

# Leeds Building Society Staff Pension Scheme

## Investment Implementation Document

This Investment Implementation Document (“the IID”) covers the Leeds Building Society Staff Pension Scheme (“the Scheme”) and details the Trustee’s policy relating to the implementation of the Scheme’s investment arrangements, based on the policies set out in the Scheme’s Statement of Investment Principles (“SIP”) dated March 2024. The IID should be considered alongside the SIP.

### Investment strategy

The Scheme’s current investment strategy is invested according to the following broad asset allocation:

| Asset Class  | Proportion (%) | Expected Return (relative to fixed interest gilts) % as at 31 December 2023 |
|--|----------------|---|
| Buy and Maintain Corporate Bonds   | 45-55%         | 1.1   |
| Liability Driven Investment (LDI) and Collateral Assets, including Asset Backed Securities | 45-55%         | 0.6*  |
| <b>Total</b>   | <b>100%</b>    | <b>0.9</b>  |

Note: 10 year assumptions as at 31 December 2023 relative to Bank of England 10 Year Gilts (net of management fees). The Scheme’s actual asset allocation may deviate from the table due to market movements, active management of the portfolio and distributions from the Buy & Maintain Corporate Bond mandates. The LDI allocation aims to provide a hedge against interest rate and inflation rate sensitivity of the Scheme’s liabilities. As such, the Scheme may deviate from this initial allocation but it would not be appropriate to rebalance the LDI mandate as doing so would change the hedge ratio. \*Based on the relative split between LDI and ABS as at 31 December 2023 (and allowing for planned transition activity) based on a gilts + 1% per annum return assumption for ABS, in practice, this relative split between LDI and ABS will vary as markets change. The purpose of this number is to provide an indicative number only.

The expected returns shown in the above table represent long-term expectations of asset classes as a whole. Short-term returns in some asset classes may exhibit considerable variability.

### Investment structure and mandates

The Trustee has appointed various investment managers to manage the assets of the Scheme – their mandates and benchmark allocation are detailed below.

| Investment Manager                                    | Mandate                        |
|---|--------------------------------|
| Legal & General Investment Management Limited (“L&G”) | Buy & Maintain Corporate Bonds |
| Schroders Investment Management (“Schroders”)         | LDI                            |
| Schroders Investment Management (“Schroders”)         | Asset Backed Securities        |

The Trustee monitors the overall allocation between the investment managers on a quarterly basis, and takes any corrective action as they deem appropriate. Rebalancing will be effected by cashflows, where possible, to avoid unnecessary transaction costs. The transfer of assets/cash between investment managers will be used to rebalance where cashflow is insufficient.

**Mandate target returns, objectives and fees**

***L&G***

The objective of the Scheme’s Buy and Maintain Corporate Bond investments with L&G is to provide a lower risk, contractual stream of income which is designed to better align with the liability cashflows. The Cash Fund is to provide liquidity where appropriate.

| <b>Fund</b>                                     | <b>Benchmark</b> | <b>Objective</b>  |
|---|------------------|---|
| Maturing Buy and Maintain Credit Fund 2030-2034 | N/A              | Invest in a diversified portfolio of investment grade corporate bonds (A rated) with strong fundamentals, with the view of holding the bonds to maturity. |
| Maturing Buy and Maintain Credit Fund 2035-2039 | N/A              |   |
| Cash Fund                                       | N/A              | N/A   |

***Schroders***

The Scheme invests in a combination of Schroders’ Matching Plus funds. This includes a range of leveraged Nominal and Index-Linked Gilt funds which combine to replicate the exposure of the Schroders liability benchmark, which has been calculated with reference to the Scheme's Technical Provisions liabilities.

The target split between the funds is expected to move over time as a result of market movements and expected changes in the sensitivity of the Scheme’s liabilities to both interest rates and inflation.

