# Bank of America UK Retirement Plan (the ‘Plan’)

# Defined Contribution Governance – Chair’s Statement (forming part of the Trustee’s Report)

July 2024

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# A message from the Chair of Bank of America UK Retirement Plan Trustees Limited (the 'Trustee')

This statement is required by law to explain how the Trustee, with the help of its professional advisers, meets a number of statutory governance standards, including the requirements of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and the Occupational Pension Schemes (Scheme Administration) Regulations 1996. These standards apply to the Defined Contribution (DC) section of the Plan and Additional Voluntary Contributions (AVCs) paid by members of the Plan's Defined Benefit (DB) Section.

The Plan is established within a Trust and is governed by a Trust Deed and Rules that set out how the Plan operates. The Plan has a single Trustee, Bank of America UK Retirement Plan Trustees Limited, which has a Board of Trustee Directors.

This statement is in respect of the twelve-month period to 31 December 2023 (the Plan year) and covers the following:

**Section 1: How the Trustee oversees the Plan** summarises the rigorous governance processes the Trustee undertakes each year to operate the Plan.

**Section 2: Improving the Trustee's knowledge and understanding** shows the continuous efforts the Trustee makes to ensure it maintains the specialist knowledge required to make sure the Plan is well run.

**Section 3: Managing the Plan's investment options and reviewing the Default Arrangement** focuses on how the Trustee designs and monitors the investment options offered by the Plan, to ensure that they are appropriate for members.

**Section 4: Statement of Investment Principles (SIP)** describes the requirements on the Trustee to produce a SIP, what it contains (including the principles used to design the Default Arrangement), when it was last updated and where you can find a copy.

**Section 5: Charges and transactions costs** provides information on the various deductions made from members' Member Accounts each year to pay for the investment management services and associated running costs of the Plan.

**Section 6: Charges and transaction costs – illustrations** provides examples showing how the investment charges and transaction costs described in Section 5 may affect the value of a member's Member Account over time.

**Section 7: Net investment returns** provides details of the performance of the Plan's various investment options, after deduction of the costs described in Section 5.

**Section 8: Value for members** states what the Trustee does to ensure that members are receiving value for money from the Plan, including the results of its latest annual assessment.

**Section 9: Monitoring and processing of core financial transactions** explains the internal controls the Trustee has in place in respect of the administration services, including ensuring that financial transactions such as investment switches and transfers out are processed promptly and accurately.

This statement outlines the requirements in each area, how the Trustee ensures it meets or exceeds these requirements on an ongoing basis and the specific actions taken during the 2023 Plan year to meet the requirements.

**Peter Gibbs – Chair**

On behalf of Bank of America UK Retirement Plan Trustees Limited

## Section 1: How the Trustee oversees the Plan

### What are the Trustee's responsibilities?

The Trustee is required to ensure that the Plan offers a robust, well-governed pension savings vehicle that offers good value for money, helping members achieve their retirement savings goals.

### How does the Trustee meet these requirements?

The Trustee's long-term strategy for helping improve member outcomes at retirement is guided by the following beliefs:

- The Trustee is here to serve all members, while also helping the bank to provide a well-governed pension savings vehicle.
- All members should be encouraged and helped to develop a plan for attaining an appropriate income for life after work.
- While members have the opportunity to make their own investment decisions, the quality and suitability of the Default Arrangement is likely to be of key importance for many members.
- Operating robust internal controls and reliable administration processes is important to the Plan being trusted and respected by members.
- The Trustee keeps abreast of industry innovations and solutions, and levels of charges for comparable pension plans in order to ensure that the Plan continues to provide members with good value for money.

To this end, the Trustee is committed to compliance with both the letter and spirit of regulations and will also seek out and implement best-practice governance arrangements where possible.

Each year the Trustee holds a number of meetings, each with a different focus:

- The Investment Sub-Committee (ISC) meets at least quarterly, tasked with reviewing the performance of the investment fund range and the underlying investment managers. It also meets with the investment managers on a regular basis, discusses new developments and, as required, makes changes to the investment options offered by the Plan.
- The Administration & Governance Sub-Committee (AGSC) meets at least quarterly, to review the administration service provided to Plan members, ensure that the Plan maintains robust risk management processes and internal controls, and to ensure completion of the Annual Independent Audit of the Plan.
- The Trustee Board also meets at least quarterly, to consider the recommendations of the two sub-committees, monitor the overall operation of the Plan and deal with any issues not directly covered by the sub-committees.

The Trustee believes that good governance is key to ensuring better member outcomes and regularly reviews and updates its governance processes and procedures, to reflect industry best practice. The Trustee receives substantial support from the bank and its in-house team of pension experts, who liaise with the advisers and the Plan administrator on a continuous basis to deal with any issues as they arise, ensuring the continued ongoing development and smooth running of the Plan.

## What did we do in 2023?

During the year the ISC, the AGSC and the Trustee Board each held formal quarterly meetings. In addition to these formal meetings:

- Six meetings were held jointly with the Audit & Administration Sub-Committee (AASC) of Bank of America (LBAC) Pension Trustees Limited to discuss the administration arrangements, risk management and independent audits across all of the bank's UK pension arrangements.
- Four training meetings were held jointly with Bank of America (LBAC) Pension Trustees Limited, to provide training to the two Trustee Boards.
- One additional ad-hoc meeting was held jointly with Bank of America (LBAC) Pension Trustees Limited, to agree the annual Report and Accounts.
- One additional ad-hoc meeting was held of the ISC to select two new DC Corporate Bond Lifestyle Fund managers.
- Five meetings of the GMP Steering Committee were held to progress the reconciliation and sex-equalisation of Guaranteed Minimum Pension rights for those members who have them.

At all these meetings, key issues were discussed and progressed with the Trustee's appointed advisers and representatives of the bank. Further information regarding the key actions undertaken by the Trustee during the year is provided within the various sections of this statement.

Section 2: Improving the Trustee's knowledge and understanding

## What are the Trustee's responsibilities?

The Plan is operated by a single corporate Trustee, Bank of America UK Retirement Plan Trustees Limited, which must ensure that its Trustee Directors have appropriate knowledge and understanding to fulfil their roles.

In accordance with Section 248 of the Pensions Act 2004, the Trustee is required to maintain an appropriate level of knowledge and understanding of pension-related legislation, best practice requirements and how these relate to the provisions of the Plan. This, together with the professional advice available to the Trustee, enables it to properly carry out its duties in relation to the Plan.

## How does the Trustee meet these requirements?

The Trustee has a rigorous process for developing and maintaining the knowledge and understanding (TKU) of its Trustee Directors. The following points cover the Trustee's ongoing approach to meeting the TKU requirements.

- The training needs of new Trustee Directors are assessed, and they are given appropriate training in the first six months of their appointment, including on the law relating to pensions and trusts and relevant principles relating to funding and investment of occupational schemes.
- Refresher training is provided where appropriate so that all Trustee Directors have sufficient knowledge and understanding of the relevant pensions and trust laws and principles relating to the funding and investment of occupational pension schemes.
- All Trustee Directors have completed the Pensions Regulator's Trustee Toolkit within six months of their appointment and undertake new modules as required.
- The Trustee and the bank support the completion of the Pensions Management Institute (PMI) Trusteeship exams and a number of the Trustee Directors hold further professional trustee qualifications with either the Association of Professional Pension Trustees (APPT) or the PMI.
- Regularly, the Chair of the Trustee holds meetings with each individual Trustee Director to discuss their role, assess their individual training requirements, provide feedback on their performance and obtain feedback on the performance and effectiveness of the Trustee Board as a whole. During these meetings, the individual skill set of each Trustee Director is considered against the backdrop of the combined capabilities of the Trustee Board, to ensure the Trustee Board is well balanced and equipped to exercise its functions as Trustee of the Plan.
- The Trustee obtains appropriate advice and training on the Plan documents, including ensuring that all Trustee Directors have a working knowledge of the Trust Deed and Rules, the Statement of Investment Principles and all other documents setting out the Trustee's policies. The Trustee is also familiar with the reporting requirements for the Task Force on Climate-Related Financial Disclosures (TCFD). In addition, when dealing with benefit queries that require

legal advice, the Plan's advisers will refer the Trustee to the specific Plan Rules, to ensure they are clear on the interpretation of the Plan's governing documentation.

- The Trustee's legal advisers attend every Trustee Board meeting to provide input on legal considerations, update the Trustee Directors on new legal issues and ensure that the Trustee is always acting in accordance with the Plan's formal documentation.
- All Plan documents and policies are reviewed regularly in accordance with the Trustee's ongoing Business Plan and updated as required. A number of key Plan documents are available to members on the dedicated Plan website (www.bofapension.co.uk).
- The Trustee regularly assesses the individual and group training requirements of its Directors through the completion of self-assessment questionnaires, which are then used to create an ongoing Trustee Training Plan.
- Regular, specific training from professional advisers on the latest current issues and legislation, regulatory and best-practice requirements is incorporated into appropriate Trustee and sub-committee meetings, along with extensive reading materials from the Plan's professional advisers.
- All training and attendance at appropriate seminars is recorded via the Plan's training log which is reviewed on a biannual basis.
- All Trustee Directors aim to complete at least 15 hours of formal and informal Continuous Professional Development each year, related to their ongoing Trustee duties. Compliance with this requirement is monitored by the bank's Pension Team.

The Trustee also receives professional advice to support it in reviewing the performance of the Plan and in governing it in line with the Trust Deed and Rules and other formal documentation. If there are any ambiguities or questions over the interpretation of the Rules or legislative requirements, legal advice is always obtained.

Overall, the Trustee and its advisers are satisfied, given the advice received and the extensive combined experience of the individual Trustee Directors, that it exceeds the required regulatory standards, is compliant with the Pensions Regulator's DC Code of Practice No. 13 and the Code of Practice No. 7 on Trustee Knowledge and Understanding, enabling it to properly exercise its function as Trustee of the Plan.

## What did we do in 2023?

During 2023:

- The Trustee Directors made discretionary decisions on death benefits in line with the Trust Deed and Rules.
- The Trustee undertook specific reviews of Plan documentation including the Statement of Investment Principles and the Implementation Statement. The following policies were also reviewed:
  - Implementation of Pension Sharing Orders.
  - Trustee Security Policy.
- The Trustee also continued its review of the Terms of Reference for its sub-committees to clarify ongoing roles and responsibilities, to be completed in 2024.
- The Trustee continued to develop its cyber-security policies and procedures following a Trustee response workshop led by security experts at the bank on 12 April 2023.
- The Trustee completed a full review of the Plan's Risk Register in preparation for the finalisation of The Pension Regulator's General Code of Practice.
- The Trustee, with the bank's Pension Team, worked to implement a training plan for 2023 based on identified knowledge gaps and the future requirements of the Plan. Training was delivered at four training meetings held jointly with Bank of America (LBAC) Pension Trustees Limited. In addition to receiving updates on current issues at all Trustee Board and sub-committee meetings, specific training was undertaken on a number of important issues, including the following:
  - TCFD reporting.
  - DC developments on the horizon, including the new Value for Members assessment framework, supporting members at retirement and decumulation proposals.
  - Regulatory and legal issues.
  - Trustee discretions.
  - Equality, Diversity and Inclusion.
  - Cyber Security.
- The Trustee Directors all exceeded their goal of achieving at least 15 hours of formal and informal Continued Professional Development in 2023, certified by the Pensions Management Institute.

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# Section 3: Managing the Plan’s investment options & reviewing the Default Arrangement

## What are the Trustee’s responsibilities?

The Trustee is responsible for setting the investment strategy for the Plan’s DC Section, including appointing investment managers to deliver appropriate investment options for members.

