

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 September 2020. 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 (%)	Control Ranges (%)	Expected Return (relative to fixed interest gilts) %
Return Seeking			
Absolute Return Bonds	15%	+/- 5%	2.3
Liability Matching			
Buy and Maintain Corporate Bonds	45%	N/A	1.1
Liability Driven Investment (LDI)	40%	N/A	0.0
Total	100%		0.8

(1) 10 year assumptions as at 30 June 2020 relative to Bank of England 10 Year Gilts (net of management fees).

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.

The Fund Manager performance objectives referenced below are representative of the pooled funds in which the Scheme invests and may not necessarily reflect the Trustee objectives for particular asset classes which are typically based on more prudent assumptions.

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	*Proportion %
Legal & General Investment Management Limited (“L&G”)	Buy & Maintain Corporate Bonds	45%
Bank of Montreal Global Asset Management Limited (“BMO”)	LDI	40%
BlackRock Investment Management (UK) Limited (“BlackRock”)	Absolute Return Bonds	15%

Total		100%
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* As at September 2020 the Scheme retains residual holdings invested in property (less than 0.5% of the total Scheme assets) with CBRE Global Investment Partners, in the CBRE Europe ex UK Alpha Fund. This fund is currently being wound up with proceeds distributed to the Trustee Bank Account as proceeds are received.

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.

Fund	Benchmark	Objective
Maturing Buy and Maintain Credit Fund 2030-2034	N/A	Invest in a diversified portfolio of predominately 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	Provision of liquidity to support any cashflow needs beyond the amount held in the Scheme bank account.

BMO

The Scheme invests in BMO's Real Dynamic LDI fund, which is based on the inflation-linked cashflow profile for a typical pension scheme. Further interest rate and inflation hedging is provided by the BMO Unleveraged Gilts funds.

The target split between the funds, as well as the proposed level of interest rate and inflation hedging, 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.

BMO's performance objective is to provide returns similar to the cashflow profile of the Scheme by investing in a combination of swap and gilt instruments. BMO can alter the allocation between swaps and gilts within the Real Dynamic LDI fund to try and add some additional incremental value. BMO will utilise leverage (targeting 3 times) within the LDI fund in order to hedge a greater proportion of the Scheme's liabilities. The Trustee will monitor this on a quarterly basis.

The Sterling Liquidity Fund provides liquidity where appropriate. The Trustee also has the ability to invest in leveraged gilt funds if required.

Fund	Benchmark	Objective
BMO Real Dynamic LDI Fund	Bespoke Gilt and Swap based benchmark.	The fund operates both a gilts and swaps based benchmark (as the fund targets outperformance versus both gilts and swaps over the long term). The fund is expected to perform inbetween the gilts and swaps benchmarks over the short term, and outperform both benchmarks over the long term.
BMO Regular Profile Unleveraged Real Gilt Fund	Bespoke liability benchmark	To hedge against inflation linked liability movements.
BMO Regular Profile Unleveraged Nominal Gilt Fund	Bespoke liability benchmark	To hedge against fixed interest rate liability movements.
BMO Sterling Liquidity Fund	N/A	Support efficient management of LDI leverage events and provide liquidity when cashflow needs exceed what is held in the Scheme bank account.

BlackRock

The Scheme invests in the Fixed Income Global Opportunities Fund. The Fund's objective is to achieve a target return of LIBOR + 4-6% p.a. (net of fees) over a full market cycle, by investing in a range of credit opportunities. Income distributions are paid into a Custody Account managed by BlackRock.

Fund	Benchmark	Objective
Fixed Income Global Opportunities Fund	N/A	LIBOR + 4-6% p.a. (net of fees)

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%

BMO Fees (Per annum):

LDI Funds	Fee for first £15m	For balance over £15m
BMO Real Dynamic LDI Fund	0.28%	0.24%

Unleveraged Gilts Fund	Fee for first £15m	Fee for next £35m	For balance over £50m
BMO Regular Profile Unleveraged Real Gilt Fund	0.08%	0.06%	0.05%
BMO Regular Profile Unleveraged Nominal Gilt Fund			

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

BlackRock Fees (Per annum):

- 0.475% of the Net Asset Value. The Scheme is also subject to an additional fee of up to 0.03% to cover administrative charges.

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 BlackRock where the Trustee has a separate agreement with Bank of New York Mellon ("BNYM") to act as custodian. BNYM's fees are met by BlackRock.

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

Dated: September 2020