

31 March 2022

Dear Member

Rolls-Royce UK Pension Fund (the Fund): An important update for you

As a Trustee Board we always try to communicate important matters with you in a timely way, and as a Board we believe that we're concerned with the same things as you, our members. We're writing to you now to update you on two important issues – our response to the conflict in Ukraine, and our actions in respect of sustainable investments.

The situation in Ukraine

The Trustee Board has been shocked by the terrible events in Ukraine. We stand with the people of Ukraine and have worked quickly to review our investment holdings. At the outset of the crisis, we held limited direct holdings of Russian securities amounting to less than 0.02% of total assets. The Trustee Board has now disinvested from these assets.

Despite these difficult times, the Fund maintains a very low risk investment strategy and funding levels are still close to 110%.

Sustainable investing

The Trustee has been considering climate change and other environmental issues in its investment strategy for many years. We are writing to you now to let you know about some important new decisions we have recently taken.

At our March Board meeting, we agreed to set a net zero carbon emissions target for our investment portfolio. We have set a target of being net zero by 2050 or earlier. We have also set a shorter-term target of a 50% or more reduction in carbon emissions between 2021 and 2030. We believe these targets are achievable, supported by scientific consensus and aligned with the UK Government's targets, as well as being consistent with the targets set by our sponsoring employer, Rolls-Royce plc. While the Trustee Board is independent of the sponsoring employer, we have a strong and collaborative working relationship and the shared goals of providing security for our members in a sustainable way.

The Trustee Board is taking specific actions with its appointed investment managers to work towards achieving these targets. Nonetheless, achieving the targets in the long term will require the global economy to decarbonise and this is especially relevant since the Fund's low risk investment strategy, with significant UK Government bond exposure, means reaching the Fund's target is highly reliant on the UK government meeting its own net zero goals.

We will be producing our annual newsletter in the autumn as usual, and we'll put more detail around the sustainability targets we have set in there.

What is the Trustee's responsibility on sustainable investing?

As Trustees we have a legal responsibility to invest the assets in the best way possible for all our members. This is one of our key fiduciary duties as a Trustee. There is no one right answer and different trustee boards

will make different decisions. Within this decision-making process we take financially important ESG (environmental, social and governance) factors into account as well. This letter has focussed on the “E” in ESG, but we are also constantly reviewing the “S” and the “G” as well.

We disclose our approach to ESG in publicly available documents such as the annual report and accounts; the statement of investment principles; and our ‘TCFD’ report which explains our approach to climate change issues and what ‘net zero’ means for us. All of these documents are available for you to view by logging into your member account at www.rolls-roycepensions.com and heading to the Scheme Information page.

Sustainable investing is a rapidly evolving area. We keep our investment strategy under review, and we will revisit our net zero and other targets regularly to see if they should be changed or updated.

Communicating with you in the future

To be consistent with our net zero targets, we need to change the way we communicate with you. For members who are still in employment with Rolls-Royce, we’re using email updates as much as possible and we have already reduced the amount of paper we issue – in 2021 for the first time our annual newsletter was only available on-line. Our 2020 newsletter used up around 2,200 kilograms of paper and cost almost £38,000 to print and post.

We’ve sent this letter in paper form because we want to ensure we reach all of you – that means we’re issuing 38,800 letters, using up 450 kilograms of paper at a total cost of almost £21,000.

This is the last paper mailing we plan to issue to all members – instead we will publish all our future news on our pension website, or by sending emails, unless you let us know that you wish to continue to receive paper copies. We understand that not all our members have good access to digital media and emails, so **if you would like to continue to receive paper-based updates, please write to us at the above address to let us know.**

If you are happy to receive emails but have not provided your email address to us when registering for access to our member website, please head to www.rolls-roycepensions.com and click on “*I’m a final salary member/pensioner*”. You can then choose ‘*register*’ to create your account or ‘*login*’ to access your existing account and check that your email address is up to date.

If you need help registering or logging into the member website, our YouTube channel has videos that walk you through the process at <https://www.youtube.com/rolls-roycepensions>

Seeking your feedback

We’ll be contacting you again soon by email to seek your feedback on sustainability and climate issues. We’ll email you a link to the feedback form shortly, so if you haven’t provided your email address yet, please register for a member account at www.rolls-roycepensions.com

Yours sincerely



Liz Airey
Chairman
Rolls-Royce UK Pension Fund Trustee Limited