

# **YORKSHIRE BUILDING SOCIETY PENSION SCHEME**

**Report and Financial Statements for the year ended  
31 December 2023**

Scheme Registration No: 10101681

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

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# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## TRUSTEE AND ADVISERS

### **Corporate Trustee:**

YBS Pension Trustees Limited

### **Trustee Directors:**

Dr IS Dhingra (Independent Trustee Director and Chairman)

CP Canning

R Eblett \*

(Appointed 1 July 2023/  
Resigned 31 May 2024)

CR Huitson

AB Lenman

DP Marshall \*

VL Oygard \*

(Resigned 30 June 2024)

\* *Member-Nominated*

### **Secretary to the Trustee:**

C Cheetham

### **Actuary:**

C Gore FIA

Willis Towers Watson

5 Wellington Place

Wellington Street

Leeds LS1 4AP

### **Independent Auditors:**

PricewaterhouseCoopers LLP

Central Square

29 Wellington Street

Leeds LS1 4DL

### **Legal Advisers:**

DLA Piper UK LLP

Princes Exchange

2 Princes Square

Leeds LS1 4BY

### **Bankers:**

Bank of Scotland

The Mound

Edinburgh EH1 1YZ

National Westminster Bank plc

1 Market Street

Bradford BD1 1EG

### **Investment Managers:**

AXA Investment Managers UK Limited

22 Bishopsgate

London EC2N 4BQ

BlackRock Investment Management (UK) Limited

12 Throgmorton Avenue

London EC2N 2DL

FIL Life Insurance Limited

Beech Gate

Millfield Lane

Lower Kingswood

Tadworth

Surrey KT20 6RP

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## TRUSTEE AND ADVISERS (continued)

### **Investment Managers (continued):**

Insight Investment Management (Global) Limited  
160 Queen Victoria Street  
London EC4V 4LA

Nephila Capital Ltd.  
31 Victoria Street  
Victoria Place, 3rd Floor West  
Hamilton HM10  
Bermuda

### **Annuity Provider:**

Pension Insurance Corporation  
14 Cornhill  
London EC3V 3ND

### **Investment Advisers:**

Willis Towers Watson  
5 Wellington Place  
Wellington Street  
Leeds LS1 4AP

### **AVC Providers:**

Chelsea Building Society \*  
Yorkshire House  
Yorkshire Drive  
Bradford BD5 8LJ

Clerical Medical  
PO Box 28121  
15 Dalkeith Road  
Edinburgh EH16 9AS

FIL Life Insurance Limited  
Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey KT20 6RP

Standard Life  
30 Lothian Road  
Edinburgh EH1 2DH

### **Custodian:**

Northern Trust  
50 Bank Street  
Canary Wharf  
London E14 5NT

\* "Chelsea Building Society" and "The Chelsea" are trading names of Yorkshire Building Society

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## TRUSTEE AND ADVISERS (continued)

### ***Administrators:***

XPS Administration Limited  
4th Floor  
Wellbar Central  
Gallowgate  
Newcastle upon Tyne NE1 4TD

FIL Life Insurance Limited  
Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey KT20 6RP

### ***Sponsoring Employer (the "Employer"):***

Yorkshire Building Society  
Yorkshire House  
Yorkshire Drive  
Bradford BD5 8LJ

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## TRUSTEE'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

The Trustee presents to the members its annual report and financial statements for the year ended 31 December 2023.

### **Scheme Information**

The Yorkshire Building Society Pension Scheme (the "Scheme") is governed by the Definitive Trust Deed, dated 1 April 2010, including subsequent amendments. A supplemental Definitive Trust Deed and Rules was signed on 5 December 2018 which consolidated the original Definitive Deed and Rules with all subsequent amending deeds. No additional amendments were made to the Deed and Rules throughout this process or subsequently.

The Scheme is a registered pension scheme within the meaning of Section 153 of the Finance Act 2004 and provides pensions and lump sum benefits on retirement and death for those past and present employees who are members of the Scheme.

The Scheme provides both defined benefit (DB) and defined contribution (DC) pensions. The DB section is closed to new employees and to future accrual whilst the DC section is open to new employees. Detailed information about the Scheme is available to members at [www.ybspensionscheme.co.uk](http://www.ybspensionscheme.co.uk).

The Trustee, YBS Pension Trustees Limited, is a Corporate Trustee. Trustee Directors are appointed and removed from office by the Employer in accordance with the Trust Deed and the Trustee's Articles of Association. Under the provisions of the Pensions Act 2004, at least one-third of the Trustee Directors must be nominated by Scheme members. In accordance with these provisions, two member-nominated Trustee Directors are currently appointed. The Trustee Directors have the responsibility for ensuring that the Scheme is properly run in accordance with its governing documents and in the best interests of the members.

During the year, the Trustee Directors met regularly to review the management of the Scheme and to monitor the performance of the Investment Managers, Administrators and Advisers. The dates of the Trustee Board meetings and the number of Trustee Directors in attendance are shown below:

<b>Date</b>	<b>Attendance</b>
20 March 2023	6 of 6
16 June 2023	6 of 6
26 September 2023	6 of 7
28 November 2023	6 of 7

The Trustee Directors also met on 11 May 2023 to review and revise the DB investment strategy, and on 4 July and 25 October 2023 to review and agree amendments to the DC investment strategy.

In addition, the Trustee has established several subcommittees which meet regularly throughout the year in between the Trustee Board meetings to progress specific areas of work in more detail. In 2023, the following subcommittees met:

- Investment Governance Subcommittee (4 meetings)
- Governance and Operational Risk Subcommittee (4 meetings)
- Communications Subcommittee (4 meetings)
- GMP Working Party (6 meetings)
- TCFD Working Party (6 meetings)

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## TRUSTEE'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (continued)

### Membership

The number of members as at the year-end was:

		2023	2022
Active members	Defined contribution	3,401	3,072
Deferred pensioners	Defined benefit	1,463	1,546
	Defined contribution	4,568	4,481
Pensioners	Defined benefit	<u>1,943</u>	<u>1,895</u>
		<u>11,375</u>	<u>10,994</u>

Included within 'pensioners' are 122 spouse/child pensioners (2022: 111), 761 members with benefits insured with the Pension Insurance Corporation (2022: 786), and 11 other annuitants (2022: 11).

### Pension Increases

All pensions in payment were increased in accordance with the Rules of the Scheme. The Retail Price Index (RPI) dependent increases for each section of the Scheme (up to a maximum of 5.0%) were as follows:

	Date increase applied	RPI increase and reference date	Minimum increase applied	Maximum increase applied	Average increase applied
Barnsley Building Society	Anniversary dates throughout the year	12.6% (September 2022)	0%	5.0%	3.5%
Chelsea Building Society	1 April 2023	13.4% (December 2022)	0%	5.0%	4.8%
Norwich & Peterborough Building Society	1 September 2023	10.7% (June 2023)	0%	5.0%	4.4%
Yorkshire Building Society	1 January 2023	14.2% (October 2022)	0%	5.0%	4.9%

Deferred pensions in excess of the Guaranteed Minimum Pension (GMP) are increased annually in line with the cost of living up to a maximum of 5%. There were no discretionary increases during the year (2022: Nil).

### Transfer Values

Cash equivalent transfer values paid to other approved pension arrangements are calculated and verified as prescribed by Section 97 of the Pension Schemes Act 1993. No discretionary benefits are included.

### Benefit/Scheme Changes

There were no benefit or Scheme changes during the year.

### Financial Development of the Scheme

Changes in the Scheme's net assets during the year were as follows:

	£'000s
Net assets at 1 January 2023	829,526
Net withdrawals from dealings with members	(20,882)
Net returns on investments	<u>36,913</u>
Net assets at 31 December 2023	<u>845,557</u>

The financial statements for the year have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## TRUSTEE'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (continued)

### **Enquiries**

All enquiries about the Scheme and individual benefit entitlements should be addressed to the Scheme Trustee:

(For DB Benefits)  
c/o XPS Administration Limited  
PO Box 562  
Middlesbrough TS1 9JA  
Email: [ybs@xpsgroup.com](mailto:ybs@xpsgroup.com)

(For DC Benefits)  
c/o FIL Life Insurance Limited ("Fidelity")  
Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey KT20 6RP  
[pensions.service@fil.com](mailto:pensions.service@fil.com)

### **MoneyHelper**

MoneyHelper provides pension guidance, money guidance and debt advice. These services were previously provided by three separate government entities; The Money and Pensions Service (formerly The Pensions Advisory Service), Pension Wise and the Money Advice Service. MoneyHelper can be contacted at:

MoneyHelper  
Holborn Centre  
120 Holborn  
London EC1N 2TD  
Tel: 0800 011 3797  
Email: [pensions.enquiries@moneyhelper.org.uk](mailto:pensions.enquiries@moneyhelper.org.uk)  
Website: [www.moneyhelper.org.uk](http://www.moneyhelper.org.uk)

### **Pensions Ombudsman**

If a member has a complaint against the Scheme that has not been resolved to his or her satisfaction through the Scheme's Dispute Procedure, the government appointed Pensions Ombudsman can investigate complaints of injustice caused by bad administration, either by the Trustee or the Scheme's Administrators, or disputes of fact or law. The Pensions Ombudsman can be contacted at:

10 South Colonnade  
Canary Wharf  
London E14 4PU  
Tel: 0800 917 4487  
Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)  
Website: [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)



# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## TRUSTEE'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (continued)

### ***The Pensions Regulator (tPR)***

The Pensions Regulator can intervene if they consider that a scheme's trustees, advisers, or the employer are not carrying out their duties correctly. The address for the Pensions Regulator is:

Telecom House  
125-135 Preston Road  
Brighton BN1 6AF

Tel: 0345 600 0707

Email: [customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)

Website: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

### ***The Pension Scheme Registry***

The Scheme is registered with the Pension Scheme Registry which is part of the Pensions Regulator's office. The registration number is 10101681. The data held by the Registry is used by the Pension Tracing Service to assist former members of schemes to trace their scheme benefits. The Pension Tracing Service can be contacted at:

The Pension Service  
Post Handling Site A  
Wolverhampton WV98 1AF

Tel: 0800 731 0193

Website: [www.gov.uk/find-pension-contact-details](http://www.gov.uk/find-pension-contact-details)

## TRUSTEE'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (continued)

### INVESTMENT REPORT

The Trustee determines its investment strategy after taking advice from its Investment Advisers. It has delegated the management of the investments to the Investment Managers listed on pages 2 and 3, and it has secured a proportion of the liabilities through a bulk annuity (buy-in) contract with the Pension Insurance Corporation.

For the DB section, the Trustee has adopted a Liability Driven Investment ("LDI") strategy. LDI strategies typically seek to reduce or partially hedge a DB pension scheme's interest rate and inflation risk. As at the 2023 year end, the Scheme was 94% (2022: 98%) hedged against interest rate risk and 94% (2022: 98%) hedged against inflation risk.

#### **Statement of Investment Principles**

A Statement of Investment Principles ("SIP") has been produced as required under Section 35 of the Pensions Act and includes specific references to:

- The Scheme's investment policy including the investment objectives, the exercising of voting rights, and ESG issues;
- The investment strategy for the DB section;
- The fund range and 'Lifestyle' strategies for the DC section; and
- The Trustee's policy with regard to risk.

A copy of the latest SIP has been included as an appendix to this Report. Members may also request a copy of the SIP at any time and it is also available online at:

[https://www.ybspensionscheme.co.uk/documents/ybs\\_sip\\_december\\_2023.pdf](https://www.ybspensionscheme.co.uk/documents/ybs_sip_december_2023.pdf).

All investments made during the year were in accordance with the SIP.

#### **Custodial Arrangements**

The Custodians are responsible for the safekeeping of share certificates and other documentation relating to the ownership of listed investments, settlement of trades, and income collection.

The Trustee is responsible for ensuring that the Scheme's assets continue to be held securely. The Trustee has delegated the selection and monitoring of its Custodians to the pooled fund managers with the exception of the LDI and credit portfolios, where Northern Trust has been appointed as Custodian by the Trustee.

#### **Investment Strategy**

##### **Defined Benefit Section**

The investment strategy is disclosed on page 32.

##### **Defined Contribution Section**

The fund range is disclosed on page 35 and details of the Lifestyle strategies can be found in the SIP.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## TRUSTEE'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (continued)

### INVESTMENT REPORT (continued)

#### Investment Performance

##### Defined Benefit Section

Investment Manager performance (before fees) for the year to 31 December 2023 was as follows:

	1 year		3 years		5 years	
	Fund %	Benchmark %	Fund % p.a.	Benchmark % p.a.	Fund % p.a.	Benchmark % p.a.
AXA Investment Managers <sup>(1)</sup>	8.75	-	-9.79	-	-	-
BlackRock Investment Management <sup>(2)</sup>	-3.41	-	1.40	-	-	-
Insight Investment Management	-5.36	-4.94	-41.51	-41.90	-21.72	-21.96
Nephila Capital	0.24	7.39	3.16	4.61	2.33	2.87

<sup>(1)</sup> The Scheme made an initial investment with AXA in the second quarter of 2019. No fund benchmark has been agreed by the Trustee.

<sup>(2)</sup> The BlackRock Strategic Alternative Income Fund ("SAIF") invests in long term capital projects.

The overall return for the DB section for the year was 1.09%. This is based on the growth of all funds, including the value of the Scheme's bulk annuity contract with the Pension Insurance Corporation, and has been calculated by the Scheme's independent performance measurer, Portfolio Evaluation.

##### Defined Contribution Section

Investment performance for each of the DC Funds for the year to 31 December 2023 is shown below:

	1 year		3 years		5 years	
	Fund %	Benchmark %	Fund % p.a.	Benchmark % p.a.	Fund % p.a.	Benchmark % p.a.
Cash Fund	4.4	4.6	1.7	2.0	1.1	1.3
Diversified Investment Fund	7.3	13.5	2.0	3.9	5.0	8.1
Emerging Markets Fund	0.9	3.5	-3.8	-3.0	2.9	3.6
International Equity Fund	14.5	14.7	6.9	7.1	10.3	10.6
Over 5-year Index Linked Gilt Fund	1.4	1.8	-13.6	-13.3	-5.3	-5.0
Pre-Retirement Fund	7.1	3.8	-10.5	-12.2	-2.3	-3.4
Shariah Equity Fund	26.9	27.5	10.8	11.2	16.3	17.1

Fund performance results include costs associated with administration and investment services provided by FIL Life Insurance Limited ("Fidelity"). The benchmark performance results do not include these costs and so are normally slightly higher.

##### Taskforce on Climate-Related Financial Disclosures (TCFD)

A TCFD report has been prepared for the year ended 31 December 2023 and is available online at [https://www.ybspensionscheme.co.uk/documents/YBS\\_TCFD\\_Report\\_31Dec2023.pdf](https://www.ybspensionscheme.co.uk/documents/YBS_TCFD_Report_31Dec2023.pdf).

##### Employer Related Investments

There were no employer related investments at the year-end or prior year end.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## REPORT ON ACTUARIAL LIABILITIES

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 December 2022. This showed that on that date the technical provisions were £613.9 million and the value of the assets was £626.0 million. This gave a funding level of 102.0%.

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles dated 9 November 2023).

### Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

### Significant actuarial assumptions

**Discount interest rate:** term-dependent rates set by reference to the fixed interest gilt curve (as derived by WTW) at the valuation date plus an addition of 1% per annum to 31 December 2025 and then decreasing linearly to 0.25% per annum from 31 December 2031.

**Future Retail Prices Index (RPI) inflation:** term-dependent 'breakeven' rates of RPI inflation, derived using WTW's nominal and index-linked gilt yield curves.

**Future Consumer Prices (CPI) Index inflation:** based on the RPI inflation assumption curve, less a margin of 1% per annum up to 2030, and nil thereafter.

**Pension increases:** set using the RPI and CPI inflation curves, with an assumption for inflation volatility of 1% per annum, and allowance for the relevant minimum and maximum increase limits.

**Pay increases:** real pay increases of 1.25% per annum above the weighted average CPI inflation rate. Career Average Revalued Earnings (CARE) revaluations are assumed to be in line with CPI inflation.

**Mortality:** for the period in retirement, standard tables S3PMA with a scaling factor of 83% for male members and S3PFA with a scaling factor of 92% for female members, both projected from 2013 in line with the Continuous Mortality Investigation's core 2022 projection model using a long term trend rate for improvements of 1.5% per annum, the default smoothing parameter of 7.0 and an initial addition to mortality improvements of 0.25% per annum.

### Schedule of Contributions and Recovery Plan requirements

As there were sufficient assets to cover the Scheme's technical provisions at the 31 December 2022 valuation, no recovery plan was required.

The latest Schedule of Contributions is dated 9 November 2023 and sets out that the Society will contribute £1.0 million per year towards the cost of DC section expenses and life assurance premiums. Expenses (including Pension Protection Levy invoices) for the DB section will be met directly from the resources of the Scheme.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

### Actuarial certificate of Schedule of Contributions

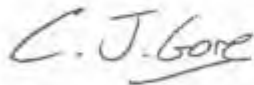
#### 1 Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objectives on 31 December 2022 could have been expected to be met for the period for which this Schedule of Contributions is expected to be in force.

#### 2 Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 9 November 2023.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objectives could be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.



