



Implementation Statement

Leeds Building Society Staff Pension
Scheme

12 months to 31 December 2022

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and investors. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Implementation Statement

This implementation statement provides evidence that Leeds Building Society Staff Pension Scheme continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address:

<https://www.leedsbuildingsociety.co.uk/your-society/statement-of-investment-principles/>

The Implementation statement details:

- Actions the Scheme has taken to manage financially material risks and implement the key policies in Scheme's SIP.
- The current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks.
- The extent to which the Trustee has followed policies on engagement, covering engagement actions with its investment managers and in turn the engagement activity of the investment managers with the companies in the investment mandates. The focus of the statement is engagement rather than voting, due to the fact there were no voting rights attached to the investments over the year to 31 December 2022 as the assets are predominately credit based, not equity.

Summary of key actions undertaken over the Scheme's reporting year

The Trustee monitors the Scheme's investments on an ongoing basis, including receiving regular reporting from the Scheme's investment adviser and the investment managers.

Reporting includes monitoring the Scheme's investment strategy versus the strategic target detailed in the SIP, reviewing the performance of the investment managers versus relevant benchmarks and/or their stated objectives, and monitoring investment risks.

There were no changes to the Scheme's strategic asset allocation over the 12-month period to 31 December 2022. In April 2022, the Trustee rebalanced the Scheme's LDI solution. This involved utilising leveraged gilts in place of unleveraged gilts within the Scheme's LDI portfolio, releasing significant collateral to act as a collateral buffer in the Columbia Threadneedle (formerly BMO) portfolio. This additional collateral enabled the Scheme to efficiently manage recapitalisation events experienced over 2022.

Over Q4 2022, the Trustee also sold down a proportion of the assets to support the Scheme's liquidity position and to provide collateral to support the Liability Driven Investment ("LDI") mandate following volatility in the gilt market. These actions included redemptions from the Scheme's liquid growth assets, namely, the BlackRock Absolute Return Bonds Fund. Due to these changes, the year-end asset weightings materially deviated from target asset allocation. Post year-end, the Trustee are reviewing the investment strategy and the strategic benchmark. The Statement of Investment Principles ("SIP") has been updated in order to note this and is available online.

During 2022, the Trustee also carried out a detailed review of the investment managers' ESG policies and practices. These managers are increasingly prioritising ESG factors. To further promote best practice, the Trustee has communicated through the investment adviser a number of actions for the investment managers that are expected to further improve their ESG policies. The Trustee will monitor the investment managers' progress versus the actions set on an ongoing basis.

Implementation Statement

This statement demonstrates that The Leeds Building Society Staff Pension Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Risk Management Policies and Implementation

As outlined in the SIP, the Trustee adopts an integrated risk management approach. The three key risks associated with this framework and how they are managed are stated below. Further, a summary of the actions the Trustee has taken to implement this framework over the 12-month period to 31 December 2022 is included.

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none"> Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the Sponsor's covenant strength. Investing in a diversified portfolio of assets. 	<ul style="list-style-type: none"> Over the period, the Trustee regularly monitored the investment strategy and reviewed the investment managers.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none"> Funding risk is considered as part of the investment strategy review and the actuarial valuation. The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time. 	<ul style="list-style-type: none"> The Trustee receives regular funding updates. As part of the 31/12/2020 Actuarial Valuation process the Trustee received funding advice from the Scheme Actuary and an appropriate funding basis was agreed.
Covenant	The risk that the sponsor becomes unable to continue providing the required financial support to the Scheme.	<ul style="list-style-type: none"> When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support. 	<ul style="list-style-type: none"> The Trustee receives regular updates on the financial performance of the sponsoring company.

Risk Management Policies and Implementation: continued

As outlined in the SIP, the Scheme is exposed to a number of underlying risks and financially material considerations relating to the Scheme's investment strategy. The Trustee's policies in respect of these issues, including how financially material considerations are taken into account in the selection, retention and realisation of investments are summarised below.

