The Co-operative Pension Scheme (Pace)

Financial Statements For Year Ended 5 April 2024

PENSION SCHEME REGISTRY NO. 10274818 (Consolidated Scheme); 19023301 (Co-op Section) and 19023302 (Bank Section).

Contents

Some Helpful Terms

When we say:	We mean:
Actuary	An individual who is appointed to advise the Trustee in relation to the funding and financing of the Scheme. The actuary values the Scheme’s assets and liabilities. The Scheme’s actuary is Damian McClure of Mercer, appointed on 20 February 2024. Neil Brougham, also of Mercer, resigned on 19 February 2024 as part of a planned handover.
Articles of Association	This covers the Trustee’s formal governing documents, namely its memorandum and articles of association. These documents, together with the Scheme’s trust deed and rules, govern the Trustee.
Aviva	Aviva Life & Pensions UK Limited.
Bank	The Co-operative Bank p.l.c. was a participating employer in Pace up to 6 August 2018 and from that date is the principal employer (and sole participating employer) of the Bank Section.
Bank-Appointed Director	Trustee Director who was selected by the Bank.
Bank Section	The legally segregated section of Pace sponsored by the Bank.
Brixham Fund	Brixham Co-operative Society Limited Employees’ Superannuation Fund.
Closure Members	Members who were still building up benefits on the date Pace DB closed to future accrual and have had continuous membership of Pace DC since the date of DB closure.
Co-op	Co-operative Group Limited. The Co-op was the Scheme’s principal employer up to 6 August 2018 and from that date is the principal employer of the Co-op Section.
Co-op Section	The legally segregated section of the Scheme that is sponsored by the Co-op and other participating employers.
Deferred Members	Member of the Scheme who are not Closure Members and whose benefits have not yet come into payment.
Escrow account	For the purposes of the accounts means an account set up as part of an agreement by two parties (for example, a pension scheme and an employer) and held by an independent third party (typically a custodian) until certain conditions are met, at which point the funds would be payable to the scheme or returned to the sponsor (depending on the conditions met).
Former Schemes	Either the Co-operative Group (CWS) Limited Pension Fund (known as the Co-operative Group Pension Fund), the CIS Employees’ Pension Scheme, or the Co-operative Bank Pension Scheme. Pace was formed when these 3 schemes merged, in April 2006.

GMP	Guaranteed Minimum Pension. GMPs arise in respect of periods of service when a contributing member was contracted-out of State Second Pension arrangements between 6 April 1978 and 5 April 1997.
Pace DB (formerly Pace Complete)	This is the defined benefit (DB) part of Pace which has closed to future accrual and has no contributing members.
Pace DC	This is the defined contribution (DC) part of Pace which opened in October 2012. Pace DC has members who are actively making contributions and is the part of Pace into which members are automatically enrolled. It also has deferred members whose benefits have not yet come into payment.
Pensioners	DB Members of the Scheme whose benefits have come into payment and are paid from the Scheme.
Independent Trustee Director	A professional independent trustee who is a director of the Trustee and appointed by the Co-op or the Bank.
Leeds Fund	Leeds Co-operative Society Limited Employees' Pension Fund.
Lothian Fund	Lothian Borders & Angus Co-operative Society Limited Employees' Pension Fund.
PIC	Pension Insurance Corporation.
Plymouth Fund	Plymouth & South West Co-operative Society Limited Employees' Superannuation Fund.
Rothesay	The trading name for Rothesay Life Plc, a UK insurance company authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.
Secretary	The Secretary is responsible for helping the Trustee with its arrangements, and providing support for its meetings.
Scheme	The Co-operative Pension Scheme (Pace). This is the scheme as a whole, and contains both the Bank Section and the Co-op Section.
Sheffield Fund	Sheffield Co-operative Society Limited Employees' Superannuation Fund.
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 Trustee's formal funding documents.
The Trustee	Pace Trustees Limited. A company which is appointed as the trustee of the Scheme and acts via its directors.
Yorkshire Fund	Yorkshire Co-operatives Limited Employees' Superannuation Fund

Trustee Directors & Advisers

Pace Trustees Limited is appointed by the Co-op as the Trustee to manage the Scheme. The Scheme was legally separated into two sections with effect from 6 August 2018: the Co-op Section and the Bank Section. The Trustee manages both these sections.

The Scheme's trust deed and rules give the Co-op the power to appoint or remove the Scheme's Trustee.

Our registered office is 1 Angel Square, Manchester, United Kingdom, M60 0AG.

The board of directors of the Trustee

Prior to 14 June 2024, there were four Trustee Directors appointed, all of whom were professional Independent Trustee Directors:

- 3 professional Independent Trustee Directors were chosen by the Co-op
- 1 professional Independent Trustee Director was chosen by the Bank

From 15 June 2024, Independent Trustee Services Limited (ITS, part of Independent Governance Group) remained appointed to the trustee board but as a sole professional trustee, with Chris Martin appointed as an individual to comply with Companies Act requirements. ITS's main representatives are Chris Martin and Priti Ruparelia, who work primarily on the defined benefit and defined contributions sections respectively.

Changes to the board in 2019 meant that the board no longer included Trustee Directors appointed by the employers or the members. A Members' Consultation Committee was established and included former member-nominated trustee directors - John Buckingham and Geoff Hayzelden. This Committee met with representatives from the Trustee Board and Co-op senior management to discuss current Pace matters and plans. As part of the Trustee changes during 2024, the Members' Consultation Committee has been disbanded. The Trustee Board remains committed to hearing the views of Pace's DB and DC members through various colleague and pensioner forums.

Who were the directors of the Trustee during the Scheme year to 5 April 2024?

Trustee Director	Appointed By
Independent Trustee Services Limited (Chair), part of Independent Governance Group, represented by Chris Martin and Priti Ruparelia	Co-op
Stuart Benson (appointment ended 14 June 2024)	Co-op
Anne Kershaw (appointment ended 14 June 2024)	Co-op
BESTrustees Limited, represented by Christopher Wheeler (appointment ended 30 June 2024)	Bank

Appointment, resignation and removal of Trustee Directors

Pace's Articles of Association provide that the directors of the Trustee shall consist of up to four Independent Trustee Directors, consisting of:

- Up to three appointed by the Co-op (Co-op-Appointed Directors). They will remain directors until they resign, or are removed by the Co-op.
- Up to one appointed by the Bank (Bank-Appointed Director) who will remain a director until they resign, or are removed by the Bank.

If any director is disqualified by law from acting as a trustee or a director, they will cease to be a director of the Trustee. Other standard removal criteria also apply (bankruptcy, debt-related reasons, physical or mental incapability or absence from meetings without permission or good reason).

These provisions of the Articles continue to apply, and the Co-op and Bank still retain the appointment and removal powers set out above. The Co-op and the Bank have agreed that their respective appointment powers will be used to appoint ITS as sole professional trustee.

Chair of the Trustee

The Trustee board elects the Chair. Independent Trustee Services Limited (represented by Chris Martin, and now part of Independent Governance Group) will remain the Chair.

Decision Making

Any decision we make must be:

(a) a decision by a majority of Trustee Directors present at and voting at a meeting,
(b) where decision-making has been delegated to a committee, a decision taken at a meeting of that committee by unanimous agreement of the members of that committee, or
(c) a unanimous decision of the Trustee Directors

and will be subject to the provisions of the Scheme's trust deed and rules and any other rules agreed by the Trustee Directors from time to time. Each Trustee Director has one vote.

Meetings

We aim to meet a minimum of four times a year, but in practice, we meet significantly more often than that.

Our Committees

During the Scheme year, we operated a Defined Contribution Committee, and a Benefits, Audit & Risk Committee**.** As part of the 2024 Trustee changes, the Benefits, Audit and Risk Committee will cease to meet, and its duties will be absorbed into the wider Trustee governance framework, with certain decisions moving back to Trustee board level.

The Committees met every quarter, during the Scheme year; the Defined Contribution Committee will continue to meet quarterly.

Secretary

The Co-op appoints the Secretary to the Trustee. Thomas Taylor, Lead Governance Manager in the Co-op Pensions Department, is appointed as the Secretary.

Trustee Director Remuneration

The Independent Trustee Directors appointed by the Co-op receive remuneration from the Scheme based on rates negotiated with the Co-op, as the principal employer of the Scheme. The Independent Trustee Director appointed by the Bank receives remuneration from the Scheme based on rates negotiated with the Bank, as the principal employer of the Bank Section.

The Scheme’s Professional Advisers and Other Key Relationships are:	
Actuary	Damian McClure FIA, of Mercer Limited (appointed 20 February 2024) (Neil Brougham FIA, also of Mercer Limited, resigned on 19 February 2024)
Administrator (DB)	Co-operative Group Limited Co-op Pensions Department (10406), 1 Angel Square, Manchester, M60 0AG <u>Benefits transferred from the Plymouth Fund and the Yorkshire Fund:</u> Aptia UK Limited (formerly Mercer Limited) Maclaren House, Talbot Road, Stretford, Manchester, M32 0FP
Administrator (DC)	Legal & General Assurance Society Ltd DC Pensions, Legal & General, PO Box 1560, Peterborough, PE1 9AP
Auditor	Deloitte LLP, Statutory Auditor Abbots House, Abbey Street, Reading, RG1 3BD, United Kingdom
AVC providers	Royal London (CIS) Limited Legal & General Assurance Society Ltd The Prudential Assurance Company Ltd Aviva Life Services UK Ltd Utmost Life & Pensions
Banker	Barclays Bank PLC
Buy-in providers	Aviva Life & Pensions UK Limited (“Aviva”) Pension Insurance Corporation plc (“PIC”) Rothesay Life plc (“Rothesay”) (appointed for the Bank DB Section on 13 December 2022 and Co-op DB Section on 24 November 2023)
Custodians	The Bank of New York Mellon International (contract terminated for the Bank DB Section on 4 August 2023) Osborne Clark LLP (terminated 11 December 2023)
Employer Covenant Adviser	Interpath Ltd, trading as Interpath Advisory
Investment Adviser (DB)	Mercer Limited

Investment Adviser (DC)	Lane Clark & Peacock LLP
Investment Managers (DB) **As part of the bulk annuity policy that the Trustee entered into with Rothesay in respect of the remainder of the Co-op Section's Defined Benefit Section's pensioner and deferred liabilities, investment managers were instructed on 23 November 2023 to commence transfer of assets to Rothesay, and to terminate the appointment once this transition activity was complete.* *** As part of the bulk annuity policy that the Trustee entered into with Rothesay in respect of the remainder of the Co-op Section's Defined Benefit Section's pensioner and deferred liabilities, BlackRock was instructed on 23 November 2023 to commence the transfer of assets in the LDI mandate to Rothesay. BlackRock were also instructed to retain a portion of cash assets, to be held in a pooled cash fund, and therefore BlackRock remains as the Scheme's investment manager* *#Where assets were held in pooled funds, assets were re-registered to Rothesay on the next available dealing date after 23 November 2023.* *^Assets held with PGIM was terminated effective 11 December 2023.*	Insight Investment Management (Global) Ltd - Buy and Maintain credit holdings) * Legal & General Investment Management (UK) Limited* Royal London Asset Management Limited* BlackRock Investment Management (UK) Limited ** Intermediate Capital Group plc (terminated 24 November 2023) # Insight Investment Management (Global) Ltd - illiquid credit holdings (terminated 29 November 2023) # Mercer Limited (terminated 2 January 2024)# M&G Investments (terminated 2 January 2024)# PGIM Fund Management Limited (terminated 11 December 2023) ^ TwentyFour Asset Management LLP (terminated 19 May 2023)
Investment Manager (DC)	Legal & General Assurance Society Ltd
Legal advisers	Linklaters LLP Eversheds Sutherland LLP
Life Assurance provider	Zurich Assurance Limited Yu Life Limited
Longevity Transaction Adviser	Aon Solutions UK Limited
Principal employer	Co-operative Group Limited
Participating employer – Co-op Section	Co-operative Legal Services Limited Co-operative Party Limited Co-operatives UK Limited
Participating employer – Bank Section	The Co-operative Bank PLC
Secretary	Thomas Taylor, Lead Governance Manager, Co-op

Trustee's Annual Report

Introduction

We are pleased to present our annual report together with the audited financial statements for the year ended 5 April 2024. The financial statements (set out on pages 52 to 85) have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

The report on actuarial liabilities set out on pages 17 to 19 and the investment report set out on pages 36 to 47 also form part of this annual report.

Constitution of the Scheme

The Scheme is an occupational pension scheme which started on 6 April 2006 and was constituted by a trust deed dated 22 March 2006. On 6 August 2018, the Scheme was separated into two legally separate sections. The Bank is the only employer in the Bank Section; all other employers participating in Pace are in the Co-op Section.

Members were given details about the separation in April 2018 and told which section they would be a member of in May 2018.

We are responsible for the whole Scheme, and hold funds of both sections in trust, to apply them for the purpose of paying pensions and other benefits in accordance with the Scheme's rules.

Scheme Structure, Bulk Annuity Policies and rule changes

Both the Co-op Section and the Bank Section contain historic defined benefits (DB) and a defined contribution (DC) section for members who are currently contributing.

For the Co-op Section:

- In 2020, the Trustee entered into bulk annuity policies with Aviva and PIC in respect of a portion of the Defined Benefit section's pensioner liabilities.
- In November 2023, the Trustee entered into an additional bulk annuity policy with Rothesay in respect of the vast majority of the remainder of the Defined Benefit section's pensioner and deferred liabilities.
- These bulk annuity policies will provide all benefits due from the Section to members. The only remaining defined benefit assets consist of cash held by the Section to meet future expenses and some small residual liabilities.

For the Bank Section:

- In 2020, the Trustee entered into a bulk annuity policy with PIC in respect of a portion of the Defined Benefit section's pensioner liabilities.
- In December 2022, the Trustee entered into an additional bulk annuity policy with Rothesay in respect of the vast majority of the remainder of the Defined Benefit section's pensioner and deferred liabilities.
- These bulk annuity policies will provide all benefits due from the Section to members. The only remaining defined benefit assets consist of cash held by the Section to meet future expenses and some small residual liabilities.

Before legal separation

The DB section of the Scheme closed to future accrual on 30 September 2015 for Bank employees and 29 October 2015 for the employees of the Co-op and other participating employers. DB benefits were built up based on a member's average career salary and length of membership.

The DC section of the Scheme was established on 7 October 2012, and from 29 October 2015 is the only section of Pace which has actively contributing members.

After legal separation

Now that the Co-op Section and Bank Section are legally separate, they are supported by their respective employers. We will continue to work closely with the employers to safeguard all members' interests in both sections of Pace.

On 4 August 2023, the Trustee, the Co-op and the Bank entered into a deed formally extending the ability of certain members of the Co-operative Bank Pension Scheme, which transferred into Pace in 2006, to defer the commencement of their pension up to age 75.

Scheme Mergers and Exits

Before legal separation

When Pace was established in 2006, it replaced three of the Co-op's other pension arrangements (the "Former Schemes") whose assets and liabilities were transferred to the Scheme. The Former Schemes are the Co-operative Group (CWS) Limited Pension Fund, the Co-operative Bank Pension Scheme and the CIS Employees' Pension Scheme. Between 2006 and legal separation, various other pension schemes transferred into Pace.

On 30 April 2015 four of the Co-op's remaining pension arrangements were transferred into Pace:

- The Brixham Fund;
- The Leeds Fund;
- The Lothian Fund; and
- The Sheffield Fund.

After legal separation

Unity Trust Bank

Unity Trust Bank's defined benefit liability to the Co-op Section ceased on 19 October 2018. Unity Trust Bank ceased to participate as an employer in Pace DC from 31 March 2019.

Co-operatives UK and the Co-operative Party ceased to participate as employers in Pace DC from 30 April 2019, and set up new arrangements with Legal & General. Their Co-op Section liabilities built up to that date remain in the Co-op Section. The section 75 debts that otherwise would have been triggered have been deferred using deferred debt arrangements in accordance with the Occupational Pension Schemes (Employer Debt and Miscellaneous Amendments) Regulations 2018.

Scheme transfers in 2021

The assets and liabilities of the Plymouth Fund and the Yorkshire Fund were transferred to the Co-op Section of Pace DB with effect from 12 March 2021.

Administration services for the members transferred from the Plymouth Fund and the Yorkshire Fund are provided by Aptia.

Financial statements

As the Bank and Co-op Sections are ring-fenced from each other post-legal separation, there is a requirement to obtain audited financial statements for each section.

Audited financial statements have been prepared for the year ended 5 April 2024 for each section and these financial statements should be read in conjunction with those separate documents.

The Bank Section financial statements show that the net assets of the section decreased from £1.3bn at 5 April 2023 to £1.2bn at 5 April 2024.

The Co-op Section financial statements show that the net assets of the section decreased from £7.1bn at 5 April 2023 to £6.2bn at 5 April 2024.

Tax Status

The Scheme is a registered pension scheme under the Finance Act 2004. Accordingly, under the provisions of sections 186 and 187 of that Act, the Scheme's income and investment gains are free of taxation.

Transfer Values

Transfer value calculations use a method and basis we have determined, after taking advice from the Scheme Actuary, to be consistent with relevant legislation and the rules of the Scheme. No discretionary increases are included in the calculation of transfer values. No transfer values were reduced to less than their cash equivalent value during the year.

We do not accept individual transfers in respect of defined benefit liabilities into the DB Sections of the Scheme.

Notice of Scheme Actuary resignation

Neil Brougham resigned as Scheme Actuary on 19 February 2024. Neil has confirmed that there are no circumstances connected with his removal from the appointment which significantly affect the interests of current or prospective members and beneficiaries under Co-operative Pension Scheme.

Damian McClure was appointed as Scheme Actuary on 20 February 2024.

Membership statistics for the year ended 5 April 2024

	6 April 2023	Adjustments	Additions	Retirements, leavers and pensions ceasing	Deaths	5 April 2024
Co-op Section						
Closure Members DB	**2,792**	(50)	-	(243)	(6)	**2,493**
Deferred Pensioners DB	**27,740**	(108)	144	(1,250)	(69)	**26,457**
Pensioners DB	**31,868**	(139)	1,409	(23)	(1,075)	**32,040**
Bank Section						
Closure Members DB	**595**	(73)	-	(10)	(3)	**509**
Deferred Pensioners DB	**5,683**	38	-	(257)	(7)	**5,457**
Pensioners DB	**4,302**	19	273	(1)	(102)	**4,491**
Total DB	**72,980**	**(313)**	**1,826**	**(1,784)**	**(1,262)**	**71,447**
Co-op Section						
Active Members DC	**39.766**	302	7,907	(8,805)	(44)	**39,126**
Deferred Pensioners DC	**36,939**	33	8,964	(4,123)	(51)	**41,762**
Bank Section						
Active Members DC	**3,277**	7	464	(442)	-	**3.306**
Deferred Pensioners DC	**886**	4	459	(118)	(2)	**1,229**
Total DC	**80,865**	**346**	**17,794**	**(13,488)**	**(94)**	**85,426**

Employees who are auto-enrolled and subsequently opt out of the DC section after making a contribution are included in the above membership statistics. Employees who are auto-enrolled and opt out before a contribution is deducted are excluded.

Co-op Section - Guarantees

The Co-op's main trading and/or asset-holding subsidiaries guarantee the Co-op's obligations to the Scheme. The identity of these guarantors may change from time to time depending on the internal financial metrics of the wider Co-op Group: the criteria for this are set based on the Co-op's banking arrangements and other entities are added from time to time. The guarantors under this guarantee are also guarantors for the Co-op's banking and bond debt. This guarantee covers the amounts due from the Co-op under either the schedule of contributions or under the employer debt provisions of section 75 of the Pensions Act 1995, and has a long-stop date of 31 December 2034.

Bank Section – Guarantees

On 4 August 2023, the Trustee agreed to release the Bank from its obligation to provide additional security to the Bank Section (via a contingent asset arrangement) agreed as part of sectionalisation in 2018. Having taken appropriate advice, the Trustee considered this release to be reasonable given the security provided to members' benefits following the buy-in policy entered into with Rothesay. Correspondingly, and as expected under the 2018 sectionalisation arrangements, the Co-op was released from its obligation to financially support the Bank

Section in the event of an insolvency of the Bank (also known as its “last man standing” obligation).

The Bank Section remains able, in certain circumstances, to access £25m in an escrow account. No further contributions are being paid by the Bank to that escrow account.

Pension increases

Pensions in payment for Pace DB benefits (accrued after 5 April 2006) are increased annually on 6 April in line with the RPI as at the preceding December up to a maximum of 2.5%.

Pensions in payment for the Former Scheme benefits (accrued before 6 April 2006) that are in excess of the guaranteed minimum pension (GMP) are increased annually on 6 April in line with the Retail Prices Index (RPI) as at the preceding December up to a maximum of 5% (or 6% for former members of the CIS Employees’ Pension Scheme who joined before 6 April 2000). There are some exceptions for certain Former Scheme members.

There were no discretionary increases awarded to pensions in payment.

April 2023

The increase applied to pensions in payment for Former Schemes in April 2023 was 5% (or 6% for former members of the CIS Employees’ Pension Scheme who joined before 6 April 2000), pro rata for any pensions in payment for less than a year.

The increase applied to pensions in payment for Pace DB benefits in April 2023 was 2.5%.

GMPs in payment are increased annually in accordance with legislation up to a maximum of 3.0%. The maximum GMP increase applied in April 2023 was 3%.

Pensions in payment for members whose benefits have been transferred from acquired schemes were increased in April 2023 in line with their respective scheme rules as follows:

- Ex-Alldays PLC Pension Scheme
    - Pre April 1997 pension in excess of GMP was increased by 3%
    - Post April 1997 pension was increased by 5%
- Ex-Kenneth Balfour Limited Pension, Life Assurance and Widows Pension Scheme (1976)
    - Pre April 1997 pension was increased by 3%
    - Post April 1997 pension was increased by 5%
- Ex-Trademarket Pension Scheme
    - Pension in excess of GMP was increased by 5%
- Ex-W&P Foodservice Pension Scheme
    - Pre April 1997 pension in excess of GMP was increased by 3.0%
    - Post April 1997 pension in excess of GMP was increased by 5%
- Ex-GT Smith & Sons Ltd Retirement and Death Benefit Scheme
    - Pension in excess of GMP was increased by 5%

Merged Schemes

Pensions in payment for members whose benefits transferred into Pace from the Brixham, Leeds, Lothian, Plymouth, Sheffield and Yorkshire Funds were increased in line with their respective scheme rules as follows:

- Plymouth Fund increased on 6 April 2023:
    - Pre 6 April 1997 increased by 3%
    - 6 April 1997 to 5 April 2006 increased by 5%
    - Post 6 April 2006 increased by 2.5%
- Sheffield Fund pension in August 2023:
    - Pre May 2006 pension increased by 5%
    - Post May 2006 pension increased by 2.5%
- Brixham Fund pension increased in January 2024:
    - Pre 6 April 1997 increased by 3%
    - 6 April 1997 to 13 January 2006 increased by 5%
    - Post 14 January 2006 increased by 2.5%
- Leeds Fund pension increased in January 2024 by 5%
- Lothian Fund pension increased on 1 April 2024 by 5%
- Yorkshire Fund increased on 1 April 2024 by 4.3%

Pensions in deferment

Pensions in excess of any GMP under the Former Schemes and the Brixham, Leeds, Lothian, Sheffield, Plymouth and Yorkshire Funds will be revalued for each year of deferment, subject to a cap of 5% p.a. compounded over the whole period of deferment. The revaluation rate will reference either the increase in RPI (or RPI and Consumer Prices Index (CPI)), depending on the rules of the Former Scheme or Brixham, Leeds, Lothian, Sheffield, Plymouth and Yorkshire Funds.

Pensions in deferment for Pace DB benefits (accrued after 5 April 2006) are increased annually on 6 April in line with the RPI as at the preceding December to a maximum of 5%. The increase applied in April 2023 was 5%.

GMPs are increased in deferment in accordance with statutory requirements.

There were no discretionary increases awarded to pensions in deferment.

Actuarial Valuations

The second actuarial valuations of the Co-op Section and Bank Section were carried out as at 5 April 2022. The statutory deadline for agreeing the results with the sponsoring employers of those sections was 5 July 2023; both valuations were agreed and submitted to the Pensions Regulator by this deadline.

At the 5 April 2022 valuation date, on the Sections' Technical Provisions bases:

- The Co-op Section was 119% funded, with a surplus of £1,377m. We discussed the results of the valuation with the Co-op and agreed that, given the strong funding position and low risk investment strategy, no further deficit contributions were currently required from the Co-op. By 5 April 2023, the funding level had moved to 120%, with a surplus of £1,032m.

- The Bank Section was 113% funded, with a surplus of £232m. Funding arrangements with the Bank were agreed as set out below in the section headed "Defined benefit schedules of contributions – Bank Section". By 5 April 2023, the surplus was £27m and the funding level was 102%. The change in the funding position is owing to the purchase of the Rothesay buy-in policy in December 2022. The value of the insured policies has been valued as being equal to the liabilities they represent, calculated based on the Statement of Funding Principles dated 28 June 2023. The surplus represents the cash balance remaining following the purchase of the annuity.

The next actuarial valuations will take place as at 5 April 2025. The statutory deadline for agreeing the results with the sponsoring employers is 5 July 2026. Once the valuation results have been agreed, they will be submitted to the Pensions Regulator and communicated to members.

Contributions

Members who participate in a salary sacrifice arrangement accept a reduction in pay in return for non-contributory membership of Pace with the balance of cost paid by the appropriate sponsoring employer. Contributions to Pace DC are set out below.

Bank Section DC contributions

Employee %	Employer %	Total %
3%	5%	8%
4%	8%	12%
5%	10%	15%
6%	10%	16%
7%	10%	17%
8%	10%	18%

Minimum contributions as required by automatic enrolment legislation is 3% for employees and 5% for employers.

The Bank directly meets its share of expenses in respect of the DC section, with the exception of costs charged by the Co-op in respect of the provision of services to the DC Section, as follows:

- From 6 August 2022 to 31 December 2027: a fixed contribution of £58,633 plus VAT p.a. paid annually in advance.

These contributions fall due on 6 August each year, and require payment within 30 calendar days.

Co-op Section DC contributions

Members who joined before 10 June 2019

Employee %	Employer %	Total %
1%*	2%*	3%
2%*	3%*	5%
3%	5%	8%
4%	8%	12%
5%	10%	15%
6%	10%	16%
7%	10%	17%
8%	10%	18%
9%	10%	19%
10%	10%	20%

*Minimum contributions as required by automatic enrolment legislation increased to 8% from April 2019. The 1% and 2% contribution options are below the automatic enrolment minima but will remain available for members to select should they wish to do so.

Members who joined on or after 10 June 2019

Employee %	Employer %	Total %
1%*	1%*	2%
2%*	2%*	4%
3%*	3%*	6%
4%	4%	8%
5%	5%	10%
6%	6%	12%
7%	7%	14%
8%	8%	16%
9%	9%	18%
10%	10%	20%

*Minimum contributions as required by automatic enrolment legislation increased to 8% from April 2019. The 1%, 2% and 3% contribution options are below the automatic enrolment minima but remain available for members to select should they wish to do so.

Arrangements for the payment of employer contributions from 25 March 2024

From 25 March 2024 to 24 March 2027, the Trustee will credit an amount to Members' Retirement Accounts (subject to a maximum of £60m per annum) from the Co-op DB Section assets in line with the employer contributions corresponding to each member's chosen member contribution rate set out in the tables above.

If the total credits required in any year exceed £60m, then the Co-op (and any other participating employer) will make employer contributions corresponding to each member's chosen member contribution rate set out in the tables above. These employer contributions are to be paid across to the Co-op DC Section on or before the 19th day of the calendar month following the end of the pay period for which the corresponding member contributions are payable.

From 25 March 2027, the Co-op (and any other participating employer) will make employer contributions corresponding to each member's chosen member contribution rate set out in the tables above. These employer contributions are to be paid across to the Co-op DC Section on or before the 19th day of the calendar month following the end of the pay period for which the corresponding member contributions are payable.

In the event that prior to 25 March 2027, the Trustee agrees with the Co-op that it will no longer use Co-op DB Section assets to credit Members' Retirement Accounts, the Co-op (and any other participating employer) will make employer contributions corresponding to each member's chosen member contribution rate set out in the tables above. If this event happens, then the Trustee and the Co-op can agree at a later date, to revert to using Co-op DB Section assets to credit Members' Retirement Accounts rather than requesting the Co-op to make the payments. These employer contributions are to be paid across to the Co-op DC Section on or before the 19th day of the calendar month following the end of the pay period for which the corresponding member contributions are payable.

Report on Actuarial Liabilities – Co-op Section

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 us and the Co-op and set out in the Statement of Funding Principles, which is available to Co-op Section members on request.

The second full actuarial valuation of the Co-op Section of the Scheme was carried out as at 5 April 2022.

This showed that on that date:

The value of the technical provisions was:	£7,408 million
The value of the assets at that date was:	£8,785 million

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).

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 (pre and post retirement):** The discount rate used is a term structure derived from the yields on UK Government conventional gilt stocks appropriate to the date of each future cashflow (extrapolated for cash flows beyond the longest available yields) plus an additional 0.5% per annum to reflect the allowance we have agreed for additional expected investment returns based on the investment strategy.

- **Future Retail Price inflation (RPI):** The assumption for the rate of increase in the Retail Prices Index (RPI) will be a term structure derived from the difference between the yield on conventional and index-linked UK Government bonds at the date of each future cash flow (extrapolated for cashflows beyond the longest available bonds).

- **Future Consumer Price inflation (CPI):** Derived from the RPI assumption, with an appropriate adjustment to recognise the best estimate of the difference between expectations of future RPI increases and future CPI increases. The adjustment will be reviewed at each valuation; it has been assumed for the purpose of this valuation that the appropriate adjustment will be 1.0% per annum up to 2030 and 0.0% per annum thereafter.

- **Pension increases:** In line with the provisions in the Scheme's rules, the assumption for the rate of pension increases applying to each benefit tranche is a full curve of annual gilt-implied inflation forward rates, adjusted for the probability that future inflation is above or below any applicable maximum and minimum annual increase entitlements. A stochastic model is used to derive the adjustment at each point on the curve. The model allows for the volatility of inflation to vary with time.

- **Pay increases:** Pace DB was closed to future accrual in October 2015. In some circumstances, members retain a final salary link for benefits accrued before 6 April 2006 in the former Bank, Group and CIS Schemes. An assumption for salary increases in excess of increases in RPI of 0.5% per annum has been determined after consultation with the Co-op. No additional allowance has been made for promotional increases.

- **Mortality:** The mortality assumptions are based on up to date information published by the Continuous Mortality Investigation ("CMI") and National Statistics, making allowance for future improvements in longevity and the experience of the Co-op Section of the Scheme. The mortality tables are the S3PA Year of Birth tables (standard for male and middle for female) with weightings of 106% for male pensioners, 110% for male non-pensioners, 104% for female pensioners and 108% for female non-pensioners. Future improvements are based on the CMI 2021 model with a long term improvement rate of 1.5% p.a., an S-Kappa of 7.5 and no initial adjustment factor.