The Plan is used by the bank as a ‘Qualifying Scheme’ to meet the requirements of automatic enrolment legislation in respect of the majority of active employees. As a result, the Trustee must establish and regularly review a Default Arrangement, into which the savings of those members who do not wish to select their own investment options are invested. The Default Arrangement is also available to members who do make an active investment choice.

The Trustee is required to review the Plan’s Default Arrangement at least every three years to ensure that it remains appropriate, taking into account the profile and likely requirements of the Plan’s membership as a whole. The Trustee is also required to monitor the performance and ongoing return expectations of the Default Arrangement on a regular basis, to ensure that it continues to meet its objectives.

Finally, the Trustee is also required to monitor and regularly review the range of Freestyle investment options offered by the Plan, making changes as necessary to ensure that they meet the varied and evolving requirements of members who wish to select their own investment options.

## The Plan's investment options

Plan members are offered a range of investment options they can invest in. These fall under either the 'hands-on' Freestyle approach or the 'hands-off' Lifestyle approach, which includes the Default Arrangement. Following the implementation of the changes to the Lifestyle Strategy implemented in 2022, Plan members can invest in either, or a combination of these approaches.

Within the Lifestyle approach, the Plan offers members two options each with a different level of risk and potential return ('Principal' and 'Lower Risk'). For each of these Lifestyle options, members can also select any one of three Pre-retirement phase options. These three Pre-retirement phase options target different asset allocations at retirement aiming to be suitable for members seeking to either:

- Purchase an annuity.
- Take the full amount as cash.
- Move into a flexible drawdown product – this option also reflects the fact that many members will not know how they wish to access their retirement savings from the options available to them.

More information on the two Lifestyle approaches is included in the Plan Handbook which can be found in the Resources section of the **Plan website**.

A continuing area of focus for the Trustee has been its policy on responsible investment and the relevant options available to members. The Trustee believes that investing in companies that do not consider Environmental, Social and Governance (ESG) issues creates an undesirable long-term investment risk. Moreover, integrating ESG considerations into the governance of the Plan is important and necessary to help members to achieve good retirement outcomes.

As part of the ongoing monitoring of the Plan's investment managers, the Trustee uses ESG ratings provided by the Plan's investment advisers, where relevant and available, to monitor the level of the Plan's investment managers' integration of ESG considerations on a quarterly basis.

## Default Arrangement: How does the Trustee meet the requirements?

- The Plan's Default Arrangement for those members who previously did not select their own investment options is the 'Principal Lifestyle – Flexible' option. The Trustee agreed this strategy, having consulted with its advisers, based on in-depth analysis of the demographics and likely risk profile of the Plan's membership.
- The objective of the 'Principal Lifestyle – Flexible' option is to generate capital growth over the long term, with increasing levels of retirement income protection and capital protection as members approach retirement. The Trustee believes

that this offers a suitable balance between the exposure to investment risk (by a sufficient level of diversification) and expected growth over the longer term.
- All the Plan's investments are monitored by the Investment Sub-Committee (ISC), made up of Trustee Directors with specific investment expertise. The Trustee regularly undertakes an assessment of their training needs and members of the ISC receive ongoing and frequent training from their professional advisers on investment principles, strategies and risks, which is recorded in a formal training log. This ensures that they maintain knowledge and relevant understanding to carry out sound and prudent oversight of the investment strategy.
- The ISC meets at least quarterly to review the investment performance of the Default Arrangement and all the additional funds made available to members.
- The Trustee's professional investment advisers attend every ISC meeting, to assist with decision-making, based on their comprehensive investment manager research.
- Investment managers attend and present at ISC meetings typically once every two to three years or following the identification of an issue that the Trustee wishes to probe further.
- In between the quarterly meetings, the Trustee's investment advisers provide regular updates and ratings of the investment managers.
- The Trustee may decide to change the percentage of each fund that is allocated to specific asset classes, change the percentage allocation to each underlying fund manager or amend the mix of assets in which members are invested at different ages. The Trustee may also decide to replace investment managers if appropriate or to introduce other investment managers with attractive or alternative offerings. Members are notified of any changes made to the investment managers or investment strategy.

The Trustee, with the help of its investment advisers, also undertakes a more in-depth review of the Plan's underlying fund range on an annual basis. This includes:

- Considering the on-going suitability of the funds that make up the Default Arrangement and other Lifestyle options and their adherence to their investment mandates.
- Reviewing the future investment return expectations of the Default Arrangement.
- Ensuring that the funds available to members continue to compare favourably with other funds available in the market.
- Ensuring costs and charges borne by members continue to represent good value to those members.

The Trustee also undertakes a formal review of the Default Arrangement every three years, as required by legislation.

## Default Arrangement: What did we do in 2023?

The Trustee changed the weightings of the underlying funds within the Index Linked Gilt Lifestyle Fund. These changed from a blend of 55% BlackRock Index Linked Gilt Tracker Fund, and 45% BlackRock Aquila Connect Up To 5 Year Index Linked Gilt Fund, to be 55% in favour of the latter fund.

### Triennial review of the Default Arrangement

Strategic reviews of the Plan's investments are carried out on a triennial basis, with the most recent review completed on 22 June 2023. This review considered the Plan's membership profile, the needs of members, how members access their savings as well as the expected member outcomes at retirement.

As a result of the review, the Trustee agreed to retain the 'Principal Lifestyle – Flexible' option as the Default Arrangement. As further consideration is being given to the overall range of Lifestyle options as a follow up to the review, the Trustee will keep members up to date with any changes.

The underlying funds used within the Default Arrangement were also reviewed, and changes agreed as follows:

- Corporate Bond Lifestyle Fund: remove allocation to one of the existing UK bond funds and reduce the allocation to the remaining UK bond fund from 50% to 33%. Introduce two new fixed income funds which invest on a global basis. The Trustee believes the introduction of a more geographically diversified fixed income fund to be beneficial for members.

The Equity Lifestyle Fund, which makes up 100% of the Growth phase within the Default Arrangement, was last reviewed in 2022, where a number of changes were made to the asset allocation of the portfolio. As part of the triennial review, the Equity Lifestyle Fund was reviewed to consider potential enhancements to the active equity allocation of the portfolio. This review is ongoing, and any changes expected to be implemented in 2024.

Appendix 1 shows how the savings of members invested in the Plan's Default Arrangement were being invested as at 31 December 2023, across each of the main asset classes.

## Freestyle fund range: How does the Trustee meet the requirements?

The Trustee is aware that no single investment strategy can be designed to suit the differing investment needs of all Plan members, which will change during their working lives. To help members make appropriate investment decisions, the Trustee makes available a range of suitable investment funds, and provides members with guides, factsheets and modelling tools. These include a wide range of Freestyle investment options, made available via Fidelity, the Plan's investment platform, covering various asset classes and regions, and in some case focusing on specific investment principles e.g.:

- For members who wish to invest in a way that takes account of ESG factors, the fund range includes the Environmental, Social & Governance Global Equity Fund.
- The range also includes the Shariah Fund, for members who wish to invest in line with Shariah law principles.

The Plan also operates a number of legacy investment options that are not offered via the Fidelity platform, into which further contributions and investment switches are not permitted. The Trustee reviews these legacy options periodically with support from its advisers. Further information is provided below under 'Legacy investment policies'.

As well as conducting a review of the Plan's Default Arrangement, the Trustee also carries out ongoing and formal reviews of the Freestyle fund range on a regular basis, including the following:

- The ISC meets at least quarterly to review the investment performance of all fund options offered by the Plan and receives updates from its professional investment advisers, who attend every ISC meeting.
- In between the quarterly meetings, the Trustee's investment advisers provide regular updates and ratings of the investment managers.
- Investment managers attend and present at ISC meetings typically once every two to three years or following the identification of an issue that the Trustee wishes to probe further.
- The Trustee may decide to replace Freestyle fund options and the underlying investment managers if appropriate or to introduce other options with attractive or alternative offerings that may be appropriate for Plan members. The Trustee may also change the benchmark allocation to specific asset classes. The Trustee endeavours to notify members of any changes made to the fund range, or the investment managers.

## Freestyle fund range: What did we do in 2023?

Over the course of 2023, the Trustee held meetings with PIMCO, who manage the assets underlying one of the Plan's Freestyle fund options.

### Triennial review of the Freestyle fund range

The Freestyle fund range was reviewed in 2023 as part of the triennial strategy review. This review concluded that the current fund range offers members the ability to build an investment portfolio that meets their specific investment beliefs, and no significant gaps were identified in the fund range.

In addition to the changes agreed to the Corporate Bond Lifestyle Fund mentioned above, the Trustee agreed it would be appropriate to add this fund to the Freestyle fund range, offering members a differentiated fund from the other Freestyle funds. This fund will replace the existing UK Corporate Bond Active Fund and is expected to be launched in 2024.

## Reviewing investment performance

The performance of the Default Arrangement and the Freestyle investment options is regularly monitored between each strategic review to ensure that the funds and strategies are performing as expected. The Trustee did this over 2023 via:

- Quarterly investment monitoring reports.
- Conducting an investment strategy review.
- Fund reviews.

The Trustee is satisfied that over the Plan year its funds and strategies have performed in line with their aims and objectives as set out in the Trustee's SIP– see Section 4. The Trustee has in place performance monitoring metrics that bring any underperforming funds to the attention of the Trustee for closer review.

## Other Default Arrangements

As a result of a historical requirement to redirect member contributions without their consent, the Money Market Fund is classified as an additional Default Arrangement, subject to the same statutory requirements as the Plan's main Default Arrangement. It is subject to a triennial review, which was carried out over 2023 alongside the main Default Arrangement review.

This review concluded the Money Market Fund remains appropriate as an additional Default Arrangement.

# Section 4: Statement of Investment Principles (SIP)

## What are the Trustee's responsibilities?

The Trustee is required to include within this statement a copy of the latest SIP prepared for the Plan in compliance with Section 35 of the Pensions Act 1995 and regulation 2 and 2A of the Occupational Pension Schemes (Investment) Regulations 2005.

The SIP covers the following key matters in relation to the Default Arrangement:

- The Trustee's aims and objectives in relation to the investments held in the Default Arrangement.
- The Trustee's policies on issues such as: the kinds of investments to be held; the balance between different kinds of investments; risks, including the ways in which risks are to be measured and managed; the expected return on investments; the realisation of investments; and the extent (as appropriate) to which social, environmental or ethical considerations are taken into account when selecting, retaining or realising investments.
- An explanation of how these aims, objectives, and policies (which together form a part of the Trustee's 'default investment strategy') are intended to ensure that assets are invested in the best interests of members whose savings are invested in the Default Arrangement.

The Trustee reviews the SIP at least every three years and following any significant change in investment policy. The Trustee takes investment advice and consults with the sponsoring employer over any changes to the SIP.

## What did we do in 2023?

The SIP (and the Default Arrangement detailed within the SIP) was last reviewed and approved in September 2023.

The most recent SIP reflects the changes to the investment options comprising of twenty Freestyle options and two risk-differentiated lifestyle strategies. The Trustee allows members to have simultaneous investments in both Freestyle and Lifestyle options.

The Stewardship Policy within the SIP was updated to reflect the stewardship priorities that were adopted by the Trustee during 2023.

The SIP will be updated in 2024 following the triennial strategy review and will also cover the Trustee's policy on investment in illiquid assets or other investments that cannot easily be sold.

A copy of the latest SIP is in Appendix 8.

## Implementation Statement

The Trustee also publishes an Implementation Statement each year, describing how it has ensured that the policies and objectives set out in the SIP were adhered to over the course of the year. A copy of the latest Implementation Statement can be found on the Plan website, **bofapension.co.uk > Resources**.

