Equity Index	10.5	0.8%
BlackRock Over 5 Year Index-Linked Gilt Index	5.7	0.4%
BlackRock Over 15 Year Gilt Index	0.3	0.0%
BlackRock Corporate Bond All Stocks Index	0.6	0.0%
LGIM Future World Global Equity	1.1	0.1%
TOTAL	**1,330.6**	**100.0%**

Notes

[1] As at 5 April 2023, the valuation of the Trust's assets was less than £1bn. As at 5 April 2024, the valuation of the Trust's assets was over £1bn.

[2] Following the closure of the abrdn Global Absolute Returns (GARS) Fund, the Trustee selected the LGIM Diversified Fund as a suitable replacement following advice from their investment adviser; this change was implemented in November 2023.

Strategic Asset Allocation – 31 December 2023

Fund	Modelling Asset Class	BlackRock Growth	BlackRock Retirement
ACS World ex UK Equity Tracker Fund	MSCI World Equity	11.0%	-
ACS World ESG Equity Tracker Fund	MSCI ACWI ESG	32.9%	32.0%
ACS World ESG Screened Equity Tracker Fund		32.9%	-
ACS World Small Cap ESG Screened Equity Tracker Fund		9.6%	3.2%
iShares Emerging Markets Index Fund	Emerging Markets Equity	8.1%	2.6%
ACS UK Equity Tracker Fund	UK Equity	0.5%	-
iShares Overseas Government Bond Index Fund	Global Sovereign Bonds	-	20.2%
iShares UK Gilts All Stocks Index Fund	UK Sovereign Bonds	-	12.6%
iShares Up to 10 Years Gilts Index Fund		-	3.7%
iShares Up to 10 Years Index Linked Gilt Index Fund		-	15.5%
iShares ESG Overseas Corporate Bond Index Fund	Global Investment Grade Credit	-	4.3%
iShares Sterling Corporate Bond Index Fund	UK Investment Grade Credit	-	3.5%
iShares Enviroment & Low Carbon Tilt Real Estate Index Fund	Global Real Estate	5.1%	1.0%
iShares Diversified Commodity Swap UCITS ETF	Cash	-	1.5%

Source: SAA as at 31 December 2023

Appendix 2: Modelling assumptions

Analysis is shown as at 31 December 2023. The assumptions are based on Mercer's Stochastic scenarios. Our scenarios do not assume any differences between geographies regarding Developed Equity returns.

Climate scenario modelling is a complex process and the Trustee is aware of the modelling limitations. In particular:

- The further into the future you go, the less reliable any quantitative modelling will be.
- Looking at average asset class returns over multi-decade timeframes leads to invariably small impacts. The results are potentially significantly underestimated.
- There is a reasonable likelihood that physical impacts are grossly underestimated. Feedback loops or 'tipping points', like permafrost melting, are challenging to model particularly around the timing of such an event and the speed at which it could accelerate.
- Financial stability and insurance 'breakdown' is not modelled. A systemic failure may be caused by either an 'uninsurable' 4ºC physical environment, or due to the scale of mitigation and adaption required to avoid material warming of the planet.
- Most adaptation costs and social factors are not priced into the models. These include population health and climate-related migration.

Mercer's UK Capital Market Assumptions:

Asset Class	31/12/2023		
	5 Years	20 Years	40 Years
MSCI World Equity	8.6%	9.6%	8.4%
UK Equity	8.3%	9.7%	9.6%
Emerging Markets Equity	10.7%	11.6%	10.3%
MSCI ACWI ESG Equity	8.6%	9.6%	8.4%
UK Investment Grade Credit	4.5%	5.9%	5.8%
Global Investment Grade Credit	4.4%	5.4%	4.2%
Global Sovereign Bonds	3.2%	4.1%	3.5%
UK Sovereign Bonds	3.5%	4.9%	4.8%
Cash	4.0%	4.9%	3.7%
Global Real Estate	7.2%	8.1%	6.9%

Modelling Assumptions – Cumulative Impacts (relative to baseline) for:

	Failed Transition			Limited Transition			Rapid Transition			Orderly Transition		
Asset Class	31/12/2023											
	5 Years	20 Years	40 Years	5 Years	20 Years	40 Years	5 Years	20 Years	40 Years	5 Years	20 Years	40 Years
MSCI World Equity	-2.1%	-45.8%	-57.1%	-0.6%	-18.4%	-27.5%	-8.7%	-1.4%	7.1%	-0.9%	1.5%	-5.6%
UK Equity	-1.9%	-35.7%	-46.3%	-0.2%	-14.3%	-21.0%	-7.8%	-1.8%	4.2%	-0.8%	0.8%	-4.2%
Emerging Markets Equity	-2.1%	-38.6%	-52.7%	-0.6%	-19.9%	-29.6%	-9.0%	-3.4%	5.0%	0.2%	1.8%	-5.4%
MSCI ACWI ESG Equity	-2.7%	-45.7%	-57.7%	-1.0%	-18.9%	-28.1%	-5.6%	2.4%	11.5%	-0.8%	1.8%	-4.9%
UK Investment Grade Credit	-0.3%	-0.2%	-1.2%	0.0%	0.1%	0.4%	-1.6%	-2.0%	-1.5%	0.0%	0.3%	0.2%
Global Investment Grade Credit	-0.2%	-0.1%	-1.8%	-0.1%	-0.3%	-1.2%	-1.9%	-1.7%	-1.6%	0.0%	0.5%	-0.9%
Global Sovereign Bonds	0.1%	-0.1%	-1.7%	0.1%	0.0%	-1.1%	-0.5%	0.3%	0.8%	0.0%	0.3%	-1.2%
UK Sovereign Bonds	0.1%	0.2%	-0.1%	0.1%	-0.1%	0.7%	-0.4%	-0.1%	0.4%	0.0%	0.2%	0.2%
Cash	0.1%	-0.4%	-3.1%	-0.2%	-0.2%	-1.5%	-0.2%	0.6%	1.1%	0.0%	0.2%	-1.7%
Global Real Estate	-3.9%	-38.8%	-50.6%	-1.9%	-15.9%	-23.5%	-0.6%	5.5%	13.6%	-0.6%	1.6%	-2.6%

Modelling Assumption - Narratives

Investment and Funding Climate Scenario Analysis Assumptions	Rapid Transition	Orderly Transition	Failed Transition
Summary	Sudden divestments in 2025 to align portfolios to the Paris Agreement goals have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock.	Political and social organizations act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C above pre-industrial levels by 2100.	The world fails to meet the Paris Agreement goals and global warming reaches 4.3°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events.
Cumulative emissions to 2100	416 GtCO2e	810 GtCO2e	5,127 GtCO2e
Key policy and technology assumptions	An ambitious policy regime is pursued to encourage greater decarbonisation of the electricity sector and to reduce emissions across all sectors of the economy. Higher carbon prices, larger investment in energy efficiency and faster phase out of coal-fired power generation under a 'Rapid' transition.		Existing policy regimes are continued with the same level of ambition.
Financial climate modelling	Pricing in of transition and physical risks of the coming 40 years occurs within one year in 2025. As a result of this aggressive market correction, a confidence shock to the financial system takes place in the same year.	Pricing in of transition and physical risks until 2050 takes place over the first 4 years.	Physical risks are priced in two different periods: 2026-2030 (risks of first 40 years) and 2036-2040 (risks of 40-80 years).
Physical risk impact on GDP	Physical risks are regionally differentiated, consider variation in expected temperature increase per region and increase dramatically with rising average global temperature. Physical risks are built up from: Gradual physical impacts associated with rising temperature (agricultural, labour, and industrial productivity losses) Economic impacts from climate-related extreme weather events Current modelling does not capture environmental tipping points or knock-on effects (e.g., migration and conflict).		
Physical risk impact on inflation	Gradual physical impact (supply shocks) on inflation included through damages to agriculture and change in food prices. Total impact on a Global CPI Index is +2% in 2100.	No explicit modelling of physical risk impact on inflation (supply-side shocks). Impact on inflation follows historical relationship between GDP and CPI.	Severe gradual physical impact (supply shocks) on inflation included through damages to agriculture and change in food prices. Total impact on a Global CPI Index is +15% in 2100.

Source: Mercer and Ortec. Climate scenarios as at December 2023.

Appendix 3: Climate Change Glossary

Carbon footprint: The amount of carbon dioxide (or other greenhouse gasses) released into the atmosphere as a result of the activities of a particular individual, organization or community. Carbon footprint is calculated for each company as (Scope 1 and 2 carbon emissions / $m investments). See also Scope 1, 2, 3 emissions and Weighted Average Carbon Intensity (WACI).

Carbon intensity: The amount of emissions of carbon dioxide (or other greenhouse gasses) released per unit of another variable such as revenue, gross domestic product (GDP), per $1million invested etc. See also Weighted Average Carbon Intensity (WACI).

Carbon price: The price for avoided or released carbon dioxide (CO2) or CO2-equivalent emissions. This may refer to the rate of a carbon tax, or the price of emission permits. In many models that are used to assess the economic costs of mitigation, carbon prices are used as a proxy to represent the level of effort in mitigation policies.

Carbon neutrality: Achieved by offsetting emissions by paying for credits (usually certified via new forestry equivalents that provide carbon removal). Carbon neutrality is similar to net zero targeting – the latter requires actual emissions reductions to meet targets though (rather than purchasing offsets). See also Net Zero CO2 emissions.

Consumption emissions: Mapped to Scope 1 + Scope 2 + Scope 3 – Exported emissions

Decarbonisation: The process by which countries, individuals or other entities aim to achieve zero fossil carbon existence. Typically refers to a reduction of the carbon emissions associated with electricity, industry and transport.

Global warming: The estimated increase in global mean surface temperature expressed relative to pre-industrial levels unless otherwise specified. See also Pre-industrial.

Greenhouse gases: Gases in the planet's atmosphere which trap heat. They let sunlight pass through the atmosphere but prevent heat from leaving the atmosphere. Greenhouse gases include: Carbon Dioxide (CO2), Methane (CH4), Nitrous Oxide (N2O), Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs), Sulphur Hexafluoride (SF6), Nitrogen Trifluoride (NF3).