A summary of the actions the Trustee has taken to implement the policies over the 12-month period to 31 December 2022 is also included.

Risk / Policy	Definition	Policy	Actions taken in implementing the policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge c.100% of interest rate and inflation risk on the Technical Provisions basis.	<ul style="list-style-type: none"> The target c.100% of interest rate and inflation hedging was maintained over the period. Over the reporting period, the Trustee rebalanced the Scheme's LDI solution. This involved utilising leveraged gilts in place of unleveraged gilts within the Scheme's LDI portfolio, releasing significant collateral to act as a collateral buffer in the Columbia Threadneedle portfolio. This additional collateral, enabled the Scheme to efficiently manage recapitalisation events experienced over 2022.

Risk / Policy	Definition	Policy	Actions taken in implementing the policy
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.	<ul style="list-style-type: none"> • The Trustee monitors the level of liquid assets available to the LDI manager on an ongoing basis, • Sufficient collateral was maintained over the period to ensure all cashflow requirements were met in a timely and cost-effective manner. • Over Q4 2022, the Trustee sold down a small proportion of the assets to support the Scheme's liquidity position and to provide collateral to support the Liability Driven Investment ("LDI") mandate following volatility in the gilt market. These actions included redemptions from the Scheme's liquid growth assets, namely, the BlackRock Absolute Return Bonds Fund. • The LDI manager provides regular updates on the liquidity position.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.	<ul style="list-style-type: none"> • The Scheme reduces market risk by diversifying its assets across a range of asset classes and investment managers. • The Trustee maintained a diversified portfolio over the year to 31 December 2022 and the Scheme was de-risked through the sale of some growth assets to boost liquidity.
Credit	Default on payments due as part of a financial security contract.	To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	<ul style="list-style-type: none"> • The Scheme invests across a range of credit strategies, which provides exposure to a range of sectors and geographies. • The Trustee maintained a diversified portfolio over the year to 31 December 2022. The Scheme's investment adviser meets with the

Scheme's investment managers on a regular basis to monitor portfolio risk.

<p>ESG</p>	<p>Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.</p>	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory 6. UK Stewardship Code signatory <p>The Trustee monitor the mangers on an ongoing basis.</p>	<ul style="list-style-type: none"> • The Trustee carried out an in-depth review of the investment managers' ESG policies and practices during 2022. The Trustee agreed that the performance of all of the investment managers was satisfactory and will continue to engage with the managers to seek improvement. • The Scheme made no new investment manager appointments over the period but will consider ESG factors in any future selection of investment managers.
<p>Currency</p>	<p>The potential for adverse currency movements to have an impact on the Scheme's investments.</p>	<p>To invest in pooled funds that hedge against this currency risk where appropriate.</p>	<ul style="list-style-type: none"> • The vast majority of the Scheme's assets were held in sterling denominated funds over the period.
<p>Non-Financial</p>	<p>Any factor that is not expected to have a financial impact on the Scheme's investments.</p>	<p>Non-financial matters are taken into account where the Trustee deems it appropriate.</p>	<ul style="list-style-type: none"> • Non-financial matters are considered where appropriate on an ongoing basis.

Changes to the SIP

Over the 12- month period to 31 December 2022, there were no new policies included within the Scheme's SIP. Over the reporting period, the Scheme did not appoint any new managers or make any changes to the investment strategy or policies, as such the Scheme's SIP was not updated.

Post reporting period, following new stewardship guidance for trustees of UK pension schemes, the Scheme's SIP was updated to further strengthen the policies around stewardship. The additional policies added to the SIP are outlined in the table below.

The Trustee keeps the SIP under ongoing review.