Report on Actuarial Liabilities – Bank Section

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 us and the Bank and set out in the Statement of Funding Principles, which is available to Bank Section members on request.

The second full actuarial valuation of the Bank Section of the Scheme was carried out as at 5 April 2022.

This showed that on that date:

The value of the technical provisions was:	£1,750 million
The value of the assets at that date was:	£1,982 million

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).

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 (pre and post retirement):** The discount rate used is a term structure derived from the yields on UK Government conventional gilt stocks appropriate to the date of each future cashflow (extrapolated for cash flows beyond the longest available yields) plus an additional:
  - 0.5% per annum for the period to 31 December 2027; and
  - 0.25% per annum thereafter

  to reflect the allowance we have agreed for additional expected investment returns based on the investment strategy.

- **Future Retail Price inflation (RPI):** The assumption for the rate of increase in the Retail Prices Index (RPI) will be a term structure derived from the difference between the yield on conventional and index-linked UK Government bonds at the date of each future cash flow (extrapolated for cashflows beyond the longest available bonds).

- **Future Consumer Price inflation (CPI):** Derived from the RPI assumption, with an appropriate adjustment to recognise the long term difference between expectations of future RPI increases and future CPI increases. The adjustment will be reviewed at each valuation; it has been assumed for the purpose of this valuation that the appropriate adjustment will be 0.7% per annum up to 2030 and 0.0% per annum thereafter.

- **Pension increases:** In line with the provisions in the Scheme's rules, the assumption for the rate of pension increases applying to each benefit tranche is a full curve of annual gilt-implied inflation forward rates, adjusted for the probability that future inflation is above or below any applicable maximum and minimum annual increase entitlements. A stochastic model is used to derive the adjustment at each point on the curve. The model allows for the volatility of inflation to vary with time.
- **Pay increases:** No members in the Bank Section of the Scheme have benefits which increase in line with changes in salaries.

- **Mortality:** The mortality assumptions are based on up to date information published by the Continuous Mortality Investigation ("CMI") and National Statistics, making allowance for future improvements in longevity and the experience of the Bank Section of the Scheme. The mortality tables are the S3PA Year of Birth tables (standard for male and middle for female) with weightings of 101% for male pensioners, 107% for male non-pensioners, 101% for female pensioners and 106% for female non-pensioners. Future improvements are based on the CMI 2021 model with a long term improvement rate of 1.5% p.a., an S-Kappa of 7.5 and no initial adjustment factor.

Additional Voluntary Contributions (AVCs)

From 7 October 2012, Legal & General became the AVC provider for the Scheme. Legal & General holds AVC investments separately from the main investments in the Scheme. Members have the option of selecting from the following funds:

- Pace Growth (Shares) 2021 Fund
- Pace Growth (Ethical Shares) Fund
- Pace Growth (Mixed) Fund
- Pace Pre-Retirement (Inflation-linked) Fund
- Pace Pre-retirement Fund
- Pace Cash Fund
- Pace Growth (Shariah) Fund

Prior to October 2012, active members of Pace DB were also able to make AVC contributions to Royal London within the With-Profits Pension Fund.

Members have not been able to make any further AVC contributions to Royal London since October 2015, when Pace DB closed.

GMP Equalisation

On 26 October 2018, in the *Lloyds Banking Group* legal case, the High Court ruled that schemes that were contracted out of the State Earnings Related Pension Scheme (SERPS) between 1990 and 1997 need to equalise benefits overall, to address the effect of unequal GMPs. A further ruling followed in November 2020 relating to equalising GMPs in respect of historic transfer values paid out, going back to May 1990.

An interim solution has been implemented for equalising GMPs for transfer values and trivial commutation payments made by the Scheme, ahead of when GMP equalisation is completed for all benefits in the Scheme.

The Trustee, with the assistance of its legal and actuarial advisers, is in the process of considering with the Co-op and Bank, the most appropriate GMP equalisation methodology for equalising GMPs for main scheme benefits and also for revisiting historic transfer values.

GMP equalisation is expected to increase the liabilities of the Scheme. The liability impact will vary depending on the equalisation methodology approach taken, although the differences in liability impact on the Scheme's technical provisions basis are expected to be immaterial in the context of total Scheme liabilities. Therefore, we have not included a liability in respect of GMP equalisation in these financial statements. They will be accounted for in the year they are determined.

Virgin Media case

In June 2023 the High Court found in the Virgin Media case that changes to member benefits in contracted out defined benefit pension schemes between 1996 and 2016 required an actuarial certificate in line with section 37 of the Pensions Schemes Act 1993, and that changes without this certification are to be considered void. This requirement applies to both past service rights and future service rights, and to changes to the detriment or benefit of scheme members. The Court of Appeal upheld the High Court's decision in July 2024. The Trustee will keep this issue under review however it is not possible at present to estimate the potential impact, if any, on the Scheme.

Financial Development of the Scheme

During the year ended 5 April 2024, the net assets of the Scheme decreased from £8.4bn to £7.4bn, of which £6.2bn relates to net assets of the Co-op Section and £1.2bn to the Bank Section.

Investments

The investment reports are set out on pages 36 to 47.

Enquiries

For enquiries about the Scheme please contact:

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1 Angel Square, Manchester, M60 0AG

Email address: staffpensions@coop.co.uk

The Co-operative Pension Scheme ("Pace")

The Chair of the Trustee's Annual Governance Statement
Year ending 5 April 2024

As Chair of the Pace Trustee I am very pleased to share with you the latest annual governance statement for the Defined Contribution (DC) Section and Additional Voluntary Contributions (collectively referred to as Pace DC or "the Scheme" in this statement).

This Statement has been prepared to demonstrate how Pace has complied with important governance standards required under regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended. It describes how the Trustee has met the statutory governance standards over the Scheme year ended 5 April 2024 in relation to:

1. The investment options in which members' funds are invested, both the default arrangement and other funds members can select or have assets in.
2. The financial transactions made within Pace DC.
3. The charges and transaction costs within Pace DC (including an illustration of the cumulative effect of these charges).
4. Net returns of the investment options
5. Asset allocation of the default investment fund
6. The assessment of value for members.
7. Additional Voluntary Contributions (AVCs).
8. The Trustee Directors' compliance with their knowledge and understanding (TKU) requirements.

The Trustee has elected to use the Scheme year as the period against which the charges and transaction costs incurred under Pace DC will be assessed (the "Pace DC Year").

As with last year's statement, we have included information relating to charges and transaction costs and 'pounds and pence' illustrations demonstrating the potential impact of costs and charges on a member's DC savings over the course of their Pace DC membership.

1 Pace's DC default investment

Once employees meet the Government's eligibility criteria they are automatically enrolled into Pace DC (therefore Pace DC is a "Qualifying Scheme" for automatic enrolment.)

When employees are automatically enrolled or join Pace DC without choosing their own investment options, the Trustee ("we") invests contributions in a default investment (Target: Lump Sum, a lifestyle strategy, further information is available in the Pace DC Fund Guide), although members can change how their DC account is invested at any time. The Trustee is responsible for the Scheme's governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangements. A lot of time is spent making sure that the Pace DC investments and the default investment are appropriate. The Trustee has documented an explanation of their investment objectives and how they review and monitor the performance of the DC investments, this document is called the Statement of Investment Principles and this is explained below.

Statement of Investment Principles

We maintain a Statement of Investment Principles ("SIP") for each section which outlines the principles and policies that govern our decisions about investments. A copy of the current SIP for each section is appended to this Annual Governance Statement at Appendix 1 (Co-op Section) and Appendix 2 (Bank Section) in the accounts and includes information on:

i. The aims and objectives for the Pace DC default investment, the 'Target: Lump Sum' option. In particular, the aim of the default arrangement, as stated in each SIP, is to grow member contributions ahead of inflation over a member's working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement.

ii. Our policies on such matters as:

   a. The kinds of investments to be held

   b. The balance between the different kinds of investment

   c. Environmental, Social and Governance (ESG) factors and stewardship

   d. Risks, including how these are measured and managed

   e. Expected return on investments; and

   f. The realisation of investments.

iii. How the default strategy (Target: Lump Sum) and the other 'Target' lifestyle arrangements are intended to ensure that assets are invested in the best interests of members and beneficiaries.

There is also a self-select fund range for Pace DC members, which the Trustee considers to be a suitable range of funds for members who wish to make their own investment choices.

The Co-op Section SIP was reviewed in June 2023 and updated to reflect changes agreed to the lifestyle investment options available to DC members (including changes to the default option), as set out below. The latest version of the SIP was approved on 15 January 2024, and included updates to reflect the Co-op Section of Pace DB's buy-in transaction (implemented in November 2023), as well as to meet new legislative requirements requiring trustees to state their policy on investing in illiquid assets for their scheme's default arrangements (where "illiquid assets" are those that cannot easily or quickly be sold or exchanged for cash and include any such assets held in a collective investment scheme).

Minor changes to the Bank Section SIP were made in August 2023 to reflect that residual cash held in the Bank Section of Pace DB to meet expenses following the 2022 buy-in transaction would be held in a pooled cash fund.

Investment strategy review

We review the suitability of the DC investments annually and conduct a strategic investment review of all investment options available to members (including the default strategy and the performance of the default arrangement) around every three years, on no less than a three-yearly cycle. We would also review it immediately after any significant change in investment policy or the demographic profile of the membership.

The last triennial strategic review was completed on 15 September 2022. The Trustee examined the suitability of the default lifestyle, alternative lifestyles and self-select fund range for the Scheme. The strategy review included analysis of the Scheme's membership demographics to assess if the current target of cash lump sum at retirement remains appropriate for the default. Given that the majority of members near retirement (within 5 years of their target retirement age) have small projected pots of £30k or less, they are expected to be more likely to take a cash lump sum at retirement relative to other options (eg annuity purchase or transfer to an income drawdown arrangement). The Trustee noted that Bank members on average are projected to have pots of more than £50k, indicating a drawdown target would be more suitable, however Bank members 5 years or less to their target retirement age have on average pots of less than £30k. Therefore, the Trustee concluded that the cash lump sum target remains suitable for the short-term, but should be reviewed as part of the next strategy review to ensure it remains appropriate.

Following this review, in 2023 the Trustee made changes to the lifestyle investment options available in the Co-op Section of Pace DC (including changes to the default option), to introduce an increased exposure to equities for members who are more than 10 years from their chosen retirement date, and shortening the "de-risking" period from 25 to 20 years, meaning members 20 years or further from their selected retirement age will be invested for longer in assets with higher expected returns with the aim of improving members' pot size at retirement. The lifestyle investment options also switched to using blended funds to allow easier communication to members and to allow the Trustee and Lane Clark & Peacock (the "investment adviser" or the "DC adviser") to make any future changes to the investment strategy more quickly, better reacting to changes in market conditions or market developments, and with less disruption to members.

In addition to the triennial strategy review, the Trustee also carried out an annual strategy review for the Scheme in February 2024. The review looked at the ongoing appropriateness of the default strategy target, performance of the lifestyle strategies and the freestyle fund range and an update on asset-backed securities as an investment option. The Trustee concluded that the lump sum target remains appropriate of the default lifestyle and that the freestyle range is comprehensive and covers all key asset classes. It was further agreed that the current at-retirement allocation would be retained but the Trustee will review this again as part of the next triennial strategy review.

In June 2023 the Bank notified the Trustee of its intention to review ongoing DC provision in 2023. As such, the implementation of the investment strategy changes for the Bank Section has been paused. The Trustee will monitor the Bank's progress and, if required, will implement the strategy changes at a later date.

Investment monitoring

In addition to the strategy review, with the support of the Co-op Pensions Department and its DC adviser, the Trustee also reviews the performance of the default arrangement against its aims, objectives and policies on a quarterly basis. This review includes an analysis of the underlying funds' performance against their respective benchmarks, relevant ABI sectors (i.e. similar funds) as well as a consideration of the volatility of the Pace Growth (Mixed) Fund against equity markets, together with a high level review of member activity to check that the risk and return levels meet expectations. The Trustee's reviews that took place during the Scheme year concluded that the default arrangement was performing broadly as expected and is consistent with the aims and objectives of the default as stated in the SIP, and as set out above. The performance of the default arrangement was reviewed at quarterly DC Committee meetings over the Scheme year, and was last considered on 7 March 2024.

Environmental Social and Governance (ESG) Considerations

Regulations introduced in 2018 mean that pension schemes need to formally document how they incorporate Environmental, Social and Corporate Governance issues (and specifically consideration of climate risk) into their investment strategies, for both DB and DC investments. Pace publishes its Responsible Investment Policy on its website, with an annual report on how its investments have complied with this policy and the requirement of the UK Stewardship Code.

In particular, we believe that members of Pace DC are long-term investors, and that a default investment option for the Scheme should invest in companies that can deliver sustainable, long-term value, with proper consideration of environmental, social and corporate governance factors (including climate change).

Aligned with this view, both the Pace Growth (Mixed) Fund and the Pace Growth (Shares) 2021 Fund (which are used in the default investment option) aim to take into account the environmental and social behaviours of businesses they invest in, as well as how well they are governed and run, when deciding how much to invest in different companies.

2 Financial transactions.

We have a service level agreement (SLA) in place with the Pace DC administrator, Legal & General, which includes performance standards relating to the accuracy and timeliness of all core transactions. These include the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries. These transactions are regularly monitored to ensure that they have been processed promptly and accurately during the Scheme year.

We are satisfied that during this Scheme year there have been no material administration errors relating to core financial transactions. Core transactions were processed in an accurate and timely manner, and when an error did occur it was rectified promptly and accurately.

Legal & General's processes include daily monitoring of bank accounts, a dedicated contributions processing team and peer review of investment and banking transactions.

Monitoring is achieved through the review of quarterly reporting from Pace DC's administrator and the monthly monitoring of contribution payments by the employers. Pace's financial accounts are also audited annually by the appointed auditors.

In conjunction with our advisers, from 2023, we undertook a regular assessment of Pace DC's Effective System of Governance, including internal controls, to confirm that they are compliant with the Pensions Regulator's new General Code of Practice (published in January 2024).

We also ensure that our AVC providers (see section 7) have service levels in place for core financial transactions and each year we seek confirmation from each provider that these service levels continue to be met.

3 Charges and transaction costs

We are required to include information on charges and transaction costs in this statement each year, to improve transparency on costs and to help members understand the relative merits of different investment options in a DC scheme like Pace DC.

Charges

Pace DC scheme charges (Total Expense Ratio) comprise of three elements:

- An Annual Management Charge (AMC) – a charge paid to cover administration costs.
- A Fund Management Charge (FMC) – a charge paid to cover fund management expenses.
- Fund expenses – any expense not covered by the AMC or FMC.

Transaction costs

Transaction costs are the costs of buying and selling securities. These can be easily identifiable 'explicit' costs (i.e. charged to and paid directly by the fund) which include Brokers Commission, Research Commissions, Transaction Taxes and Fees, or, not directly observable 'implicit' costs which relate to the market impact when the investments are bought and sold. Implicit costs can, therefore, be difficult for managers to identify and disclose.

The charges and transaction costs for each fund in Pace DC are shown in Appendix 3 for the Co-op Section and Appendix 4 for the Bank Section and have been prepared in accordance with statutory guidance.

Cumulative illustration

In addition to the above, we are also required to present the costs and charges typically paid by a member as a "pounds and pence figure". Illustrative examples of the cumulative effect over time of the application of charges and transaction costs on the value of a member's accrued rights to money purchase benefits are shown in Appendix 5 for the Co-.op Section and Appendix 6 for the Bank Section. The illustrations have been prepared having regard to the guidance issued by the DWP in October 2022 which was the guidance in force at the end of the Scheme year. The member borne charges for Pace DC's default arrangement complied with the charge cap.

Further details of transaction costs, charges and cumulative illustrations for funds invested with Pace's AVC arrangements can be found by visiting:

Co-op: https://coop.pacepensions.co.uk/pace-dc-governance/
Bank: https://bank.pacepensions.co.uk/pace-dc-governance/

All transaction costs and illustrations quoted have been supplied by the provider of that pension arrangement.

4 Net returns for the investment options

Trustees must, as part of their annual chair's statement, state the return on investments from their default and self-select funds, net of transaction costs and charges. The definition of a self-select fund is wide and will capture all funds which scheme members are, or have been able to select in the past, and in which scheme members are invested during the scheme year. Net investment returns refer to the returns on funds minus all transaction costs and charges. The information must also be published on a publicly accessible website.

Further details of the net investment returns for Pace DC and the AVC funds can be found by visiting:

Co-op: https://coop.pacepensions.co.uk/pace-dc-governance/
Bank: https://bank.pacepensions.co.uk/pace-dc-governance/

The net investment returns for L&G and the AVC providers are shown over the period to 31 March 2024, as the closest date available to 5 April 2024, dating back 5 years where available. The Utmost funds were launched in January 2020 and hence 5 year returns are not available.

5 Asset allocation of the default investment fund

The Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023 require trustees to disclose in their annual chair's statement the percentage of assets allocated to each of the following asset classes in their default arrangement:

Co-op Section

Asset Class	Co-op Section - age 25 (40 years before selected retirement)	Co-op Section - age 45 (20 years before selected retirement)	Co-op Section - age 55 (10 years before selected retirement)	Co-op Section - age 65 (1 day before selected retirement)
Cash	0.3%	0.3%	1.0%	75.3%
Bonds	13.6%	13.6%	45.4%	11.4%
Developed Market Corporate Bonds	*5.7%*	*5.7%*	*19.1%*	*4.8%*
Developed Market Government Bonds	*3.7%*	*3.7%*	*12.2%*	*3.1%*
Other Bonds (Emerging Market Debt; High Yield Debt)	*4.2%*	*4.2%*	*14.1%*	*3.5%*
Listed Shares	82.6%	82.6%	42.1%	10.5%
Infrastructure (via listed assets)	1.4%	1.4%	4.8%	1.2%
Global Forestry (via listed assets)	0.2%	0.2%	0.5%	0.1%
Property (via listed assets)	1.9%	1.9%	6.2%	1.6%
Other	0.0%	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Bank Section

Asset Class	Bank Section - age 25 (40 years before selected retirement)	Bank Section - age 45 (20 years before selected retirement)	Bank Section - age 55 (10 years before selected retirement)	Bank Section - age 65 (1 day before selected retirement)
Cash	0.5%	0.8%	1.0%	75.3%
Bonds	22.7%	34.1%	45.4%	11.4%
Developed Market Corporate Bonds	*9.6%*	*14.3%*	*19.1%*	*4.8%*
Developed Market Government Bonds	*6.1%*	*9.2%*	*12.2%*	*3.1%*
Other Bonds (Emerging Market Debt; High Yield Debt)	*7.1%*	*10.6%*	*14.1%*	*3.5%*
Listed Shares	71.1%	56.6%	42.1%	10.5%
Infrastructure (via listed assets)	2.4%	3.6%	4.8%	1.2%
Global Forestry (via listed assets)	0.3%	0.4%	0.5%	0.1%
Property (via listed assets)	3.1%	4.7%	6.2%	1.6%
Other	0.0%	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

6 The assessment of Value for Members

We are committed to ensuring that members receive value for money from Pace and that any costs and charges that are deducted from members' DC accounts provide good value in relation to the benefits and services that are provided by or on behalf of Pace.

We undertake annual 'value for member' assessments, with support from our advisers, and give specific focus to costs for members. These assessments form part of our annual plan and are included as an item on Pace's risk register.

We have completed a value for members assessment for the period ending 5 April 2024. This assessment was undertaken in accordance with current requirements on DC pension schemes and with the relevant legislation. It considered the scope, quality, efficiency and general value of a range of services and features, including:

- The benefits of Pace DC membership covering;
    - governance and scheme management;
    - investment;
    - communications; and
    - administration
- The cost of Pace DC membership
- Comparison with other schemes.

The conclusion of the latest assessment, completed in June 2024, is that Pace continues to provide very good value for money for members because:

- Service standards have remained strong over the Scheme year and are above targets on average for the majority of critical tasks. The governance oversight by the Trustee is strong.
- The contribution structure in the Scheme is favourable and competitive relative to other supermarkets.
- Members have access to a range of support services at retirement, including access to a post-retirement solution through the L&G Master Trust.

- We are confident that the Pace Growth (Mixed) Fund and the Pace Growth (Shares) 2021 Fund can deliver sustainable, long-term value, with proper consideration of environmental, social and corporate governance factors (including climate change). Over recent periods the Pace Growth (Shares) 2021 Fund has underperformed global market capitalisation weighted equities as a result of its allocation to underlying companies, which is more diversified than a "market cap" index (and which has therefore not benefited as much from market rises driven in large part by US tech stocks); we are comfortable the approach taken remains reasonable and continues to be appropriate, particularly given concentration has increased over the period as a result.
- Pace DC charges are competitive and generally in line with the average for similar DC schemes

We have undertaken a review of all literature to help members understand their choices at retirement and are working to further extend our at-retirement support for members.

7 Additional Voluntary Contributions (AVCs)

Members who are already paying the maximum 'employer matched' contributions can make further pension savings by paying AVCs. Pace's main AVC plan is managed by Legal & General and shares the same administration features and member services as for the DC Section. The statements relating to the DC Section therefore apply to the main Legal & General AVC plan.

Legacy AVCs

Pace also has a number of older 'legacy' AVC arrangements which are now closed to new contributions. The largest is with Royal London and is referred to as 'Extra Plan' but there are also a small number of AVC policies with Aviva, Prudential, Royal London and Utmost Life & Pensions.

Collectively, the legacy AVCs are invested in a range of with-profits, unit-linked and deferred annuity contracts, some of which have implicit charging structures. Where explicit annual charges apply, these typically range from 0.50% to 1.00%.

A number of guides and factsheets have been produced to help members make informed decisions on how to manage their AVCs. The Trustee will continue to communicate with members regularly regarding their AVCs and provide information on their broader options.

Annual monitoring of Pace's legacy AVC arrangements is undertaken. The suitability of Pace's legacy AVC arrangements was last reviewed in September 2024.

At the time of preparing this Statement, the Trustee has not yet received the cumulative illustrations from Aviva, one of the Scheme's AVC providers, despite requesting the information in good time. The Trustee will continue to liaise with Aviva to obtain the relevant information for the year to 5 April 2024 and to try to ensure that data in the future is provided in a timely manner where required.

8 Trustee knowledge and understanding (TKU)

Since Q3 2019 the Pace Trustee Board has comprised four professional, independent trustees. The effectiveness of the Pace Trustee is reviewed regularly by the Pace Trustee in conjunction with the Trustee Services Team. The purpose of this review was to assist the Pace Trustee with monitoring its operational efficiency, governance, resourcing and strategic oversight, and to facilitate discussion on any learning points to help with future decision-making. The latest Trustee effectiveness review was discussed as part of the Risk Register review in Q1 2023 with an investment focus. The next Trustee Effectiveness review is anticipated to be merged with the process for carrying out the scheme's Own Risk Assessment (ORA). For Pace, the first ORA will need to be completed by 5 April 2026 (ie within 12 months of the end of the first scheme year that begins after the General Code came into force on 28 March 2024).

From 15 June 2024, Independent Trustee Services Limited (ITS, part of Independent Governance Group) remained appointed to the trustee board but as a sole professional trustee, with Chris Martin appointed as an individual to comply with Companies Act requirements. ITS's main representatives are Chris Martin and Priti Ruparelia, who work primarily on the defined benefit and defined contributions sections respectively.

As Trustee Directors, we have a strong TKU process in place and our combined knowledge and understanding, together with advice available to us, enables us to properly exercise our functions as the Trustee of Pace. Our approach to meeting the TKU requirements includes:

- Maintaining a rolling programme of bespoke trustee training in keeping with our status as a professional trustee board. This includes short, bespoke training sessions with Pace's advisers (either one-to-one or in small groups) as required.

- Making sure we are conversant with the Scheme's governing documents (including our powers under the Scheme rules) and we have knowledge and understanding of applicable pensions/trust law and investment principles. We regularly attend external seminars and training on technical pensions matters to keep up to date with developments in the pensions industry.

- We have a working knowledge of Pace's Statement of Investment Principles through regular review each year or as often as changes to investment strategy or policy necessitate. The DC Committee also reviews the DC related sections of the statement and seeks professional advice as appropriate on any changes.

- Partaking in an ongoing IGG mandatory training programme, which is designed to ensure that our knowledge is kept up to date.

- Maintaining a personal record of both group and individual training, which is documented and logged on a quarterly basis. In doing so, we can identify any knowledge gaps that we have and request training accordingly.

- External training delivered through a mix of face-to-face learning at seminars, webinars and personal technical reading of relevant pensions industry publications and papers.

This is not an exhaustive list but shows that individually and collectively, IGG as a professional corporate trustee is committed to continuous improvement through relevant and extensive training to provide quality governance to this scheme.

Signed by the Chair on behalf of the Pace Trustee:

Signed **Dated**

23 September 2024

Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (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 that 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 the 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 the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparing of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

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

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them 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 responsible for the maintenance and integrity of the corporate and financial information included on the Scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

For and on behalf of PACE Trustees Limited

Christopher Martin Independent Trustee Services Limited, Trustee Director	Thomas Taylor Secretary

Date: 4 November 2024

More Helpful Terms

In this document, when we say:	We mean:
Additional Voluntary Contributions ("AVCs")	Contributions over and above a member's normal contributions which the member chose to pay to the Scheme in order to secure additional benefits.
Alternative Inflation-linked Property	Investment in property which has inflation-linked income streams as part of the investment terms. This type of investment aims to generate income which keeps up with or exceeds inflation in addition to capital appreciation. These types of properties can include student accommodation and long lease ground rents on commercial properties such as hotels, for example.
Alternatives	A term used to categorise investment which is not in traditional asset classes such as Stocks, Bonds and Cash. Alternative asset classes include; Hedge Funds and Private Equity, for example.
Benchmark	A "yardstick" against which the investment performance of a fund manager can be compared.
Bond	An investment in the form of a loan to a company or government which pays a specified rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.
Buy and maintain credit	An investment in corporate bonds where the manager aims to select bonds with low default risk that can be held to maturity, and aims to have very low turnover in holdings.
Buy-in	A buy-in policy (also known as a bulk annuity) is an insurance policy that covers a proportion of a pension scheme's liabilities, such as the pension in-payment. The policy pays the scheme an income equal to the benefits of the members covered and therefore removes the risk of there being insufficient assets to meet those future liabilities. A buy-in policy is an investment held by a pension scheme, and the scheme (and its trustees) remains responsible for paying pensions to members.
Corporate Bond	A bond issued by a company.

Custodian	A custodian provides safe-keeping of a pension scheme’s assets by holding and recording the investments, and processing tax reclaims etc.
Default	When talking about bonds or investments, a “default” is a failure on the part of the borrower to pay interest on a loan, or to be able to repay a loan at full value.
Derivatives	Financial instruments whose price is dependent on one or more underlying assets or market indicators (e.g. interest rates or inflation). Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying investments.
Equity	An investment in the form of shares in companies (also known as stocks). Owning shares makes shareholders part owners of the company in question and usually entitles them to a share of the profits (if any), which are paid as dividends.
ESG (Environmental, Social and Corporate Governance)	Factors considered in investment analysis and portfolio construction. ESG is used to evaluate corporate behaviour and the sustainability of business operations.
Fixed Interest	See “bond”.
Gilt	A bond issued by the UK Government.
Illiquid Credit	Illiquid Credit investments take the principles of bond investing, lending of money in return for regular interest payments, into less standardised areas which are not actively traded. This results in favourable terms for investors and greater potential gain, which the scheme is able to access as a long-term investor.
Index-linked Gilt	A bond issued by the UK Government which increases each year in line with inflation, which has the effect of increasing the amount of interest paid (or decreasing it if inflation is negative – “deflation”). Also known as inflation-linked gilts.
Index-tracking	An index-tracking (or passive) fund is one which invests in shares or bonds by following rules to aim to replicate the performance of a specific market index (for example, the FTSE100 in the UK).
Inflation swap	A derivative allowing the exchange of two cash flows, one based on an agreed inflation rate for a period and the other based on the actual inflation rate for that period. Typically, the inflation basis will

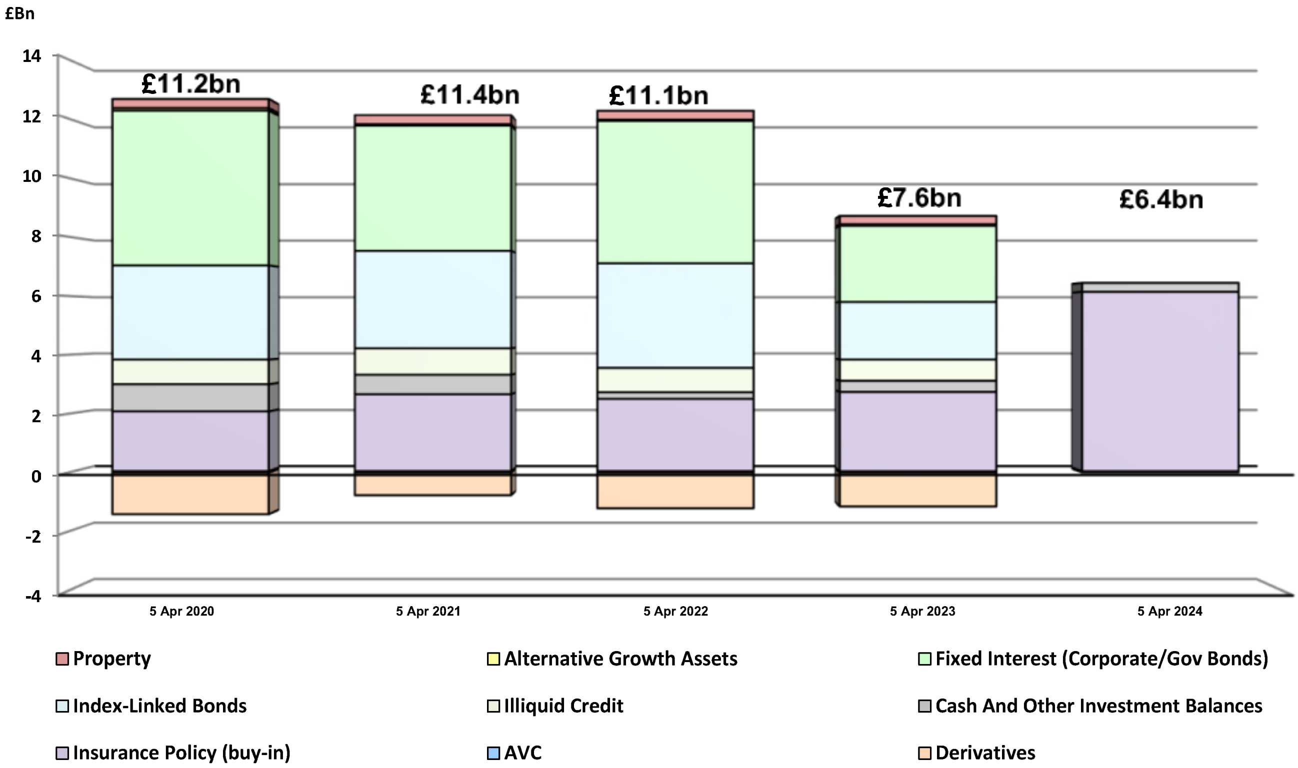
	be RPI in the UK. Used by pension schemes to hedge inflation risk as part of an **LDI** strategy.
Interest rate swap	A derivative allowing the exchange of two sets of cash flows, usually one based on a fixed interest rate and the other on a floating interest rate. Used by pension schemes to hedge interest rate risk as part of an **LDI** strategy.
Investment Grade	A category of ratings provided by a ratings agency based on its assessment of the credit worthiness of that company or asset. The assessments within investment grade range from 'extremely strong capacity to meet financial commitments' (defined as AAA or Aaa) to 'adequate capacity to meet financial commitments but more subject to adverse economic conditions' (BBB or Baa).
Investment Manager	A company to whom the Trustee delegates the day to day management of part of the Scheme's assets. Also known as an "asset manager" or "fund manager".
Leverage	Use of borrowed money to over-invest a portfolio which magnifies both gains and losses. This may be achieved by using derivatives such as swaps or gilt repos. Allows a pension fund to efficiently hedge interest rate and inflation risk where it does not have sufficient assets to invest entirely in bonds (or where suitable bonds are not available).
Liability Driven Investment ("LDI")	An investment approach which focuses on matching the sensitivities of a pension scheme's assets to those of its underlying liabilities in response to changes in certain factors, normally interest rates and inflation expectations.
Market Value	The price at which an investment can be bought or sold on a given date.
Pooled Investment Vehicle / Pooled Fund	An investment fund in which a number of different investors hold "units", and where the underlying assets are not directly held by each investor but as part of a "pool". The investors have the right to the cash value of these units rather than to the underlying assets of the investment fund.
Property	Typically investments in commercial property such as offices, shops and factories. These investments earn money from rent, and any increase in the value of the properties.
Repurchase Agreement / 'Repo'	A transaction used to finance ownership of a bond. In a 'repo' agreement, an asset, government bond, is sold with a combined agreement for it to be

	repurchased in the future at an agreed price. This process is used to raise ready money and is backed by the sold asset. This allows the scheme to access bond investments in an efficient way, allowing us to increase interest rate and inflation protection.
Segregated	Where assets are legally owned by a pension scheme rather than a pooled fund, and are managed independently of those of other funds under the investment manager's control.
Statement of Investment Principles (SIP)	A written statement of the principles governing decisions about investment for an occupational pension scheme, which trustees are required to prepare and maintain. Trustees must have regard to advice from a suitably qualified person when preparing a SIP, and must consult with the employer.
Sterling Overnight Index Average ("SONIA")	SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market. It is used for overnight funding for trades that occur in off-hours. SONIA is used as an alternative to LIBOR as a benchmark interest rate for financial transactions.
TCFD	The target split of the Scheme's assets between different types of investments (e.g. Bonds and Equities).
Swap	Derivatives designed to permit investors to exchange payment streams for their mutual benefit. Payments can be based on interest rates, inflation indices, currencies or equity returns.
Yield	A measure of the annual income earned on an investment. Normally expressed as a percentage of its market price.

