Bank Leumi (UK) Retirement Benefits Scheme

Statement of Investment Principles

Barnett Waddingham LLP

November 2022

Contents

1. Introduction

1.1. This is the Statement of Investment Principles for the Bank Leumi (UK) Retirement Benefits Scheme (the Scheme), as prepared by the directors of A.I.B. Trustees Limited, the Trustees of the Scheme ("the Trustees"). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
- the Occupational Pension Schemes (Charges and Governance) Regulations 2015;
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. In preparing this statement the Trustees have consulted Bank Leumi (UK) Plc, (the "Employer"), and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustees will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The Defined Contribution Section of the Scheme has now been wound up, as formally recorded in a Deed of Termination and Discharge dated 2 May 2017.

1.6. The investment powers of the Trustees are set out in Clause 17 of the Final Salary Section Rules, which are appended to a Deed of Amendment dated 27 October 2010. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional adviser, who they consider to be suitably qualified and experienced for this role.

2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in Appendix 1 to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the Employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' main investment objectives are:

- to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the participating employers, the cost of current and future benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term.

3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property, alternatives and annuity policies.

4.2. The Trustees monitor from time-to-time the employer-related investment content of their portfolio as a whole. The Scheme's policy is to have no employer-related investment.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within Appendix 1 to this Statement.

5.2. The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in Appendix 1 to this Statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

6. Risks

6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Covenant risk	The creditworthiness of the Employer and the size of the pension liability relative to the Employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the Employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
Asset allocation risk	The asset allocation is detailed in Appendix 1 to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging may be employed to manage the impact of exchange rate fluctuations.

Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's investment managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

8. Realisation of investments

8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

9. Financially material considerations, non-financially material considerations, and stewardship

9.1. The Trustees have set policies in relation to these matters. These policies are set out in Appendix 2.

10. Agreement

10.1. This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Employer, the investment managers, the actuary and the Scheme auditor upon request.

Signed:.. **Date:**.....................

On behalf of A.I.B. Trustees Limited

Appendix 1 Note on investment policy of the Scheme as at November 2022 in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

The current strategic asset allocation has been agreed after considering the Scheme's liability profile and funding position on a buy-out basis. The allocation has been set with the objective that the value of the assets should move broadly in line with the estimated cost for the Scheme to purchase a bulk annuity policy to secure the liabilities. The intention is to match 90% of the sensitivity of the estimated bulk annuity cost to changes in interest rate and inflation.

The Trustee's intention is to buy out the Scheme's liabilities with an insurer in 2023. If the buy-out does not proceed as expected, the Trustee anticipates a reversion to the strategic asset allocation in the Statement of Investment Principles dated September 2021, subject to taking investment advice at that time.

Rebalancing

The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

Asset class	Allocation (%)
Property	12
LDI (including cash)	61
Corporate bonds	27
	100

2. Choosing investments

The Trustee has appointed the following investment managers to carry out the day-to-day investment of the Scheme:

- Legal & General Investment Management Limited (LGIM)
- Hermes Investment Management Limited (Hermes)

- Lothbury Investment Management Limited (Lothbury)

The Trustees also have AVC contracts with LGIM and Clerical Medical for the receipt of members' Additional Voluntary Contributions (AVCs).

The investment managers and AVC providers are authorised and regulated by the Financial Conduct Authority.

The investment benchmarks and objectives for each investment manager and AVC provider are given below:

Investment manager	Fund	Benchmark	Objective
LGIM	Matching Core (LDI)	Gilt and Swap composite index	Protect against changes in real and nominal interest rates
	Sterling Liquidity Fund	7 Day LIBID	Provide capital stability
	Buy and Maintain Funds	N/A	Protect against credit risk and changes in nominal interest rates
Hermes	Property Unit Trust	IPD UK PFI Other Balanced Funds Index	Outperform the benchmark by 0.5% p.a. over a rolling three year period
Lothbury	Property Trust	AREF/IPD UK Quarterly Property Fund Indices, All Balanced Property Funds Index	Outperform the benchmark

AVC provider	Fund	Benchmark	Objective
LGIM	Global Equity Fixed Weights (60:40) Index	Composite of 60/40 distribution between UK and Overseas	Provide diversified exposure to UK and overseas equity markets
	UK Equity Index	FTSE All Share Index	Track the benchmark to within +/- 0.25% p.a. for two out of three years
	Over 5 Year Index-Linked Gilts Index	FTSE A Index Linked Over 5 years Index	Track the benchmark to within +/- 0.25% p.a. for two out of three years
	Pre-Retirement	90% iBoxx Sterling Non-Gilts (ex-BBB) Over 15 Year Index, 10% FTSE A Government (Over 15 Year) Index	To provide diversified exposure to assets that reflect the investments underlying a typical traditional level annuity product.
	Property	AREF/IPD UK Quarterly All Balanced Property Funds Index	Outperform the benchmark over three and five year periods.
	Cash	7 Day LIBID	Track the benchmark
Clerical Medical	With Profits	N/A	Aim to generate capital growth over the medium to long term, with some stability against market volatility over the short term
	Unit-linked	ABI Mixed Investment 40-85% Shares	Aim to achieve long term capital growth by gaining exposure predominantly to equities with flexibility to gain a minority exposure to commercial property and fixed interest stocks

