June 2021

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Implementation Statement

Leeds Building Society Staff Pension Scheme

12 months to 31 December 2020

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Background to the Implementation Statement

Background

The Department for Work and Pensions ("DWP") is increasing regulation in order to improve disclosure of financially material risks. These regulatory changes recognise Environmental, Social and Governance ("ESG") factors as financially material and require UK pension schemes to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require schemes to detail their policies in their Statement of Investment Principles ("SIP") and demonstrate adherence to these policies in an implementation statement.

Statement of Investment Principles (SIP)

The Scheme has updated its SIP in response to the DWP regulations to cover:

- Policies for managing financially material considerations including ESG factors and climate change.
- Policies on the stewardship of the investments.

The SIP can be found online at the web address https://www.leedsbuildingsociety.co.uk/your-society/statement-of-investment-principles/ and recent changes to the SIP are detailed in this statement.

Implementation Statement

This Implementation Statement is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This statement details:

- Actions the Trustee has taken to manage financially material risks and implement the key policies in the Scheme's SIP.
- The current policy and approach with regards to ESG and the actions taken to manage 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.

Summary of key actions undertaken over the Scheme 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 2020. During 2019, the Trustee completed a transition to a relatively de-risked investment strategy. This strategy was implemented to deliver a more predictable rate of investment return and stream of income via predominantly high-quality credit. This approach aims to increase the alignment of the Scheme's assets with its liability cashflow profile. The investments made in 2019 aim to achieve a c.100% interest rate and inflation hedge on a Technical Provisions basis and target a sufficient investment return.

Alongside traditional investment considerations, the Trustee took several steps to demonstrate the implementation of their ESG policies during 2020. These steps included meeting with their investment adviser and investment managers to discuss their ESG policies and procedures, which has been an area of increased attention for the Trustee and for the Society. Since 2020 Scheme year-end, the Trustee has had further discussions with the investment adviser and investment managers regarding ESG, and the Trustee received a detailed summary of the investment managers' ESG policies and practices, which is summarised later in this statement.

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 considerations including ESG factors and climate change.

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

Position

Date June 2021

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 2020 is included.

Risk / Policy	Definition	Policy	Actions taken in implementing the 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.	• Over the period, the Trustee regularly monitored 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.	• 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.	• The Trustee receives regular funding updates. • As part of the 31 December 2020 Actuarial Valuation process the Trustee will receive funding advice from the Scheme Actuary. An appropriate funding basis will be agreed based on, amongst other considerations, the investment strategy.
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.	• 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 2020 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.	• The target hedge was maintained at c.100% over the year to 31 December 2020.
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.	• The Trustee monitors the level of liquid assets available to the LDI manager on an ongoing basis. • Sufficient liquidity was maintained over the period to ensure all cashflow requirements were met in a timely and cost-efficient manner.
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.	• The Trustee maintained a diversified portfolio over the year to 31 December 2020.
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.	• The Trustee maintained a diversified portfolio of credit assets over the year to 31 December 2020. The Scheme's investment adviser meets with the Scheme's investment managers on a regular basis to monitor portfolio risk.

ESG	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 Trustee monitor the managers on an ongoing basis.	• The Trustee carried out an in-depth review of the investment managers' ESG policies and practices after Scheme year-end. The Trustee's investment adviser meets with the investment managers regularly to monitor their ESG policies. • The Scheme made no new investment manager appointments over the period but will consider ESG factors in any future selection of investment managers. .
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.	• The vast majority of Scheme assets were held in sterling denominated funds over the period.
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.	• Non-financial matters are considered where appropriate on an ongoing basis.

Changes to the SIP

As required by new regulations effective from 1st October 2020, the Trustee's Statement of Investment Principles ("SIP") was updated over the year to 31 December to include further policies on how the Trustee will monitor and ensure the Scheme's investment managers' policies are aligned to the Scheme's policies. The additional polices added to the SIP are outlined in the table below.

During 2019, the SIP was updated to include further policies on how the Trustee considers financially material matters such as ESG factors.

Policies added to the SIP	
Date updated: September 2020	
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's 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.

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.	• 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.

ESG review and actions with the investment managers

The Trustee has carried out reviews of the Scheme's investment managers from an ESG perspective in 2019 and again in 2021 with the assistance of the Scheme's investment adviser. The key findings of the review are summarised below:

- All three investment managers satisfy requirements from an ESG perspective.
- BlackRock have demonstrated that ESG factors are incorporated throughout the investment process, including the assessment of risk. BlackRock use their significant size and scale to make significant levels of company engagements, including on ESG factors.
- LGIM consider ESG factors as part of a broader assessment of risk, focussing on the materiality of risks and whether they are suitably rewarded.
- Due to the nature of the asset class, ESG integration is less developed within LDI versus some asset classes (e.g. equities). However, BMO have gone beyond many of their competitors in incorporating ESG into the LDI space through engagement with counterparty banks and other stakeholders.