# Section 5: Charges and transaction costs

## What are the Trustee's responsibilities?

Regulations require the Trustee to obtain and publish annually the level of costs and charges that apply to:

- Each Default Arrangement during the Plan year.
- Each fund option available to members, in which members' savings have been invested during the Plan year. For the Plan this is the Freestyle fund range and a small number of investment funds held in legacy investment policies.

These requirements are intended to ensure transparency on the costs that members pay from their retirement savings.

**Charges** include the Annual Management Charge (AMC), the annual fee charged by the investment manager for investing in a fund. The AMC, along with additional expenses such as trading fees or legal fees, are included in the Total Expense Ratio (TER), which is an estimate of the total annual cost of investing in a fund.

Any relevant charges are deducted as a percentage of a member's funds. For the funds on the Fidelity investment platform, details about the charges for each fund are provided on Fidelity factsheets available on the Plan website, **bofapension.co.uk**.

**Transaction costs** are costs incurred within the day-to-day management of the assets by the fund manager. This covers such things as the cost of buying and selling investments within a fund. Transaction costs can be incurred on an ongoing basis and are implicit within the performance of a fund. The prescribed method of calculating transaction costs requires that trading costs are calculated by comparing the price at which the transaction was actually executed with the price when the transaction order entered the market. So, when selling into a rising market or buying in a falling market, the calculation produces a credit that may outweigh the other 'explicit' transaction costs, resulting in negative total transaction costs over the Plan year.

Details of any performance-based fees paid to the investment manager(s) of the Default Arrangement must also be disclosed.

The Trustee is required to assess annually the extent to which these charges and costs represent good value for members. See 'Value for Members' in Section 8.

The Trustee has taken account of statutory guidance when producing this section and the related appendices and has not deviated from the approach set out in that guidance.

## How does the Trustee meet the requirements?

The Trustee formally reviews the charges and transaction costs paid by members on an annual basis and, through the ISC, works closely with the Plan's investment managers throughout the year to obtain the lowest possible charges for all the available fund options. The Trustee also uses the combined purchasing power of the assets held in all the bank's UK pension arrangements to secure the best possible terms for Plan members.

The Trustee confirms that, over the Plan year, no performance-based fees were incurred by members, either in the Default Arrangement, any of the other Lifestyle options, or Freestyle funds.

## What did we do in 2023?

### Default Arrangement(s)

The level of charges and transaction costs applicable to each component fund within the Default Arrangement during 2023 are as shown in Appendix 2, expressed as a percentage of a member's fund holdings.

These charges and transaction costs were supplied by Fidelity, the Plan's investment platform provider. These are the only charges and costs incurred by Plan members during 2023.

The Trustee is pleased to confirm that the total charges for the Default Arrangement (the 'Principal Lifestyle – Flexible' option) and the additional Default Arrangement (not used for the purposes of auto-enrolment), the Money Market Fund, both remain below the Government's charge cap of 0.75% p.a.

### Freestyle fund range

The level of charges as at 31 December 2023 and transaction costs that applied over the 12 months up to that date to the Freestyle fund range in which members have chosen to invest are shown in Appendix 3.

### Legacy investment policies

Additional Voluntary Contributions (AVCs) are also held outside of the Plan, in BlackRock Sub Investment Accounts, a Common Investment Fund, and with Aviva. Further details regarding the external AVC arrangements are set out below.

## BlackRock Sub Investment Accounts

The Trustee regularly reviews the Plan's Money Purchase arrangements to ensure they remain fit for purpose and are compliant with the regulations. As part of this process, the Trustee reviewed the sub-investment accounts and decided that they should be closed due to the increased governance requirements, the nature of the accounts and the lack of Trustee involvement in the investment process. There is currently one remaining notional account with zero value which is in the process of being closed.

Given the sub-investment accounts do not hold any member funds, there were no member borne charges during the year.

## Common Investment Fund (CIF)

Historically, members of the Defined Benefit (DB) Section of the Plan were given the option to pay AVCs on a Money Purchase basis into the DB Section via a CIF. These AVCs also included transfers-in and bonus waiver payments and are attributed a value based on a notional portfolio of assets. The CIF also offers a guaranteed investment return of 8% p.a. to some members on a portion of their previous CIF contributions.

All contributions and other payments into the CIF AVC arrangement have now ceased. With regards to the notional funds in the CIF AVC arrangement, these carry no explicit charges or direct transaction costs.

## Aviva

The Aviva arrangement is closed to new contributions. Members are invested in unit-linked funds. The AMCs and transaction costs for these funds are shown in Appendix 4.

# Section 6: Charges and transaction costs – illustrations

## What are the Trustee's responsibilities?

Regulations require the Trustee to produce illustrations of the cumulative effect over time of the charges and transaction costs that apply to certain fund options offered by the Plan. This is to improve transparency and help members understand the impact that charges and transaction costs might have on their own savings.

## Charges and transaction cost illustrations – 2023

The Trustee has taken account of the applicable statutory guidance and has produced illustrations to demonstrate the effect of the charges and transaction costs for the investment funds and strategies offered by the Plan for three different example members (two active and one deferred), with different terms to retirement and accumulated fund values.

The illustrations in Appendix 5 show, based on a number of assumptions and investment options, the projected fund values at retirement before and after charges and transaction costs have been deducted, such that the potential impact of these costs is clearly shown.

Please note that the figures in Appendix 5 are only illustrations and the actual fund values and impact of charges on members' investments will be different, depending on their personal details and investment choices, and whether or not the assumptions are borne out. The information contained in Appendix 5 is not a substitute for the individual and personalised illustrations the Plan provides to members each year.

In line with statutory requirements, we show these illustrations for members invested in the following funds:

- Default Arrangement – Principal Lifestyle – Flexible. This automatically transitions members' funds between the underlying funds as they approach their Target Retirement Date.
- The highest charging fund – Active Emerging Market Equity Fund.
- The lowest charging fund – Passive Asia Pacific ex Japan Equity Fund.
- Additional Default Arrangement – Money Market Fund.

## Section 7: Net investment returns

### What is required?

Regulations require the Trustee to calculate and publish the return on investments of the Plan's Default Arrangement and the Freestyle and Legacy investment options in which members have invested, after taking account of charges and transaction costs.

### Net investment return disclosures – 2023

Appendices 6 and 7 provide the net investment disclosures as at 31 December 2023, showing the investment performance of the Plan's various default, Freestyle and Legacy fund options, after adjustment for all the charges and transaction costs discussed in Sections 5 and 6. The Trustee has taken account of the statutory guidance when preparing these disclosures.

It is important to note that past performance is not a guarantee of future performance.

# Section 8: Value for members

## What are the Trustee's responsibilities?

Regulations require that the Trustee conducts an annual review of the value for money that members receive from the Plan and discloses the results of this review in this statement. If it is identified that members are not receiving good value, the Trustee is required to investigate and identify what steps can be taken to improve the position for the affected members.

## How does the Trustee meet the requirements?

The Trustee is committed to ensuring that members receive value for money from the Plan, meaning that all the services and features that members receive, compared to the charges deducted from their savings, should represent good value.

Plan members only meet the charges and costs associated with the management and delivery of the Plan's investment options, with all other costs met by the bank. These charges and transaction costs, along with illustrations of the impact of these costs on members' Member Accounts, are discussed earlier in this statement in Sections 5 and 6.

The Trustee aims to ensure that the Plan provides good value for money by utilising the combined purchasing power of all the bank's UK pension arrangements to secure the lowest possible member charges.

Each year, the Trustee, with its advisers, carries out a formal assessment of the investment charges paid by members and the services that they receive, compared to other similar pension arrangements. The assessment considers the value provided by the Plan's investment options and the broader financial and non-financial value of the additional services provided by the Plan where the bank meets the costs. This includes administration, communications and online services. These assessments are undertaken in line with the Department for Work and Pensions (DWP) guidance and The Pension Regulator's DC Code of Practice.

The review process considers governance, investments, quality of administration and member communications and engagement, in particular:

- Effectiveness of the Trustee Board in the overall Governance of the Plan.
- Level and competitiveness of charges paid by members.
- Range, quality and suitability of the investment options available to members.
- Performance and quality of the administration service.
- Range and quality of member communications and support.

## Value for members assessment – 2023

Aon carried out an independent value for members assessment on behalf of the Trustee, which was discussed by the Administration and Governance Sub-Committee (AGSC) at its meeting on 30 April 2024. Under the Trustee's assessment framework, the Trustee believes that overall, the Plan is well run for its size and profile and offers good value for members.

### Governance

- Plan governance covers the time spent by the Trustee to ensure the Plan is run in compliance with the law and regulations, including taking account of the interests of its members.
- The Trustee believes in having robust processes and structures in place to support effective management of risks and ensure members' interests are protected, increasing the likelihood of better member outcomes. The Trustee regularly reviews its governance processes and procedures in light of industry best practice. The Plan will need to focus on demonstrating that it operates an effective system of governance over the 2024 Plan year and commencing the work required.
- There is strategic oversight of the DC arrangements through the AGSC, the ISC and the Trustee Board.

### Investments

- The Plan offers a variety of Lifestyle strategies and Freestyle funds covering a range of member risk profiles and asset classes. The investment funds available have been designed, following advice from the Plan's investment advisers, with the specific needs of members in mind.
- The Trustee completed a triennial strategic review of the Plan's investment strategy in June 2023 and agreed changes to make to the investment options offered to members. The strategy review considered the membership profile of the Plan and the way in which members are expected to take benefits, and the changes are expected to produce better member outcomes. These changes are described in Section 3.
- The Trustee will also complete its review of the legacy AVC arrangements during 2024 to consider the value provided to members relative to the alternative investment options available to members through the Plan.

## Administration

- The administration service was transitioned to WTW from Capita with effect from 2 June 2021, as the Trustee recognised that the administration service was an area that could be improved for members. Given the size of the project, several issues arose, including an unexpected backlog of unprocessed member requests being inherited by WTW and there being significantly higher than anticipated member demand for administration services throughout the transition.
- These put additional pressure on the administration team resources in 2022 and resulted in delays to processing some member requests, with the administration service provided to members not at the level expected by the Trustee.
- Throughout 2023, the Trustee has worked closely with WTW to improve the quality of administration. In particular, a new operational model at WTW was implemented, with all additional resource in place from 1 April 2023. This was a significant investment made by the Trustee and the bank and as a result, the overall administration service and performance against Service Level Agreement targets improved and was 97% throughout the Plan year.

## Member communications and engagement (including support at retirement)

- The Plan provides various member communications that are accurate, clear, informative and timely.
- A variety of communication media is used, including access to online tools and helpful information around retirement planning. These can be found in the My Resources section of the Plan website, bofapension.co.uk, after logging in.
- Members can access help to support them in their decision making in the form of decision trees, factsheets and case studies.

## Section 9: Monitoring and processing of core financial transactions

### What are the Trustee's responsibilities?

Regulations require that a pension plan's core financial transactions are processed promptly and accurately. These transactions include, but are not limited to:

- Investment of contributions paid to the Plan.
- The transfer of member assets out of the Plan.
- Switching between different investments within the Plan.
- Payments to and in respect of members, for example on retirement or death.

The Trustee is required to monitor these activities and take action where there are systematic process delays or inaccuracies.

### How does the Trustee meet the requirements?

#### Active member contributions

The bank is responsible for ensuring that contributions in respect of active members are paid to the Plan promptly. The Trustee relies on the bank to ensure contribution payments are accurate by carrying out appropriate checks. The timing of these payments and their subsequent investment is monitored by the Trustee through quarterly reports produced by the Plan administrator.

#### Administration arrangements

The Trustee outsources the administration of the Plan and the operation of the Plan's bank account to a professional administration provider, WTW, which carries out the bulk of the core financial transactions undertaken by the Plan.

