Statement of Investment Principles Yorkshire and Clydesdale Bank Pension Scheme

October 2021

Introduction

1 This Statement of Investment Principles ('SIP') sets out the principles governing investments by or for the Yorkshire and Clydesdale Bank Pension Trustee Limited ('the Trustee'), which is Trustee of the Yorkshire and Clydesdale Bank Pension Scheme ('the Scheme'). This SIP is drafted 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 actively consults with the Principal Employer (Clydesdale Bank PLC) with regard to possible changes to the Scheme's investment strategy. The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

3 The Trustee will review this SIP at least annually and without delay after any significant change in the status of the Principal Employer or significant change in liability profile, funding position or investment policy of the Scheme. Before finalising this SIP, the Trustee has taken written advice from the Scheme's Investment Consultant and has consulted with the Principal Employer.

4 A copy of this SIP as amended from time to time will be sent to the Principal Employer and to each of the external investment managers employed to manage the assets of the Scheme. In accordance with the provisions of the Financial Services and Markets Act 2000 and the Pensions Act 1995, a signed Client Agreement is in place with each investment manager.

5 The investment decisions of Yorkshire and Clydesdale Bank Pension Trustee Limited are governed by the investment powers of the Trustee as set out in the definitive Trust Deed dated 1 October 2009 as amended from time to time. A copy of the Trust Deed is available on application to the Trustee.

6 Administration of the Scheme is managed by the Trustee, which is responsible for the investment of the Scheme's assets.

Scheme Objectives

7 The principal investment objective of the Scheme is to ensure that the Scheme is able to provide the benefits as set out in the Trust Deed. The Trustee seeks to achieve this through investing in a diversified portfolio of assets, having taken account of the Scheme's liabilities and its tolerance of risk in the context of the Trustee's evaluation of the Principal Employer's covenant.

8 In consultation with the Investment Consultant, the Trustee has agreed a journey plan where the funding objective is to be 100% funded by 31 December 2031 on a self-sufficiency basis agreed by the Trustee. The Trustee also monitors the Scheme's funding position on a

Technical Provisions basis. The Scheme was fully funded on this measure at the date of the last actuarial valuation (30 September 2019).

9 The Trustee proposes to achieve the self-sufficiency objective above through a policy of targeting an agreed level of returns in excess of the returns assumed in calculating the value of the liabilities, with the expected investment return and risk of the Scheme's assets reducing once the Scheme is fully funded on its self-sufficiency basis.

10 The Trustee has implemented an investment structure that seeks to more closely match asset allocation to liabilities by using suitable assets (see para 14) and thereby reducing the Scheme's exposure to inflation and interest rate risk. The collateral made available for the 'derivative' assets so used are the Government Bonds and any cash holdings.

11 In consultation with the Investment Consultant and the Principal Employer, the Trustee has agreed a dynamic de-risking protocol to enable the Scheme to de-risk when it is ahead of its self-sufficiency journey plan. Any changes to the journey plan or associated de-risking protocol must be approved by the Trustee.

12 The funding position of the Scheme is monitored on a daily basis and if the estimated self-sufficiency funding level exceeds a pre-defined trigger level the de-risking process will begin.

Investment Principles

13 The Trustee has received advice to determine an appropriate investment strategy for the Scheme. The Trustee has a desire to diversify the Scheme's risk exposures and to manage the investments efficiently and has therefore delegated responsibility for investment decisions to its Investment Sub-Committee ("the ISC"). All decisions of the ISC will be recorded in committee minutes and made available to the Trustee.

14 The investment strategy makes use of two main kinds of investments:

- **Matching Assets:** a range of instruments that provide a match to changes in liability values, including (but not limited to) credit, fixed interest and index linked gilts, bonds with government guarantees, gilt repos, swaps, gilt total return swaps and other derivative based investments.

  Long term Secure Income Assets will also be included in this category as they will provide cashflow matching to the Scheme's liabilities.

