

Citigroup Global Markets Limited Pension and Life Assurance Scheme (“PLAS” or “the Scheme”) 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 intended to meet the updated regulations 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 2020 and 5 April 2021 and relates to the relevant SIPs in force over the accounting period, namely:

- The SIP which was implemented in August 2019, and in force from 6 April 2020 to October 2020; and
- 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 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 was last updated in October 2020 to comply with regulatory changes. This regulatory change incorporated the Shareholder Rights Directive II (“SRD II”) into UK law and required defined benefit pension scheme SIPs to be updated to include further details on:

- The arrangements with investment managers, including how they are incentivised to behave and invest in line with the Trustee’s policies and how the Trustee will monitor managers’ performance, fees and portfolio costs;

- Engagement policy, including the exercise of the rights (including voting rights) attaching to the investments

SRD II applies more widely than just to pension schemes and the directive aims to further encourage appropriate long-term investment decision-making and engagement.

Under SRD II, the Trustee is now also required to publish an annual implementation statement noting the extent to which the voting and engagement policies have been implemented over the relevant Scheme year.

As a result of the new regulation, a new section was added to the SIP, 'Trustee Arrangements with Investment Managers', and the Stewardship relating to the Defined Benefit section was updated.

In addition to the regulatory changes to the SIP, the 'Strategic Asset Allocation' section of the SIP was also updated to take account of the Trustee's decision to revise their policy around how the liability-related benchmark is refreshed. Specifically:

- The Trustee no longer requires the liability-related benchmark to be updated on an annual basis at a minimum, however, the Trustee continues to require the Actuary to monitor it on a quarterly basis and requires a liability-related benchmark update to be implemented where pre-defined triggers are met; and
- The Trustee now also requires the Actuary to monitor the inflation curve monthly and carry out an out-of-cycle liability benchmark review if movements in inflation forwards exceed pre-defined triggers

The wording in the 'Review and Control' section was also updated to reflect the changes made to other sections in the SIP as a result of the SRD II regulation. The 'Investment Manager Fee' section was removed from the SIP as the wording was included in the new 'Trustee Arrangements with Investment Managers' section.

No further changes were made to the SIP over the period regarding the DB section of the Scheme. 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 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 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 2021.

The Scheme has a target expected return of Gilts + 0.35% and a target asset allocation of 65% 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 Scheme's assets moved outside the target asset allocation ranges and the Trustee agreed to rebalance back to the strategic weightings. This was implemented in late 2020.

As the Scheme 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 Scheme hedges its interest rate and inflation risk arising from pension liabilities, and currency and US interest rate risk arising from its credit assets. The Scheme maintains a high degree of liquidity in its asset allocation, especially as the majority of assets are 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.

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 and that no changes to the strategic asset allocation or liability-related benchmark.

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.

Over the period, the DBC met with the majority of the Scheme's managers, which provided the DBC with the opportunity to ask questions to ensure that the managers invested in line with the Scheme's SIP. The questions asked by the Trustees related primarily to performance and portfolio positioning pre, during, and post the Covid-19 pandemic. The Trustee was confident that the strategies and decisions of the asset managers were consistent with the Scheme's SIP, which will be reviewed in light of any changes by the managers.

Over the period, changes were made to the investment management agreement for the Long-Dated Buy & Maintain Portfolio which invests in corporate bonds and is managed by Legal and General Investment Management Limited ("**LGIM**"), to increase the maximum proportion of that portfolio which may be invested in bonds which are rated BBB in order to provide additional flexibility to LGIM in building up a portfolio which is consistent with the Trustee's objective.

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 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 Statement of Investment Principles agreed as at October 2020 stated 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"*.

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 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.

However, engagement is considered to be of importance for all of the Scheme’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 Scheme’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 5 April 2021.

Date: 21.09.2021

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.

