Statement of Investment Principles for Citigroup Global Markets Limited Pension and Life Assurance Scheme

1. Introduction

The purpose of the Statement of Investment Principles ('the Statement') is to document the principles, policies and beliefs by which the Trustee of the Citigroup Global Markets Limited Pension and Life Assurance Scheme ("PLAS" or "the Scheme") manages the Scheme's assets. This document takes account of:

- the requirements of Section 35 (as amended) of the Pensions Act 1995 as amended by Pensions Act 2004
- the requirements of the Occupational Pension Schemes (Investment) Regulations 2005;
- the principles of the Myners Code; and
- the Principles for Investment Governance of defined contribution work-based pension schemes.

The Scheme's Trustee has consulted Citigroup Global Markets Limited ('the Company'), the Sponsoring Employer, acting on behalf of all the participating employers, on the Statement and received written advice from the Scheme's investment advisers.

A copy of this Statement will be sent to each manager, the auditor, the actuary and the investment advisers.

The Statement will be reviewed annually and when there is a significant change in the Scheme's circumstances. The Trustee will take appropriate written advice and consult with the Sponsoring Employer over any changes to the Statement.

The Scheme is a hybrid scheme with both a defined benefit and defined contribution section.

The Scheme is governed by a consolidated Trust Deed and Rules which sets out the benefits in detail and specifies the Trustee's investment powers. The investment powers do not conflict with this Statement.

2. Defined Benefit Section of PLAS

The Trustee has (jointly with one other pension plan sponsored by employers within the Citi group) established a Defined Benefit Committee ("DBC") which will consider issues, including investments, which face the Trustee in respect of this section of the Scheme. The DBC is a sub-committee of the Trustee and has a remit that involves setting and implementing strategy and investment structures, monitoring investment advisers, fund managers and direct investments and making certain delegated decisions relevant to the operation of the Scheme's investment strategy. The terms of reference for this Committee have been set by the Trustee and may be changed from time to time.

This section of the Statement refers to the Defined Benefit Section. This section is a non-contributory defined benefit arrangement.

The ultimate power and obligation for deciding investment policy lies solely with the Trustee. The main areas of investment responsibility include:

- determination of strategic asset allocation;
- determination of portfolio structure;
- selection and appointment of external investment managers; and
- ongoing monitoring and evaluation of the investment arrangements.

2.1 Liabilities

The value of the Scheme's ongoing liabilities is sensitive to various demographic (principally longevity) and financial factors. The principal financial factors relevant to the Scheme's investment policy are:

- the rate of return on assets;
- price inflation for pensioners; and
- long-term interest rates.

The value of the Scheme's liabilities for the purpose of testing solvency and satisfying the statutory funding tests is sensitive to each of these factors.

2.2 Objectives

The Trustee's primary objective is to ensure that the Scheme 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 Company's agreed contributions schedule and the level of expected return on the assets.

2.3 Risks

The Trustee regards 'risk' as the likelihood that it fails to achieve the objective set out above and has taken several measures to reduce this risk.

In particular, in arriving at the investment strategy and the production of this Statement, the Trustee has considered the following key risks:

- asset-liability mismatch risk (asset allocation risk)
- the inability to pay benefits when due (cash-flow risk)
- actions by the investment managers (investment risk)
- fraud, poor advice or acts of negligence including non-compliance of investment managers with regulatory or legal requirements (operational risk)
- the failure of some investments (e.g. market risk, including credit risk, and concentration risk).

The DBC monitors the performance of the Scheme on a quarterly basis against its stated objectives.

The decision as to whether to pursue active management is evaluated separately for each asset class, with regard to the potential reward within that class for taking on active risk.

Each investment manager appointed by the Trustee is bound by the terms and conditions of an Investment Management Agreement where restrictions and targets are clearly documented. Pooled fund investments and direct investments are governed by the terms and conditions of the fund and / or policy documents.

2.4 Strategic Asset Allocation

The Trustee retains direct responsibility for the asset allocation decision which is made on the advice of its investment adviser with input from the Scheme Actuary and in consultation with the Company. The Trustee will consider a full range of investment opportunities in their asset allocation decision.

The Trustee determines the strategic asset allocation policy after considering analysis of the Scheme's assets and liabilities. Updates to this analysis are normally monitored by the DBC on a quarterly basis to ensure that the asset allocation remains appropriate.

The analysis considered by the Trustee makes important assumptions about the behaviour of various asset classes and the liabilities in the future. For example, it is assumed that:

- Certain assets can represent a good match for the interest rate and inflation sensitivities of the liabilities. These assets include Gilts, index-linked Gilts, Gilt repo and swaps, as well as the UK interest rate sensitivity arising from sterling credit instruments.
- Credit may be expected to outperform Gilts over the long term, but the credit returns are more volatile versus the liabilities over the short term.