  The Trustee is aware that through the use of derivatives to better match its interest rate and inflation risk, the Scheme's investment policy is utilising leverage. The ISC and the investment manager responsible for the hedging portfolio monitor the amount of collateral in its portfolio against a number of threshold levels.

- **Return Seeking Assets:** a diversified range of return-seeking assets, including (but not limited to) equities (and related derivatives), infrastructure, credit assets and UK property.

These portfolios may be structured on either an active or a passive basis. A passive option will generally be preferred where available.

15 The balance within and between these investments will be determined from time to time with regard to enhancing the probability of achieving the Scheme's investment objective.

16 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

17 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.

18 The expected return on investments will be monitored regularly in light of the return required in order to meet the Scheme's investment objective. The Scheme's Investment Consultant's assumptions are used by the Trustee to monitor the expected return of the Scheme. The assumptions are used every quarter as part of the Trustee's ongoing monitoring.

19 The Trustee's policy is that there will be sufficient investments in cash, liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that, where possible, the realisation of assets will not disrupt the Scheme's investment strategy.

20 The Trustee does not permit at any time more than 5% of the current market value of the resources of the Scheme to be directly invested in securities issued by the Principal Employer.

21 The Trustee aims to manage the Scheme's exposure to currency risk and makes use of a passive currency overlay to hedge significant exposures to mainstream currencies.

Investment Manager Arrangements

22 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 an appointed investment manager or managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

23 The Trustee appoints a number of 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.

24 To maintain alignment between management of the Scheme's assets and the Trustee's own policies and objectives, managers are provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis and are required to comment on whether the management of assets is consistent with those policies relevant to the mandate in question. The Trustee reviews the responses provided by the managers.

25 The Trustee is not involved in the investment managers' day-to-day method of operation and does not 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. The Trustee will also periodically review the suitability of the Scheme's mandates in the context of the Scheme's wider investment strategy, including considering whether the balance between different kinds of investments remains appropriate, the expected return on the investments, the risks to which the Scheme is exposed and manager renumeration and fees. As part of this process, the Trustee has delegated the detailed monitoring of the Scheme's investment managers to the ISC and its Investment Consultant.

26 The Trustee considers portfolio turnover when appointing investment managers and monitors the Scheme's managers' portfolio turnover levels relative to Trustee expectations on an annual basis. Where turnover is not deemed to be aligned with expectations, the Trustee will engage with the manager to better understand why and to ensure the managers are managing assets in a way which is appropriate within the context of their mandate.

27 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.

28 It is the Trustee's view that fees linked to investment performance increase complexity and in most cases do not materially improve alignment with the Trustee's long-term objectives. Such fee structures are therefore only used in a limited number of cases.

Choosing Investments

29 The Trustee's policy is to review its investments and to obtain written advice from its Investment Consultant about them at regular intervals (normally annually). When deciding whether or not to make any new investments the Trustee will obtain written advice from its Investment Consultant.

30 The written advice will consider whether the investment is satisfactory having regard to the requirements of the regulations, so far as relating to the suitability of investments, and to the principles contained in this statement.

Risk

31 The Trustee recognises a wide range of risks involved in the investment of the Scheme's assets.

32 The key risk faced by the Scheme is that it is unable to provide in full the benefits as set out in the Trust Deed. This risk arises if the Scheme is unable to achieve the investment returns expected (see para 9) and the Principal Employer is unable to pay sufficient additional contributions to cover this shortfall.

33 The investment risk is addressed through ongoing monitoring of the investment returns achieved relative to the expected returns and through ongoing evolution of the asset mix in order to maintain reasonable expectations of achieving the funding targets over an acceptable timeframe. Assessment of the Principal Employer covenant is managed through regular dialogue between the Trustee and the Principal Employer. The Trustee also makes use of a covenant advisor to assess and manage this risk.