Schroders LDI performance objective is to provide returns similar to the cashflow profile of the Scheme by investing in gilt instruments.. Schroders will utilise leverage within the LDI fund in order to hedge a greater proportion of the Scheme’s liabilities. Schroders have set a prudent limit to the leverage taken and will monitor the level of collateral available to support the LDI. The Trustee will monitor this on a quarterly basis.

The Scheme also invests in the AAA Asset Backed Securities Fund. This fund targets a return of Cash +1% and sits in the collateral waterfall structure, therefore offering additional collateral to the Scheme’s LDI mandate.

| <b>Fund</b>                                     | <b>Benchmark</b>   | <b>Objective</b>   |
|---|--|--|
| Schroders Index Linked Gilt Matching Plus Funds | Bespoke liability benchmark  | To hedge against inflation linked liability movements.   |
| Schroders Nominal Gilt Matching Plus Fund       | Bespoke liability benchmark  | To hedge against fixed interest rate liability movements.  |
| Schroders Sterling Liquidity Fund               | UK Sterling Overnight Index Average (SONIA)  | To perform in line with its benchmark.   |
| Schroders AAA Flexible ABS Fund                 | 1/3 Barclays European ABS Index + 1/3 BofA US CABS Index + 1/3 JP Morgan CLOIE AAA Index | Invest in a diversified portfolio of high-quality secured debt across a range of markets. Broadly aiming to achieve a return of SONIA +1% per annum. |

***L&G Fees (Per annum):***

| Fund  | Fee   |
|---|-------|
| Maturing Buy and Maintain Credit Fund 2030-2034 | 0.10% |
| Maturing Buy and Maintain Credit Fund 2035-2039 |       |

| Fund      | Fee for first £5m | For balance over £5m |
|-----------|-------------------|----------------------|
| Cash Fund | 0.125%            | 0.10%                |

***Schroders Fees (Per annum):***

| LDI Funds                     | Fee for liabilities hedge up to £50m. | Fee for liabilities hedged above £50m. |
|-------------------------------|---------------------------------------|--|
| Schroders Matching Plus Funds | 0.07%                                 | 0.06%                                  |

| Fund                   | Fee  |
|------------------------|------|
| Schroders AAA ABS Fund | 0.2% |

- Schroders Sterling Liquidity Fund: 0.10% of the Net Asset Value.

**Collateral Management Policy**

The Trustee has a defined collateral rebalancing framework in place with Schroders in relation to the Scheme’s LDI mandate. In the event of capital calls, Schroders will automatically source capital as required from the Schroders Sterling Liquidity Fund and Schroders Asset Backed Securities Fund.

The Trustee will review their collateral management policy no less frequently than annually, or as soon as possible in the event of significant market movements.

| <b>Trigger</b>  | <b>Action</b>  | <b>Responsibility</b>  |
|---|--|--|
| When the collateral within the LDI funds fall below the predefined trigger. (Currently 275 bps yield headroom for Schroders Pooled LDI Funds) | Funds are automatically sourced from the collateral waterfall as required to restore the collateral buffer to the optimal 300 bps headroom target. | Schroders monitor LDI fund collateral levels and share regular updates with Isio. Schroders will alert Isio if action is required. |

The broad collateral waterfall is set out below.

| <b>Order</b> | <b>Manager</b> | <b>Fund</b>                                     |
|--------------|----------------|---|
| 1.           | Schroders      | Sterling Liquidity Fund and other residual Cash |
| 2.           | Schroders      | Asset Backed Securities Fund                    |

**Custody**

The Scheme’s assets are invested in pooled vehicles whereby the custody of the holdings are arranged by the investment manager. The exception to this are the assets managed by Schroders where the Trustee has a separate agreement with J.P. Morgan to act as custodian. JP Morgans fees are met by Schroders.

**Signed by: Leeds Building Society Staff Pension Scheme Limited as Trustee of the Leeds Building Society Staff Pension Scheme**

**Dated: March 2024**