The Trustee has agreed target timescales with the Plan administrator for the processing of all member-related services, including core financial functions relating to contribution handling, quoting benefits and paying benefits. When a member transaction request is received, it is recorded on a work management system by the administrator, which assigns an appropriate Service Level Agreement (SLA) target timescale to each task.

Examples of target timescales for WTW are set out below:

| Task | Service Level Agreement |
|---|---|
| **Transfer out quotations*** | 10 working days |
| **Provision of current fund value*** | 5 working days |
| **Retirement – Settlement** | 5 working days |
| **Death claim** | 4 working days |
| **Investment switches*** | 5 working days |

**Also available to members online via ePA.*

The Trustee, after taking advice, believes that these target timescales are in line with industry best practice and should ensure that all transactions are completed within any applicable statutory timescales.

The Plan administrator produces quarterly administration reports disclosing its performance against these agreed timescales. These reports are reviewed on behalf of the Trustee at the quarterly meetings of the AGSC.

The AGSC also requires additional disclosures from the Plan administrator in respect of any transactions and benefit processing activity that has not been completed within the agreed timescales, including details of the cause of the delay, the extent to which agreed timescales were not met and remedial measures taken to ensure that the delays do not reoccur. The Trustee requires that the Plan administrator reports back to them on the completion of any remedial measures, with oversight from its advisers where appropriate.

The Trustee also operates a system of controls designed to ensure that core financial transactions are carried out both promptly and accurately, with any problems being quickly identified and resolved.

The table below sets out two examples of the Plan's core financial transactions and the controls that existed during the year to 31 December 2023 to ensure accuracy and promptness.

| Core financial transaction | Key internal controls | |
|---|---|---|
| **Investment switches requested by members** | **Promptness**<br>The Plan administrator's SLA for switching investments is five days from the date of request.<br>Data on the events received each quarter, the number completed within and outside of the SLA target and the number of work-in-progress cases at the quarter end are provide to the Trustee for review. | **Accuracy**<br>All switches are reconciled with manager transaction statements.<br>All members are notified when an investment switch is completed. |
| **Payment of benefits** | **Promptness**<br>Cash flow preparation includes identification of forthcoming benefit payments to minimise delay.<br>SLAs for core benefit transactions, particularly retirement and transfer payments, help ensure that members' financial requests are processed promptly.<br>Regular appraisal of the quality of common data items for all members helps to ensure that member data are accurate, reducing the likelihood of delay due to data issues.<br>Clear authorisations exist for the payment of transactions, balancing the need for promptness against a requirement for appropriate senior oversight, with the approval of at least two individuals being required to authorise payments.<br>Data on any events that breached the target timescales is provided to the Trustee for review.<br>Regular meetings take place between the bank's Pension Team and the Plan administrator to quickly identify problems that might arise and agree appropriate solutions, which are then monitored to completion. | **Accuracy**<br>The administrator operates a peer review system for all benefit calculations.<br>Data accuracy is subject to regular evaluation and updating.<br>All members are notified when their benefit payments have been completed. |

### Independent governance monitoring

Silver Wolf Associates, a pension consulting firm independent of the Plan administrator and other advisers, verifies the administration reports and carries out additional ongoing governance monitoring and one-off projects for the Trustee, to ensure that member requests and benefit payments are dealt with in accordance with statutory requirements.

## Core financial transactions – accuracy and timely processing in 2023

There was a backlog inherited when the administration services for the Plan moved to WTW. This backlog and higher than expected demand placed significant additional pressure on the new WTW team and resulted in turnaround times for members falling below the standard expected by the Trustee. Throughout 2023, the Trustee has worked closely with WTW to improve the quality of administration with a new operational model implemented, and all additional resource in place from 1 April 2023. This was a significant investment made by the Trustee and the bank and as a result, the overall administration service and performance against SLA targets improved. The Trustee can see that the changes implemented resulted in an improvement in the experience of members contacting the Plan administrator. Over 2023, 97% of work items, on average, were completed within SLA.

The table below sets out performance against SLAs over 2023.

| Task | SLA | Total cases (2023) | % within SLA (2023) | *% within SLA (2022)* |
|---|---|---|---|---|
| Transfer out quotes | 10 days | 1,191 | **100%** | *99%* |
| Transfer out completion | 5 days | 439 | **79%** | *74%* |
| Transfer in quotes | 5 days | 228 | **94%** | *75%* |
| Transfer in completion | 5 days | 118 | **86%** | *51%* |
| Retirement quotes | 5 days | 394 | **95%** | *99%* |
| Retirement settlement | 5 days | 194 | **85%** | *63%* |
| Leaver claim | 5 days | 697 | **98%** | *99%* |
| Death claim | 4 days | 17 | **18%** | *0%* |
| Investment switches | 5 days | 4 | **75%** | *11%* |

While there has been an overall improvement over the year, the Trustee recognises that SLAs for some core financial transactions were lower than the standard set by the Trustee. The Trustee recognises that this is an area where more needs to be done and is working with WTW to ensure that these core financial transactions are processed in a timely fashion.

Actions taken by the Trustee in 2023 and 2024 include commencing a number of projects specifically designed to improve the timeliness and accuracy of all member transactions, including:

- Data cleansing and address tracing projects.
- Updating of member records to increase automation and the ability of members to obtain calculations online.
- An independent review by Silver Wolf of the cases identified by KPMG in their 2023 Benefit Audit, to identify root causes and ensure that appropriate processes are implemented.
- Undertaking a review of the extent to which benefit calculations can be automated.
- Review of member letter templates to ensure that members are given accurate information regarding their benefit entitlements.

## Data quality – 2023

The Trustee monitors the accuracy of the Plan's common data on a regular basis, based on quarterly analysis reports produced by the Plan administrator. Reasons for any decline in common data quality are considered, alongside the remedial measures available to the Trustee. The Trustee requires updates on any agreed remedial measures to ensure they have been satisfactorily implemented.

As directed by the Trustee, throughout 2023 WTW completed address tracing for deferred members and where possible, took actions to update member records and correct addresses. More detailed tracing is being carried out in 2024 for any members where the initial results were unsuccessful.

Additional data cleansing activities were carried out throughout 2023 including preparatory work ahead of Pensions Dashboards, address tracing and existence checking exercises.

## Internal controls – 2023

The Trustee believes that strong and well documented internal controls are a key element in delivering high quality, risk managed services to members.

The Trustee operates a comprehensive Risk Register that aims to identify all the risks to which the Plan is exposed, including those relating to the promptness, accuracy, and security of the Plan's financial transactions. It also describes the internal controls that are in place to mitigate the impact of those risks on member benefits and the Plan as a whole. The Trustee works closely with its advisers to review the processes that monitor financial transactions and ensure that they are working effectively.

The Risk Register is considered at each AGSC meeting and formally reviewed at least annually. The last annual review of the full Risk Register was undertaken in November 2023.

The Trustee also reviews the Plan administrator's assurance report on its internal controls each year. These internal controls reports are expected to conclude that the administrator's internal controls are suitably designed and those tested generally operated effectively. However, where a report does highlight any exceptions, the administrator is required to confirm that it did not have any negative impact on Plan members and confirm implementation and completion of an action plan to avoid a recurrence of the issue.

In August 2023, the AASC reviewed the Plan administrator's internal controls report for the year 1 October 2021 to 30 September 2022. This review concluded the controls had been fairly designed and implemented during that reporting period. In addition, it found the control activities were suitably designed to provide assurance that the specific objectives would be achieved if the designed control activity operated effectively throughout the operation period. Six exceptions were identified and WTW's responses and actions in respect of these exceptions were noted by the AGSC as part of their review.

## Conclusion

Overall, the Trustee is satisfied that core financial transactions were processed accurately over 2023. Although some members did experience delays in processing their requests, there was a clear improvement in the service received compared to the prior year, due to the significant investment made by the Trustee and the bank. However, the Trustee recognises more needs to be done to improve the timeliness of some of the core financial transactions. This remains a key area of focus for the Trustee, which continues to work closely with the bank's Pension Team and the Plan administrator to deliver the expected level of service to Plan members.

## Chair's declaration

This statement has been prepared in accordance with the Regulations and I confirm that the above statement has been produced by the Trustee to the best of my knowledge.

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**Peter Gibbs – Chair**

Signed on behalf of Bank of America UK Retirement Plan Trustees Limited

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Date

# Appendix 1: Asset Allocation in the Default Arrangement

In order that members invested in the Plan's Default Arrangement or any additional Default Arrangements can see how their savings were being invested as at 31 December 2023, the table below shows the percentage of each of the main asset classes held by the 'Principal Lifestyle – Flexible' option and the Money Market Fund for members at different ages. Where the fund invests in one or more underlying funds, the asset allocation shown is that of the underlying funds.

For more information on the investment options offered by the Plan, please see the Plan Handbook on the Plan website.

## Principal Lifestyle – Flexible

| Asset Class | Percentage allocation: 37 years to retirement | Percentage allocation: 17 years to retirement | Percentage allocation: 7 years to retirement | Percentage allocation: Age 62 (Normal Retirement Date) |
|---|---|---|---|---|
| **Cash** | **1.2%** | **1.2%** | **4.6%** | **3.4%** |
| **Bonds** | **0.0%** | **0.0%** | **35.6%** | **55.1%** |
| Corporate bonds | 0.0% | 0.0% | 29.6% | 30.8% |
| Government bonds – fixed | 0.0% | 0.0% | 4.7% | 4.2% |
| Government bonds – index-linked | 0.0% | 0.0% | 1.1% | 19.8% |
| Other bonds | 0.0% | 0.0% | 0.3% | 0.2% |
| **Listed Equity** | **98.2%** | **98.2%** | **48.7%** | **33.9%** |
| UK | 3.0% | 3.0% | 1.6% | 1.1% |
| Developed markets (exc UK) | 80.7% | 80.7% | 39.5% | 27.6% |
| Emerging markets | 14.5% | 14.5% | 7.5% | 5.2% |
| **Private Equity** | **0.0%** | **0.0%** | **0.0%** | **0.0%** |
| Venture Capital | 0.0% | 0.0% | 0.0% | 0.0% |
| Growth Equity | 0.0% | 0.0% | 0.0% | 0.0% |
| Buyout funds | 0.0% | 0.0% | 0.0% | 0.0% |
| **Property** | **0.0%** | **0.0%** | **6.5%** | **4.4%** |
| **Infrastructure** | **0.0%** | **0.0%** | **0.0%** | **0.0%** |
| **Private Debt** | **0.0%** | **0.0%** | **0.0%** | **0.0%** |
| **Other** | **0.6%** | **0.6%** | **4.6%** | **3.2%** |

Values may not sum to 100% due to rounding.

## Money Market Fund

The Money Market Fund invests 100% in cash.

# Appendix 2: Charges and transaction costs – Lifestyle strategies

The tables below set out the charges and transaction costs applicable to the Default Arrangement and other Lifestyle strategies, taking into account the remaining term to retirement.

