Citibank (UK) Pension Plan ("the Plan")
Implementation Statement – Defined Benefit ("DB") Sections
June 2024

Introduction

Under the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, the Trustee is required to produce an annual Implementation Statement, setting out how the stewardship, voting and engagement policies described in the Statement of Investment Principles ("SIP") have been followed.

This statement is produced by the Plan's Trustee in respect of the DB Sections. It will be included in the Plan's Report & Accounts and made public online. In preparing this statement, the Trustee has taken advice from its professional advisers. This Statement only relates to the DB Sections of the Plan and should be read in conjunction with the Defined Contribution ("DC") Implementation Statement.

This Implementation Statement covers the Plan's accounting year between 1 January 2023 and 31 December 2023 and relates to the relevant SIPs in force over the accounting period, namely:

- The SIP which was in force from 15 June 2022 to 14 September 2023 and
- and the SIP in force since 14 September 2023 thereafter.

This Implementation Statement should be read in conjunction with these two SIPs, which can be accessed here: https://epa.towerswatson.com/accounts/citi/public/ifa-resource/

Summary of how investment decisions are taken for the Plan's Defined Benefit Sections

The Trustee has established a Defined Benefit Committee ("DBC") which will consider issues, including investments, which face the Trustee in relation to the DB Sections. The DBC's remit includes setting and implementing strategy, monitoring investment advisers, fund managers and investments. The DB Sections of the Plan do not have a separate investment committee.

The investment strategy is set with the aim of ensuring that the Plan can meet its obligations to the beneficiaries when they fall due. The Trustee attempts to minimise the risk of not meeting this objective through the agreed contributions schedule and the level of expected return on the assets.

The Trustee will seek guidance and written advice from its investment consultant as appropriate when undertaking these activities.

The DBC manages the Plan's investment strategy in accordance with the policies set out in the SIP.

Changes to the SIP over the period

The SIP is reviewed annually or when there is a significant change to the circumstances of the Plan. The SIP in force at 16 June 2022 was subsequently updated at 14 September 2023. The bulk of the changes were additions made in regard to Stewardship for the DB Sections of the Plan.

The update included the articulation of the Trustee's over-arching approach to Stewardship: *"The Trustee understands good stewardship to be the responsible allocation, management, and oversight of capital to create long-term and sustainable value for the Plan's members, taking into account the risks and opportunities associated with environmental, social and governance factors ("ESG"). The*

Trustee will aim to use its influence as an owner of assets to ensure that best practices are reflected in terms of ESG factors, and will hold the Plan's investment managers to account for the effective use of their influence as owners of assets."

The SIP update also added the Trustee's stewardship priorities: *"To best channel its stewardship efforts, the Trustee has selected two key stewardship themes as its stewardship priorities for the DB Section; Climate Change and Corporate Transparency. The themes have been communicated to each of the DB Section's investment managers. These themes were identified as presenting financially material risks which are pertinent in the context of the DB Section's investments, which are primarily fixed income in nature."*

The most recent SIP is available publicly online.

Investment Governance

There were no changes to the Plan's governance structure relating to the DB Sections over the year to 31 December 2023: this includes the role of the DBC, the way in which the DBC takes professional advice and the level of support offered to the Committee by the Citigroup in-house pensions team.

The DBC continues to receive training on relevant topics from its actuarial, investment and legal advisers and presentations from its investment managers as appropriate. As well as ongoing training through the quarterly meeting cycle, it also includes a separate annual training day and bespoke training for new trustees.

Trustees of occupational pension schemes are required to set strategic objectives for their provider of investment consultancy services, in a process that has been overseen by the Pensions Regulator ("tPR") since October 2022. The DBC agreed its investment adviser objectives in accordance with the requirements over the relevant period. The DBC scores investment advisers using qualitative and quantitative evidence against a range of areas including: demonstration of added value; delivery of specialist services; proactivity of advice; support with management and compliance; and relationship and service standards.

The Trustee is satisfied that the investment governance of the Plan is consistent with the Statement of Investment Principles and is appropriate for the circumstances of the Plan.

Investment Strategy and Risk Management

The Trustee keeps the investment strategy under review with its advisers and accordingly determined not to make any changes during the period to 31 December 2023.

The Plan has two DB Sections, the Main Section and the Overseas Section.

The Plan's Main Section has a target expected return of gilts + 0.35% and a target asset allocation of 65% Liability-Driven Investing (LDI) and 35% credit, to be managed within +/-5% tolerance ranges. These metrics are reported to the DBC on a quarterly basis and where the metrics move outside of target range, a discussion around whether to rebalance is triggered at the quarterly DBC meeting.

The Plan's Overseas Section is well-funded on a prudent basis and is therefore invested solely in UK index-linked government bonds ("gilts") held in a pooled fund. There were no changes to this allocation during the period.

As the Main Section of the Plan is well-funded on a prudent basis, it is able to pursue a low-risk strategy that seeks to maintain its current strong position and to hedge unrewarded risks, such that the dominant investment risk is investment grade credit risk, which is run in order to target asset out-performance over gilts. The Main Section hedges its interest rate and inflation risk arising from pension liabilities, and currency and US interest rate risk arising from its credit assets. Both Sections of the Plan maintain a high degree of asset liquidity, especially as the majority of assets are UK Government bonds held in an LDI fund.