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

Manager and Fund	ESG Summary	Proposed Actions	Engagement details
BlackRock Fixed Income Opportunities Fund (FIGO)	BlackRock have a clear firm wide ESG policy and a dedicated Sustainable Investing team consisting of 31 professionals. Global Fixed Income specifically has its own Responsible Investing team which work closely with the portfolio managers to ensure ESG issues are integrated within the Fund's risk management process.	• To develop measurable ESG objectives for FIGO beyond considering ESG concerns when underwriting a security. • To identify and investigate the ESG metrics being included into regular quarterly reporting. • To provide a detailed report that outlines engagements by BlackRock with the issuers the Fund invests in.	The Investment adviser engages with the investment managers on a regular basis and will report back to the Trustee on the progress made on the actions. This is expected to be a medium to long-term process.
LGIM Buy and Maintain Corporate Bonds	LGIM consider ESG factors as part of risk management, and hence part of their fiduciary duty. LGIM add an 'ESG Active View' as a qualitative overlay and use it to actively consider ESG risks to long-term cash flow generation.	• To provide evidence of the materiality of ESG considerations in the investment process. • To provide a detailed breakdown of engagement with the companies within their Buy and Maintain portfolios, including information on the ESG issues that have been raised/addressed, and the outcome of LGIM intervention.	

		• Standard and regular reporting in relation to the Buy and Maintain offerings should be made available (not only available on request). This report should outline: – the exposure to ESG risks – carbon emissions exposure – a fund-specific summary of voting and engagement activity.
BMO LDI	BMO was an early adopter of ESG risk management and have invested a significant amount of time and research in this area. BMO 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.	• To demonstrate that their reported risk metrics are linked to ESG priorities.

Voting and Engagement

There were no voting rights attached to the Scheme's investments over the 12-month period to 31 December 2020. 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 2020, are included below.

Fund name	Engagement summary	Commentary
BlackRock Fixed Income Opportunities Fund (FIGO)	BlackRock currently cannot provide details of their engagement activities at a Fund level, however at a firm level, BlackRock have created an Investment Stewardship team who directly engage with companies, including companies within the FIGO Fund. The investment adviser remains in contact with BlackRock surrounding the firm's engagement reporting.	BlackRock's Investment Stewardship team works closely with BlackRock's active portfolio management and fixed income teams to encourage sound corporate governance practices at the companies they invest in. Core tenets of good governance — board oversight, minority shareholder rights, and management quality — are desirable qualities for all investors and can be a differentiating factor for equity or fixed income investor's decision. The Investment Stewardship team confers regularly with BlackRock equity and credit analysts, portfolio managers and research teams to exchange insights on material ESG factors. BlackRock have used their considerable scale to make meaningful engagements with firms across environmental and social issues, with an increasing focus on climate change.
LGIM Buy and Maintain Corporate Bonds	LGIM currently do not provide details of their engagement activities at a Fund level, however, this is something they are looking to implement going forwards. The investment adviser remains in contact with LGIM surrounding the firm's engagement reporting.	LGIM do not consider engagement on a fund-by-fund basis but do actively approach ESG factors at a firm level. As such, LGIM do not employ a formal framework for measuring the success of an engagement, as they believe success is difficult to measure, and is best reflected in the overall market value of an asset. Examples of significant engagements of companies that the Scheme has exposure to through its pooled fund investments with LGIM include: BP – LGIM engaged with BP (British Petroleum) on the need to have a strategy in place to succeed in a low carbon economy and on how to ensure its strategy is in line with the Paris Agreement on climate change. The outcome of this engagement was BP announcing industry-leading targets to reduce their greenhouse

		gas ("GHG") emissions (including the oil and gas they extract) to net-zero by 2050. BP pledged to gradually reduce oil & gas and reinvest some profits in low-carbon businesses. Bayer – LGIM engaged with Bayer (a German pharmaceuticals company) following concerns around the company's due-diligence processes when making an acquisition. LGIM recommended establishing advisory and M&A committees to strengthen the company's governance. Subsequently, Bayer established a committee to address the concerns raised. The Procter & Gamble Company (P&G) - LGIM engaged with P&G on the use of both forest pulp and palm oil as raw materials within its household good products as both products are considered leading drivers of deforestation and greenhouse emissions that contribute to climate change. LGIM will continue to engage with and monitor P&G's environmental impact and encourage both improvements and increased disclosure and transparency.
BMO LDI	Total Engagements: 74 Counterparties engaged: 17 Milestones achieved: 14 Countries covered: 4	BMO's engagement primarily focuses on trading counterparties and clearing members. Examples of significant engagements include: Barclays Plc – BMO engaged with Barclays and ensured that the counterparty committed to align the entire financing portfolio to the goals of the Paris Agreement, and to regularly report on progress. As the first international bank with such a bold commitment, along with a rather large fossil fuel financing book, this commitment shows clear climate leadership. BMO have also engaged the company on their environmental and climate risk management practices for their lending portfolio in the past. HSBC Holdings Plc – BMO engaged with HSBC on its approach to environmental finance and climate risk management. Subsequently, HSBC announced it would stop financing new coal power plants globally. The bank's statement on limiting its energy lending and avoiding coal going forward is a significant commitment to support the transition to a low carbon economy.