For more information on the investment options offered by the Plan, please see the Plan Handbook on the Plan website.

| Principal Lifestyle – Flexible (the Default Arrangement) | | | |
|---|---|---|---|
| Term to retirement | Total Expense Ratio (% p.a.) | Transaction costs (% p.a.) | Total (% p.a.) |
| 0 | 0.35 | 0.17 | 0.52 |
| 1 | 0.37 | 0.18 | 0.55 |
| 2 | 0.39 | 0.19 | 0.58 |
| 3 | 0.40 | 0.20 | 0.60 |
| 4 | 0.42 | 0.21 | 0.63 |
| 5 | 0.43 | 0.21 | 0.64 |
| 6 | 0.44 | 0.22 | 0.66 |
| 7 | 0.44 | 0.23 | 0.67 |
| 8 | 0.44 | 0.23 | 0.67 |
| 9 | 0.44 | 0.23 | 0.67 |
| 10 | 0.43 | 0.22 | 0.65 |
| 11 | 0.41 | 0.20 | 0.61 |
| 12 | 0.40 | 0.18 | 0.58 |
| 13 | 0.39 | 0.17 | 0.56 |
| 14 | 0.37 | 0.15 | 0.52 |
| 15+ | 0.36 | 0.13 | 0.49 |

| Principal Lifestyle – Annuity | | | |
|---|---|---|---|
| Term to retirement | Total Expense Ratio (% p.a.) | Transaction costs (% p.a.) | Total (% p.a.) |
| 0 | 0.12 | 0.03 | 0.15 |
| 1 | 0.17 | 0.06 | 0.23 |
| 2 | 0.21 | 0.10 | 0.31 |
| 3 | 0.26 | 0.13 | 0.39 |
| 4 | 0.30 | 0.17 | 0.47 |
| 5 | 0.35 | 0.20 | 0.55 |
| 6 | 0.37 | 0.21 | 0.58 |
| 7 | 0.40 | 0.22 | 0.62 |
| 8 | 0.42 | 0.23 | 0.65 |
| 9 | 0.44 | 0.23 | 0.67 |
| 10 | 0.43 | 0.22 | 0.65 |
| 11 | 0.41 | 0.20 | 0.61 |
| 12 | 0.40 | 0.18 | 0.58 |
| 13 | 0.39 | 0.17 | 0.56 |
| 14 | 0.37 | 0.15 | 0.52 |
| 15+ | 0.36 | 0.13 | 0.49 |

| Principal Lifestyle – Cash | | | |
|---|---|---|---|
| Term to retirement | Total Expense Ratio (% p.a.) | Transaction costs (% p.a.) | Total (% p.a.) |
| 0 | 0.13 | 0.01 | 0.14 |
| 1 | 0.17 | 0.05 | 0.22 |
| 2 | 0.21 | 0.09 | 0.30 |
| 3 | 0.26 | 0.13 | 0.39 |
| 4 | 0.30 | 0.17 | 0.47 |
| 5 | 0.35 | 0.20 | 0.55 |
| 6 | 0.37 | 0.21 | 0.58 |
| 7 | 0.40 | 0.22 | 0.62 |
| 8 | 0.42 | 0.23 | 0.65 |
| 9 | 0.44 | 0.23 | 0.67 |
| 10 | 0.43 | 0.22 | 0.65 |
| 11 | 0.41 | 0.20 | 0.61 |
| 12 | 0.40 | 0.18 | 0.58 |
| 13 | 0.39 | 0.17 | 0.56 |
| 14 | 0.37 | 0.15 | 0.52 |
| 15+ | 0.36 | 0.13 | 0.49 |

| Lower Risk Lifestyle – Flexible | | | |
|---|---|---|---|
| Term to retirement | Total Expense Ratio (% p.a.) | Transaction costs (% p.a.) | Total (% p.a.) |
| 0 | 0.35 | 0.17 | 0.52 |
| 1 | 0.36 | 0.17 | 0.53 |
| 2 | 0.37 | 0.18 | 0.55 |
| 3 | 0.37 | 0.18 | 0.55 |
| 4 | 0.38 | 0.19 | 0.57 |
| 5 | 0.39 | 0.19 | 0.58 |
| 6 | 0.40 | 0.20 | 0.60 |
| 7 | 0.40 | 0.20 | 0.60 |
| 8 | 0.41 | 0.20 | 0.61 |
| 9 | 0.42 | 0.21 | 0.63 |
| 10 | 0.43 | 0.21 | 0.64 |
| 11 | 0.43 | 0.22 | 0.65 |
| 12 | 0.44 | 0.22 | 0.66 |
| 13 | 0.44 | 0.22 | 0.66 |
| 14 | 0.44 | 0.22 | 0.66 |
| 15+ | 0.44 | 0.22 | 0.66 |

| Lower Risk Lifestyle – Annuity | | | |
|---|---|---|---|
| Term to retirement | Total Expense Ratio (% p.a.) | Transaction costs (% p.a.) | Total (% p.a.) |
| 0 | 0.12 | 0.03 | 0.15 |
| 1 | 0.15 | 0.05 | 0.20 |
| 2 | 0.18 | 0.07 | 0.25 |
| 3 | 0.21 | 0.09 | 0.30 |
| 4 | 0.24 | 0.11 | 0.35 |
| 5 | 0.27 | 0.13 | 0.40 |
| 6 | 0.29 | 0.14 | 0.43 |
| 7 | 0.32 | 0.15 | 0.47 |
| 8 | 0.34 | 0.17 | 0.51 |
| 9 | 0.36 | 0.18 | 0.54 |
| 10 | 0.39 | 0.19 | 0.58 |
| 11 | 0.41 | 0.20 | 0.61 |
| 12 | 0.44 | 0.22 | 0.66 |
| 13 | 0.44 | 0.22 | 0.66 |
| 14 | 0.44 | 0.22 | 0.66 |
| 15+ | 0.44 | 0.22 | 0.66 |

| Lower Risk Lifestyle – Cash | | | |
|---|---|---|---|
| Term to retirement | Total Expense Ratio (% p.a.) | Transaction costs (% p.a.) | Total (% p.a.) |
| 0 | 0.14 | 0.02 | 0.16 |
| 1 | 0.17 | 0.05 | 0.22 |
| 2 | 0.19 | 0.07 | 0.26 |
| 3 | 0.21 | 0.09 | 0.30 |
| 4 | 0.24 | 0.11 | 0.35 |
| 5 | 0.27 | 0.13 | 0.40 |
| 6 | 0.29 | 0.14 | 0.43 |
| 7 | 0.32 | 0.15 | 0.47 |
| 8 | 0.34 | 0.17 | 0.51 |
| 9 | 0.36 | 0.18 | 0.54 |
| 10 | 0.39 | 0.19 | 0.58 |
| 11 | 0.41 | 0.20 | 0.61 |
| 12 | 0.44 | 0.22 | 0.66 |
| 13 | 0.44 | 0.22 | 0.66 |
| 14 | 0.44 | 0.22 | 0.66 |
| 15+ | 0.44 | 0.22 | 0.66 |

The table below sets out the charges and transaction costs for the underlying funds in the Default Arrangement and other Lifestyle funds.

| Fund name | Total Expense Ratio* (% p.a.) | Transaction costs** (% p.a.) |
|---|---|---|
| Equity Lifestyle Fund[1, 2, 3, 4, 5] | 0.36 | 0.13 |
| Diversified Lifestyle Fund[1, 2, 3, 4, 5] | 0.53 | 0.34 |
| Pre-Retirement Lifestyle Fund[2, 3, 4, 5] | 0.12 | 0.03 |
| Money Market Lifestyle Fund[2, 3, 4, 5] | 0.13 | 0.01 |
| Corporate Bond Lifestyle Fund[1, 4, 5] | 0.31 | 0.02 |
| Index-Linked Gilt Lifestyle Fund[1, 5] | 0.06 | 0.07 |

Notes:

* Total Expense Ratio (TER) is the total cost of investing in the fund. It is automatically deducted from the price of the funds in which you are invested. The TER includes the annual management charge for that fund and any other additional fund expenses such as legal fees, auditor fees and other operational expenses. The TERs are effective as at 31 December 2023.

** Transaction costs are costs incurred in the day-to-day management of the assets by the fund manager. This covers such things as the cost of buying and selling securities within a fund. Transaction costs are incurred on an on-going basis, are included within the overall performance of the fund and are in addition to the TER shown. The transaction costs reflect the latest information provided to Fidelity by the fund managers as at 31 December 2023.

[1]Funds underlying Principal Lifestyle – Flexible (the Default Arrangement) and Lower Risk Lifestyle – Flexible.

[2]Funds underlying Principal Lifestyle – Annuity.

[3]Funds underlying Principal Lifestyle – Cash.

[4]Funds underlying Lower Risk Lifestyle – Annuity.

[5]Funds underlying Lower Risk Lifestyle – Cash.

## Appendix 3: Charge and transaction costs – Freestyle fund range

The level of charges and transaction costs applied to the non-default fund options on the Fidelity Platform for the year to 31 December 2023 can be seen in the table below.

For more information on the investment options offered by the Plan, please see the Plan Handbook on the Plan website.

| Fund name | Total Expense Ratio* (% p.a.) | Transaction costs** (% p.a.) |
|---|---|---|
| Asia Pacific ex Japan Equity Fund – Passive | 0.07 | 0.00 |
| Diversified Growth Fund | 0.53 | 0.34 |
| Emerging Market Equity Fund – Active | 0.95 | 0.35 |
| Environmental, Social and Governance Global Equity Fund | 0.59 | 0.20 |
| European (ex UK) Equity Fund – Passive | 0.07 | 0.01 |
| Gilt Fund | 0.07 | 0.03 |
| Global Equity Fund – Active | 0.60 | 0.06 |
| Index Linked Gilts Fund | 0.07 | 0.15 |
| Japanese Equity Fund – Passive | 0.07 | 0.03 |
| Money Market Fund | 0.13 | 0.01 |
| North American Equity Fund – Passive | 0.07 | 0.02 |
| Pre-Retirement Fund | 0.12 | 0.05 |
| Shariah Fund | 0.33 | 0.12 |
| UK Corporate Bond Fund – Active | 0.31 | 0.02 |
| UK Corporate Bond Fund – Passive | 0.07 | 0.05 |
| UK Equity Fund – Active | 0.53 | 0.14 |
| UK Equity Fund – Passive | 0.07 | 0.08 |
| UK Property Fund | 0.54 | 0.07 |
| World (ex UK) Equity Fund – Passive | 0.07 | 0.01 |
| Equity Growth Fund | 0.36 | 0.13 |

Notes:

* Total Expense Ratio (TER) is the total cost of investing in the fund. It is automatically deducted from the price of the funds in which you are invested. The TER includes the annual management charge for that fund and any other additional fund expenses such as legal fees, auditor fees and other operational expenses. The TERs are effective as at 31 December 2023.

** Transaction costs are costs incurred in the day-to-day management of the assets by the fund manager. This covers such things as the cost of buying and selling securities within a fund. Transaction costs are incurred on an on-going basis, are included within the overall performance of the fund and are in addition to the TER shown. The transaction costs reflect the latest information provided to Fidelity by the fund managers as at 31 December 2023. Where transaction costs have been provided as a negative cost, these have been set to zero by the Trustee.

# Appendix 4: Charge and transaction costs – external AVC arrangements

The table below sets out the charges and transaction costs for the AVC policy with Aviva.

| Fund name | Total Expense Ratio* (% p.a.) | Transaction costs** (% p.a.) |
|---|---|---|
| European Equity Fund | 0.88 | 0.07 |
| Gilt Fund | 0.88 | 0.10 |
| Global Bond Fund | 0.88 | 0.06 |
| Mixed Investment Fund (40-85% Shares) | 0.88 | 0.06 |
| Pacific Equity Fund | 0.88 | 0.10 |
| US Equity Fund | 0.88 | 0.00 |

**Notes:**

* The TER is capped at the annual management charge. The TERs are effective as at 31 December 2023.

** Transaction costs are costs incurred in the day-to-day management of the assets by the fund manager. This covers such things as the cost of buying and selling securities within a fund. Transaction costs are incurred on an on-going basis, are included within the overall performance of the fund and are in addition to the TER shown. The transaction costs reflect the latest information provided by the fund managers as at 31 December 2023.