**Chris Gore**  
Fellow of the Institute and Faculty of Actuaries  
Towers Watson Limited, a WTW company

**5 Wellington Place**  
Wellington Street  
Leeds  
LS1 4AP

Date: 9 November 2023

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## STATEMENT OF TRUSTEE'S RESPONSIBILITIES

### *The Trustee's responsibilities in respect of the financial statements*

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is also responsible for the maintenance and integrity of the YBS Pension Scheme website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### *The Trustee's responsibilities in respect of contributions*

The Trustee is responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions showing the rates of contributions payable to the Scheme by or on behalf of employers and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the Scheme in accordance with the Schedule of Contributions.

Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

### **Approval**

The Trustee's Report, which includes the Investment Report, the Report on Actuarial Liabilities, the Statement of Trustee's Responsibilities, the Governance Statement, and the Implementation Statement was approved by the Trustee on:

### **For and on behalf of the Trustee**

*Inder Dhingra*

.....

**Inderpreet Dhingra, Chairman**

29 July 2024

.....

**Date**

## Independent auditors' report to the trustee of Yorkshire Building Society Pension Scheme

### Report on the audit of the financial statements

#### Opinion

In our opinion, Yorkshire Building Society Pension Scheme's financial statements:

- show a true and fair view of the financial transactions of the scheme during the year ended 31 December 2023, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

We have audited the financial statements, included within the Report and Financial Statements, which comprise: the Statement of Net assets (Available for Benefits) as at 31 December 2023; the Fund Account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the scheme's ability to continue as a going concern.

Our responsibilities and the responsibilities of the trustee with respect to going concern are described in the relevant sections of this report.

## Reporting on other information

The other information comprises all of the information in the Report and Financial Statements other than the financial statements, our auditors' report thereon and our auditors' statement about contributions. The trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

## Responsibilities for the financial statements and the audit

### Responsibilities of the trustee for the financial statements

As explained more fully in the statement of trustee's responsibilities, the trustee is responsible for ensuring that the financial statements are prepared in accordance with the applicable framework and for being satisfied that they show a true and fair view. The trustee is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the financial statements, the trustee is responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to wind up the scheme, or has no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the scheme and its environment, we identified that the principal risks of non-compliance with laws and regulations related to the administration of the scheme in accordance with the Pensions Acts 1995 and 2004 and regulations made under them, and codes of practice issued by the Pensions Regulator; and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered the direct impact of these laws and regulations on the financial statements. We evaluated incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of override of controls, by the trustee and those responsible for, or involved in, the preparation of the underlying accounting records and financial statements, and determined that the principal risks were related to posting inappropriate journals to conceal misappropriation of assets. Audit procedures performed by the engagement team included:

- Testing journal entries where we identified particular fraud risk criteria.
- Obtaining independent confirmations of material investment valuations and cash balances at the year-end.
- Reviewing meeting minutes, any correspondence with the Pensions Regulator, and significant contracts and agreements.
- Holding discussions with the trustee to identify significant or unusual transactions and known or suspected instances of fraud or non-compliance with applicable laws and regulations.
- Assessing financial statement disclosures, and agreeing these to supporting evidence, for compliance with the Pensions Acts 1995 and 2004 and regulations made under them.



# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

## Use of this report

This report, including the opinion, has been prepared for and only for the trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

*PWC*

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds  
29 July 2024

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## FUND ACCOUNT

For the year ended 31 December 2023

	Note	2023 Defined Benefit Section £'000s	2023 Defined Contribution Section £'000s	2023 Total £'000s	2022 Defined Benefit Section £'000s	2022 Defined Contribution Section £'000s	2022 Total £'000s
<b>CONTRIBUTIONS AND BENEFITS</b>							
Employer contributions	5	1,000	15,886	16,886	900	14,153	15,053
Employee contributions	5	-	2,482	2,482	-	2,531	2,531
<b>Total contributions</b>	5	1,000	18,368	19,368	900	16,684	17,584
Transfers in	6	-	864	864	-	585	585
Other income	7	-	517	517	-	668	668
		1,000	19,749	20,749	900	17,937	18,837
Benefits paid or payable	8	(23,573)	(2,346)	(25,919)	(22,651)	(2,371)	(25,022)
Payments to and on account of leavers	9	(3,752)	(8,852)	(12,604)	(11,994)	(9,173)	(21,167)
Other payments	10	(561)	-	(561)	(541)	-	(541)
Administrative expenses	11	(2,547)	-	(2,547)	(2,129)	-	(2,129)
		(30,433)	(11,198)	(41,631)	(37,315)	(11,544)	(48,859)
<b>NET (WITHDRAWALS)/ADDITIONS FROM DEALINGS WITH MEMBERS</b>		(29,433)	8,551	(20,882)	(36,415)	6,393	(30,022)
<b>RETURNS ON INVESTMENTS</b>							
Investment income	12	17,860	-	17,860	22,734	-	22,734
Change in market value of investments	14	(2,707)	22,236	19,529	(430,510)	(26,020)	(456,530)
Investment management expenses	13	(476)	-	(476)	(772)	-	(772)
<b>NET RETURNS ON INVESTMENTS</b>		14,677	22,236	36,913	(408,548)	(26,020)	(434,568)
<b>NET (DECREASE)/INCREASE IN THE FUND</b>		(14,756)	30,787	16,031	(444,963)	(19,627)	(464,590)
<b>OPENING NET ASSETS</b>		626,588	202,938	829,526	1,071,551	222,565	1,294,116
<b>CLOSING NET ASSETS</b>		611,832	233,725	845,557	626,588	202,938	829,526

The notes on pages 19 to 37 form part of these financial statements.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 31 December 2023

	Note	2023 Defined Benefit Section £'000s	2023 Defined Contribution Section £'000s	2023 Total £'000s	2022 Defined Benefit Section £'000s	2022 Defined Contribution Section £'000s	2022 Total £'000s
<b>INVESTMENT ASSETS</b>	14						
Bonds		637,451	-	637,451	654,883	-	654,883
Pooled investment vehicles	15	79,409	231,958	311,367	86,688	201,121	287,809
Derivatives	16	56,065	-	56,065	69,953	-	69,953
Insurance policies	17	158,500	-	158,500	163,500	-	163,500
AVC investments	18	356	-	356	602	-	602
Cash and cash equivalents	19	13,845	-	13,845	9,039	-	9,039
Other investment balances	20	11,892	-	11,892	20,572	-	20,572
		<u>957,518</u>	<u>231,958</u>	<u>1,189,476</u>	<u>1,005,237</u>	<u>201,121</u>	<u>1,206,358</u>
<b>INVESTMENT LIABILITIES</b>							
Derivatives	16	(55,962)	-	(55,962)	(65,412)	-	(65,412)
Other investment balances	20	(296,782)	-	(296,782)	(322,594)	-	(322,594)
		<u>(352,744)</u>	<u>-</u>	<u>(352,744)</u>	<u>(388,006)</u>	<u>-</u>	<u>(388,006)</u>
<b>TOTAL NET INVESTMENTS</b>		604,774	231,958	836,732	617,231	201,121	818,352
<b>CURRENT ASSETS</b>	24	8,063	2,539	10,602	10,342	1,817	12,159
<b>CURRENT LIABILITIES</b>	25	(1,005)	(772)	(1,777)	(985)	-	(985)
<b>TOTAL NET ASSETS AVAILABLE FOR BENEFITS</b>		<u>611,832</u>	<u>233,725</u>	<u>845,557</u>	<u>626,588</u>	<u>202,938</u>	<u>829,526</u>

The notes on pages 19 to 37 form part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the defined benefit section, is dealt with in the Report on Actuarial Liabilities on page 11 of the Annual Report, and these financial statements should be read in conjunction with this report.

The financial statements on pages 17 to 37 were approved by the Trustee on 29 July 2024 and signed on their behalf by:

*Inder Dhingra*

.....

**Inderpreet Dhingra, Chairman**

*Caroline Cheetham*

.....

**Secretary to the Trustee**

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

### 1. GENERAL INFORMATION

The Scheme is an occupational pension scheme governed by the consolidated Trust Deed, dated 5 December 2018, and provides defined benefit and defined contribution pensions for the beneficial members of the Scheme who are eligible employees of the Yorkshire Building Society. The benefits are payable to members in accordance with the Scheme Rules.

The Scheme is a registered pension scheme under Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by employers and employees are normally eligible for tax relief. Income and capital gains earned by the Scheme receive preferential tax treatment.

### 2. BASIS OF PREPARATION

The individual financial statements of the Yorkshire Building Society Pension Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised June 2018) ("the SORP").

The financial statements have been prepared on the going concern basis. At the date of signing these financial statements, the Trustee believes that due to the structure of the investments held, the Scheme is able to cover its related outgoings until at least twelve months from the date that these financial statements were signed. As a result, and together with the relatively strong position of the Principal Employer, the Trustee considers the preparation of the financial statements on a going concern basis to be appropriate.

### 3. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ.

### 4. ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) *Accounting Convention*

The financial statements are prepared on an accruals basis. The Scheme's functional and presentational currency is Pounds Sterling.

#### (b) *Contributions*

Employee normal contributions, including Additional Voluntary Contributions (AVCs), are accounted for when they are deducted from pay by the employer, except for the first contribution due where the employee has been auto-enrolled by the employer, which is accounted for when received by the Scheme.

Employer normal contributions which are expressed as a rate of salary are accounted for on the same basis as the employees' contributions in accordance with the Schedule of Contributions in force during the year. Salary sacrifice contributions are accounted for when they are deducted from pay by the employer.

Other contributions are recognised on the due dates in accordance with the Schedule of Contributions or on receipt, if earlier, with the agreement of the employer and Trustee.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 4. ACCOUNTING POLICIES (continued)

#### (c) **Payments to Members**

Pensions in payment are accounted for in the period to which they relate.

Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

Individual transfers in or out are accounted for when the member liability is accepted or discharged which is normally when the transfer is paid or received.

Where the Trustee is required to settle tax liabilities on behalf of a member (such as when lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits, this is shown separately within benefits paid.

Member opt-outs are accounted for when the Scheme is notified of the opt-out.

#### (d) **Expenses**

Scheme expenses, including life assurance premiums, are accounted for on an accruals basis within the DB section of the Scheme as, under the Schedule of Contributions, the Scheme receives an Employer's Contribution towards the costs of these expenses into the DB section.

#### (e) **Investment Income**

Income from bonds, other interest receivable or payable and annuity income is taken into account on an accruals basis and includes interest bought and sold on investment purchases and sales.

Income from pooled investment vehicles is accounted for when declared by the fund manager.

Income arising on the underlying investments of accumulation funds is reflected within the change in market value.

Receipts or payments under swap contracts, representing the difference between the swapped cash flows, are included in investment income.

#### (f) **Investments**

Investments are included at fair value as follows:

Quoted securities in active markets are usually valued at the current bid prices at the reporting date.

Accrued interest is excluded from the market value of bonds and is included in investment income receivable.

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Where the latest available price is after the year end, this will be used if it is considered to be the closest price to the year-end date for funds which are not priced on a daily basis. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

Swaps are valued based on the current value of future cash flows arising from the swap, determined using discounted cash flow models and market data at the reporting date.

Exchange traded futures are valued as the sum of the daily mark-to-market which is a calculated difference between the settlement prices at the reporting date and the inception date.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 4. ACCOUNTING POLICIES (continued)

#### (f) Investments (continued)

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

The Pension Insurance Corporation (PIC) insurance policy in the name of the Scheme has been valued in line with the Scheme Actuary's best estimate solvency assumptions at the reporting date. Other smaller annuity policies in the name of the Scheme would have been valued on the same basis and although these remain assets of the Trustee, these policies have been determined to be immaterial and therefore are not included in these financial statements.

AVC investments are included at the valuations advised by the Scheme's AVC Providers.

Repurchase agreements are shown by recognising the cash received as an asset and the obligation to pay it back as a payable amount. The Scheme continues to recognise and value the securities that are delivered out as collateral and includes them in the financial statements.

#### (g) Foreign Currency Translation

Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction. Monetary items denominated in foreign currencies are translated into sterling, the Scheme's functional and presentational currency, using the closing exchange rates at the year-end.

#### (h) Critical Accounting Estimates and Judgements

The preparation of the financial statements requires the Trustee to make judgements, estimates, and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date, and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The Trustee confirms that no judgements have had a significant effect on amounts recognised in the financial statements but note estimation uncertainty in the valuation of annuity policies, as disclosed in Note 17. There is also estimation in the valuation of level 3 pooled investment vehicles, as shown in note 21.

### 5. CONTRIBUTIONS

	2023		
	Defined	Defined	Total
	Benefit	Contribution	
	Section	Section	
	£'000s	£'000s	£'000s
Employer contributions			
Normal	-	15,886	15,886
Additional	1,000	-	1,000
	<u>1,000</u>	<u>15,886</u>	<u>16,886</u>
Employee contributions			
Normal	-	132	132
Additional voluntary	-	2,350	2,350
	<u>-</u>	<u>2,482</u>	<u>2,482</u>
	<u>1,000</u>	<u>18,368</u>	<u>19,368</u>

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 5. CONTRIBUTIONS (continued)

	2022		
	Defined Benefit Section £'000s	Defined Contribution Section £'000s	Total  £'000s
Employer contributions			
Normal	-	14,153	14,153
Additional	900	-	900
	<u>900</u>	<u>14,153</u>	<u>15,053</u>
Employee contributions			
Normal	-	95	95
Additional voluntary	-	2,436	2,436
	<u>-</u>	<u>2,531</u>	<u>2,531</u>
	<u>900</u>	<u>16,684</u>	<u>17,584</u>

As there were sufficient assets to cover the Scheme's technical provisions as at the 31 December 2022 valuation, no deficit funding contributions are currently payable to the Scheme.

The Schedule of Contributions certified by the Scheme Actuary on 9 November 2023 requires the Sponsoring Employer to pay the Scheme £1.0 million by 31 December each year towards the cost of Scheme expenses (including life assurance premiums) for the DC section. Under the prior Schedule of Contributions certified on 30 June 2020, this contribution was £0.9 million. These contributions are shown in the DB section due to way the Scheme was set up historically and are paid into the Trustee's bank account managed by the Scheme's DB Administrator. This account is then used by the Trustee to settle all Scheme expenses for both DB and DC sections.

For the current year to 31 December 2023, total contributions include £7.1 million (2022: £6.0 million) received under salary sacrifice arrangements.

### 6. TRANSFERS IN

	2023		
	Defined Benefit Section £'000s	Defined Contribution Section £'000s	Total  £'000s
Individual transfers in from other schemes	<u>-</u>	<u>864</u>	<u>864</u>
		2022	
Individual transfers in from other schemes	<u>-</u>	<u>585</u>	<u>585</u>

### 7. OTHER INCOME

	2023		
	Defined Benefit Section £'000s	Defined Contribution Section £'000s	Total  £'000s
Other income	-	1	1
Claims on term insurance policies	-	516	516
	<u>-</u>	<u>517</u>	<u>517</u>

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 7. OTHER INCOME (continued)

	Defined Benefit Section £'000s	2022 Defined Contribution Section £'000s	Total £'000s
Claims on term insurance policies	-	668	668

### 8. BENEFITS PAID OR PAYABLE

	Defined Benefit Section £'000s	2023 Defined Contribution Section £'000s	Total £'000s
Pensions	21,433	-	21,433
Commutation of pensions and lump sum retirement benefits	2,111	1,379	3,490
Lump sum death benefits	-	516	516
Refunds of contributions on death	29	396	425
Taxation where lifetime or annual allowance exceeded	-	55	55
	<u>23,573</u>	<u>2,346</u>	<u>25,919</u>

		2022	
Pensions	20,391	-	20,391
Commutation of pensions and lump sum retirement benefits	2,229	1,388	3,617
Purchase of annuities	-	96	96
Lump sum death benefits	-	674	674
Refunds of contributions on death	31	213	244
	<u>22,651</u>	<u>2,371</u>	<u>25,022</u>

### 9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	Defined Benefit Section £'000s	2023 Defined Contribution Section £'000s	Total £'000s
Refunds of contributions	-	2	2
Individual transfers out to other schemes	3,752	8,850	12,602
	<u>3,752</u>	<u>8,852</u>	<u>12,604</u>

		2022	
Refunds of contributions	-	10	10
Individual transfers out to other schemes	11,994	9,163	21,157
	<u>11,994</u>	<u>9,173</u>	<u>21,167</u>



# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 10. OTHER PAYMENTS

	2023		Total
	Defined Benefit Section £'000s	Defined Contribution Section £'000s	£'000s
Premiums on term insurance policies	561	-	561
	2022		
Premiums on term insurance policies	541	-	541

### 11. ADMINISTRATIVE EXPENSES

	2023		Total
	Defined Benefit Section £'000s	Defined Contribution Section £'000s	£'000s
Actuarial fees	1,602	-	1,602
Administration expenses	413	-	413
Audit fees	73	-	73
Legal fees	181	-	181
Miscellaneous expenses	2	-	2
PPF levy	60	-	60
Trustee fees & expenses	126	-	126
Other fees	90	-	90
	2,547	-	2,547
	2022		
Actuarial fees	1,277	-	1,277
Administration expenses	319	-	319
Audit fees	52	-	52
Legal fees	194	-	194
Miscellaneous expenses	2	-	2
PPF levy	66	-	66
Trustee fees & expenses	123	-	123
Other fees	96	-	96
	2,129	-	2,129

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 12. INVESTMENT INCOME

	2023		Total
	Defined Benefit Section £'000s	Defined Contribution Section £'000s	£'000s
Income from bonds	16,606	-	16,606
Income from pooled investment vehicles	4,209	-	4,209
Interest on cash deposits	344	-	344
Net receipts from swaps	730	-	730
Annuity income	9,344	-	9,344
Interest on repurchase agreements	(13,373)	-	(13,373)
	<u>17,860</u>	<u>-</u>	<u>17,860</u>
		2022	
Income from bonds	15,416	-	15,416
Income from pooled investment vehicles	4,347	-	4,347
Interest on cash deposits	289	-	289
Net payments from swaps	(722)	-	(722)
Annuity income	9,156	-	9,156
Interest on repurchase agreements	(5,752)	-	(5,752)
	<u>22,734</u>	<u>-</u>	<u>22,734</u>

### 13. INVESTMENT MANAGEMENT EXPENSES

	2023		Total
	Defined Benefit Section £'000s	Defined Contribution Section £'000s	£'000s
Administration, management & custody	<u>476</u>	<u>-</u>	<u>476</u>
		2022	
Administration, management & custody	<u>772</u>	<u>-</u>	<u>772</u>

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 14. RECONCILIATION OF INVESTMENTS

	Value at 01.01.2023	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 31.12.2023
<b>Defined Benefit Section</b>	£'000s	£'000s	£'000s	£'000s	£'000s
Bonds	654,883	94,374	(116,761)	4,955	637,451
Pooled investment vehicles	86,688	135,409	(141,017)	(1,671)	79,409
Derivatives	4,541	15,461	(18,983)	(916)	103
Insurance policies	163,500	-	-	(5,000)	158,500
AVC investments	602	19	(307)	42	356
	910,214	245,263	(277,068)	(2,590)	875,819
Cash and cash equivalents	9,039			(102)	13,845
Other investment balances	(302,022)			(15)	(284,890)
	617,231			(2,707)	604,774

	Value at 01.01.2023	Purchases at cost	Sales proceeds	Change in market value	Value at 31.12.2023
<b>Defined Contribution Section</b>					
Pooled investment vehicles	201,121	27,327	(18,726)	22,236	231,958

The change in market value of cash and cash equivalents, and other investment balances relates to foreign exchange losses on overseas currency assets.

