RR Donnelley UK Pension Scheme

Statement of Investment Principles – September 2023

1. Introduction

The Trustee of the RR Donnelley UK Pension Scheme ("the Scheme") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. The Trustee's investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this Statement takes full regard. A separate document, the Statement of Investment Arrangements ("SIA") detailing the specifics of the Scheme's investment arrangements is available upon request.

This Statement replaces the previous statement dated December 2021.

In preparing this Statement the Trustee acknowledges the requirement to consult with RR Donnelley UK Directory Limited as the Sponsoring Company, to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements.

2. Process For Choosing Investments

The Trustee has appointed Mercer to act as discretionary investment manager to implement a delegated Cashflow Driven Investment ("CDI") strategy whereby the Scheme invests in such a way that the expected cashflows (or income) should broadly match a proportion of the Scheme's expected liability cashflow profile, whilst still targeting a return in excess of gilts (noting that the intention is to match as high a proportion as possible, subject to the level of expected return required and associated risks).

In this capacity, and subject to agreed restrictions, the Scheme's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE")) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme's assets on a day to day basis. All of the Scheme's assets are invested with Mercer with the exception of a holding in the Long Lease Property Fund with Aberdeen Standard Investments, as part of the CDI strategy. This document refers to all sub-investment managers appointed by Mercer as part of the CDI strategy throughout the remainder of this document.

In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. 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).

3. Investment Policy and Risk

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee acting on advice from its investment consultant, and is driven by its investment objectives as set out below. The remaining elements of policy are part of the day to day management of the assets which is delegated to professional investment managers and described in the SIA. The format of this SIA is designed to provide a logical statement rather than an ordered response to the Act. The Trustee believes, however, that it incorporates a response to all the requirements of the Act.

4. Investment Objectives

The Trustee's objectives are to invest the Scheme's assets in the best interests of the members and beneficiaries and pay due regard to the interest of the Sponsoring Company on the size and incidence of contribution payments, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustee has agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed.

The Trustee's primary objectives are as follows:

- To meet its obligation to the beneficiaries of the Scheme.
- To closely align the sensitivity of the Scheme's assets and liabilities to changes in interest rate and inflation expectations by hedging approximately 100% of the sensitivity of the Scheme's liabilities on the agreed basis for funding level and liability hedging monitoring purposes.
- To achieve an asset return above the return from gilts over the long term, whilst recognising the need to balance risk control and return generation.
- To ensure consistency between the Scheme's investment strategy and the return assumptions used by the Scheme actuary.
- To pay due regard to the Sponsoring Company's interests in the size and incidence of employer contribution payments.
- To aim to match a large proportion of the projected member benefits by investing in income generating assets.

The objectives set out above and the risks and other factors referenced in section 5 of this Statement are those that the Trustee determines to be financially material considerations. Non-financial considerations are discussed in section 11.

5. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management, over the Scheme's anticipated lifetime, is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities.
- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more volatility in the Scheme's funding position.

- The Trustee has delegated asset allocation to Mercer (the external property holdings are taken into account as part of setting the overall allocation). To control the risk outlined above, the Trustee, having taken advice, set the asset allocation outlined in section 6 such that the expected return on the overall portfolio is sufficient to meet the objectives outlined in section 4.
- The Trustee recognises that even if the Scheme's assets are invested in hedge management assets there may still be a small mismatch between the interest rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities. The Scheme's investment strategy targets an interest rate and inflation hedge ratio of 100% but the Trustee recognises that the actual ratio may drift slightly from that target from time to time. The Trustee also recognises that while the strategy is designed to approximately match expected cashflow requirements, changes in demographic assumptions, membership profile or other factors could lead to a mismatch between the investment strategy and required cashflow.
- The Trustee invests in leveraged Liability Driven Investment ("LDI") funds to maintain the liability hedging without impacting on expected return but recognises that the use of leveraged LDI brings with it additional liquidity risks and requirements which can change over short periods of time with interest rate changes. The Trustee and Mercer review the Hedge Management portfolio as part of the regular reporting and strategy reviews, including consideration of the market stress buffer and governance.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Investment exposure is obtained via pooled vehicles.
- To help the Trustee ensure the continuing suitability of the current investments, Mercer provides the Trustee with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.
- By investing in the Mercer Funds, the Trustee does not make investment in securities that are not traded on regulated markets. However, should the Scheme's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustee would ensure that the assets of the Scheme are predominantly invested on regulated markets.
- The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers. The Scheme's assets are invested through pooled funds and the selection of custodians is undertaken by Mercer and the external property manager for these funds, therefore the appointment of an independent custodian is not required.
- The Trustee recognises the illiquidity risk present in the Scheme's investment strategy, specifically the Secured Finance Fund (and the Aberdeen Standard Investment Long Lease Property Fund to a lesser extent). The Trustee views the illiquidity premium and expected return to be sufficient to justify the illiquidity and such an investment is expected to be in the minority of the Scheme's assets.
- The Trustee recognises that the Scheme's investments may also be exposed to currency risk, although notes that currency risk is generally hedged with the exception of where an investment manager (for example, within the Multi-Asset Credit Fund) takes an active position.
- The Trustee recognises that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 10 sets out how these risks are managed.

Should there be a material change in the Scheme's circumstances, the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular, whether the current CDI strategy remains appropriate.

In addition, the investment strategy will be reviewed approximately annually.