In accordance with the SIP, the Trustee receives a quarterly written report on the performance of the DB Plan against its strategic objectives.

The majority of DB Section mandates of the Main Section are held in segregated accounts. This allows the Trustee more control over the investment approach than a pooled fund structure and is appropriate due to the size of the Main Section mandates.

The Trustee monitors a number of investment risks including those outlined in the SIP, with the help of its investment adviser. The investment adviser provides reports incorporating information obtained from the investment managers.

The Trustee also monitors the strategic asset allocation and the liability-related benchmark on a regular basis through the quarterly reporting programme.

A number of members of the Defined Contribution Section of the Plan have a defined benefit underpin to the value of their benefits. In addition, a number of Defined Contribution Section members are eligible to invest some of their DC assets in funds that benefit from a unit price guarantee ("UPG") at the point of retirement. The Trustee monitors the underpin and the UPG benefits on a quarterly basis and is satisfied that all necessary action was taken over the accounting year.

The Trustee is satisfied that the implementation of the investment strategy and risk management for the Plan is consistent with the Statement of Investment Principles and is appropriate for the circumstances of the Plan.

Trustee Arrangements with Investment Managers

The Trustee's policy is to delegate the day-to-day management of the assets to investment managers.

There have been no changes to the investment managers over the period. The DBC receives quarterly reporting from its investment adviser on the performance of its managers against their objectives. Additionally, the DBC interacts with its managers through its advisers on an ad hoc basis; for example, where there are significant events in the relevant markets.

The DBC meets with the Plan's managers on a rolling basis which provides the DBC with the opportunity to ask questions to ensure that the managers invested in line with the Plan's SIP. The questions asked by the Trustee related primarily to performance, risk management, ESG and portfolio positioning. The Trustee was confident that the strategies and decisions of the asset managers were consistent with the Plan's SIP.

The LDI benchmark, contained within the LDI Investment Management Agreement, was updated three times over the period as pre-agreed triggers were met: this trigger-based monitoring process aims to ensure that the LDI hedge remains appropriately calibrated.

The Trustee has also received information relating to cost transparency and portfolio turnover for each of its asset managers over the period, and this has been included in the appendix for completeness. The Trustee is satisfied that these metrics are in line with expectations and that no further action is required.

ESG considerations relating to the DB Sections

The SIPs in force during the relevant period state: *"The Trustee believes that environmental, social and governance factors (including but not limited to climate risk) will be financially material over the time horizon of the Plan but will have varying levels of importance for different types of assets invested by the Plan."*

The Trustee's investment advisers provide updates on the performance of investment managers against the above statement. The DBC receives quarterly manager reports which set out both quantitative and qualitative updates for the period, including relevant information on any ESG-related issues. Taking account of these updates, the Trustee did not make any changes to its investment strategy or managers as a result of those updates.

There were no manager selection or de-selection processes during the relevant period. Investment manager performance is monitored by the DBC on a quarterly basis and assesses the full range of factors that drive manager performance.

This is consistent with the SIP statement: "*The Trustee seeks to incorporate all financial considerations which are relevant and material to the Plan into its decisions on the selection, retention and realisation of investments through strategic asset allocation decisions and the appointment of investment managers, so far as possible".*

Over the period the Trustee did not factor non-financial decisions (such as ethical or moral beliefs) into their investment decision-making, in line with the SIPs.

Stewardship relating to the Defined Benefit Sections

The SIPs in force during the relevant period state that "*The Trustee expects all its investment managers to practice good stewardship and to exercise influence wherever possible. It is the Trustee's preference to only appoint managers with strong stewardship policies and processes*".

As stated earlier, the Trustee has identified Climate Change and Corporate Transparency as the Plan's stewardship themes for the Defined Benefit Sections. The Trustee understands that a necessary element of the fiduciary duty of the role as Trustee involves ensuring ESG factors are integrated into the investment process and aligning this with effective stewardship. The Trustee has communicated these themes to the Plan's investment managers and places greater focus on the managers' delivery of stewardship. The Trustee acknowledges that these two themes are not the only significant issues across the Plans' investment portfolios and the Trustee's expectation remains that managers are to integrate all material ESG factors into their investment approach and stewardship work. The focus on these themes from the Trustee is a way for them to make sense of activity across all managers, and a basis for the Trustee to take greater ownership of stewardship matters by holding managers to account.

An assessment as to whether the Plan's stewardship policies are being implemented effectively will be made through monitoring meetings with managers, and through the material managers provide to aid in the completion of the Plan's annual Implementation Statement. If the Trustee believe there are areas where the managers' stewardship activities could be improved to better align with the Trustee's expectations, an open discussion will be held with managers on how this could be achieved.

The Trustee meets each of its managers on an agreed periodic basis. These meetings are separate from the regular cycle of DB Committee meetings, to ensure the Trustee has sufficient time for an in-depth presentation and discussion with the manager on their activities during the year, and to allow the Trustee to understand whether the manager has met the standards expected by the Trustee.