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty. For the year to 31 December 2023, broker commissions on exchange-traded derivatives were £13,331.

In addition to the direct transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

The investments purchased by the DC section are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. These investments are held by the Investment Manager on a pooled basis for the Trustee and the Scheme's Administrator for the DC section allocates investment units to members. The Trustee may also hold investment units representing the value of employer contributions that have been retained by the Scheme that relate to members leaving the Scheme prior to vesting.

All of the DC section assets are allocated to members (2022: all).

### 15. POOLED INVESTMENT VEHICLES

The Scheme's investments in pooled investment vehicles at the year-end comprised:

	2023 £'000s	2022 £'000s
<b>Defined Benefit Section</b>		
Strategic alternative income	67,238	68,798
Bonds	1,762	5,867
Cash	10,409	12,023
	79,409	86,688

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 15. POOLED INVESTMENT VEHICLES (continued)

	2023	2022
	£'000s	£'000s
<b>Defined Contribution Section</b>		
Equities	120,163	103,938
Diversified	89,380	77,598
Bonds	13,925	12,651
Cash	8,490	6,934
	<u>231,958</u>	<u>201,121</u>

### 16. DERIVATIVES

#### Objectives and policies

The Trustee has authorised the use of derivatives by its Investment Managers as part of its investment strategy for the Scheme as follows.

**Swaps:** the Trustee's aim is to match as far as possible the fixed income portfolio with the Scheme's long term liabilities, in particular in relation to their sensitivities to interest rate movements. Due to the lack of available long dated bonds, the Trustee has entered into over-the-counter (OTC) interest rate swaps that extend the duration of the fixed income portfolio to better match the long term liabilities of the Scheme.

**Futures:** the Trustee enters into exchange-traded (index based) futures contracts in order to increase or decrease the Scheme's economic exposure to certain markets including UK Gilts and Global Equity.

**Forward foreign exchange contracts:** in order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, a currency hedging programme using forward foreign exchange contracts has been put in place to reduce the currency exposure of these overseas investments to the targeted level.

At the year-end the Scheme held the following derivatives:

	2023	2023	2022	2022
	Asset	Liability	Asset	Liability
	£'000s	£'000s	£'000s	£'000s
Swaps	54,623	51,525	64,654	63,703
Futures	1,302	4,395	5,299	1,410
Forward Foreign Exchange Contracts	140	42	-	299
	<u>56,065</u>	<u>55,962</u>	<u>69,953</u>	<u>65,412</u>
Net derivatives	<u>103</u>		<u>4,541</u>	

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 16. DERIVATIVES (continued)

#### Swaps

Nature	Expiration	Notional principal £'000s	Asset £'000s	Liability £'000s
Interest rate swaps (OTC)	0-10 years	44,250	2,586	3,644
Interest rate swaps (OTC)	10-20 years	97,775	11,531	6,956
Interest rate swaps (OTC)	20-30 years	120,752	11,101	10,671
Interest rate swaps (OTC)	30-40 years	125,474	26,253	19,063
Interest rate swaps (OTC)	40-50 years	36,712	3,152	11,191
Total 2023		<u>424,963</u>	<u>54,623</u>	<u>51,525</u>
Total 2022		<u>530,119</u>	<u>64,654</u>	<u>63,703</u>

Included in bonds is collateral of £6.1 million (2022 restated: £9.9 million) which has been pledged to counterparties.

At the year-end, the Scheme held £9.5 million (2022 restated: £10.5 million) of collateral belonging to counterparties comprising cash of £4.1 million (2022: £3.2 million) and bonds of £5.4 million (2022 restated: £7.3 million); this collateral is not reported within the Scheme's net assets.

The collateral amounts for 2022 have been restated as the amounts previously reported were incorrectly calculated.

#### Futures

Nature	Expiration	Economic exposure £'000s	Asset £'000s	Liability £'000s
UK Long Gilt Future	26 March 2024	(66,255)	-	3,547
UK Long Gilt Future	26 March 2024	18,066	936	-
Euro Bund Future	07 March 2024	(6,086)	-	133
US 10 YR Note CBT	19 March 2024	(22,336)	-	715
MSCI World Index Future	15 March 2024	34,959	366	-
Total 2023		<u>(41,652)</u>	<u>1,302</u>	<u>4,395</u>
Total 2022		<u>55,039</u>	<u>5,299</u>	<u>1,410</u>

Included within cash deposits is £6.8 million (2022 restated: £6.7 million) in respect of initial and variation margin arising on open futures contracts at the year-end. The amount for 2022 has been restated as the amount previously reported was incorrectly calculated.

#### Forward Foreign Exchange

Contract	Settlement date	Currency bought	Currency sold	Asset £'000s	Liability £'000s
Forward (OTC)	8 March 2024	Sterling	US Dollar	140	-
Forward (OTC)	8 March 2024	Sterling	Euro	-	42
Total 2023				<u>140</u>	<u>42</u>
Total 2022				<u>-</u>	<u>299</u>

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 17. INSURANCE POLICIES

2023	2022
£'000s	£'000s

The Scheme held insurance policies at the year-end as follows:

Pension Insurance Corporation (PIC)	158,500	163,500
-------------------------------------	---------	---------

The bulk annuity insurance policy held with PIC has been valued using Willis Towers Watson's best estimate solvency assumptions as at 31 December 2023. The policy covers a representative tranche of pensioners and pays monthly income to cover the pension payroll benefits of members insured by the policy.

The Scheme Actuary has valued the annuities using the Scheme's solvency basis, updated for market conditions as at 31 December 2023, using data obtained from the most recent actuarial valuation. This has been rolled forward with an approximate allowance for annuity payments received and member movements. The assumptions used to value the annuities are as follows:

**Discount interest rate:** term-dependent rates set by reference to the fixed interest gilt curve (as derived by Willis Towers Watson) with an addition of 0.20% per annum.

**Future Retail Prices Index (RPI) inflation:** term-dependent 'breakeven' rates of RPI inflation, derived using Willis Towers Watson's nominal and index-linked gilt yield curves.

**Pension increases:** set using the RPI inflation curve, with an assumption for inflation volatility of 1% per annum, and allowance for the relevant minimum and maximum increase limits.

**Mortality:** for the period in retirement, standard tables S3PMA with a scaling factor of 83% for male members and S3PFA with a scaling factor of 92% for female members, both projected from 2013 in line with the Continuous Mortality Investigation's core 2022 projection model using a long term trend rate for improvements of 1.5% per annum, the default smoothing parameter of 7.0 and an initial addition to mortality improvements of 0.25% per annum.

### 18. AVC INVESTMENTS

The Trustee holds assets invested separately from the Scheme's main assets to secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions (AVCs). With the exception of the Chelsea Building Society AVC investments (which are currently being reviewed by the Trustee), members participating in these arrangements receive an annual statement made up to the year-end confirming the value of their fund and the movements in the year. The aggregate amounts of AVC investments at the year-end are as follows:

	2023	2022
	£'000s	£'000s
Chelsea Building Society * (unit linked)	8	8
Clerical Medical (unit linked)	12	12
Clerical Medical (with profits)	37	37
Fidelity (unit linked)	287	534
Standard Life (with profits)	12	11
	<u>356</u>	<u>602</u>

\* "Chelsea Building Society" and "The Chelsea" are trading names of Yorkshire Building Society

### 19. CASH AND CASH EQUIVALENTS

2023	2022
£'000s	£'000s

Cash deposits	13,845	6,467
Cash in transit	-	2,572
	<u>13,845</u>	<u>9,039</u>

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

<b>20. OTHER INVESTMENT BALANCES</b>	2023	2022
	£'000s	£'000s
Dividends and interest receivable	5,502	5,710
Investment debtors	384	-
Amounts receivable under reverse repurchase agreements	<u>6,006</u>	<u>14,862</u>
	<u>11,892</u>	<u>20,572</u>
Interest payable on repurchase agreements	(2,892)	(2,514)
Amounts payable under repurchase agreements	<u>(293,890)</u>	<u>(320,080)</u>
	<u>(296,782)</u>	<u>(322,594)</u>
	<u>(284,890)</u>	<u>(302,022)</u>

At the year-end, £305.4 million (2022: £280.2 million) of bonds reported in Scheme assets were held by counterparties under repurchase agreements. In total, there were 22 repurchase agreements (including 1 reverse repurchase agreement) all maturing in 2024.

At the year-end, collateral of £15.4 million belonging to counterparties was held by the Scheme in respect of the increase in value of the bonds under repurchase agreements; this collateral is not reported within the Scheme's net assets. Conversely, at the prior year-end, the Scheme pledged £27.2 million of collateral to counterparties representing the decrease in value of bonds under repurchase agreements; this collateral is reported within the Scheme's net assets.

## 21. FAIR VALUE DETERMINATION

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:





## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 22. INVESTMENT RISK DISCLOSURES

#### (a) Investment Risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

**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.

**Market risk:** this comprises currency risk, interest rate risk, inflation and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Inflation and other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk taking into account the Scheme's strategic investment objectives. These investment objectives are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee through regular reviews of the investment portfolio.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies or the AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

#### (b) Defined Benefit Section

##### (i) Investment Strategy

The Scheme's investment strategy is set in conjunction with the Scheme's Investment Advisers, recognising and managing a number of risks involved in the investment of the Scheme's assets in order to achieve the Scheme's investment objectives.

The Trustee has agreed that the investment objectives for the DB section should be:

- To achieve a return on the Scheme's assets that is consistent with the long-term assumptions of the Scheme Actuary in determining the funding of the Scheme, whilst at the same time balancing risk.
- To aim for the assets to exceed the liabilities as determined in the event of the Scheme winding up on the basis of cash equivalent transfer values.
- To minimise the requirement for the Employer to make further deficit recovery plan contributions.

The investment strategy is set out in the Statement of Investment Principles and is to hold:

- A range of instruments that provide a better match both to changes in liability values and expected liability cash flows, including (but not limited to) gilts, corporate bonds, derivatives, secure income assets and insurance policies.
- A diversified range of return-seeking assets, including (but not limited to) equities (implemented physically and/or through equity futures), corporate bonds and secure income assets.
- Passive and actively managed portfolios as appropriate, following consideration of efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the Investment Managers' fees on future expected returns.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 22. INVESTMENT RISK DISCLOSURES (continued)

#### (b) Defined Benefit Section (continued)

##### (i) Investment Strategy (continued)

A summary of the risks across the Scheme's DB investments is shown below:

	Credit Risk	Market Risk			2023	2022
		Currency	Interest Rate	Other Price	£'000s	£'000s
Bonds	●	○	●	●	637,451	654,883
Pooled investment vehicles	●	●	●	●	79,409	86,688
Derivatives	●	○	●	●	103	4,541
Insurance policies	●	○	○	○	158,500	163,500
AVC investments	●	●	●	●	356	602
Cash deposits	●	○	●	○	13,845	9,039

[●] significantly, [●] partially or [○] hardly / not at all

##### (ii) Credit Risk

The Scheme is subject to credit risk because the Scheme directly invests in over-the-Counter ("OTC") derivatives and has cash held with counterparties. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The Scheme is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles. Credit risk also applies to the bulk annuity insurance policy referring to the risk that the insurer could fall insolvent.

Credit risk arising on bonds held directly is mitigated by investing in UK government bonds where the credit risk is significantly lower. Credit risk arising on other investments is mitigated by investment mandates requiring limits around the amount of non-investment grade credit held.

Credit risk arising on derivatives depends on whether the derivative is exchange-traded or OTC. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements.

Credit risk arising on bulk annuity insurance policies is mitigated by the high level of industry regulation from the Prudential Regulation Authority (PRA) and by industry protections (the Financial Services Compensation Scheme) in addition to the due diligence carried out by the Trustee in selecting an appropriate insurer.

Cash is held within financial institutions which are at least investment grade credit rated.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate, and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager.

Indirect credit risk arises in relation to underlying investments held in the pooled investment vehicles. This risk is mitigated by only investing in funds which limit the level of non-investment grade credit rated investments.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 22. INVESTMENT RISK DISCLOSURES (continued)

#### (b) Defined Benefit Section (continued)

##### (ii) Credit Risk (continued)

The investment in pooled investment vehicles as at 31 December 2023 was as follows:

	2023	2022
	£'000s	£'000s
Investment Funds	1,762	5,867
Authorised Unit Trusts	67,238	68,798
UCITS funds	<u>10,409</u>	<u>12,023</u>
Total	<u>79,409</u>	<u>86,688</u>

##### (iii) Currency Risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets via pooled investment vehicles (e.g. debt and reinsurance). The Trustee has considered the extent to which it wants to mitigate this risk by currency hedging, taking into account the expected benefits and costs of doing so. The Trustee agreed that it would leave approximately 5% (2022: approximately 5%) exposure to the US Dollar unhedged (as a hedge against 'shocks' to the global economy and markets).

##### (iv) Interest Rate Risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in government bonds, interest rate swaps, either as segregated investments or through pooled vehicles, and cash. The Trustee has set a benchmark for total investment in the bulk annuity insurance policy, government bonds, and interest rate swaps of 57.1% of the total portfolio as part of the LDI investment strategy, designed to match approximately 94% of the Scheme's liabilities.

Under this strategy, if interest rates fall, the value of LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. At the year-end the LDI portfolio represented 27.9% (2022: 29.2%) of the total investment portfolio and the bulk annuity insurance policy represented 26.3% (2022: 26.1%).

##### (v) Other Price Risk

Other price risk arises principally in relation to the Scheme's return-seeking portfolio which includes equity futures, UK and global corporate bonds, income generating assets, and global reinsurance. The Scheme has set a target asset allocation 43.9% of investments being held in return-seeking investments. At the year-end, the return-seeking portfolio represented 45.8% (2022: 42.7%) of the total investment portfolio.

The Scheme manages the exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

#### (c) Defined Contribution Section

##### (i) Investment Strategy

The Trustee's objective is to make available to members of the Scheme an appropriate range of investment options designed to generate income and capital growth, which together with new contributions from members and their employer, will provide a retirement amount with which the member can purchase a pension annuity or other type of retirement product. The Statement of Investment Principles outlines the investment objectives and strategy for the DC assets of the Scheme.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 22. INVESTMENT RISK DISCLOSURES (continued)

#### (c) Defined Contribution Section (continued)

##### (i) Investment Strategy (continued)

At year end, the investment funds offered to members were provided by Fidelity as follows:

- Cash Fund
- Diversified Investment Fund
- Emerging Markets Fund
- International Equity Investment Fund
- Over 5-year Index Linked Gilt Fund
- Pre-Retirement Fund
- Shariah Equity Fund

The Trustee has an investment management agreement in place with Fidelity that sets out guidelines for the underlying investments held by the funds. The day-to-day management of the underlying investments in the funds is the responsibility of Fidelity, including the direct management of credit and market risks.

The Trustee monitors the DC funds via regular reports and advice from the Scheme's Investment Advisers.