Methods for monitoring and engagement added to the SIP

Date updated: March 2023

Environmental, Social and Governance factors and the exercising of rights	<ul style="list-style-type: none">• The Trustee receive information from their investment advisers on the investment managers' approaches to engagement.• The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters (including the Scheme's stewardship priorities) at least annually. The Trustee will share any agreed stewardship priorities to ensure alignment in voting and engagement activity (where relevant).
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Policies added to the SIP

Date updated: March 2023

How the investment managers are incentivised to vote on the Trustee's behalf (where relevant)	<ul style="list-style-type: none">• The Trustee has acknowledged responsibility for the voting (where relevant) policies that are implemented by the Scheme's investment managers on their behalf.• The Trustee monitors the investment managers' engagements and voting (where relevant) activities regularly as part of their ESG monitoring process to engage with investment managers on alignment
How the Trustee will engage with investment managers, direct assets and others about 'relevant matters'.	<ul style="list-style-type: none">• The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.• The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regard to ESG which is recognised as a financially material risk. As outlined in the 'Investment manager arrangements' section of the SIP, all decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations, including Environmental, Social and Governance ('ESG') factors in making these decisions.
- The exercise of rights (including voting rights) attaching to the investments.
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The 'Investment Manager Monitoring and Engagement' section of the SIP outlines the framework the Trustee uses to monitor and engage with the investment managers on ESG matters.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity.	<ul style="list-style-type: none">• The Trustee's investment managers provide periodic reports on how they have engaged with issuers regarding environmental, social and governance issues.• The Trustee receive information from their investment advisers on the investment managers' approaches to engagement.• The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters (including the Scheme's stewardship priorities) at least annually. The Trustee will share any agreed stewardship priorities to ensure alignment in voting and engagement activity (where relevant).	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.

The Trustee has established their own beliefs and have also created an ESG Policy to help underpin investment decisions. This ESG Policy summarises the Trustee's beliefs and steps through which the Trustee will implement the policy. The Scheme's ESG Policy is available to members on request.

ESG review and actions with the investment managers

The Trustee carried out a review of the Scheme’s investment managers from an ESG perspective over 2022 with the assistance of the Scheme’s investment adviser. As part of the review the Trustee communicated via the investment adviser several suggested actions for improvement in ESG integration. The key findings of the 2022 review are summarised below:

- Most of the Scheme’s investment managers have developed a firm-wide ESG policy. For managers with no specific ESG objectives, they have demonstrated that ESG factors are incorporated into their research, analysis, and underwriting process.
- BlackRock continue to demonstrate that ESG factors are incorporated throughout the investment process, including the assessment of risk, an example of which is Blackrock demonstrating that they have disinvested from positions due to ESG-specific risks. BlackRock also leverage the significant size of the total BlackRock holdings in each company to drive the change on ESG issues.
- LGIM have made several key improvements over the 12-month period, as such, Isio upgraded the mandate’s ESG rating to reflect this. LGIM continue to integrate ESG factors into the fundamental assessment of issuers rather than as an isolated factor.
- ESG integration within LDI is less developed than in some asset classes (e.g., equities). However, Columbia Threadneedle have gone beyond many of their competitors in incorporating ESG into the LDI space, demonstrating an impressive process for assessing and reporting on its engagement with counterparties.

A summary of the individual investment managers’ ESG policies and practices is outlined below, alongside proposed actions that are communicated to the investment managers to further integrate ESG into the investment process.

Please note that the summary below does not include an ESG summary for the Scheme’s residual holdings in the CBRE Europe (ex-UK) Alpha opportunities Fund – as this portfolio is in liquidation.

Manager and Fund	ESG Summary	Proposed Actions
BlackRock Fixed Income Opportunities Fund (FIGO)	BlackRock have a clear overall ESG policy which covers the Global Fixed Income team. Isio view FIGO’s approach to ESG to be in line with peers. However, there isn’t a Fund-specific ESG policy and reporting is an area for the Fund to improve on.	<ul style="list-style-type: none"> • To develop a specific ESG policy for the FIGO Fund. • To provide a detailed report that outlines Fund specific engagement details.

