



Implementation Statement

Leeds Building Society Staff Pension
Scheme

12 months to 31 December 2024

Background and Implementation Statement

Background

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:

[Statement of Investment Principles | Your Society | Leeds Building Society](#)

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 2024 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.

In Q1 2024, the Trustee agreed to consolidate the assets held within the Blackrock Fixed Income Global Opportunities fund into the Schroders Asset Backed Securities fund, to add further monies to the collateral pool supporting the LDI mandate, and to improve the governance efficiency of the Scheme. This was completed in March 2024.

In June 2024, the Trustee evaluated the investment strategy and the investment managers from an ESG perspective through discussing the sustainable investment review produced by Isio. The aim was to ensure that the Scheme's investment managers continue to meet the expected standards in this area. All funds held by the Scheme received positive ratings reflecting the work the investment managers have put into developing their ESG integration.

During Q3 2024, the Trustee agreed to rebalance the Scheme's portfolio by increasing the allocation to Asset Backed Securities, addressing the overweight allocation to corporate bonds, relative to its previously agreed strategic asset allocation of 45%. The Trustee's decision to rebalance the Scheme's corporate bond allocation was implemented on 2 December 2024. The proceeds of the rebalancing were used to (a) replicate the interest rate hedge lost from selling corporate bonds in the LDI mandate, to maintain exposure (b) re-investing the remaining proceeds in the Schroders Asset-Backed Securities (ABS). This re-investment was implemented on 13 December 2024.

Following completion of the December 2023 Actuarial Valuation the Trustee's agreed to refresh the Scheme's liability hedging data to account for updated cashflows and market conditions. This was completed in Q1 2025.

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.

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 2024 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. Over the period, the Scheme consolidated assets held with BlackRock, into the Schrodgers ABS mandate, to further provide collateral to support the Scheme's LDI hedging assets. The Trustee also agreed to rebalance the LGIM Buy & Maintain allocation back to its previously agreed strategic benchmark given current market conditions, particularly relating to the current credit spreads levels.
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 31/12/2024 Annual Funding Update the Trustee agreed to an appropriate funding basis following discussions with the Scheme's Actuary.

Covenant	<p>The risk that the sponsor becomes unable to continue providing the required financial support to the Scheme.</p> <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. • The Trustee receives regular updates on the financial performance of the sponsoring company.
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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 2024 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. As part of the Scheme's rebalancing of the corporate bond allocation, the Scheme's level of hedging was considered given that the reduction in the corporate bond allocation reduced the exposure to movements in interest rates. To maintain the target hedge ratios, the interest rate exposure was adjusted in the LDI mandate. Following the actuarial valuation, the Scheme also reviewed the LDI hedging assets in Q4 2024 to ensure that the Scheme's hedge remains suitable and in line with their target based on the updated liability cashflows following the actuarial valuation. The new solution was implemented post-year end

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 a quarterly basis, • Sufficient collateral was maintained over the period to ensure all cashflow requirements were met in a timely and cost-effective manner. • The LDI manager provides regular updates on the liquidity position. • In January 2024, the Scheme disinvested from the BlackRock Absolute Return Bond fund and reinvested these proceeds with Schroders, in their securitised credit fund. The Trustee also rebalanced the Corporate Bond allocation in Q4 2024 with the rebalancing proceeds being invested into the securitised credit Fund. This further improves the liquidity position of the Scheme and the size of the collateral waterfall structure supporting the LDI mandate.
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 2024.

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 2024. 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.	<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 managers on an ongoing basis.</p>	<ul style="list-style-type: none"> The Scheme continued to monitor the investment managers' ESG policies and practices over 2024, including conducting an Impact Assessment which was brought to meetings for discussion. The Trustee agreed that the performance of all of the investment managers and their respective Funds were satisfactory. Both Isio and the Trustee will continue to engage with the managers to seek improvement and the Trustee will be conducting a similar review in Q2 2025.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To invest in pooled funds that hedge against this currency risk where appropriate.	<ul style="list-style-type: none"> The vast majority of the Scheme's 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.	<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 2024, the Trustee updated the SIP to reflect new guidance from the Pensions Regulator on LDI collateral framework policies. This additional policy added to the SIP are outlined in the table below.

The Trustee keeps the SIP under ongoing review.

Policies added to the SIP

Date updated: March 2024

Leverage and Collateral Management

- The Trustee recognised the new regulatory guidance and requirements in relation to leverage and collateral management within the Scheme's LDI portfolio.
- The Trustee has a stated framework in place with Schroders and a robust process for meeting capital calls.
- The Trustee acknowledged that this will be reviewed, and stress tested on a regular basis.

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 at least annually.	<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 2024 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 2024 review are summarised below:

- 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.
- LGIM continue to be a market leader in the sustainable investing space with the Buy & Maintain fund integrating ESG factors into the strategy. LGIM made further strides in the ESG space over 2024, an example being their application of issuer exclusions with negative ESG connotations as well as implementing a fund-level decarbonisation target which goes above and beyond their peer group.
- Schroders integrate ESG analysis into their investment approach, however, they do not use any exclusions against any ABS issuers in the portfolio which is an area we have engaged with them on. Despite ESG integration being limited in the LDI space, Schroders utilise their firm-wide ESG policies and implement this in their selection of counterparties.
- Following feedback last year, Schroders have also demonstrated their due diligence in monitoring their counterparties from an ESG perspective. Schroders actively engage with their counterparties showing their willingness to pursue sustainable practices.

