Citigroup Global Markets Limited Pension and Life Assurance Scheme ("PLAS" or "the Scheme") Implementation Statement – Defined Benefit ("DB") Section

August 2023

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 Scheme's Trustee and will be included in the Scheme'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 Scheme and should be read in conjunction with the Defined Contribution ("DC") Implementation Statement.

This Implementation Statement covers the Scheme's accounting year between 6 April 2022 and 5 April 2023 and relates to the relevant SIPs in force over the accounting period, namely:

- The SIP which was in force from 16 June 2021 to 25 September 2022
- The SIP in force since 26 September 2022 and thereafter, noting that the only changes made from the previous version related to the Scheme's Defined Contribution ("DC") Section.

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

From 1 October 2022, further Department of Work and Pensions ('DWP') guidance on the reporting of stewardship activities through Implementation Statements came into effect. The Trustee has since been proactive in taking steps to best meet the DWP's updated stewardship guidance, bearing in mind that the DB Sections only hold fixed income securities. In particular, the Trustee has agreed new stewardship priorities in respect of the DB Section and identified Climate Change and Corporate Transparency as themes to focus on. The Trustee is actively engaging with investment managers to assess whether the Scheme's stewardship policies and its policies on other material ESG factors are being implemented effectively. Any developments and further changes to the Trustee's stewardship approach will be reflected in next year's Implementation Statement. In the meantime, this statement summarises the Trustee's approach to stewardship during the year to 5 April 2023.

Summary of how investment decisions are taken for the Scheme'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 Scheme does not have a separate investment committee.

The investment strategy is set with the aim of ensuring 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 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 Scheme'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 Scheme. The SIP in force was last updated on 26 September 2022, however, this reflects an update to the Defined Contribution ("DC") Section of the Scheme only. There were no changes to the SIP over the period in relation to the DB Section. The most recent SIP is available publicly online.

Investment Governance

There were no changes to the Scheme's governance structure relating to the DB Section over the year to 5 April 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 Scheme's Trustee established a Climate Working Group ("CWG"), a sub-committee of the Scheme's Trustee board, together with relevant advisers, in December 2021. The CWG's first meeting was in early 2022. The purpose of the CWG was to help the Trustee to comply with climate regulations, including the drafting of the Scheme's first TCFD (Task Force on Climate-related Financial Disclosures) report, in respect of both DB and DC Sections of the Scheme.

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 was overseen by the Competition and Markets Authority until 1 October 2022. This process is now overseen by the Pensions Regulator ("tPR"), and in addition to this change in oversight, there were also some changes made to the process' requirements, however, these did not have a material impact on the Scheme's governance. The DBC agreed its investment adviser objectives in accordance with the requirements over the relevant period. The DBC scores 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 Scheme is consistent with the Statement of Investment Principles and is appropriate for the circumstances of the Scheme.

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 5 April 2023.

The DB Section has a target expected return of Gilts + 0.35% and a target asset allocation of 65% Liability Driven Investment ("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. One asset rebalancing process was carried out during late 2022, to increase the allocation to LDI back to within target range.

As the DB Section 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 DB Section hedges its interest rate and inflation risk arising from pension liabilities, and currency and US interest rate risk arising from its credit assets. The DB Section maintains a high degree of asset liquidity, especially as the majority of assets are held in a segregated LDI mandate. Due to the relatively modest levels of leverage in the DB Section's investment strategy, the LDI hedge was resilient during the period of significant gilt market volatility in September and October 2022. The Trustee remains satisfied with the degree of collateral adequacy in the DB Section.

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

All DB Section mandates are held in segregated accounts. This allows the Trustee more control over its 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.

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

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.

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

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

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 SIPs in force during the relevant period 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 Scheme but will have varying levels of importance for different types of assets invested by the Scheme."*

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 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"*.

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 SIPs in force during the relevant period 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 processes".*

During 2023 the Trustee is considering how best to meet the DWP's updated expectations on stewardship and to take more ownership of stewardship, as the new guidance expects. Changes to the Trustee's approach will be taken with regard to the Scheme's governance constraints and fiduciary obligations and, in relation to the DB Section, taking account of its investment strategy. The Trustee has to that end adopted new stewardship priorities in respect of the DB Section.

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.

There are no ownership voting rights attached to any of the DB Section assets, as the Scheme 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.

Engagement is considered to be of importance for all of the Scheme's managers in respect of debt investments and the Trustee monitors the approach which the Scheme's managers take (in part through the periodic meetings with its managers and in part through reporting) and will engage with the managers about this where appropriate.

As an example of Trustee engagement with an investment manager, during the relevant period, the Trustee worked with its LDI manager, BlackRock, to understand the manager's approach to engaging with the UK government as the issuer of gilt securities held by the LDI fund. In particular, the Trustee looked at this manager's approach to ESG issues, the mechanisms by which it engages with government, the nature of the ESG issues raised, the industry-wide bodies that the manager is represented on regarding ESG issues, considerations relating to "green gilt" issuance, and the manager's wider engagement and stewardship activities pertaining to its gilts holdings. Following these discussions, the Trustee was satisfied that the manager was engaging on ESG issues relating to its gilt holdings – the largest single issuer for the DB Section – in line with the Trustee's expectations and policy.

The Trustee has received annual statements from each of their managers on their approach to stewardship and these 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 approaches of the Scheme's managers continue to be aligned with the Trustee's policies.

Concluding remarks

The Trustee is comfortable that the policies in the SIP have been followed over the year to 5 April 2023.

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 April 2022 to 31 March 2023 the total transaction costs were 0.12%. This cost is expressed as a percentage of NAV.

b. **MetLife US Investment Grade Corporate Bond Portfolio** – For the period 31 March 2022 to 31 March 2023 the total transaction costs were 0.15%. This cost is expressed as a percentage of NAV.

c. **LGIM Long-Dated Buy & Maintain Portfolio** – For the period 31 March 2022 to 31 March 2023 the total transaction costs were 0.13%. This % cost is based on value of trades and not NAV of total portfolio.

d. **BlackRock Segregated LDI** – For the period 31 March 2022 to 31 March 2023 the total transaction costs were 0.17%, 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 31 March 2022 to 31 March 2023 the portfolio turnover was 41.7%.

b. **MetLife US Investment Grade Corporate Bond Portfolio** – For the period 31 March 2022 to 31 March 2023 the portfolio turnover was 112.0%.

c. **LGIM Long-Dated Buy & Maintain Portfolio** – For the period 31 March 2022 to 31 March 2023 the portfolio turnover was 11.7%

d. **BlackRock Segregated LDI** – For the LDI mandate, portfolio turnover is not directly comparable to that of other the mandates. The level of turnover in the LDI mandate reflects rebalancing against the two updates to the LDI benchmark during the period, ongoing rebalancing to maintain the accuracy of the hedge against the liability benchmark, and discretionary trades by the manager.

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.

As stated above, there was a rebalancing exercise carried out during the period to increase the LDI allocation (BlackRock) and reduce the credit allocation (LGIM) to within target.

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 responses from each of the Scheme'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 Policies available at:
Stewardship and ESG integration | Wellington UK Institutional

b. MetLife Investment Management

Full reports available:
MetLife-Investment-Management-Engagement_Policy.pdf

MetLife-Investment-Management-ESG-Investment-Policy-2022.pdf

c. Legal & General Investment Management

Active ownership report available at:
Active Ownership report 2022 (lgim.com)

d. BlackRock

Investment stewardship policies available at:
Investment Stewardship | BlackRock