Our Investment Report

Pace consolidated DB Investment Report

The chart below provides a snapshot of the different types of DB investment categories held by the Scheme at each year end (this shows the consolidated position across both Sections).



	5 April 2020		5 April 2021		5 April 2022		5 April 2023		5 April 2024	
	£000	%	£000	%	£000	%	£000	%	£000	%
AVC	37,607	0.3	39,541	0.4	38,602	0.3	35,014	0.4	35,761	0.6
Derivatives*	(1,419,449)	(12.6)	(773,882)	(6.8)	(1,218,571)	(11.0)	(1,157,851)	(15.3)	-	-
Illiquid Credit	832,808	7.4	895,439	7.9	827,456	7.5	717,187	9.5	-	-
Fixed Interest Bonds (Corporate Bonds and Government Bonds)	5,246,873	46.7	4,244,863	37.4	4,820,638	43.6	2,585,623	34.2	-	-
Property	309,663	2.8	311,354	2.7	310,973	2.8	284,655	3.8	-	-
Cash And Other Investment Balances	911,337	8.1	662,098	5.8	222,161	2.0	378,238	5.0	304,052	4.7
Index-Linked Bonds	3,204,148	28.5	3,309,427	29.1	3,553,686	32.1	1,966,328	26.0	-	-
Alternative Growth Assets	73,329	0.7	48,746	0.4	46,852	0.4	51,140	0.7	-	-
Insurance Policy (buy in)	2,038,141	18.1	2,619,074	23.1	2,465,068	22.3	2,703,058	35.7	6,106,056	94.7
TOTAL	**11,234,457**	**100**	**11,356,660**	**100**	**11,066,865**	**100**	**7,563,392**	**100**	**6,445,869**	**100**

*Repurchase agreements included within derivatives

The Scheme's investment policy

For each Section, our investment objective is to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

Over recent years, the two sections of Pace DB have entered into a series of transactions with UK insurers in order to purchase annuity policies to match the Scheme's liabilities. Following the latest transactions in December 2022 for the Bank Section and November 2023 for the Co-op Section, the vast majority of the Scheme's liabilities are now covered, and these bulk annuity policies will provide benefits due from the two Sections to members.

The only remaining residual defined benefit assets consist of cash (and pooled cash funds) held by the two Sections to meet future costs, and the Trustees' objective is to ensure an efficient progression towards an insurer buy-out of each Section's known liabilities, with the aim of achieving an appropriate discharge of liability in respect of known obligations in accordance with the Sections' governing documentation and relevant legislation.

For Pace DC, the Trustee's objective for both the Co-op and Bank Sections remains to make available to members a programme of investment, via pooled funds, which seeks to generate income and capital growth and which, together with new contributions from members and sponsors, will provide a fund at retirement with which to provide an income in retirement.

The Scheme's Statement of Investment Principles

The Trustee maintains a Statement of Investment Principles for each Section of Pace, in accordance with Section 35 of the Pensions Act 1995. These are the formal documents that govern the way the Scheme's assets are invested. The two SIPs are reviewed at least annually and following any significant changes in investment policy.

Copies of the two Statements are included in Appendices 1 and 2, and available on request to the Secretary to the Trustee at the address shown on page 20, or via https://www.pacepensions.co.uk/.

In addition, the Trustee needs to formally include a statement in each year's accounts setting out (among other things) how they have followed the Statements of Investment Principles over the year, and in particular how it has implemented its policies on the exercise of voting rights attaching to its investments and engagement activities. A copy of the Implementation Statement for each Section is included as Appendix 7, and there are available on the Scheme's website via https://coop.pacepensions.co.uk/useful-information/pace-investments/ or https://bank.pacepensions.co.uk/useful-information/pace-investments/.

Taskforce on Climate-related Financial Disclosures (TCFD) reporting

The Trustee will publish Pace's third climate change risk assessment report later this year, which will be prepared in line with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") and the statutory requirements prescribed by the Department of Work and Pensions. One report covers both the Co-op and Bank Sections of Pace, and is available via https://coop.pacepensions.co.uk/useful-information/pace-investments/ or https://bank.pacepensions.co.uk/useful-information/pace-investments/. The TCFD report does not form part of the annual report.

Management of assets

We have delegated management of investments to professional investment managers which are listed on page 8. These managers managed the investments within the restrictions set out in investment management agreements and policy documents which are designed to ensure that the objectives and policies set out in the Statements of Investment Principles are met.

Since November 2023, when the Trustee entered into an additional bulk annuity policy with Rothesay, only a single investment manager, BlackRock, who manage a pooled cash fund, is appointed by the Trustee. The remainder of the Scheme's assets consist of bulk annuity policies with the buy-in providers set out on page 7.

What is the Scheme's investment strategy?

The following section sets out the current target investment strategy for each Section, together with the position as at 5 April 2024.

Co-op Section

In 2020, the Trustee entered into bulk annuity policies with PIC and Aviva in respect of a portion of the Defined Benefit section's pensioner liabilities. In November 2023, the Trustee entered into an additional bulk annuity policy with Rothesay in respect of the remainder of the Defined Benefit Section's pensioner and deferred liabilities, transferring the majority of the Section's assets to Rothesay. As at 5 April 2024, the policies were valued at approximately £4,999m by the Scheme Actuary. The only remaining other defined benefit assets consist of cash and pooled cash funds held by the Section to meet future costs. The Section does not therefore have a target asset allocation at the Scheme year end.

Bank Section

In 2020, the Trustee entered into a bulk annuity policy with PIC in respect of a portion of the Defined Benefit section's pensioner liabilities. In December 2022, the Trustee entered into an additional bulk annuity policy with Rothesay in respect of the remainder of the Defined Benefit Section's pensioner and deferred liabilities, transferring the majority of the Section's assets to Rothesay. As at 5 April 2024, the policies were valued at approximately £1,107m by the Scheme Actuary. The only remaining other defined benefit assets consist of cash and pooled cash funds held by the Section to meet future costs (with the Section implementing a pooled cash fund in July 2023 to better diversify counterparties for its cash holdings). The Section does not therefore have a target asset allocation at the Scheme year end.

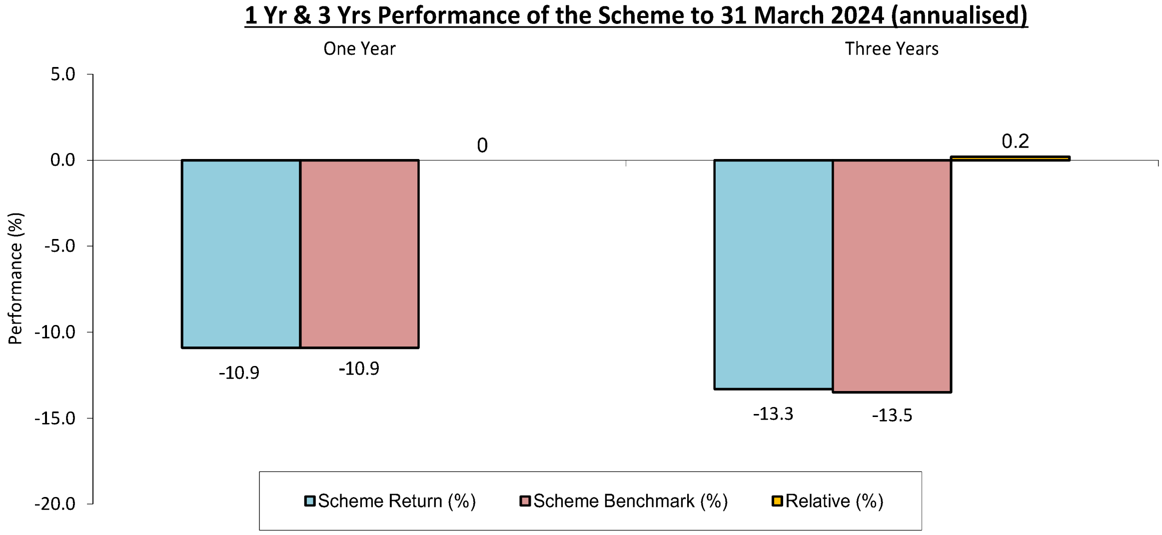
Investment performance over the year

"Growth" assets such as equities performed strongly over the year, in part driven by strong returns on US technology stocks and firms linked with AI in particular, while bonds produced negative returns with inflation proving persistent in the UK, and rate cuts not coming as quickly as many market commentators had anticipated. These headlines disguise significant volatility through the year with the US banking crisis in early 2023, together with geopolitical tensions throughout the year in the middle east (and an attempted coup in Russia).

Overall, investment performance for Pace DB was negative over the year, largely driven by gilt yields rising in Q2 and Q3 2023, partly offset by the positive return on cash experienced in the second half of the year following the Co-op Section's transaction with Rothesay in November 2023. While the bulk annuity policies held by both Sections remain assets of the scheme, they are illiquid and do not naturally have an observable "investment return". We have therefore illustrated performance for the DB Section by looking at invested assets excluding the annuity policies (and as performance is only measured on a monthly basis, given the Co-op Section's transaction with Rothesay in November 2023, this calculation allows for the return on the cash funds held from 31 October 2023 onwards).

The total return on the Scheme's DB assets for the 12 months to 31 March 2024 was approximately -10.9% compared with the overall total benchmark of -10.9%. As at 5 April 2024, the combined "residual" DB assets of the Scheme were c£302m as the majority of the assets were transferred to Rothesay in December 2022 (for the Bank Section) and November 2023 (for the Co-op Section) as part of the buy-in transactions referenced above.

The charts below show the performance of Pace's DB investments over the year and three year periods to 31 March 2024 (as performance is measured on a quarterly basis).



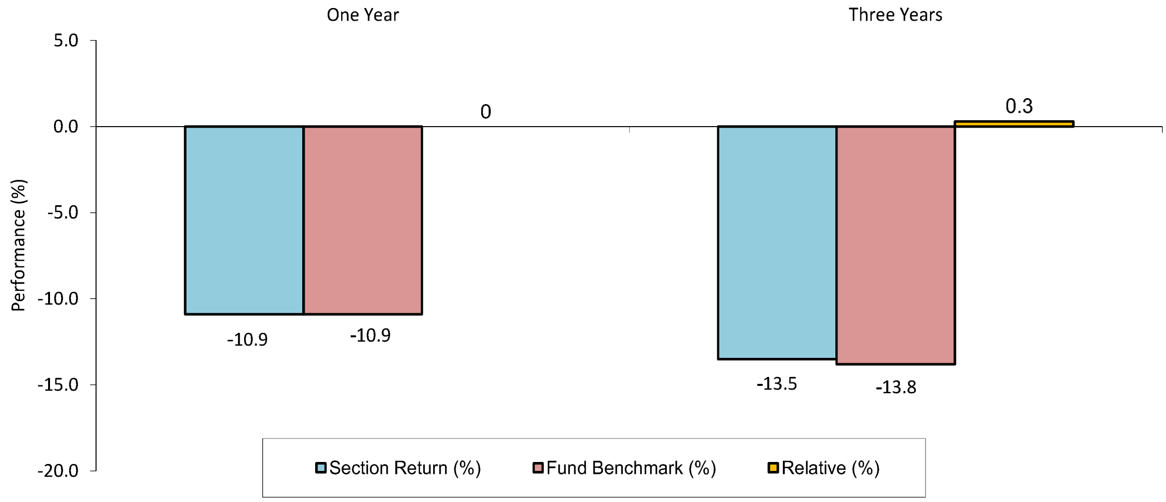
Source: Estimated based on Investment Manager data

Prior to 31 October 2023, we measured performance against an overall benchmark which was recommended by Pace's DB investment adviser, and consisted of two main elements: firstly, the performance of the 'return-seeking' assets (illiquid credit, property and alternative growth assets) was measured against a composite of separate investment indices that apply to individual asset classes; and secondly, a comparison of changes in the 'liability-matching' assets (fixed interest and index linked securities) to changes in the Scheme's liabilities. Following the Co-op Section's buy-in with Rothesay in November 2023, Pace DB's residual uninsured assets are held in a pooled cash fund, and the SONIA benchmark for the fund is used as the benchmark for the Scheme's assets.

<u>Performance for the Co-op Section of the Scheme</u>

The overall gross of fees performance for the Co-op Section's assets over the 12 month period to 31 March 2024 is shown below:

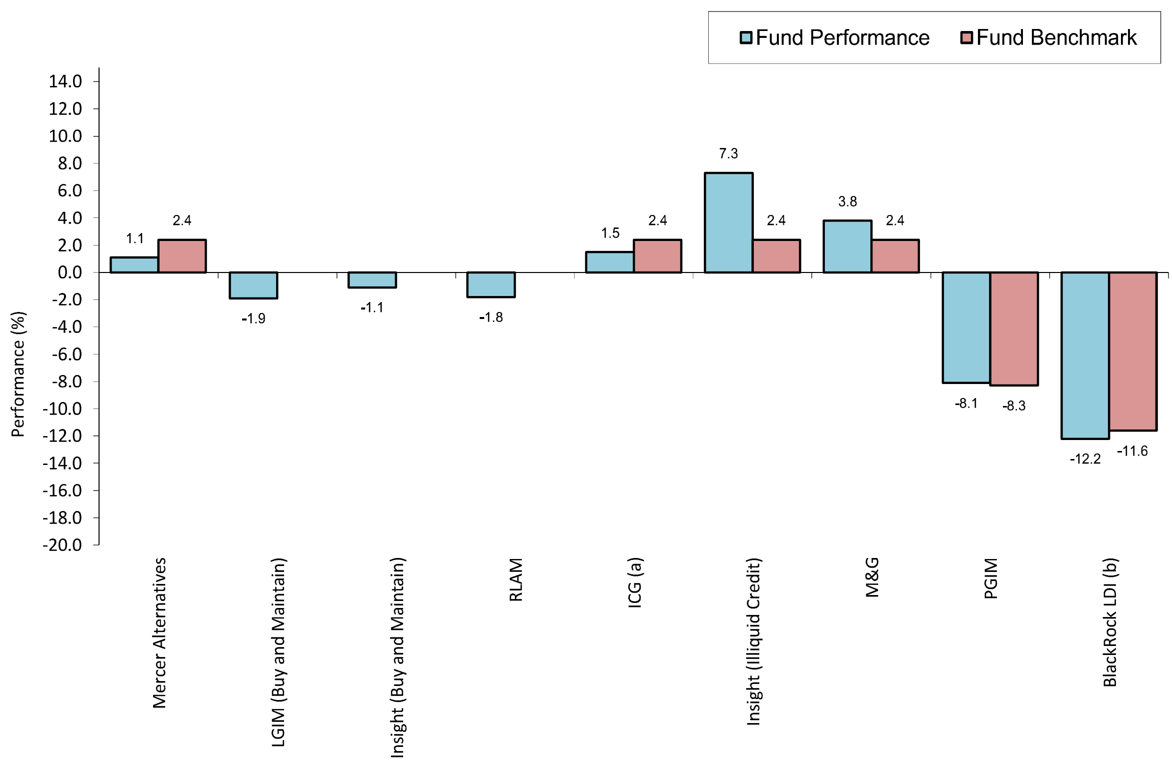
1 Yr & 3 Yrs Performance of the Section to 31 March 2024 (annualised)



Source: Estimated based on Investment Manager data
Performance includes Blackrock Cash fund that remained with the Section after the Section was fully bought in.

The overall performance of the underlying mandates that comprise the Co-op Section over the 12 months to 31 March 2024 can be split into two periods. The table below highlights performance of the assets prior to November 2023 when the majority of assets were transferred across to Rothesay; returns are shown over the six month period to 30 September 2023 given the availability of data, particularly fund level benchmarks. Performance of the mandates are shown on a gross of fees basis:

Performance of the Co-op Section's Investment Mandates - 6 Months Ended 30 September 2023



Source: Investment Managers
(a) Figures shown are estimated by Co-op Pensions Department over each period, and are based on manager data
(b) Total hedge portfolio performance is shown (including LDI and credit assets managed by LGIM, Insight and RLAM) vs the total liability benchmark; Benchmark allocation taken as actual allocation for performance measurement purposes.

The returns on the Co-op Section's residual uninsured assets following the transaction reflect the returns on the pooled cash fund the Section holds as its sole remaining invested asset; for comparative purposes the return from 30 September 2023 to 31 March 2024 for the BlackRock ICS Sterling Liquid Environmentally Aware Fund ("LEAF") was 2.7% gross of fees whilst the fund's SONIA benchmark returned 2.6% over the same period.

<u>Performance for the Bank Section of the Scheme</u>

The only assets remaining invested on behalf of the Bank Section of the Scheme is the BlackRock ICS Sterling Liquid Environmentally Aware Fund which incepted in July 2023. The performance of the cash fund from 31 July 2023 to 31 March 2024 was 3.6% gross of fees whilst the SONIA benchmark returned 3.5% over the same period.

Custodial arrangements

Segregated Assets

Bank of New York Mellon is the appointed custodian for the DB assets for both the Co-op and Bank Sections' segregated assets. The contract for the Bank Section was terminated on 4 October 2023 following the additional buy-in with Rothesay in December 2022.

Bank of New York Mellon's services provided during the year included custody of assets, performance measurement, investment accounting, money market service, compliance monitoring and class action services.

Pooled Assets

The Scheme's investments in pooled vehicles gave us the right to the cash value of units rather than to the underlying assets of the funds. The respective managers of the pooled arrangements are responsible for appointing and monitoring custodians for the underlying assets.

Property

Osborne Clark LLP held the title deeds in respect of the Scheme's property assets managed by PGIM.

Pace DC Investment Report

Contributions made for members of the DC section of the Scheme are invested with Legal & General Assurance Society Ltd ('Legal & General').

Total contributions of £123m were paid to the Scheme over the 12 months to 5 April 2024. An analysis of this amount is shown in note 3 to the financial statements.

The Defined Contribution Section of Pace offers three lifestyle strategies plus a range of self-select funds to members with growth or protection objectives.

The lifestyle strategies have been designed to target the three retirement objectives; lump sum, secure income and flexible income. All of the lifestyles invest in equities, bonds and alternative growth assets during the 'growth phase'. The lump sum lifestyle strategy is designed for members targeting a lump sum at retirement and has a high exposure to cash at retirement. The flexible income targeting lifestyle de-risks to a much smaller allocation to cash and the secure income targeting lifestyle de-risks into bonds and cash, as members approach retirement.

Co-op Section lifestyle options

In August 2023, the Trustee introduced a number of 'blended' investment funds to the three lifestyle target options for the Co-op Section. All three of the Target options make use of the same underlying blended investment funds to provide appropriate levels of expected investment risk and return for members with different timescales to their selected retirement date. These blended funds may combine a number of underlying investment funds together, and the Trustees monitor and adjust the proportions of the underlying funds to make sure they remain appropriate. The blended funds used to create the Target options are:

Pace – Build Your Pot Fund: This fund is used in the earlier years of members' careers, and is designed to provide members with long-term investment growth by investing primarily in UK and overseas company shares, while also seeking to reduce risk by spreading the investment across a range of asset classes. This fund is constructed as a blend of two funds consisting of 30% Pace Growth (Mixed) Fund and 70% Pace Growth (Shares) 2021 Fund.

Pace – Consolidate Your Pot: This fund is used when members get closer to their selected retirement date, to try and reduce the risk of market shocks having a big impact on the pension pot. The diversified nature of the investments means that the fund is expected to have less exposure to severe market downturns than an equity-only fund or the 'Pace – Build Your Pot' Fund. This fund is 100% Pace Growth (Mixed) Fund.

Pace – Take Your Pot – as cash/as an annuity/as drawdown: Depending on how members want to use their pot at retirement, when members are 10 years away from their selected retirement age, the fund will move into one of the 'Pace – Take Your Pot as cash', 'Pace – Take Your Pot as an annuity' or 'Pace – Take Your Pot as drawdown' funds. These funds are designed to provide an appropriate balance between expected risk and return that suits members retirement choice and to limit the risk of market shocks impacting the size of their pot. The composition for these options is as follows:

- Pace – Take Your Pot as cash: 75% Cash Fund; 25% Pace Growth (Mixed) Fund
- Pace – Take Your Pot as an annuity: 75% Pace Pre-retirement (Annuity Aware) Fund; 25% Cash Fund
- Pace – Take Your Pot as drawdown: 75% Pace Growth (Mixed) Fund; 25% Cash Fund

The target lump sum lifestyle strategy acts as the "default" investment option for those members who do not wish to select their own funds. This strategy initially invests 100% in the Pace – Build Your Pot Fund, before switching to Pace – Consolidate Your Pot Fund 20 years away from a members' selected retirement date. At this point, members' investment start to be moved gradually until 100% is invested in the 'Pace – Consolidate Your Pot' Fund by the time members are around 10 years away from their selected retirement date.

When members are around 10 years away from your selected retirement date, their investment will start to be moved gradually into the 'Pace – Take Your Pot – as cash' Fund.

When members reach age 65 (or their selected retirement age, if different), 100% of the account will be invested in the Pace 'Take Your Pot – as cash' Fund.

This strategy has been designed to suit members who wish to take their pension benefit as a cash lump sum, based on the Trustee's analysis of the Scheme's membership, and means that members face reduced volatility of their pension pot as they approach their expected retirement (while benefiting from higher expected returns while younger).

The two other lifestyle funds have been made available to members who wish to take their benefits as either a pension (Pace Target Secured Income) or to draw down pension savings over time (Pace Target Flexible Income).

Bank Section lifestyle options

For the Bank Section, the target lump sum lifestyle strategy acts as the "default" investment option for those members who do not wish to select their own funds. This strategy initially invests 50% in the Pace Growth (Mixed) Fund and 50% in the Pace Growth (Shares) 2021 Fund. At this point, members' money will start to be moved gradually until 100% is invested in Pace Growth (Mixed) Fund around 15 years from retirement.

Once a member reaches 10 years from their retirement date, the lifestyle strategy then switches 75% into the Pace Cash Fund and 25% Pace Growth (Mixed) Fund over the period up to the selected retirement date.

This strategy has been designed to suit members who wish to take their pension benefit as a cash lump sum, based on the Trustee's analysis of the Scheme's membership, and means that members face reduced volatility of their pension pot as they approach their expected retirement (while benefiting from higher expected returns while younger).

Self-select options

For members who prefer to make their own choice of investment fund (in both the Co-op and Bank Sections), we have selected a range of funds members can choose from, based on advice from our DC investment advisor. The funds and their aims are:

Pace Growth (Mixed) Fund

The fund aims to provide long-term investment growth through exposure to a diversified range of asset classes (including include equities, bonds, cash and listed infrastructure, private equity and global real estate companies) while reflecting significant environmental, social and corporate governance (ESG) issues into the fund's investment strategy. The diversified nature of the fund means that it is expected to have less exposure than an equity-only fund to adverse equity market conditions. However, the fund may perform less strongly than an equity-only fund in benign or positive equity market conditions.

Pace Growth (Shares) 2021 Fund

The fund aims to invest in a diversified range of businesses in the UK and overseas (in a way which spreads investments more evenly between companies than a traditional "index-tracking" approach based purely on the size of the companies in the market).

This fund "tilts" investments towards companies that have higher governance standards, and aims to achieve positive social and environmental impacts, including companies which are less carbon-intensive or earn green revenue and doesn't invest in companies that manufacture controversial weapons or that earn a sizeable revenue from mining coal or using coal for power generation.

Pace Growth (Shares) Fund

This index-tracking fund aims to capture the total returns of the UK and overseas equity markets while maintaining a fixed 30:70 weighting between the UK and the overseas assets.

This option was available until early 2021 and has been replaced by the Pace Growth (Shares) 2021 Fund. If members were already invested in this fund, they were given the option to remain in it, but it is no longer available for other members to invest in.

Pace Growth (Ethical Shares) Fund

The fund aims to track the total returns of the FTSE4Good Global Equity Index.

Pace Pre-retirement (Inflation-linked) Fund

The fund aims to provide diversified exposure to assets that reflect the investments underlying a typical inflation-linked annuity. The fund, however, does not provide full protection against changes in inflation-linked annuity rates for individual members due to a number of factors (for example, its assets are not sensitive to changes to mortality assumptions). The asset allocation is reviewed periodically by Legal & General.

Pace Pre-retirement Fund

The fund aims to provide diversified exposure to assets that reflect the investments underlying a typical traditional level annuity product. The fund invests in Legal & General index-tracking bond funds. The fund, however, does not provide full protection against changes in annuity rates for individual members, since these also depend upon a number of other factors (e.g. changes to mortality assumptions). The asset allocation is reviewed quarterly by Legal & General.

Pace Cash Fund

The fund aims to provide capital protection, with growth at short term interest rates. The fund invests in the short-term money markets such as bank deposits and Treasury Bills. The fund does not invest in any assets where the nominal capital value can fall, such as fixed interest securities. The value of the fund's assets would only fall if a deposit holder or the UK Government were unable to meet their obligations or if the interest earned by the fund's assets is insufficient to cover the fund management charge and any additional fund expenses.

Pace Growth (Shariah) Fund

This fund aims to invest in the shares of a diversified range of businesses, following a process that has been approved by an independent Shariah Supervisory Committee which aims to meet the requirements of Shariah law and the principles of Islamic finance. The fund doesn't invest in financial services companies, companies that manufacture weapons, or companies in industries that are prohibited by the Quran such as alcohol, tobacco, gambling and entertainment, or pork-related products.

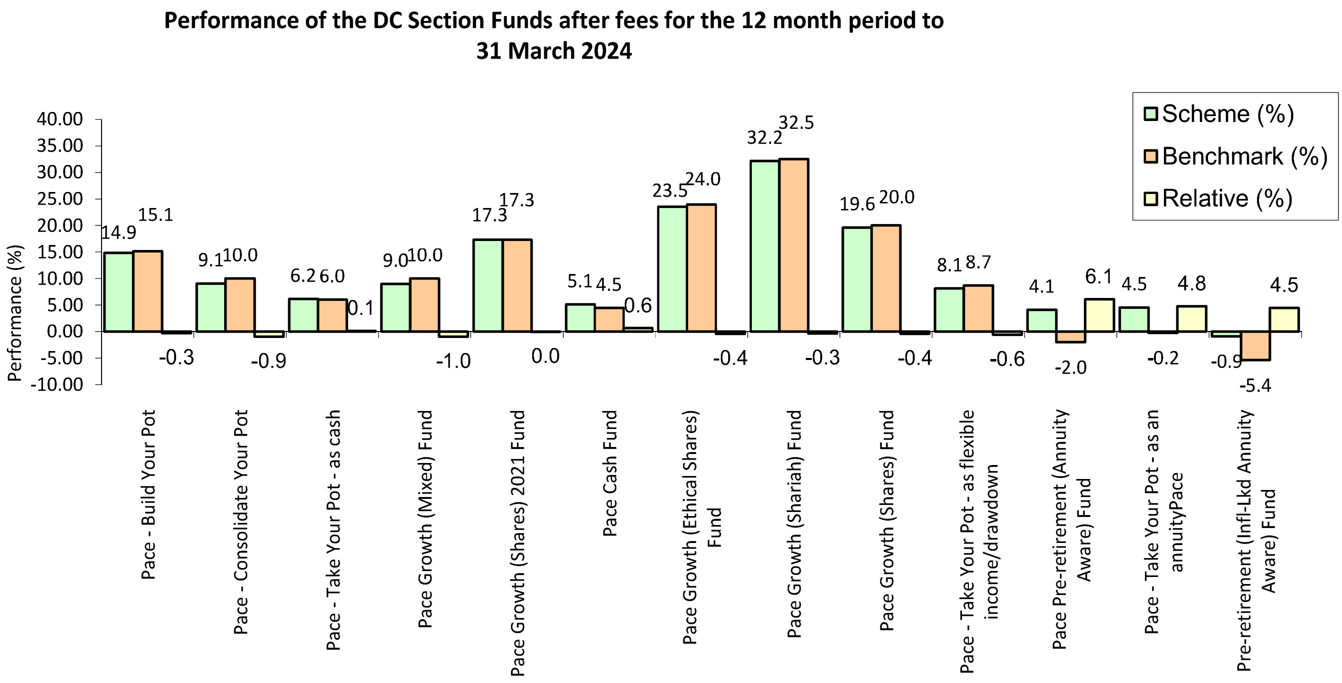
The first contributions were invested with Legal & General in November 2012. As at 5 April 2024, the value of the funds totaled £915m as set out below.