The performance of the investment managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The AVC arrangements are reviewed from time to time. The current default AVC fund option is based on a lifestyling approach which invests in the LGIM Global Equity Fixed Weights Index Fund until the member is aged 55 and then gradually switches into the LGIM Index-Linked Gilts and Cash funds so that, at age 65, 75% of the member's individual account is invested in the Index-Linked Gilts fund and 25% in the Cash fund.

3. Fee agreements

The fee arrangements with the investment managers and the AVC providers are summarised in the Trustees' Investment Manager Arrangement Summary document.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters. Barnett Waddingham are normally remunerated on a time-cost basis, although fixed fees may be agreed for specific tasks.

4. Investments and disinvestments

Investments will normally be made so as to move the actual asset allocation more in line with the target asset allocation.

The Trustees make use of LGIM's Notional Income Service to provide a monthly income stream from the Scheme's assets.

Appendix 2 Note on financially material considerations, non-financially material considerations, and stewardship

1. Policy on financially material considerations

The Trustees believe that environmental, social and governance ("ESG") factors, including but not limited to climate change, are potentially financially material and therefore have a policy to review these, alongside other factors, when selecting or reviewing the Scheme's investments. Given the maturity profile of the Scheme and the objective to fund future member benefits from the Scheme as they fall due, the Trustees have a long-term horizon over which it takes into account the financial materiality of ESG factors (including, but not limited to, climate change).

The Trustees will be reliant on the information presented by the investment managers and their investment consultants regarding the extent to which an investment manager allows for ESG in making their investment decisions. Furthermore, an investment manager's excellence in this area will not take precedence over other factors, including (but not limited to) historical performance or fees.

The Trustees received training from its investment consultants on ESG factors. The Trustees considered the research presented at this training to form their views on the financial materiality of ESG factors as they apply to the Scheme's current investments.

Based on the research findings and their discussions the Trustees agree that these factors have the potential to impact the risk and/or return profile of the Scheme's investments from time to time, however, the Trustees appreciate that the impact will vary between assets classes, and be different for active and passive management.

The Trustees' views on how the ESG factors are taken into account for the Scheme's investments are set out below:

Actively managed corporate bonds:

The Trustees believe that ESG factors will be potentially financially material to the risk-adjusted returns for corporate bonds. The investment process for any active corporate bond manager should take ESG factors into account when selecting holdings. However, the process for incorporating ESG factors should be consistent with, and proportionate to, the rest of the investment process.

Passively managed cash funds:

The Trustees do not believe there is significant scope for ESG issues to improve risk-adjusted returns within the Scheme's cash holdings.

Liability driven investment:

The Trustees believe that ESG issues are not financially material to the risk-adjusted returns achieved by the Scheme's Liability Driven Investment strategy, given its sole purpose is to provide a hedge against the Scheme's exposure to movements in interest rates and inflation.

The Trustees understand that ESG analysis is not conducted on derivatives-based instruments and therefore ESG factors are not considered by the investment managers in the selection and management of such instruments.

Property:

The Trustees believe that ESG factors will be potentially financially material to the risk-adjusted returns achieved by the Scheme's property managers. Environmental issues are particularly important when selecting appropriate properties for the property portfolios, and the Trustees look to the managers to incorporate ESG issues into their investment process where appropriate.

General points:

As the Scheme's investments are held in pooled funds, ESG considerations are set by the investment managers who will ultimately act in the best interests of the Scheme's assets to maximise returns for a given level of risk. The Trustees do not currently impose any specific restrictions on the investment managers with regard to ESG issues but will review this position from time to time.

The Trustees receive regular information from the investment managers on their approach to selecting investments and engaging with companies with reference to ESG issues. The Trustees will request that any future manager presentations include an update on ESG considerations.

In selecting and reviewing their investment managers, where appropriate, the Trustees will consider the investment managers' policies on ESG and how these policies have been implemented.

2. Policy on non-financially material considerations

The Trustees do not take into account the Scheme members' and beneficiaries' views on ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme (i.e., "non-financial matters" in the relevant regulations) in the selection, retention and realisation of investments.