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.

Manager and Fund	ESG Summary	Proposed Actions
LGIM Buy and Maintain Corporate Bonds	<p>Isio continue to view LGIM as one of the market leaders in implementing ESG policies within their funds. The strong availability of data in the market enables the Buy and Maintain fund to significantly integrate ESG factors into the strategy.</p> <p>LGIM's ESG integration is driven by firm-wide policies with fund-level decarbonisation targets added over the last 12 months, going above and beyond their peer group. LGIM are also a member of over 50 ESG initiatives and networks. The Fund excludes issuers based on ESG considerations and drive engagement across all elements of E, S and G, including establishing an escalation policy. Over 2024, LGIM implemented a fund-level climate objective which aims for a 50% reduction of 2019 carbon emission levels by 2030.</p>	<ul style="list-style-type: none"> • To include fund specific engagement activity and social metrics within regular quarterly reporting. • Increase engagement and carbon metric coverage in the portfolio.
Schroders Asset Backed Securities	<p>Schroders have a strong firm-wide approach to stewardship through their dedicated team who oversee policies and engagement. The ABS Fund integrates ESG analysis into their investment approach but faces challenges in the quality of data from ABS issuers, making reporting in the Fund challenging. The Fund made some improvements to their ESG capabilities over the reporting period, updating their ESG scorecard on an annual basis, following feedback last year.</p>	<ul style="list-style-type: none"> • In line with best practices, Schroders should produce a quarterly ESG report for the Fund. • Assess the effectiveness of green sustainable-linked or use-of-proceeds ABS issuance in the portfolio.
Schroders LDI	<p>As mentioned above, Schroders have a well-established and robust firm-level approach to ESG. They also have a strong risk management approach; driven by partnerships they have established with multiple academic institutions. Whilst not adopting any Fund-level ESG objectives, Schroders integrate firm-level ESG factors into counterparty selection process and exercise due diligence in monitoring these counterparties. Schroders engage with over 66% of the issuers in the portfolio and remain signatories of key ESG organisation's such as the UK Stewardship Code.</p>	<ul style="list-style-type: none"> • Seek to disclose their internal ESG ratings for counterparties.

Voting and Engagement

There were no voting rights attached to the Scheme's investments over the 12-month period to 31 December 2024. 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 2024, are included below.

Fund name	Engagement summary	Commentary
LGIM Maturing Buy and Maintain Credit	<u>2030-2034</u>	LGIM do not consider engagement on a fund-by-fund basis but actively approach ESG at a firm level.
	Total Engagements: 321	
	Environmental topics: 187	Examples of significant engagement include:
	Social topics: 88	
	Governance topics: 95	
	Other: 41	
	<u>2035-2039</u>	
	Total engagements: 198	
	Environmental topics: 115	
	Social topics: 61	
	Governance topics: 54	
	Other: 28	
	Some engagements may cover multiple topics.	
		Deforestation – Nature is one of LGIM's strategic investment stewardship themes and as such, LGIM engaged with a broad range of companies that failed to meet their minimum standard. LGIM engaged with companies and addressed key issues to address the failure to meet the minimum standards, as well as to propose key actions. LGIM note that they continue to apply vote sanctions as set in their policy and will continue to engage with companies in deforestation-critical sectors.
		Diversity – LGIM have pursued ethnicity policies since 2020 and continued this over 2024, engaging with the largest 100 companies in the UK and largest 500 in the US to discuss board diversity. The result of the campaign thus far has been an improvement of 31.5% of companies, that are no longer laggards with an additional 21 companies added to the engagement policy.

Fund name	Engagement summary	Commentary
Schroders Asset Backed Securities and LDI	<p>Firm wide engagement statistics:</p> <p>Environmental topics: 1,049</p> <p>Social topics: 358</p> <p>Governance topics: 511</p> <p>Other: 63</p> <p>Some engagements may cover multiple topics.</p>	<p>Schroders do not engage with companies and issuers on a fund-level, instead, they opt to leverage their firm-wide capabilities and influence to engage with firms.</p> <p>Examples of significant engagements include:</p> <p>Meta – Schroders engaged with Meta on their digital human rights and governance. This is an example of Schroders' cross-thematic collaborative engagement. Schroders initial engaged through an investor call, discussing upcoming human rights assessments and then engaged at the Annual General Meeting. The company has been willing to engage and progress in the area of moderation, disclosure and board independence and Schroders note that further engagement will be key as the use of AI technology continues to grow,</p> <p>CVS Health – Human capital management was a priority for Schroders over 2024. Schroders engaged with CVS Health, encouraging them to adopt a paid sick leave policy as a staff retention and from a reputational perspective. To escalate this engagement, Schroders corroborated with other investors to co-file a shareholder resolution. The ballot received 26% support and Schroders have subsequently continued to hold CVS bonds. Schroders note their hope for company improvement on this policy and will continue to monitor and engage with them going forward.</p>

