HSBC Bank (UK) Pension Scheme

DC governance statement for year ended 31 December 2022

HSBC

1. Chair's foreword

Russell Picot
Chair of the Trustee Board

"Good governance helps our members to achieve a better retirement outcome from their Defined Contribution benefits."

As Trustee of the HSBC Bank (UK) Pension Scheme ('Scheme'), we play a key role in ensuring that the Scheme is well managed. I am pleased to introduce this update that explains more about our work over the year.

We are committed to maintaining effective governance processes that support good decision making, manage risks and safeguard our members' benefits. Very importantly, good governance helps our members to achieve a better retirement outcome from their Defined Contribution ('DC') benefits.

We regularly review our governance processes and once a year we produce a statement to describe how we have managed the Scheme. This annual statement is required by pensions law for schemes that provide DC benefits. It is signed by me, on behalf of the Trustee Board, and is called the DC Governance Statement ('Statement').

The aim of this Statement is to provide more information for our members with DC benefits about the governance processes that we have in place and how these have met the legal requirements.

For our Scheme, this Statement covers the DC benefits of members with only a DC pension pot, members with Hybrid benefits that include a DC pension pot and members with Additional Voluntary Contributions ('AVCs').

Why is good governance important?

We spend a lot of time on the design and oversight of the Scheme's DC investment options, charges and member services. This is because they are very important for the retirement outcomes of over 90,000 of our members.

A short summary (see right) sets out why good governance is important with references to the relevant section so that you can find out more about each topic later in this Statement.

We hope that you find this Statement interesting and helpful.

Providing a good range of investment options

The majority of our members have their DC pension pots invested in the default investment arrangements. That's why we regularly review their design, suitability and performance. We also aim to make sure that you have a broad range of appropriate investment options for your DC pension pot.

See sections 2 and 6

Delivering the services you need

It's essential that your DC pension pot or AVCs are properly looked after and that financial transactions are accurate and timely. That's why we regularly review the service standards you receive from the Scheme's administrators and AVC providers. We also check to make sure they have appropriate processes in place to manage risks.

See section 3

Ensuring you get value for money

To help you get the most out of your DC pension pot, the Bank pays the Scheme's administration costs, investment management fees and the platform expenses. The charges paid by members with a DC pension pot are limited to the fund managers' small additional expenses and transaction costs. We review these member charges to make sure they remain highly competitive. We also check to make sure all member charges continue to represent good value for your money for the wide range of services and options provided for DC benefits.

See sections 4 and 6

Helping your DC pension pot to grow

We set targets for each DC investment fund and regularly monitor both performance and risk over the short and long term. When necessary, we make changes to the investment options.

See section 5

Looking after your interests

Our role as Trustee Directors is to look after the Scheme and the interests of our members. We obtain advice from advisors and ensure that all the Trustee Directors have up to date knowledge. The Trustee Directors bring a diverse range of skills and experience to make sure the Scheme is well run.

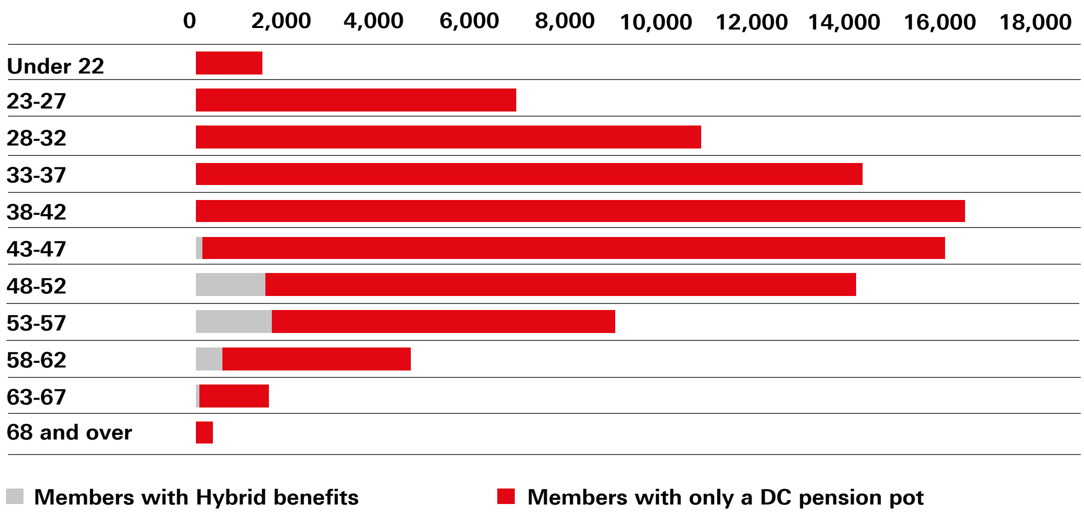
See section 7

£6,136 million
combined value of DC pension pots at 31 December 2022

More about our members with a DC pension pot

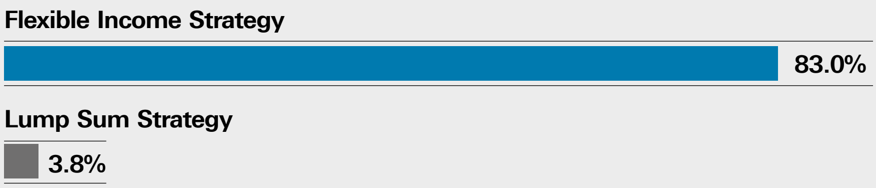
Services provided to **over 90,000 members** across all age groups

Number of members by age group as at 31 December 2022



86.8% of members had DC pension pots invested in one of our two main default arrangements as at 31 December 2022

See section 2



Over the **12 months** to 31 December 2022

£394.9 million
of DC contributions received and invested

74%
of active members viewed their DC pension pot online through My Pension

192,000
visits by all members to futurefocus, our Scheme website

4,560
DC pension pots set up for new members

73%
of members included in a Trustee email campaign opened the email communication sent to them

407,000
web pages viewed by all members on futurefocus, our Scheme website

Who helps to run the Scheme?

Trustee	The Trustee is responsible for making sure the Scheme is run well and in accordance with the Scheme's Rules and legislation. There are 11 Trustee Directors on the Trustee Board and their responsibilities are wide ranging, from the collection of contributions to the investment of assets, the administration of membership records and the payment of benefits. In broad terms, the Trustee's role is to act in the best interests of the Scheme's members.
Pension Scheme Executive ('PSE')	The PSE is a team of experienced pension professionals who are employed by the Bank and support the Trustee to meet its responsibilities and with the day-to-day oversight of the Scheme. The PSE is fully accountable to the Trustee.
Scheme administrators	The administration and record keeping for the Scheme is outsourced to specialist pension service providers appointed by the Trustee.
Scheme advisors	The Trustee appoints advisors including the actuarial, legal and investment advisors as well as the auditor. The Trustee has full access to their expertise and for certain activities and decisions, is required by law to obtain their advice.

Where can you get more information?

If you want to read more, you can find the following Scheme documents in the information centre on the Scheme's website, futurefocus. Go to https://futurefocus.staff.hsbc.co.uk:

DC investment guide

Explains the range of investment options available for your DC pension pot.

Member guide

Explains how the Scheme works including your benefits and options (please refer to the relevant guide for your benefits).

Statements of Investment Principles - Defined Contribution ('SIP')

Sets out how the Trustee invests the Scheme's DC assets. This has an accompanying document called the Annual Implementation Statement (DC) that explains how the SIP has been followed during the year.

Trustee's Annual Report and Financial Statements

Shows the money coming into and paid out of the Scheme during the year.

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Terms used in this Statement

AAF 01/06: Audit and Assurance Faculty report 01/06

AVC: Additional Voluntary Contribution

LGIM: Legal and General Investment Management

PSE: Pension Scheme Executive

Scheme Year: 1 January 2022 to 31 December 2022

SIP: Statement of Investment Principles - Defined Contribution

SLA: Service Level Agreement

TER: Total Expense Ratio

TKU: Trustee Knowledge & Understanding

1. What this Statement covers

This Statement describes how the Scheme has met its legal governance requirements in relation to:

- the Scheme's default investment options (including the Flexible Income Strategy and the Lump Sum Strategy in which members are invested, other legacy strategies and funds also classed as default arrangements);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- investment returns;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

The Trustee must monitor these areas and produce this Statement to fulfil its regulatory requirements. The Trustee also believes that good governance, including appropriate systems and controls, support the delivery of important goals set out in the Trustee mission statement, which include "providing high quality investment options" to members and "helping members to make well informed decisions about their retirement savings".

The Scheme is used as a Qualifying Scheme for automatic enrolment purposes.

This Statement covers the period from 1 January 2022 to 31 December 2022 ('Scheme Year') and relates only to the DC benefits of members with a DC pension pot, members with Hybrid benefits that include a DC pension pot and members with Additional Voluntary Contributions ('AVCs') in the Scheme.

2. Default investment arrangements

The Trustee has made available a range of investment options for members. Each member is responsible for specifying one or more options for the investment of their account, having regard to their attitude to the risks involved. If a member does not choose an investment option, from the range available in the Scheme, their DC pension pot and any future contributions are automatically invested in the Scheme's default arrangement applicable to them. This is managed as a 'targeted' strategy (i.e. it automatically combines assets in proportions that vary according to the time to retirement age). The targeted strategies are 100% invested in equities until twenty years from a member's target retirement age from which time they switch gradually into lower risk assets appropriate to the type of retirement income targeted.

2.1. Main default investment arrangements

The Scheme has different default arrangements for members, depending on the type of benefits they have. The default options have been designed, with support from the Scheme's advisors, to be in what the Trustee believes to be the best interests of the majority of the members based on the demographics of the Scheme's membership.

The Scheme has two main default targeted strategies: the Flexible Income Strategy and the Lump Sum Strategy. These targeted strategies were set as the default investment arrangement for two different groups of members, those with DC only benefits and those who are members with Hybrid benefits (former active members with DB benefits on 30 June 2015 who became active members with DC benefits from 1 July 2015), respectively.

For members with only a DC pension pot, the Flexible Income Strategy is the default arrangement. It is designed for members, at their retirement or beyond, to take 25% of their DC pension pot as a cash lump sum and the balance to provide a flexible income (e.g. income drawdown), spreading the amount and timing of withdrawals. Members can do this by transferring their DC pension pot out of the Scheme. This strategy works by switching the investment mix of members' DC pension pots from the Global Equities – passive Fund into the Diversified Assets – active Fund and then de-risks into the Global Bonds – active Fund and the Cash – active Fund whilst continuing to hold an allocation to the Diversified Assets – active Fund as the members near retirement. This design is based on the demographic profile of the membership and the generous contribution structure combined with the belief that members are likely to both accrue large pots and choose to take a flexible income. Market trends and Scheme experience since the introduction of Pension Freedoms in 2015 also indicate that members with larger DC pension pots are moving away from purchasing annuities and are choosing flexible income instead.

For members with Hybrid benefits, the Lump Sum Strategy is the default arrangement. It is designed for members to use their DC pension pot for a cash lump sum at their target retirement age or beyond. This strategy works by switching the investment mix of members' DC pension pots from the Global Equities – passive Fund into the Diversified Assets – active Fund and the Global Bonds – active Fund and then partially (50%) de-risks into the Cash – active Fund as the member nears retirement. The rationale for this design is the belief that many members with Hybrid benefits are expected to use their DC pension pot as part of their overall Scheme tax-free cash lump sum at retirement.

As a material proportion of members continue to leave their DC pension pots invested past retirement, the Trustee has ensured that both the Flexible Income Strategy and the Lump Sum Strategy continue to de-risk after members' target retirement age. This was introduced following the triennial investment strategy and performance review in 2017 and confirmed as remaining appropriate as part of the triennial investment strategy and performance review which began on 4 June 2020 and ended on 22 June 2020, following which agreed actions were taken forward for further review. The latest triennial strategy review has also begun in 2023 following the end of the Scheme Year, which confirmed the Trustee continues to support this view. This review was ongoing at the time of publishing this Statement.