	5 April 2024			5 April 2023		
Investment Funds	**Co-op Section £000**	**Bank Section £000**	**Total £000**	**Co-op Section £000**	**Bank Section £000**	**Total £000**
Pace - Build Your Pot	483,375	-	483,375	-	-	-
Pace - Consolidate Your Pot	212,882	-	212,882	-	-	-
Pace - Take Your Pot - as cash	81,655	-	81,655	-	-	-
Pace Growth (Mixed) Fund	7,115	67,675	74,790	454,892	53,216	508,108
Pace Growth (Shares) 2021 Fund	6,669	23,548	30,217	157,365	18,247	175,612
Pace Cash Fund	12,336	6,858	19,194	61,425	4,754	66,179
Pace Growth (Ethical Shares) Fund	8,248	1,777	10,025	5,363	1,110	6,473
Pace Growth (Shariah) Fund	1,150	172	1,322	73	53	126
Pace Growth (Shares) Fund	696	-	696	608	-	608
Pace - Take Your Pot - as flexible income/drawdown	347	-	347	-	-	-
Pace Pre-retirement (Annuity Aware) Fund	125	17	142	243	14	257
Pace - Take Your Pot - as an annuity	116	-	116	-	-	-
Pace Pre-retirement (Infl-Lkd Annuity Aware) Fund	74	82	156	84	72	156
Total	**814,788**	**100,129**	**914,917**	**680,053**	**77,466**	**757,519**

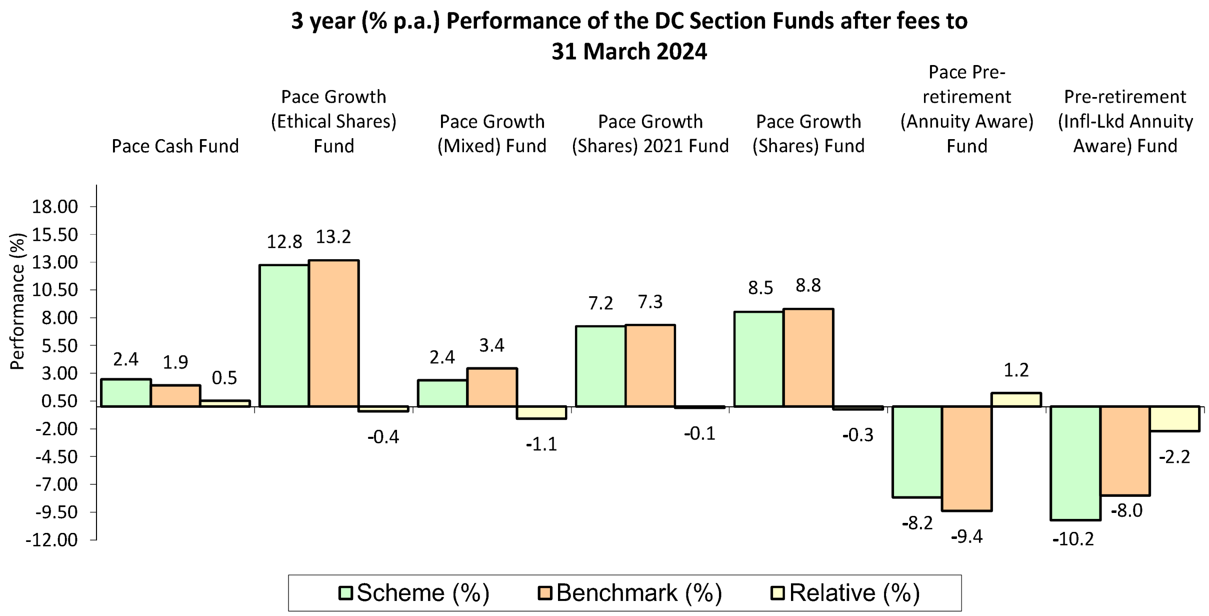
The Legal & General pooled funds are provided through a unit policy and the value of the units fluctuate directly in relation to the value of the underlying assets. All the units are redeemable on any working day at prices that reflect market valuations and net cashflow on that day.

Performance

The investment performance of the DC section funds is shown below.



Source: Legal & General
Totals may be impacted by rounding
.



Source: Legal & General
Totals may be impacted by rounding
The Pace Growth (Shariah) fund was launched in November 2022; 3 year performance is not available
Pace - Build Your Pot, Pace - Consolidate Your Pot, Pace - Take Your Pot - as cash, Pace - Take Your Pot - as flexible income/drawdown and Pace - Take Your Pot - as an annuity were launched in August 2023; 3 year performance is not available

Responsible Investment and Corporate Governance

Pace has a Responsible Investment Policy, which can be found at https://www.pacepensions.co.uk. This document details the Trustee's policy for considering Environmental, Social and Governance ("ESG") factors, including climate change, in the strategic investment process and investment decision-making process, and when assessing Pace's investment managers' performance on ESG issues, engaging with investee companies and participating in third party ESG initiatives.

In accordance with our fiduciary responsibilities, the Trustee takes account of financially material factors when making investment decisions, i.e. those factors which are expected to have an impact on investment returns and risk (including the long-term sustainability of investee companies' performance – in particular the impact of climate change).

We also recognise that we can take non-financial factors into consideration (i.e. those motivated by other concerns, such as social impact) where we have good reason to expect that Scheme members would share these concerns, and where the decision is not expected to have material financial detriment.

We will apply these considerations in setting Pace's Responsible Investment Policy, assessing members' likely concerns (as far as this is practically possible) through engagement with members and through engagement with the Co-op and the Co-operative Bank when developing the Policy.

At the time of writing, the policy reflects three broad issues which we believe represent particular risk to the Scheme and which we believe can be addressed. As the Policy is kept under regular review, the issues identified may change over time. These issues are:

- Protection of the environment (in particular, considering the risks posed by climate change)
- Labour conditions and equal pay.
- Corporate governance.

We seek to address these issues through Pace's engagement with its investment managers; within the DC Section we consider these factors when assessing the funds that are made available to members and included in the default investment option (for example, when changing the way the Pace Growth (Mixed) Fund invested in 2019, and in selecting the approach for the Pace Growth (Shares) 2021 Fund more recently), and within the DB section these considerations were factored into the selection of bulk annuity providers, and in the choice of pooled cash fund for the Sections' residual assets.

Investment managers are asked to report on the issue of responsible investment and we monitor how each manager is incorporating ESG issues into investment decisions and, where relevant, exercising their approach to stewardship. This is documented at least annually. We consider how ESG and stewardship is integrated within investment processes in appointing new investment managers, and all existing managers are expected to have policies in these areas.

As a responsible investor, we aim to exercise rights, including any voting rights attaching to Pace's investments, in the best interests of Pace's members. Details on how we have implemented these policies over the year are included in the Implementation Statement which is set out at Appendix 7.

Independent Auditor’s Report to the Trustee of The Co-operative Pension Scheme (Pace)

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of The Co-operative Pension Scheme (Pace) (the ‘Scheme’)

- show a true and fair view of the financial transactions of the Scheme during the year ended 5 April 2024 and of the amount and disposition at that date of its assets and liabilities, other than the 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, including Financial Reporting Standard 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

We have audited the financial statements which comprise:

- the fund account;
- the statement of net assets (available for members); and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report to the Trustee of The Co-operative Pension Scheme (Pace) (continued)

Conclusions relating to going concern

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.

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.

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

Other information

The other information comprises the information included in the Annual report, other than the financial statements and our auditor's report thereon. The Trustee is responsible for the other information contained within the Annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing 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 liquidate the Scheme or to cease operations, or has no realistic alternative but to do so.

Independent Auditor's Report to the Trustee of The Co-operative Pension Scheme (Pace) (continued)

Auditor's 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 auditor's 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.

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. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

We considered the nature of the Scheme's industry and its control environment, and reviewed the Scheme's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of the Trustee about their own identification and assessment of the risks of irregularities, including those that are specific to the Scheme's business sector.

We obtained an understanding of the legal and regulatory framework that the Scheme operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1966 and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 and;
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Scheme's ability to operate or to avoid a material penalty. These included the Scheme's regulatory requirements.

We discussed among the audit engagement team including relevant internal specialists, such as pensions actuarial specialists, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

Independent Auditor's Report to the Trustee of The Co-operative Pension Scheme (Pace) (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

As a result of performing the above, we identified the greatest potential for fraud in the misappropriation of investment assets. In response we have: obtained an understanding of the relevant controls over investment holdings and transactions; agreed investment holdings to independent confirmations; and agreed investment and cash reconciliations to independent sales and purchase reports and bank statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of the Trustee and Pensions Finance management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of Trustee and subcommittee meetings, and reviewing correspondence with the Pensions Regulator.

Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte LLP
Statutory Auditor
Reading, United Kingdom

Date: 04/11/24

Fund Account

for the year ended 5 April 2024

In plain English – what does this show?	The Fund Account shows all contributions, investment income and asset returns received by the defined benefit sections (DBS) and defined contribution sections (DCS) of the Scheme, minus the benefits and expenses paid out during the year to 5 April 2024. The result is the Scheme's net asset position at the end of the reporting year.

		Year ended 5 April 2024			Year ended 5 April 2023		
		DBS	DCS	Total	DBS	DCS	Total
Contributions and Benefits	Note	£'000	£'000	£'000	£'000	£'000	£'000
Employer Contributions		-	116,473	116,473	-	111,999	111,999
Employee Contributions		-	6,641	6,641	-	6,595	6,595
Total Contributions	**3**	**-**	**123,114**	**123,114**	**-**	**118,594**	**118,594**
Transfers in	4	-	4,459	4,459	-	1,527	1,527
Other income	5	-	3,072	3,072	-	4,039	4,039
		-	**130,645**	**130,645**	**-**	**124,160**	**124,160**
Benefits paid or payable	6	(273,083)	(15,408)	(288,491)	(259,716)	(14,430)	(274,146)
Payments to and on account of leavers	7	(10,090)	(33,287)	(43,377)	(61,334)	(50,704)	(112,038)
Administrative expenses	8	(14,001)	(2,816)	(16,817)	(14,769)	(2,801)	(17,570)
Other (payments)/ receipts	9	(426)	(258)	(684)	212	(220)	(8)
		(297,600)	**(51,769)**	**(349,369)**	**(335,607)**	**(68,155)**	**(403,762)**
Net (withdrawals)/additions from dealing with members		**(297,600)**	**78,876**	**(218,724)**	**(335,607)**	**56,005**	**(279,602)**
Returns on investment							
Investment income	10	416,793	-	416,793	591,854	-	591,854
Change in market value of investments	11	(1,267,526)	79,424	(1,188,102)	(3,721,102)	(24,142)	(3,745,244)
Investment management expenses	12	(3,199)	-	(3,199)	(8,377)	-	(8,377)
Net returns on investments		**(853,932)**	**79,424**	**(774,508)**	**(3,137,625)**	**(24,142)**	**(3,161,767)**
Net (decrease)/increase in the Scheme during the year		(1,151,532)	158,300	(993,232)	(3,473,232)	31,863	(3,441,369)
Transfers between sections		(3,706)	3,706	-	(589)	589	-
Net assets of the Scheme as at 6 April		**7,624,393**	**760,722**	**8,385,115**	**11,098,214**	**728,270**	**11,826,484**
Net assets of the Scheme as at 5 April		**6,469,155**	**922,728**	**7,391,883**	**7,624,393**	**760,722**	**8,385,115**

The notes on pages 55 to 85 form part of these financial statements.

Statement of Net Assets

(available for benefits) as at 5 April 2024

In plain English – what does this show?	The Statement of Net Assets below provides a snapshot of the financial position of the Scheme as at 5 April 2024. It sums up the Scheme's assets and liabilities at this date. It does not take account of obligations to pay pensions and benefits, which fall due after the end of the Scheme year; this is dealt with in the Report on Actuarial Liabilities.

		5 April 2024			5 April 2023		
	Note	**DBS** £'000	**DCS** £'000	**Total** £'000	**DBS** £'000	**DCS** £'000	**Total** £'000
Investment assets	11-15						
Bonds		-	-	-	4,551,951	-	4,551,951
Pooled investment vehicles		301,540	914,917	1,216,457	1,034,995	757,519	1,792,514
Derivatives		-	-	-	870,639	-	870,639
Alternative inflation linked		-	-	-	284,655	-	284,655
AVC investments		35,761	-	35,761	35,014	-	35,014
Cash deposits		4	-	4	65,154	-	65,154
Sales awaiting settlement		16	-	16	8,969	-	8,969
Accrued income		2,492	-	2,492	37,760	-	37,760
Insurance policies		6,106,056	-	6,106,056	2,703,058	-	2,465,068
Investment liabilities							
Derivatives		-	-	-	(639,788)	-	(639,788)
Amounts due under repurchase agreement		-	-	-	(1,388,702)	-	(1,388,702)
Purchases awaiting settlement		-	-	-	(149)	-	(149)
Income received in advance		-	-	-	(164)	-	(164)
Total net investments		6,445,869	914,917	7,360,786	7,563,392	757,519	8,320,911
Current assets	16	30,154	9,486	39,640	69,492	5,150	74,642
Current liabilities	17	(6,868)	(1,675)	(8,543)	(8,491)	(1,947)	(10,438)
Net assets of the Scheme		**6,469,155**	**922,728**	**7,391,883**	**7,624,393**	**760,722**	**8,385,115**

The notes on pages 55 to 85 form part of these financial statements.

Statement of Net Assets (continued)

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 Actuary deals with the actuarial position of the Scheme, which does take account of such obligations, which is dealt with in the Report on Actuarial Liabilities on pages 17 to 19 of the annual report and these financial statements should be read in conjunction with them.

The Trustee Directors approved these financial statements on 4 November 2024 .

Signed for and on behalf of the Trustee Directors:

Christopher Martin for Independent Trustee Services L nited, Trustee Director	Thomas Taylor Secretary

Notes to the Financial Statements

In plain English – what does this show?	This section outlines the general accounting policies of the Scheme that relate to the financial statements as a whole.

1.1 Basis of preparation

The financial statements 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 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (2018).

1.2 Identification of the financial statements

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is Co-operative Group Limited, Pensions Department, Department 10406, 1 Angel Square, Manchester, M60 0AG.

2 Accounting policies

The principal accounting policies of the Scheme are as follows:

Contributions and benefits

Employee normal and additional contributions are accounted for when deducted from pay and in the period to which the corresponding pay relates. Employer normal contributions are accounted for on the same basis as employee contributions.

Benefits are accounted for in the period in which the member notifies us 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.

Transfers

Individual transfers in or out represent the capital sums either received in respect of members from other pension schemes or paid to other pension schemes for members who have left the Scheme. Transfer values are accounted for when the liability is accepted, or discharged.

Expenses

Expenses are accounted for on an accruals basis.

Investment income

Dividends from quoted securities are accounted for when due, with the addition of dividends outstanding as at 5 April 2024 on listed stocks which were then ex-dividend. Interest on deposits is accounted for on an accruals basis and accrued daily. Rents are earned in accordance with the terms of the lease and accounted for on an accruals basis.

Investment income is reported net of attributable tax credits but gross of withholding taxes, which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.

Investment income arising from the underlying assets within pooled investment vehicles is reinvested in those vehicles and is reflected in the unit price. This income is reported within 'change in market value'.

Income arising from annuity policies held in our name as Trustee for the Scheme is accounted for on an accruals basis as investment income.

Basis of accounting for property investments

PGIM Limited managed the Co-op Section's property portfolio.

Direct

The financial statements show all of the Co-op Section's assets and liabilities in respect of the property portfolio (bank account, debtors and creditors in connection with rental of the properties, and rental income) on an accruals basis.

This basis is in line with the other investments, providing clarity on all transactions relating to the Co-op Section's investment in property and reflects the substance of the arrangement.

Valuation of investments

Investments are included in the statement of net assets at market value. UK and foreign listed securities are valued at the bid-market value or latest traded price at the year-end. Pooled investment vehicles are stated at the bid price for funds with bid/offer spreads, single price, or dealing price where there are no bid/offer spreads, as provided by the investment manager at the year-end. With the exception of the pooled cash fund managed by BlackRock, all other pooled investment vehicles were fully disinvested during the year and nil balance was held at year-end.

Bonds are stated at their clean (i.e. excluding accrued income) prices. Accrued income is accounted for within investment income. All bonds were fully disinvested during the year and nil balance was held at year-end.

Alternative inflation linked property held with PGIM is valued at open market value by CBRE Ltd in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards. These assets were fully disinvested during the year and nil balance was held at year-end.

Derivatives are stated at market value. Exchange traded derivatives are stated at market values determined using market quoted prices. For exchange traded derivative contracts which are assets, market value is based on quoted bid prices. For exchange traded derivative contracts which are liabilities, market value is based on quoted offer prices. All derivatives were fully disinvested during the year and nil balance was held at year-end.

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. All contracts were fully disinvested during the year and nil balance was held at year-end.

Swaps are revalued on a daily basis. The fair value is calculated using pricing models, where inputs are based on market data as of close of business the previous day. Interest is accrued on a basis consistent with the terms of each contract. The amounts included in 'change in market value' are the realised gains or losses on closed contracts and the unrealised gains or losses on open contracts. Net receipts or payments on swap contracts are reported within change in market value. All swaps were fully disinvested during the year and nil balance was held at year-end.

Realised and unrealised gains and losses arising on derivative contracts are disclosed within change in market value and are taken directly to the fund account.

Repurchase agreements are valued on an amortised cost basis and are accounted by recognising and valuing the securities that are delivered out as collateral, and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount. These agreements are valued on an amortised cost basis. All agreements were fully disinvested during the year and nil balance was held at year-end.

The fair value of annuities (excluding the buy-ins) purchased by the Trustee, which fully provide the benefits for certain members, are estimated to be immaterial by the Trustee. The asset has therefore been excluded from these financial statements. The cost of purchasing these annuities is reported within the Fund Account under ‘Benefits paid or payable’.

The valuation of the buy-in annuity policies has been performed by the Actuary using an approximate roll forward of the preliminary results of the 5 April 2022 actuarial valuation (but updated for market conditions as at 5 April 2024 and allowing for known cashflows to 5 April 2024). The Actuary has valued members identified as being part of the insured population at 5 April 2022, with all other members assumed to be captured by the Rothesay policy. No explicit allowance has been made in the figures for membership movements since 5 April 2022.

The buy-in annuity policies described above, and a non-profit deferred annuity contract valued by the provider (Aviva PLC) using the gross premium method is recognised within the Net Asset Statement under ‘Insurance Policies’.

AVC investments are included at market value, as provided by the AVC provider.

3 Contributions

What does this show?	This note shows what contributions have been received by the Scheme from the Co-op and participating employers during the year.

	DBS year ended 5 Apr 24 £000	DCS year ended 5 Apr 24 £000	Total year ended 5 Apr 24 £000
Employer			
normal	-	112,633	112,633
expense allowance	-	3,840	3,840
	-	**116,473**	**116,473**
Employee			
normal	-	4,209	4,209
additional voluntary contributions	-	2,432	2,432
	-	**6,641**	**6,641**
	-	**123,114**	**123,114**

	DBS year ended 5 Apr 23 £000	DCS year ended 5 Apr 23 £000	Total year ended 5 Apr 23 £000
Employer			
normal	-	108,159	108,159
expense allowance	-	3,840	3,840
	-	**111,999**	**111,999**
Employee			
normal	-	3,780	3,780
additional voluntary contributions	-	2,815	2,815
	-	**6,595**	**6,595**
	-	**118,594**	**118,594**

Salary sacrifice arrangements are in place and these contributions are included within employer normal contributions.

Further details on the Schedules of Contributions agreed for the year can be found on pages 15 to 16.

4 Transfers in

What does this show?	This note shows the value of transfers in which have been transferred into the Scheme during the year.

	DBS year ended 5 Apr 24 £000	DCS year ended 5 Apr 24 £000	Total year ended 5 Apr 24 £000
Individual transfers in	-	4,459	4,459

	DBS year ended 5 Apr 23 £000	DCS year ended 5 Apr 23 £000	Total year ended 5 Apr 23 £000
Individual transfers in	-	1,527	1,527

5 Other income

What does this show?	This note shows income received from the life insurance providers for the Scheme during the year.

	DBS year ended 5 Apr 24 £000	DCS year ended 5 Apr 24 £000	Total year ended 5 Apr 24 £000
Life assurance claims	-	3,072	3,072

	DBS year ended 5 Apr 23 £000	DCS year ended 5 Apr 23 £000	Total year ended 5 Apr 23 £000
Life assurance claims	-	4,039	4,039

6 Benefits paid or payable

What does this show?	This note shows the types and values of benefits been paid out to members of the Scheme during the year.

	DBS year ended 5 Apr 24 £000	DCS year ended 5 Apr 24 £000	Total year ended 5 Apr 24 £000
Pensions	232,060	-	232,060
Commutations and lump sum retirement benefits	40,244	10,821	51,065
Lump sum death benefits	779	4,011	4,790
Purchases of annuities	-	576	576
	273,083	**15,408**	**288,491**

	DBS year ended 5 Apr 23 £000	DCS year ended 5 Apr 23 £000	Total year ended 5 Apr 23 £000
Pensions	222,787	-	222,787
Commutations and lump sum retirement benefits	35,888	9,434	45,322
Lump sum death benefits	1,039	4,623	5,662
Purchases of annuities	-	373	373
Tax charges	2	-	2
	259,716	**14,430**	**274,146**

7 Payments to and on account of leavers

What does this show?	This note shows how much has been paid out to members and other pension schemes for members who have left the Scheme during the year.

	DBS year ended 5 Apr 24 £000	DCS year ended 5 Apr 24 £000	Total year ended 5 Apr 24 £000
Individual transfers to other schemes	10,090	33,068	43,158
Surrendered in/after service	-	219	219
	10,090	**33,287**	**43,377**

7 Payments to and on account of leavers (continued)

	DBS year ended 5 Apr 23 £000	DCS year ended 5 Apr 23 £000	Total year ended 5 Apr 23 £000
Individual transfers to other schemes	61,327	50,618	111,945
Refunds to members leaving service	7	-	7
Surrendered in/after service	-	86	86
	61,334	**50,704**	**112,038**

8 Administrative expenses

What does this show?

This note shows the different types of expenses the Scheme has incurred during the year. It splits expenses into key categories, such as actuarial and administration fees.

	DBS year ended 5 Apr 24 £000	DCS year ended 5 Apr 24 £000	Total year ended 5 Apr 24 £000
Administration	7,203	214	7,417
Actuarial	891	-	891
Audit	117	-	117
Legal and other	5,790	130	5,920
Life assurance premiums	-	2,472	2,472
	14,001	**2,816**	**16,817**

	DBS year ended 5 Apr 23 £000	DCS year ended 5 Apr 23 £000	Total year ended 5 Apr 23 £000
Administration	6,402	162	6,564
Actuarial	1,355	-	1,355
Audit	154	-	154
Legal and other	6,858	129	6,987
Life assurance premiums	-	2,510	2,510
	14,769	**2,801**	**17,570**

9 Other payments/(receipts)

What does this show?	This note shows the total amount of levies paid to the Pensions Regulator and the Pension Protection Fund during the year.

	DBS year ended 5 Apr 24 £000	**DCS year ended 5 Apr 24** £000	**Total year ended 5 Apr 24** £000
Pension levies	426	258	684

Total		**DBS**	**DCS**
	year ended 5 Apr 23 £000	**year ended 5 Apr 23** £000	**year ended 5 Apr 23** £000
Pension levies*	(212)	220	8

The Pensions Act 2004 introduced the Pension Protection Fund levy and the Scheme, in common with other pension schemes, is required to contribute.

* Prior year included an accrual release of £759K as the provision for the 2006/07 levy was no longer required.

10 Investment Income

What does this show?	The Scheme receives income and interest from its assets; this note shows the different types of income and interest received during the year.

DBS	**Year ended 5 Apr 24** £000	**Year ended 5 Apr 23** £000
Income from bonds	148,257	347,203
Income from pooled investment vehicles	39,004	82,652
Rents from properties	7,233	11,922
Interest on cash deposits	18,655	5,634
Foreign exchange (loss)/gain	(1,701)	7,065
Income from collateral	65	508
Annuity income*	205,212	135,803
Income from security lending	-	68
Other	68	999
	416,793	**591,854**

Investment income shown above reflects income earned by investments within the DB Sections. Rents from properties is net of VAT, any associated expenses are disclosed in note 12. All income earned on pooled investment units held by the DC Section is accounted for within the value of those funds.

* In November 2023, the Trustee entered into an additional bulk annuity policy with Rothesay in respect of the remainder of the Co-op Section's Defined Benefit Section's pensioner and deferred liabilities. During the year, we received annuity income from Aviva, PIC and Rothesay to cover pensions and benefits paid for the buy-in population.

11 Reconciliation of investments

What does this show?	This note provides a reconciliation of the sales, purchases and change in market value during the year between the opening and closing value of investments and analysed by asset class as disclosed on the face of the Statement of Net Assets.

		6 April 2023	**Purchases at cost and derivative payments**	**Sales proceeds and derivative receipts**	**Change in market value**	**5 April 2024**
DB Assets	Note	£000	£000	£000	£000	£000
Bonds		4,551,951	1,849,362	(5,818,000)	(583,313)	-
Pooled investment vehicles	11.1	1,034,995	1,366,048	(2,074,835)	(24,668)	301,540
Net derivative contracts	11.2					
-Swaps		228,576	72,759	(17,386)	(283,949)	-
-Futures		(3,025)	4,758	(7,795)	6,062	-
-Foreign exchange		5,300	11,024	(19,592)	3,268	-
Alternative inflation linked		284,655	2,068	(258,374)	(28,349)	-
AVC investments	11.3	35,014	2,026	(4,142)	2,863	35,761
Insurance policies*	11.4	2,703,058	3,731,166	-	(328,168)	6,106,056
		8,840,524	**7,039,211**	**(8,200,124)**	**(1,236,254)**	**6,443,357**
Repurchase and reverse repurchase agreements		(1,388,702)			(31,272)	-
Cash deposits		65,154				4
Accrued income & income received in advance		37,596				2,492
Sales awaiting settlement		8,969				16
Purchases awaiting settlement		(149)				-
TOTAL DB ASSETS		**7,563,392**			**(1,267,526)**	**6,445,869**
DC Assets		£000	£000	£000	£000	£000
Pooled investment vehicles**	11.1	757,519	122,226	(44,252)	79,424	914,917
TOTAL DC ASSETS		**757,519**	**122,226**	**(44,252)**	**79,424**	**914,917**

*In November 2023, the Trustee entered into an additional bulk annuity policy with Rothesay in respect of the remainder of the Co-op Section's Defined Benefit Section's pensioner and deferred liabilities, transferring the majority of the Section's assets to Rothesay. These bulk annuity policies will provide the benefits due from the Section to the vast majority of members. The only remaining defined benefit assets consist of cash held by the Section to meet future costs.

**During the year, there was a deferred member transfer for the DC Section where £15.5m of Co-op Section assets and £0.2m of Bank Section assets (2023: £36.0m[1] - Co-op DC section, £0.1m - Bank DC section) were moved from Pace DC to L&G's Mastertrust. These switches have been included in the sales figures in the above table.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments.

The investment assets held by the Sections as at 5 April 2024 are set out below

	DBS 5 Apr 24 Total £000	**DCS 5 Apr 24 Total** £000
Co-op Section	5,312,376	814,788
Bank Section	1,133,493	100,129
	6,445,869	**914,917**

	DBS 5 Apr 23 Total £000	**DCS 5 Apr 23 Total** £000
Co-op Section	6,332,221	680,053
Bank Section	1,231,171	77,466
	7,563,392	**757,519**

[1] Restated from £1.2m to £36.0m; previously omitted the Q1-2023 bulk transfer of £34.8m.

Transaction costs

Included within the DB Section purchases and sales figures are direct transaction costs of £0.04m (2023: £0.03m) comprising fees, commissions and stamp duty. These costs are attributable to the key asset classes as follows:

	Fees	Commission	Total 2024	Total 2023
	£000	£000	£000	£000
Property	2	-	2	5
Derivatives	-	4	4	4
Pooled	-	29	29	-
Cash instruments	-	8	8	21
For the year ended 5 Apr 2024	**2**	**41**	**43**	**-**
For the year ended 5 Apr 2023	5	25	-	30

Transaction costs are also borne by the Scheme in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately reported.

For the DC Section, investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. Legal & General holds the investment units on a pooled basis on our behalf. Legal & General allocates investment units to members. We may 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.

DC investment assets are allocated to members and the Trustee as follows:

	Total 5 Apr 24	Total 5 Apr 23
	£000	£000
Members	914,917	757,519
Trustee	-	-
	914,917	**757,519**

11.1 Pooled investment vehicles

DBS	Total 5 Apr 24 £000	Total 5 Apr 23 £000
Illiquid credit funds	-	717,187
Cash funds	301,540	266,668
Alternative funds	-	51,140
	301,540	**1,034,995**

DCS	Total 5 Apr 24 £000	Total 5 Apr 23 £000
Multi-asset	853,049	508,107
Equity	42,260	182,820
Cash	19,194	66,179
Bonds	414	413
	914,917	**757,519**

Sole investor pooled arrangements

The Co-op Section was the sole investor in the Insight Illiquid Credit Fund before the assets were transferred to Rothesay. A summary of the pooled arrangement's assets and liabilities at 5 April 2024 is set out below:

DBS	Total 5 Apr 24 £000	Total 5 Apr 23 £000
Fixed income	-	232,798
Liquidity	-	7,445
	-	**240,243**

11.2 Derivative contracts - Objectives and policies

We have authorised the use of derivatives by investment managers to manage risk within the investment strategy.

The main objectives for the use of key classes of derivatives and the policies followed during the year are summarised as follows:

Swaps – Our aim is to match, as far as possible, the liability matching portfolio and the Scheme's long-term liabilities, in particular in relation to sensitivity to interest rate and inflation movements. For capital efficiency, we have entered into derivative agreements (interest rate and inflation-linked swap contracts and gilt total return swaps) that enable the liability matching portfolio to better match the long-term liabilities of the Scheme. Total return swaps allow exposure to index-linked and conventional gilts to match the long-term liabilities of the Scheme in a capital efficient manner.

Futures – Futures are used to manage interest rate risk and gain synthetic bond exposure. Bond futures contracts are efficient instruments to allow the manager to position the portfolio for overall movements in yields and changes in shape to the yield curve.

Forward foreign exchange – In order to maintain appropriate diversification of investments within the portfolio, and take advantage of overseas investment returns, a proportion of the investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, we operate a policy of hedging a portion of non-sterling currency exposure in the fixed income portfolio to reduce the currency exposure of the overseas investments to the targeted level.

At the year-end, the Scheme held no derivative contracts as a result of the completion of the buy-in.