# Appendix 5: Charges and transaction costs – illustrations

The information in this appendix illustrates the effect of the costs and charges (as set out in Appendix 2 and Appendix 3) for investment funds and strategies available through Fidelity, for three different example members (two active and one deferred) with different terms to retirement and accumulated fund values.

- **Example member A**: Active member with 44 years until retirement at age 62, current salary of £22,000 and current fund value of £0. The member is assumed to have no past years of service, with future contributions of 8% of salary per annum for the first 10 years and 12% of salary per annum until Normal Retirement Date (age 62).
- **Example member B**: Active member with 22 years until retirement at age 62, current salary of £108,000 and current fund value of £64,000. The member is assumed to have more than 10 years of past service, with future contributions of 12% of salary per annum until Normal Retirement Date (age 62).
- **Example member C**: Deferred member with 16 years until retirement at age 62 and a current fund value of £76,000. No further contributions will be paid until Normal Retirement Date (age 62).

The illustrations show the projected fund values (rounded to the nearest £1) before and after charges so that the potential impact of costs and charges is clearly shown.

The illustrations show the potential impact that costs and charges might have if the example members were invested in the following funds:

- Default Arrangement – Principal Lifestyle – Flexible.
- Active Emerging Market Equity Fund – represents the highest charging fund in which members are invested.
- Passive Asia Pacific ex Japan Equity Fund – represents the lowest charging fund in which members are invested.
- Money Market Fund – additional Default Arrangement.

Members should be aware that these are simply illustrations, so the actual fund values and implication of charges for members' investments may be different if members' personal details or investment choices differ from those shown or the assumptions are not borne out. Due to the effect of rounding, the impact of charges on members' Member Account values may appear uneven, particularly in the early years. The information contained here is not a substitute for the individual and personalised illustrations provided to members each year by the Plan.

| Example Member | Age | Principal Lifestyle – Flexible | | Emerging Market Equity Fund | | Asia Pacific ex Japan Equity | | Money Market Fund | |
|---|---|---|---|---|---|---|---|---|---|
| | | Before charges (£) | After charges (£) | Before charges (£) | After charges (£) | Before charges (£) | After charges (£) | Before charges (£) | After charges (£) |
| Example A (Youngest active member) | 18 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 20 | 3,630 | 3,620 | 3,560 | 3,520 | 3,630 | 3,630 | 3,430 | 3,420 |
| | 25 | 14,200 | 13,980 | 13,260 | 12,730 | 14,200 | 14,160 | 11,560 | 11,510 |
| | 30 | 28,180 | 27,450 | 25,070 | 23,420 | 28,180 | 28,060 | 19,980 | 19,830 |
| | 35 | 49,480 | 47,720 | 42,130 | 38,430 | 49,480 | 49,170 | 31,130 | 30,830 |
| | 40 | 75,880 | 72,330 | 61,390 | 54,440 | 75,880 | 75,260 | 41,490 | 40,970 |
| | 45 | 108,610 | 102,200 | 83,100 | 71,500 | 108,610 | 107,480 | 51,110 | 50,330 |
| | 50 | 147,780 | 137,030 | 107,600 | 89,680 | 149,180 | 147,280 | 60,050 | 58,970 |
| | 55 | 183,720 | 166,610 | 135,230 | 109,070 | 199,470 | 196,440 | 68,350 | 66,940 |
| | 60 | 214,870 | 190,510 | 166,400 | 129,740 | 261,820 | 257,170 | 76,060 | 74,290 |
| | 62 | 227,410 | 200,130 | 179,960 | 138,390 | 290,760 | 285,300 | 78,990 | 77,070 |
| Example B (Average active member) | 40 | 64,000 | 64,000 | 64,000 | 64,000 | 64,000 | 64,000 | 64,000 | 64,000 |
| | 45 | 150,730 | 148,340 | 140,210 | 134,320 | 150,730 | 150,320 | 121,150 | 120,550 |
| | 50 | 255,900 | 248,190 | 226,190 | 209,290 | 258,250 | 256,950 | 174,250 | 172,730 |
| | 55 | 362,310 | 344,170 | 323,170 | 289,220 | 391,530 | 388,660 | 223,570 | 220,880 |
| | 60 | 463,780 | 431,710 | 432,570 | 374,420 | 556,760 | 551,360 | 269,380 | 265,300 |
| | 62 | 505,410 | 467,450 | 480,150 | 410,060 | 633,450 | 626,690 | 286,780 | 282,090 |
| Example C (Average deferred member) | 46 | 76,000 | 76,000 | 76,000 | 76,000 | 76,000 | 76,000 | 76,000 | 76,000 |
| | 50 | 89,390 | 87,820 | 83,690 | 79,990 | 90,250 | 90,000 | 71,650 | 71,260 |
| | 55 | 102,720 | 98,000 | 94,410 | 85,280 | 111,880 | 111,170 | 66,560 | 65,750 |
| | 60 | 112,520 | 104,160 | 106,500 | 90,910 | 138,690 | 137,320 | 61,830 | 60,670 |
| | 62 | 116,310 | 106,540 | 111,750 | 93,270 | 151,140 | 149,430 | 60,030 | 58,750 |

**Notes and assumptions:**

- The projected Member Account values are shown in today's terms and are calculated using the same assumptions as the Statutory Money Purchase Illustration (SMPI) benefit projections issued annually to members.
- Annual investment returns and costs/charges as a percentage reduction are assumed to be deducted at the end of each year. Charges and costs are deducted before the application of investment returns.
- The projected gross growth rates (ignoring the effect of inflation) for each fund are as follow:
    - Equity Lifestyle Fund – 7.0% p.a.
    - Diversified Lifestyle Fund – 3.0% p.a.
    - Corporate Bond Lifestyle Fund – 3.0% p.a.
    - Index Linked Gilt Lifestyle Fund – 3.0% p.a.
    - Emerging Market Equity Fund – Active – 5.0% p.a.
    - Asia Pacific ex Japan Equity– Passive – 7.0% p.a.
    - Money Market Fund – 1.0% p.a.
- Price inflation is assumed to be 2.5% each year and is deducted from the above returns as part of the calculations.
- Earnings inflation is assumed to be 2.5% each year.
- The transaction costs have been averaged over a five-year period based on information received from Fidelity. A floor of 0% p.a. has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.

## Appendix 6: Net investment returns

The tables below provide the net investment returns as at 31 December 2023 for each of the investment options offered by the Plan. The Trustee has taken into account the statutory guidance when providing these net investment returns.

It is important to note that past performance is not a guarantee of future performance.

| Principal Lifestyle – Flexible (Default Arrangement) | | |
|---|---|---|
| Performance to 31 December 2023 | Annualised returns (% p.a.) | |
| Age of member at start of reporting period | 1 year | 5 years |
| 25 | 17.2 | 9.9 |
| 45 | 17.2 | 7.6 |
| 55 | 10.8 | 4.4 |

| Principal Lifestyle – Annuity | | |
|---|---|---|
| Performance to 31 December 2023 | Annualised returns (% p.a.) | |
| Age of member at start of reporting period | 1 year | 5 years |
| 25 | 17.2 | 9.9 |
| 45 | 17.2 | 7.6 |
| 55 | 9.0 | -0.5 |

| Principal Lifestyle – Cash | | |
|---|---|---|
| Performance to 31 December 2023 | Annualised returns (% p.a.) | |
| Age of member at start of reporting period | 1 year | 5 years |
| 25 | 17.2 | 9.9 |
| 45 | 17.2 | 7.6 |
| 55 | 9.0 | -0.8 |

| Lower Risk Lifestyle – Flexible | | |
|---|---|---|
| Performance to 31 December 2023 | Annualised returns (% p.a.) | |
| Age of member at start of reporting period | 1 year | 5 years |
| 25 | 11.8 | 3.4 |
| 45 | 10.7 | 2.9 |
| 55 | 9.8 | 2.2 |

| Lower Risk Lifestyle – Annuity | | |
|---|---|---|
| Performance to 31 December 2023 | Annualised returns (% p.a.) | |
| Age of member at start of reporting period | 1 year | 5 years |
| 25 | 11.8 | 3.4 |
| 45 | 10.7 | 2.9 |
| 55 | 8.1 | -0.1 |

| Lower Risk Lifestyle – Cash | | |
|---|---|---|
| Performance to 31 December 2023 | Annualised returns (% p.a.) | |
| Age of member at start of reporting period | 1 year | 5 years |
| 25 | 11.8 | 3.4 |
| 45 | 10.7 | 2.9 |
| 55 | 8.1 | -0.1 |

## Freestyle fund range

| Performance to 31 December 2023 | Annualised returns (% p.a.) | |
|---|---|---|
| Fund name | 1 year | 5 years |
| Asia Pacific ex Japan Equity Fund – Passive | 4.3 | 6.3 |
| Diversified Growth Fund | 5.7 | 2.2 |
| Emerging Market Equity Fund – Active | 2.5 | 2.3 |
| Environmental, Social and Governance Global Equity Fund | 9.9 | 12.4 |
| European (ex UK) Equity Fund – Passive | 15.2 | 10.3 |
| Gilt Fund | 1.5 | -6.5 |
| Global Equity Fund – Active | 18.4 | 11.5 |
| Index Linked Gilts Fund | 0.1 | -5.0 |
| Japanese Equity Fund – Passive | 14.0 | 7.2 |
| Money Market Fund | 4.7 | 1.4 |
| North American Equity Fund – Passive | 21.5 | 15.6 |
| Pre-Retirement Fund | 7.4 | -1.9 |
| Shariah Fund | 27.3 | 16.8 |
| UK Corporate Bond Fund – Active | 9.3 | 0.8 |
| UK Corporate Bond Fund – Passive | 8.7 | 0.4 |
| UK Equity Fund – Active | 9.9 | 6.3 |
| UK Equity Fund – Passive | 6.5 | 6.0 |
| UK Property Fund | 0.5 | 0.5 |
| World (ex UK) Equity Fund – Passive | 18.5 | 13.3 |
| Equity Growth Fund | 17.2 | n/a* |

*The Equity Growth Fund was introduced to the Freestyle fund range in February 2022, so 5-year annualised returns are not available.

# Appendix 7: Net investment returns – Legacy investment policies

| Performance to 31 December 2023 | Annualised returns (% p.a.) | |
|---|---|---|
| Fund name | 1 year | 5 years |
| European Equity Fund | 13.3 | 7.8 |
| Gilt Fund | 3.9 | -3.2 |
| Global Bond Fund | 5.5 | 0.2 |
| Mixed Investment Fund (40-85% Shares) | 7.7 | 5.3 |
| Pacific Equity Fund | 9.6 | 7.4 |
| US Equity Fund | 19.2 | 14.7 |

# Appendix 8: Statement of Investment Principles

## Section 1: Introduction

This Statement of Investment Principles (SIP) is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

This SIP covers both the Defined Benefit ('DB'; also known as 'final salary') and the Defined Contribution ('DC'; also known as 'money purchase') sections of the Bank of America UK Retirement Plan (the 'Plan'). Each of the two sections of the Plan are covered individually below. This SIP also covers the Trustee's policy on issues that apply equally to both sections.

Details of the appointed managers can be found in a separate document produced by the Trustee entitled 'Summary of Investment Arrangements'.

## Section 2: Defined Benefit Section

### Investment Objective

The Trustee aims to invest the assets of the Plan prudently to ensure that the benefits promised to Plan members are provided. In setting the Plan’s investment strategy, the Trustee took advice from its Investment Adviser and consulted with the sponsoring employer. The asset allocation strategy selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Plan’s liabilities.

### Strategy

The current planned asset allocation strategy chosen to meet the objective above is set out in the table below. In addition to the assets detailed below, the Trustee has purchased an annuity policy designed to pay the benefits of the pensioner membership covered in the policy. The annuity policy provides protection, however the Trustee does not target a specific allocation to annuity policies. Instead, the Trustee considers opportunities to purchase annuity policies as and when pricing and the Plan's circumstances permit. The strategic allocation set out in the table below therefore excludes the allocation to any annuity policies.