2.2. Legacy default investment arrangements

There are two additional legacy default arrangements: the Annuity Purchase Strategy and the Cash Lifecycle. These strategies are no longer used as default arrangements for new members. A number of members who were within one year of their target retirement age at the time of the asset transition to the current Flexible Income Strategy and the Lump Sum Strategy were allowed to remain invested in these legacy default targeted strategies.

The Annuity Purchase Strategy is designed for members to take 25% of their DC pension pot as a cash lump sum and the balance to buy an annuity (a regular income for life) at their target retirement age. This strategy works by switching the investment mix of members' DC pension pots from the Global Equities – passive Fund into the Diversified Assets – active Fund and then de-risks into the Fixed Annuity Tracker – passive Fund and Cash – active Fund as the member nears retirement. The objective of the Annuity Purchase Strategy is to be appropriate for members intending to take their benefits in the form of an annuity at retirement.

The Cash Lifecycle is designed for members to use all of their DC pension pot for a cash lump sum at their target retirement age. This strategy works by switching the investment mix of members' DC pension pots from the Global Equities – passive Fund into the Diversified Assets – active Fund and then de-risks into the Cash – active Fund as the member nears retirement. The objective of the Cash Lifecycle is to be appropriate for members seeking to take their entire pot as a cash lump sum at retirement. All members invested in the Cash Lifecycle are within 5 years to target retirement age.

2.3. Additional default investment arrangement

The Scheme also makes use of an additional default fund called the Cash - active (default) Fund (previously named the Cash – active (ex-Property) Fund). This fund was introduced in March 2020 (and held a small amount of assets from March 2020 to early December 2020) as a result of a decision taken to ensure that there was a fund where members' contributions could be allocated if their selected fund closed (as was the case for the Property – active Fund in 2020). This fund invests in the same underlying fund as the Cash - active Fund. As members' contributions can be directed into this fund without them making an active selection, this fund will continue to be, treated as a default for the purpose of fulfilling legislative requirements.

The objective of the Cash – active (default) Fund is to protect the absolute value of the investment by investing in deposits and other short-term money market instruments. The fund aims to perform in line with its benchmark.

2.4. Statement of Investment Principles

The Trustee is responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangements.

Details of the objectives and the Trustee's policies regarding the default arrangements can be found in a document called the 'Statement of Investment Principles - Defined Contribution' ("SIP"). The Scheme's most recent DC SIP covering the default arrangements is attached to this Statement.

As stated in the SIP, the Trustee aims to provide default arrangements that the Trustee believes to be in the best interests for those members that do not wish to make their own investment decisions. As at the end of the Scheme Year, the Scheme's Flexible Income Strategy and the Lump Sum Strategy's objectives were to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually into less risky assets as the member nears retirement with the asset allocation at retirement being designed to be appropriate for members who wish to flexibly take their benefits through an income drawdown arrangement or remain invested in the Scheme or in the case of the Lump Sum Strategy, take their retirement pot as cash.

The objectives of the Scheme's other default arrangements are noted in the applicable sections above.

2.5. Monitoring and review

The Trustee formally reviews the strategy and performance of the default arrangements (and other investments) in detail at least every three years or immediately following any significant change in investment policy or the Scheme's member profile. The last formal triennial investment strategy and performance review took place on 4 and 22 June 2020 (a review has taken place in March 2023 following the end of the Scheme Year).

The Trustee, with the help of its investment advisor, LCP, carried out an interim annual review of the default arrangements alongside all available options to members over the Scheme Year on 8 June 2022. The Trustee concluded that a flexible income remains an appropriate retirement income target. The growth phase of the DC default arrangement outperformed inflation over the last 5 years to 31 December 2022.

As part of this review the Trustee confirmed that the Scheme's targeted strategies were adequately and appropriately diversified between different asset classes and that the self-select options provide a suitably diversified range to choose from. Members also have the choice to invest into any of the 18 DC funds available in the self-select range (known as 'Freechoice'). These options were also included in the latest review.

As part of the triennial DC investment strategy review in June 2020, the Trustee agreed to introduce illiquid assets into the growth phase of the targeted strategies in order to improve the expected risk adjusted returns for members. Over the Scheme Year, the Trustee has further investigated how to most effectively introduce an illiquid allocation. This has been reviewed throughout the year and remains under consideration by the Trustee.

The Trustee started to review its investment beliefs in April 2022 at its investment training day. The Pension Scheme Executive ('PSE') held one on one sessions with each of the Trustee Directors to discuss their investments beliefs, which the PSE collated and used to identify key system-wide risks - climate change, biodiversity and nature related losses (including antimicrobial resistance) and diversity, equity and inclusion. The Trustee reworked its investment beliefs which were further discussed as part of the 'Net Zero and Beyond' day in July 2022. The SIP was updated to reflect the agreed investment beliefs in September 2022.

In addition to the above, the Trustee replaced the Schroder Life QEP Emerging Markets Fund with the JP Morgan Emerging Markets Sustainable Equity Fund within the Emerging Market Equities – active Fund. This fund also forms part of the Global Equities – active Fund. This change happened over 5 tranches between 24 May and 9 June 2022. The Trustee also agreed to restructure the Property – active Fund, which involved replacing the Legal and General Investment Management ('LGIM') Managed Property Fund with the Invesco Global Real Estate Fund and adjusting the strategic allocations to the underlying component funds. An allocation to the Invesco Global Real Estate Fund began being built up in April 2022, with the remaining assets due to be transitioned later in 2023.

On 10 June 2021, the Trustee reviewed all legacy targeted strategies and agreed to move all members from Lifecyle 2 into a default targeted strategy based on whether they are members with only a DC pension pot or Hybrid benefits unless they elect to retain their Lifecycle 2 investment. This was agreed following formal written advice from the investment advisor and given concerns that the legacy strategy design may not be aligned with the retirement outcome targeted by this member cohort. This transfer has been delayed to later in 2023 due to heightened market volatility and property fund liquidity issues. At the time of writing, the Trustee was reviewing the suitability of carrying out this transition during 2023.

The Trustee also reviews the performance of the default arrangements against their aims, objectives and policies on a quarterly basis, through a performance report provided by their investment advisors. This review includes an analysis of DC fund performance and member activity to check that the risk and return levels meet expectations. The Trustee monitors both short- and long-term performance on a quarterly basis and has further reviewed attribution over the Scheme Year given the challenging market conditions experienced in 2022. The Trustee reviews that took place during the Scheme Year concluded that over the long-term the default arrangements were performing broadly as expected given the market backdrop and the assets held and that the performance of the default arrangements remains broadly consistent with their stated aims and objectives

3. Requirements for processing core financial transactions

The Trustee has appointed WTW Outsourcing GB to administer the Scheme's DC benefits (including processing of core financial transactions), as well as the providers of the Scheme's current AVC arrangements. The administration responsibilities for members with Hybrid benefits transferred to Equiniti from 30 May 2022, though WTW continue to be responsible for maintaining the DC recordkeeping for members with DC pension pots. Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members or beneficiaries.

3.1. DC benefits (including current AVC arrangements)

3.1.1. Service level agreement

The Trustee has a service level agreement ('SLA') in place with WTW Outsourcing GB which covers the accuracy and timeliness of all core financial transactions. The SLA includes (but is not limited to):

- The processing of monthly contributions, including resolution of queries with the Bank, and payment reconciliation with the asset manager within 9 days of receipt of the payroll contribution file (around the 16th of the month). In addition to this the Scheme also targets the investment of contributions within 5 days following deduction from pay, and this target is also monitored quarterly.

- The processing of DC fund switches within 2 days of receipt of member request. Members also have the facility to do this online, in which case, the request will be actioned within 24 hours.
- The processing of transfer requests (both in and out of the Scheme) within 5 days from receipt of request. Some members also have the facility to run transfer out quotes online.
- The processing of retirement requests and payments within 4 days from receipt of request.
- The production of annual benefit statements and Statutory Money Purchase Illustration statements within 2 months following the receipt of full, accurate data.
- The answering of 80% of member calls within 30 seconds.
- Quarterly reporting on the completeness and accuracy of common and conditional data.
- Management of member records and financial data.
- The provision and management of member online access.

From 30 May 2022, the administration responsibilities for members with Hybrid benefits transferred to Equiniti, though WTW continue to be responsible for maintaining the DC recordkeeping for these members where they have DC pension pots. Equiniti are now responsible for processing core transactions for members with Hybrid benefits although Equiniti has no role in the processing of monthly DC contributions, DC fund switches, processing of transfer in requests and production of annual benefit statements and Statutory Money Purchase Illustration statements, this remains with WTW Outsourcing GB. The Trustee has an SLA in place with Equiniti which covers the accuracy and timeliness of all core financial transactions. The SLA includes (but is not limited to):

- The processing of transfer requests out of the Scheme within 5 days from receipt of request and all necessary information and authorisations.
- The processing of retirement requests and payments within 4 days from receipt of request and all necessary information and authorisations.
- Provide agreed DB benefit data to the DC administrator for use in Annual Benefit Statements within 6 weeks of receipt of full data.
- The answering of 80% of member calls within 20 seconds.
- The provision and management of member online access.

3.1.2. WTW Outsourcing GB internal controls

The Trustee has received assurance from WTW Outsourcing GB that there are adequate internal controls to ensure that core financial transactions for the Scheme were processed promptly and accurately during the Scheme Year. The key activities undertaken by WTW Outsourcing GB to help it ensure that core financial transactions were processed promptly and accurately included:

- Recording all member monetary transactions and benefit processing activities, that form part of core financial transactions, in a work management system which automatically assigns the correct SLA for each activity. Work activity is monitored, with tasks allocated on a daily basis.
- Preparing monthly and quarterly reporting which is presented and discussed with the PSE on no less than a monthly basis.
- Monthly bank, unit and fund reconciliations are performed, which are provided to the PSE.
- Peer review of all monetary transactions with different levels of payment authorisation required depending on the value of the payment.

WTW Outsourcing GB provided its own annual Audit and Assurance Faculty report ('AAF 01/06') during the Scheme Year in order to confirm the adequacy of its internal controls and the application of those controls in ensuring that core financial transactions were processed promptly and accurately. No significant issues were raised in the report.

In addition, analysis was undertaken over the Scheme Year by WTW Outsourcing GB in respect of any issues, errors or breaches arising to understand the cause, with rectification plans implemented where necessary, which were monitored on a monthly or more frequent basis.

3.1.3. Equiniti internal controls

Equiniti has controls that apply to the processing of members with Hybrid benefits as outlined below:

- All member transactions and benefit processing activities which form part of core financial transactions are recorded and managed through the workflow and work management system which assigns SLAs to each activity. The activity is monitored on a daily basis.
- Monthly and quarterly reporting is presented and discussed with the PSE on at least a monthly basis.
- Weekly and monthly bank reconciliations are performed and shared with the PSE.
- Monetary transactions are peer reviewed by senior members of staff, with various authorisation layers required (which are enforced by the system) according to the transaction value. The authorisation process is controlled using an external software workflow and work management system.

Equiniti also has its own assurance report (AAF 01/06). The Trustee understands from Equiniti that the services provided to the Scheme are delivered using the same software version and associated procedures as that used by Equiniti for other clients which were assessed as part of the AAF. However, Scheme transactions were not specifically included in the 2022 AAF testing as the change in administration services for members with Hybrid benefits to Equiniti did not take place until part way through 2022. The Trustee is unable to take full assurance from the AAF report at this stage. This is expected to change in the next reporting year.

3.1.4. Trustee monitoring

The Trustee recognises that delays and errors can cause significant issues for members and may cause them to lose trust in the Scheme. This could impact their decisions to save more into the Scheme and affect their future retirement outcomes. The Trustee has taken steps to try and ensure that there were adequate internal controls maintained so that core financial transactions relating to the Scheme were processed promptly and accurately during the Scheme Year. The Trustee, working with the PSE, regularly monitored the timeliness and accuracy of core financial transactions as follows:

- Reviewed monthly performance reporting on key processes, core financial transactions and complaints. Any issues and anomalies identified were followed up with the administrator for explanation.
- Held ad hoc meetings to monitor project specific progress.
- Reviewed quarterly reporting, which included, but was not limited to membership statistics, member transaction levels, service performance, financial reporting, complaints, errors and breaches, member online usage.