Derivatives

DBS		**Assets 5 Apr 24 £000**	**Liabilities 5 Apr 24 £000**	**Assets 5 Apr 23 £000**	**Liabilities 5 Apr 23 £000**
OTC swaps	(i)	-	-	863,977	(635,401)
Futures	(ii)	-	-	1,142	(4,167)
Forward FX contracts	(iii)	-	-	5,520	(220)
Total		**-**	**-**	**870,639**	**(639,788)**

i. Swaps

Nature Duration	**Nominal Amount £000**	**Asset value at year-end £000**	**Liability value at year-end £000**
Total 5 April 2024	-	-	-
Total 5 April 2023		863,977	(635,401)

In the prior year, in relation to the swap contracts above, the fund and counterparties deposited a total of £200m and £351m of bonds and cash as collateral at 5 April 2023 (this is not recorded in the statement of net assets). No collateral was deposited at 5 April 2024.

ii. Futures

Nature	**Notional Amount long/(short) position**	**Expiration**	**Asset value at year-end £000**	**Liability value at year-end £000**
Total 5 April 2024	-	-	-	-
Total 5 April 2023			1,142	(4,167)

Included within the prior year cash balances was £4.9m in respect of initial and variation margins arising on open futures contracts at the year-end. No balances in respect of initial and variation margins were held at 5 April 2024.

iii. Forward Foreign Exchange (FX)

The Scheme had no open FX contracts at the year-end:

Nature	**Settlement date**	**Currency bought**	**Currency**	**Currency sold**	**Currency**	**Asset value at 5 April 24 £000**	**Liability value at 5 April 24 £000**
Total 5 April 2024		-		-		-	-
Total 5 April 2023		237,186		(231,886)		5,520	(220)

11.3 AVC investments

DBS	Total 5 Apr 24 £000	Total 5 Apr 23 £000
Royal London (CIS) Ltd	21,489	22,489
Legal & General	14,240	12,494
Prudential	24	23
Utmost	5	5
Aviva	3	3
	35,761	**35,014**

Legal & General invests money purchase Additional Voluntary Contributions paid by members of both the DB and DC Sections of Pace. These are invested separately from the main DC investments of the Scheme.
As Legal & General does not distinguish between or report separately on AVC investments held for DB members and DC members, all Legal & General AVCs are reported as Defined Benefit section assets for accounting purposes.

Royal London (CIS) Ltd provided AVCs for DB members up to October 2015, when the DB Section closed. It is no longer possible for any further contributions to be made to Royal London since the DB Section closed. Prudential, Legal & General, Aviva and Utmost also provide AVCs for members who have transferred into the Scheme from other Co-op pension schemes.

11.4 Insurance policies

DBS	Total 5 April 24 £000	Total 5 April 23 £000
Rothesay	4,480,000	969,000
Pension Insurance Company	825,000	882,000
Aviva	801,000	852,000
Aviva (Formerly Norwich Union)	56	58
	6,106,056	**2,703,058**

The Aviva (formerly Norwich Union) policies relate to deferred annuity contracts for former GT Smith Ltd employees.

11.5 Concentration of investments

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

		5 April 2024		5 April 2023	
		Market value £000	Net assets %	Market value £000	Net assets %
Rothesay	Insurance policy	4,480,000	60.6	969,000	11.6
PIC	Insurance policy	825,000	11.2	882,000	10.5
Aviva	Insurance policy	801,000	10.8	852,000	10.2
LGIM	Pace – Build Your Pot	483,375	6.5	-	-

The insurance policies above match the pension and benefit payments due to the vast majority of the members of the Co-op Section and Bank Section members. The insurance policies are part of the Trustee's investments and will provide improved security for all members as they remove the risk of there being insufficient assets to meet those future liabilities.

12 Investment management expenses

What does this show?	This note shows the investment management expenses incurred by the Scheme during the year.

DBS	**Year ended 5 April 24** £000	**Year ended 5 April 23** £000
Investment management fees	1,434	5,980
Property expenses	585	698
Custody fees	207	411
Other advisory fees	918	1,198
Performance measurement services	22	52
Other investment expenses	33	38
	3,199	**8,377**

13 Taxation

The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax. The tax charge in the Fund Account (see note 10) represents irrecoverable withholding taxes arising on investment income.

14 Fair value determination

What does this show?	This note categorises the investment assets and liabilities held by the Scheme into specific levels which correspond to how its market value has been determined. Market values can be determined from a number of sources including taking pricing information from market data i.e. a stock exchange, or using a valuation model not widely available.

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 have been fair valued using the above hierarchy categories as follows:

At 5 April 2024	Held at cost not FV £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
DB Section					
Bonds	-	-	-	-	-
Pooled investment vehicles	-	-	301,540	-	301,540
Swaps	-	-	-	-	-
Futures	-	-	-	-	-
Foreign exchange	-	-	-	-	-
Alternative inflation linked	-	-	-	-	-
AVC investments	-	-	35,734	27	35,761
Insurance policies	-	-	-	6,106,056	6,106,056
Repurchase and reverse repurchase agreements	-	-	-	-	-
Cash deposits	-	4	-	-	4
Accrued income & income received in advance	-	2,492	-	-	2,492
Sales awaiting settlement	-	16	-	-	16
Purchases awaiting settlement	-	-	-	-	-
	-	**2,512**	**337,274**	**6,106,083**	**6,445,869**
DC Section					
Pooled investment vehicles	-	-	914,917	-	914,917
TOTAL	**-**	**2,512**	**1,252,191**	**6,106,083**	**7,360,786**

At 5 April 2023	Held at cost not FV £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
DB Section					
Bonds	-	-	4,500,524	51,427	4,551,951
Pooled investment vehicles	-	-	517,597	517,398	1,034,995
Swaps	-	-	228,576	-	228,576
Futures	-	(3,025)	-	-	(3,025)
Foreign exchange	-	-	5,300	-	5,300
Alternative inflation linked	-	-	-	284,655	284,655
AVC investments	-	-	34,983	31	35,014
Insurance policies	-	-	-	2,703,058	2,703,058
Repurchase and reverse repurchase agreements	(1,388,702)	-	-	-	(1,388,702)
Cash deposits	-	65,154	-	-	65,154
Accrued income & income received in advance	-	37,596	-	-	37,596
Sales awaiting settlement	-	8,969	-	-	8,969
Purchases awaiting settlement	-	(149)	-	-	(149)
	(1,388,702)	**108,545**	**5,286,980**	**3,556,569**	**7,563,392**
DC Section					
Pooled investment vehicles	-	-	757,519	-	757,519
TOTAL	**(1,388,702)**	**108,545**	**6,044,499**	**3,556,569**	**8,320,911**

15 Investment risk disclosures

What does this note show?	This note provides additional information to enable readers to evaluate the nature and extent of credit, market and other risks arising from certain investment assets which the Scheme is exposed to. Information about how the Scheme manages these risks is also provided.

FRS 102 requires that we, the Trustee, provide information in relation to certain investment risks. The risks are set out by FRS 102 are:

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, e.g. the risk that a borrower may not repay a loan or a debt to the Scheme.

Market Risk: this includes “currency risk”, “interest rate risk”, “inflation risk” and “other price risk”.

- **Currency risk**: this is the risk that the value of an investment changes because of changes in foreign exchange rates.
- **Interest rate risk**: this is the risk that the value of an investment increases or decreases because of changes in interest rates.

- **Inflation risk**: this is the risk that the value of an investment increases or decreases because of changes in inflation expectations.

- **Other price risk**: this is the risk that the value of an investment decreases or increases because of changes in market prices (apart from changes in value as a result of movements in interest rates, inflation or currencies).

15.1 Defined Benefit Section

Other Defined Benefit Risks:

Apart from the risks listed above, we make sure the following investment related risks are managed:

- **"Counterparty credit risk"** – the risk that annuity providers do not make the required payments to the Scheme.

- "**Liquidity risk**": The risk that the Scheme does not hold enough cash to meet short term requirements to pay benefits.

- **"Environmental, social and governance" ("ESG") risk (including climate change)** – The risk that the Scheme's investment returns and/or reputation are damaged due to the failure to implement and adhere to its responsible investment policy.

15.1.1 Defined Benefit Investment Strategy

We make investment decisions after taking advice from a professional investment adviser.

In 2020, the Trustee entered into bulk annuity policies with PIC and Aviva in respect of a portion of the Defined Benefit section's pensioner liabilities. In December 2022 and November 2023, the Trustee entered into an additional bulk annuity policy with Rothesay in respect of the remainder of (respectively) the Bank and Co-op Section's pensioner and deferred liabilities, transferring the majority of the Sections' assets to Rothesay. These bulk annuity policies will provide the vast majority of benefits due from the Sections to members, and the only remaining defined benefit assets consist of cash held by the two Sections to meet future costs.

This therefore limits the risks set out under section 15 that the two Sections of Pace DB are exposed to as at 5 April 2024 to credit risk (as the Sections' other assets were sold down or transferred to Rothesay).

Prior to these dates, the Sections were subject to the risks above because of the investments it made to implement their respective investment strategies. We managed investment risks, including credit risk and market risk, within agreed limits which were set taking into account the Sections' investment objectives. These investment objectives and risk limits were applied through the legal agreements the Sections had with their investment managers, and we regularly monitored that the managers were complying with these agreements.

A more detailed description of our approach to risk management and the Scheme's exposures to credit and market risks is set out below. This does not include AVC investments, because these were considered immaterial compared to the overall investments of the Scheme. Where the term 'invested assets' is used below, it includes the value of the annuity policies entered into by the Scheme.

15.1.2 Defined Benefit Investment Risk Management

Prior to November 2023, the Co-op Section invested in one pooled investment vehicle where we had control over the investment mandate. The risks related with this pooled investment vehicle were considered as if the investments were held directly.

(i) Credit risk

The Scheme was subject to credit risk for the majority of the Scheme year because:

- it invested in bonds issued by UK and overseas governments and companies (which could default on their debt to the Scheme);
- it held 'buy-in' bulk annuity policies with Rothesay, PIC and Aviva;
- it entered into repurchase agreements and invested in derivatives; and
- it held cash in bank accounts and with investment managers.

The Scheme also invested in pooled investment vehicles, such as open ended investment companies and unit linked insurance contracts, and was therefore directly exposed to credit risk in relation to these pooled investment vehicles. The Scheme was also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles and from the tenants of directly held properties.

As at the year end, the Scheme continued to have holdings in one pooled cash vehicle (through both the Co-op and Bank Sections), and therefore retains credit risk in relation to that holding.

Credit risk – Insurance policies:

Both Sections of the Scheme are subject to credit risk arising from their investment in buy-in policies with Aviva, PIC and Rothesay.

This risk is, however, mitigated by the fact that Aviva, PIC and Rothesay are regulated by the Financial Conduct Authority and in the event of insurer default, the benefits secured by the buy-ins will be protected by the Financial Services Compensation Scheme ("FSCS"). As at 5 April 2024, the value attributed to the buy-in policies was approximately £4,999m for the Co-op Section and £1,107m for the Bank Section (2023: £1,478m for the Co-op Section; £1,225m for the Bank Section).

Credit risk – UK government and investment grade bonds:

Prior to November 2023, when the Co-op Section's holdings in bonds were transferred to Rothesay, we limited the credit risk the Scheme was exposed to through its bond holdings by diversifying holdings across a number of investment managers, ensuring that the majority of the bonds held by BlackRock, Insight, Legal and General (LGIM) and Royal London Asset Management (RLAM) were either government bonds (where the risk of default is minimal), or corporate bonds which were rated at least investment grade (i.e. where they are higher quality). The risk was also reduced by requiring the appointed investment managers to invest in a range of bonds issued by different entities, which reduced the impact on the total portfolio if a bond issuer is unable to meet the payments due (see note 11).

The Scheme's investment managers were also allowed to invest in corporate bonds and similar investments which were not rated as investment grade. These investments were held at the investment managers' discretion and are subject to limits. BlackRock and Insight were not permitted to purchase bonds which were sub-investment grade, however if a bond becomes rated sub-investment grade, Insight were allowed to hold up to 10% of Net Asset Value (NAV) exposure in sub investment grade bonds and BlackRock could hold up to 2%. RLAM were allowed to invest in corporate bonds which were not rated as investment grade, at RLAM's discretion and subject to limits; if a bond was downgraded RLAM could continue to hold it, but at most 20% of the Scheme's investment with RLAM could be sub-investment grade.

At the year-end a total of nil% of the Scheme's invested assets were rated sub-investment grade. (2023: 0.4% of the Co-op Section and nil% of the Bank Section).

Credit risk – less liquid credit

As with the corporate bond allocations, the illiquid credit holdings were held at the respective investment managers' discretion and were subject to the guidelines and restrictions set by each manager.

We held some illiquid credit investments with Insight (5 April 2024: nil), where we were the sole investor and therefore had control over the investment mandate (see note 11). As part of the mandate, Insight were not permitted to hold more than 15% of sub-investment grade assets rated BB+ or below (and not more than 5% of B+ rated holdings or below). They also have restrictions on holding no more than 20% of bonds in emerging market bonds.

Credit risk - derivatives:

Credit risk arises on derivative contracts, which are not guaranteed by any regulated exchange, and which are therefore subject to risk of failure of the counterparty.

Prior to the transaction with Rothesay in November 2023, the level of credit risk for derivative contracts was reduced by using collateral arrangements (see note 11.2 (i)). Credit risk could also arise on forward foreign currency contracts (see note 11.2 (iii)). There were no collateral arrangements for these contracts but, when used, all counterparties are required to be at least investment grade.

The Scheme's overseas bond holdings with LGIM and Insight were exposed to credit risk on the currency hedging and interest rate derivatives held by the manager, while the less liquid credit holdings with ICG, M&G and Insight were also exposed to credit risk on the currency hedging derivatives held by the managers. These risks were mitigated by the managers using a range of counterparties, undertaking on-going monitoring of counterparty creditworthiness and requiring all counterparties to maintain minimum credit ratings.

The Mercer Alternatives fund was also exposed to credit risk in relation to currency hedging contracts that were used to hedge the bulk of its overseas currency exposure. This credit risk was mitigated by renewing and settling the cumulative profit or loss on these contracts at least once every two months and by Mercer undertaking on-going monitoring of counterparty creditworthiness and requiring the sole counterparty to maintain an investment grade credit rating.

Credit risk – cash:

Cash is currently held within financial institutions which are at least investment grade credit rated. We have appointed a banking services provider with an investment grade credit rating at year end, the total cash held is 0.4% and 0.2% of the Co-op and Bank Sections' total net assets respectively (2023: 0.6% the Co-op Section and 2.1% of the Bank Section).

The breakdown of the cash for the two sections are shown below:

	5 April 2024			5 April 2023
Cash Balances	Co-op Section £000	Bank Section £000	Consolidated £000	Consolidated £000
Held with Trustee bank account	21,901	2,338	24,239	65,170
Held with AVC bank account	99	95	194	383
Total	**22,000**	**2,433**	**24,433**	**65,553**

Credit risk – repurchase agreements and swaps:

Credit risk on repurchase agreements and swaps is mitigated through collateral arrangements. At the year end, given the termination or transfer of the Co-op Section's derivative positions in November 2023, the market value of collateral held was £nil (2023: £351m for Co-op Section and £nil for the Bank Section); and the market value of collateral pledged was £nil (2023: £201m for the Co-op Section and £nil for the Bank Section).

Credit risk – pooled investment vehicles ("PIVs"):

The Scheme has holdings in one pooled liquidity fund which invested in underlying money market instruments on behalf of a number of investors, and is therefore directly exposed to credit risk in relation to the fund itself (as the PIV could default on its obligations to the Scheme); A summary of pooled investment vehicles by type of arrangement can be found in note 11.1.

Direct credit risk arising from PIV are reduced because:

- the underlying investments held by the pooled funds are legally ring-fenced from the investment manager(s); and,
- the investment managers that operate the PIVs need to meet the requirements of various financial regulations.

	2024 £'000	2023 £'000
Open Ended Investment Company		
- Insight Liquidity fund	-	49,135
- BlackRock Liquid Environmentally Aware Fund	301,540	179,162
- Mercer QIF Alternatives Fund	-	51,140
Unit Linked Insurance Policy		
- LGIM Liquidity fund	-	38,372
Qualifying Investor Alternative Investment Funds		
- M&G illiquid credit fund	-	250,929
- Insight illiquid credit fund	-	264,972
Luxembourg Securitisation Undertaking ("organisme de titrisation")		
- ICG illiquid credit fund	-	201,285
TOTAL	**301,540**	**1,034,995**

At the year end a total of 5% and 2% of the Co-op and Bank Sections' invested assets were held in pooled investment vehicles respectively (2023: 16.3% for the Co-op Section and nil for the Bank Section).

Credit risk – custody:

We have appointed a global custodian for the safe-keeping of assets. The risk that the custody of the Scheme's assets is not secure is addressed by monitoring the custodian's activities and creditworthiness. In addition, cash balances held by the custodian are transferred to a ring-fenced fund each night to reduce the risk of losses occurring should the custodian become un-creditworthy overnight.

The investment managers for the PIV appoint their own custodians to ensure the safe-keeping of the assets within their mandates.

Indirect credit risk:

Indirect credit risk arises in relation to underlying investments held in the bond and alternatives pooled investment vehicles that the Scheme invested in (5% of assets for the Co-op Section and 2% of assets for the Bank Section at year end, 2023: 16.3% for Co-op Section and nil for the Bank Section). For example, both Sections currently invest in a pooled investment which itself invests in in underlying money market instruments issued by other financial institutions, primarily banks. There is therefore a risk that these financial institutions default on their repayments to the pooled fund. This is mitigated by:

- assessment by the pooled fund provider of the credit-worthiness of the underlying instruments and counterparties, with investments limited to those the fund provider considers "High Quality";
- limits within the fund's guidelines to the duration of money market instruments it is allowed to hold (the Fund will invest only in securities with a maturity at issuance or residual term to maturity of 397 days or less, and is required to maintain a weighted average maturity of 60 days or less and a weighted average life of 120 days or less.
- the fund investing in a range of sterling-denominated money market instruments diversified by issuer and region.

(ii) Currency risk

The Scheme was subject to currency risk because the Scheme invested in overseas investments either as segregated investments or through pooled funds.

To reduce the risk that the value of these overseas investments falls in Sterling terms, we operated a policy of hedging a portion of non-Sterling currency exposure as appropriate, and where we judge this risk to be material. The management of currency risk is delegated to the appointed managers and is managed within each manager's overall risk framework.

The Scheme had zero total net unhedged foreign currency risk at year-end.

(iii) Interest rate and inflation risk

The Scheme was subject to interest rate and inflation risk on its investments in bonds and financial derivatives, and also through its liabilities. The liability driven investments it made are intended to protect the Scheme against the impact of changes in interest rates and inflation on the Scheme's liabilities.

The Scheme managed these risks through investments in a segregated LDI portfolio managed by BlackRock and long-dated corporate bond portfolios managed by Insight, LGIM and RLAM. These portfolios held gilts, corporate bonds, derivatives and cash collateral. We monitored the level of assets available within the BlackRock LDI portfolio for use as collateral and operated a framework to ensure that if gilt yields rise then additional cash can be provided in a timely manner, should it be required.

The bulk annuity policies purchased by the Co-op Section and the Bank Section also provide interest rate and inflation protection in relation to the liabilities they match.

At the year end the LDI portfolio and bonds represented nil% of the total invested assets for the Co-op Section and nil for the Bank Section, including the buy-ins; (5 April 2023: 58.7% for the Co-op Section and nil for the Bank Section).

(iv) Other price risk

The Co-op Section of the Scheme was also exposed to "other price risk", largely because of its investments in return seeking assets (which included over the year investment properties and alternative investments held in a pooled vehicle). Alternative investments include such asset classes as hedge funds, private equity and insurance linked assets. Over the year, we also invested holdings in Illiquid Credit which covers less standard and liquid areas of the credit market. To spread this risk, the Scheme invested across multiple illiquid credit managers, each of which had diversified holdings by issuer and asset class.

At the year end, the Co-op Section's exposures to investments subject to other price risk was nil (2023: 0.8%, 11.3% and 4.5% in alternative assets, illiquid credit and property).

At the year end, the Bank Section's exposure to investments subject to other price risk was nil (2023: nil).

(v) Other Defined Benefit risks

Other Defined Benefit investment risks are managed as outlined below:

- **Counterparty credit risk** – this is mitigated as the annuity policies in place are governed by insurance market solvency requirements and the protections provided by the Financial Services Compensation Scheme; the Trustee has further mitigated this risk through careful choice of insurance providers and negotiation of contract terms.

- **Liquidity risk -** while the buy-in policies held by the Scheme can only be liquidated by the Trustee in specific and limited pre-defined circumstances, they are designed to match the liquidity requirements of the relevant liabilities as exactly as possible, and so the requirement to hold liquid assets to meet these liabilities as they are due falls away.

- **Environmental, social and governance ("ESG") risk (including climate change)** – with the purchase of insurance policies, the Trustee's responsibility for the management of these risks is limited and passed on to Aviva, PIC and Rothesay (and the three insurers' management of these risks was considered as part of their selection).

15.2 Defined Contribution Section

Other Defined Contribution Risks:

As well as considering the risks that apply to the underlying funds, summarised in note 15 above, we consider the following investment related risks:

- Purchasing power risk
- Conversion risk
- Manager risk
- Lack of diversification risk
- ESG risk

15.2.1 Defined Contribution investment strategy

Our 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 contributions from members and their employer, will provide a retirement amount which the member can use for the provision of retirement income; either by taking their defined contribution account as cash, using it to purchase a pension annuity (or other type of retirement product) or transferring it out of the Scheme to provide alternative retirement benefits.

We have an insurance policy with Legal & General. The value of the policy is linked to the value of the underlying assets or pooled funds in which we choose to invest. The day to day management of the underlying investments of the funds is the responsibility of Legal & General, including the direct management of credit and market risks.

We have determined the defined contribution investment strategy, after taking professional investment advice and following consultation with the Sponsor. We provided three Target investment options for members which are designed to be an appropriate match for the different retirement options a member can take.

The default option is Target: Lump Sum, which has been selected as appropriate for members who want to take their account as a one-off cash sum on retirement. As a member approaches retirement, the funds are steadily moved into lower risk funds. These funds may not grow so quickly but are less likely to have large falls in value in the short term.

The other options available to members are Target: Secure Income and Target: Flexible Income.

Target: Secure Income is designed to be an appropriate match for members who want to use their account to buy a pension (annuity) at retirement.

Target: Flexible Income is designed to be an appropriate match for members who want to leave their account invested after retirement, taking sums of money from it (drawdown) over time. Drawdown is not currently offered through the Scheme so members will need to transfer their account to another arrangement at retirement to take advantage of it. It is possible for members to transfer to Legal & General's Pension Access Scheme to facilitate drawdown.

Although the Target funds have been designed to be a good match for the different retirement options a member can take, they do not guarantee a particular outcome at retirement. Members are advised to consider taking independent financial advice if they are unsure as to what investment fund is right for them.

Members who would rather make their own investment decisions can select from the following range of funds:

- Pace Growth (Shares) Fund – this fund is closed to new contributions, other than members already invested in the fund
- Pace Growth (Shares) 2021 Fund
- Pace Growth (Ethical Shares) Fund
- Pace Growth (Mixed) Fund
- Pace Pre-retirement (Inflation-linked Annuity Aware) Fund
- Pace Pre-retirement (Annuity Aware) Fund
- Pace Cash Fund
- Pace Growth (Shariah) Fund

15.2.2 Defined Contribution Investment Risk Management

Member level exposure to the risks outlined in Section 15 will be dependent on the funds invested in by members. The funds which have significant exposure to these risks are set out below:

	Credit risk	Interest rate risk	Inflation risk	Currency risk	Other price risk	Asset Value 5 April 2024 £000
Pace - Build Your Pot	YES	YES	YES	YES	YES	483,375
Pace - Consolidate Your Pot	YES	YES	YES	YES	YES	212,882
Pace - Take Your Pot - as cash	YES	YES	YES	YES	YES	81,655
Pace – Cash Fund	YES	YES	-	-	-	19,194
Pace Growth (Ethical shares) Fund	YES	-	-	YES	YES	10,025
Pace Growth (Mixed) Fund	YES	YES	YES	YES	YES	74,790
Pace Growth (Shares) 2021 Fund	YES	-	-	YES	YES	30,217
Pace Growth (Shariah) Fund	YES			YES	YES	1,322
Pace Growth (Shares) Fund	YES	-	-	YES	YES	696
Pace - Take Your Pot - as flexible income/drawdown	YES	YES	YES	YES	YES	347
Pace Pre-retirement (Annuity Aware) Fund	YES	YES	-	-	YES	142
Pace - Take Your Pot - as an annuity	YES	YES	-	-	YES	116
Pace Pre-retirement (Infl-Lkd Annuity Aware) Fund	YES	YES	YES	-	YES	156

(i) Credit risk

Credit risk – Insurer:

The Defined Contribution Section (DC Section) is subject to direct credit risk in relation to the Scheme's holding in unit-linked funds provided by Legal & General. Legal & General is regulated by the Financial Conduct Authority and they maintain separate funds for policyholders. We monitor the creditworthiness of Legal & General by reviewing published credit ratings. Legal & General invests all the Scheme's funds in its own investment funds, reinsured to Legal & General Assurance (Pension Management) Ltd funds, with the exception of the Pace Growth (Shariah) Fund which is managed by HSBC.

Credit risk – cash:

Cash is currently held within financial institutions which are at least investment grade credit rated. Over the reporting year, cash balances were held in a bank with an investment grade credit rating. The cash balance at year end was £4.0 million (£3.9 million for the Co-op Section and £0.1m for the Bank Section) (2023: £3.1 million in total).

Indirect Credit risk:

The DC Section is also subject to indirect credit risk arising from the underlying investments held in the funds. Indirect credit risk is mitigated by the spread of assets held in the funds, which provides diversification. Within the Pre-retirement Funds, indirect credit risk is also mitigated by the funds only holding government bonds or investment grade corporate bonds. The Cash Fund invests in short-term money markets such as bank deposits or Treasury Bills. All investments are held with institutions with investment grade credit ratings.

In addition, the DC Section is subject to indirect credit risk arising from the custodians appointed by the fund provider for the safe-keeping of assets. The selection and assessment of the on-going appropriateness of the custodians is delegated to the fund provider and the indirect credit risk is addressed through the fund provider's monitoring of the custodian's activities and creditworthiness.

(ii) Indirect Currency risk

The DC Section is subject to currency risk because some of the funds invest in investments denominated in overseas currencies. The Growth (Shares) Fund and The Growth (Shares) 2021 Fund mitigate this risk by currency hedging 75% and 50% respectively of the overseas assets (excluding emerging markets) to Sterling. The Growth (Mixed) Fund mitigates currency risk through the overall risk framework of the Fund. The Growth (Ethical Shares) Fund and the Growth (Shariah) Fund do not hedge overseas currency risk.

(iii) Indirect Interest rate risk

The Pre-retirement Fund and Pre-retirement (inflation-linked) Funds are subject to indirect interest rate risk. This risk is mitigated through the construction of the Funds, which are designed to change in value when interest rates change in a similar way to how the price of buying a retirement income changes.

The Cash Fund is also subject to indirect interest rate risk. The Fund aims to provide capital protection and provide a return in line with short term interest rates. The value of the assets would only fall should the interest earned by the Fund's assets be insufficient to cover the Fund management charge and any additional Fund expenses.

(iv) Indirect Inflation risk

The Pre-retirement (inflation-linked) and Growth (Mixed) Funds are subject to indirect inflation risk as they invest in assets that are affected by changes in inflation expectations.

This inflation risk associated with the Pre-retirement (inflation-linked) Fund is mitigated through the construction of the Fund, which is designed to change in value when inflation expectations change in a similar way to how the price of buying an inflation-linked retirement income changes. For example, if inflation expectations increase, the value of the Fund will rise in a similar, but not exact, amount to the cost of buying an inflation-linked retirement income. Similarly, if inflation expectations fall, the value of the Fund will fall in value in a similar, but not exact, amount as the cost of buying an inflation-linked retirement income.

The inflation risk of the Growth (Mixed) Fund is considered by the Fund provider as part of the overall risk and return framework in place.

(v) Other price risk

Other price risk arises principally in relation to the Growth Funds and the Pre-retirement Funds. Other price risk in these Funds is mitigated through the diversification of assets within the Funds (in particular, the Pace Growth (Shares) 2021 Fund caps its exposure to individual companies and is therefore has a more diversified range of holdings than a traditional market capitalisation weighted index-tracking fund).

(vi) Other Defined Contribution investment risks

- **Purchasing power risk** - the purchasing power risk to members is that the investment return over members' working lives does not keep pace with inflation and does not therefore secure an adequate retirement income. This risk is mitigated through the design of the Target Funds, which aim to provide sufficient investment returns over a member's working life. In addition, we have made available four Growth Funds, should members wish to select their own investment options.

- **Conversion risk** - the risk that relative market movements in the years just prior to retirement lead to substantial reduction in the retirement income and cash lump sum secured. This risk is mitigated through the design of the three Target Funds, which aim to protect members from relative market movements in the years just prior to retirement. In addition, we have made available two Pre-retirement Funds and a Cash Fund, should members wish to select their own investment options.

- **Manager risk** - the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed. This risk is mitigated through the regular review of investment performance by the Trustee.

- **Lack of diversification risk** – we recognise the risks that may arise from a lack of diversification within the investments. We therefore invest in pooled fund vehicles, to ensure an adequately diversified portfolio for each fund option. As noted above, the Pace Growth (Shares) 2021 Fund caps its exposure to individual companies and therefore has a more diversified range of holdings than a traditional market capitalisation weighted index-tracking fund.

- **ESG risk (including climate change)** – the Trustee considers Pace's Responsible Investment Policy when implementing its investment strategy for the DC Section. In 2019 the strategy for the Pace Growth (Mixed) Fund, which is used in the default option, was reviewed and in June 2019 the underlying holdings were switched into a multi-asset fund which explicitly considers ESG factors when determining how much to invest in companies' shares and bonds, as the Trustee believed this strategy was better aligned with the Responsible Investment Policy and would reduce ESG risk to members. The Pace Growth (Shares) 2021 fund follows a similar approach.

In addition, the Trustee recognises that some members may wish to take more explicit account of ethical issues or their personal religious beliefs in their investments, and so it offers an ethical equity fund, the Pace Growth (Ethical Shares) Fund, and an Islamic equity fund, the Pace Growth (Shariah) Fund.

16 Current assets

What does this show?	This note shows the value of current assets held by the Scheme at the year end.

	DBS 5 Apr 24 £000	DCS 5 Apr 24 £000	Total 5 Apr 24 £000
Contributions due:			
Employer's normal contributions	-	4,714	4,714
Members' AVCs	-	648	648
Cash balances	24,433	4,031	28,464
Payroll paid in advance	4,618	-	4,618
Tax debtor	796	3	799
Other debtors	307	85	392
Expense paid in advance	-	5	5
	30,154	**9,486**	**39,640**

	DBS 5 Apr 23 £000	DCS 5 Apr 23 £000	Total 5 Apr 23 £000
Contributions due:			
Employer's normal contributions	-	1,150	1,150
Members' AVCs	-	218	218
Cash balances	65,553	3,072	68,625
Payroll paid in advance	2,280	-	2,280
Tax debtor	375	3	378
Other debtors	1,284	702	1,986
Expense paid in advance	-	5	5
	69,492	**5,150**	**74,642**

17 Current liabilities

What does this show?	This note shows the value of current liabilities owed by the Scheme at the year end.