A summary of the risks across the Scheme's DC investments is shown below:

	Market Risk				2023	2022
	Credit Risk	Currency	Interest Rate	Other Price	£'000s	£'000s
Pooled investment vehicles	●	●	●	●	231,958	201,121

[●] significantly, [●] partially or [○] hardly / not at all.

##### (ii) Credit Risk

The DC investments are subject to direct credit risk in relation to Fidelity through the Scheme's holding in unit linked funds provided by Fidelity. The Trustee monitors the creditworthiness of Fidelity by reviewing published credit ratings. In the event of default by Fidelity, the Scheme is protected by the Financial Services Compensation Scheme.

The investments are also subject to indirect credit risk arising from the underlying investments held in the funds. Member level risk exposures will be dependent on the funds invested in by members.

##### (iii) Market Risk

The DC investments are subject to indirect currency risk, interest rate risk, and other price risk arising from the underlying financial instruments held in the funds managed by Fidelity. The equity assets in the funds are exposed to currency and other price risks, and the bond and cash assets in the funds are exposed to currency and interest rate risks.

### 23. CONCENTRATION OF INVESTMENTS

The following investments represented over 5% of the net assets of the Scheme:

	2023		2022 (Restated)	
	£'000s	%	£'000s	%
PIC insurance policy	158,500	18.7	163,500	19.7
Fidelity International Equity Investment Fund	114,547	13.5	98,941	11.9
Fidelity Diversified Investment Fund	89,381	10.6	77,598	9.4
Blackrock UK Strategic Alternative Income	67,238	8.0	68,798	8.3

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 24. CURRENT ASSETS

	2023		Total
	Defined Benefit Section £'000s	Defined Contribution Section £'000s	£'000s
Bank balance	7,205	912	8,117
Contributions receivable - employer	-	1,430	1,430
- members	-	197	197
Pensions paid in advance	213	-	213
Life assurance paid in advance	544	-	544
Other assets	101	-	101
	<u>8,063</u>	<u>2,539</u>	<u>10,602</u>
		2022	
Bank balance	9,608	436	10,044
Contributions receivable - employer	-	1,368	1,368
- members	-	13	13
Pensions paid in advance	202	-	202
Life assurance paid in advance	532	-	532
	<u>10,342</u>	<u>1,817</u>	<u>12,159</u>

Included in the DC bank balance is £469,782 (2022: nil) which is allocated to members.

All contributions receivable relate to the month of December 2023 and were paid in full to the Scheme within the timescale required by the Schedule of Contributions.

### 25. CURRENT LIABILITIES

	2023		Total
	Defined Benefit Section £'000s	Defined Contribution Section £'000s	£'000s
Accrued expenses	355	-	355
Unpaid benefits	37	772	809
Tax payable	314	-	314
Annuities received in advance	299	-	299
	<u>1,005</u>	<u>772</u>	<u>1,777</u>
		2022	
Accrued expenses	423	-	423
Unpaid benefits	2	-	2
Tax payable	278	-	278
Annuities received in advance	282	-	282
	<u>985</u>	<u>-</u>	<u>985</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2023

### 26. RELATED PARTIES

Transactions with related parties of the Scheme have been disclosed in the annual report and financial statements as follows.

#### (a) Transactions with key management personnel – The Trustee

- Contributions received during the year in respect of four (2022: three) Trustee Directors who are active members of the Scheme were made in accordance with the Trust Deed and Rules.
- Pension payments were made during the year to one (2022: one) Trustee Director as a retired member of the Scheme and are included within pensions payable. These payments were calculated on the same basis as pensions payable to other members of the Scheme in accordance with the Trust Deed and Rules.
- Amounts paid to Trustee Directors as a fee for their services are disclosed in Note 11. At the year-end, £51,841 (2022: £30,285) was payable by the Scheme for these fees.

#### (b) Transactions with other related parties – The Employer

- Contributions receivable from the Employer of the Scheme are disclosed in Notes 5 and 24.

The Scheme has an AVC provision arrangement with The Chelsea Building Society. "The Chelsea Building Society" and "The Chelsea" are trading names of Yorkshire Building Society.

### 27. EMPLOYER RELATED INVESTMENTS

There were no employer related investments at the year-end (2022: £Nil).

### 28. GMP EQUALISATION

In October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. In November 2021, the High Court also ruled that pension schemes will need to revisit individual transfer payments made since May 1990.

Under the rulings, schemes are required to backdate benefit and transfer out adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest, the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

## Independent auditors' statement about contributions to the trustee of Yorkshire Building Society Pension Scheme

### Statement about contributions

#### Opinion

In our opinion, the contributions paid to the Scheme by the employer under the Schedule of Contribution for the scheme year ended 31 December 2023 as reported in Yorkshire Building Society Pension Scheme's summary of contributions have, in all material respects, been paid in accordance with the schedules of contributions certified by the scheme actuary on 30 June 2020 and 9 November 2023.

We have examined Yorkshire Building Society Pension Scheme's summary of contributions for the scheme year ended 31 December 2023 which is set out on the following page.

#### Basis for opinion

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme under the schedules of contributions, and the timing of those payments.

#### Responsibilities for the statement about contributions

##### Responsibilities of the trustee in respect of contributions

As explained more fully in the statement of trustee's responsibilities, the scheme's trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the scheme by employers in accordance with relevant requirements.

##### Auditors' responsibilities in respect of the statement about contributions

It is our responsibility to provide a statement about contributions and to report our opinion to you.

##### Use of this report

This report, including the opinion, has been prepared for and only for the trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

*PWC*

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds  
29 July 2024

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## SUMMARY OF CONTRIBUTIONS PAID IN THE YEAR

During the year, the contributions paid to the Scheme by the employer under the Schedules of Contributions were as follows:

Contributions required by the Schedules of Contributions:	£'000s
Employer normal contributions	15,886
Employer additional contributions	1,000
Employee normal contributions	<u>132</u>
Contributions required by the Schedules of Contributions (as reported on by the Scheme Auditors)	<u>17,018</u>
Reconciliation to the financial statements:	
Contributions paid under the Schedules of Contributions	17,018
Members' Additional Voluntary Contributions	<u>2,350</u>
Contributions receivable per the financial statements	<u><u>19,368</u></u>

This summary was approved by the Trustee on .....29 July 2024..... (date)

Signed on behalf of the Trustee

*Inder Dhingra*

.....  
**Inderpreet Dhingra, Chairman**



# **YORKSHIRE BUILDING SOCIETY PENSION SCHEME**

Chair's Governance Statement for the year ended  
31 December 2023

Scheme Registration No: 10101681

Signed and Dated 29 July 2024

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION AND DEFINED BENEFIT SECTION OF THE YORKSHIRE BUILDING SOCIETY PENSION SCHEME

This Chair's Governance Statement (the "Statement") has been produced for the Yorkshire Building Society Pension Scheme (the "Scheme") and its corporate trustee, YBS Pension Trustees Limited (the "Trustee"), in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. The Scheme's Principal Employer and Sponsor is Yorkshire Building Society (the "Society"). The Statement describes the role of the Trustee and how the Trustee, acting through its directors (the "Trustee Directors"), has met its statutory governance standards in relation to the Defined Contribution ("DC") arrangements during the Scheme year ended 31 December 2023 (the "Scheme Year") in the following areas:

- The investment options in which members' accounts are invested during the Scheme Year, including the default investment arrangements and self-select funds.
- Requirements for processing core financial transactions.
- Assessment of charges and transaction costs borne by members.
- The net return on investments for each default arrangement and self-select fund.
- Assessment of value for members.
- The requirement for Trustee knowledge and understanding.

The Statement also includes "pounds and pence" illustrations demonstrating the potential impact of costs and charges on a member's DC savings over the course of their Scheme membership.

The Statement is designed to provide members with key information and assurances regarding the proper running of the Scheme and the value it provides. The Scheme is used as a qualifying scheme for the Society's automatic enrolment obligations.

The Statement primarily relates to the Scheme's DC Section but also includes sections covering the Defined Benefit ("DB") Section and its Additional Voluntary Contribution ("AVC") arrangements.

The Trustee receives professional Defined Contribution ("DC"), investment and governance advice from WTW (the "Investment Adviser"). The Scheme's DC Section is administered by Fidelity (the "Plan Administrator").

### Market update

The Bank of England (BoE) made several base rate rises throughout 2023, with the base rate starting the year at 3.5% and ending the year at 5.25%. UK inflation, as measured by the CPI, rose by 3.9% in the 12 months to December 2023, down from 6.6% in September and from a recent peak of 11.1% in October 2022.

Equity markets returned positive performance across all regions other than China which returned negative performance. The FTSE All World Index returned 15.7% whilst the MSCI China Index returned -16.2% (both in sterling terms). FTSE All-Share Index returned 7.9% whilst North America was the best performing region with 19.4% (both in sterling terms).

UK government bond yields (which move inversely to bond price) decreased over 12 months to 31 December 2023, which meant returns from bonds were generally positive. Long dated UK gilts have returned 1.6% over the period (as measured by FTSE-A Gilts Over 15 Years Index) and UK gilts all stocks returned 3.7%.

Over a 3 year period, which takes into account the gilts crisis in the latter part of 2022, bond returns have been negative. However, for a DC member invested in the Pre-Retirement fund, this should be considered alongside significant falls in the price of annuities over the same period. As an example, average annuity prices fell by around 11.6% p.a. over the 3 years ending 31 December 2023 (for a level annuity bought at age 65). The DC Pre-Retirement fund value also fell, but to a lesser extent (10.5%) – ultimately this means the fund has done a good job at tracking the price of purchasing an annuity.

## DC Section

The Trustee has taken account of statutory guidance in preparing this section of the statement.

### Investment strategy

Members who join the Scheme and who do not subsequently choose an investment option are placed into the default investment strategy. The Trustee is responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangements. The Scheme's DC investment strategy is set out in the Scheme's Statement of Investment Principles ("SIP"). This document governs the Trustee's decisions about investments including its aims, objectives, and policies for the Scheme's investment options including the default arrangement, and the Trustee's policies in relation to the kinds of investment that should be held, risks (including how these are measured and managed) and policies on investment. It has been prepared in accordance with Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005. A copy of the current SIP, last revised in December 2023, is attached to this document in Appendix B. A copy of the Chairman's Statement and SIP can also be found online at <https://www.ybspensionscheme.co.uk/dc/libray>

The Scheme's investment objectives are:

- a. To offer a suitable range of options, including a default lifestyle strategy, three additional lifestyle strategies and a range of self-select funds.
- b. To recognise and limit the risk of a member's account falling to satisfy the member's reasonable expectations over the long term.
- c. To optimise the long-term benefits from the Scheme by allowing members to benefit from long-term growth on their assets whilst having regard to the objectives shown under the previous paragraph.
- d. To monitor the value for money received by members in the DC section from their membership of the Scheme and commission our Investment Adviser to undertake an annual review and make recommendations for improvements. The Trustee aims to ensure that the members receive good value for money but recognises that this does not necessarily equate to paying lower fees or costs for services.

### Investment strategy review

The Trustee periodically, and on no less than a three-yearly cycle, reviews the appropriateness of the default arrangements. It will undertake an earlier review if there are any significant changes in legislation, investment policy or member demographics.

The Trustee began a full DC investment strategy review in May 2023, with support from the Investment Adviser. This review covered the default investment arrangements as well as the 'self-select' arrangements. A review of the Trustee's beliefs was carried out in advance of the investment strategy review, resulting in the Trustee setting and documenting its DC investment beliefs. A membership analysis was then carried out to better understand the membership's risk tolerance and retirement objectives. Subsequently, the Scheme's lifestyle strategy designs were reviewed to ensure they could meet the varying objectives of the membership at retirement.

As a result of the strategy review of the default arrangements, the Trustee agreed to introduce a new short-dated corporate bond fund to the Flexible and Lump Sum lifestyle strategies in order to better manage members' exposure to risk as they progress towards retirement. This change is due to be implemented in July 2024. The Trustee believes that the other 2 lifestyle funds (both 'self-select arrangements'), the Annuity and Drawdown lifestyles, still remain appropriate and so no changes will be made to these funds.

Full details of each of the Lifestyle strategies can be found on the YBS website [www.ybspensionscheme.co.uk](http://www.ybspensionscheme.co.uk)

The next investment review is due to begin in 2026.

In addition to the default lifestyle strategies described above, for the purposes of Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005, due to their history and development, the following self-select funds are also classed as "default arrangements":

- International Equity Investment Fund.
- Diversified Investment Fund.
- Pre-Retirement Fund.
- Cash Fund.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## Investment performance

The Trustee undertakes regular reviews of the performance of the funds underlying the default arrangements and the self-select funds, with the support of the Investment Adviser. These reviews have concluded that all funds performed broadly in line with their objectives and remained well rated. The DC Section Investments do not carry any performance related fees.

The Trustee has calculated the investment returns (after charges and transaction costs have been deducted) for example members invested in the default lifestyle funds and self-select funds, in line with the guidance issued by the Department for Work and Pensions. The returns achieved by different aged members vary due to the lifestyle strategies outlined previously in this Statement. Net investment returns refer to the returns on funds minus all transaction costs and member-borne charges. These returns are shown below (and details can also be found in members' annual benefit statements):

### Flexible Lifestyle

Age of member (years)	Investment return p.a. over 5 years (to 31 December 2023)	Investment return p.a. over 3 years (to 31 December 2023)	Investment return over 1 year (to 31 December 2023)
25	7.7%	4.4%	10.9%
45	6.7%	4.0%	10.9%
55	3.7%	1.4%	7.3%

### Lump-sum Lifestyle

Age of member (years)	Investment return p.a. over 5 years (to 31 December 2023)	Investment return p.a. over 3 years (to 31 December 2023)	Investment return over 1 year (to 31 December 2023)
25	7.7%	4.4%	10.9%
45	6.7%	4.0%	10.9%
55	3.3%	1.3%	7.3%

### Drawdown Lifestyle

Age of member (years)	Investment return p.a. over 5 years (to 31 December 2023)	Investment return p.a. over 3 years (to 31 December 2023)	Investment return over 1 year (to 31 December 2023)
25	10.3%	6.9%	14.5%
45	10.3%	6.9%	14.5%
55	6.7%	4.0%	10.9%

### Annuity Lifestyle

Age of member (years)	Investment return p.a. over 5 years (to 31 December 2023)	Investment return p.a. over 3 years (to 31 December 2023)	Investment return over 1 year (to 31 December 2023)
25	7.7%	4.4%	10.9%
45	6.7%	4.0%	10.9%
55	3.3%	1.3%	7.3%

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

The investment returns (after charges and transaction costs have been deducted) for the self-select funds available to members are shown below:

Fund name	Investment return p.a. over 5 years (to 31 December 2023)	Investment return p.a. over 3 years (to 31 December 2023)	Investment return over 1 year (to 31 December 2023)
International Equity Investment Fund*	10.3%	-6.9%	14.5%
Diversified Investment Fund*	5.0%	2.0%	7.3%
Pre-retirement Fund*	-2.3%	-10.5%	7.1%
Cash Fund*	1.1%	1.7%	4.4%
Emerging Markets Fund	2.9%	-3.8%	0.9%
Shariah Equity Fund	16.3%	10.8%	26.9%
Over 5 Year Index-Linked Gilts Fund	-5.3%	-13.6%	1.4%

\*Also default arrangements under Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005

The figures for net investment returns used in the tables above are based on those provided by the Plan Administrator over the past five years.

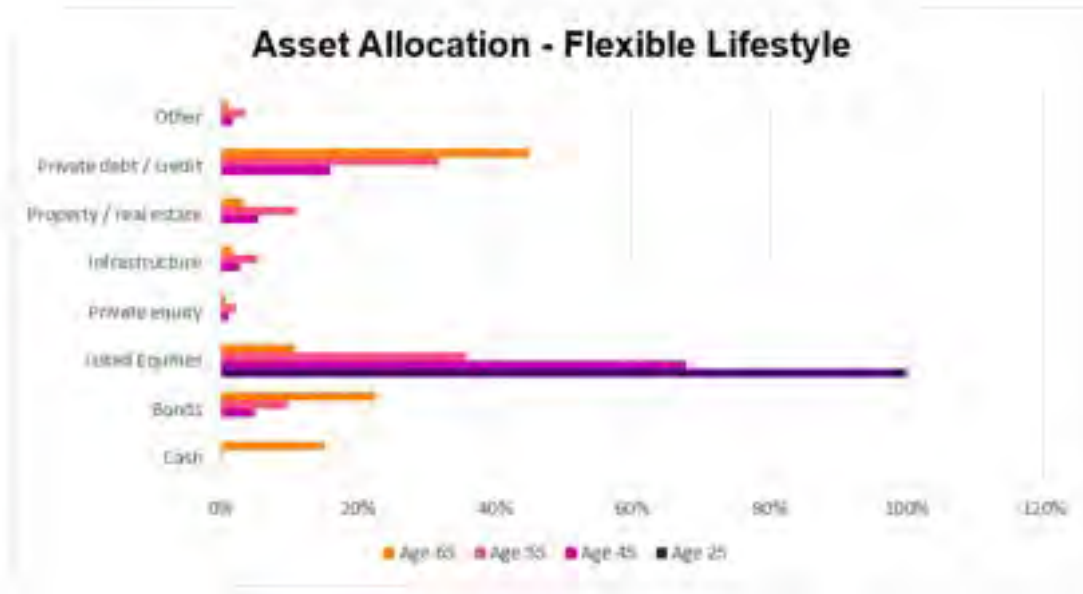
It is worth noting that while returns from bonds and gilts were positive over 2023, the returns over the last 3 and 5 years are negative due to the large falls in 2022. However, during this time, the cost of purchasing an annuity also fell. As such, members' account moved roughly in line with the price of annuities which is what these funds are designed to do.