Based on the Trustee's Gilts +0% p.a. basis, the value of the Plan's annuity policies was estimated to be c. £250m as at 30 June 2023, calculated using 31 December 2022 membership data and rolled forward to allow for changes in market conditions, benefit outgo, and expected changes to the membership profile to 30 June 2023. At 30 June 2023 this c. £250m valuation was out of total assets of c. £978m i.e. 26% of total assets. This percentage of total assets will vary over time.

| Section / Asset Class | Target Weight (ex. buy-in) (%) | Benchmark | Performance Target (p.a) |
|---|---|---|---|
| **Returns Section** | **5** | **Composite** | |
| Cash Plus | 5 | | |
| Unconstrained Bonds | | SONIA | +4% |
| **Protection Section** | **95** | **Composite** | |
| Absolute Return Bond Investments (ARBIs) | 15 | SONIA | +2% |
| Asset Backed Securities | | SONIA | +2% |
| Investment Grade Credit | 15 | SONIA | +2% |
| Cash/Money Market | 65 | SONIA | |
| LDI | | Plan specific liability benchmark | |

- The Returns section consists of 'Cash Plus' mandates whose performance is expected to be determined largely by manager skill.
- Target weights are in respect of total assets excluding the annuity policy.
- The Trustee agreed to remove the Plan's private equity, property debt, and property allocation as a means of lowering the overall risk profile of the Plan as well as increasing the liquidity of the Plan. This is being done in part to enable the Trustee to act quickly should they choose to purchase further annuity policies and better align the Plan’s assets with insurer assets.

The Plan has a Liability Driven Investment (LDI) allocation within the Protection section. The value of the LDI allocation will vary over time in line with its objective of mitigating the interest rate and inflation risks faced by the Plan (excluding those already hedged by the annuity policy). This allocation is complemented by an Investment Grade Credit allocation which is also used to help hedge interest rate and inflation risks, derived from the Investment Grade Credit’s interest rate exposure within the portfolio. The exposure to credit within the portfolio targets a 2% return above SONIA.

The Trustee monitors the actual asset allocation versus the target weights listed in the asset allocation strategy on a quarterly basis. The Trustee considers rebalancing the assets back towards the target weights should the asset allocations deviate significantly from the target.

The current investment strategy was determined with regard to:

- The actuarial characteristics of the Plan, i.e. the nature and timing of the Plan’s expected future liability cash flows. These characteristics were considered when designing the Plan’s LDI mandate.
- The strength of the current funding position and sponsoring employer’s covenant (the direct covenant rests with the sponsoring employers of the Plan: MLI and MLIH).
- The sponsoring employer’s contribution policy.

The Trustee’s policy is to make the assumption that return seeking asset classes will outperform the Plan's liabilities over the long term. The Trustee also assumes that active fund management can be expected to add value. However, the Trustee recognises the potential volatility in return seeking assets relative to the present value of the Plan’s liabilities.

Prior to setting the current investment strategy, the Trustee considered written advice from its Investment Adviser and in doing so addressed the following:

- The need to consider a full range of asset classes including private equity, property and other alternative assets.
- The overall risks and expected returns of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.
- The current funding position of the Plan.

The Trustee also consulted with the sponsoring employer when setting the Plan's investment strategy.

### Risk Measurement and Management

The Trustee maintains a 'Statement of Funding Principles' which specifies that the funding objective is to have sufficient assets so as to make provision for 100% of the Plan's liabilities as determined by an actuarial calculation.

The Trustee recognises that the key risk to the Plan is if it has insufficient assets to make provisions for 100% of its liabilities ('funding risk'). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Plan's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ('mismatching risk'). The Trustee and its advisers considered this mismatching risk when setting the investment strategy and have specifically structured the Plan's assets so as to mitigate this risk.
- The risk of a shortfall of liquid assets relative to the Plan's immediate liabilities ('cash flow risk'). The Trustee and its advisers will manage the Plan's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund managers to achieve the performance targets set by the Trustee relative to the benchmark ('manager risk'). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk ('risk of lack of diversification'). The Trustee and its advisers considered this risk when setting the Plan's investment strategy and when appointing multi asset fund managers.
- The possibility of failure of the Plan's sponsoring employer ('covenant risk'). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy. The Trustee has appointed a covenant adviser to monitor the covenant on an ongoing basis.
- The risk of fraud, poor advice or acts of negligence ('operational risk'). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.
- The risk that the investment vehicles in which monies are invested underperform the expectations of the Trustee due to other external factors (e.g. environmental, social and governance factors, including climate change) over the short and long-term.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

The Trustee's policy is to monitor, where possible, these risks quarterly. The Trustee receives quarterly reports showing:

- Estimated current funding level versus the Plan's specific funding objective.
- Performance of the Plan's assets versus the overall investment objective.
- Performance of individual fund managers versus their respective targets.
- Evaluative comments and any significant issues regarding the Plan's current fund managers.
- Performance of the Plan's LDI mandate and its success at reducing mismatching risk.
- Projected risk attribution for the Plan's assets relative to the liabilities.

More broadly the Trustee maintains a risk register which looks at the whole range of risks to which the Plan may be subject. This includes the risks described above.

## Implementation

The Plan's strategy is implemented largely through investment in pooled funds (at the time of writing the only exception is the segregated LDI and investment grade credit mandates). The fund managers are monitored and may change from time to time. The investment objectives of each mandate and its alignment with the Plan's strategy is considered at inception and on an ongoing basis.

The Plan's LDI mandate has been implemented through a portfolio of physical gilts and gilt derivatives of various maturities. The LDI mandate is not designed to achieve a profit for the Plan. Instead, it has been implemented to try and reduce the volatility of the Plan's overall funding level through time. Movements in long-term interest rates and inflation expectations affect the present value of the Plan's expected future liabilities. The LDI mandate, complemented by the investment grade credit allocation, hedge the Plan against these movements.

# Section 3: Defined Contribution Section

## Investment Objective

The Trustee is responsible for providing an appropriate range of investment options to members. Its key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. It has taken into account members' circumstances, in particular the range of members' attitudes to risk and term to retirement.

## Strategy

The Trustee's policy is to provide suitable information for members so that they can make appropriate investment decisions. The range of funds was chosen by the Trustee after taking expert advice from the Trustee's Investment Advisers. In choosing the Plan's investment options, it is the Trustee's policy to consider:

- A wide range of asset classes.
- The suitability of each asset class for a defined contribution plan.
- The need for appropriate diversification of asset classes.
- The suitability of the possible styles of investment management and the need for manager diversification.

In addition, the Trustee will consider the characteristics of various member types or groups and the potential differences between these in relation to attitude to risk over the period of their membership in the Plan, and the different ways in which benefits may be taken at retirement.

The Trustee expects the long-term return on the investment options that invest predominantly in equities to exceed price inflation and general salary growth. The long-term returns on the bond and cash options are expected to be lower than returns on predominantly equity options. However, bond funds have the potential to broadly offset changes in the price of annuities, giving some protection to the amount of pension that can be secured by members choosing to purchase an annuity at retirement. Cash funds are expected to provide protection against changes in short-term capital values.

## Investment options

The investment options for members of the DC Section of the Plan comprise 20 freestyle and two risk-differentiated lifestyle strategies. The Trustee allows members to have simultaneous investments in both freestyle and lifestyle options.

The two lifestyle strategies each have options aligned to the at retirement access choices of:  flexible, annuity or cash.

The lifestyle options are designed based on analysis of the demographics of the Plan's membership to provide a range of options offering members a choice of investment risk and potential for growth. These will be reviewed on an ongoing basis to ensure they remain appropriate for a broad range of the membership.

The lifestyle options are designed using a retirement age that can be pre-selected by the member, otherwise a default age is used. The Trustee recognises that the lifestyle options may be less suitable for members who retire earlier or later than their chosen, or the Plan's, default age, and communicates this issue to members.

The freestyle fund range has been designed to enable members to create a diversified investment portfolio; the range comprises both single-manager funds and multi-manager ‘blended’ funds, with blending used where it is felt that manager diversification and/or style differentiation could enhance member outcomes. The range contains a number of passively managed options as well as actively managed funds, offering the member the option of paying a lower level of fees for index-tracking, or higher fees in seeking the potential of additional risk adjusted returns. Actively managed funds have the objective to outperform the index net of fees to ensure that active management is delivering value for members. The Plan also makes available a Shariah Fund and an Environmental, Social & Governance Global Equity Fund for those wishing to invest in line with the specific objectives of these funds.

## Default strategy

The Trustee has chosen the Principal Flexible Lifestyle option as the default investment for the Plan. This is the strategy that has the most balanced approach to risk and return of the Lifestyle options available and the Trustee therefore views it as being the one most appropriate for the majority of members who have not made a decision on where to invest. The ‘Flexible’ pre-retirement option has been chosen as the Trustee expects, based on analysis of the membership and in particular the projected longer term average value of members’ funds at retirement, that many would potentially look for income drawdown in retirement. Importantly in selecting this as the default, this strategy also reflects flexibility in its design for members who are considering a combination of options or wish to choose alternative options such as annuity or cash at retirement.

Under regulatory definitions, the Money Market Fund is also a Plan default. During a period when the UK Property Fund temporarily suspended cashflows, member contributions were automatically redirected into the Money Market Fund, thereby designating it as a deemed default.

## Ongoing monitoring and review

The Trustee has a policy in place to review the funds within both the lifestyle and freestyle funds on an on-going basis. Where it is deemed that a manager or fund is no longer appropriate, the Trustee has operational procedures in place to remove and replace the manager or fund from the fund range. To support this process, the Trustee has created a number of blended ‘white labelled’ funds which allow the replacement of underperforming managers or funds to be carried out in a timely manner to the benefit of members.

## Risk Measurement and Management

The Trustee recognises the key risk is that members will have insufficient income in retirement or an income that does not meet their expectations. The Trustee considered this risk when setting the investment options and strategy for the Plan. The Trustee's policy in respect of risk measurement methods and risk management processes is set out below.

The Trustee considers the following sources of risk:

- Risk of not meeting the reasonable expectations of members, bearing in mind members' contributions and fund choices.
- Risk of fund managers not meeting their objectives ('manager risk'). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund manager and on an ongoing basis thereafter.
- Risk of asset classes not delivering the anticipated rate of return over the long-term.
- Risk of the lifestyle options being unsuitable for the requirements of some members.
- The risk of fraud, poor advice or acts of negligence ('operational risk'). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.
- The risk that the investment vehicles in which monies are invested underperform the expectations of the Trustee due to other external factors (e.g. environmental, social and governance factors, including climate change) over the short and long-term.

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal defined contribution strategy review. The Trustee considers feedback from members to ensure that a sufficient range of funds are offered to meet members' needs. The Trustee's policy is to review the range of funds offered and the suitability of the lifestyle option at regular intervals.

The Trustee measures risk in terms of the performance of the funds compared to the respective benchmarks on a quarterly basis. The Trustee also monitors any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

## Implementation

The Trustee has implemented the above investment strategy by offering members of the Plan a range of funds and lifestyle options via an investment only platform operated by Fidelity (Policy number INVE/MLDB/100157). The investment options available have been designed, following advice from the Plan's Investment Adviser, with the specific needs of members in mind.

The funds have been structured as tailored portfolios and the Trustee retains the right to add, remove or replace fund managers within each of the tailored portfolios, as well as make changes to the asset allocation between the underlying funds, as and when required. The tailored portfolio structure ensures this is applied in an efficient manner for the benefit of all members invested in them.