34 In addition to the above primary risks, the Trustee monitors and, in conjunction with advice from the Investment Consultant, manages a wide range of risks, including but not restricted to:

– Deficit risk:

- is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.
- is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

– Manager risk:

- is measured by the expected deviation of the return relative to the benchmark set.
- is managed by investing in index funds, by limiting exposure to any one active investment manager, by consideration of the appropriate amount of the Scheme to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.

– Custodian risk:

- is measured by assessing the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody
- is managed by regular attendance by the custodian at Trustee meetings to report on service levels over the prior period.

– Liquidity risk:

- is measured by the level of cashflow required by the Scheme over a specified period.
- is managed by quarterly consideration of the cash position and advice on where to raise cash until the next review.

– Currency risk:

- is measured by the level of exposure to non-Sterling denominated assets.
- is managed by the implementation of a currency hedging programme which reduces the impact of exchange rate movements on the Scheme's asset value.

– Interest rate and inflation risk:

- is measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.
- is managed by holding a portfolio of matching assets (physical bonds, derivatives and Secure Income Assets) that enable the Scheme's assets to better-match movements in the value of the liabilities due to changes in inflation and interest rates.

– Political risk:

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.

- is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.

– Sponsor risk:

- is the risk that the sponsor is unable to support the continuation of the Scheme and to make good any current or future deficit.
- is measured by receiving regular financial updates from the Principal Employer and periodic independent covenant assessments.
- is managed through an agreed contribution and funding schedule.
- is managed through contingent assets provided by the Principal Employer which the Scheme could use to mitigate downside events.

– Derivatives risk

- Counterparty risk – this risk is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust ISDA, GMRA or other relevant derivatives documentation.
- Basis risk – the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted by the Trustee for the backing assets and the investment managers' asset management capabilities.
- Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.
- Legal and operation risk – the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks. The Trustee takes 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.
- The Trustee is aware of the risks relating to the initial terms of entry in derivative contracts (for example, purchasing the contracts at a competitive price) and the valuation of the derivatives on an ongoing basis. With the help of its advisors, the Trustee monitors these positions on a regular basis.
- The Trustee is aware that through the use of derivatives to better match its interest rate and inflation risk, the Scheme's investment policy is utilising leverage. With the help of its advisors, the Trustee monitors these positions on a regular basis.

– Environmental, Social and Governance risk

- The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework.
- The Trustee takes account of all financially material risks and opportunities in consultation with its advisers. All risks and opportunities are considered for materiality and impact within an integrated risk management framework, which takes account of the Scheme's journey plan and funding time horizon. The Trustee's time horizon reflects the time horizon of the Sponsor's business and the Scheme's maturing liability profile.

- The Trustee's policy is the implementation of the mandate and day-to-day decisions relating to the investment of Scheme assets, including the consideration of environmental, social and governance issues and their impact on the portfolio, is left to the discretion of its investment managers. The Trustee, with advice from its investment advisors, monitors these issues with its managers to understand how they exercise these duties in practice.

- The Trustee policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Trustee recognised the UK Stewardship Code 2020 as best practice and encourages its investment managers to comply with the UK Stewardship Code 2020 or explain where they do not adhere to this policy.

- When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment advisors, looks to take account of the approach taken by managers with respect to sustainable investing. This includes considering voting policies and engagement on relevant matters (i.e. the capital structure of investee companies, actual and potential conflicts of interest and other stakeholders), as well as how managers take account of ESG-related risks in their management of the Scheme's assets, and the consistency of this approach with the Trustee's own beliefs.

- Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes, but is not limited to, specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

- 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.

- The 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.

Other Matters

35 The Trustee has an historic arrangement under which members could pay Additional Voluntary Contributions (AVCs) on a money purchase basis into the Scheme to enhance their benefits at retirement . The Trustee wishes to give money purchase contributors a reasonable degree of freedom over the investment policy of their AVCs and consequently, a range of funds is made available to members.

Signed:

Name:

Date:

Authorised for and on behalf of the Trustee of the Scheme