## Investment asset allocation

The Trustee has calculated the asset allocations for example members invested in the default arrangements, in line with the guidance issued by the Department for Work and Pensions. The assets allocations vary for different aged members due the lifestyle strategies outlined previously in this Statement.

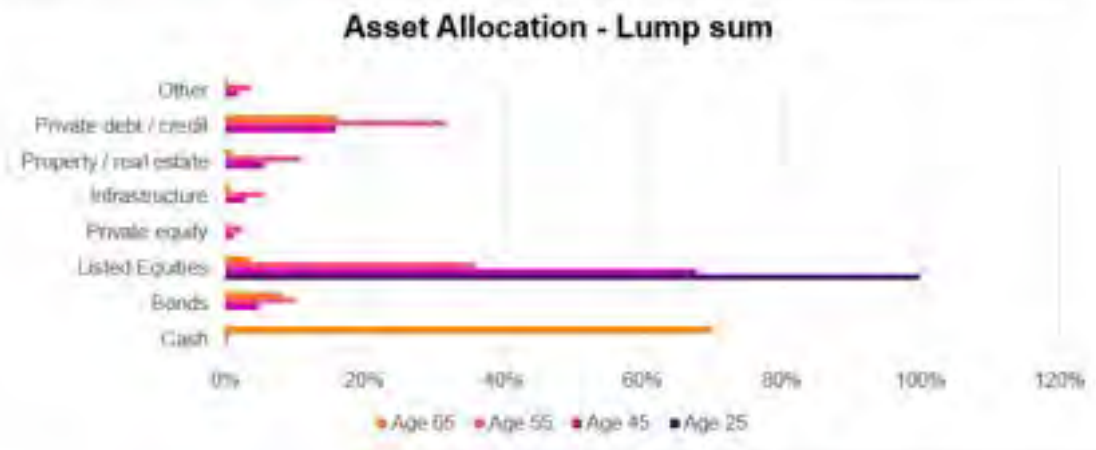
### Flexible Lifestyle

Asset class	Percentage allocation			
	25-year-old	45-year-old	55-year-old	65-year-old
Cash	0.0%	0.2%	0.4%	15.1%
Bonds	0.0%	4.9%	9.7%	22.5%
Listed equities	100.0%	57.9%	35.8%	10.7%
Private equity	0.0%	1.2%	2.4%	0.7%
Infrastructure	0.0%	2.8%	5.5%	1.7%
Property / real estate	0.0%	5.5%	11.0%	3.3%
Private debt / credit	0.0%	15.9%	31.7%	44.9%
Other	0.0%	1.8%	3.5%	1.1%



Lump-sum Lifestyle

Asset class	Percentage allocation			
	25-year-old	45-year-old	55-year-old	65-year-old
Cash	0.0%	0.2%	0.4%	70.0%
Bonds	0.0%	4.9%	9.7%	8.1%
Listed equities	100.0%	67.9%	35.8%	3.6%
Private equity	0.0%	1.2%	2.4%	0.2%
Infrastructure	0.0%	2.8%	5.5%	0.6%
Property / real estate	0.0%	5.5%	11.0%	1.1%
Private debt / credit	0.0%	15.9%	31.7%	16.1%
Other	0.0%	1.8%	3.5%	0.3%

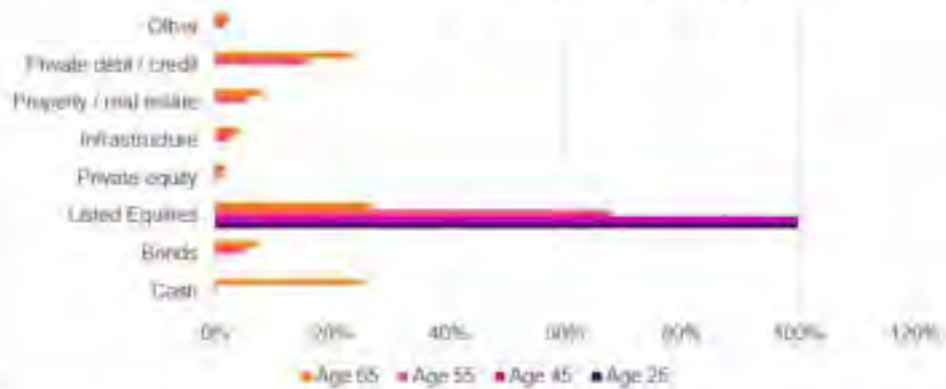


# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

## Drawdown Lifestyle

Asset class	Percentage allocation			
	25-year-old	45-year-old	55-year-old	65-year-old
Cash	0.0%	0.0%	0.2%	25.3%
Bonds	0.0%	0.0%	4.9%	7.3%
Listed equities	100.0%	100.0%	67.9%	26.9%
Private equity	0.0%	0.0%	1.2%	1.8%
Infrastructure	0.0%	0.0%	2.8%	4.1%
Property / real estate	0.0%	0.0%	5.5%	8.3%
Private debt / credit	0.0%	0.0%	15.9%	23.8%
Other	0.0%	0.0%	1.8%	2.6%

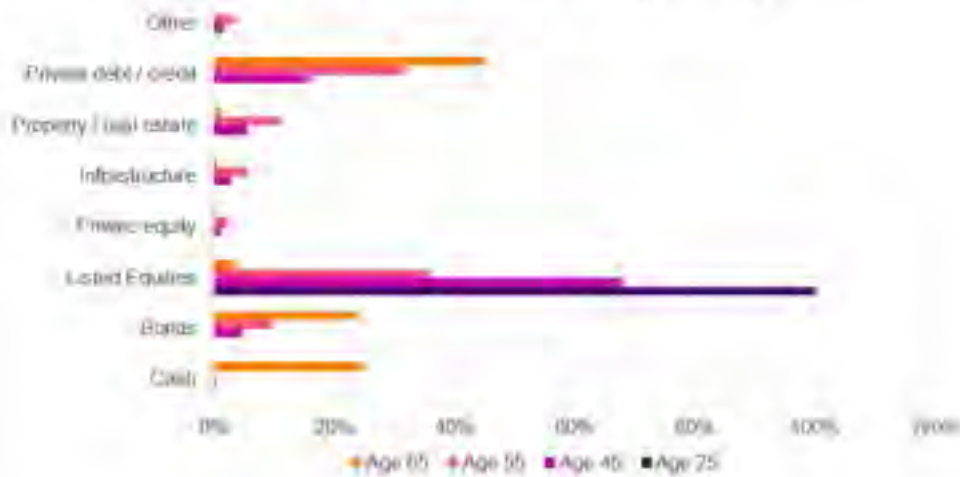
## Asset Allocation - Drawdown Lifestyle



## Annuity Lifestyle

Asset class	Percentage allocation			
	25-year-old	45-year-old	55-year-old	65-year-old
Cash	0.0%	0.2%	0.4%	25.0%
Bonds	0.0%	4.9%	9.7%	24.1%
Listed equities	100.0%	67.9%	35.8%	3.6%
Private equity	0.0%	1.2%	2.4%	0.2%
Infrastructure	0.0%	2.8%	5.5%	0.6%
Property / real estate	0.0%	5.5%	11.0%	1.1%
Private debt / credit	0.0%	15.9%	31.7%	45.0%
Other	0.0%	1.8%	3.5%	0.3%

## Asset Allocation - Annuity Lifestyle



### Legacy AVC arrangements

Most unit-linked AVC assets in the Scheme are invested in a separate Fidelity arrangement which mirrors the funds, terms and conditions of the Scheme's DC Section. However, there are also members who have assets invested in legacy AVC arrangements within the Scheme. These are held with Clerical Medical (unit-linked and with profits), Standard Life (with profits only) and Chelsea Building Society (unit-linked). The Trustee and its advisors have used best endeavours to obtain net investment return information for this Chair's Governance Statement but has not yet received the data from the providers (other than Fidelity).

### Processing of core financial transactions

Scheme administration for the DC Section, including the processing of financial transactions, is undertaken by the Plan Administrator, Fidelity. Processes adopted by the Plan Administrator to help meet the agreed service levels for processing financial transactions include:

- Full integration between their administration platform and dealing system.
- Electronic checking of financial transactions.
- Straight through processing for the majority of administrative functions.
- "Second set of eyes" checking for manual tasks.

The Trustee has received assurance from the Plan Administrator that core financial transactions have been processed promptly and accurately during the Scheme Year by requiring the Plan Administrator to comply with a service level agreement ("SLA"). Agreed SLAs cover the accuracy and timeliness of all core financial transactions and the Trustee receives quarterly management reports from Fidelity outlining performance against these service standards. In summary, each member case is assigned a service level target for completion of responses to members. The following timescales have been agreed with Fidelity for completion of work items.

Work item	SLA - days
Processing contributions	2 days
New accounts	5 days
Non vested leavers	10 days
Retirement cases - All	5 days
Transfers - In and out	5 days
Vested leavers	5 days
Special Communications	30 days



# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

The Trustee regularly monitors the Scheme's core financial transactions against the agreed SLAs. These core financial transactions include the investment of contributions, transfers of assets into and out of the Scheme, fund switches and payments out of the Scheme in respect of members/beneficiaries.

The Trustee, having considered the reports received from the Plan Administrator on a quarterly basis throughout the year, has concluded that there have been no material administration errors in relation to processing core financial transactions (including investment of contributions, transfers in/out, investment switches and payments in and out of the Scheme) and that they have been processed promptly and accurately during the Scheme Year. Assurance has been obtained from the Plan Administrator that adequate internal controls are in place. The Society undertakes a programme of risk-based internal audits which includes the Scheme in their remit and the Trustee works closely with the Society to implement any recommendations for change. As such, the Trustee is satisfied that the Scheme's "core financial transactions" have been processed promptly and accurately during the Scheme year.

## Charges and transaction costs

The Trustee has agreed that the charges year for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 shall be the same as the Scheme Year. Charges are negotiated by the Trustee with advice from the Investment Adviser.

Within the Scheme, members pay annual management charges plus any additional fund expenses. This is known as the total expense ratio ("TER"). These charges include administration and investment costs which are met by the members.

The current annual investment charges for the DC Section funds available for selection by members during the year to 31 December 2023 are set out below:

Fund name	TER	2023 Transaction Costs
International Equity Investment Fund*	0.35%	0.00%
Diversified Investment Fund*	0.42%	0.00%
Pre-retirement Fund*	0.35%	0.00%
Cash Fund*	0.35%	0.02%
Emerging Markets Fund	0.35%	0.00%
Shariah Equity Fund	0.53%	0.00%
Over 5 Year Index-Linked Gilts Fund	0.32%	0.05%

Source: Fidelity

\* The default lifestyle invests in these four funds. These funds are also default arrangements in their own right.

The TER provides investors with details of the total annual costs involved in running an investment fund. This includes the annual management charge, plus other charges incurred in administering the fund (these include share registration fees, legal fees, auditor, custodian fees etc.). Transaction costs are not included as they are not explicit costs and so these are shown in a separate column.

Transaction costs and gains are those incurred by fund managers as a result of buying, selling, lending or borrowing) and the underlying transaction costs are reflected in the unit price of each fund. This information has been provided by Fidelity on a basis prescribed by the Financial Conduct Authority and are set out in the table above. Sometimes, due to the calculation methodology, transaction costs can be negative. Where this is the case, zero has been used. The Trustee has obtained all transaction cost information for the main DC fund range from Fidelity.

The default lifestyle strategies automatically switch the funds where members are invested as they approach their target (or the default) retirement age, meaning the level of charges and transaction costs will vary depending on how close members are to this age. The TER applied to the default arrangement, the Scheme's current default lifestyle strategy, ranged from 0.35% to 0.42% per annum depending on how far a member is from retirement.

The TER applied to all other funds offered by Fidelity (including non-default arrangements) used by Scheme members ranged from 0.32% to 0.53% per annum. This is shown in more detail here: [www.fidelitypensions.co.uk/costs-charges/YORK](http://www.fidelitypensions.co.uk/costs-charges/YORK)

## Legacy AVC arrangements

The Trustee and its advisors have used best endeavors to obtain transaction costs information for the legacy AVC policies for this Chair's Governance Statement. The charges and transactions costs, where available, are provided in the tables below.

## Unit linked funds

Fund	Total annual charge (% pa)	Transaction cost (% pa)
Clerical Medical Halifax Fund	0.500%	Not available
Standard Life Managed Pension Fund	0.675%	0.153%

## With Profits Funds

Fund	Total annual charge (% pa)	Transaction cost (% pa)
Clerical Medical With Profits Fund	implicit in bonuses provided	Not available
Standard Life With Profits Fund	1.00%*	0.08%
Standard Life Millennium With Profits Fund	1.00%*	0.04%

\*Deducted from bonuses before they are paid so an implicit charge. This is the nominal declared charge.

The Trustee also holds a Deposit Account policy with Chelsea Building Society. We have not been able to obtain any of the details around the annual costs and charges other than there are no explicit charges paid by members. The interest rates paid to members annually will be paid after any implicit costs and charges have been deducted.

## Illustration of charges and transaction costs

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The Department for Work and Pensions has introduced legislation on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes" to members of trust-based pension schemes that provide money purchase benefits. The Trustee has included a DC Costs and Charges Illustration in **Appendix A**, which sets out the cumulative effect over time of the charges and transaction costs on the value of a range of realistic and broadly representative funds (within the default arrangement), fund sizes and contribution rates. As each member has a different amount of savings 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 several assumptions about what these might be.

The link below includes cost and charges information for the full range of available funds within the Scheme's DC section. These illustrations have taken account of the statutory guidance on disclosure charges and are updated quarterly by Fidelity: [www.fidelityinvestments.co.uk/costs-charges/YORK](http://www.fidelityinvestments.co.uk/costs-charges/YORK).

## Assessment of Value for Members ("VFM")

The Trustee is committed to ensuring that members receive value for their Scheme membership (i.e. the costs and charges deducted from members' funds and contributions paid provide good value in relation to the benefits and services provided by or on behalf of the Scheme, when compared to the market as evidenced by the findings of the annual VFM report).

In line with the requirements of the Pensions Regulator's DC Code of Practice, this assessment considers the extent to which services paid for by members offer good value relative to those costs. It also considers more generally the range and quality of services and benefits associated with Scheme membership, including those benefits provided by the Society. The Trustee notes that it is difficult to give a precise legal definition of 'good value'.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

The Trustee has undertaken a VFM assessment in May 2024, with support from the Investment Adviser. The assessment looked at three core 'pillars' including:

1. Investment returns - 50% weighting
2. Services - 30% weighting, and
3. Cost and charges - 20% weighting.

When assessing each of the three areas, we considered:

**Investment returns** – When assessing the default fund we consider the performance compared to 'off-the-shelf' default investment strategies used by master trust providers. We have split this into three key periods in the approach to retirement for members:

- Growth phase (35 years or more before retirement)
- Decumulation phase (10 years before retirement)
- Retirement phase (From retirement date)

**Services**– We have identified 77 key features to assess the Scheme against. In order to make the process align with the Scheme's position and priorities. Each key feature has been allocated a rating based on the following weighting system: Fundamental (3 points), Beneficial (2 points) and Helpful (1 point). Based on the percentage of key features demonstrated and their respective weightings, a weighted average is calculated for Services.

**Costs and charges** - The benchmarking focuses on comparing the Scheme against other WTW own trust-based clients and covers the charges of the growth fund used within the main default strategy. A percentage score is then applied.

An overall rating is then applied based of the aggregated weighted scores across these three areas. The weight score is then assessed as follows:

	<b>Investment returns</b>	<b>Services</b>	<b>Costs and charges</b>
Poor value	Poorly performing investments	Limited and/or poorly performing services	Better than market average costs and charges
Fair value	Broadly meeting investment benchmarks	Moderate level of services in line with the market	Broadly market average costs and charges
Good value	Meeting/exceeding investment benchmarks	Comprehensive and well performing services	Above market average costs and charges

It should be noted that when assessing value, this does not necessarily mean the lowest cost or fee. The Trustee considers the overall quality of the services members receive and considers whether the cost of this provides value for money

The Trustee has concluded that overall, the Scheme provides '**fair value**', i.e. the value provided is in line with the value offered by many other pension schemes in the market. The Trustee is now working through the suggestions to further improve member value. The assessment is shown in more detail below:

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

Area	Rating	
Net investment returns	Fair	<p><b>Investment performance</b> – The investments returns were assessed as the follow:</p> <ul style="list-style-type: none"> <li>• Growth phase (over 35 years from retirement): 'Higher range'</li> <li>• 10 years to retirement: 'Lower range'</li> <li>• At retirement: 'Lower range'</li> <li>• Select-select funds: medium range</li> </ul> <p><b>Net investment returns: overall assessment</b> – Looking holistically at the performance of pillar one, the overall view is that the investment returns fall in the medium range. The majority of the membership are in the growth phase of the default strategy, and will spend the most time in this phase, so the results of the growth phase are more heavily weighted than the returns provided close to retirement.</p>
Services	Good	<p><b>Services: overall assessment</b> - The Scheme is currently assessed as demonstrating 67 out of a possible 77 relevant key features, with a weighted average of 88%. This includes demonstrating 94% of the key areas of governance, administration and member services.</p>
Costs and charges	Good	<p><b>Total Expense Ratios</b> – The costs and charges for the Scheme's default growth phase DC fund are 0.35% and assessed as "fair value" when compared to other bundled schemes.</p> <p><b>Transaction costs</b> – Based on the analysis, the Scheme's transaction costs over the reporting period are largely in line with or lower than the market averages within each sector. The transaction costs have not been considered in providing an overall value rating for the Scheme as transaction costs make up a relatively small proportion of the overall costs.</p> <p><b>Costs and charges: overall assessment</b> – Considering the assessment of the total expense ratio of the default fund, the Scheme was assessed as in the mid-range.</p>

The Trustee will continue to work its advisers to ensure that the Scheme continues to provide value and stays abreast of market developments where appropriate.