	DBS 5 Apr 24 £000	DCS 5 Apr 24 £000	Total 5 Apr 24 £000
Unpaid benefits	(1,212)	(889)	(2,101)
Accrued expenses	(2,339)	(779)	(3,118)
Tax creditor	(3,317)	(1)	(3,318)
Other creditors	-	(6)	(6)
	(6,868)	**(1,675)**	**(8,543)**

	DBS 5 Apr 23 £000	DCS 5 Apr 23 £000	Total 5 Apr 23 £000
Unpaid benefits	(1,124)	(1,918)	(3,042)
Accrued expenses	(4,563)	(23)	(4,586)
Tax creditor	(2,583)	(2)	(2,585)
Other creditors	(221)	(4)	(225)
	(8,491)	**(1,947)**	**(10,438)**

18 Related party transactions

What does this show?	Related parties include people (such as directors and key personnel) as well as entities. This note outlines the nature of the relationship of any related parties.

Apart from the payment of contributions to the Scheme by businesses within the Co-op's corporate structure or by the Bank, other related party transactions are:

- The Co-op, in conjunction with Aptia for the former Plymouth and Yorkshire Funds, is the DB administrator.
- All the Trustee Directors were all professional Independent Trustee Directors who were pension experts and received remuneration from the Scheme based on rates negotiated with the Co-op or the Bank, depending on which entity appointed them.
- The total of all Trustee Director remuneration paid from the Scheme during the year ended 5 April 2024 was £360,769 (2023: £355,424).
- Two former member-nominated trustee directors who sat on the Members' Consultation Committee were paid remuneration from the Scheme during the year ended 5 April 2024 amounting to £8,125 (2023: £9,000).

19 Employer related investments

What does this show?	Employer related investments include securities issued by the employer, loans to the employer and any investment property occupied by the employer. They also include investments made indirectly through pooled investment vehicles.

During the year, there were no direct or indirect employer related investments.

20 Virgin Media case

What does this show?	This note shows possible but uncertain obligation or a present obligation that is not probable and/or cannot be reliably determined in relation to the Virgin Media case.

In June 2023 the High Court found in the Virgin Media case that changes to member benefits in contracted out defined benefit pension schemes between 1996 and 2016 required an actuarial certificate in line with section 37 of the Pensions Schemes Act 1993, and that changes without this certification are to be considered void. This requirement applies to both past service rights and future service rights, and to changes to the detriment or benefit of scheme members. The Court of Appeal upheld the High Court's decision in July 2024. The Trustee will keep this issue under review however it is not possible at present to estimate the potential impact, if any, on the Scheme.

21 GMP Equalisation

What does this show?	This note shows possible but uncertain obligation or a present obligation that is not probable and/or cannot be reliably determined in relation to GMP equalisation.

On 26 October 2018, in the *Lloyds Banking Group* legal case, the High Court ruled that schemes that were contracted out of the State Earnings Related Pension Scheme (SERPS) between 1990 and 1997 need to equalise benefits overall, to address the effect of unequal GMPs. A further ruling followed in November 2020 relating to equalising GMPs in respect of historic transfer values paid out, going back to May 1990.

An interim solution has been implemented for equalising GMPs for transfer values and trivial commutation payments made by the Scheme, ahead of when GMP equalisation is completed for all benefits in the Scheme.

The Trustee, with the assistance of its legal and actuarial advisers, is in the process of considering with the Co-op and Bank, the most appropriate GMP equalisation methodology for equalising GMPs for main scheme benefits and also for revisiting historic transfer values.

GMP equalisation is expected to increase the liabilities of the Scheme. The liability impact will vary depending on the equalisation methodology approach taken, although the differences in liability impact on the Scheme's technical provisions basis are expected to be immaterial in the context of total Scheme liabilities. Therefore, we have not included a liability in respect of GMP equalisation in these financial statements. They will be accounted for in the year they are determined.

Independent Auditor's Statement about Contributions to the Trustee of the Co-operative Pension Scheme (Pace)

We have examined the summary of contributions to the Co-operative Pension Scheme (Pace) for the Scheme year ended 5 April 2024 to which this statement is attached on pages 88-89.

In our opinion contributions for the Bank section of the Scheme for the year ended 5 April 2024 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid for the period 6 April 2023 to 27 June 2023 at least in accordance with the schedule of contributions certified by the scheme actuary on 19 December 2022 and for the period from 28 June 2023 to 5 April 2024 at least in accordance with the Schedule of Contribution certified by the actuary on 28 June 2023.

In our opinion contributions for the Co-op section of the Scheme for the year ended 5 April 2024 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects been paid for the period 6 April 2023 to 21 June 2023 at least in accordance with the schedules of contributions certified by the scheme actuary on 25 June 2020, for the period 22 June 2023 to 24 March 2024 at least in accordance with the schedules of contributions certified by the scheme actuary on 22 June 2023 and for the period from 25 March 2024 to 5 April 2024 at least in accordance with the Schedule of Contribution certified by the actuary on 25 March 2024.

Scope of work on statement about contributions

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

Respective responsibilities of Trustee and the auditor

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 the employer in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid under the schedules of contributions and to report our opinion to you.

Use of our report

This statement is made solely to the Trustee, as a body, in accordance with Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body for our work, for this statement, or for the opinion we have formed.

Deloitte LLP
Statutory Auditor,
Reading, United Kingdom Date: 04/11/24

Statement of Trustee’s Responsibilities in respect of Contributions

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer 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 are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule of Contributions occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Trustee’s Summary of Contributions payable and reported on in the Auditor’s statement in respect of the Scheme year ended 5 April 2024

This Summary of Contributions has been prepared by, or on behalf of the Trustee, and is our responsibility. It sets out the employer and employee contributions payable to the Scheme under the schedules of contributions certified by the Scheme actuary on 19 December 2022 and 28 June 2023 for the Bank Section, and on 25 June 2020, 22 June 2023 and 25 March 2024 for the Co-op Section. The Scheme Auditor reports on these contributions payable in the Auditor’s Statement about Contributions.

Contributions payable under the schedules of contributions in respect of the Scheme year ended 5 April 2024

Contributions payable under the schedules in respect of the Scheme year	DBS	DCS	TOTAL
	£'000	£'000	£'000
Employer:			
Normal contributions	-	112,633	112,633
Expense allowance contributions	-	3,840	3,840
Employee:			
Normal contributions	-	4,209	4,209
Contributions payable under the schedules (as reported on by the Scheme Auditor)	**-**	**120,682**	**120,682**
Reconciliation of contributions payable under schedules of contributions to total contributions reported in the financial statements			
Contributions payable under the schedules (as above)	**-**	**120,682**	**120,682**
Contributions payable in addition to those due under the schedules (and not reported on by the Scheme Auditor):			
Additional voluntary contributions	-	**2,432**	**2,432**
Total contributions reported in the financial statements	**-**	**123,114**	**123,114**

Signed for and on behalf of the Scheme's Trustee on 4 November 2024.

Christopher Martin for
Independent Trustee Services Limited,
Trustee Director

Thomas Taylor
Secretary

Actuary's Certification of Schedule of Contributions – Bank Section

Mercer

Certificate Of Schedule Of Contributions

Name of the Scheme and name of section	The Co-operative Pension Scheme (Pace) – Bank Section

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to continue to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 28 June 2023.

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

Signature	
Name	Neil Brougham
Date of signing	28 June 2023
Qualification	Fellow of the Institute and Faculty of Actuaries
Name of employer	Mercer Limited
Address	Belvedere 12 Booth Street Manchester M2 4AW

Actuary's Certification of Schedule of Contributions – Co-op Section

Mercer

Certificate Of Schedule Of Contributions

Name of the Scheme and name of section	The Co-operative Pension Scheme (Pace) – Group Section

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to continue to be met for the period for which the schedule is to be in force.

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Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 22 June 2023.

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

Signature	
Name	Damian McClure
Date of signing	25 March 2024
Qualification	Fellow of the Institute and Faculty of Actuaries
Name of employer	Mercer Limited
Address	Belvedere 12 Booth Street Manchester M2 4AW

Appendix 1: Co-op Section - Statement of Investment Principles

The Co-operative Pension Scheme (Pace) – Co-op Section ("the Section")

Statement of Investment Principles – January 2024

1. Introduction

Pace Trustees Limited ("the Trustee") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Statement seeks to take into account the principles underlying the (Myners) Code of Best Practice for pension scheme investment, which has been endorsed by the Government and the Pensions and Lifetime Savings Association. The Statement also seeks to take into account the Investment Governance Group ("IGG") principles for defined benefit and defined contribution schemes.

Since August 2018, the Co-operative Pension Scheme (Pace)'s assets and liabilities have been sub-divided into two sections, relating to the Co-operative Group Limited ("the Co-op") and the Co-operative Bank ("the Bank") respectively. Investment policy is determined separately for each section.

The remainder of this Statement refers primarily to the section of Pace of which the sponsoring employer is the Co-op, namely the Co-op Section ("the Section"). The Co-op has been consulted in preparing this Statement and will be further consulted regarding any proposed changes to the Statement. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

The Statement is intended to affirm the investment principles that govern decisions about the Section's investments.

The Section provides two types of benefit; a defined contribution section (the "Defined Contribution" section) and a defined benefit arrangement (the "Defined Benefit" section). These are covered separately in Sections 2 and 3 respectively. The Defined Benefit section is closed to new entrants.

The investment responsibilities of the Trustee are governed by the Scheme Rules (which are available on the Pace website) and relevant legislation.

2 Defined Contribution section

2.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Consider the risks faced by members of the Defined Contribution section
- Identify a range of investment options for members suitable to cover the range of likely investment objectives and risk tolerances over a member's working life and, where appropriate, ethical or religious beliefs members may hold.

The Trustee also considers any other factors which it believes to be financially material including environmental, social and corporate governance factors, particularly when setting the default strategy for the Defined Contribution section.

In considering the appropriate investments for the Defined Contribution section the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice.

2.2 Investment Objective

The Trustee's objective is to make available to members a programme of investment, via pooled funds, which seeks to generate income and capital growth and which, together with new contributions from members, the Co-op and Participating Employers, will provide a fund at retirement with which to provide an income in retirement.

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have differing attitudes to risk and retirement objectives. The Trustee believes that members should be provided with a range of options to tailor their pension investments to their individual circumstances.

The default arrangement aims to grow member contributions ahead of inflation over the members working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement. During the early years, it will be invested in the "Pace - Build Your Pot" Fund with the objective of achieving growth over the long term. As members approach their selected retirement age, the default arrangement automatically switches holdings fully into the "Pace – Consolidate Your Pot" Fund, and over the 10 years prior to a member's selected retirement date switches into the "Pace – Take Your Pot – As Cash" Fund to provide capital protection.

2.3 Risk Management and Measurement

The Trustee recognises specific investment risks which can be managed by the range of investment options provided to members. These are:

- **Shortfall or 'opportunity cost' risk -** the risk that members end up with insufficient funds at retirement with which to secure a reasonable income.
- **Capital risk -** the risk of a fall in the value of the members' funds.
- **Custody risk -** the safe custody of the defined contribution assets is delegated to professional custodians appointed by the Fund provider.
- **Purchasing power risk -** the purchasing power risk to members is that the investment return over members' working lives does not keep pace with inflation and does not therefore secure an adequate retirement income. This risk is mitigated through the design of the Target Funds, which aim to provide sufficient investment returns over a member's working life. In addition, the Trustee has made available three Growth Funds, should members wish to select their own investment options.
- **Conversion risk -** the risk that relative market movements in the years just prior to retirement lead to substantial reduction in the retirement income and cash lump sum secured. This risk is mitigated through the design of the three Target Funds, which aim to protect members from relative market movements in the years just

prior to retirement. In addition, the Trustee has made available two Pre-retirement Funds and a Cash Fund, should members wish to select their own investment options.

- **Manager risk -** the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed. This risk is mitigated through the regular review of investment performance by the Trustee.
- **Lack of diversification risk –** the Trustee recognises the risks that may arise from a lack of diversification within the investments. The Trustee therefore invests in pooled fund vehicles, to ensure an adequately diversified portfolio for each fund option.

In formulating the investment options to make available to members the Trustee has considered the willingness and ability of Pace's defined contribution membership to take investment risk. As part of this, the Trustee considered the capacity of members to respond to an adverse event.

The funds offered through the Defined Contribution section of Pace have been chosen, in part, to help members mitigate these risks.

2.4 Investment Strategy

The Defined Contribution section of Pace offers three lifestyle strategies plus a range of self-select funds to members with growth or protection objectives.

The lifestyle strategies have been designed to target the three retirement objectives; lump sum, secure income and flexible income. All of the lifestyles invest in equities, bonds and alternative growth assets during the 'growth phase'. The lump sum lifestyle strategy is designed for members targeting a lump sum at retirement and has a high exposure to cash at retirement. The flexible income targeting lifestyle de-risks to a much smaller allocation to cash and the secure income targeting lifestyle de-risks into bonds and cash, as members approach retirement.

The lump sum lifestyle strategy acts as the "default" investment option for those members who do not wish to select their own funds.

The Trustee believes that the investment strategy options are currently appropriate for meeting the Pace objective set out in 2.2 and controlling the risks identified in 2.3 for the membership as a whole.

The default investment strategy includes an allocation to a multi-asset fund, via the Pace Growth (Mixed) Fund, that may include an allocation to illiquid assets if the fund manager chooses to do so. As at 30 June 2023, there was an allocation to alternative assets (including Real Estate, Infrastructure and Private Equity) within the fund. These alternative investments are currently accessed via REITS (Real Estate Investment Trusts) and Investment Trusts which are liquid investments and do not impact the liquidity profile of the fund.

We believe that long-term net risk-adjusted investment returns may be improved by investing in illiquid assets. However, illiquid assets in DC pension schemes is a relatively new and developing area and the most efficient way to access this is through a multi-asset structure. Therefore, at this time, it is our policy not to invest the DC default in standalone funds of illiquid assets. However, with the support of our investment advisers, we intend to consider investment in illiquid assets when we next review the default strategy.

2.5 Expected Return

The funds available are expected to provide an investment return relative to the level of risk associated with it. The Trustee believes that the range of funds offered should provide a range of returns suitable for the membership as a whole.

3. Defined Benefit section

3.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives, covering both risk tolerance and target return

- Construct a portfolio of investments that is expected to meet the investment objectives

The Trustee is committed to achieving these investment objectives in a way that takes into account broader environmental, social and corporate governance concerns where possible. Investing responsibly is an important consideration for the Trustee and is covered in more detail in Section 8.

In 2020, the Trustee entered into bulk annuity policies with Aviva Life & Pensions UK Limited ("Aviva") and Pension Insurance Corporation ("PIC") in respect of a portion of the Defined Benefit section's pensioner liabilities. In November 2023, the Trustee entered into an additional bulk annuity policy with Rothesay Life in respect of the vast majority of the remainder of the Defined Benefit section's pensioner and deferred liabilities. These bulk annuity policies will provide all benefits due from the Section to members. The only remaining defined benefit assets consist of cash held by the Section to meet future expenses and some small residual liabilities.

In considering the appropriate investments for the Section, the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice. Where matters described in this Statement may affect the Section's funding policy, input has also been obtained from the Scheme Actuary. The advice received, and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3.2 Investment Objectives

The Trustee has a duty to invest the defined benefit assets of the Section in a manner which, over the life of the Defined Benefit section, should enable the Trustee to provide the promised benefits under the rules.

The Trustee considers that its broad objective is to invest the Section's assets in such a manner that members' entitlements can be paid when they fall due. As a key step to achieving this, the Trustee, following consultation with the Co-op, has entered into three bulk annuity contracts issued by Aviva, PIC and Rothesay Life respectively. Aviva, PIC and Rothesay are authorised by the Prudential Regulation Authority to write contracts of long term life insurance of this nature in the UK.

The Trustee would ultimately like to insure or discharge any insured liabilities and progress towards an insurer buy-out of the Section's known liabilities, with the aim of achieving an appropriate discharge of liability in respect of known obligations in accordance with the Section's governing documentation and relevant legislation.

In due course, in order to complete the buy-out transaction, the known members' benefits would be secured by means of individual annuity policies issued by Aviva, PIC and Rothesay Life directly to the members, in accordance with the terms of the bulk annuity policies. The Section could then be wound up.

The Section's principal assets are the bulk annuity policies held with Aviva, PIC and Rothesay Life. As a result, all of the Section's assets are represented by these policies with the exception of residual assets held in the Trustees' bank account and in pooled cash funds.

3.3 Risk Management and Measurement

The Trustee recognises a number of risks involved in the investment of the defined benefit assets of the Section. Following the decision to purchase bulk annuity insurance policies covering the Section's liabilities, the Trustee has identified the following risks:

- **Counterparty credit risk** – investment in a bulk annuity policy represents a concentrated risk of the annuity provider(s) not making the required payments. The policies in place are governed by insurance market solvency requirements and the protections provided by the Financial Services Compensation Scheme, and the Trustee has further mitigated this risk through careful choice of insurance providers and negotiation of contract terms.

- **Liquidity risk** – while the buy-in policies held by the Section can only be liquidated by the Trustee in specific and limited pre-defined circumstances, they are designed to match the liquidity requirements of the relevant liabilities as exactly as possible, and so the requirement to hold liquid assets to meet these liabilities as they are due falls away.

  The residual assets invested in cash funds are daily dealing and the underlying instruments are liquid in nature.

- **Longevity risk** – the impact of potential increases in life expectancy of the Section's pensioners was mitigated with the purchase of the buy-in annuity policies held with Aviva, PIC and Rothesay Life.

- **Environmental, social and governance risk (including climate change)** – the Trustee recognises that environmental, social and corporate governance concerns, including climate change, can have a financially material impact on the Section. With the purchase of insurance policies, the Trustee's responsibility for the management of these risks is limited and passed on to PIC, Aviva and Rothesay Life (and the insurers' management of these risks was considered as part of their selection).

- Residual assets of the Defined Benefit Section are held as cash in a liquid pooled fund. Given the size and nature of these investments the Trustee also believes it has minimal direct exposure to risks arising from long-term sustainability issues, including climate change as a result of these investments. To the extent that the residual assets are exposed to ESG risks, this is addressed through the use of BlackRock's Liquidity Environmentally Aware Fund ('LEAF')

3.4 Investment Strategy and Expected Return

The nature of the buy-in policies is such that their expected return is equal to the change in value of the member benefits covered. Due to the buy-in policies, the Section's investment strategy does not have a return target and instead the target is to maintain liquidity and security to support any future buy-out of the Section's liabilities.

The residual assets are invested in a way that is designed to preserve the capital value, through pooled cash funds and the Trustee Bank Account. They are expected to return in line with SONIA interest rates.

4. Day–to-Day Management of the Assets

The Trustee has appointed Aviva, PIC and Rothesay Life as its annuity providers having obtained and considered written advice from its advisors, who the Trustee consider to be suitably qualified to provide such advice.

In this context, relevant investment advice relates to that provided in accordance with the requirements of Section 36 of the Pensions Act 1995 (as amended).

The Trustee will also hold cash within the Trustee Bank Account and pooled cash funds for ongoing expenses.

For the Defined Contribution section, the Trustee has selected a number of suitable pooled funds for members to invest in.

5. Investment Manager Appointment, Engagement and Monitoring

Defined Contribution section

Investment managers are appointed based on their capabilities and, therefore, the perceived likelihood of achieving the stated expected return and risk characteristics required for the asset class they are selected to manage.

If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the wider Trustee investment objectives.

The Trustee receives, and considers, performance reports produced on a quarterly basis, which present performance information and commentary on the funds they invest in over various time periods. The Trustee reviews the absolute performance and where relevant, will also consider relative performance against a suitable index used as the benchmark and/or against the manager's stated target performance (over the relevant time period) on a net of fees basis. In terms of reporting, the Trustee's focus is primarily on long term performance, but short-term performance is also reviewed.

The Trustee may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the underlying objectives of the investment manager, or a change in the portfolio manager;
- There is a significant change to the Investment Adviser's rating of the manager; or
- There is a change to the Trustee's overall strategy that no longer requires exposure to that asset class or manager.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then it may look to replace the manager or in some circumstances ask the manager to review the Annual Management Charge.

Investment manager performance is generally reported net of transaction costs (where possible), and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives. Transaction costs are collated and reported annually through the Trustee Report and Accounts.

The Trustee will continue to monitor industry improvements concerning the monitoring and reporting of portfolio turnover costs.

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustee typically expects to retain an investment manager unless:

- There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager.
- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

Defined Benefit section

For the buy-in policies, the Trustee invests in annuity contracts that match the liabilities of the Section.

The annuity contracts held with Aviva, PIC and Rothesay Life will be monitored to ensure that they continue to deliver what is expected under the contract, which is to provide cashflows aligned with the benefits due to the members covered by the policy.

The Trustee has appointed the insurers providing the annuity contracts with the expectation of a long-term partnership with both the Trustee and eventually the member, following the potential novation of the annuity contracts into the name of the member at the point of winding up the Section. As annuity contracts cannot be traded on the open market, and by definition will perform as expected, the Trustee would not expect to review the insurers' appointments.

Since the Section is invested solely through the purchase of the bulk annuity policies held with Aviva, PIC and Rothesay Life, the Trustees are unable to incentivise the insurer, remunerate or monitor portfolio turnover costs as these are not applicable to a bulk annuity.

The Trustee paid premiums to Aviva and PIC in 2020 and to Rothesay Life in 2023 when it entered into buy-in policies with the three insurers. There are no ongoing fees in respect of the policies.

For the residual assets, the Fund invests in BlackRock's pooled cash fund ('LEAF'). The Trustee has taken steps to satisfy themselves that BlackRock have the appropriate knowledge and expertise for managing the Defined Benefit section's cash investments.

6. Realisation of Investments

The Defined Benefit section's principal assets are the bulk annuity policies with Aviva, PIC and Rothesay Life. As a result, all of the Defined Benefit section's assets are represented by these policies, with the exception of residual cash held in the Trustees' bank account or in pooled cash funds.

The residual cash is to be held in order to help the Trustees meet imminent cash outgo in connection with ongoing expenses arising that are to be met from the Section. Assets underlying BlackRock LEAF are considered to be predominantly traded on regulated markets. BlackRock LEAF trades daily.
Future benefits payable from the Section prior to any future buy-out will be funded by the bulk annuity policies.

For the Defined Contribution section, the investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments, within parameters stipulated in the relevant appointment documentation.

7. Additional Assets

The Trustee is responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members and various immediate annuity contracts. The Trustee reviews the investment performance of the chosen AVC providers on a regular basis and takes advice as to the providers' continued suitability.

8. Socially Responsible Investment and Corporate Governance

The Trustee has a Responsible Investment ("RI") Policy which it reviews at least annually. This document details the policy for considering Environmental, Social and Governance ("ESG") factors, including climate change, in the strategic investment process and investment decision-making process, assessing Pace's investment managers' performance on ESG issues, engagement with investee companies, consideration of and participation in third party ESG initiatives and public disclosure of Pace's ESG policy in practice.

Given the bulk annuity policies purchased for the Defined Benefit section in 2020 and 2023, the Trustee's expectation is that the scope for meaningful implementation of these policies is very limited, although ESG factors including the investment policies in relation to climate risk of the insurers were considered as part of their selection. The remainder of section 8 applies to the Defined Contribution section.

Defined Contribution section

In accordance with its fiduciary responsibilities, the Trustee takes account of financially material factors when making investment decisions, i.e. those factors which are expected to have an impact on investment returns and risk over the Section's anticipated lifetime (including the long-term sustainability of investee companies' performance – in particular the impact of climate change).

The Trustee also recognises that it may take non-financial factors into consideration (i.e. those motivated by other concerns, such as social impact) where the Trustee has good reason to expect that Scheme members would share these concerns, and where the decision is not expected to have material financial detriment.

The Trustee will apply these considerations in setting Pace's RI Policy, with the Trustee assessing members' likely concerns (as far as this is practically possible) through engagement with members and through engagement with the Co-op when developing the Policy.

At the time of writing, the RI policy reflects three broad RI issues which the Trustee believes represent particular risk to the Scheme and which the Trustee believes can be addressed. As the Policy is kept under regular review, the issues identified may change over time. These issues are:

- **Protection of the environment (including climate change, and deforestation)**
- **Labour conditions and equal pay.**
- **Corporate governance.**

The Trustee seeks to address these issues through Pace's engagement with its investment managers and the selection of the funds available through Pace DC.

The Trustee gives its investment managers full discretion to evaluate ESG factors and engage with companies. The Trustee also encourages its investment managers to adopt best practices in these areas and to act in the best interests of Pace members. The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes. The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response.

As part of the appointment of new investment managers and its ongoing monitoring process, the Trustee will consider the Investment Adviser's assessment (in terms of the Investment Adviser's own system of ESG ratings) of how each investment manager embeds ESG and stewardship factors into its investment process and how the manager's responsible investment philosophy aligns with Pace's Responsible Investment policy. This includes the investment managers' policy on voting and engagement.

In addition, the Trustee carries out regular reviews of the managers' ESG policies and actively engages with managers to better understand their processes.

The Trustee offers funds with ESG tilts in the Pace Growth (Mixed) Fund and the Pace Growth (Shares) 2021 Fund (both of which form part of the default strategy). The Trustee also considers ESG factors as part of the Scheme's process for selecting and retaining investment options. In addition, the Trustee recognises that some members may wish to take more explicit account of ethical issues or their personal religious beliefs in their investments, and so it offers an ethical equity fund, the Pace Growth (Ethical Shares) Fund, and an Islamic equity fund, the Pace Growth (Shariah) Fund.

As a responsible investor, the Trustee exercises rights, including any voting rights attaching to Pace's investments, in the best interests of Pace's members. Specifically, the Trustee has instructed the investment managers to exercise voting rights accordingly, where applicable and wherever it is practicable to do so, and to report to the Trustee.

9. Professional Investment Advice

The Trustee has appointed Lane Clark & Peacock LLP to provide advice in relation to the principles and fund choice set out in this document relating to the Defined Contribution section. The Trustee has appointed Mercer Limited to provide advice on all aspects of investment relating to the Defined Benefit section of the Section (with the exception of investment related advice on the suitability of the buy-in policies, which was provided by a 3rd party professional adviser).

10. Review of this Statement

The Trustee will review this Statement annually and without delay after any significant change in investment policy or demographic profile of the membership. The Investment Advisers will provide the advice needed to allow the Trustee to review and update this Statement as required. In addition, no change will be made to the Statement unless the proposed changes to investment policy have been approved by the Trustee and recorded in the minutes of a Trustee meeting.

Approved by Pace Trustees Limited on 15 January 2024

Appendix: Division of Duties and Responsibilities

Duties and Responsibilities	Executed By
▪ Overall responsibility for the Section’s investments. ▪ Appoint and monitor the Investment Adviser. ▪ Review of the Responsible Investment Policy. ▪ Define the terms of appointment of the Defined Contribution Committee. ▪ Appoint the members of Defined Contribution Committee.	The Trustee
▪ Make day-to-day decisions relevant to the operation of the Defined Contribution section’s investment strategy.	The Defined Contribution Committee
▪ Monitor appointed Investment Managers and other service providers	The Trustee and Defined Contribution Committee
▪ Perform asset liability modelling exercises, as required. ▪ Advise on the strategic framework. ▪ Advise on the selection of the Investment Managers. ▪ Monitor the Investment Managers, providing both qualitative and quantitative input to the Trustee and Manager Monitoring and Implementation Committee as appropriate. ▪ Advise on the implementation of mandates. ▪ Advise on the Statement of Investment Principles.	The respective Investment Advisers to the Section (both defined contribution and defined benefit)
▪ Operate within the conditions set down by the Investment Management Agreement (or equivalent documentation) ▪ Select individual investments with regard to their suitability and diversification. ▪ Supply the Trustee with sufficient information to allow the review of activity.	The Investment Managers and insurance providers

Appendix 2: Bank Section - Statement of Investment Principles

The Co-operative Pension Scheme (Pace)- Co-operative Bank Section ("the Section")

Statement of Investment Principles – July 2024

1. Introduction

Pace Trustees Limited ("the Trustee") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Statement seeks to take into account the principles underlying the (Myners) Code of Best Practice for pension scheme investment, which has been endorsed by the Government and the Pensions and Lifetime Savings Association. The Statement also seeks to take into account the Investment Governance Group ("IGG") principles for defined benefit and defined contribution schemes.

Since August 2018, the Co-operative Pension Scheme (Pace)'s assets and liabilities have been sub-divided into two sections, relating to the Co-operative Group Limited ("the Co-op") and the Co-operative Bank ("the Bank") respectively. Investment policy is determined separately for each section.

The remainder of this Statement refers to the section of Pace of which the sponsoring employer is the Bank, namely the Co-operative Bank Section ("the Section"). The Bank has been consulted in preparing this Statement and will be further consulted regarding any proposed changes to the Statement. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

The Statement is intended to affirm the investment principles that govern decisions about the Section's investments.

The Section provides two types of benefit; a defined contribution section (the "Defined Contribution" section) and a defined benefit arrangement (the "Defined Benefit" section). These are covered separately in Sections 2 and 3 respectively. The Defined Benefit section is closed to new entrants.

The investment responsibilities of the Trustee are governed by the Scheme Rules (which are available on the Pace website) and relevant legislation.

2 Defined Contribution section

2.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Consider the risks faced by members of the Defined Contribution section

- Identify a range of investment options for members suitable to cover the range of likely investment objectives and risk tolerances over a member's working life and, where appropriate, ethical or religious beliefs members may hold.

The Trustee also considers any other factors which it believes to be financially material including environmental, social and corporate governance factors, particularly when setting the default strategy for the Defined Contribution section. In considering the appropriate investments for the Defined Contribution section the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice.

2.2 Investment Objective

The Trustee's objective is to make available to members a programme of investment, via pooled funds, which seeks to generate income and capital growth and which, together with new contributions from members and the Bank, will provide a fund at retirement with which to provide an income in retirement.

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have differing attitudes to risk and retirement objectives. The Trustee believes that members should be provided with a range of options to tailor their pension investments to their individual circumstances.

The default arrangement aims to grow member contributions ahead of inflation over the members working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement. During the early years, it will be invested in the Pace Growth (Mixed) Fund and the Pace Growth (Shares) 2021 Fund with the objective of achieving growth over the long term. As members approach their selected retirement age, the default arrangement automatically switches holdings fully into the Pace Growth (Mixed) Fund, and over the 10 years prior to a member's selected retirement date switches into the Pace Cash Fund to provide capital protection.