As part of these review processes, the PSE reviewed whether core financial transactions were accurate, up to date and completed within statutory timeframes and within the service levels agreed with WTW Outsourcing GB and Equiniti. Any issues identified by the PSE as part of its oversight were raised with WTW Outsourcing GB or Equiniti immediately and steps were taken to resolve the issue (see below for details).

The accuracy and quality of Scheme data is assessed and monitored on a quarterly basis by the Trustee. No significant issues/exceptions were identified during the Scheme Year in relation to the accuracy and quality of DC related data.

3.1.5. Performance over the Scheme Year

In each quarter of the Scheme Year, core financial transactions were completed within the agreed timescale for the following percentage of cases:

Members with:	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Only a DC pension pot	97.7%	98.0%	92.2%	94.7%
Hybrid benefits	90.7%	82.8%	43.8%	92.9%

For members with only a DC pension pot, overall the Scheme administrators performed ahead of agreed service levels, with an average of 95.7% in 2022 which is above the agreed target of 95%. There was a short term drop in administrator performance levels in respect of members with Hybrid benefits for one quarter, however performance relative to SLAs has increased relative to the previous year.

The Trustee, working with the PSE, required additional reporting in respect of any monetary transactions and benefit processing activity that were not completed within the agreed timescales, including the cause of the delay, the extent to which agreed timescales were breached and whether the cause of the delay was a systemic issue. The issues resulting in delays and the proposed remedial activities were closely monitored by the PSE, on behalf of the Trustee, to minimise the risk of the issues re-occurring.

During the Scheme Year, there was a significant dip in the performance against agreed SLA targets for the administration of members with Hybrid benefits, particularly during Quarter 3 of 2022. This was the first quarter of administration service delivery for Equiniti following its appointment and go-live on 30 May. Poor performance over Quarter 3 of 2022 was caused by the following:

- Shortly after the services went live with Equiniti, due to the additional tasks, casework took longer to complete than originally anticipated.
- Increase in member queries and requests following the announcement of the change in administrator, which in turn generated significant increase in work received in the early period, more than anticipated.
- The administration team experiencing some inefficiencies with the administration system and workflow tools as the system is used at full capacity across multiple different case types and scenarios.

These issues meant that responding to members and settling benefits were delayed from the outset, which created a backlog of casework. Working through the backlog meant that cases were processed outside of the agreed target SLA, which impacted on performance during Quarter 3 of 2022. Equiniti responded to the increase of incoming workload and general work pressures, by adding further resources to the team and agreed a recovery plan with the Trustee to clear the backlog by 30 October 2022, which was achieved. Following the clearance of the backlog in October 2022, monthly performance improved for the remainder of Quarter 4 of 2022.

The volume of avoidable complaints remained low over 2022, and primarily centred around individual delays and accuracy issues rather than systemic issues. A large proportion of complaints related to member frustrations with the requirements introduced by the new transfer regulations which meant additional checks were, and continue to be, required from the administrators.

The Bank is responsible for calculating contributions and paying them to the Scheme within the timeframes set out in each sections' Schedule of Contributions. While this is out of the control of the Trustee and WTW Outsourcing GB, WTW Outsourcing GB perform validation checks based on information that is available to them. The Trustee is also required to obtain an audit opinion as to whether contributions are paid in accordance with the Schedules of Contributions, which can be found in the Scheme's Annual Report & Financial Statements.

No other issues or anomalies were identified during the Scheme Year in relation to the processing of core financial transactions of DC and Hybrid benefits.

Overall, based on the processes operated and information provided as described above, the Trustee is satisfied that over the Scheme Year (in relation to DC and Hybrid benefits), other than the exceptions noted above:

- the administrators were operating appropriate procedures, checks and controls and operating within the agreed SLAs;
- there have been no known material administration errors in relation to processing core financial transactions; and
- core financial transactions were processed promptly and accurately during the Scheme Year.

3.2. Legacy AVCs

There are a small number of members invested in a relatively large number of legacy AVC arrangements. These legacy AVCs only account for a small proportion (less than 0.1%) of the total DC assets within the Scheme and are no longer open to contributions. Therefore, the Trustee has taken a proportionate approach to collecting information on and reviewing them, compared to the other DC benefits within the Scheme.

The Scheme's legacy AVC providers are:

- Standard Life
- Scottish Widows
- Schroders
- Prudential
- Phoenix Life
- Aviva (Ex Friends Life policy)
- Aegon

The Trustee's investment advisor has sought to obtain information from these AVC providers on the processing of core financial transactions for the AVC assets they hold and the internal controls in place to ensure that core financial transactions relating to the Scheme are processed promptly and accurately. As these products are largely standardised insurance products, some of the information that has been provided reflect the provider's standard processes rather than scheme specific processes.

3.2.1. Standard Life

There is a standard SLA covering the accuracy and timeliness of all core financial transactions which targets completion within 10 working days for core financial transactions and has an internal controls statement which outlines information about the processing of these core financial transactions and achieving the stated SLA targets and also how this is managed through controlled systems including, but not limited to, the following actions:

- Automated systems are designed to ensure consistent, timely and accurate receipt and allocation to the correct funds for regular and single payments;

- Regular monitoring of process and people performance, including control self-assessment reviews;
- Reconciliations are carried out between Finance and Customer Operations to ensure contributions are accurately recorded;
- Documented business procedures are in place for contributions processes;
- Compliance with processes is supported by an automated workflow system that ensures work is enabled, tracked and managed;
- A dedicated control team actively manages manual payments (including automation failures) and the reporting of missed contributions to the Pensions Regulator; and
- An automated quotes system, which ensures the consistent application of calculations.

A quality assurance framework is in place to ensure that payments are processed in line with the defined processes and service levels.

Standard Life has confirmed that there have been no material administration issues, errors or unreasonable delays over the Scheme Year, however the Trustee is aware of a number of delays with settlements which the Trustee has sought to obtain further details on. At the time of producing this statement, that process is still ongoing.

3.2.2. Scottish Widows

Scottish Widows has confirmed it has effective quality controls in place to assess the accuracy of the transactions processed and information provided to customers. This includes full end to end monthly quality checking across all areas of the business. Scottish Widows aims to ensure all core transactions are completed within 5 working days of receiving all the information they require. Scottish Widows has confirmed that there have been no material administration issues, errors or unreasonable delays over the Scheme Year. An Annual Disclosure Statement is issued annually to the Trustee shortly after the Reporting Date, 28 March.

3.2.3. Schroders

The AVC holding in the Life Managed Balanced Fund was fully redeemed on 10th November 2022, therefore as at 31 December 2022 there are no AVC holdings with Schroders. The Trustee previously held a direct contract with Schroder Pension Management Limited which set out the terms of the policy. Schroders' obligations were detailed in the Schroder Pension Management Limited Key Features and Policy Rules documents. Schroders' internal controls document outlines its control objectives which include but are not limited to:

- Client new monies and withdrawals are processed and recorded completely and accurately and appropriately authorised; and
- Investment transactions are properly authorised, executed and allocated in a timely and accurate manner.

Monthly valuations and transaction statements, monthly performance reports, and quarterly investment reports are available to the Trustee via SchrodersLink.

Schroders has confirmed that there have been no material administration issues, errors or unreasonable delays over the Scheme Year.

3.2.4. Prudential

Prudential uses "End to End" working and reporting. This aims to join up all of the current transactional activities together with the 'journey time' calculated from the member's first point of contact to the point of closure where no other activity is required to deliver the customer outcome.

It sets out four main work areas including bereavements, claims, new business and servicing, and provide an upper, lower and tail target for the number of days they aim for a case to be completed.

Prudential monitors service performance on a weekly basis with senior management oversight, against a variety of metrics. Prudential aims for 75% of cases to be completed within the upper targets. Over the year the quarterly percentages completed within the upper targets were 66.7%, 0%, 50% and 40% over Q1, Q2, Q3 and Q4 2022 respectively. It should be noted that these percentage figures are based on a very low number of total cases, between one and four each quarter. Prudential has stated that it cannot provide further insight on what has caused delays on individual cases but its explanation was resourcing issues.

3.2.5. Phoenix Life

Phoenix Life has a range of internal controls to ensure arrangements and procedures are being followed in the administration and management of the Scheme and monitored. Below are some examples of key controls Phoenix Life operates on behalf of Trustee:

- Specialist training provided to specific business units;
- Internal Audit (regularly monitoring systems and controls);
- IT security polices to protect customer and Phoenix Life's data; and
- Data protection procedures, policies including annual staff training and testing.

The Trustee has not received confirmation from Phoenix on administration activity over the Scheme Year but continues to regularly request this information. At this time the Trustee is not aware of any material administration issues, errors or unreasonable delays over the Scheme Year.

3.2.6. Aviva (Ex Friends Life)

Aviva has a wide range of policies, internal controls, and practices in place to manage their investment administration activities. It aims to deal with servicing requests within 5 working days and claims within 3 working days.

Aviva has confirmed that there have been no material administration issues, errors or unreasonable delays over the Scheme Year.

The Trustee receives an Annual Short Investment Report as and when requested, in addition to a Quarterly Investment Report which is provided each quarter.

3.2.7. Aegon

Aegon operates different SLAs based on the type of query, these range from 1 day (investigating death claims) and 10 days (providing Scheme valuations). The SLA for the majority of tasks is between 5 and 8 days. Aegon can produce an SLA report specific for the Scheme on request. Tasks completed during the Scheme Year included providing Scheme valuations and retirement quotes. 50% (2 of 4) of tasks were completed within the SLA. Aegon confirmed that overall levels of work and reduced staff availability resulted in requests being processed on the target date and the 2 cases over the target SLA show overnight data requests led to a short delay in issue after the target date had passed. Aegon can supply quarterly reports on a request basis to the Trustee. There were no financial transactions over the Scheme Year.

Aegon has confirmed there have been no complaints, no material administration issues, errors or unreasonable delays over the Scheme Year.

3.3. Trustee monitoring

The Trustee carries out regular reviews (at least every 3 years) of its legacy AVC arrangements with the last review undertaken on 10 June 2021. This review highlighted no material concerns with the legacy AVC arrangements.

4. Member-borne charges and transaction costs

The Trustee is required to set out the charges incurred by members during the Scheme Year in this Statement. As the Bank pays the DC fund annual management charges, platform expenses and all other administration expenses, the member borne charges are limited to the additional fund expenses incurred by the underlying fund managers in the day-to-day running of the funds (for example, custodian fees etc), with the exception of some legacy AVCs funds (see below).

The Trustee endeavours to ensure that the additional fund expenses are below 0.20% per annum on each DC fund. As at 31 December 2022, the highest additional expenses of all DC funds that were available to members was for the Global Equities – active Fund, at 0.07% per annum (p.a.).

The Trustee is also required to disclose transaction cost figures. In the context of this statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell DC assets but are exclusive of any costs incurred when members invest in and switch between funds.

The transaction costs are borne by members. The charges and transaction costs have been supplied by Fidelity (the Scheme's platform provider) and the legacy AVC providers. The charges and transaction cost information has been provided for the Scheme Year for the default arrangements and self-select options (but not all of the legacy AVC funds – further details below).

When preparing this section of the statement, including the illustrations, the Trustee has taken account of statutory guidance. All additional DC and AVC fund expenses and transaction cost figures shown in this section are over the Scheme Year. Under the prescribed way in which transaction costs have been calculated it is possible for figures to be negative, where market movements are favourable between the time a trade is placed and it is executed. We have shown any negative figures in the tables for the year as provided, but for the costs and charges illustrations we have used zero where a transaction cost is negative to give a more realistic projection (i.e. we would not expect transaction costs to be negative over the long-term).