Cashflow rebalancing is in place to ensure these funds are weightings are maintained as closely to the benchmark weights as such cashflow rebalancing achieves. The funds have additional triggers, based on tolerances ranges expressed as a +/- percentage deemed appropriate for each underlying fund, to ensure the funds are brought back to the benchmark allocations if they move beyond these tolerance thresholds. The rebalancing is monitored and executed by Fidelity.

Members are provided with information on each of the tailored portfolios through individual fund factsheets that are provided by Fidelity and updated on a quarterly basis.

# Section 4: Defined Benefit and Defined Contribution Sections

## Implementation

The Trustee has appointed an Investment Adviser. The Investment Adviser operates under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions itself and to monitor those it delegates. The Investment Adviser is paid on a time cost basis for all the work it undertakes for the Plan although fixed fees may be negotiated by the Trustee for certain projects. This structure has been chosen to ensure that cost-effective, independent advice is received.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant fund manager through a written contract. When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

In setting the Plan's investment strategy, including the default investment strategy of the DC Section of the Plan, the Trustee's primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustee believes that in order to fulfil this commitment and to protect and enhance the value of the Plan's investments, it is important to act as a responsible steward of the assets in which the Plan invests.

## Environmental, Social and Governance considerations

The Trustee further acknowledges that an understanding of financially material considerations including environmental, social and corporate governance (ESG) factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks.

The Trustee has agreed the following set of belief statements in connection with ESG matters:

- Our fiduciary duty requires us to take all financially material risks into account, including ESG risks.
- Our fund managers should consider sustainability issues related to the companies they invest in, as doing so is likely to improve risk-adjusted returns in the long-term.
- We believe that our investment managers should integrate ESG factors into their investment process.

To this end, as part of their delegated responsibilities, the Trustee expects the Plan's investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments. Any decision made by the Plan's fund managers should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.

The Trustee is taking the following steps to monitor and assess ESG related risks and opportunities:

- Trustee Directors will have periodic training on Responsible Investment to understand regulatory requirements and approaches to this area, and how ESG factors could impact the Plan's assets and liabilities.
- As part of ongoing monitoring of the Plan's investment managers, the Trustee will use ESG ratings information provided by its Investment Adviser, where relevant and available, to monitor the level of the Plan's investment managers' integration of ESG on a quarterly basis.
- Supported by its Investment Adviser, the Trustee has also undertaken a 'deep dive' review of their managers' responsible investment policies and approaches, and subsequently have engaged directly with a number of their fund managers on these areas.
- Regarding the risk that ESG factors negatively impact the value of investments held if not understood and evaluated properly; Trustee Directors have received training on these risks. Further, the Trustee will take advice from its Investment Adviser on this matter when setting the asset allocation for the Plan's DB Section and strategy for the DC Section, when selecting managers and when monitoring their performance.
- The Trustee will include ESG-related risks on the Plan's risk register as part of ongoing risk assessment and monitoring.

## Stewardship – Voting and Engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Plan invests, as this ultimately creates long-term financial value for the Plan and its beneficiaries. The Trustee also recognises that these issues may be of particular interest to Plan members in the DC Section.

The Trustee delegates stewardship activities related to underlying investee companies, including the exercise of voting rights and engagement with said companies, to its appointed investment managers. The Trustee acknowledges that it is ultimately responsible for decisions taken by its appointed investment managers in relation to the stewardship of assets, including the casting of votes in line with each manager's individual voting policies.

The Trustee expects its managers, or other third parties, to use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This includes voting, along with – where relevant and appropriate – engaging with underlying investee companies on ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest) to promote good corporate governance, accountability, and positive change.

## Review of Stewardship Activities

The Trustee regularly reviews the suitability of the Plan's appointed asset managers and takes advice from its Investment Adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

The Trustee reviews the stewardship activities of its incumbent asset managers on an annual basis, covering both engagement and voting actions to ensure the managers are acting in line with expectations, and therefore the members' best interests. With regard to transparency over voting, the Trustee requires reporting from its asset managers on voting actions and rationale for those votes, where relevant to the Plan, in particular, where: votes were cast against management; votes against management generally were significant (more than 20%), or votes were abstained. This information will be shared with members in the annual Implementation Statement.

The Trustee, with support from its Investment Adviser, will engage with its asset managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of its stewardship policies, are being actioned.

If an incumbent manager is found to be falling short of the standards the Trustee has set out in its policy, the Trustee will engage with the manager where possible, via different methods such as emails and meetings, to seek a more sustainable position but may ultimately look to replace the manager.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an asset manager. The Trustee may engage on matters concerning an issuer of debt or equity, including its performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

## Stewardship Priorities

The Trustee has identified three stewardship priorities for the Plan:

- Environmental issues;
- Social issues; and
- Corporate governance issues.

These have been selected because the Trustee believes it has the potential to significantly impact the value of the Plan's investments and that consideration of them is likely to improve risk-adjusted returns in the long-term. Therefore, it is in members' best interests to ensure there is active stewardship regarding the management of these risks.

Based on advice from its Investment Adviser, the Trustee has also identified focus areas within each priority that it deems to be key risks:

| Stewardship Priority | Focus areas |
|---|---|
| Environmental issues | Climate change<br>Biodiversity loss |
| Social issues | Human and labour rights<br>Working conditions<br>Employee/Board diversity |
| Corporate governance issues | Capital structure<br>Remuneration |

The Trustee keeps its relevant investment managers informed of its stewardship priorities and expectations, and levels scrutiny on its investment managers regarding how they are carrying out stewardship activities in relation to these priorities and focus areas. It is the expectation of the Trustee that the Scheme's investment managers will actively monitor for these risks within their investment portfolios and that they will provide transparency on engagement and voting actions with respect to mitigating these risks.

The Trustee will keep its stewardship priorities and corresponding focus areas under review and update these as required based on its understanding of the most material risks faced by the Plan and its beneficiaries.

## Alignment with wider corporate sustainability policies and practices

When setting their own policies, particularly in relation to stewardship and corporate sustainability, the Trustee has regard to the employer's policies on corporate sustainability. The Trustee will look to integrate their policies and practices with those of the employer, provided these do not cause a financial detriment to members.

The employer has stated that 'Bank of America is committed to improving the environment in how we approach our global business strategy, work with partners, make our operations more sustainable, support our employees, manage risks and govern our activities'. The Trustee therefore seeks to apply the same principle to its investment decision making, and stewardship policies, including the selection of stewardship priorities.

## Members' Views and Non-Financial Factors

Where members make an active decision to share their views with the Trustee on ethical matters, social and environmental impact matters and present and future quality of life matters (defined as 'non-financial factors' under the 2018 Regulations) the Trustee will note and discuss any feedback received.

The Trustee has made available the Environmental, Social & Governance Global Equity Fund and the Shariah Fund for members of the DC Section of the Plan who would like to invest in funds with these specific considerations. The underlying funds that make up the default fund and other freestyle fund options should not apply personal ethical or moral judgements as the sole basis for an investment decision.

## Governance

The Trustee is responsible for the investment of the Plan's assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether it has the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision-making structure:

<table>
<tr><td colspan="2">Trustee<br><ul><li>Monitor actual returns versus Plan investment objective.</li><li>Appoint and monitor Investment Advisers, fund managers and custodians.</li><li>Set structures and processes for carrying out its role.</li><li>Select and monitor planned asset allocation strategy.</li><li>Make ongoing decisions relevant to the operational principles of the Plan's investment strategy.</li><li>Select and review direct investments (see below).</li><li>The Trustee has set up an administration and governance sub-committee to exercise powers in relation to the Plan's administration and governance, and an investment sub-committee to exercise powers in relation to monitoring and reviewing the Plan's investments and fund managers. The powers delegated by the Trustee are set out in respective terms of reference documents.</li></ul></td></tr>
<tr><td>Investment Adviser<br><ul><li>Advise on all aspects of the investment of the Plan assets, including implementation.</li><li>Advise on this statement.</li><li>Provide required training.</li></ul></td><td>Fund Managers<br><ul><li>Operate within the terms of this statement and their written contracts.</li><li>Select individual investments with regard to their suitability and diversification.</li></ul></td></tr>
</table>

| | |
|---|---|
| | • Advise Trustee on suitability of the indices in its benchmark. |

Part of the Investment Adviser's role is to evaluate equity managers as to their stewardship capabilities. This evaluation is provided to the Trustee as part of the Investment Adviser's standard manager monitoring service.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' DC contributions and AVCs. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager(s).

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries.
- Security.
- Quality.
- Liquidity.
- Profitability.
- Nature and duration of liabilities.
- Tradability on regulated markets.
- Diversification.
- Use of derivatives.

The Trustee's Investment Adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee expects its fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

The majority of the Plan's fund managers are remunerated on an ad valorem fee basis. This means that the total fee is based on the total size of assets under management. Some of the Plan's property debt and private equity fund managers are remunerated on a performance-based fee scale. The level of remuneration paid to fund managers is reviewed at regular intervals by the Trustee against market rates in an effort to ensure the Plan and its members benefit from the lowest fees possible.

The Trustee monitors those investments used by the Plan on an annual basis to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies as set out in the Statement of Investment Principles, including those on non-financial matters.

This includes monitoring the extent to which asset managers:

- Make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- Engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by its Investment Adviser.

The Trustee receives reporting and verbal updates from its adviser on various items including the investment strategy, performance, and longer-term positioning of the strategy. The Trustee focusses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan's objectives and assesses the asset managers over the long-term.

Before appointment of a new asset manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with its policies. Where possible, the Trustee will seek to express its expectations to the asset managers to try to achieve greater alignment.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers (and doing so by other means e.g. verbally or in writing at time of appointment), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to be making decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment for all asset managers will be reviewed periodically.

The Trustee reviews its SIP at least every three years and immediately following any significant change in investment policy. The Trustee takes investment advice and consults with the sponsoring employer over any changes to the SIP.

## Costs and transparency

The Trustee has engaged a third-party specialist to assist in collating data on the costs and charges incurred on the Plan's investment funds, as described in more detail below.

The Trustee believes it is important to understand the different costs and charges. For the DC Section, costs are borne by the members whilst costs incurred in respect of the DB Section are incurred by the DB Plan (and therefore ultimately paid for by the sponsoring employer). These costs include:

- Explicit charges, such as the annual management charge, and additional expenses that are disclosed by fund managers as part of the Total Expense Ratio (TER).
- Investment platform costs.
- Implicit charges, such as the portfolio turnover costs (transaction costs) borne within a fund.
- Performance-based fees in respect of illiquid property debt and Private Equity mandates in the DB Section.

The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the fund's portfolio. These are incurred on an ongoing basis and are implicit within the performance of each fund.

Other costs of providing the DC Section of the Plan (e.g. administration and adviser costs) are not charged to members.

For the DC Section, the Trustee collects information on these member-borne costs and charges on an annual basis, where available, and sets these out in the Plan's Annual Chair's Statement regarding DC Governance (the 'Annual Chair's Statement'), which is made available to members in a publicly accessible location. The Trustee has engaged a specialist third-party provider to assist with collating this data.

No specific ranges are set for acceptable costs and charges, particularly in relation to portfolio turnover costs. However, the Trustee expects its DC Investment Adviser to highlight if these costs and charges appear unreasonable when they are collected as part of the Annual Chair's Statement exercise.

It is the Trustee's view that long-term performance, net of fees, is the most important metric on which to evaluate its asset managers.

The Trustee believes that active investment managers can add value, net of fees. It is therefore comfortable with the use of active funds in the DB Plan and the investment lifestyle options and freestyle range available to members in the DC Plan. Passive funds are also made available for those members who prefer low-cost solutions.

Dated: September 2023