The strategic asset allocation is set with regards to the Scheme's policy benchmark of 'Gilts+35 bps', as agreed with the Company. 'Gilts' in this instance refers to a term structure derived from the yield on UK Government fixed interest gilts appropriate to the date of each expected future cash flow (extrapolated for cash flows beyond the longest available gilt maturity), as advised by the Scheme Actuary following consultation with the Company.

The Trustee has decided to maintain an investment strategy comprising gilts and other hedging instruments, and credit instruments to maintain sufficient expected returns to target full funding on the Gilts+35bps basis.

In addition to targeting an expected return necessary to achieve and maintain the policy benchmark of Gilts+35bps, the Scheme also monitors the asset allocation. The Scheme targets the asset allocation set out in the table below, however, achieving this target asset allocation is a secondary aim to achieving the target expected return. Additional considerations regarding whether to re-balance to this target asset allocation are applicable and are set out in Section 2.5.

Asset class	Target asset allocation	Lower bound (triggers re-balancing discussion at DBC)	Upper bound (triggers rebalancing discussion at DBC)
LDI	65%	60%	70%
Long-dated credit (US and GBP)	15%	10%	20%
US credit	20%	15%	25%

In order to reduce the risk to the Scheme arising from the potential correlation between the performance of the Company and the wider financial institutions sector, the Scheme may seek to reduce or eliminate exposure to instruments such as corporate bonds in certain sub-sectors of the financial institutions sector. This includes lower-rated financial institutions instruments such as subordinated bonds, and instruments with point of non-viability ("PONV") features. The decision as to whether to reduce financial institutions exposure within a particular mandate will take into account factors such as impact on risk, expected return and liquidity, and also whether it is practicable to make such a change.

To achieve the policy benchmark of Gilts+35 bps, the Trustee has the flexibility to use repos and derivative instruments but only to the extent that they help to reduce risk or facilitate efficient portfolio management. The combination of Gilts, repos, derivatives and credit is managed against a liability related benchmark that is based on the projected payments from the Scheme.

The Actuary undertakes monitoring of the liability-related benchmark on a quarterly basis and provides an update to the liability related benchmark where a pre-defined trigger, based on cumulative transfers-out and changes to inflation markets since the previous liability related benchmark recalibration, is met. The Actuary also monitors the inflation curve monthly: if movements in inflation forwards exceed pre-defined triggers, an out-of-cycle liability benchmark review is triggered. The aim is to ensure that the liability related benchmark is a reasonable hedge for the liabilities of the Scheme.

The assumptions used for the purposes of deriving the liability related benchmark have been determined by the Trustee. The Trustee and the Company have agreed that the assumptions used to determine the liability related benchmark will not have any influence on the assumptions used in the future for funding purposes (as required by Part 3 of the Pensions Act 2004).

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

The Trustee's policy is that all currency exposures within the credit mandates should be hedged back to Sterling and any non-UK interest rate sensitivity is eliminated by hedging.

2.5 Rebalancing policy and cash flows

The expected return on the Scheme assets is monitored against the returns required to achieve or maintain the funding objective against the policy benchmark, and a rebalancing of the asset allocation (i.e. realising some assets and reinvesting the proceeds into other assets) will be considered by the DBC where the expected return and required return move materially out of line.

If the asset allocation moves outside of the ranges set out in Section 2.4, the DBC will discuss whether to re-balance to the target asset allocation. Re-balancing will only be considered if a re-balanced portfolio can be constructed that achieves the target expected returns. Further considerations include transaction costs, impact on risk and impact on fees.

The ratios of the interest rate and inflation sensitivities of the assets versus those of the liabilities are monitored to ensure that these ratios are broadly at 100% each.

Contributions and withdrawals from the Scheme can also be used to help adjust the allocation where appropriate.

The Scheme also maintains a more detailed cashflow management policy document.

2.6 Implementation

The Trustee has delegated the management of the hedging portfolio to a specialist manager who is responsible for the management of both physical and derivative positions. Derivatives are used to manage or reduce risk or for efficient portfolio management. This includes giving the specialist hedging manager some discretion to make choices in how the hedging is implemented, within defined risk limits, with the aim of generating out-performance versus the relevant liability benchmark.

The activities of each manager are governed by their Investment Management Agreement, or by pooled fund subscription documents and prospectus. These include details on the portfolio performance objectives and risk limits.