4.1. Default arrangements charges and transaction costs

The default arrangement for most members with only a DC pension pot is the Flexible Income Strategy and for most members with Hybrid benefits the default arrangement is the Lump Sum Strategy. These default arrangements have been set up as targeted strategies (i.e. they automatically combine DC funds in proportions that vary according to the time to retirement age). This means that the level of charges and transaction costs will vary depending on how close members are to retirement and in which DC funds they are invested. Statutory guidance has been taken into account in the calculation of these numbers.

For the Scheme Year, annualised charges and transaction costs are set out in the following tables.

Flexible Income Strategy (main default for members with only a DC pension pot)

Years to retirement	Additional fund expenses (p.a.)	Transaction costs
20 or more years to retirement	0.00%	0.15%
15 years to retirement	0.02%	0.18%

10 years to retirement	0.03%	0.21%
5 years to retirement	0.04%	0.25%
At retirement	0.03%	0.23%

Lump Sum Strategy (main default for members with Hybrid benefits)

Years to retirement	Additional fund expenses (p.a.)	Transaction costs
20 or more years to retirement	0.00%	0.15%
15 years to retirement	0.02%	0.18%
10 years to retirement	0.03%	0.21%
5 years to retirement	0.04%	0.25%
At retirement	0.02%	0.25%

For the Scheme Year, annualised charges and transaction costs for the legacy default arrangements are set out in the following tables. Charges are only shown at retirement and 5 years to retirement for the Cash Lifecycle as the strategy is closed to new members and all members invested are within 5 years of their target retirement age.

Annuity Purchase Strategy (legacy default and current Freechoice option)

Years to retirement	Additional fund expenses (p.a.)	Transaction costs
20 or more years to retirement	0.00%	0.15%
15 years to retirement	0.02%	0.18%
10 years to retirement	0.03%	0.21%
5 years to retirement	0.02%	0.15%
At retirement	0.00%	0.04%

Cash Lifecycle (legacy default arrangement)

Years to retirement	Additional fund expenses (p.a.)	Transaction costs
5 years to retirement	0.05%	0.23%
At retirement	0.00%	0.05%

Cash active (default) fund (additional default arrangement)

Years to retirement	Additional fund expenses (p.a.)	Transaction costs
Cash - active (default)	0.00%	0.05%

4.2. Self-select options charges and transaction costs

With the exception of the legacy Cash Lifecycle Strategy, the default arrangements are also available as self-select options for members who want to use them. Members also have the choice to invest into any of the 18 DC funds available in the self-select range (known as "Freechoice").

The level of charges for each self-select DC fund and the transaction costs over the Scheme Year are set out in the following table. The underlying DC funds used within the Flexible Income Strategy are shown in bold.

Fund name	Additional fund expenses (p.a.)	Transaction costs
UK Equities - active	0.02%	0.65%
Diversified Assets - active	**0.06%**	**0.26%**
Shariah Law Equities - passive	0.00%	-0.02%
Sustainable and Responsible Equities - active	0.00%	0.14%
Global Bonds - active	**0.02%**	**0.32%**
UK Equities - passive	0.00%	0.00%
Global Equities - passive	**0.00%**	**0.15%**
Property - active[2]	0.04%	0.15%
Fixed Annuity Tracker - passive	0.00%	0.04%
Inflation Linked Annuity Tracker - passive	0.00%	0.05%
Cash - active	**0.00%**	**0.05%**
European (ex UK) Equities - passive	0.00%	0.10%
North American Equities - passive	0.00%	0.04%
Japanese Equities - passive	0.00%	0.04%
Asia Pacific (ex-Japan) Equities - passive	0.00%	0.06%
Global Equities - active[1]	0.07%	0.10%
Sterling Corporate Bonds - active	0.01%	0.00%
Emerging Markets Equities - active [1]	0.03%	0.20%

[1]The Trustee replaced the Schroder Life QEP Emerging Markets Fund with the JP Morgan Emerging Markets Sustainable Equity Fund within the Emerging Market Equities – active Fund. This fund also forms part of the Global Equities – active Fund. This change happened over 5 tranches between 24 May and 9 June 2022.

[2]The Trustee agreed to restructure the Property – active Fund, which involved replacing the LGIM Managed Property Fund with the Invesco Global Real Estate Fund and adjusting the strategic allocations to the underlying component funds. An allocation to the Invesco Global Real Estate Fund began being built up in April 2022.

4.3. Legacy lifecycle strategies

The Scheme also has three legacy lifecycle strategies which were previously available for members to select: the Capital Lifecycle, Lifecycle 2 and Flexicycle. These strategies are closed to new members, but existing members have been permitted to remain invested.

For the Scheme Year, annualised charges and transaction costs are set out below.

Capital Lifecycle (legacy lifecycle strategy)

Years to retirement	Additional fund expenses (p.a.)	Transaction costs
At retirement	0.05%	0.21%

All members invested in this strategy over the Scheme year were past their target retirement age and therefore invested in an allocation of 75% Diversified Assets – active and 25% Cash - active. There were no members invested in this option as at 31 December 2022.

Lifecycle 2 (legacy lifecycle strategy)

Years to retirement	Additional fund expenses (p.a.)	Transaction costs
20 or more years to retirement	0.06%	0.14%
15 years to retirement	0.06%	0.14%
10 years to retirement	0.06%	0.14%
5 years to retirement	0.06%	0.14%
At retirement	0.00%	0.04%

Members in Lifecycle 2 who are 20 or more years from retirement are invested in 60% Global Equities – active, 20% Property – active and 20% Diversified Assets – active. Members who are five years from retirement are then de-risked gradually so that at target retirement age, members are invested in 75% Fixed Annuity Tracker – passive and 25% Cash – active. As part of the annual Lifecyle review over the previous Scheme Year, the Trustee agreed that members in Lifecycle 2 were to be automatically moved to a more appropriate default arrangement, unless they actively choose to opt out of a switch and stay in Lifecycle 2. This was due to take place over the 2022 Scheme Year, however this has been delayed to later in 2023 due to heightened market volatility and property fund liquidity issues. The Trustee is continuing to review the suitability of carrying out this transition during 2023.

4.3.1. Flexicycle (legacy lifecycle strategy)

Flexicycle is a lifecycle strategy that allowed members to create an investment strategy by selecting their preferred growth and consolidation phase funds and the point at which their DC pension pot would switch between them. There was also a choice of switching periods between these phases and a choice of at retirement DC fund allocation. The Trustee is therefore not able to display annualised charges and transaction costs for each possible combination in this Statement. The relevant charges and costs can be seen for the possible underlying funds with the options for the growth phase being the Global Equities – active, Global Equities – passive, Diversified Assets – active, Sustainable and Responsible Equities – active and Emerging Markets Equities – active Funds and the options for the consolidation phase being the Fixed Annuity Tracker – passive, Inflation Linked Annuity Tracker – passive, Diversified Assets – active and Cash – active Funds.

4.4. Additional Voluntary Contribution fund charges and transaction costs

As well as the DC funds noted above, which contain the majority of the Scheme's AVC assets, some members also had assets in one or more legacy AVC funds during the Scheme Year.

The majority of the Scheme's legacy AVC assets are invested in 'With-Profits' funds. With-profits returns are delivered through guaranteed annual and non-guaranteed terminal bonuses (guarantees only apply at contractual events, e.g. retirement) and these can be influenced by the asset allocation within the fund which is itself reflective of the strength of the provider, and therefore affects investment returns and bonus rates.

The Trustee, with its investment advisors, has sought to obtain details of the charges and transaction costs from the Scheme's legacy AVC providers for the Scheme Year. At the time of producing this statement, that process is still ongoing. Some data is currently outstanding from Phoenix Life. The Trustee will continue to ask its legacy AVC providers on a regular basis to disclose details of the charges and transaction cost data with the intention of adding this into the next annual DC governance statement. In last year's DC Governance Statement, the following information was missing:

- Aviva (Ex Friends Life) AVC funds (With-Profits Fund): the 1-year and 5-year performance and Total Expense Ratio were not available;
- Aviva (Ex Friends Life) AVC funds (GM funds): the transaction costs were not available;
- Standard Life AVC funds: the 1-year and 5-year performance was not available;
- Scottish Widows AVC With-Profit Fund: the 5-year performance was not available, this has since been confirmed as 3.2%;
- Prudential AVC With-Profits Cash Accumulation Fund: the Total Expense Ratio and transaction costs were not available. Transaction costs were provided as at 30 September 2021 rather than 31 December 2021. The transaction cost as at 31 December 2021 has since been confirmed as 0.00%.

The Trustee, with its investment advisors, continued to follow up with these providers but were unable to obtain the outstanding data. The Trustee continues to work with its investment advisors to collect outstanding data.

The charges shown for the AVC arrangements are the Total Expense Ratios ("TER") for the Scheme Year (except where otherwise shown), which includes the annual AVC fund fees as these are not met by the Bank, unlike for the DC funds.

Aviva (Ex Friends Life) AVC funds	TER[1]	Transaction costs
GM UK Equity Fund	0.37%	0.00%
GM Overseas Equity Fund	0.52%	0.37%
GM European Equity Fund[2]	0.41%	0.18%
GM Asia Pacific ex Japan Equity Fund[2]	0.48%	0.15%
GM Property Fund	0.60%	0.06%
With-profits Fund	1.02%	0.03%

Standard Life AVC funds[3]	TER[1]	Transaction costs
Pension Millennium With Profits Fund	1.15%[4]	0.02%
Pension Millennium With Profits 2006 Fund	1.20%[4]	0.02%
Pension With Profits Fund	1.75%[4]	0.04%
Standard Life Property Pension Fund	1.03%	0.22%
Standard Life Managed Pension Fund	1.02%	0.18%
Prudential		
Prudential With-Profits Cash Accumulation Fund	n/a[5]	0.17%[6]
Prudential Global Equity	0.75%	0.09%[6]
Prudential Deposit	n/a[5]	0.00%[6]
Prudential Discretionary	0.75%	0.09%[6]
Prudential UK Equity	0.75%	0.08%[6]
Other AVC providers	**TER[1]**	**Transaction costs**
Schroders Life Managed Balanced Fund[2]	0.54%	0.13%[6]
Aegon Cash Fund	1.00%	0.00%
Phoenix Life With-Profits Fund	TBC[7]	TBC
Scottish Widows With-Profit Fund	0.9%-1.5%[8]	0.17%

[1]TER = Total Expense Ratio. The TER encompasses charges made to / by funds, typically including the Annual Management Charge, custody fees and other expenses

[2]As at 31 December 2022, there were no members invested in these funds.

[3]A Scheme-specific discount of 0.40% is applied annually.

[4]The Fund has no explicit fund management charge. The charge shown includes an allowance for the cost of guarantees and is the deduction Standard Life currently use, for illustrative purposes, in quotations.

[5]Charges on the Prudential With Profits and Deposit Fund are not explicit, they are accounted for in the bonus declared on the Fund.

[6]As at 30 September 2022.

[7]The Scheme's investment advisors are working with the provider to confirm this cost over the Scheme year with the aim of including in next year's statement.

[8]Scottish Widows has confirmed expenses do apply to the With-Profits fund, but that these vary based on regular premiums or single premiums and based on term length. The figure provided are for policies reaching maturity in 2019, however it is expected that impact for policies maturing in 2023 would be of a similar value.

4.5. Illustration of charges and transaction costs

Over a period of time, the charges and transaction costs that are taken out of members' DC pension pot can reduce the amount available to them at retirement. The following table sets out an illustration of the impact of charges and transaction costs on the projected value of an example member's DC pension pot. In preparing this illustrative example, the Trustee has had regard to the relevant statutory guidance.

As each member has a different amount in their DC pension pot within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has had to make a number of assumptions about what these might be. The assumptions are explained below:

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges (i.e. the additional expenses) or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member-borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the DC fund managers over the past three years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past five years as this is the longest period over which figures were available and should be more indicative of longer-term costs compared to only using figures over the Scheme Year.