Manager and Fund	ESG Summary	Proposed Actions
LGIM Buy and Maintain Corporate Bonds	<p>LGIM's ESG approach satisfies Isio's ESG requirements for the asset class. LGIM are also able to provide engagement reporting for each fund however engagement is done at a firm wide level rather than on a Fund basis.</p> <p>Over the reporting period, LGIM have made several key improvements which include appointing a dedicated Head of Responsible Investment Integration, refining their investment process to better reflect ESG factors and improving their stewardship approach to leverage off a large scale of assets across the firm.</p>	<ul style="list-style-type: none"> • To develop specific ESG objectives for the funds and quantify these targets. • To include fund specific engagement activity in regular quarterly reporting and to provide ESG ratings for assets held within the mandate.
Columbia Threadneedle LDI	<p>Columbia Threadneedle has invested a significant amount of time and research into its ESG process and is a leader amongst its competitors. Columbia Threadneedle have gone beyond competitors in the LDI space in terms of action, collaboration and innovation, and have evidenced that they believe ESG factors are a crucial element of good risk management.</p>	<ul style="list-style-type: none"> • To consider sharing diversity statistics of its team to enable it to measure its progress against its 2025 Representation Goals. • To consider including counterparties' ESG scores within the standard quarterly reporting.

Voting and Engagement

There were no voting rights attached to the Scheme's investments over the 12-month period to 31 December 2022. The majority of the Scheme's assets are credit based where there are no voting rights attached.

The Trustee delegates the day-to-day management of the Scheme's assets to investment managers. Details of the investment managers' engagement actions, including a summary of the engagements for the 12-month period to 31 December 2022, are included below.

Fund name	Engagement summary	Commentary
BlackRock Fixed Income Opportunities Fund (FIGO)	<p>BlackRock do not currently provide details of their engagement activities at a fund level for non-equity funds. However, BlackRock have a central stewardship team who directly engage with companies, including companies within the FIGO fund.</p> <p>Total Engagements: 3,886</p> <p>Companies engaged: 2,588</p> <p>Note that the above engagements relate to all BlackRock engagements, not just companies in the fund.</p>	<p>BlackRock continue to demonstrate that the firm utilises its position within the market to engage on ESG issues across its fund, owning sufficient resource to assess the extent of ESG risks within portfolios.</p> <p>BlackRock's engagement over the period covered a wide range of topics including governance, financial, social and environmental issues.</p> <p>BlackRock's ESG engagement is led by the central BlackRock Investment Stewardship (BIS) team. This central team ensures firm-wide consistency in their engagement approach and allows BlackRock to leverage their position in the market to drive their ESG policies.</p>

Fund name	Engagement summary	Commentary
LGIM Buy and Maintain Corporate Bonds	Total engagements: 234 Environmental topics: 130 Social topics: 77 Governance topics: 112 Other: 23	<p>LGIM do not consider engagement on a fund-by-fund basis but actively approach ESG at a firm level. As such, LGIM do not employ a formal framework for measuring the success of an engagement, as they believe that success is difficult to measure, and is best reflected in the overall market value of the asset.</p> <p>Examples of significant engagement include:</p> <p>Apple – LGIM engaged with Apple with regards to issues surrounding Human Rights and freedom of association. LGIM engaged through voting FOR resolution (against management) to further their support to proposals relating to diversity and inclusion which they believe to be material risks to companies. The outcome of the vote was in favour of the resolution and LGIM will continue to engage with Apple on this topic and ensure changes are implemented.</p>
Columbia Threadneedle (CT) LDI	Counterparties engaged: 29 Milestones: 3 Countries covered: 7	<p>Columbia Threadneedle’s engagement primarily focuses on trading counterparties and clearing members.</p> <p>Examples of significant engagements include:</p> <p>Barclays Plc - CT engaged with Barclays on the company’s plan with regards to phasing out the financing of thermal coal power in the US. Following engagement and following the introduction of the Inflation Reduction Act in the US, Barclays announced that it was accelerating its timeline from 2035 to 2030.</p> <p>HSBC Holdings Plc - Following engagement with CT, HSBC has updated its energy policy to include the ending of funding for new oil and gas projects. HSBC will no longer provide new finance, or new advisory services, to any client for the specific purpose of Oil& Gas exploration and projects.</p>