Over the period, the Trustee met with Legal & General Investment Management ("LGIM") to receive an update on the mandate especially on matters relating to recent performance, updates to the portfolio strategy, outlook, and team, and the manager's approach to ESG highlighting examples of engagement related to the Trustee's chosen stewardship themes. The Trustee was satisfied with the level of ESG integration within the mandate as well as the manager's approach to stewardship and engagement. The Trustee will continue to review the manager on an ongoing basis.

There are no voting rights attached to any of the DB Sections' assets, as the Plan holds only fixed income investments:

- Main Section: A liability-driven investment portfolio – primarily invested in UK government bonds ("gilts"), gilt repo and derivatives – to hedge liability risk and unwanted investment risks arising from the corporate bond holdings and corporate bonds to provide sufficient expected returns.
- Overseas Section: Index-linked gilts only.

Engagement is considered to be of importance for all of the Plan's managers in respect of debt investments.

The Trustee has received annual statements from each of their managers on their approach to stewardship and the direct responses from the managers have been included in the appendix for completeness.

The Trustee is satisfied that the stewardship policy has been adequately followed over the period, noting a number of recent changes to regulations in this area and that the Plan's managers' approaches continue to be aligned with the Trustee policies.

Concluding remarks

The Trustee is comfortable that the policies in the SIP have been followed over the year to 31 December 2023.

Date: 14/06/2024

Appendix

1. Cost Transparency

The Trustee confirms that the transaction costs provided by its managers were within expectations given the nature of each of the mandates, and as such, the Trustee is confident that no action is required on the back of these responses. This information will continue to be reviewed on an annual basis in case any calls to action arise and is expected to evolve over time.

a. **Wellington US Investment Grade Corporate Bond Portfolio** – For the period 1 January 2023 to 31 December 2023 the total transaction costs were 0.09%. This cost is expressed as a percentage of NAV.

b. **MetLife US Investment Grade Corporate Bond Portfolio** – For the period 1 January 2023 to 31 December 2023 the total transaction costs were 0.08%. This cost is expressed as a percentage of NAV.

c. **LGIM Long-Dated Buy & Maintain Portfolio** – For the period 1 January 2023 to 31 December 2023 the total transaction costs were 0.03%. This % cost is expressed as a percentage of NAV.

d. **BlackRock Segregated LDI** – **Main Section**: For the period 1 January 2023 to 31 December 2023 the total transaction costs were 0.01%, expressed as a percentage of NAV.

2. Portfolio Turnover

The Trustee confirms that the portfolio turnover provided by its managers were within expectations given the nature of each of the mandates, and as such, the Trustee is confident that no action is required on the back of these responses. This information will continue to be reviewed on an annual basis in case any calls to action arise and is expected to evolve over time.

a. **Wellington US Investment Grade Corporate Bond Portfolio** – For the period 1 January 2023 to 31 December 2023 the portfolio turnover was 40.3%.

b. **MetLife US Investment Grade Corporate Bond Portfolio** – For the period 1 January 2023 to 31 December 2023 the portfolio turnover was 147.8%.

c. **LGIM Long-Dated Buy & Maintain Portfolio** – For the period 1 January 2023 to 31 December 2023 the portfolio turnover was 14.6%.

d. **BlackRock Segregated LDI** – For LDI mandates, portfolio turnover is not applicable.

The Wellington and MetLife portfolios are active mandates, whilst the LGIM portfolio is a Buy & Maintain mandate. The levels of portfolio turnover are commensurate with the nature of each mandate.

Further, the difference in costs and turnover may also reflect meaningful differences in the relative size of trading of Treasuries in the active US corporate bond portfolios, used to manage interest rate risk versus the benchmark, and differences in the detail of calculation methodologies.

3. Managers' approach to Stewardship and Engagement

In addition to requiring its manager to present on stewardship and engagement when the Trustee meets with them, the Trustee also requires each manager to produce an annual statement on their approach to stewardship. Direct response from each of the Plan's investment managers can be found below.

The Trustee is comfortable with the responses from its managers on this matter and is confident that no action is required on the back of these responses. This will be continued to be reviewed on an annual basis in case any calls to action arise.

a. Wellington Management

Engagement and ESG integration Policies available at:
https://www.wellington.com/en/sustainability/reports-and-policies

b. MetLife Investment Management

Full reports available:
https://investments.metlife.co.uk/content/dam/metlifecom/us/investments/about/esg/pdf/mim-engagement-Policy.pdf

https://investments.metlife.co.uk/content/dam/metlifecom/us/investments/about/esg/pdf/mim-esg-investment-policy.pdf

c. Legal & General Investment Management

Engagement Report available at:
https://www.lgim.com/landg-assets/lgim/_document-library/esg/engagement-report-q4-2023.pdf

d. BlackRock

Engagement Policies and priorities:
https://www.blackrock.com/corporate/literature/publication/blk-shareholder-rights-directiveii-engagement-policy-2023.pdf