Illustrations are provided for the default option for members with only a DC pension pot (the Flexible Income Strategy) since this is the arrangement that most members have assets in, the Lump Sum Strategy (which is the default for most members with Hybrid benefits), the Annuity Purchase Strategy, the Cash Lifecycle and the Cash – active Fund as these strategies are also classified as default arrangements as well as two DC funds from the Freechoice DC fund range. The two Freechoice DC funds shown in the illustration are:

- the DC fund with the highest charges; UK Equities - active
- the DC fund with the lowest charges; Shariah Law Equities Fund - Passive

The charges illustration table is shown below.

Years invested	Flexible Income Strategy		Lump Sum Strategy		Annuity Purchase Strategy		Cash Lifecycle		Cash – active (default)	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£4,500	£4,500	£4,500	£4,500	£4,500	£4,500	£4,500	£4,500	£4,300	£4,300
3	£9,900	£9,900	£9,900	£9,900	£9,900	£9,900	£9,900	£9,900	£9,100	£9,100
5	£15,600	£15,500	£15,600	£15,500	£15,600	£15,500	£15,600	£15,500	£13,600	£13,600
10	£31,200	£31,000	£31,200	£31,000	£31,200	£31,000	£31,200	£31,000	£24,200	£24,200
15	£49,100	£48,700	£49,100	£48,700	£49,100	£48,700	£49,100	£48,700	£33,800	£33,700
20	£69,700	£68,700	£69,700	£68,700	£69,700	£68,700	£69,700	£68,700	£42,400	£42,400
25	£92,000	£90,300	£92,000	£90,300	£92,000	£90,300	£92,000	£90,300	£50,200	£50,200
30	£115,000	£111,700	£115,000	£111,700	£115,000	£111,700	£115,000	£111,700	£57,300	£57,200
35	£136,100	£130,600	£136,100	£130,600	£132,800	£127,900	£137,600	£131,800	£63,700	£63,600
40	£151,100	£143,500	£148,300	£141,300	£136,900	£131,700	£149,600	£142,100	£69,400	£69,300
Percentage Difference		5.3%		5.0%		3.9%		5.3%		0.1%

Years invested	Shariah Law Equities - Passive		UK Equities - active	
	Before costs	After costs	Before costs	After costs
1	£4,500	£4,500	£4,500	£4,500
3	£9,900	£9,900	£9,900	£9,800
5	£15,600	£15,500	£15,600	£15,400
10	£31,200	£31,200	£31,200	£30,600
15	£49,100	£49,000	£49,100	£47,700
20	£69,700	£69,400	£69,700	£67,000
25	£93,200	£92,800	£93,200	£88,600
30	£120,100	£119,500	£120,100	£113,000
35	£150,900	£150,000	£150,900	£140,400
40	£186,200	£184,900	£186,200	£171,300
Percentage Difference		**0.7%**		**8.7%**

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each DC fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected DC pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- The starting account (pot) size used is £1,900. This is the average (median) pot size for Scheme members aged 25 years and younger (we have used the average of the under 25s rather than the average of the whole Scheme to allow for a more representative 40-year projection rather than using a median member who will not be invested in the Scheme for 40 years). This assumption, and others mentioned, are as at 31 December 2022, the Scheme Year end.
- The projection is for 40 years, being the approximate duration that the youngest Scheme member has until they reach the Scheme Normal Pension Age.
- The starting salary is assumed to be £25,000. This is the median salary for Scheme members aged 25 years and younger.
- The contribution rate is assumed to be 10% (includes employee and employer contributions). This is the median contribution rate for Scheme members aged 25 years and younger (for the purposes of the illustration this rate is assumed to remain constant over time).

- None of the investments modelled have a performance fee attached.
- The projected before charges annual returns used are as follows:
  - Flexible Income Strategy: 2.8% above inflation for the initial years, gradually reducing to a return of 0.3% below inflation at the ending point of the lifestyle.
  - Lump Sum Strategy: 2.8% above inflation for the initial years, gradually reducing to a return of 0.9% below inflation at the ending point of the lifestyle.
  - Annuity Purchase Strategy: 2.8% above inflation for the initial years, gradually reducing to a return of 2.2% below inflation at the ending point of the lifestyle.
  - Cash Lifecycle: 2.8% above inflation for the initial years, gradually reducing to a return of 2.0% below inflation at the ending point of the lifestyle. We have shown projections over 40 years however the strategy is closed to new members and all members in this strategy are at least at their Target Retirement Age.
  - Cash – active (default) Fund: 2.0% below inflation
  - Shariah Law Equities – passive: 2.8% above inflation
  - UK Equities – active: 2.8% above inflation

No allowance for active management has been made in the return assumptions (e.g. assumed return for a passive and active global equity fund is equal). Expected returns are consistent with those used in the Scheme's Statutory Money Purchase Illustrations and were produced taking account of AS TM1.

5. Investment returns

This section states the annual return, after the deduction of member borne charges and transaction costs, for all investment options that members can select or could select during the Scheme Year, and in which assets relating to members were invested during the Scheme Year. The return on investments has been calculated in accordance with the statutory guidance and takes the form of the geometric average annual return.

For the arrangements where returns vary with age, such as for the DC default arrangement and the other current and legacy targeted strategies, returns are shown over various periods for a member aged 25, 45 and 55 at the start of the period the returns are shown over. The majority of members have a target retirement age of 65. To calculate the investment returns at different ages for the targeted strategies, we have used the mix of DC funds that apply to a member with a target retirement age of 65 i.e. for a member aged 55 we have assumed they are 10 years from their target retirement age. Performance below reflects any changes made to underlying DC fund managers over the periods shown.

Flexible Income Strategy (main default for members with only a DC pension pot) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	Since inception* (% p.a.)
25	-12.5	6.1
45	-12.3	5.4
55	-10.2	2.9

*This strategy has been available for less than 5 years, as such we have shown performance since the strategy's inception on 19 April 2018.

Lump Sum Strategy (main default for members with Hybrid benefits) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	Since inception* (% p.a.)
25	-12.5	6.1
45	-12.3	5.4
55	-10.2	2.9

*This strategy has been available for less than 5 years, as such we have shown performance since the strategy's inception on 19 April 2018.

Annuity Purchase Strategy (legacy default and current Freechoice option) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	-12.5	6.1
45	-12.3	5.4
55	-12.0	0.7

Cash Lifecycle (legacy default arrangement) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	-12.5	6.1
45	-12.3	5.4
55	-10.5	2.7

Net returns have been shown for the Cash Lifecycle at ages 25, 45 and 55, however, the strategy is closed to new members and all members invested are within 11 years to target retirement age.

Cash - active (default) Fund (additional default arrangement) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	1.4	0.6
45	1.4	0.6
55	1.4	0.6

Self-select DC fund net returns over periods to Scheme Year end

DC Fund name	1 year (%)	5 years (% p.a.)
UK Equities - active	-8.4	1.0
Diversified Assets - active	**-8.8**	**0.7**
Shariah Law Equities - passive	-15.7	11.8
Sustainable and Responsible Equities - active	-16.5	4.6
Global Bonds - active	**-3.1**	**1.9**
UK Equities - passive	0.9	3.2
Global Equities - passive	**-12.5**	**6.1**
Property - active	-9.1	2.7
Fixed Annuity Tracker - passive	-29.2	-3.8
Inflation Linked Annuity Tracker - passive	-34.6	-4.6
Cash - active	**1.4**	**0.6**
European (ex UK) Equities - passive	-7.2	6.7*
North American Equities - passive	-9.3	13.9*
Japanese Equities - passive	-5.1	3.8*
Asia Pacific (ex-Japan) Equities - passive	-1.6	5.2*
Global Equities - active	-5.6	6.3
Sterling Corporate Bonds - active	-16.4	-0.3*
Emerging Markets Equities - active	-7.2	1.6

*5 year performance is not available for the passive regional equity funds and the Sterling Corporate Bonds – active Fund as such we have shown since inception performance from 31 March 2018.

The underlying DC funds used within the current Flexible Income Strategy are shown in bold.

Flexicycle is a targeted strategy that allowed members to create an investment strategy by selecting their preferred growth and consolidation phase funds and the point at which their DC pension pot would switch between them. There was also a choice of switching periods between these phases and a choice of at retirement allocation. The Trustee is therefore not able to display net returns for each possible combination in this Statement. The relevant charges and costs can be seen for the possible underlying DC funds in the table above with the options for the growth phase being the Global Equities – active, Global Equities – passive, Diversified Assets – active, Sustainable and Responsible Equities – active and Emerging Markets Equities – active Funds and the options for the consolidation phase being the Fixed Annuity Tracker – passive, Inflation Linked Annuity Tracker – passive, Diversified Assets – active and Cash – active Funds.

Capital Lifecycle (legacy Freechoice targeted strategy) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	-12.5	6.1
45	-12.3	5.4
55	-10.5	2.7

Net returns have been shown for the Capital Lifecycle at ages 25, 45 and 55, however, the strategy is closed to new members and there were no members invested in this option as at 31 December 2022.

Lifecycle 2 (legacy Freechoice targeted strategy) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	-6.9	4.6
45	-6.9	4.6
55	-6.9	4.6

AVC fund net returns over periods to Scheme Year end

Fund name	1 year (%)	5 years (% p.a.)
GM UK Equity Fund	0.6	3.5
GM Overseas Equity Fund	-6.3	5.9
GM European Equity Fund	-3.3	4.3
GM Asia Pacific ex Japan Equity Fund	-8.7	1.6
GM Property Fund	-15.1	1.0
Aviva (ex Friends Life) With-profits Fund	12.8	9.0
Standard Life Pension Millennium With Profits Fund	-6.3	2.0
Standard Life Pension Millennium With Profits 2006 Fund	-6.3	2.0
Standard Life Pension With Profits Fund	-11.4	-0.2
Standard Life Property Pension Fund	-15.2	0.3
Standard Life Managed Pension Fund	-7.6	2.9
Schroders Life Managed Balanced Fund	-7.1	3.5

Aegon Cash Fund	0.5	-1.4
Phoenix Life With-Profits Fund[1]	TBC	TBC
Prudential Global Equity Pension Fund	-5.4	3.2
Prudential Deposit Fund	0.0	0.0
Prudential Discretionary Pension Fund	-6.9	3.1
Prudential UK Equity Pension Fund	-6.8	1.9
Prudential With-Profits Cash Accumulation Fund[2]	1.0	1.1
Scottish Widows With-Profit Fund	-0.1	3.6

[1]The Scheme's investment advisors are working with the provider to confirm this cost over the Scheme year with the aim of including in next year's statement.

[2] The With-Profits fund returns stated above are that of the underlying investments, which are the only figures that can be quoted. With Profits Funds are designed to smooth the returns members receive over their investment term and underlying investment returns are not the only factor determining the return members receive.

6. Value for members assessment

The Trustee is required to assess the extent to which member-borne charges and transaction costs for the Scheme Year represent good value for members.

6.1. DC benefits (including current AVC arrangements)

The Trustee reviews all member-borne charges annually (including transaction costs where available), with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The most recent value for members review took place on 1 July 2022. The assessment was completed taking account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits) and accompanying guidance. There is no legal definition of 'good value' which means that determining this is subjective. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the benefit received by members was also considered in this assessment. The assessment was undertaken with assistance from the Trustee's DC advisor and involved a wide assessment of value considering the key elements of the Scheme and agreeing relevant value ratings for each area, in addition to looking at the value attributable to member-borne costs and charges.

6.1.1. Assessment of value relating to member-borne charges and transaction costs

The Bank covers the administration and DC fund management charges, therefore the member-borne charges are limited to additional DC fund expenses and transaction costs for the DC funds. which the assessment found compares very favourably to other DC schemes.

The Trustee's investment advisors have confirmed that the additional expenses paid by members for the DC funds are competitive for the types of fund available to members. Members pay significantly less than members in other schemes as they only pay the additional expenses element for the DC funds. The Trustee also assesses the value of the total charges of the investment options (including charges met by the Bank) and found these to also be very competitive compared to other DC schemes.