## Trustee Knowledge and Understanding ("TKU")

The Scheme's Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each Trustee Director must have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as Trustee Director, knowledge and understanding of the law relating to pensions and trusts and the principles relating to the investment of the assets of occupational pension schemes. Each Trustee Director is also required to be conversant with the Trust Deed and Rules of the Scheme, the Scheme's SIP and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally.

The Trustee Board has a broad range of skills and experience in both financial services and in the management of pension schemes. The Trustee has a succession plan in place for Trustee Directors, which considers the need to maintain a wide range of experience and skills on the Board as well as the need to consider diversity in any decision to appoint a new Trustee.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

The Trustee has an established TKU process in place, which, together with the advice available to the Trustee from the Scheme's actuaries, investment advisers, lawyers, and auditors, enables the Trustee Directors to properly exercise their functions as Trustee Directors of the Scheme. The Trustee's approach to meeting the TKU requirements includes (but is not limited to):

- Agreeing training that needs to be undertaken, which is delivered at Trustee meetings, or Sub Committee meetings, where appropriate. Specific Trustee Training events may also be organized by our advisers.
- Assessing legislation and general updates / current pension issues at Trustee meetings.
- Periodically, reviewing the training needs of the Trustee, with the latest assessment undertaken in January 2024.
- Carrying out a Trustee effectiveness survey with the latest results discussed at the meeting in January 2024.
- For new Trustee Directors, completion of an induction programme, which includes completing tPR's online trustee toolkit within six months of their appointment.
- Attend conferences, seminars and other trustee training events organised by the advisors, investment managers and the professional pensions bodies.

Relevant training undertaken by Trustee Directors is recorded in the Trustee Training Log. This Log is reviewed and updated regularly by all Trustee Directors.

Specific training undertaken during the period included (but was not limited to):

- DB Funding Code of Practice
- Covenant Assessment
- Buyout market update
- LDI liability proxy training
- DC investment strategy training
- PMI award in Pension Trusteeship
- Delivery pensions in a digital world
- Pensions Dashboard
- Task Force on Climate Related Disclosures (TCFD) requirements
- Cyber security

For the period covered by this Statement, the TKU requirements were met through a combination of the above and the Trustee is therefore compliant with tPR's DC Codes of Practice 7 and 13. The Trustee is satisfied that it has met the relevant legislative requirements enabling the Board to properly exercise its duties.

Trustee Directors undertook an aggregate of 210 hours of training during the period covered by this Statement. All training is documented in the Trustee's training log.

The Trustee Directors have also taken advice from specialist pensions, investment, and actuarial advisers (WTW), legal advisers (DLA Piper) and communications advisers (Gallagher), to help them to achieve their objectives and requirements and have used their knowledge and understanding to challenge that advice where appropriate. Adviser appointments are reviewed periodically by the Trustee.

The Trustee Directors are satisfied that their combined knowledge and understanding, coupled with advice from specialist pensions, legal and communications advisers, has enabled them to carry out their functions as trustees of the Scheme properly, and to achieve their goals effectively for the year.

The Scheme has in place a conflicts of interest policy. Trustee Directors record potential conflicts of interest at each Trustee meeting and take appropriate steps to manage these.

## Defined Benefit Section

The DB section is closed to new employees and closed to all future benefit accrual with effect from 1 January 2016; however, those who were active members of the Scheme when the Scheme closed retained a 'final salary link' in respect of their final salary benefits.

The Trustee has established governance processes within the DB section of the Scheme across six key areas:

- Risk management;
- Funding and investment;
- Sponsor's (YBS Group) covenant;
- Administration and data processing;
- Member communications; and
- Conflicts, relationships and responsibilities.

The Trustee places good governance and oversight at the core of the DB section's management:

- The Trustee monitors the governance of the DB section of the Scheme at quarterly Governance and Operational Risk Committee meetings and is committed to achieving and retaining the high standards which members would expect.
- The Trustee regularly monitors the key risks at Trustee meetings, taking into consideration tPR's guidance on Integrated Risk Management. Reports are produced and any action required is discussed and noted at subsequent meetings. A formal review of the Integrated Risk Management Report is undertaken on an annual basis to ensure that the key risks and the risk mitigation plan reflect evolving requirements.

The Trustee has been reviewing its governance processes and procedures in light of the legislative and regulatory changes that form part of the Pensions Regulator's General Code of Practice. As part of this review the Trustee has considered the impact of any new policies and the changes needed to existing policies with its advisers and has begun implementing the necessary procedural changes.

There has been an increased focus and training around improving standards of trusteeship following tPR's developments in this area.

- Administration – the Trustee continues to work with its third-party administrators on developing administrative practices, member services and improving member data. Current and recent initiatives include:

- An annual member existence and tracing exercise.

- The GMP rectification exercise has been completed.

- Ongoing monitoring and refinement of current processes for efficient processing of DB transfer requests and improved communications for members considering a transfer. This follows "A Guide to Good Practice" published by the Pensions Administration Standards Association (PASA).

- launch of a secure online service which enables members to request quotes online and access their scheme documents in a secure portal.

- Following a high court judgment, the "Lloyds Bank case" a further review of member GMP benefits is ongoing to ensure that GMPs are 'equalised' for male and female members. At the moment, the Trustee does not know how (if at all) member benefits will be affected but members should be aware that completion of this exercise, which will extend into 2024 and beyond, may not lead to a change in benefits payable. The Scheme started to provide equalised transfer value quotations at the beginning of 2021.
- Preparation for the new requirements from the Pensions Regulator and as a result of the Pensions Act 2021, including work to define the long-term funding and investment plans for the Scheme.

As described above on page 2, the Trustee has continued to monitor Global events such as the war in Ukraine and the Gilts crisis that followed the September 2022 "mini-budget" in the UK and the Covid 19 pandemic, including the impact on investment strategy and strength of covenant. As part of this process, the Trustee has considered the impact of stressed scenarios on the Scheme's assets and extreme risks to the strategy.

The Trustee works closely with its advisers to understand how ESG factors influence the decisions that it makes. In 2021 the Trustee carried out analysis to understand potential impacts of climate change on the Scheme, and will continue to monitor this area as part of its management of the Scheme's risks. This work continued as the Trustee considers the Scheme's obligations in respect of Task Force on Climate Related Financial Disclosures ("TCFD") requirements (a project for which they initially established a Working Party but is now monitored by the Investment Sub-committee). The Scheme published its first TCFD report in July 2023 and an updated report is now available to view at the link below.

[https://www.ybspensionsscheme.co.uk/documents/YBS\\_TCFD\\_Report\\_31Dec2023.pdf](https://www.ybspensionsscheme.co.uk/documents/YBS_TCFD_Report_31Dec2023.pdf)

In November 2018, the Trustee entered into an arrangement with Pension Insurance Corporation whereby a portion of the benefits for current pensioners are covered by an insurance contract (known as a "buy-in"). This exercise helped the Trustee increase the security of members' benefits, whilst also helping manage the risks within the Scheme. Under the buy-in contract, the responsibility for the pension benefits remains with the Scheme.

Following the completion of the 2019 triennial actuarial valuation, the Trustee progressed with a review of the Scheme's DB investments, with the support of its investment adviser, in order to more closely match the Scheme's liabilities and assets, and to protect the improvements in the Scheme's funding position. The Trustee considered the appropriateness of carrying out a further buy-in during the review period and concluded that this was not the right time to do so. This will be considered again as the Scheme matures.

The Trustee remains comfortable with the investment strategy and maintaining a lower level of investment risk, and took some strategic actions in 2022 to manage the risks to the Scheme's investments from rising interest rates. The Trustee continues to review the strategy on an ongoing basis. Alongside this, the Trustee also regularly monitors the performance of the funds in which the Scheme is invested, with support from the Investment Adviser, and meets the Scheme's investment managers on an annual basis as part of ongoing due diligence.

The Scheme's most recent actuarial valuation was carried out with an effective date of 31 December 2022, and revealed that there was a surplus of assets of £12.1 million.

#### **DB Member Additional Voluntary Contributions ("AVCs")**

As set out above, most unit-linked AVC assets of the Scheme are invested in a separate Fidelity arrangement which mirrors the funds, terms and conditions of the Scheme's DC Section. The Scheme also has a small amount of AVC assets with several legacy providers. Further details can be found as set out above in the DC Section of this report.

The Trustee has concluded that the Fidelity AVC arrangements represent fair value for members, particularly given the lower charges available from Fidelity and the ability to use AVCs as the first port of call for the Pension Commencement Lump Sum.

**Signed by the Chair on behalf of the Trustee of the Yorkshire Building Society Pension Scheme**

*Inder Dhingra*

**Inder Dhingra**

Date:

## Appendix A

### DC Cost and Charges Illustration

The following tables give a summary of the projected fund and the impact of costs and charges up to a normal retirement age of 65. The figures are presented using one member example – the youngest member. Additionally, the tables include the performance of the funds over different time periods depending on the age of the member.

Projected fund values are rounded to the nearest hundred. The illustrations are based on data to 31 December 2023. Prepared by WTW.

Example Member	Projection period (years)	Flexible Lifestyle		Conservative Investment	
		Before charges	After charges	Before charges	After charges
Strawman A (age 30)	1	£2,400	£2,400	£2,400	£2,400
	3	£7,500	£7,400	£7,500	£7,400
	5	£12,800	£12,700	£12,800	£12,700
	10	£27,200	£26,700	£27,200	£26,700
	15	£43,600	£42,400	£43,600	£42,400
	20	£62,200	£59,800	£62,200	£59,800
	25	£80,900	£77,000	£80,900	£77,000
	30	£96,800	£91,000	£96,800	£91,000
	35	£111,400	£103,400	£111,400	£103,400
	45	£128,900	£118,200	£129,700	£118,900
45	£149,700	£135,800	£143,200	£130,000	

Example Member	Projection period (years)	International Equity Investment Fund		Diversified Investment Fund	
		Before charges	After charges	Before charges	After charges
Strawman A (age 30)	1	£2,400	£2,400	£2,400	£2,400
	3	£7,500	£7,400	£7,300	£7,200
	5	£12,800	£12,700	£12,200	£12,000
	10	£27,200	£26,700	£24,600	£24,100
	15	£43,600	£42,400	£37,400	£36,200
	20	£62,200	£59,800	£50,500	£48,400
	25	£83,100	£79,200	£63,900	£60,600
	30	£106,900	£100,700	£77,700	£72,900
	35	£133,800	£124,700	£91,800	£85,200
	40	£164,300	£151,400	£106,200	£97,600
45	£198,700	£181,000	£121,100	£110,000	



# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

Example Member	Projection period (years)	Cash Fund		Cash Fund	
		Before charges	After charges	Before charges	After charges
Strawman A (age 20)	1	£2,400	£2,400	£2,400	£2,400
	5	£7,500	£7,400	£7,000	£7,000
	10	£12,800	£12,700	£11,600	£11,500
	15	£27,200	£26,700	£22,300	£21,900
	20	£43,600	£42,400	£32,300	£31,400
	25	£62,100	£59,800	£41,500	£40,100
	30	£83,000	£79,200	£50,100	£47,900
	35	£106,700	£100,700	£58,100	£55,100
	40	£133,500	£124,700	£65,400	£61,700
	45	£163,900	£151,400	£72,300	£67,600

Example Member	Projection period (years)	Share & Equity Fund		Cash Fund	
		Before charges	After charges	Before charges	After charges
Strawman A (age 20)	1	£2,400	£2,400	£2,500	£2,400
	5	£7,500	£7,400	£7,700	£7,700
	10	£12,800	£12,600	£13,400	£13,300
	15	£27,200	£26,500	£30,200	£29,700
	20	£43,600	£41,800	£51,200	£49,700
	25	£62,100	£58,700	£77,300	£74,300
	30	£83,100	£77,300	£110,000	£104,500
	35	£106,900	£97,900	£150,700	£141,600
	40	£133,700	£120,500	£201,600	£187,100
	45	£164,100	£145,400	£265,200	£242,900

## Assumptions and notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of inflation.
2. Contributions are paid halfway through the year.
3. Investment returns and costs/charges as a percentage reduction per annum are assumed to be deducted at the end of the year.
4. Charges and costs are deducted before applying investment returns.
5. Switching costs are not considered in the lifestyle strategy.
6. Inflation is assumed to be 2.5% each year.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

- Contributions are assumed to be paid from age 20 to 65 for the youngest member, contributions increase in line with assumed earnings inflation of 0% per year (in real terms).
- Values shown are estimates and are not guaranteed.
- The real projected growth rates for each fund are as follows:

Fund	Real projected growth rate (p.a.)
Lifestyle Strategy A	From 2.513% to 0.500% (adjusted depending on term to retirement)
Lifestyle Strategy B	From 2.513% to -0.533% (adjusted depending on term to retirement)
International Equity Investment Fund	2.513%
Diversified Investment Fund	0.500%
Pre-retirement Fund	2.503%
Cash Fund	-1.480%
Shariah Equity Fund	2.510%
Over 5 Year Index Linked Gilt Fund	4.540%

- Transaction costs and other charges have been provided by Fidelity and covered the period Q1 2021 to Q4 2023. The transaction costs have been averaged by WTW using a time-based approach. The transaction costs for blended funds were estimated by WTW based on the transaction costs for the underlying funds.
- Pension scheme's normal retirement age is 65.
- Example member:
  - Youngest: age 20, total initial contribution: £2,400 per annum, starting fund value: £0.

Yorkshire Building Society  
Pension Scheme

## **Implementation Statement**

**For year ending 31  
December 2023**

May 2024

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## Section 1: Introduction

This document is the Annual Implementation Statement (the "Statement") prepared by the Trustee of the Yorkshire Building Society Pension Scheme (the "Scheme") covering the "Scheme Year" from 1 January 2023 to 31 December 2023 in relation to the Statement of Investment Principles ("SIP").

The purpose of this statement is to:

- set out the extent to which, in the opinion of the Trustee, the Scheme's Statement of Investment Principles ("SIP") required under section 35 of the Pensions Act 1995 has been followed during the year
- detail any reviews of the SIP the Trustee has undertaken, and any changes made to the SIP over the Scheme year as a result of the review
- describe the voting behaviour by, or on behalf of, the Trustee over the year.

A copy of this implementation statement is made available on the following website:  
<https://www.ybspensionscheme.co.uk/>

## Section 2: SIP reviews/changes over the year

The SIP was reviewed and updated once during the Scheme Year which was drafted and issued in December 2023. Material changes to the SIP included:

- Updated to the investment strategy of DB section to reflect the incorporation of synthetic equities as a return seeking asset and an updated return target for the section.;
- New wording to the DC Investment strategy capturing the lifestyle strategies available for the members.
- Addition of the option of incorporating illiquid investments in DC lifestyle strategies which the trustees will monitor further based on risk and return profile of the new proposed investment.
- Other minor wording and formatting changes.

**The December 2023 SIP is the version referenced in the following Sections of this document, where we set out how the principles have been implemented. Where new Trustee policies have been added to the SIP that was in place at the start of the Scheme year, we have referenced how these have been implemented from the period of adoption to the end of the Scheme year.**

## Section 3: Adherence to the SIP

In this section, we comment on each of these sections and how the Trustee has implemented the principles within each one.

### DB Investment Policy Objectives

The Statement of Investment Principles sets out the principal responsibilities and investment policy objectives of the Trustee for the DB section of the Scheme. The Trustee is satisfied that the objectives, as set out in this section of the SIP, have been followed during the Scheme year. During the year the Trustee reviewed the DB investment strategy in light of the increased liquidity requirements following the gilts crisis in 2022. A reduction in the allocation to illiquid assets was implemented, whilst the use of synthetic equities has enabled the Scheme to maintain return targets in a more liquid manner. The strategy agreed is viewed as an interim strategy ahead of a full investment strategy review in 2024 post triennial valuation.

### DC Investment Policy Objectives

With regard to the DC section, the Trustee is satisfied as of the date of this statement:

- a) a range of lifestyle options (including a default lifestyle option) and self-select funds across different asset classes are available for members to invest in, enabling them to mitigate a range of risks, and to meet different pension objectives
- b) the Trustee last reviewed a Value For Money (VFM) assessment in May 2023 as provided by WTW. As part of the assessment, WTW reviewed whether the charges, Scheme governance and management, Investment services, Admin services and Communications services were being provided at fair value to DC members. Following the review, the Trustee deemed that there was no action required and the next VFM assessment is due to be reviewed in Q2 2024.