- Wellington US Investment Grade Corporate Bond Portfolio** – For the period 6 April 2020 to 5 April 2021 the total transaction costs were 0.11%.
- MetLife US Investment Grade Corporate Bond Portfolio** – For the period 6 April 2020 to 5 April 2021 the total transaction costs were 0.05%.
- LGIM Long-Dated Buy & Maintain Portfolio** – For the period 6 April 2020 to 5 April 2021 the total transaction costs were 0.05%.
- BlackRock Segregated LDI** – For the period 6 April 2020 to 5 April 2021 the total transaction costs were 0.0016%

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 6 April 2020 to 5 April 2021 the portfolio turnover was 50.12%.
- b. **MetLife US Investment Grade Corporate Bond Portfolio** – For the period 6 April 2020 to 5 April 2021 the portfolio turnover was 154.00%.
- c. **LGIM Long-Dated Buy & Maintain Portfolio** – For the period 6 April 2020 to 5 April 2021 the portfolio turnover was 4.72%.
- 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.

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

The manager confirmed that there were no voteable events to report for the Scheme within the period of 6 April 2020 to 5 April 2021.

Sustainability Report (including stewardship and engagement information) available at:
<https://www.wellington.com/en/insights/sustainability-report-annual-us/>

b. MetLife Investment Management

The manager confirmed that there were no significant voteable events to report for the Scheme within the period of 6 April 2020 to 5 April 2021.

An excerpt from MetLife's annual statement on their approach to stewardship and engagement over the period can be found below:

“We take a holistic view to ESG integration. As such, our research analysts consider ESG factors in their internal research presentations and conducts engagement as part of their overall credit analysis of the issuer. Beginning with the initial due diligence process and as part of the portfolio monitoring process, analysts frequently engage with company management to foster an ongoing dialogue regarding sustainable business practices. To that end, we have built a dedicated ESG engagement database, which houses a detailed engagement question bank, as well as a database to

track progress on engagement issues and deals rejected for ESG reasons. The database is designed to be fully integrated into the research process and allow each analyst to log and update engagement on environmental, social, and governance factors. Additionally, the database includes deals that have been rejected due to a negative evaluation of these factors. The database is easily accessible by all members of the Public Fixed Income team. Therefore, everyone from traders to portfolio managers to risk management and client service professionals are able to source real time information about each issuer. We are currently enhancing the functionality of the database to include a front-end query system to give users a robust platform to run queries on the engagement, such as tallying engagement by SASB factor, tallying engagements by rating, monitoring follow-up by issuer, and monitoring of underperforming assets with related engagement.”

Full ESG Policy available at:

https://investments.metlife.com/content/dam/metlifecom/us/investments/about/esg/pdf/MIM-ESG-Investment-Policy_2020.pdf

Public Fixed Income Sustainability Brochure available at:

https://investments.metlife.com/content/dam/metlifecom/us/investments/about/esg/pdf/PFI-Metlife_Investment_Management_Sustainability_dec_31_2020.pdf

c. Legal & General Investment Management

LGIM noted that whilst there were no voteable events, there were bondholder consent solicitations relating to holdings in the Plan's segregated mandate, and confirmed they acted on these in line with their existing policies.

“While the core principle of ESG applies to every mandate we manage, the way in which it is integrated depends on multiple factors, such as client objectives and guidelines, the asset class, the industry sector and geographical footprint, as well as the type of instrument and the intended holding period. The process of integrating ESG can differ depending whether it is an index or active investment strategy, as the elements of fundamental analysis allow for more specific sources of information.

For our active investment teams, the integration of ESG-related criteria in the assessment of companies is not intended to result in any negative or exclusion lists. Rather, it aims to enhance our ability to discern between likely outperformers and underperformers within each sector and its ultimate purpose is to support the process of equity or bond selection.

For the underlying companies in which LGIM invests, we are wholly committed to encouraging companies to improve their management of ESG issues. We integrate our thoughts and the consideration of ESG risks and investment opportunities into our communication and engagement with the individual companies, sectors and markets.

The Investment Stewardship Team [...] regularly engages with other institutional investors. This process is formalised through our participation in bodies such as the Investment Association (IA) at which LGIM discusses corporate governance policy and pushes for collective engagement alongside a number of UK investment managers and; the Investor Forum (IF) of which LGIM is a founding member which facilitates collaborative engagement with other members and ensures investors speak with one powerful voice. There are a number of other global organisations that we collaborate with to improve standards, these include: PRI, ClimateAction100, Ceres and Access to Medicine.”

Active ownership report available at:

https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/active-ownership-report-2020.pdf

d. BlackRock

Full annual stewardship report available at:

<https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020-calendar-year.pdf>