6.1.2. Wider value assessment

In carrying out the value assessment, the Trustee also considered the wider benefits members receive from the Scheme, which include:

- the oversight and governance of the Trustee, including ensuring the Scheme is compliant with relevant legislation, and holding regular meetings to monitor the Scheme and address any material issues that may impact members;
- the design of the default arrangements and how this reflects the interests of the membership as a whole;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services such as the Scheme website where members can access DC fund information online; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

The following table sets out the summary of how the Trustee has assessed value.

Area	Assessment	Commentary
Charges	Very good	Most of the Scheme's costs are covered by the Bank, with only transaction costs and additional expenses borne by the member. Charges paid by members are therefore extremely competitive when compared to typical fees paid by members in other large DC schemes.
Scheme Administration	Good	The agreed service levels for achieving a task are generally shorter than the standard levels in the market place, and these are achieved in the majority of cases for members with DC benefits. The Trustee reviewed monthly performance reporting on key processes, transactions and complaints. Any issues and anomalies identified were followed up with the administrator for explanation. The Trustee held weekly service meetings as well as monthly meetings with the administrator to review and assess service performance, discuss issues, and progress on project related activity. Any issues identified by the PSE as part of its oversight were raised with the administrators immediately and steps were taken to resolve the issue. From May 2022, Equiniti replaced WTW as the Scheme administrator for members with Hybrid and DB benefits. The move to Equiniti is expected to lead to improvements in the quality of service received by members with Hybrid benefits over the next two to three years. Equiniti's performance was initially lower than expected but the Trustee continues to oversee process improvements in order to ensure this continues to improve.
Scheme management and Governance	Very good	The Trustee has a high level of knowledge and engagement in managing the Scheme, resulting from a comprehensive training programme, supported by a strong team in the PSE and access to professional advisors.
Communications	Very good	A wide suite of communication tools and resources are offered to Scheme members which is continually reviewed. New communications and actions were implemented over the Scheme year, including (but not limited to) new pages on FutureFocus for new joiners and retirement options, as well as a bespoke mid-career 'MOT' including a simple interactive guide and checklist to help members take control of their retirement savings.
At Retirement	Very good	Throughout 2022, the Trustee worked on a post-retirement solution for Scheme members, which was launched in October 2022. The Trustee implemented a simplified

		application form, educational videos on the different ways that members can access their pots and tailored retirement seminars which cover the options members have at retirement, including the post-retirement signposted solution.
Default arrangement	Very good	Different defaults are available to different cohorts of members, recognising their different requirements. The default arrangements were reviewed during the Scheme year as part of the annual performance and strategy review, which took place in June 2022. Based on the outcome of this annual review, the Trustee concluded that the default arrangements have been designed to be in the best interests of the majority of the members invested in them and reflect the demographics of those members. This level of review is performed on an annual basis, with a detailed, formal triennial investment strategy review carried out every three years. The 2023 review is underway, outside of the Scheme year covered by this statement.
Self-select investment range	Very good	The Scheme offers a good range of DC funds covering all the main asset classes with active and passive options and the option to invest in targeted strategies designed for members who plan to use their DC pension pot to provide a flexible income (e.g. income drawdown), or for annuity purchase or a cash lump sum (reflecting the three broad choices members have at retirement).
Scheme design	Very good	Employer contributions are generous when compared to the market, with total contribution rates exceeding the industry benchmarks. Quarterly Governance dashboards are provided to the Trustee for review, with a focus on the cost-of-living crisis and rising levels of inflation during this Scheme year, including close monitoring of changes to members' contributions. The analysis shows that members continue to engage with the Scheme.

6.1.3. Conclusion

Overall, the Trustee believes that members of the Scheme are receiving good value for the charges and transaction costs that they incur as the assessment showed that members benefited from well-designed default investment strategies and a range of investment options as well as very low charges, amongst other benefits as summarised above.

6.2. Legacy AVC arrangements

There are a small number of members invested in a relatively large number of legacy AVC arrangements. These legacy AVCs only account for a small proportion (less than 0.1%) of the total DC assets within the Scheme and these investment options are no longer open to contributions. Therefore, the Trustee has taken a proportionate approach to reviewing them, compared to the other DC benefits within the Scheme.

The Trustee carries out regular reviews (at least every 3 years) of its legacy AVC arrangements with the last review undertaken during the Scheme Year being on 10 June 2021. This review highlighted no material concerns with the AVC arrangements and confirmed it would be in members' best interests to remain with these providers rather than be transferred into an alternative arrangement as this would result in a loss of guarantees or high exit charges.

The Trustee continues to close 'empty' legacy AVC policies and remove funds with no remaining members as and when these are identified. As members in these AVC arrangements have fewer investment choices and pay higher fees in comparison to the main DC assets, the Trustee will continue to communicate with members to make them aware that they might benefit from moving their AVC assets to funds in the main DC investment platform with Fidelity.

7. Trustee knowledge and understanding

7.1. General

The Trustee Directors are required to develop and maintain appropriate levels of knowledge and understanding. Considering the knowledge and experience of the Trustee Directors with the specialist advice received from the appointed professional advisors (e.g. investment advisors, legal advisors), the Trustee believes it is well placed to properly exercise its functions as Trustee of the Scheme.

The Trustee ensures that the appropriate level of Trustee Knowledge & Understanding ("TKU") is achieved and maintained in the following ways.

The Scheme invests considerable support in the design and provision of a Trustee training curriculum to ensure that all Trustee Directors develop the necessary knowledge, understanding and skills to manage and govern the Scheme effectively. The training is designed to help the Trustee Directors to learn about and discuss current legislative and regulatory requirements concerning pensions law and the principles relating to funding and investment. This is underpinned by the Trustee's policy on knowledge and understanding which was applied during the Scheme Year and ensures that:

- Every member-nominated Trustee Director candidate must complete the Pensions Regulator's Trustee Toolkit prior to being interviewed for selection. Bank-nominated Trustee Directors are required to comply with the TKU Regulations by completing the Trustee Toolkit within six months of becoming a Trustee Director. The Trustee Toolkit is an online learning programme from the Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustee meet the minimum level of knowledge and understanding required by law.
- Newly appointed Trustee Directors have meetings with key advisors and PSE executive committee members covering a variety of topics. One Trustee Director was appointed during the Scheme Year.
- Trustee training is provided to support the Trustee Directors in advance of specific decisions and topics which are particularly complex.
- Training logs are completed for each module of training undertaken, with the Trustee documenting what they learnt from the module, how it has improved their skills and knowledge and how they will use it in their role as Trustee.
- Trustee meeting attendance is recorded to ensure that all Trustee Directors regularly attend meetings and are informed of Scheme specific and regulatory updates.
- All Trustee Directors have access to previous years' training modules via recordings and files retained in the Trustee Reading Room (an online resource available to Trustee Directors).
- All Trustee Directors complete an annual self-assessment to help identify training needs.
- Two of the Trustee Directors are independent trustees, defined as professional trustees who represent independent trustee firms.

There is a formal annual review of the balance of skills and competencies on the Trustee and on the committees. A number of areas were assessed during the Scheme Year; including:

- The extent to which committee Terms of Reference obligations and requirements have been met; this had a satisfactory outcome.
- The extent to which the current committee structure was operating effectively. The outcome of the review was positive.

- The extent to which decision making at Trustee and committee meetings was effective. The outcome of this assessment was positive.

Further, a formal Trustee effectiveness review was carried out in 2022. The review assessed the extent to which the Trustee operated effectively, both as a full Trustee and per committee. This was done by a combination of psychometric testing supported by individual interviews and group observations. The outcome of the review was positive.

7.2. Activities during the Scheme Year

During the Scheme Year, the Trustee Directors undertook the following Trustee training relevant to the Scheme's DC benefits:

- A full day session on Net Zero and Beyond; and
- Trustee training days including strategy day, investment day, and governance day, to update all Trustee Directors with relevant developments. Topics covered include universal ownership, system risks, inflation outlook, stewardship and engagement, revisiting investment beliefs and Diversity, Equity and Inclusion. Attendance is documented and in 2022, all Trustee Directors attended at least two training days.

In addition, the following steps were taken in respect of TKU:

- The PSE in consultation with the Governance and Nominations Committee reviewed the training logs mentioned above and devised a training plan for the Trustee as a whole.
- Training needs for individual Trustee Directors were identified by each individual and agreed in the annual reviews held with the Trustee Chair.
- There was a continual focus on DC governance and investment strategies, as well as training on, amongst other things, Investment beliefs (including Environmental, Social and Goverannace and social impact) and administration processes. This approach to Trustee training, in conjunction with the external support received from advisors (described below), enables the Trustee to have the relevant knowledge and understanding of the Scheme documentation (e.g. Trust Deed and Rules, Trustee policies, SIP etc.), the relevant principles relating to funding and investment, and the law and regulations relating to pensions and trusts, as well as market developments at the appropriate times to effectively run the Scheme and make decisions.
- The Trustee continued to build on its expertise in relation to Environmental, Social and Goverannace and climate change risks through a number of training sessions. The frequency and level of training that Trustee Directors receive depends on their role and their membership of specific committees. Climate change has been a focus of several interim meetings, investment away days and strategy days over the year. At these sessions the Trustee Directors receive training from its advisors or on occasion by external experts in a given field. In addition, the transition to a more digital way of working has allowed Trustee advisors to deliver shorter and more targeted training sessions in the form of pre-recorded videos. This allowed Trustee Directors to be better informed and to ask more meaningful questions during quarterly meetings when making decisions.

In particular, during the Scheme Year, in addition to the ongoing training outlined above, the Trustee has met the knowledge and understanding requirements by:

- receiving updates on topical issues each quarter from its legal and investment advisors to keep up to date with pensions law and the principles of DC investing;
- obtaining advice from its relevant professional advisors. For example, the Trustee received appropriate advice when reviewing and adopting a revised SIP during the Scheme Year, helping the Trustee Directors ensure they have a working knowledge of the current SIP. All Trustee decisions are supported by advice where required, which includes the attendance of professional advisors at Trustee meetings;

- receiving legal advice on the Scheme's trust deed and rules and any amendments required to it, such that the Trustee Directors have a working knowledge of this document;
- the Trustee Directors considering and applying their knowledge of the Trust Deed and Rules, SIP and Trustee policies where relevant to Trustee decisions; and
- attending external events, such as training provided by advisors, topic specific conferences and seminars. As well as learning opportunities, this provides an external perspective of what other schemes are doing and insights relevant to the Scheme.

The Trustee Governance and Nominations Committee appraises the balance of skills and competencies on the Trustee, and Trustee Director succession is planned to address any gaps which are identified in this process.

For the reasons set out above, considering the collective knowledge and experience of the Trustee with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors, the Trustee believes it is well placed to exercise its functions as the Trustee of the Scheme properly.

R Picot
_____________________________________ Date: 10 July 2023

R Picot, Chair of the Trustee of the HSBC Bank (UK) Pension Scheme For and on behalf of HSBC Bank Pension Trust (UK) Limited

Statement of Investment Principles

HSBC Bank (UK) Pension Scheme
Defined Contributions

September 2022

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Statement of Investment Principles for the HSBC Bank (UK) Pension Scheme – Defined Contributions

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the HSBC Bank Pension Trust (UK) Limited ("the Trustee") on various matters governing decisions about the investments of the HSBC Bank (UK) Pension Scheme ("the Scheme"). The Scheme consists of three sections; the HBUK Section, the HSBC Global Services Section and the HSBC Bank plc Section. Each section provides Defined Benefit ("DB") and Defined Contribution ("DC") benefits. This SIP covers the DC benefits of all three sections, and replaces the previous SIP dated September 2021. For details on the Scheme's DC investment arrangements, please see the separate Investment Policy Implementation Document ("IPID").