6. Investment Strategy

The Trustee, with advice from the Scheme's Investment Consultant and Scheme's Actuary, reviewed the Scheme's investment strategy in consultation with the Company during 2018. This review considered the Trustee's investment objectives, their ability and willingness to take risk ("the risk budget") and how this risk budget should be allocated and implemented.

Following the review, the key decision was to adopt a CDI strategy. At inception, it was agreed that the target funding basis would be gilts plus 50 bps p.a. plus 20% of a change credit spread, according to a suitable index chosen by Mercer. At the most recent review carried out in August 2023, it was agreed that the discount rate was gilts plus 59 bps p.a., allowing for 25% of a change in credit spread (according to a suitable index chosen by Mercer) going forward.

The updated target asset allocation on implementation of the 2023 investment strategy review and recalibration should be as set out as follows:

Asset Class	Initial Target Allocation (%)	Implementation Range (%)
Hedge Management	35.0	+/-5.0
Non-Hedge Management	65.0	+/-5.0
Total	**100.0**	**-**

The CDI strategy aims to closely align the sensitivity of the Scheme's assets and liabilities to changes in interest rate and inflation expectations by hedging approximately 100% of the sensitivity of the Scheme's liabilities on the agreed basis for funding level and liability hedging monitoring purposes.

Details of the holdings within the Scheme's portfolios can be found in the SIA.

Responsibility for monitoring the Scheme's asset allocation, and undertaking any rebalancing activity, is delegated to Mercer.

7. Realisation of Investments

The Trustee, on behalf of the Scheme, holds shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset manager appointed by MGIE, along with the external property manager, within the parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

8. Cash flow and cash flow management

In the event of cashflows into, or out of, the Scheme, Mercer will invest or disinvest these as soon as reasonably practicable from the underlying funds at Mercer's discretion. Further detail on this process is set out in the SIA.

9. Rebalancing

There is no pre-defined or automatic rebalancing between the Hedge Management Portfolio and Non-Hedge Management Portfolio, nor between the funds within the Hedge Management Portfolio and Non-Hedge Management Portfolio, other than where required for liability hedge management purposes. Further detail on this process is set out in the SIA.

10. Environmental, Social, and Corporate Governance ("ESG"), Stewardship, and Climate Change

The Trustee believes that ESG factors may 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 may require explicit consideration.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest.

As noted above, the Trustee has appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise 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.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's and the Trustee's thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when Mercer are appointing new managers and these policies are also reviewed periodically for existing managers. In addition, the Trustee will monitor financially material considerations through the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;

- The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's and MGIE's investment processes and those of the underlying asset managers in the monitoring process. In particular, use ESG ratings information provided by Mercer, to assess how the Scheme's investment managers take account of ESG issues. However, the Trustee acknowledges that given the nature of their investments (bond and bond like assets that do not have associated voting rights that would allow the Trustee and Mercer to directly impact an issuer's policies) and the limited data currently available, there is a limited scope for integration;

- Mercer and MGIE are expected to provide reporting to the Trustee on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics.

- In line with the strategic objectives set by the Trustee to monitor and assess their providers, Mercer are expected to help the Trustee to implement its ESG policy and stewardship considerations in their investment manager appointment. This is reviewed on an annual basis.

The Trustee recognises the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Non-Financially Material Considerations

The Trustee has not considered non-financially material matters in the selection, retention and realisation of investments.

Stewardship

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

Where this primary consideration is not prejudiced, the investment manager should engage with companies to take account of ESG factors in the exercise of such rights. The Trustee will review the investment managers' voting policies, with the help of Mercer, and decide if they are appropriate. Mercer look to engage with the investment manager if deemed not appropriate to influence the investment managers' policy where possible.

The Trustee expects investment managers to adhere to the Financial Reporting Council's UK Stewardship Code where appropriate for the investments they manage, and will monitor managers' compliance with it with the help of Mercer. The Trustee has noted that Mercer is a signatory of the 2020 UK Stewardship Code. The Trustee also expects the investment managers in the Mercer Funds to engage with investee companies on the capital structure and management of conflicts of interest.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

Mercer has given their appointed investment managers restrictions in relation to particular products or activities for all equities and fixed income portfolios. The Trustee has not currently set any investment restrictions in relation to particular Mercer Funds, but may do so in the future.

11. Trustee's policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustee's investment strategy outlined in section 6, the Trustee is concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds (in addition to the external property with Aberdeen Standard Investments), which are multi-client collective investment schemes, the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy as outlined in section 6. The Trustee has taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustee receives, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustee invests. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustee reviews the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer nor MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 10 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustee is a long-term investor and is not looking to change their investment arrangements on an unduly frequent basis. However, the Trustee does keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustee monitors, and evaluates, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 6. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the investment strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustee, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Scheme's annualised, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustee does not have an explicit targeted portfolio turnover range but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE. MGIE reviews the turnover of the investment managers used in the Mercer Funds and the associated transaction costs incurred. The total transaction costs in the management of the Scheme's assets are reported to the Trustee through the annual cost and charges statements.

12. Additional Assets

Under the terms of the Trust Deed the Trustee is responsible for the investment of Group Additional Voluntary Contributions ("AVCs") paid by members. The Trustee reviews the investment performance of the funds available to members on a regular basis and takes advice as to the providers' continued suitability. Further detail on the AVC providers is set out in the SIA.

13. Review of this Statement

The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances, the attitude to risk of the Trustee and the Company which they judge to have a bearing on the stated Investment Policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

…………………………………………………………

Agreed as final version on behalf of the Trustee of the RR Donnelley UK Pension Scheme

September 2023