The Trustee reviewed its DC investment strategy during 2023 and have agreed to make some changes to the investment strategy, as outlined below. These changes are expected to be implemented during the summer of 2024.

- To switch 50% of the allocation to the YBS Pre-Retirement Fund, within the Flexible and Lump Sum Lifecycle strategies, to a new fund – the YBS Short Dated Corporate Bond Fund – in order to better manage risk for members as they progress towards their retirement date
- To switch the assets in the Over 5 Year Index Linked Gilt Fund to the LGIM Inflation-Linked Annuity Aware Fund, so as to provide a better match for members intending to purchase an inflation-linked annuity at retirement

### Other investment policies

The Trustees take the considerations below into account when selecting and monitoring the performance of investment managers.

Policy area	Approach and actions taken over the Scheme Year
Section 13 – DB section	The Trustee reviews the expected return on the Scheme's assets in conjunction with reviewing its long-term objectives for the Scheme as part of regular IRM reporting at each Investment Sub-committee
The expected return of an investment will be	

May 2024

**monitored regularly and will be directly related to the Scheme's investment objective**

and Trustee meeting. The Trustees have agreed to update the IRM reporting metrics for both DB and DC through 2024 post DB triennial valuation. For the DB section these changes will reflect the lower-risk nature of the Scheme's portfolio following significant de-risking undertaken in recent years and significant progress towards the investment objective.

**Section 15 - DB section**

**There will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances**

The Trustee undertakes several measures to ensure there is sufficient liquidity within the Scheme's assets. Firstly, the Trustee holds liquidity within the Trustee bank account to manage day-to-day ongoing cashflow requirements. Secondly, the Trustee holds liquidity accounts managed by Insight which invest in short-term money market securities. The majority of the Scheme's investment managers also distribute income to the Scheme periodically and the Trustee review the cashflow position of the Scheme on an ongoing basis. Following the gilts crisis, the Trustee undertook a review of the investment strategy to ensure sufficient liquidity and this led to a disinvestment from illiquid assets and the use of synthetic equities in the portfolio.

**Section 26 – DC Section**

**Monitor the range of options regularly and at least every 3 years to ensure that the investment options are sufficiently diverse and consistent with the risk profile of DC members**

The Trustee reviews the DC investment strategy on a three-yearly basis or when considered necessary. The most recent review concluded in 2023, with changes (outlined earlier in this Statement) expected to be made in the summer of 2024. The review included consideration of the self-select fund options, and the Trustee is satisfied that these offer sufficiently diverse choice for members.

**Section 30 – DB and DC**

**Take advice from the investment consultant to ensure the investment strategy and selected investment managers are suitable for the Scheme and review the suitability of the funds offered from time to time. Undertake due diligence on investment managers prior to appointment and subject to any concerns about the investment manager or change to the fund structure**

The Trustee reviews the DB and DC investment strategies on a three-yearly basis or when considered necessary. The most recent review of the DC Section concluded in 2023 and included consideration of the suitability of funds and fund managers. The Trustee reviewed the strategy for the DB Section following the extreme market movements in interest rates that occurred during Q4 2022 and this resulted in the disinvestment of a portion of the holdings in the BlackRock SAIF (illiquid fund) and the use of synthetic equities in the portfolio.

**Section 31 – DB and DC**

**Set general investment policy, and delegate the**

The Trustee, upon advice from its investment consultant, sets the strategic asset allocation in line with the Scheme's overall objectives. As of the date of this statement, the Scheme's strategic asset allocation is 42.9% return-seeking assets and 57.1% liability-



**responsibility for selection of specific investments to appointed investment managers**

matching assets. This allocation will be reviewed as part of the 2024 strategy review post valuation. Selection of specific investments remains delegated to the Scheme's investment managers and the Trustee reviews the performance of the managers against appropriate benchmarks on a quarterly basis.

**Section 32 – DB and DC  
Maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme's long-term objectives, at an acceptable level of risk**

The Trustee, upon advice from its investment advisor, has set measurable objectives for each of the Scheme's funds to monitor performance against and reviews this performance on a quarterly basis.

To undertake additional monitoring of the Scheme's investments, the Trustee invites its managers to attend annual operational due diligence meetings. As part of these meetings the Trustee reviews any portfolio changes over the year or changes at the manager, as well as reviews performance and the manager's sustainability practices. The Trustee last met with managers in Q1 2024 and noted no particular concerns. The Trustee used these meetings to understand each manager's approach to climate risk and ESG and encourage further progress in this area. The Trustee also receives regular updates from the investment managers either directly or via its investment advisor and have noted no concerns or action at this time.

**Section 33 – DB and DC  
Review the policies of each of the investment managers from time to time**

The Trustee has not reviewed the investment policies of the Scheme's investment managers over the scheme year. However, the Trustee met with the Scheme's investment managers in Q1 2024 as part of the annual operational due diligence meetings, where no significant changes in the managers' policies were noted since the last review at the previous year's meetings.

**Section 35 – DB and DC  
Monitor both sections' investment performance and adherence to respective mandates and review the nature of the investments held periodically**

The Trustee reviews and discusses quarterly monitoring reports provided by the Scheme's investment advisor at each ISC and Trustee meetings. These reports cover both DB and DC sections of the Scheme and use information provided by the investment managers to provide detailed information on a range of qualitative and quantitative factors. As part of reviewing these reports, the Trustee considers whether the level of diversification within the Scheme's assets is sufficient to mitigate the risks faced by the Scheme and that the DC lifestyle and self-select options remain in line with the Scheme's objectives.

The Trustee has also appointed an independent performance measurer who collates and calculates performance for the DB section of the Scheme. This was previously provided by the Scheme's pensions team. The Trustee considers this performance data as part of its review process.

**Section 36 – DC  
Review the extent to which the return on investments relating to the default arrangement**

Please see Section 35.

In 2022 the Trustee reviewed the performance of the default and alternative lifestyle options through a "strategy monitoring report"

**Is consistent with the aims and objectives of the Trustee in respect of the default arrangement**

provided by the investment adviser. This report considered the expected outcomes for members and how these are impacted by actual performance and future expected returns. The Trustee will review this again in 2024 following the implementation of the investment strategy changes.

#### **Section 37 – DB and DC**

**Appoint investment managers with an expectation of a long-term partnership, in order to encourage active ownership of the Scheme's assets.**

When reviewing the performance of the Scheme's investment managers on a quarterly basis, the Trustee reviews performance over 3 and 5 years as well as on a shorter-term basis to ensure it focuses on long-term outcomes. The Trustee also considers the active ownership of the Scheme's assets by reviewing its investment managers as part of annual due diligence meetings and the Scheme's annual Sustainable Investment review.

During the Scheme year the Trustee has noted no factors or concerns that would warrant the termination of any of the Scheme's investment managers but has reduced the holdings in the BlackRock SAIF in order to increase portfolio liquidity.

#### **Section 38 – DB and DC**

**Ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with the Trustee's policies**

The Trustee as part of its quarterly monitoring considers and reviews each of the investment objectives of the Scheme's DB and DC fund ranges to ensure that the funds are performing in line with their stated objectives. The Trustee has set guidelines for its segregated mandates, after taking advice from its investment consultant, that these guidelines are appropriate for the policies and objectives of the Scheme.

**Set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee's policies, where relevant to the mandate**

#### **Section 39 – DB and DC**

**Maintain alignment by providing managers with the most recent version of the Scheme's Statement of Investment Principles on a regular basis and confirm with the managers that the management of the assets are consistent with those policies relevant to the mandate in question**

During 2024 the Trustee shared the Scheme's SIP with the investment managers who confirmed that they manage the Scheme's assets in line with the investment guidelines. The majority confirmed that they believe these guidelines to be consistent with the Scheme's SIP. In some instances the managers were not able to confirm compliance with the SIP but overall, following advice from the investment advisor, the Trustee noted no concerns.

**Confirm with managers whether they believe**

there is any misalignment between the objectives and guidelines of the fund(s) they manage on behalf of the Scheme, or the manager's approach to sustainable investment, and the Trustee's policies

## Section 40 – DB and DC

Engage with the investment manager to ascertain the reasons if, for pooled funds, a fund's objectives and guidelines, or an investment manager's approach to sustainable investment, do not appear to be sufficiently aligned with the Trustee's policies, and determine whether closer alignment can be achieved

Include specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities as part of this monitoring process

Terminate and replace a manager if, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory.

Alongside reviewing performance reporting on the Scheme's investments the Trustee also receives a Sustainable Investment report from its investment advisor on an annual basis (with the last review being undertaken in October 2023). This report assists the Trustee in reviewing its investment managers' sustainable investment practices, reporting and engagement levels to understand whether the manager and strategy's approach to sustainability is aligned with the Trustee's policy.

Over the scheme year, the Trustee did not find any circumstances of misalignment to warrant further engagement with any of the Scheme's investment managers.

## Section 42 – DB and DC

**Review the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover**

The Trustee undertakes regular reviews of the costs of managing the Scheme's assets including the costs incurred with Fidelity (the DC scheme provider) and WTW (investment advisors). During the scheme year, the Trustee has reviewed investment manager fees incurred including transaction costs and noted no concerns. The Trustee also reviewed the DB Section's investment manager fees relative to comparable mandates. The Trustee has also reviewed portfolio turnover levels and noted no concerns. The Trustee also reviewed the overall costs of the DC Section's default strategies and, with the support of WTW, produces an annual value for money assessment as part of the Scheme's Chairs statement. The Trustee noted no concerns, and no action was deemed necessary from the review.

## Section 48 – DB and DC

**Take into account ESG factors, including climate change, when reviewing current and new investment opportunities**

The Trustee reviewed how ESG factors are incorporated into the Scheme's current investments through the annual Sustainable Investment review in October 2023. No action was deemed necessary as a result of the review.

In the DB Section the Trustee did not consider any new investment opportunities during the scheme year.

In the DC Section the Trustee reviewed the international equity fund and considered ESG factors and climate change as part of this process including how to integrate this further. Following the review the Trustee agreed not to make any changes to the current fund structure.

## Section 50 – DB and DC

**Delegate the responsibility to take ESG principles into account to its investment managers, and periodically review these policies through reporting or direct engagement with investment managers as appropriate**

The Trustee recognises that there is a variety of Environmental, Social and Governance (ESG) risks and to understand these risks further, undertook a Sustainable Investment review in October 2023.

As part of this, the Trustee reviewed information on its managers' approaches to sustainability integration, as well as voting and engagement activities where appropriate. The Trustee also ensures that it remains up to date with any regulatory requirements regarding sustainability as part of these reviews and more frequently if required. The Trustee do not undertake feedback of member views on sustainability over the scheme Year as they do not believe it is appropriate or practical for the Scheme at this time.

No specific action was deemed necessary as a result of the Trustee's review.

## Section 52 – DB and DC

**Delegate the exercise of voting rights to the investment managers**

The Trustee receives and reviews information on its investment managers' voting activity and the ESG impact of its investments, and this is carried out annually as part of writing the Trustee's implementation statement, and the annual Sustainable Investment review provided by its investment consultant. More detail on this can be found in section 4 of this statement.

**Encourage managers to vote in line with their guidelines in respect of all resolutions**

Overall, where applicable, the Trustee is comfortable with the managers' voting behaviour over the scheme Year and took no action as result of the information provided.

**Expect managers to report regularly on votes cast and other relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings**

## Section 53 – DB and DC

**Expect the investment managers to invest with a medium to long time horizon and use voting activity to drive improvements in performance**

As part of the Scheme's annual Sustainable Investment Review, the Trustee reviews the engagement activity of the Scheme's investment managers, where appropriate.

Over the scheme year the Trustee was comfortable with the high level of engagement and voting undertaken by the investment managers, where appropriate. No action was taken as a result.

## Section 54 – DB and DC

**Recognise the UK Stewardship Code as best practice and encourage their Investment Managers to comply with the UK Stewardship Code or explain where they do not adhere to this policy**

As part of the Scheme's 2024 Sustainable Investment review the Trustee received confirmation that their investment managers comply with the UK stewardship code, with the exception of Nephila, who manages the Scheme's investment in reinsurance. As the strategy invests in over-the-counter non-tradeable contracts without voting rights attached, certain aspects of stewardship are less applicable for this strategy relative to other assets the Scheme invests in. The Scheme is also in the process of disinvesting from this fund.

## Section 55 and 56 – DC

**Policy on investing in illiquid investments in relation to the DC default arrangements**

The DC default arrangements do not invest directly in illiquids, but may access indirectly (at the discretion of the investment manager) through the holding in the Diversified Investments Fund. The Trustee discussed this with LGIM as part of the 2024 due diligence day meetings, and will continue to monitor this in the future.



## Section 4: Voting and engagement

The Trustee has delegated the day-to-day ESG integration and stewardship activities (including voting and engagement) to its investment managers. However, to monitor how the Scheme's investment managers integrate ESG and undertake stewardship activities on the Trustee's behalf, the Trustee undertakes an Annual Sustainable Investment review via analysis provided from its Investment Advisor. These reports contain information on ESG integration and a traffic light rating for the investment managers' capabilities in this area, as well as data on voting and engagement where applicable. As part of this report the Trustee also reviewed, where applicable, analysis on the ESG scoring of the underlying holdings of the Scheme's listed investments.

Overall, following the review carried out this year, the Trustee remained comfortable with the investment managers' approach to ESG integration and noted no cause for concern.

As part of monitoring the stewardship of the Scheme's investments the table below sets out the voting activities of the Scheme's investment managers. This includes any votes cast on the Trustee's behalf, detail on the Scheme's investment manager use of proxy voting and examples of votes cast that they deem to be significant. Some of the Scheme's underlying investment strategies, such as fixed income (where these holdings do not have voting rights attached) or property (where voting is not applicable as the strategy will bring with it a high level of ownership and control), have been excluded from the table below.

The table below reflects the voting data as provided by the Scheme's investment managers. The Trustee has also set out further detail in a Supplementary Voting Activity Report on voting activities that the Scheme's investment managers have carried out on behalf of the Scheme throughout the scheme Year. At the beginning of 2024 the Trustee undertook a training session on ESG in which the stewardship priorities of climate change and DEI (diversity, equity and inclusion) were chosen. The choice of most significant votes reflects these stewardship priorities.

Scheme section	Manager and strategy	Portfolio structure	Voting activity	Most significant votes cast	Use of proxy voting
DC	BlackRock Aquila Connect Emerging Markets Fund	Pooled Equity Fund	23,247 (voted on 98% of eligible resolutions) 12% of votes against management / 2% abstained	Banco de Chile SA (Governance) Shin Kong Financial Holding Co. Ltd (Governance) Zhejiang Expressway Co. Ltd. (Governance)	BlackRock subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis. BlackRock have outlined that they do not follow any single proxy research firm's voting recommendations but use Institutional Shareholder Services (ISS) electronic platform to execute its vote instructions.
DC	HSBC Islamic Global Equity Index Fund	Pooled Equity Fund	1,726 (voted on 95.0% of eligible resolutions) 23.0% of votes against management / 0.0% abstained	Alibaba Group Holding Limited (DEI) Nike, Inc. (DEI) Cisco Systems, Inc. (DEI)	HSBC uses the voting research and platform provider Institutional Shareholder Services (ISS) to assist with the global application of their own bespoke voting guidelines.

# YORKSHIRE BUILDING SOCIETY PENSION SCHEME

Yorkshire Building Society Pension Scheme

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DC	LGIM Diversified Fund	Pooled Multi-Asset Fund	84,290 (voted on 99.8% of eligible votes) 23.4% of votes against management / 0.3% abstained	Prologis, Inc. (DEI) America Tower Corporation (DEI) Shell Plc (Climate Change)	Uses proxy voting recommendations to augment its own research but ultimately all voting decisions are made by LGIM
DC	LGIM World ex UK GBP Hedged Equity Index Fund	Pooled Equity Fund	35,367 (voted on 99.9% of eligible votes) 22.1% of votes against management / 0.1% abstained	NVIDIA Corporation (DEI) Costco Wholesale Corporation (DEI) Walmart (DEI)	
DC	LGIM MSCI Adaptive Capped ESG Index Fund	Pooled Equity Fund	36,736 (voted on 99.9% of eligible votes) 21.4% of votes against management / 0.5% abstained	Motorola Solutions, Inc.(DEI) NVIDIA Corporation (DEI) Schneider Electric SE (Climate Change)	
DC	LGIM UK Equity Index Fund	Pooled Equity Fund	10,517 (voted on 99.8% of eligible votes) 5.8% of votes against management / 0% abstained	Glencore Plc (Climate Change) SSE Plc (Climate Change) Experian Plc (DEI)	

May 2024



## Section 5: Summary and conclusions

The Trustee consider that all SIP policies and principles were adhered to over the Scheme Year.

## Statement of Investment Principles

Yorkshire Building Society Pension Scheme (December 2023)

### Introduction

- 1 This document is the Statement of Investment Principles (the "SIP") made by the Trustee of the Yorkshire Building Society Pension Scheme (the "Scheme") in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).
- 2 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took written advice from the Scheme's Investment Consultant (Towers Watson Limited) and consulted the Principal Employer, Yorkshire Building Society (the "Society"). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.
- 3 The Scheme operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries. The Scheme provides both a Defined Benefit ("DB") and Defined Contribution ("DC") pension arrangement. These two arrangements are considered both separately and together in different areas of this Statement.