2.7 Trustee Arrangements with Investment Managers

The terms of the long-term relationship between the Trustee and its investment managers are set out in separate Investment Management Agreements. These document the Trustee's expectations of their managers, alongside the Investment Guidelines they are required to operate under.

The Investment Guidelines are based on the policies set out in this document. The SIP is shared with the managers on an annual basis, and the Investment Guidelines are updated following any changes, ensuring the managers always invest in line with the Trustee's policies.

When relevant, the Trustee requires its investment managers to invest with a medium to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the Trustee does not expect the respective asset managers to make decisions based on long-term performance. These may include investments that provide risk reduction through hedging, consistent with the Trustee's strategic asset allocation.

The Trustee appoints its investment managers with an expectation of a long-term partnership. When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term timeframe, subject to a minimum of three years.

The Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors such as a significant change in business structure or the investment team, or because the Trustee is no longer satisfied that the manager is acting in a manner aligned with the Trustee's principles.

Managers are paid an ad valorem fee for a defined set of services. The Trustee reviews the fees annually to confirm they are in line with market practice.

The Trustee reviews the portfolio transaction costs and portfolio turnover range of managers annually, where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations.

2.8 Permissible investments

The credit managers will invest predominantly in physical credit instruments. For efficient portfolio management purposes, they are permitted to invest in credit derivatives and other instruments as set out in the investment guidelines.

2.9 Review and Control

In order to monitor the investment arrangements, the Trustee carries out various periodic and ad-hoc review and monitoring actions, as described in other sections of this document. The Trustee is satisfied that these monitoring actions are adequate and that it is appropriately resourced to carry out the monitoring required.

2.10 Performance Measurement

The Trustee monitors the strategy and its implementation as follows:

- The Trustee receives, on a quarterly basis, a written report on the performance of the fund versus its strategic objectives. The performance of the total fund is measured against a liability related benchmark calculated using a discount rate of Gilts+35 bps at each point along the yield curve.
- The Trustee also receives, on a quarterly basis, a manager monitoring report showing the performance of each manager mandate against the relevant benchmark.

2.11 Service Provider Monitoring

The Trustee reviews from time to time the services provided by the investment adviser and other service providers as necessary to ensure that the services provided remain appropriate for the Scheme.

2.12 Responsible Investments

2.12.1 Environmental, Social and Governance considerations relating to the Defined Benefit Section

The Trustee seeks to incorporate all financial considerations which are relevant and material to the Scheme 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.

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 Scheme but will have varying levels of importance for different types of assets invested by the Scheme.

The Trustee's investment advisers will provide regular updates on the performance of investment managers against the above.

The Trustee does not factor non-financial decisions (such as ethical or moral beliefs) into their investment decision-making, nor do they appoint asset managers that consider these factors.

2.12.2 Stewardship relating to the Defined Benefit Section

The Trustee understands good stewardship to be the responsible allocation, management, and oversight of capital to create long-term and sustainable value for the Scheme'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 environmental, social and governance ("ESG") factors, and will hold the Scheme's investment managers to account for the effective use of their influence as owners of assets.

The Trustee holds overall responsibility for the stewardship practices of the Scheme's investment managers. The Trustee expects all its investment managers to practice good stewardship and to exercise influence wherever appropriate. It is the Trustee's preference to only appoint managers with strong stewardship policies and processes. Where the Trustee has identified deficiencies or areas for further improvement in an investment manager's practices, the Trustee will engage with the investment manager to encourage them to better align their practices with the Trustee's expectations.

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.

Any direct engagement with underlying companies (as well as other relevant persons) in respect of debt investments is carried out by the Scheme's investment managers.

This includes monitoring and engaging with issuers of debt on financially material issues concerning strategy, capital structure, management of actual or potential conflicts of interest, risks, environmental impact, social considerations and corporate governance.

However, there may instances where the Trustee has less direct influence over the managers' policies on the exercise of investment rights; for example, should any assets be held in pooled funds, due to the collective nature of these investments. In these cases, the Trustee will assess the alignment of the Trustee's policies with the manager's behaviour before appointment, and review periodically.

The Trustee has a preference for 'Engagement' rather than 'Exclusion' as a method of effective risk management. However, this preference is kept under review and may be updated in the future should circumstances change. The Trustee expects its investment managers to independently consider whether exclusion or engagement is more appropriate within their investment process.

When selecting, monitoring and de-selecting asset managers, engagement is factored into the decision-making process to the appropriate level for the specific asset class in question. The Trustee requires its investment adviser to report annually on how its investment managers have acted in accordance with the Trustee's policy on stewardship and engagement. The Trustee will disclose any highlights as part of this review annually in its implementation statement.

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Date: 14 September 2023