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This SIP has been prepared after obtaining and considering written professional advice from Lane, Clark & Peacock ("LCP"), the Scheme's DC investment advisor, whom the Trustee considers to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments, including the need for diversification, given the circumstances of the Scheme, and the principles contained in this SIP. The Trustee has consulted with the relevant employers in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisors, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, or in the demographic profile of the relevant members, and at least once every three years.

Appendix 1 sets out details of the respective key responsibilities of the Trustee, platform provider, investment advisor and investment managers. It also contains a description of the basis of remuneration of the investment advisor and the investment managers.

Appendix 2 sets out the Trustee's policy towards risk measurement and management.

2. Investment objectives

The Trustee's primary objectives is to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile and the variety of ways that members can draw their benefits in retirement; and
- a default investment option that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions. The Scheme's default options' objectives are to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near the taking of their DC pot.

3. Investment strategy

The Trustee has made available a range of investment funds for members. Each member is responsible for specifying one or more funds for the investment of their pension pot, having regard to their attitude to the risks involved. If a member does not choose an investment option, their pension pot will be invested into a default option, deemed most appropriate to them, which is managed as a "lifecycle" strategy (ie it automatically combines investments in proportions that vary according to the time to retirement age).

The Scheme has different default strategies for members, depending on the type of benefits they have. The default options have been designed to be in line with what the Trustee believes to be the best interests of the majority of the members based on the demographics of the Scheme's membership.

For members with only DC benefits, the main default option targets flexible income drawdown at retirement, since the Trustee believes that most of these members will wish to take their benefits in this form. Therefore, the initial growth phase is invested to target a return significantly above inflation, and then in the 20 years before retirement, it switches gradually into less risky assets, with the asset allocation at retirement being designed to be appropriate for members who wish to flexibly take their benefits through an income drawdown arrangement or remain invested in the Scheme. This default lifecycle continues to move into less risky assets in the 5 years following a member's target retirement age; providing further gradual de-risking for members who may not have updated their target retirement age despite deciding to retire at an older age.

For members with both DC and DB benefits in the Scheme, known within the Scheme as Hybrid members, the main default option targets a cash lump sum at retirement, because the Trustee believes that most of these members will wish to take their DC benefits in this form. Similar to the main default for DC members, the initial growth phase targets a return significantly above inflation, and then in the 20 years before retirement, it switches gradually into less risky assets, into an asset allocation at retirement designed to be appropriate for member taking a cash lump sum. This default lifecycle for Hybrid members also continues to move into less risky assets in the 5 years following a member's target retirement age; providing further gradual de-risking for members who may not have updated their target retirement age despite deciding to retire at an older age.

In addition to the two main defaults, the Scheme also currently offers an alternative lifecycle strategy; one designed to be appropriate for members who wish to purchase an annuity at retirement. This strategy was the previous main default for DC members of the Scheme and, as members did not make a choice to invest in this strategy, this lifecycle continues to be considered a default by the Trustee for the purpose of fulfilling legislative requirements.

As well as the three lifecycle strategies noted above, the Scheme also makes use of an additional default fund called the Cash - active (default). This fund was introduced as a result of a decision taken to ensure a separate fund (ie one which members could not self-select into) was available to allocate members' contributions in the event of a fund closure in the future (such as one similar to that of the Property – active Fund in 2020). This fund invests in the same underlying fund as the Cash - active fund. As members' contributions can be directed into this fund without them making an active selection, this fund will be treated as a default for the purpose of fulfilling legislative requirements. The objective of the fund is 'To protect the absolute value of the investment by investing in deposits and other short-term money market instruments.' The fund aims to perform in line with the benchmark.

The Trustee also operates four legacy lifecycle strategies known as Capital Lifecycle, Cash Lifecycle, Flexicycle and Lifecycle 2. Whilst closed to new member investment, members invested at the time of closure are able to continue to contribute to these strategies. The Cash Lifecycle is a legacy version of the existing main defaults for Hybrid members of the Scheme and, as members did not make a choice to invest in this strategy, this lifecycle also continues to be considered a default by the Trustee for the purpose of fulfilling legislative requirements. Flexicycle uses a similar strategy structure to the lifecycles but allowed members some flexibility to choose between a number of funds to invest in during the growth phase and the de-risking phase, and decide when to switch between the phases. Members invested in Flexicycle when it was closed to new member investments are no longer able to amend their fund selections within the strategy. Lifecycle 2 makes greater use of active management and has an asset allocation at retirement suitable for members looking to purchase an annuity at retirement.

The Trustee will monitor the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

4. Considerations made in determining the investment arrangements

When deciding how to invest the Scheme's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes.

In determining the investment arrangements, the Trustee also takes into account:

- the best interests of all members and beneficiaries;
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards and suitability of a number of possible asset classes and lifecycle strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification within the default strategies and other lifecycle options to ensure that, for each such option, both the overall level of investment risk and the balance of individual asset risks are appropriate;
- the need for appropriate diversification within the other investment options offered to members; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

The Trustee's key investment beliefs are set out below:

Understanding the world on which we rely to deliver resilient retirement outcomes for members

- global systems, such as the planet, its climate, its people and societies have a material impact on the whole of the economic system, today and over the longer-term.
- a robust global economy, society and planet are critical elements for stable and resilient retirement outcomes for members.
- ESG risks and opportunities are important factors to consider in investment decision making. some ESG risks and opportunities may be specific to certain companies or assets, others can have a material impact on large parts of the global economy and are considered risks to the whole economic system.

Navigating the risks and opportunities over the long term

- investment returns can be enhanced by investing over the long term in equities, credit and illiquid assets (such as real estate and infrastructure) where appropriate.
- there can be a material benefit to members when the Trustee acts quickly to take advantage of new investment opportunities.
- good stewardship and engagement can protect or enhance member retirement outcomes in the long term.

The Trustee has adopted a set of investment principles to help guide investment implementation.

Practising Good Governance

- the Trustee will focus its time and effort towards investment decisions that will have the greatest positive effect on member outcomes.
- conflicts of interest between the Trustee and its advisors and stakeholders (such as investment advisors, investment managers, Pension Scheme Executive, Sponsor and members) will be monitored and managed.
- DC communications should be tailored to support members in making well-informed investment decisions.

Building and implementing a robust investment strategy

- both quantitative and qualitative factors should be taken into account when evaluating and managing investment risk.
- the benefits of active management can only be harnessed by skilful managers in select asset classes, and where appropriately skilful managers can be identified by the Trustee, its Pension Scheme Executive and its advisors.

- investment manager mandates that can replicate active management strategies cheaply are preferable solutions for some types of asset classes.
- investment management costs and fees, including transaction costs, should be transparent; and
- the Trustee aims to accommodate DC members who wish to invest in active funds.

The Trustee's key investment beliefs and understanding of the Scheme's membership are reflected in the design of the default and other lifecycle options, and in the range of other funds made available to members.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment advisor on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in the separate IPID.

The Trustee has entered into a contract with a platform provider, who makes available to members a range of eighteen different funds that can be accessed through three distinct structures; Lifecycle, Flexicycle or Freechoice. There is no direct relationship between the Scheme and the underlying investment managers of the DC investment funds.

The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this SIP, so far as is reasonably practicable.

The Trustee selects the investment managers with an expectation of a long-term arrangement, which encourages active ownership of the underlying assets, which is discussed further in Section 7. When assessing a manager's performance, the focus is on longer-term outcomes, and 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 due to other factors such as a significant change in business structure, the investment team or agreed contractual terms.

Alignment between a manager's management of each pooled fund's assets and the Trustee's policies and objectives are a fundamental part of the appointment process of a new manager. The following steps are taken to encourage alignment between the Scheme and the managers:

- before investing, the Trustee will seek to understand the manager's approach to sustainable investment (including engagement). The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, however the Trustee will ensure the investment objectives and guidelines of the vehicle are consistent with its own objectives, set out in Section 7.
- to maintain alignment, managers are provided with the most recent version of the Scheme's SIP which includes the Trustee's policy on sustainable investment, on an annual basis and are required to explicitly confirm that the assets are managed in line with the Trustee's policies as outlined in those documents.
- should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustee reviews the costs and value for money incurred in managing the Scheme's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

The Trustee's policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

7. Environmental, social and governance ("ESG") and other financially material considerations

The Trustee's investment beliefs in relation to ESG factors are noted above. In summary, the Trustee recognises that global systems, such as the planet, its climate, its people and societies have a material impact on the whole of the economic system, today and over the longer term. A robust global economy, society and planet are critical elements for stable and resilient retirement outcomes for members. ESG risks and opportunities are important factors to consider in investment decision making. Some ESG risks and opportunities may be specific to certain companies or assets, others can have a material impact on large parts of the global economy and are considered risks to the whole economic system.

The Trustee has chosen to prioritise a number of system-wide ESG risks which it believes are considered especially financially material to the Scheme, now and/or in the future. These include:

- climate change
- biodiversity and nature related loss, including antimicrobial resistance
- diversity, equity and inclusion.

The Trustee anticipates evolving its approach on these system-wide ESG risks over a number of years. To date, the Trustee is most progressed in its integration and oversight of risks and opportunities related to climate change.

In setting the investment strategy for the Scheme's default investment options, and the legacy lifecycle strategies, the Trustee's primary objective is to generate returns significantly above inflation whilst members are some distance from retirement and to switch gradually to lower risk investments as members approach their target retirement date.

ESG factors can have a material financial impact on the value of the default investment options, and the Freechoice investment options, over the time horizon applicable to members invested in them. The Trustee therefore believes that by taking such factors into account in its investment process, the Scheme is better positioned to deliver on its objectives.

The Trustee takes account of ESG factors when setting the asset allocation for the default investment options, and the legacy lifecycle strategies, and when selecting (and monitoring the performance of) its appointed investment managers, including those of the Freechoice investment options. For most of the Scheme's investments, the Trustee expects the investment managers to invest with a long time horizon, and to use their engagement activity to drive improved performance over these periods.

The Trustee adopts the following approach in relation to the selection (and monitoring) of investment managers:

- in relation to funds where the investment manager is permitted to make active decisions about the selection, retention and realisation of investments the Trustee expects the investment managers to take steps to ensure financially material considerations (including ESG considerations) are incorporated into the investment decision-making process where permissible within applicable guidelines and restrictions. The Trustee undertakes regular reviews to ensure the policy is being carried out effectively and in line with evolving good practice.
- within some asset classes, where it is possible in the context of DC operational constraints, the Trustee considers investment options that give increased weight to ESG considerations. A passively managed equity investment fund that explicitly includes climate factors in its index methodology for the selection, retention and realisation of assets is included in the lifecycle strategies provided to the DC members of the Scheme (with the exception of Lifecycle 2 and some members within Flexicycle) and is also available as a Freechoice

option. The Trustee regularly monitors the performance and ESG risk mitigation offered by this investment option and would consider replacing the fund should either the performance or ESG-related objectives of the fund become misaligned with Trustee beliefs or expectations.

The Trustee recognises climate change as a systemic, long-term material financial risk to the value of the Scheme's investments. Within the context of its fiduciary responsibility, the Trustee is supportive of the Paris Agreement to avoid dangerous climate change by limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C.

The Trustee has set a long-term objective for the Scheme's investments (across both its Defined Benefit ("DB") and DC sections) to emit "net zero" Greenhouse Gas ("GHG") emissions by 2050 or sooner. The ambition will be to achieve this well in advance of this date.

An interim target date of 2030 has been set to ensure that sufficient progress is made towards the ultimate target of reaching net zero GHG emissions. The interim targets include:

- a real economy emissions reduction of 50% by 2030 or sooner for its equity and corporate bond mandates.
- having the ambition of achieving all of its corporate bond and equity investments being fully aligned to the goals of the Paris Agreement by 2030 across its DB and DC assets.
- enhancing its engagement and stewardship efforts through working collaboratively with the Scheme's investment managers.