Inevitable policy response: A scenario that expects an acceleration of climate-related policy announcements in 2023−2025, which has been supported by the Principles for Responsible Investment (PRI).

Mitigation (of climate change): A human intervention to reduce emissions or enhance the sinks of greenhouse gases.

Mitigation strategies: In climate policy, mitigation strategies are technologies, processes or practices that contribute to mitigation, for example, renewable energy (RE) technologies, waste minimization processes and public transport commuting practices.

Net zero CO2 emissions: Net zero carbon dioxide (CO2) emissions are achieved when CO2 emissions are balanced globally by CO2 removals over a specified period. The term “net zero” is also typically associated with the 2050 date or earlier, as this is aligned with the scientific recommendations to achieve a 1.5°C scenario. See also Carbon neutrality (which differs slightly).

Paris Agreement: The Paris Agreement under the United Nations Framework Convention on Climate Change (UNFCCC) was adopted on December 2015 in Paris, at the 21st session of the Conference of the Parties (COP) to the UNFCCC. The agreement, adopted by 196 Parties to the UNFCCC, entered into force on 4 November 2016 and as of May 2018 had 195 Signatories and was ratified by 177 Parties. One of the goals of the Paris Agreement is “Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels”, recognising that this would significantly reduce the risks and impacts of climate change. Additionally, the Agreement aims to strengthen the ability of countries to deal with the impacts of climate change.

Physical risks: Dangers or perils related to the physical or natural environment that pose a threat to physical assets e.g. buildings, equipment and people. Mercer’s scenario analysis grouped these into the impact of natural catastrophes (for instance sea level rise, flooding, wildfires, and hurricanes) and resource availability (particularly water). See also Transition risks.

Pre-industrial: The multi-century period prior to the onset of large-scale industrial activity around 1750. The reference period 1850–1900 is used to approximate pre-industrial global mean surface temperature.

Principles for Responsible Investment (PRI): Non-profit organisation which encourages investors to use responsible investment to enhance returns and better manage risks. It engages with global policymakers and is supported by, not but part of, the United Nations. It has six Principles for Responsible Investment that offer a menu of possible actions for incorporating ESG issues into investment practice.

Production emissions: mapped to Scope 1 emissions. The definition of Production emissions follows the territorial emissions approach adopted by the United Nations Framework Convention on Climate Change (UNFCCC) for annual national inventories. Production emissions are presented including land use, land-use change and forestry (LULUCF) emissions.

Resilience: The capacity of social, economic and environmental systems to cope with a hazardous event or trend or disturbance, responding or reorganising in ways that maintain their essential function, identity and structure while also maintaining the capacity for adaptation, learning and transformation.

Scope 1, 2, 3 emissions: Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Stranded assets: Assets exposed to devaluations or conversion to "liabilities" because of unanticipated changes in their initially expected revenues due to innovations and/or evolutions of the business context, including changes in public regulations at the domestic and international levels.

Transition risks: Risks from policy changes, reputational impacts and shifts in market preferences, norms and technology as the economy moves to a low carbon approach. See also Physical risks.

Weighted average carbon intensity (WACI): The carbon intensity of a portfolio, weighted by the proportion of each constituent in the portfolio. Carbon intensity is calculated for each company as (Scope 1 and 2 carbon emissions / $m revenue). See also Carbon footprint.

Appendix 4: Important notices from data providers

Mercer
Past performance does not guarantee future results. Information contained herein has been obtained from a range of third-party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party. The information does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend. This does not offer any advice regarding current or future applicable laws or regulations. Mercer does not provide legal advice. You should contact your legal adviser before making any decisions with legal and/or regulatory implications.
Mercer Limited is authorised and regulated by the Financial Conduct Authority. Registered in England and Wales No. 984275. Registered Office: 1 Tower Place West, Tower Place, London EC3R 5BU.

MSCI
In addition, some of the underlying data has been provided by MSCI which is ©2024 MSCI ESG Research LLC. Reproduced by permission.
Although information providers, including without limitation, MSCI Inc., MSCI Inc., MSCI ESG Research LLC, or their affiliates (“MSCI”), or information providers (together the “MSCI Parties”), obtain information from sources they consider reliable, none of the MSCI Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the MSCI Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the MSCI Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Ortec Finance
Mercer has entered into a global agreement with Ortec Finance regarding the use of their climate scenarios by Mercer’s clients.
Climate scenarios have been prepared with care using the best available data. The scenarios may contain information provided by third parties or derived from third party data and/or data that may have been categorized or otherwise reported based upon client direction. The scenarios are for information purposes and are not to be construed as investment advice. Ortec Finance assumes no responsibility for the accuracy, timeliness or completeness of any such information. Ortec Finance accepts no liability for the consequences of investment decisions made in relation on information in this report. The scenarios are copyright of Ortec Finance. You may not, except with our express written permission, distribute or commercially exploit the content. All Ortec Finance services and activities are governed by its general terms and conditions which may be consulted on www.ortecfinance.com and shall be forwarded free of charge upon request.