3. Policy on Stewardship

The Trustees believe that good stewardship and positive engagement may lead to improved governance and better risk-adjusted returns. As an investor in pooled funds, the Trustees currently adopt a policy of delegating the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers.

The Trustees also delegate undertaking engagement activities, which include entering into discussions with company management in an attempt to influence behaviour, to the investment managers.

The Trustees assessed the current stewardship approach of its investment managers based on information provided by the respective managers and consider these to be of a satisfactory standard.

In general, the Trustees will monitor and engage with the investment managers in relation to stewardship activities as follows:

- The Trustees will, with support from the investment consultant, request and review the stewardship policies, voting and engagement activities of the Scheme's investment managers on a regular basis. In case of any specific issues or questions being identified through this monitoring process, the Trustees will engage with the Scheme's investment managers for more information and discuss any remedial actions taken.

- The Trustees will request that any future manager presentations include an update on stewardship activities, including details of any voting rights exercised.

- When selecting investment managers, where appropriate and applicable, the Trustee will consider the investment managers' policies on stewardship and engagement, and how those policies have been implemented.

- The Trustees will take into account whether the Scheme's investment managers are signatories to the UN backed PRI and UK Stewardship Code (or equivalent).

The Trustees will ensure that the investment managers monitor the investee companies on capital structure as follows:

- When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

- The Trustees are of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

- The Trustees consider it to be a part of their investments managers' roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units. The Trustees also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme. Where the Trustees use pooled funds the Trustees expect the investment manager to employ the same degree of scrutiny.

- Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

- The Scheme's investment managers are granted full discretion over whether or not to hold the equity, debt or other investment in the Sponsoring employer's business. Through their consultation with the Sponsoring Employer when setting this Statement of Investment Principles the Trustees have made the Sponsoring Employer aware of their attitude to ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Trustees will monitor actual and potential conflicts of interest in relation to their engagements as follows:

- The Scheme's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

- The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

The Trustees will ensure that the arrangements with the investment managers incentivise the investment managers to align their investment strategy and decisions with the Trustees' investment policies as follows:

- Prior to appointing the investment manager, the Trustees will discuss the investment manager's benchmark and approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how they are aligned with the Trustees' own investment aims, beliefs and constraints.

- When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees will also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they may use another manager for the mandate.

- The Trustees carry out a strategy review at least every 3 years where they assess the continuing relevance of the strategy in the context of the Scheme and their aims, beliefs and constraints. The Trustees will monitor the investment managers' approach to ESG and climate related risks on an annual basis.

- In the event that the investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated. The investment managers have been informed of this by the Trustees.

- Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager from time to time as deemed appropriate.

The Trustees will ensure that the arrangements with the investment managers incentivise the investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term as follows:

- The Trustees are mindful that the impact of ESG and climate change may have a long-term nature. However, they are aware that the need to change their current pathway is great. The Trustees recognise that the potential for change in value as a result of ESG and climate risk, may occur over a much shorter term than climate change itself. The Trustees have acknowledged this in their investment management arrangements.

- When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over an agreed predetermined rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this to be sufficient to ensure an appropriate alignment of interests.

- The Trustees expect investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

The Trustees will ensure that the method (and time horizon) of the evaluation of the investment managers' performance and the remuneration for investment management services are in line with the Trustees' investment policies as follows:

- Trustees monitor the performance of their investment managers over the medium to long time periods that are predetermined and consistent with the Trustees' investment aims, beliefs and constraints.

- The Scheme invests solely in pooled funds. The investment managers are remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. In some instances, a performance fee may also be applied. Details of the fee structures for the Scheme's investment managers are contained in the Fee agreements section mentioned above in Appendix 1.

- The Trustees believe that this fee structure, including the balance between any fixed and performance related element, enables the investment managers to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

- The Trustees ask the Scheme's investment consultant to assess if the investment management fee is in line with the market when the manager is selected, and the appropriateness of the investment management charges are considered every three years as part of the review of the Statement of Investment Principles.

The Trustees will monitor "portfolio turnover costs" incurred by the investment managers, and define and monitor targeted portfolio turnover or turnover ranges as follows:

- The Trustees acknowledge that portfolio turnover costs can impact on the performance their investments. Overall performance is assessed as part of the regular investment monitoring process.

- During the investment manager appointment process, the Trustees will consider both past and anticipated portfolio turnover levels. When underperformance is identified deviations from the expected level of turnover may be investigated with investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

- The Trustees acknowledge that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

The durations of the arrangements with the investment managers are as follows:

- For the pooled funds in which the Scheme currently invests, there are no predetermined terms of agreement with the investment managers.
- The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment aims, beliefs and constraints is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.