The Trustee considers climate-related factors within its separately documented scheme-wide ESG risk management framework. In summary, the Trustee:

- has made the Asset and Liability Committee ("ALCo") responsible for ensuring that the Trustee Board's climate objectives are implemented into the Scheme's investment policy. This includes selecting the appropriate analysis and metrics to measure climate-related risks and opportunities;
- requires its investment advisors to advise on, and provide objective assessments of, differing approaches to responsible investment to help the Trustee decide appropriate responsible investment objectives for the Scheme. This includes informing the Trustee of new responsible investment opportunities or emerging risks and assisting with the implementation of the climate-related strategy of the Trustee;
- has included specific climate-related objectives in the advisors' annual objectives to ensure its advisors are taking adequate steps to identify and assess climate-related risks and opportunities. The Trustee annually assesses the delivery of this advice using the Competition Market Authority's Investment Consultant Objectives framework;
- expects its appointed investment managers to be cognisant of climate change risks and opportunities within their investment processes as applied to the assets of the Trustee. Investment managers are further expected to annually report on how these risks and opportunities have been incorporated into the investment process within applicable guidelines and restrictions;
- has a preference for 'Engagement' rather than 'Exclusion' as a method of incorporating climate change risks into an effective fiduciary framework. However, the Trustee expects investment managers to independently consider whether exclusion or engagement is more appropriate within their investment process;
- encourages the further development of asset classes that are supportive of achieving the well below 2°C target provided they are all based within the primary fiduciary framework;
- supports the Task Force on Climate-related Financial Disclosures ("TCFD") and aims to incorporate its recommendations into the Scheme's reporting, subject to data availability;
- supports the further development of effective climate change risk metrics to enhance the ability of all stakeholders in the investment chain to assess and minimise such risks;
- supports the Transition Pathway Initiative and uses the analysis it provides to review material exposures to the world's largest emitters and inform impactful engagement strategies through its investment managers, in line with the Trustee's investment beliefs;

- recognises that 'Climate Change' will be subject to much further analysis and subsequent policy changes in the coming years. The Trustee is supportive of adopting an evolving policy in order to ensure all relevant developments are captured; and
- is supportive of policy initiatives that, in its opinion, contribute towards achieving the well below 2°C target.

The Trustee will support Responsible Investment organisations or initiatives where in doing so will help the Trustee achieve at least one of the following goals:

- help to implement new Responsible Investment solutions in a proportionate and practical way with a clear focus on excellence and continuous improvement;
- influence government policy, market developments and pension funds with respect to Responsible Investment;
- improve the risk and return characteristics of investments to improve the financial outcomes for members;
- improve transparency in reporting, being generous with knowledge and helping to shape new ideas within Responsible Investment.

Currently the Trustee is associated with the following organisations:

- a member of the Institutional Investor Group on Climate Change ("IIGCC")
- a member of the Cambridge Institute for Sustainability Leadership ("CISL")
- a signatory to the Principles for Responsible Investment ("PRI")
- a supporter of the Transition Pathway Initiative ("TPI")
- a supporter of Climate Action 100+

The Trustee recognises that it cannot support all organisations or initiatives and so will review its associations periodically. The Trustee will disclose successes and learnings from its associations on an annual basis.

The Trustee has a policy of avoiding investments in controversial weapons manufacturers on grounds of financial risk, as it believes this is in the best financial interests of the Scheme and its members. Where the financial implications of excluding controversial weapons manufacturers (either due to increased costs to members or reduced investment opportunities) are, in the opinion of the Trustee, greater than the financial risks of including them, some exposure to controversial weapons manufacturers may be maintained. The Trustee has a policy of requesting that each of its appointed investment managers' report on an annual basis as to their exposure to controversial weapons manufacturers, if any.

The Trustee seeks to avoid investments which may present a legal risk and/or financial risk to the Trustee or the Scheme as a result of over-riding legislation or international sanctions. These currently include:

- companies that breach any sanction, prohibition or restriction under United Nations resolutions or the trade or economic sanctions, laws or regulations of the United Kingdom, European Union or United States of America; and
- companies with ties to the legal production and/or retail sale of cannabis products for recreational use.

This position has been taken on the grounds of protecting the Trustee and the Scheme from the legal and financial risks associated with such investments and is considered to be in the best financial interests of the Scheme and its members. The Trustee expects its appointed investment managers to adhere to this position and monitor for any potential changes and regularly report back to the Trustee, as far as it is practical to do so.

8. Members' Views and Non-Financial Factors

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in setting the investment strategy for the Scheme's default investment options. However, it recognises the importance of offering a suitable range of investment options for members who wish to express an ethical preference in their pension saving.

The Trustee has made the following Freechoice options available to members who would like to invest in funds with specific non-financial considerations:

- Sustainable & Responsible Equities – Active
- Shariah Law Equities – Passive

The Trustee keeps up to date with other fund options available in the market via updates from its investment advisors.

9. Stewardship

The Trustee has examined how rights, including voting rights, attached to investments should be exercised. The Trustee recognises its responsibilities as shareholders being the owners of capital, and believes that good stewardship practices including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protects and enhances asset owner value in the long-term.

The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and ESG considerations. The Trustee expects its investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, which reflect the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and which are provided to the Trustee from time to time, taking into account the financial interests of the beneficiaries.

The Trustee seeks to appoint investment managers that have strong stewardship policies and processes. While the Trustee chooses investment managers with an aim to align their beliefs on stewardship, and there is a degree of influence, the Trustee has less direct influence over the managers' policies on the exercise of investment rights where assets are held in pooled funds; this is due to the collective nature of these investments.

The Trustee monitors and regularly reviews the ownership rights that it has delegated to its investment managers as well as how the investment managers have voted and engaged with the companies in which they invest. This process is to ensure the policy is also being carried out effectively and in line with evolving good practice.

The Asset and Liability Committee endorsed this SIP on 8 September 2022 and the full Board approved the SIP on 30 September 2022. Document effective from 1 October 2022.

Appendix 1: Responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service. The Trustee's investment powers are set out within the Scheme's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employers;
- developing a mutual understanding of investment and risk issues with the employers;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- appointing (and, when necessary, dismissing) investment managers, investment advisors and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- formulating a policy on taking account of non-financial factors when making investment decisions and a policy on voting rights;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible investment and how such responsibilities have been discharged;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employers when reviewing the SIP.

The Trustee has delegated responsibility for a number of investment matters to the ALCo. This ALCo is responsible for selecting, monitoring the performance of and, when required, replacing investment managers and ensuring that the high-level strategy and beliefs set by the Trustee are implemented effectively.

The Trustee has appointed a Chief Investment Officer ("CIO") to the Pension Scheme Executive. It is the responsibility of the CIO to liaise with the Scheme's advisors to ensure that the procurement of legal and investment advice and their input to the Trustee's decision making process are optimised from the Trustee's perspective.

2. Platform provider

The investment platform provider will be responsible for:

- providing access to a range of funds managed by various investment managers; and
- providing the Trustee with regular information concerning the management and performance of the assets.

3. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the investment platform provider with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

The Trustee, the CIO and its advisor will have regular meetings with the investment managers and platform provider to ensure they continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Scheme.

4. Investment advisor

In broad terms, the investment advisor will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on a suitable fund range and default strategies for the Scheme, and how material changes to legislation or within the Scheme's benefits and membership may impact this;
- advising on the selection, and review, of the investment managers; and
- participating with the Trustee in reviews of this SIP.

5. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Scheme results in a range of charges to be met. These platform, investment management and advisory charges are met entirely by the Employers and are not deducted from members' assets. Depending on the fund invested in, members are liable for paying the additional expenses charged by the investment managers. The Trustee monitors the level of additional expenses charged by managers to ensure that they remain appropriate.

The Trustee has agreed Terms of Business with the Scheme's investment advisors, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

6. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Scheme's investments, investment providers and professional advisors from time to time. The Trustee will also carry out periodically an assessment of its own effectiveness as a decision-making body and will decide how this may then be reported to members.

Appendix 2: Policy towards risk, risk measurement and risk management

The Trustee considers that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

1. Volatility and the risk of inadequate returns

As members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. It is also important that members are offered a range of funds with varying levels of return and consequent volatility to allow members to invest according to their individual risk tolerances and circumstances. Members are offered lifecycle strategies that reduce risk by moving to less volatile assets as they approach retirement.

On this basis, equity and equity-based funds, which are expected to provide positive returns above inflation over the long-term, have been made available to members and feature in the growth phase of the default strategies. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustee has made the default options in the form of lifecycle strategies that gradually reduce investment risk as the member approaches their target retirement date.

2. Inflation risk

There is a risk that a member's investments won't grow quickly enough to sufficiently outpace inflation (the cost of living). Even if they do grow in value, if they don't grow quicker than inflation then their real value goes down. This can happen with low capital risk funds, like a cash fund. It is measured by examining periodically the long-term performance of different assets relative to inflation.

It can be managed by investing in growth assets that are expected to produce returns that exceed long-term inflation within both the default and Flexicycle arrangements and the range of funds available to members to choose.

3. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustee believes that the Scheme's default strategies are adequately diversified between different asset classes and within each asset class, and that the options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Scheme's investment arrangements.

4. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified advisor, and will typically undertake an investment manager selection exercise. The Trustee and its advisor monitor the investment managers on a regular basis.

5. Liquidity/marketability risk

This is the risk that core financial transactions, such as investing members' contributions, are not processed promptly due to lack of liquidity in the investments. The Trustee manages this risk by only using pooled funds with daily dealing within the default strategies and diversifying the strategy across different types of investment.

6. Risk from excessive charges

While the Employers cover the cost of management fees, members are still liable for the additional expenses charged by investment managers. If the additional expense charges together with other charges, for example transaction costs, are excessive, then the value of a member's pension pot will be reduced unnecessarily. The Trustee is comfortable that the additional expenses and other charges payable by members are in line with market practice and assess regularly whether these represent good value for members.

7. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers. The Scheme invests in some funds which invest in bonds that are classified as both "investment grade" and "non-investment grade"; the latter carrying greater credit risk but having a higher yield to compensate investors.

8. Market switching risk

The risk is that, where members choose to switch between investment funds, they are exposed to a cost of switching which is variable according to the conditions prevailing in the relevant markets at a particular point in time. It is measured by looking at the underlying spreads of the fund options. It is managed by the investment managers looking for best execution when implementing trades.

9. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustee manages the amount of currency risk by offering lifecycle strategies that invest in pooled funds with various levels of hedged currency exposure.

10. Annuity conversion risk

When a member retires, they may use their pension pot to secure an annuity. The cost of buying an annuity varies from time to time and depends partly on the price of bonds. It is measured by examining periodically the correlation of different assets to annuity prices.

11. Securities lending risks

Through the act of securities lending, investors lend securities (such as stocks or bonds) to a third party (the borrower). The borrower gives the lender collateral in the form of cash, stocks, or bonds. In addition to providing the collateral plus a cash margin, the borrower pays the lender to borrow the securities. The process provides investment markets with liquidity, and allows security holders the chance to achieve additional returns on their portfolios, but incurs a number of risks.

- Counterparty risk – the risk that lenders or their lending agents may default on their loan and be unable to return the securities borrowed;
- Cash reinvestment risk – when the lender receives cash as collateral, this cash is often reinvested. The lender's objective is to generate income; however the lender is then also exposed to additional investment risks including the potential loss of principal;
- Non-cash collateral risk – the additional risk involved in receiving assets other than cash as collateral; and
- Operational risk – the risk of engaging in securities lending. For example, market or exchange problems, miscommunication between parties, incorrect records, etc.

12. Climate change risk

Climate change risk is considered to be a systemic risk by the Trustee, though it is difficult to measure with a simple number. Climate change risk is managed through a combination of both positive and negative tilts where appropriate (Global Equities) as well as a robust engagement policy via the Trustee's appointed investment managers. See the section 7 of the main body of the SIP for more information.

13. Other ESG risks

ESG factors are sources of risk to the Scheme's investments which could be financially material over both the short and longer term. The Trustee seeks to appoint investment managers who will manage these risks appropriately on its behalf and regularly reviews how these risks are being managed in practice.