2.3 Risk Management and Measurement

The Trustee recognises specific investment risks which can be managed by the range of investment options provided to members. These are:

- **Shortfall or 'opportunity cost' risk -** the risk that members end up with insufficient funds at retirement with which to secure a reasonable income.
- **Capital risk -** the risk of a fall in the value of the members' funds.
- **Custody risk -** the safe custody of the defined contribution assets is delegated to professional custodians appointed by the Fund provider.
- **Purchasing power risk -** the purchasing power risk to members is that the investment return over members' working lives does not keep pace with inflation and does not therefore secure an adequate retirement income. This risk is mitigated through the design of the Target Funds, which aim to provide sufficient investment returns over a member's working life. In addition, the Trustee has made available three Growth Funds, should members wish to select their own investment options.
- **Conversion risk -** the risk that relative market movements in the years just prior to retirement lead to substantial reduction in the retirement income and cash lump

sum secured. This risk is mitigated through the design of the three Target Funds, which aim to protect members from relative market movements in the years just prior to retirement. In addition, the Trustee has made available two Pre-retirement Funds and a Cash Fund, should members wish to select their own investment options.

- **Manager risk -** the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed. This risk is mitigated through the regular review of investment performance by the Trustee.
- **Lack of diversification risk –** the Trustee recognises the risks that may arise from a lack of diversification within the investments. The Trustee therefore invests in pooled fund vehicles, to ensure an adequately diversified portfolio for each fund option.

In formulating the investment options to make available to members the Trustee has considered the willingness and ability of Pace's defined contribution membership to take investment risk. As part of this, the Trustee considered the capacity of members to respond to an adverse event.

The funds offered through the defined contribution section have been chosen, in part, to help members mitigate these risks.

2.4 Investment Strategy

The Defined Contribution section of Pace offers three lifestyle strategies plus a range of self-select funds to members with growth or protection objectives.

The lifestyle strategies have been designed to target the three retirement objectives; lump sum, secure income and flexible income. All of the lifestyles invest in equities, bonds and alternative growth assets during the 'growth phase'. The lump sum lifestyle strategy is designed for members targeting a lump sum at retirement and has a high exposure to cash at retirement. The flexible income targeting lifestyle de-risks to a much smaller allocation to cash and the secure income targeting lifestyle de-risks into bonds and cash, as members approach retirement.

The lump sum lifestyle strategy acts as the "default" investment option for those members who do not wish to select their own funds.

The Trustee believes that the investment strategy options are currently appropriate for meeting the objective set out in 2.2 and controlling the risks identified in 2.3 for the membership as a whole.

The default investment strategy includes an allocation to a multi-asset fund, via the Pace Growth (Mixed) Fund, that may include an allocation to illiquid assets if the fund manager chooses to do so. As at 31 March 2024, there was an allocation to alternative assets (including Real Estate, Infrastructure, Private Equity and Forestry) within the fund. These alternative investments are currently accessed via REITS (Real Estate Investment Trusts), timberland companies and Investment Trusts which are liquid investments and do not impact the liquidity profile of the fund.

We believe that long-term net risk-adjusted investment returns may be improved by investing in illiquid assets. However, illiquid assets in DC pension schemes is a relatively new and developing area and the most efficient way to access this is through a multi-asset structure. Therefore, at this time, it is our policy not to invest the DC default in standalone funds of illiquid assets. However, with the support of our investment advisers, we intend to consider investment in illiquid assets when we next review the default strategy.

2.5 *Expected Return*

The funds available are expected to provide an investment return relative to the level of risk associated with it. The Trustee believes that the range of funds offered should provide a range of returns suitable for the membership as a whole.

3. Defined Benefit section

3.1 *Process for Choosing Investments*

The process for choosing investments is as follows:

- Identify appropriate investment objectives, covering both risk tolerance and target return
- Construct a portfolio of investments that is expected to meet the investment objectives

The Trustee is committed to achieving these investment objectives in a way that takes into account broader environmental, social and corporate governance concerns where possible. Investing responsibly is an important consideration for the Trustee and is covered in more detail in Section 8.

In 2020, the Trustee entered into a bulk annuity policy with Pension Insurance Corporation ("PIC") in respect of a portion of the Defined Benefit section's pensioner liabilities. In December 2022, the Trustee entered into an additional bulk annuity policy with Rothesay Life in respect of the remainder of the Defined Benefit Section's pensioner and deferred liabilities. These bulk annuity policies will provide all benefits due from the Section to members. The only remaining defined benefit assets consist of cash held by the Section to meet future costs.

In considering the appropriate investments for the Section, the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice. Where matters described in this Statement may affect the Section's funding policy, input has also been obtained from the Scheme Actuary. The advice received, and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3.2 *Investment Objectives*

The Trustee has a duty to invest the defined benefit assets of the Section in a manner which, over the life of the Defined Benefit section, should enable the Trustee to provide the promised benefits under the rules.

The Trustees consider that its broad objective is to invest the Section's assets in such a manner that members' entitlements can be paid when they fall due. As a key step to achieving this, the Trustee, following consultation with the Bank, has entered into two bulk annuity contracts issued by PIC and Rothesay Life respectively. Both PIC and Rothesay are authorised by the Prudential Regulation Authority to write contracts of long term life insurance of this nature in the UK.

The Trustees' key short term objective is to ensure an efficient progression towards an insurer buy-out of the Section's known liabilities, with the aim of achieving an appropriate discharge of liability in respect of known obligations in accordance with the Section's governing documentation and relevant legislation.

In due course, in order to complete the buy-out transaction, the known members' benefits will be secured by means of individual annuity policies issued by PIC and Rothesay Life directly to the members, in accordance with the terms of the bulk annuity policies. The Section will then be wound up.

The Section's principal assets are the bulk annuity policies held with PIC and Rothesay Life. As a result, all of the Section's assets are represented by these policies with the exception of residual cash held in the Trustees' bank account or in pooled cash funds.

3.3 *Risk Management and Measurement*

The Trustee recognises a number of risks involved in the investment of the defined benefit assets of the Section. Following the decision to purchase bulk annuity insurance policies covering the Section's liabilities, the Trustee has identified the following risks:

- **Counterparty credit risk** – investment in a bulk annuity policy represents a concentrated risk of the annuity provider(s) not making the required payments. The policies in place are governed by insurance market solvency requirements and the protections provided by the Financial Services Compensation Scheme, and the Trustee has further mitigated this risk through careful choice of insurance providers and negotiation of contract terms.

- **Liquidity risk** – while the buy-in policies held by the Section can only be liquidated by the Trustee in specific and limited pre-defined circumstances, they are designed to match the liquidity requirements of the relevant liabilities as exactly as possible, and so the requirement to hold liquid assets to meet these liabilities as they are due falls away.

- **Longevity risk** – the impact of potential increases in life expectancy of the Section's pensioners was mitigated with the purchase of the buy-in annuity policies held with PIC and Rothesay Life.

- **Environmental, social and governance risk (including climate change)** – the Trustee recognises that environmental, social and corporate governance concerns, including climate change, can have a financially material impact on the Section. With the purchase of insurance policies, the Trustee's responsibility for the management of these risks is limited and passed on to PIC and Rothesay Life (and the two insurers' management of these risks was considered as part of their selection).

3.4 *Expected Return*

The nature of the buy-in policies is such that their expected return is equal to the change in value of the member benefits covered. Due to the buy-in policies, the Section's investment strategy does not have a return target and instead the target is to maintain liquidity and security to support the buy-out objective.

4. Day–to-Day Management of the Assets

The Trustees have appointed PIC and Rothesay Life as their annuity providers having obtained and considered written advice from their advisors, who the Trustee consider to be suitably qualified to provide such advice.

In this context, relevant investment advice relates to that provided in accordance with the requirements of Section 36 of the Pensions Act 1995 (as amended).

The Trustees will also hold cash within the Trustee Bank Account or pooled cash funds for ongoing expenses.

For the Defined Contribution section, the Trustee has selected a number of suitable pooled funds for members to invest in.

5. *Investment Manager Appointment, Engagement and Monitoring*

Defined Benefit section

For the buy-in policies, the Trustee invests in annuity contracts that match the liabilities of the Section.

The annuity contracts held with PIC and Rothesay Life will be monitored to ensure that they continue to deliver what is expected under the contract, which is to provide cashflows aligned with the benefits due to the members covered by the policy.

The Trustee have appointed the insurers providing the annuity contracts with the expectation of a long-term partnership with both the Trustee and eventually the member, following the potential novation of the annuity contracts into the name of the member at the point of winding up the Section. As annuity contracts cannot be traded on the open market, and by definition will perform as expected, the Trustee would not expect to review the insurers' appointments.

Since the Section is invested solely through the purchase of the bulk annuity policies held with PIC and Rothesay Life, the Trustees are unable to incentivise the insurer, remunerate or monitor portfolio turnover costs as these are not applicable to a bulk annuity.

The Trustee paid a premium to Pension Insurance Corporation in 2020 and to Rothesay Life in 2022 when it entered into buy-in policies with the two insurers. There are no ongoing fees in respect of the policies.

Defined Contribution section

Investment managers are appointed based on their capabilities and, therefore, the perceived likelihood of achieving the stated expected return and risk characteristics required for the asset class they are selected to manage.

If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the wider Trustee investment objectives.

The Trustee receives, and considers, performance reports produced on a quarterly basis, which present performance information and commentary on the funds they invest in over various time periods. The Trustee reviews the absolute performance and where relevant, will also consider relative performance against a suitable index used as the benchmark and/or against the manager's stated target performance (over the relevant time period) on a net of fees basis. In terms of reporting, the Trustee's focus is primarily on long term performance but short-term performance is also reviewed.

The Trustee may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the underlying objectives of the investment manager, or a change in the portfolio manager;
- There is a significant change to the Investment Adviser's rating of the manager; or

- There is a change to the Trustee's overall strategy that no longer requires exposure to that asset class or manager.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then it may look to replace the manager or in some circumstances ask the manager to review the Annual Management Charge.

Investment manager performance is generally reported net of transaction costs (where possible), and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

Transaction costs are collated and reported annually through the Trustee Report and Accounts.

The Trustee will continue to monitor industry improvements concerning the monitoring and reporting of portfolio turnover costs.

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustee typically expects to retain an investment manager unless:

- There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager.

- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

6. *Realisation of Investments*

The Defined Benefit section's principal assets are the bulk annuity policies with PIC and Rothesay Life. As a result, all of the Defined Benefit section's assets are represented by these policies, with the exception of residual cash held in the Trustees' bank account or pooled cash funds.

The residual cash is to be held in order to help the Trustees meet imminent cash outgo in connection with ongoing expenses arising that are to be met from the Section.

Future benefits payable from the Section prior to buy-out will be funded by the bulk annuity policies.

For the Defined Contribution section, the investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments, within parameters stipulated in the relevant appointment documentation.

7. *Additional Assets*

The Trustee is responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members and various immediate annuity contracts. The Trustee reviews the investment performance of the chosen AVC providers on a regular basis and takes advice as to the providers' continued suitability.

8. Socially Responsible Investment and Corporate Governance

The Trustee has a Responsible Investment ("RI") Policy which it reviews at least annually. This document details the policy for considering Environmental, Social and Governance ("ESG") factors, including climate change, in the strategic investment process and investment decision-making process, assessing Pace's investment managers' performance on ESG issues, engagement with investee companies, consideration of and participation in third party ESG initiatives and public disclosure of Pace's ESG policy in practice.

Given the bulk annuity policies purchased for the Defined Benefit section in 2020 and 2022, the Trustee's expectation is that the scope for meaningful implementation of these policies is very limited, although ESG factors including the investment policies in relation to climate risk of the insurers were considered as part of their selection. The remainder of section 8 applies to the Defined Contribution section.

Defined Contribution section

In accordance with its fiduciary responsibilities, the Trustee takes account of financially material factors when making investment decisions, i.e. those factors which are expected to have an impact on investment returns and risk over the Section's anticipated lifetime (including the long-term sustainability of investee companies' performance – in particular the impact of climate change).

The Trustee also recognises that it may take non-financial factors into consideration (i.e. those motivated by other concerns, such as social impact) where the Trustee has good reason to expect that Scheme members would share these concerns, and where the decision is not expected to have material financial detriment.

The Trustee will apply these considerations in setting Pace's RI Policy, with the Trustee assessing members' likely concerns (as far as this is practically possible) through engagement with members and through engagement with the Sponsors when developing the Policy.

At the time of writing, the RI policy reflects three broad RI issues which the Trustee believes represent particular risk to the Scheme and which the Trustee believes can be addressed. As the Policy is kept under regular review, the issues identified may change over time. These issues are:

- Protection of the environment.
- Labour conditions and equal pay.
- Corporate governance.

The Trustee seeks to address these issues through Pace's engagement with its investment managers and the selection of the funds available through Pace DC. The Trustee gives its investment managers full discretion to evaluate ESG factors and engage with companies. The Trustee also encourages its investment managers to adopt best practices in these areas and to act in the best interests of Pace members.

The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes. The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response.

As part of the appointment of new investment managers and its ongoing monitoring process, the Trustee will consider the Investment Adviser's assessment (in terms of the Investment Adviser's own system of ESG ratings) of how each investment manager embeds ESG and stewardship factors into its investment process and how the manager's responsible investment philosophy aligns with Pace's Responsible Investment policy. This includes the investment managers' policy on voting and engagement.

In addition, the Trustee carries out regular reviews of the managers' ESG policies and actively engages with managers to better understand their processes.

The Trustee offers funds with ESG tilts in the Pace Growth (Mixed) Fund and the Pace Growth (Shares) 2021 Fund (both of which form part of the default strategy). The Trustee also considers ESG factors as part of the Scheme's process for selecting and retaining investment options. In addition, the Trustee recognises that some members may wish to take more explicit account of ethical issues or their personal religious beliefs in their investments, and so it offers an ethical equity fund, the Pace Growth (Ethical Shares) Fund, and an Islamic equity fund, the Pace Growth (Shariah) Fund.

As a responsible investor, the Trustee exercises rights, including any voting rights attaching to Pace's investments, in the best interests of Pace's members. Specifically, the Trustee has instructed the investment managers to exercise voting rights accordingly, where applicable and wherever it is practicable to do so and to report to the Trustee.

9. Professional Investment Advice

The Trustee has appointed Mercer Limited to provide advice on all aspects of investment relating to the Defined Benefit section of the Section (with the exception of investment related advice on the suitability of the buy-in policies, which was provided by a 3rd party professional adviser). The Trustee has appointed Lane Clark & Peacock LLP to provide advice in relation to the principles and fund choice set out in this document relating to the defined contribution section.

10. Review of this Statement

The Trustee will review this Statement annually and without delay after any significant change in investment policy or demographic profile of the membership. The Investment Advisers will provide the advice needed to allow the Trustee to review and update this Statement as required. In addition, no change will be made to the Statement unless the proposed changes to investment policy have been approved by the Trustee and recorded in the minutes of a Trustee meeting.

Approved by Pace Trustees Limited on 25 July 2024

Appendix: Division of Duties and Responsibilities

Duties and Responsibilities	Executed By
▪ Overall responsibility for the Section's investments. ▪ Appoint and monitor the Investment Adviser. ▪ Review of the Responsible Investment Policy. ▪ Define the terms of appointment of the Defined Contribution Committee. ▪ Appoint the members of the Defined Contribution Committee.	The Trustee
▪ Make day-to-day decisions relevant to the operation of the Defined Contribution section's investment strategy.	The Defined Contribution Committee
▪ Monitor appointed Investment Managers and other service providers	The Trustee and Defined Contribution Committee
▪ Perform asset liability modelling exercises, as required. ▪ Advise on the strategic framework. ▪ Advise on the selection of the Investment Managers. ▪ Monitor the Investment Managers, providing both qualitative and quantitative input to the Trustee and Manager Monitoring and Implementation Committee as appropriate. ▪ Advise on the implementation of mandates. ▪ Advise on the Statement of Investment Principles.	The respective Investment Advisers to the Section (both defined contribution and defined benefit)
▪ Operate within the conditions set down by the Investment Management Agreement (or equivalent documentation). ▪ Select individual investments with regard to their suitability and diversification. ▪ Supply the Trustee with sufficient information to allow the review of activity.	The Investment Managers and insurance provider

Appendix 3: Chair's Statement - Co-op Section of Pace DC Charges and Transaction Costs

L&G Workplace DC Pensions - Transaction Costs (CTI) - Period: 12 mth ending 31/03/2024

Fund ID	Long Fund Name	CTI Total Transaction Costs^	Average CTI^ (up to 5 years)
B9X3	Pace Growth (Shariah) Fund	0.00%	-0.03%
BBF3	Pace - Build Your Pot	0.06%	0.04%
BBH3	Pace - Consolidate Your Pot	0.03%	0.02%
BBI3	Pace - Take Your Pot - as cash	0.00%	-0.01%
BBJ3	Pace - Take Your Pot - as flexible income/drawdown	0.02%	0.01%
BBK3	Pace - Take Your Pot - as an annuity	0.00%	-0.02%
BPY3	Pace Growth (Shares) 2021 Fund	0.07%	0.06%
BVL3	Pace Growth (Mixed) Fund	0.03%	0.04%
BVM3	Pace Growth (Shares) Fund	0.06%	0.05%
BVN3	Pace Growth (Ethical Shares) Fund	0.00%	0.00%
BVO3	Pace Pre-retirement (Annuity Aware) Fund	0.00%	0.00%
BVP3	Pace Pre-retirement (Infl-Lkd Annuity Aware) Fund	0.00%	0.03%
EAB3	L&G PMC Cash 3	0.00%	-0.02%

IMPORTANT INFORMATION

Transaction costs are the average cost incurred over the last financial year as a necessary part of buying and selling the funds underlying investments in order to achieve the investment objective. A proportion of these costs is recovered directly from investors joining and leaving the fund. In the case of shares, broker commissions are paid by the fund on each transaction. Transfer taxes and/or stamp duty may also be payable. In addition, there is a dealing spread between the buying and selling prices of the underlying investments. Unlike shares, other types of investments (such as bonds, money market instruments, derivatives) have no separately identifiable transaction costs; these costs form part of the dealing spread. We capture these costs using the implicit cost methodology set out in FCA rules and PRIIPs guidance.

Implicit transaction costs have been calculated as the difference between the price at which a deal was struck and the mid-market price of an asset at the time the order was placed in the market (arrival price). Where the arrival price was not available, the implicit cost was calculated as the difference between the price at which a deal was struck and the mid-market opening price on the day of the trade. Where the mid-market opening price was not available, the mid-market previous closing price was used. Where the previous mid-market closing price was not available, a fixed fee was used to estimate the implicit costs of each trade.

Where the fund holds an investment managed by a third party, the transaction costs provided by the third party manager are represented in this report as an indirect external fund transaction cost. Legal & General cannot guarantee the accuracy, integrity or completeness of such third-party data. The recipient understands and acknowledges that any third-party data in the disclosure may contain inaccuracies and/or omission and may not be independently verified. Where transaction cost information has not been made available by a third party, transaction costs incurred in the externally managed fund have been estimated or excluded from this report.

^ In accordance with COBS 19.8, where aggregated transaction costs result in a negative value these costs have been adjusted to zero for reporting purposes.

Appendix 4: Chair's Statement - Bank Section of Pace DC Charges and Transaction Costs

L&G Workplace DC Pensions - Transaction Costs (CTI) - Period: 12 mth ending 31/03/2024

Fund ID	Long Fund Name	CTI Total Transaction Costs^	Average CTI^ (up to 5 years)
B9X3	Pace Growth (Shariah) Fund	0.00%	-0.03%
BBF3	Pace - Build Your Pot	0.06%	0.04%
BBH3	Pace - Consolidate Your Pot	0.03%	0.02%
BBI3	Pace - Take Your Pot - as cash	0.00%	-0.01%
BBJ3	Pace - Take Your Pot - as flexible income/drawdown	0.02%	0.01%
BBK3	Pace - Take Your Pot - as an annuity	0.00%	-0.02%
BPY3	Pace Growth (Shares) 2021 Fund	0.07%	0.06%
BVL3	Pace Growth (Mixed) Fund	0.03%	0.04%
BVM3	Pace Growth (Shares) Fund	0.06%	0.05%
BVN3	Pace Growth (Ethical Shares) Fund	0.00%	0.00%
BVO3	Pace Pre-retirement (Annuity Aware) Fund	0.00%	0.00%
BVP3	Pace Pre-retirement (Infl-Lkd Annuity Aware) Fund	0.00%	0.03%
EAB3	L&G PMC Cash 3	0.00%	-0.02%

IMPORTANT INFORMATION

Transaction costs are the average cost incurred over the last financial year as a necessary part of buying and selling the funds underlying investments in order to achieve the investment objective. A proportion of these costs is recovered directly from investors joining and leaving the fund. In the case of shares, broker commissions are paid by the fund on each transaction. Transfer taxes and/or stamp duty may also be payable. In addition, there is a dealing spread between the buying and selling prices of the underlying investments. Unlike shares, other types of investments (such as bonds, money market instruments, derivatives) have no separately identifiable transaction costs; these costs form part of the dealing spread. We capture these costs using the implicit cost methodology set out in FCA rules and PRIIPs guidance.

Implicit transaction costs have been calculated as the difference between the price at which a deal was struck and the mid-market price of an asset at the time the order was placed in the market (arrival price). Where the arrival price was not available, the implicit cost was calculated as the difference between the price at which a deal was struck and the mid-market opening price on the day of the trade. Where the mid-market opening price was not available, the mid-market previous closing price was used. Where the previous mid-market closing price was not available, a fixed fee was used to estimate the implicit costs of each trade.

Where the fund holds an investment managed by a third party, the transaction costs provided by the third party manager are represented in this report as an indirect external fund transaction cost. Legal & General cannot guarantee the accuracy, integrity or completeness of such third-party data. The recipient understands and acknowledges that any third-party data in the disclosure may contain inaccuracies and/or omission and may not be independently verified. Where transaction cost information has not been made available by a third party, transaction costs incurred in the externally managed fund have been estimated or excluded from this report.

^ In accordance with COBS 19.8, where aggregated transaction costs result in a negative value these costs have been adjusted to zero for reporting purposes.

Appendix 5: Chair's Statement - Example Illustrations for the Co-op DC Section

Example Illustrations

As trustees we are required to provide you with examples to show you what you might get from your plan in today's terms and explain how charges, transaction costs and investment performance could impact your pension savings over time.

Showing the value of money in real terms takes the effect of inflation into account and give an indication of how much a sum of money in the future would be worth today. This is called its buying power.

These examples were correct as at August 2024.

We have assumed the following:

- That the amounts paid in to your pension will not change over time and that the frequency will not vary. In reality contributions paid into your pension are linked to salary so will vary over time and may also be impacted by changes in pensions legislation or breaks in employment.
- We've assumed inflation remains constant at 2.50% per year. In reality this will vary over time. Inflation reduces the worth of all savings and investments.

Please remember that these are just examples and may not reflect your individual circumstances. The exact amount you'll get will depend on a number of things including:

- The actual amount paid into your plan;
- How the fund or investments that you hold perform;
- When you choose to access your pension savings.

Costs and charges

We've assumed a number of charges in these illustrations and assume that they will not change over time. These charges reflect the costs incurred in keeping your pension plan running smoothly and managing the funds you're invested in.

Annual management charge (AMC): 0.14%

This covers the cost of running your pension plan, as agreed with your employer and is deducted from your plan monthly.

Costs and charges

Investment choices

The investment strategy used in these illustrations is Target Lump Sum Blended. This is the default investment option for your scheme. We've used the following fund management charge (FMC) and growth rate(s) in these illustrations. These growth rates take into account the effect of inflation. If you are invested in a Pathway fund the growth rates assume that you are invested in the fund from the 1st January each year.

Target Lump Sum Blended	FMC	Growth rate	Transaction costs
Pace - Consolidate Your Pot	0.13%	1.8%	0.02%
Pace - Build Your Pot	0.13%	3.4%	0.04%
Pace - Take Your Pot - as cash	0.10%	1.6%	-0.01%

Fund management charge (FMC)

This covers the cost of managing the fund or funds you're invested in and is included in the funds unit price.

Transaction costs

Transaction costs reflect the trading costs incurred by a fund in day-to-day management and when you make a request to buy, sell or switch your investments. Where transaction costs data is available we've included them in the calculation of these illustrations and they are based on the average yearly costs incurred, measured over a period of up to the last five years. This may be different to the charges shown on the scheme's annual chairman's statement. If the value in the table above is N/A we've not been able to include them, but you may still incur these costs.

If a cost does apply, it will not have been included in the calculation of your pension benefit statement so the outcomes may be different. It will be reflected in the unit prices used to calculate the value of your pension pot. You can find out more about transaction costs at landg.com/transactioncosts.

Retirement age

We have assumed that you will take your pension benefits when you reach 65 and that you are currently aged 30. These illustrations assume your money will remain invested for the periods shown in the table.

How will the charges affect what my pension is worth?

Pot value at end of year	Current fund value: £5,000.00 Contribution: £100.00 per month		Current fund value: £30,000.00 Contribution: £375.00 per month	
	Investment growth after inflation reduced from 2.5% a year to 2.2%.		Investment growth after inflation reduced from 2.5% a year to 2.2%.	
	No charges	After all charges	No charges	After all charges
1	6,379	6,361	35,556	35,452
3	9,192	9,123	46,911	46,537
5	12,085	11,944	58,627	57,891
10	19,749	19,320	89,798	87,707
20	36,903	35,346	159,985	152,854
30	51,904	48,702	220,840	206,570
35	59,032	54,902	249,752	231,495

Important note:
The charges mean that the value of your pension pot could be less than has been paid in, particularly if contributions stop during the early years of your pension plan.

Example Illustrations

As trustees we are required to provide you with examples to show you what you might get from your plan in today's terms and explain how charges, transaction costs and investment performance could impact your pension savings over time.

Showing the value of money in real terms takes the effect of inflation into account and give an indication of how much a sum of money in the future would be worth today. This is called its buying power.

These examples were correct as at August 2024.

We have assumed the following:

- That the amounts paid in to your pension will not change over time and that the frequency will not vary. In reality contributions paid into your pension are linked to salary so will vary over time and may also be impacted by changes in pensions legislation or breaks in employment.

- We've assumed inflation remains constant at 2.50% per year. In reality this will vary over time. Inflation reduces the worth of all savings and investments.

Please remember that these are just examples and may not reflect your individual circumstances. The exact amount you'll get will depend on a number of things including:

- The actual amount paid into your plan;
- How the fund or investments that you hold perform;
- When you choose to access your pension savings.

Costs and charges
We've assumed a number of charges in these illustrations and assume that they will not change over time. These charges reflect the costs incurred in keeping your pension plan running smoothly and managing the funds you're invested in.

Annual management charge (AMC): 0.14%
This covers the cost of running your pension plan, as agreed with your employer and is deducted from your plan monthly.

Costs and charges

Investment choices

The investment strategy used in these illustrations is Pace Growth (Ethical Shares) Fund. This is the default investment option for your scheme. We've used the following fund management charge (FMC) and growth rate(s) in these illustrations. These growth rates take into account the effect of inflation. If you are invested in a Pathway fund the growth rates assume that you are invested in the fund from the 1st January each year.

Fund name	FMC	Growth rate	Transaction costs
Pace Growth (Ethical Shares) Fund	0.30%	3.4%	-0.03%

Fund management charge (FMC)

This covers the cost of managing the fund or funds you're invested in and is included in the funds unit price.

Transaction costs

Transaction costs reflect the trading costs incurred by a fund in day-to-day management and when you make a request to buy, sell or switch your investments. Where transaction costs data is available we've included them in the calculation of these illustrations and they are based on the average yearly costs incurred, measured over a period of up to the last five years. This may be different to the charges shown on the scheme's annual chairman's statement. If the value in the table above is N/A we've not been able to include them, but you may still incur these costs.

If a cost does apply, it will not have been included in the calculation of your pension benefit statement so the outcomes may be different. It will be reflected in the unit prices used to calculate the value of your pension pot. You can find out more about transaction costs at landg.com/transactioncosts.

Retirement age

We have assumed that you will take your pension benefits when you reach 65 and that you are currently aged 30. These illustrations assume your money will remain invested for the periods shown in the table.

How will the charges affect what my pension is worth?

Pot value at end of year	Current fund value: £5,000.00 Contribution: £100.00 per month		Current fund value: £30,000.00 Contribution: £375.00 per month	
	Investment growth after inflation reduced from 3.4% a year to 3.0%.		Investment growth after inflation reduced from 3.4% a year to 3.0%.	
	No charges	After all charges	No charges	After all charges
1	6,379	6,355	35,556	35,419
3	9,192	9,100	46,911	46,417
5	12,085	11,898	58,627	57,656
10	19,749	19,183	89,798	87,044
20	37,593	35,501	162,992	153,412
30	60,376	55,280	257,215	234,539
35	74,355	66,968	315,266	282,696

Important note:
The charges mean that the value of your pension pot could be less than has been paid in, particularly if contributions stop during the early years of your pension plan.

Example Illustrations

As trustees we are required to provide you with examples to show you what you might get from your plan in today's terms and explain how charges, transaction costs and investment performance could impact your pension savings over time.

Showing the value of money in real terms takes the effect of inflation into account and give an indication of how much a sum of money in the future would be worth today. This is called its buying power.

These examples were correct as at August 2024.

We have assumed the following:

- That the amounts paid in to your pension will not change over time and that the frequency will not vary. In reality contributions paid into your pension are linked to salary so will vary over time and may also be impacted by changes in pensions legislation or breaks in employment.

- We've assumed inflation remains constant at 2.50% per year. In reality this will vary over time. Inflation reduces the worth of all savings and investments.

Please remember that these are just examples and may not reflect your individual circumstances. The exact amount you'll get will depend on a number of things including:

- The actual amount paid into your plan;
- How the fund or investments that you hold perform;
- When you choose to access your pension savings.

Costs and charges

We've assumed a number of charges in these illustrations and assume that they will not change over time. These charges reflect the costs incurred in keeping your pension plan running smoothly and managing the funds you're invested in.

Annual management charge (AMC): 0.14%

This covers the cost of running your pension plan, as agreed with your employer and is deducted from your plan monthly.

Costs and charges

Investment choices

The investment strategy used in these illustrations is L&G PMC Cash 3. This is the default investment option for your scheme. We've used the following fund management charge (FMC) and growth rate(s) in these illustrations. These growth rates take into account the effect of inflation. If you are invested in a Pathway fund the growth rates assume that you are invested in the fund from the 1st January each year.

Fund name	FMC	Growth rate	Transaction costs
L&G PMC Cash 3	0.09%	1.8%	-0.02%

Fund management charge (FMC)

This covers the cost of managing the fund or funds you're invested in and is included in the funds unit price.

Transaction costs

Transaction costs reflect the trading costs incurred by a fund in day-to-day management and when you make a request to buy, sell or switch your investments. Where transaction costs data is available we've included them in the calculation of these illustrations and they are based on the average yearly costs incurred, measured over a period of up to the last five years. This may be different to the charges shown on the scheme's annual chairman's statement. If the value in the table above is N/A we've not been able to include them, but you may still incur these costs.

If a cost does apply, it will not have been included in the calculation of your pension benefit statement so the outcomes may be different. It will be reflected in the unit prices used to calculate the value of your pension pot. You can find out more about transaction costs at landg.com/transactioncosts.

Retirement age

We have assumed that you will take your pension benefits when you reach 65 and that you are currently aged 30. These illustrations assume your money will remain invested for the periods shown in the table.

How will the charges affect what my pension is worth?