### Scheme objectives – DB Section objectives

- 4 The Trustee's policy is to seek to achieve the objectives through investing in a suitable mixture of real and monetary assets. It recognises that the returns on return seeking assets, while expected to be greater over the long term than those on liability matching assets, are likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the DB Section of the Scheme to meet its liabilities at an acceptable level of risk for the Trustee and an acceptable level of cost to the Society.
- 5 A full triennial valuation of the Scheme was carried out as at 31 December 2022, using asset return assumptions developed by the Scheme Actuary, and considering many diversified asset classes for possible investment. The Trustee reconsidered the asset allocation of the Scheme in light of this valuation, and will continue to do so at other times where it is deemed necessary.
- 6 The principal duty of the Trustee is to act in the best interests of the members of the Scheme. In light of this duty, the Trustee's objectives for the DB Section are:
  - a. To achieve a return on the Scheme's assets that is consistent with the long-term assumptions of the Scheme Actuary in determining the funding of the Scheme, whilst also balancing risk.
  - b. To aim for the assets to exceed the liabilities as determined in the event of the Scheme winding up on the basis of cash equivalent transfer values.
  - c. To minimise the requirement for the Society to make further deficit recovery plan contributions.

### Investment strategy – DB Section

- 7 The Trustee's investment strategy (including the buy-in) seeks to generate returns between 0.80% pa and 1.00% pa above liability growth (measured on a gilts basis) in the long term (i.e. gilts + 0.80%-1.00% pa).
- 8 The investment strategy makes use of three key types of investments:

- a range of instruments that provide a better match both to changes in liability values and expected liability cashflows, including (but not limited to) gilts, corporate bonds, derivatives, secure income assets and insurance policies.
  - a diversified range of return-seeking assets, including (but not limited to) equities (implemented physically and/or through equity futures), corporate bonds, and secure income assets.
  - passively and actively managed portfolios as appropriate, following consideration of efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the investment managers' fees on future expected returns.
- 9 The balance within and between these investments will be determined from time to time with regard to maximising the chance of achieving the Scheme's investment objectives.
- 10 The Scheme will hold assets in cash and other money market instruments from time to time as deemed appropriate.
- 11 The Scheme holds a legacy reinsurance asset that is in the process of being redeemed.
- 12 The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Investment Consultant and the Scheme Actuary, the appropriateness of its investment strategy.
- 13 The expected return of an investment will be monitored regularly and will be directly related to the Scheme's investment objectives.
- 14 A buy-in policy to the value of c.£250.4m has been implemented, as at 19 November 2018, and positioned in the context of the Scheme's investment objective.
- 15 The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investments, where possible. The Trustee, together with the Scheme's administrators, will hold sufficient cash to meet benefit and other payment obligations.

## Risks & Regulations – DB Section

- 10 The Trustee recognises a number of risks involved in the investment of the Scheme's assets. These risks include but are not limited to:
- a. Solvency risk and mismatching risk is a qualitative and quantitative assessment of the expected development of the liabilities relative to the prevailing investment policies. It is managed through assessing the progress of the actual growth of the assets relative to liabilities under the current investment policy.
  - b. Manager risk is the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy. It is managed through diversification across investment managers and by the ongoing monitoring of the performance of the investment managers as well as a number of qualitative factors supporting the managers' investment process.
  - c. Liquidity risk is measured by the ability to achieve the level of cash flow required by the Scheme over a specified period. It is managed by regular communication between the Trustee and the Administrator through estimates of the monthly benefit outflow, ensuring sufficient cash balances are available.
  - d. Political risk is the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention. It is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

- e. Sponsor risk is the risk that the level of ability and willingness of the Sponsor to support the continuation of the Scheme and to make good any current or future deficit deteriorates. It is managed by assessing the interaction between the Scheme and the Sponsor's business, as measured by a number of factors, including the creditworthiness of the Sponsor and the size of the pension liability relative to a number of metrics reflecting the financial strength of the Sponsor.
  - f. Credit risk is the risk that the issuer of a bond will default in repayment of principal and/or interest. It is managed by investing in UK Government bonds where the credit risk is significantly lower, and by investment mandates requiring limits around the amount of non-investment grade credit held. Credit risk also applies to the buy-in policy referring to the risk that the insurer could fall insolvent. This is mitigated by industry protections (FSCS) and the due diligence carried out by the Trustee in selecting an appropriate insurer.
  - g. Currency risk is the level of concentration in the currency of any one country/region leading to an adverse influence on investment values arising from unfavourable currency movements. It is managed by the implementation of a currency hedging programme (carried out by some of the Scheme's investment managers) which reduces the impact of exchange rate movements on the Scheme's asset values.
  - h. Market risk is the risk that the investment vehicles in which monies are invested underperform expectations. It is managed by constructing a diverse portfolio of investments across various markets.
  - i. Operational risk is the risk associated with the safe-keeping of the Scheme's assets and is managed through a custody arrangement with a third party custodian for the segregated assets.
  - j. Custodian risk is the risk that the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safe-keeping of the Scheme's segregated assets under custody.
  - k. Derivative risk refers to counterparty risk, basis risk, liability risk, and legal and operational risk. Counterparty risk is managed through collateral management, diversifying exposure across counterparties, and the use of robust ISDA or other relevant documentation. Basis risk is addressed through the investment policy adopted by the Trustee for the backing assets and the investment managers' asset management capabilities. Liability risk is managed by updating the liability hedging benchmark at appropriate regular intervals. Legal and operational risk is managed by the Trustee taking appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.
- 17 The agreements with the investment managers include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the DB Section.

## **Scheme objectives – DC Section**

- 18 The Trustee policy is to seek to provide lifestyle strategies and self-select funds to support individual preferences and their retirement planning. The Trustee recognises that members' needs may have changed following the introduction of pension freedoms in 2015 and the Trustee has considered the range of options available as the market has developed. In addition, they recognise that the returns on equities, while expected to be greater over the long-term than those on bonds, cash and other investment classes are likely to be more volatile. For those members who are willing to accept a greater level of volatility in pursuit of achieving a higher value of their investment account, a limited number of all-equity funds are available.
- 19 For the DC Section, the objectives are:

- a. To offer a suitable range of options, including a default lifestyle strategy, three additional lifestyle strategies and a range of self-select funds.
- b. To recognise and limit the risk of a member's account failing to satisfy the member's reasonable expectations over the long term.
- c. To optimise the long term benefits from the Scheme by allowing members to benefit from good long term growth on their assets whilst having regard to the objectives shown under the previous paragraph.
- d. The Trustee monitors the value for money received by members of the DC section from their membership of the Scheme and commission WTW to undertake an annual review and make recommendations for improvements. The Trustee aims to ensure that the members receive good value for money but recognise that this does not necessarily equate to paying lower fees or costs for services.

## Investment strategy – DC Section

- 20 The Trustee invests in a range of index-tracking funds, selected by the members and managed by a range of investment managers, subject to due diligence. They are satisfied that the requirement for diversification can be achieved through the range of funds made available to the members. The following types of funds are available for members to select:
  - Global and emerging market equity funds
  - Diversified growth fund
  - Bond funds
  - Cash fund
  - Shariah Fund
- 21 The Trustee believes that, with these funds, the members can minimise the risks identified in Section 32. The Trustee offers members the option to invest in the range of funds entirely at their discretion. If a member does not specify a choice, the default lifestyle strategy will apply.
- 22 The Trustee reviewed its DC fund range in October 2023 and currently offers the following approaches for members to invest their DC benefits:
  - a. **Default: the "Flexible Lifestyle" strategy** - this strategy has been made available for those members who wish to have a less active role in managing their investments. Under this approach members' investments are automatically switched from equities into a broader mix of assets, and part of the members' investments are then switched into bonds and cash as they near normal retirement age. The default option is aimed at members who haven't yet decided how they will take their retirement benefits, or who may wish to retain a greater degree of flexibility in how their savings are invested.
  - b. **Lump Sum Lifestyle Strategy** – this strategy is targeted at those members specifically aiming to take their benefits from the Scheme as a single cash lump sum, or a small number of lumps sums over a short period of time. It includes a higher weighting to cash investments at a member's normal retirement age.
  - c. **Annuity Lifestyle Strategy** – this strategy is targeted at those members who intend to use the majority (or all) of their retirement savings to purchase an annuity – that is a guaranteed income for life. It includes a higher weighting to bond investments at a member's normal retirement age.
  - d. **Drawdown Lifestyle Strategy** - this strategy is targeted at those members wishing to utilise income drawdown in retirement. Under this approach members' benefits are automatically switched from equities to a broader mix of assets including cash as they near normal retirement age.
  - e. **Self-select** - this strategy has been made available for those members who would like to manage the investment of their account.

- 23 In addition to the default lifestyle strategy described above, for the purposes of regulation 2A of the Investment Regulations, due to their history and development, the following funds are classified as "default arrangements"
- International Equity Investment Fund
  - Diversified Investment Fund
  - Pre-Retirement Fund
  - Cash Fund
  - Lump Sum Lifestyle Strategy
- 24 Members are able to make changes to their investment choices at any time and at no fee (although the DC administrator reserves the right to limit the number of free switches allowed).
- 25 The Trustee has taken into regard the historical rates of return earned on the various classes of asset available for investment of the DC Section's assets in assessing the choices offered to members.
- 26 The Trustee believes that the range of funds offers adequate diversification and is appropriate for the DC Section. The Trustee monitors the range of options regularly and at least every 3 years to ensure that the investment options are sufficiently diverse and consistent with the risk profile of DC members.
- 27 The members' accounts are held in funds are sufficiently liquid to be realised to provide pension benefits on retirement, or earlier on transfer to another pension arrangement.

## Risks & Regulations – DC Section

- 28 The Trustee recognises that, in a defined contribution arrangement, members assume the investment risks. The Trustee further recognises that members are exposed to different types of risk at different stages of their working lifetimes. Investment risks inherent within the DC Section include:
- a. Inflation risk is the risk that the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate pension. It is managed by providing investment options that are expected to provide a long-term rate of return that exceeds inflation, such as equity funds and diversified growth funds.
  - b. Conversion risk is the risk that investment market movements in the period immediately prior to retirement lead to a substantial reduction in the anticipated level of pension or cash lump sum benefit. It is managed by providing a range of investment options that allow members sufficient flexibility to meet their varying objectives.
  - c. Liquidity risk is the risk that members may experience a delay when moving or redeeming their investments. It is managed by investing in liquid assets.
  - d. Market risk is the risk that the investment vehicles in which monies are invested underperform expectations. It is managed by investing in a range of diversified assets and in different countries/regions.
  - e. Manager risk is the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy. It is managed by the ongoing monitoring of the performance of the investment managers.
  - f. Political risk is the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention. It is managed by making available investment options which are diversified across many countries.
  - g. Credit risk is in relation to Fidelity and the third-party fund managers through its holding in unit-linked funds. In the event of default by Fidelity the Scheme is protected by the Financial Services Compensation Scheme (FSCS). In the event of the default of the third-

- party managers, the Scheme may not be covered by the FSCS and may not be able to recover all assets, however mitigations are in place to minimise this risk.
- fi Currency risk is the level of concentration in any one country/region leading to an adverse influence on investment values arising from unfavourable currency movements. The Trustee periodically reviews the appropriateness of the level of currency exposure in the default strategy.
- 29 The Trustee considers the same regulatory aspects for the DC Section, as for the DB Section.

## Investment managers – DB and DC Sections

- 30 The Trustee has taken advice from the investment consultant to ensure the investment strategy and investments are suitable for the Scheme and will review the suitability of the investments from time to time. In addition, all investment managers are subject to due diligence prior to appointment and subject to any concerns about the investment manager or change to the fund structure.
- 31 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed investment managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.
- 32 The Trustee is not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme's long-term objectives, and an acceptable level of risk.
- 33 The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers (within certain guidelines and restrictions). The Trustee will review the policies of each of their managers from time to time.
- 34 When considering its policy in relation to stewardship including engagement and voting, the Trustee expects investment managers to address broad Environmental, Social and Governance ("ESG") considerations. The Trustee assesses that ESG risks, including a wide range of big picture themes such as climate change, pose a financial risk to the Scheme and that focussing on these issues is ultimately consistent with the Trustee's fiduciary duties and the financial security of its members. The Trustee incorporates an assessment of how well the investment managers exercise these responsibilities as part of its overall assessment of their performance.

## Investment monitoring – DB and DC Sections

- 35 The Trustee will monitor both Schemes' investment performance, adherence to respective mandates and review the nature of the investments held periodically. In doing so the Trustee will consider all relevant factors in determining whether this Statement remains appropriate with any updates made on a timely basis, with a full review of this statement at least every three years and after any significant change to the investment policy, or demographic profile of relevant members in the DC Section.
- 36 While the Trustee is not involved in each investment managers' day to day operation, they will regularly assess individual manager performance and adherence to their respective mandates. In particular, the Trustee will review the extent to which the return on investments relating to the default arrangement is consistent with the aims and objectives of the Trustee in respect of the default arrangement.
- 37 Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. 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 or the investment team.

- 38 The Scheme uses many different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee's policies, where relevant to the mandate.
- 39 To maintain alignment, managers are provided with the most recent version of the Scheme's Statement of Investment Principles on a regular basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question. For pooled funds, managers are asked to confirm whether they believe there is any misalignment between the objectives and guidelines of the fund(s) they manage on behalf of the Scheme, or the manager's approach to sustainable investment, and the Trustee's policies.
- 40 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. For pooled funds, if a fund's objectives and guidelines, or an investment manager's approach to sustainable investment, do not appear to be sufficiently aligned with the Trustee's policies, the Trustee will engage with the investment manager to ascertain the reasons for this and whether closer alignment can be achieved. 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 (or pooled fund) will be terminated and replaced.

## Fee structures – DB and DC Sections

- 41 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.
- 42 The Trustee reviews the costs incurred in managing the Scheme's assets regularly, 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.

## Other matters

- 43 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004
- 44 DB assets in respect of members' AVCs are invested with a range of asset managers. No additional contributions can be made into these AVC arrangements.
- 45 The Scheme also holds annuity policies with Aviva (formerly Commercial Union), with the income supporting pensions in payment.
- 46 DC assets in respect of members' AVCs are invested in the same way as normal contributions.

## Environmental, Social and Governance ("ESG") considerations



- 47 The Trustee recognises that long-term sustainability issues have a material impact on risk and outcomes, both financial and non-financial, though the Trustee's fundamental mission is to meet its financial obligations and act in the best financial interests of the Scheme and its members.
- 48 The Trustee believes that ESG factors, including climate change, affect risk and return in the medium to long-term, and as such should be taken into account throughout the investment process when reviewing current and new investment opportunities.
- 49 The Trustee actively reflects ESG factors in both the DB Section, through investments held in the Scheme's Secure Income Assets, and the DC section, through investing in an Adaptive capped weighted passive equity fund with an ESG overlay as part of the international equity fund which is a component part of the default investment option.
- 50 To the extent possible, the Trustee will delegate the responsibility to take ESG principles into account to its investment managers, and will periodically review these policies with the assistance of its investment adviser through reporting or direct engagement with its investment managers as appropriate. The managers have produced statements setting out their policy in this regard. The Trustee acknowledges that it acts on behalf of the Scheme's members in relation to ESG principles, and whilst they may not specifically ask for member views, they may re-visit this statement from time-to-time as deemed appropriate.
- 51 The Trustee holds a set of specific sustainable investment beliefs which are considered alongside the Trustee's investment policies. These beliefs are reviewed periodically.

## Exercise of Voting Rights

- 52 The Trustee has delegated the exercise of voting rights attached to the Scheme's investments to its investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. Accordingly, the managers have produced written guidelines of their process and practice in this regard. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies. The Trustee expects managers to report regularly on votes cast and other relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings.
- 53 For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee invests in certain strategies where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.
- 54 The Trustee recognises the UK Stewardship Code as best practice and encourage their Investment Managers to comply with the UK Stewardship Code or explain where they do not adhere to this policy. The Code aims to protect and enhance shareholder value by enhancing the quality of engagement between investors and companies by setting out good practice.

## Illiquid investments – DC Section (default arrangement)

- 55 Currently, the default arrangements do not invest directly in illiquid assets. However, illiquids may be held indirectly, through the investments in the Diversified Investments Fund, an underlying fund of the default Lifestyle strategy. Any investment in illiquids in this fund will be at the discretion of LGIM as investment manager, with decisions taken in the context of the fund's overall risk and return objectives. Members in the default Lifestyle strategy will start to invest in the Diversified Investments Fund when they are 25 years from their target retirement age, and will continue to hold a portion of their total investments in this fund through to retirement.
- 56 The Trustee considers its current investment strategy for the default arrangements to be appropriate to achieve its investment objectives for members. The Trustee will keep this policy under review and, in future, may consider investing in illiquid assets more explicitly if it believes this would improve the risk and return profile and result in better expected retirement outcomes for members.

**Signed:** Inder Dhillon

**Name:** Inder Dhillon

**Date:** 15/03/2024

**Authorised for and on behalf of the Trustee of the Yorkshire Building Society Pension Scheme**