Leeds Building Society Staff Pension Scheme

Statement of Investment Principles

This SIP has been prepared by the Trustee of the Leeds Building Society Staff Pension Scheme (the "Scheme"). This statement sets out the principles governing the Trustee's decisions to invest the assets of the Scheme.

The Trustee has also taken the Myners' Principles into consideration when making decisions about the Scheme's investment arrangements.

Details on the Scheme's investment arrangements are set out in the Investment Implementation Document ("IID").

Investment objective

The Trustee invests the assets of the Scheme with the aim of ensuring that all members' accrued benefits can be paid. The Scheme's funding target is specified in the Statement of Funding Principles, and the Scheme's funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment agreements remain appropriate to the Scheme's circumstances.

The Scheme's investment objective is to achieve, over the long term, a return on the investments which is consistent with, or better than, the long-term assumptions made by the Trustee in determining the funding of the Scheme. The Trustee, with the agreement from the Society, has implemented a Self-Sufficiency Portfolio (SSP). The SSP is designed to better meet liability cashflows as they fall due through investing in assets with a more contractual cashflow profile. The SSP strategy incorporates a Liability Driven Investment ('LDI') strategy which provides a hedge against the Scheme's interest rate and inflation risk, coupled with income distributing assets (predominantly investment grade corporate bonds), which provide a return above UK Government bonds and a reliable stream of cashflows.

The expected return on the current investment strategy is 0.8% per annum above the return on UK Government bonds.

Investment strategy

The Scheme's current investment strategy was derived from careful consideration of the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, and also the strength of the Sponsor's covenant. The Trustee considered the merits of a range of asset classes when designing the current investment strategy.

The Trustee recognises that the current investment strategy is subject to risk, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by annually assessing the funding position and the characteristics of the assets and liabilities. The risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of reducing volatility relative to the liabilities. The assets of the Scheme consist predominantly of investments admitted to trading on regulated markets.

The Trustee has also considered a number of other risks set out in Appendix A.

Investment manager arrangements

The Trustee has appointed investment managers to manage the assets of the Scheme, as detailed in the Scheme's Investment Implementation Document. The investment managers are regulated under the Financial Services and Markets Act 2000.

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 Trustee takes investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable.

The investment managers' remuneration is based upon a percentage value of the assets under management. The fees have been negotiated to be competitive and are reviewed on an ongoing basis.

As the Scheme's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager or a custodian appointed by the manager.

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.

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Scheme's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	• The Trustee receives a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting. • The Scheme's investment managers are invited, in person, to present to the Trustee on their performance, strategy and risk exposures.	• There are significant changes made to the investment strategy. • The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations. • Underperformance vs the performance objective over the period that this objective applies.
Environmental, Social and Governance factors and the exercising of rights	• The Trustee's investment managers provide periodic reports on how they have engaged with issuers regarding environmental, social and governance issues.	• The manager has not acted in accordance with their policies and frameworks.

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

Employer-related investments

The Trustee's policy is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005, except where the Scheme invests in pooled vehicles that may hold employer-related investments, in which case the total exposure to employer-related investments will not exceed 5% of the Scheme's value. The Trustee will monitor this on an ongoing basis to ensure compliance.

Direct investments

Direct investments, as distinguished by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. These include the vehicles available for members' Additional Voluntary Contributions ("AVC") which are invested in the same way as normal contributions. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

Additional Voluntary Contributions (AVCs)

Members of the Scheme can invest in AVCs in separate pooled vehicle arrangements with Utmost Life and Pensions (formally The Equitable Life Assurance Society), Legal & General Assurance Society (LGAS) and the Leeds Building Society. All members invested with LGAS can invest in a range of funds that include balanced funds, cash and fixed interest bonds. All monies invested with Utmost Life and Pensions are invested with the Utmost With-Profits Funds. The most notable development within this fund in recent years has been the capital distribution payment offered to members who transfer their investments out. All monies invested in the Leeds Building Society are invested in a traditional cash deposit fund. All of the AVC funds are closed to new entrants. In 2018 the Trustee undertook a review of the AVC investment arrangements and the respective providers.

Governance

The Trustee of the Scheme make all major strategic decisions including, but not limited to, the Scheme asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee’s investment advisers, Isio Group Limited, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience. The investment adviser’s remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Scheme.

Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the Sponsor and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in investment policy. The Trustee will consult with the Scheme Sponsor on any changes to this Statement.

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

Dated: ***September 2020***

Appendix A – Risks and Financially Material Considerations

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	**Definition**	**Policy**
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	• 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.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	• 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.
Covenant	The risk that the sponsor becomes unable to continue providing the required financial support to the Scheme.	• 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.

A non-exhaustive list of underlying investment risks that the Trustee have taken into consideration and sought to manage, where appropriate, is shown below;

Risk	Definition	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 100% of interest rate and inflation risk on the Technical Provisions basis.
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.

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.
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.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 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 The Trustees monitor the managers on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To invest in pooled funds that hedge against currency risk where appropriate.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are taken into account where the Trustee deems it appropriate.

Appendix B – Alignment of Managers' Interests with Scheme

The Trustee has the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee policies.	• As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the Scheme's strategic objectives.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustee reviews the investment managers' performance relative to the medium and long-term objectives documented in the investment management agreements. • The Trustee may incentivise the investment managers to make decisions based on non-financial if they deem it to be necessary.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee policies.	• The Trustee reviews the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustee reviews performance across the relevant short, medium and longer term periods.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as performance is measured on a net of cost basis. • A large proportion of the Scheme's assets are invested on a buy and maintain basis and therefore naturally incur lower turnover costs.
The duration of the Scheme's arrangements with the investment managers	• The duration of the arrangements is flexible and the Trustee will from time-to-time consider the appropriateness of these investments in relation to the Scheme's objectives.