Citibank (UK) Pension Plan ("the Plan")
Implementation Statement – Defined Benefit ("DB") Section

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 Section. It is intended to meet the updated regulations and 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 Section 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 2021 and 31 December 2021 and relates to the relevant SIP in force over the accounting period, namely:

- The SIP which is currently in force since October 2020 and 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 Section

The Trustee has established a Defined Benefit Committee ("DBC") which will consider issues, including investments, which face the Trustee in relation to the DB Section. The DBC's remit includes setting and implementing strategy, monitoring investment advisers, fund managers and investments. The DB Section of the Plan does 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 was last updated in October 2020, which reflects the fact that there have been no changes to strategy since this update. The most recent SIP is available publicly online.

Investment Governance

There were no changes to the Plan's governance structure relating to the DB Section over the year to 31 December 2021: 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.

Following a review of the investment consulting and fiduciary management industry by the Competition and Markets Authority ("CMA"), trustees of occupational pension schemes are now required to set strategic objectives for their provider of investment consultancy services. The DBC agreed investment adviser objectives in accordance with the CMA requirements over the accounting period. The DBC will score its 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 2021.

The Plan has a target expected return of Gilts + 0.35% and a target asset allocation of 65% Liability-Driven Investing (LDI), 20% long-dated buy & maintain credit and 15% USD 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, a discussion around whether to rebalance is triggered at the quarterly DBC meeting. Over the period the Plan's assets have stayed within the target asset allocation ranges.

As 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 Plan hedges its interest rate and inflation risk arising from pension liabilities, and currency and US interest rate risk arising from its credit assets. The Plan maintains a high degree of liquidity in its asset allocation, 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 fund as a whole against its strategic objectives.

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

The Trustee monitors a number of investment risks including those outlined in the SIP, with the help of its investment adviser. The 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 which 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 four 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. As part of the existing LDI mandate, the LDI manager has the ability to invest in “Green Gilts”, which were issued for the first time in September 2021, and did so during the period (Green Gilts are UK Government bonds whose proceeds will be used exclusively to finance green projects, such as clean transportation and renewable energy).

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 Section

The SIP states: *“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. 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 SIP.

Stewardship relating to the Defined Benefit Section

The Statement of Investment Principles agreed as at October 2020 states 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 processe*s".

The Trustee meets its managers periodically, where the manager will present on these activities and the Trustee holds the managers accountable to the standards expected from the Trustee.

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

- 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.

However, 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 the Trustee policies themselves and that the Plan's manager's approach continues to be aligned with the Trustee policies. The Trustee will continue to disclose more information, as appropriate, on stewardship and engagement next year in line with the commitment made in the 2020 SIP update.

Concluding remarks

The Trustee is comfortable that the policies in the SIP have been followed over the year to 31 December 2021.

Signed (signature removed):

Date: 16 June 2022

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 2021 to 31 December 2021 the total transaction costs were 0.10%. This cost is expressed as a percentage of NAV.

b. **MetLife US Investment Grade Corporate Bond Portfolio** – For the period 1 January 2021 to 31 December 2021 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 2021 to 31 December 2021 the total transaction costs were 0.11%. This % cost is based on value of trades and not NAV of total portfolio.

d. **BlackRock Segregated LDI** – For the period 1 January 2021 to 31 December 2021 the total transaction costs were 0.18%, expressed as a percentage of NAV. This equates to under 0.5 basis points (0.005%) as a proportion of the total risk traded.

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 2021 to 31 December 2021 the portfolio turnover was 39.03%.

b. **MetLife US Investment Grade Corporate Bond Portfolio** – For the period 1 January 2021 to 31 December 2021 the portfolio turnover was 115.24%.

c. **LGIM Long-Dated Buy & Maintain Portfolio** – For the period 1 January 2021 to 31 December 2021 the portfolio turnover was 4.5%.

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 Policy available at:
https://www.wellington.com/uploads/2022/02/ce4cddaa8eb7f59cd780a9452cf1e3b9/wellington-engagement-policy-january-2022.pdf?v=1644827468

ESG Policy available at:
https://www.wellington.com/uploads/2020/08/d15ebaeb30ce07631c9bba539825e81e/wellington_management_esg_integration_philosophy_us.pdf

b. MetLife Investment Management

Full reports available:
MetLife-Investment-Management-Engagement_Policy.pdf
MetLife-Investment-Management-ESG-Investment-Policy-2021.pdf

c. Legal & General Investment Management

Active ownership report available at:
https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/active-ownership-report-2021-uk-eu-middleeast.pdf

d. BlackRock

Full report available:
https://www.blackrock.com/corporate/literature/publication/annual-stewardship-report-2021.pdf