Pot value at end of year	Current fund value: £5,000.00 Contribution: £100.00 per month		Current fund value: £30,000.00 Contribution: £375.00 per month	
	Investment growth after inflation reduced from 1.8% a year to 1.5%.		Investment growth after inflation reduced from 1.8% a year to 1.5%.	
	No charges	After all charges	No charges	After all charges
1	6,286	6,274	35,019	34,949
3	8,838	8,793	44,994	44,751
5	11,368	11,278	54,902	54,438
10	17,628	17,373	79,493	78,259
20	30,102	29,266	128,817	125,028
30	42,952	41,153	180,035	172,133
35	49,677	47,231	206,979	196,339

Important note:
The charges mean that the value of your pension pot could be less than has been paid in, particularly if contributions stop during the early years of your pension plan.

Appendix 6: Chair's Statement - Example Illustrations for the Bank DC Section

Example Illustrations

As trustees we are required to provide you with examples to show you what you might get from your plan in today's terms and explain how charges, transaction costs and investment performance could impact your pension savings over time.

Showing the value of money in real terms takes the effect of inflation into account and give an indication of how much a sum of money in the future would be worth today. This is called its buying power.

These examples were correct as at August 2024.

We have assumed the following:

- That the amounts paid in to your pension will not change over time and that the frequency will not vary. In reality contributions paid into your pension are linked to salary so will vary over time and may also be impacted by changes in pensions legislation or breaks in employment.
- We've assumed inflation remains constant at 2.50% per year. In reality this will vary over time. Inflation reduces the worth of all savings and investments.

Please remember that these are just examples and may not reflect your individual circumstances. The exact amount you'll get will depend on a number of things including:

- The actual amount paid into your plan;
- How the fund or investments that you hold perform;
- When you choose to access your pension savings.

Costs and charges

We've assumed a number of charges in these illustrations and assume that they will not change over time. These charges reflect the costs incurred in keeping your pension plan running smoothly and managing the funds you're invested in.

Annual management charge (AMC): 0.13%

This covers the cost of running your pension plan, as agreed with your employer and is deducted from your plan monthly.

Costs and charges

Investment choices

The investment strategy used in these illustrations is Target: Lump Sum (default option) Gen1. This is the default investment option for your scheme. We've used the following fund management charge (FMC) and growth rate(s) in these illustrations. These growth rates take into account the effect of inflation. If you are invested in a Pathway fund the growth rates assume that you are invested in the fund from the 1st January each year.

Target: Lump Sum (default option) Gen1	FMC	Growth rate	Transaction costs
Pace Growth (Shares) 2021 Fund	0.13%	3.4%	0.06%
Pace Growth (Mixed) Fund	0.13%	1.8%	0.04%
L&G PMC Cash 3	0.09%	1.8%	-0.02%

Fund management charge (FMC)

This covers the cost of managing the fund or funds you're invested in and is included in the funds unit price.

Transaction costs

Transaction costs reflect the trading costs incurred by a fund in day-to-day management and when you make a request to buy, sell or switch your investments. Where transaction costs data is available we've included them in the calculation of these illustrations and they are based on the average yearly costs incurred, measured over a period of up to the last five years. This may be different to the charges shown on the scheme's annual chairman's statement. If the value in the table above is N/A we've not been able to include them, but you may still incur these costs.

If a cost does apply, it will not have been included in the calculation of your pension benefit statement so the outcomes may be different. It will be reflected in the unit prices used to calculate the value of your pension pot. You can find out more about transaction costs at landg.com/transactioncosts.

Retirement age

We have assumed that you will take your pension benefits when you reach 65 and that you are currently aged 30. These illustrations assume your money will remain invested for the periods shown in the table.

How will the charges affect what my pension is worth?

Pot value at end of year	Current fund value: £5,000.00 Contribution: £100.00 per month		Current fund value: £30,000.00 Contribution: £375.00 per month	
	Investment growth after inflation reduced from 2.0% a year to 1.7%.		Investment growth after inflation reduced from 2.0% a year to 1.7%.	
	No charges	After all charges	No charges	After all charges
1	6,332	6,314	35,287	35,184
3	9,013	8,945	45,943	45,577
5	11,720	11,584	56,732	56,023
10	18,653	18,252	84,468	82,520
20	32,407	31,078	139,538	133,478
30	45,696	42,944	192,795	180,618
35	52,671	49,081	220,900	205,153

Important note:
The charges mean that the value of your pension pot could be less than has been paid in, particularly if contributions stop during the early years of your pension plan.

Example Illustrations

As trustees we are required to provide you with examples to show you what you might get from your plan in today's terms and explain how charges, transaction costs and investment performance could impact your pension savings over time.

Showing the value of money in real terms takes the effect of inflation into account and give an indication of how much a sum of money in the future would be worth today. This is called its buying power.

These examples were correct as at August 2024.

We have assumed the following:

- That the amounts paid in to your pension will not change over time and that the frequency will not vary. In reality contributions paid into your pension are linked to salary so will vary over time and may also be impacted by changes in pensions legislation or breaks in employment.

- We've assumed inflation remains constant at 2.50% per year. In reality this will vary over time. Inflation reduces the worth of all savings and investments.

Please remember that these are just examples and may not reflect your individual circumstances. The exact amount you'll get will depend on a number of things including:

- The actual amount paid into your plan;
- How the fund or investments that you hold perform;
- When you choose to access your pension savings.

Costs and charges

We've assumed a number of charges in these illustrations and assume that they will not change over time. These charges reflect the costs incurred in keeping your pension plan running smoothly and managing the funds you're invested in.

Annual management charge (AMC): 0.13%

This covers the cost of running your pension plan, as agreed with your employer and is deducted from your plan monthly.

Costs and charges

Investment choices

The investment strategy used in these illustrations is Pace Growth (Ethical Shares) Fund. This is the default investment option for your scheme. We've used the following fund management charge (FMC) and growth rate(s) in these illustrations. These growth rates take into account the effect of inflation. If you are invested in a Pathway fund the growth rates assume that you are invested in the fund from the 1st January each year.

Fund name	FMC	Growth rate	Transaction costs
Pace Growth (Ethical Shares) Fund	0.30%	3.4%	-0.03%

Fund management charge (FMC)

This covers the cost of managing the fund or funds you're invested in and is included in the funds unit price.

Transaction costs

Transaction costs reflect the trading costs incurred by a fund in day-to-day management and when you make a request to buy, sell or switch your investments. Where transaction costs data is available we've included them in the calculation of these illustrations and they are based on the average yearly costs incurred, measured over a period of up to the last five years. This may be different to the charges shown on the scheme's annual chairman's statement. If the value in the table above is N/A we've not been able to include them, but you may still incur these costs.

If a cost does apply, it will not have been included in the calculation of your pension benefit statement so the outcomes may be different. It will be reflected in the unit prices used to calculate the value of your pension pot. You can find out more about transaction costs at landg.com/transactioncosts.

Retirement age

We have assumed that you will take your pension benefits when you reach 65 and that you are currently aged 30. These illustrations assume your money will remain invested for the periods shown in the table.

How will the charges affect what my pension is worth?

Pot value at end of year	Current fund value: £5,000.00 Contribution: £100.00 per month		Current fund value: £30,000.00 Contribution: £375.00 per month	
	Investment growth after inflation reduced from 3.4% a year to 3.0%.		Investment growth after inflation reduced from 3.4% a year to 3.0%.	
	No charges	After all charges	No charges	After all charges
1	6,379	6,356	35,556	35,422
3	9,192	9,103	46,911	46,429
5	12,085	11,903	58,627	57,679
10	19,749	19,197	89,798	87,110
20	37,593	35,550	162,992	153,638
30	60,376	55,398	257,215	235,064
35	74,355	67,138	315,266	283,443

Important note:
The charges mean that the value of your pension pot could be less than has been paid in, particularly if contributions stop during the early years of your pension plan.

Example Illustrations

As trustees we are required to provide you with examples to show you what you might get from your plan in today's terms and explain how charges, transaction costs and investment performance could impact your pension savings over time.

Showing the value of money in real terms takes the effect of inflation into account and give an indication of how much a sum of money in the future would be worth today. This is called its buying power.

These examples were correct as at August 2024.

We have assumed the following:

- That the amounts paid in to your pension will not change over time and that the frequency will not vary. In reality contributions paid into your pension are linked to salary so will vary over time and may also be impacted by changes in pensions legislation or breaks in employment.

- We've assumed inflation remains constant at 2.50% per year. In reality this will vary over time. Inflation reduces the worth of all savings and investments.

Please remember that these are just examples and may not reflect your individual circumstances. The exact amount you'll get will depend on a number of things including:

- The actual amount paid into your plan;
- How the fund or investments that you hold perform;
- When you choose to access your pension savings.

Costs and charges

We've assumed a number of charges in these illustrations and assume that they will not change over time. These charges reflect the costs incurred in keeping your pension plan running smoothly and managing the funds you're invested in.

Annual management charge (AMC): 0.13%

This covers the cost of running your pension plan, as agreed with your employer and is deducted from your plan monthly.

Costs and charges

Investment choices

The investment strategy used in these illustrations is L&G PMC Cash 3. This is the default investment option for your scheme. We've used the following fund management charge (FMC) and growth rate(s) in these illustrations. These growth rates take into account the effect of inflation. If you are invested in a Pathway fund the growth rates assume that you are invested in the fund from the 1st January each year.

Fund name	FMC	Growth rate	Transaction costs
L&G PMC Cash 3	0.09%	1.8%	-0.02%

Fund management charge (FMC)

This covers the cost of managing the fund or funds you're invested in and is included in the funds unit price.

Transaction costs

Transaction costs reflect the trading costs incurred by a fund in day-to-day management and when you make a request to buy, sell or switch your investments. Where transaction costs data is available we've included them in the calculation of these illustrations and they are based on the average yearly costs incurred, measured over a period of up to the last five years. This may be different to the charges shown on the scheme's annual chairman's statement. If the value in the table above is N/A we've not been able to include them, but you may still incur these costs.

If a cost does apply, it will not have been included in the calculation of your pension benefit statement so the outcomes may be different. It will be reflected in the unit prices used to calculate the value of your pension pot. You can find out more about transaction costs at landg.com/transactioncosts.

Retirement age

We have assumed that you will take your pension benefits when you reach 65 and that you are currently aged 30. These illustrations assume your money will remain invested for the periods shown in the table.

How will the charges affect what my pension is worth?

Pot value at end of year	Current fund value: £5,000.00 Contribution: £100.00 per month		Current fund value: £30,000.00 Contribution: £375.00 per month	
	Investment growth after inflation reduced from 1.8% a year to 1.6%.		Investment growth after inflation reduced from 1.8% a year to 1.6%.	
	No charges	After all charges	No charges	After all charges
1	6,286	6,274	35,019	34,953
3	8,838	8,795	44,994	44,763
5	11,368	11,282	54,902	54,460
10	17,628	17,385	79,493	78,317
20	30,102	29,305	128,817	125,205
30	42,952	41,237	180,035	172,500
35	49,677	47,344	206,979	196,831

Important note:
The charges mean that the value of your pension pot could be less than has been paid in, particularly if contributions stop during the early years of your pension plan.

Appendix 7: Implementation Statement

The Co-operative Pension Scheme (Pace) ("the Scheme") Co-op Section Implementation Statement

17 July 2024

Background

From 1 October 2020, and on an annual basis, the Trustee is required to publish an "Implementation Statement" online and in the Scheme's annual report and accounts. This is the Co-op Section of Pace's fifth Implementation Statement and covers the Scheme year from 6 April 2023 to 5 April 2024. It sets out:

- How, and the extent to which, in the opinion of the Trustee, the Statement of Investment Principles ("SIP") for the Co-op Section of Pace has been followed over the year, along with details of any changes to the SIP;
- How the Trustee has implemented its policies on the exercise of voting rights attaching to its investments and engagement activities and how these votes aligned with the Scheme's stewardship priorities; and,
- The voting behaviour of the Trustee, or that undertaken on its behalf, including the most significant votes cast.

The Trustee also publishes an annual governance statement from the Chair, which demonstrates how the DC Section of Pace has complied with broader governance requirements; this is available online and in the report and accounts.

Buy-in transaction

In November 2023, the Co-op Section of Pace entered into a "buy-in" transaction to purchase a bulk annuity insurance policy with Rothesay Life, a UK insurance company authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority, covering the vast majority of defined benefit pensioner and non-pensioner liabilities not previously insured with Pension Insurance Corporation ("PIC") or Aviva as part of the pensioner buy-in transactions implemented in 2020. Under these policies, Rothesay Life, PIC and Aviva undertake, via the Scheme, to pay the Co-op Section's defined benefit obligations as they fall due. In due course, the Trustee's intention is that the buy-in assets will be moved to a buy-out contract and the Section could then be wound up.

The Trustee does not have oversight of the assets backing these buy-in policies or the insurers' set policies on sustainability, although insurer policies on Environmental, Social and Corporate Governance factors were considered as part of the selection of PIC, Aviva and Rothesay Life

The Trustee's review of the SIP over the year

The Trustee maintains a SIP for the Co-op Section of Pace which sets out the investment principles for both Defined Contribution (DC) and Defined Benefit (DB) investments. The SIP is reviewed at least annually and following any significant changes in investment policy.

The Trustee reviewed the SIP in June 2023 and updated it to reflect changes agreed to the lifestyle investment options available to DC members (including changes to the default option), to increase exposure to equities for younger members, and to reduce the time period over which members' pension pots are de-risked. The latest version of the SIP was approved on 15 January 2024, and included updates to reflect the buy-in transaction detailed above as well as to meet new legislative requirements requiring trustees to state their policy on investing in illiquid assets for their scheme's default arrangements (where "illiquid assets" are those that cannot easily or quickly be sold or exchanged for cash and include any such assets held in a collective investment scheme).

The current version of the Co-op Section SIP is available on Pace's website, via https://coop.pacepensions.co.uk/useful-information/pace-investments/.

In preparing the SIP for the Co-op Section of Pace, the Trustee consults with the sponsoring employer, the Co-op. The Co-op is consulted regarding any proposed changes to the SIP and investment strategy, however the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

How have the policies in the SIP been followed over the year?

In the opinion of the Trustee, the SIP has been followed throughout the year for the Co-op Section as set out below.

The Trustee's policies for choosing and realising investments, and the kinds of investments to be held (Sections 2.1, 2.4, 3.1, 3.4 and 6 of the SIP – January 2024 numbering)

The SIP sets out the Trustee's policies for choosing investments - specifically by identifying appropriate objectives which reflect the Section's risk and return requirements, identifying a suitable range of options for members of the DC Section or constructing a portfolio of investments to meet these objectives for DB investments.

In considering these objectives and selecting investments, the Trustee obtains and considers written advice from a regulated investment adviser.

Over the year, the Trustee made changes to the lifestyle investment options available to DC members (including changes to the default option), to introduce an increased exposure to equities for members who are more than 10 years from their chosen retirement date, and shortening the "de-risking" period from 25 to 20 years, meaning members 20 years or further from their selected retirement age will be invested for longer in assets with higher expected returns with the aim of improving members' pot size at retirement. The lifestyle investment options also switched to using blended funds to allow easier communication to members and to allow the Trustee and its investment advisors to make any future changes to the investment strategy more quickly, better reacting to changes in market conditions or market developments, and with less disruption to members.

When undertaking these changes in investment strategy, the Trustee received advice from its Investment Consultants in accordance with Section 35 of the Pensions Act 1995, as well as advice in relation to the purchase of the further buy-in policy with Rothesay Life.

The SIP includes (from January 2024) the Trustee's policy on investing in illiquid assets within the DC Section, specifically not to invest the DC default in standalone funds of illiquid assets given the Trustee's belief that the use of illiquid assets in DC pension schemes is a relatively new and developing area, and that the most efficient way to access this is through a multi-asset structure. Over the year the default investment strategy has included an allocation to a multi-asset fund, via the Pace Growth (Mixed) Fund, which has some indirect exposure to illiquid assets at the fund manager's discretion; as per the policy in the SIP the Trustee has not invested the default strategy in standalone funds of illiquid assets.

At the start of the year, the Trustee's objective for the DB Section was to implement an investment strategy that targeted a total expected return of around 0.8% p.a. (net of fees) above gilts to support the approach used to value the Section's liabilities, with a primary goal of achieving a fully funded position on a low-risk basis, while meeting statutory requirements on a Technical Provisions funding basis.

To meet the above objectives, the Trustee had adopted an investment strategy to target a strategic asset allocation of 48.5% in Liability Driven Investments, 35.0% in corporate bonds, 4.5% in alternative inflation-linked assets and 12.0% in illiquid credit, alongside the buy-in bulk pensioner annuity policies purchased in early 2020 with PIC and Aviva.

However, during the year, the Trustee's objectives were updated to:

- invest the Section's assets in such a manner that members' entitlements can be paid when they fall due; and
- ultimately to progress towards an insurer buy-out of the Section's known liabilities, with the aim of achieving an appropriate discharge of liability in respect of known obligations in accordance with the Section's governing documentation and relevant legislation.

Accordingly, to meet the Trustee's updated objectives, as at 5 April 2024 the DB Section was predominately invested in bulk annuity policies held with PIC, Aviva and Rothesay Life.

Prior to the implementation of the buy-in policy, the Trustee monitored the DB Section's investment strategy on a quarterly basis and is comfortable that over the year the investments held were in line with the SIP.

The investment managers have discretion in the timing of realisation of investments, and this has continued over the year.

The Trustee's policies on managing and measuring risk, and expected returns (Sections 2.3, 2.5, 3.3 and 3.4 of the SIP)

For the DC Section, the Trustee's objective is to make available to members a programme of investment, via pooled funds, which seeks to generate income and capital growth and which, together with new contributions from members and the Scheme's employers will provide a fund at retirement with which to provide an income in retirement. In particular, the default arrangement aims to grow member contributions ahead of inflation over a member's working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement. The Trustee's expected return and risk management policies for the DB Section were updated over the year given the change to strategy, as set out above.

The Trustee is happy that the risks set out in the SIP have been considered when setting the investment strategy for the DC and DB Sections, and that the policies on portfolio construction were followed when constructing the portfolios for Pace DB.

The Trustee's policies on Investment Manager appointment, engagement and monitoring (Section 5 of the SIP)

The table below summarises how the Trustee's policies on investment manager appointment, engagement and monitoring were implemented over the year:

Policy	Assessment
Aligning Manager Appointments with Investment Strategy *Investment managers are appointed based on their capabilities and, therefore, the perceived likelihood of achieving the stated expected return and risk characteristics required for the asset class they are selected to manage.* *If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the wider Trustee investment objectives.*	No new investment manager appointments were made over the year.
Manager Appointments and Performance *The Trustee receives, and considers, performance reports produced on a quarterly basis, which present performance information and commentary on the funds they invest in over various time periods.* *The Trustee may review a manager's appointment if:* • *There are sustained periods of underperformance.* • *There is a change in the underlying objectives of the investment manager, or a change in the portfolio manager.* • *There is a significant change to the Investment Adviser's rating of the manager; or* • *There is a change to the Trustee's overall strategy that no longer requires exposure to that asset class or manager.* *The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then it may look to replace the manager, or in some circumstances, ask the manager to review the Annual Management Charge.*	The Trustee reviewed investment performance for the DC and DB Sections at each quarterly DC Committee / Trustee meeting over the year (for the DB Section, prior to the implementation of the buy-in policy in November 2023). No periods of underperformance, downgrades to investment adviser ratings or changes to objectives were identified that led the Trustee to review manager appointments or to take further action.
Portfolio Turnover Costs *Investment manager performance is generally reported net of transaction costs*	Over the year, DC transaction costs were collated, and reported in the Chair's Statement in the Trustee Report and Accounts.

(where possible), and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives. *For the DB Sections, the Trustee has engaged a third party to collect cost information (under the Cost Transparency Initiative), to analyse data from the Main Portfolio's investment managers to determine the underlying costs involved with its investments. The Trustee aims to use this information to prompt discussion with its investment managers on costs and in order to compare its investments with other managers in the same asset class to ensure consistency.* *The Trustee will continue to monitor industry improvements concerning the monitoring and reporting of portfolio turnover costs.*	At its 6 December 2023 Trustee meeting, the Trustee reviewed reporting on costs incurred by Pace DB over the twelve-month period to 31 December 2022, as collated and analysed by ClearGlass, and as benchmarked against comparable schemes. These were in line with expectations and no concerns were highlighted.
Manager Turnover *The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustee typically expects to retain an investment manager unless:* • *There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager.* • *The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.*	No changes were made over the year for Pace DC that resulted in the termination of any investment manager appointments. As noted above, the change to the DB investment strategy for the Co-op Section entailed the disinvestment of the Section's invested assets and the purchase of a bulk annuity policy.

In addition to the policies set out in the SIP for monitoring investment managers, the Trustee also monitors its investment consultants.

The Trustee introduced objectives for each of its investment consultant appointments in December 2019 to comply with regulations governing the role of investment advisors. The Trustee reviews performance against the agreed objectives and the suitability of the consultant's objectives on an annual basis.

Over the year to 5 April 2024, the Trustee reviewed its investment advisers against those objectives.

The Trustee's policies on ESG considerations (Section 8 of the SIP)

The Trustee is committed to achieving its investment objectives in a way that takes into account broader environmental, social and corporate governance concerns. The Trustee believes that as both DC and DB pensions are long-term investments this is important, and it would also like the Scheme's approach to responsible investment to reflect the views of Pace members as far as reasonably possible, and to be consistent with the values of Pace's sponsors, their members and their colleagues. As a result, Pace has developed a Responsible Investment policy covering both DC and DB investments. The policy was developed with input from the Co-op and the Co-operative Bank.

The Responsible Investment Policy is available on the Scheme's website (along with an annual report detailing how Pace has implemented the policy over the year), via https://coop.pacepensions.co.uk/useful-information/pace-investments/

The Responsible Investment policy should be read in conjunction with, and as if it formed part of, this implementation statement.

The Trustee also recognises that it may take non-financial factors into consideration, i.e. those motivated by other concerns, such as social impact where the Trustee has good reason to expect that Scheme members would share these concerns (or, for example, members' personal ethical and religious beliefs), and where the decision is not expected to have material financial detriment; aligned with this, the Trustee has made the Pace Growth (Ethical Shares) Fund and the Pace Growth (Shariah) Fund available as self-select options in the DC Section. At year-end the DB Section's assets were fully invested in the buy-in policies with Rothesay Life, PIC and Aviva and as such there is limited scope to apply these principles. Furthermore, as the Trustee's objective is to achieve an appropriate discharge of the scheme's liabilities, which would then allow the Section to be wound up, the timeframe for consideration of these factors is relatively short.

The Trustee's policies on the exercise of voting rights and undertaking engagement activities (Section 8 of the SIP)

The Trustee's specific policies on engagement are summarised below, together with the Trustee's assessment of how, and the extent to which, these policies have been implemented over the scheme year to 5 April 2024:

Policy	**Assessment**
The Trustee gives its investment managers full discretion to evaluate ESG factors and engage with companies. The Trustee also encourages its investment managers to adopt best practices in these areas and to act in the best interests of Scheme members. The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes.	The Trustee considers the most effective way to align Pace's investments with its values is to appoint fund managers that take a responsible and sustainable approach to investment, as well as to engage with asset managers in relation to the three broad issues the Trustee identifies as priorities in the Scheme's responsible investment policy, namely: • **Climate change and the protection of the environment**; • **Labour conditions and equal pay**; and • **Corporate governance**. Members' pension pots in Pace DC are invested entirely in pooled investment funds alongside other investors, and the Trustee does not therefore directly invest in underlying companies or have the ability to engage directly with these companies,

	although further detail on the approach taken by Legal & General Investment Management ("LGIM"), and (in the case of the Pace Growth (Shariah) Fund) HSBC, to exercise voting rights is set out in the section below this table. The default option currently invests (via the Pace "Build Your Pot", "Consolidate Your Pot" and "Take Your Pot – as Cash" bespoke blended funds) in the Pace Growth (Shares) 2021 Fund and the Pace Growth (Mixed) Fund, switching out of equities as members approach retirement, and then into a cash fund over the 10 years prior to a member's expected retirement date. The Pace Growth (Mixed) Fund is invested 100% in the LGIM Future World Multi-Asset Fund, which the Trustee and the sponsors believe is aligned with their shared values. This fund "tilts" investments towards companies that have higher governance standards, and aims to achieve positive social and environmental impacts, including companies which are less carbon-intensive or earn green revenue; it also excludes investment in coal miners, and companies involved in the manufacture or distribution of controversial weapons (companies on the "Future World Protection List"). LGIM also applies its "Climate Impact Pledge" to the fund – each year they engage with the largest companies across the world identified as key to meeting global climate change goals to help improve their strategies, and commit to disinvesting from companies that fail to demonstrate sufficient action. Similarly, the Pace Growth (Shares) 2021 Fund tilts to invest more in companies with strong and improving ESG attributes, and doesn't invest in companies that manufacture controversial weapons or that earn a sizeable revenue from mining coal or using coal for power generation. The Pace Growth (Shariah) Fund follows a process that has been approved by an independent Shariah Supervisory Committee which aims to meet the requirements of Shariah law and the principles of Islamic finance. It doesn't invest

	in financial services companies, companies that manufacture weapons, or companies in industries that are prohibited by the Quran such as alcohol, tobacco, gambling and entertainment, or pork-related products. Prior to the implementation of the buy-in in November 2023, the DB Section applied explicit exclusion lists where possible to prevent investment in companies that manufacture or distribute controversial weapons, or those in the oil, gas or mining industries that have poor environmental records, or in government bonds from countries with poor human rights records. The 'ESG aware' LEAF cash fund that the Section implemented within its LDI mandates in March 2022 and which it continues to hold following the buy-in referenced above prohibits investment in issuers that fall within the exclusionary screens defined for the LEAF strategy. For example, the exclusionary list screens out issuers that: • have exposure to the production of controversial weapons; • derive 5% or more of their revenues from fossil fuel mining exploration and/or refinement; • derive 5% or more of their revenues from the production or distribution of tar sands or oil sands
The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response.	Over the year, the Trustee engaged with investment managers in relation to climate risk in particular, considering each managers' climate risk policy in detail in quarterly MMIC and Investment Committee meetings. At its December 2023 DC Committee meeting, the Trustee and its DC investment advisors reviewed LGIM's stewardship, and challenged the DC Section's fund manager on its record keeping and on implementing safeguards to ensure its voting practice is aligned with its policies (including demonstrating that it undertook sufficiently detailed analysis of all potentially contentious resolutions and their intended impact). LGIM discussed their response at

	the 7 March 2024 DC Committee meeting, and dialogue is ongoing.
As part of the appointment of new investment managers and its ongoing monitoring process, the Trustee will consider the Investment Adviser's assessment (in terms of the Investment Adviser's own system of ESG ratings) of how each investment manager embeds ESG and stewardship factors into its investment process and how the manager's responsible investment philosophy aligns with Pace's Responsible Investment policy. This includes the investment managers' policy on voting and engagement. *In addition, the Trustee carries out regular reviews of the managers' ESG policies and actively engages with managers to better understand their processes*	No new asset managers were appointed over the year. The Trustee has directly or through the Co-op Pensions Department's Manager Monitoring and Implementation Committee met with each of the Scheme's ongoing managers throughout the year as part of a rolling program, and ESG factors and engagement with investee companies are discussed at each meeting to understand the managers' approaches to incorporating ESG considerations in the initial selection of investments (and any disinvestments or sales), and areas of engagement as well as developments over the year. In particular, LGIM report on their compliance with their engagement policies annually, via their Active Ownership Report. The 2023 report was published in April 2023 and considered by the DC Committee in the 1 June 2023 meeting. As well as receiving reporting at meetings on ESG considerations when making investment decisions or disinvesting, the Trustee and the DC Committee received reporting over the year from Pace's investment consultants on their researchers' assessment of the integration of ESG considerations into each manager's investment processes and their stewardship practices.
As a responsible investor, the Trustee exercises rights, including any voting rights attaching to Pace's investments, in the best interests of Pace's members. Specifically, the Trustee has instructed the investment managers to exercise voting rights accordingly, where applicable and wherever it is practicable to do so, and to report to the Trustee.	Since Q2 2020 the DC Committee has reviewed LGIM's quarterly ESG impact reports, which includes notes from their engagement with companies and summaries of how LGIM voted on key corporate matters, alongside a summary of their policy work in different regions. The Trustee is comfortable that LGIM's voting policies and voting behaviour aligns with the Scheme's stewardship priorities as set out above.

In each of these areas, the Trustee is comfortable that it has implemented the policies it intended to over the year.

Exercise of voting rights

Following changes to reduce risk in its investment strategy in late 2017, Pace DB no longer invests in company shares (either directly or through pooled funds) and therefore does not hold investments with attaching voting rights.

Pace DC offers options for investment to members which do include exposure to shares (either through equity funds or the multi-asset fund). The Trustee does not directly exercise voting rights as these investments are through pooled funds with many other investors.

LGIM

Voting rights are exercised by LGIM using ISS's ProxyExchange electronic voting platform, although voting decisions are retained by LGIM and strategic decisions are made by LGIM's Investment Stewardship Team in accordance with their governance policies for each region.

HSBC

The legal right to the underlying votes lies with the directors of the HSBC Islamic Global Equity Fund, which is the underlying fund behind the Pace Growth (Shariah) Fund. They have delegated this execution of this voting to HSBC Global Asset Management (UK) Limited.

HSBC uses the ISS to assist with the global application of our voting guidelines. ISS reviews company meeting resolutions and provides recommendations highlighting resolutions which contravene our guidelines. HSBC review voting policy recommendations according to the scale of their overall holdings. The bulk of holdings are voted in line with the recommendation based on their guidelines.

The table below, sets out the further details relating to LGIM's voting record for stocks held within each fund held within Pace DC which has exposure to equities for the year to 31 March 2024.

	Pace Growth (Shares) 2021 Fund	**Pace Growth (Mixed) Fund**	**Pace Growth (Ethical Shares) Fund**	**Pace Growth (Shares) Fund**	**Pace Growth (Shariah) Fund***
Size of Co-op Section's holdings as at 5 April 2024.	c£346m	c£385m	c£8.2m	c£0.7m	c£1.1m
Asset Manager	LGIM	LGIM	LGIM	LGIM	HSBC
Number of equity holdings in the fund (at 31 March 2024)	2,229	6,855	1,065	4,692	108
Number of meetings at which asset manager was eligible to vote over the year	3,189	8,965	1,167	7,147	104
Number of resolutions asset manager was eligible to vote on over the year	36,189	91,840	16,564	72,082	1,702
% of resolutions asset manager was eligible to vote on where they exercised that vote	99.9%	99.8%	99.8%	99.9%	96.0%
% of resolutions where asset manager voted for management / voted against management / abstained from voting*	Voted with 78.3% Voted against 21.4% Abstained 0.4%	Voted with 76.7% Voted against 23.1% Abstained 0.2%	Voted with 81.4% Voted against 18.5% Abstained 0.2%	Voted with 80.9% Voted against 18.6% Abstained 0.5%	Voted with 76.0% Voted against 23.0% Abstained 0.0%
% of meetings at which asset manager voted at least once against management	70.0%	73.6%	75.0%	61.5%	82.0%
% of meetings at which asset manager voted against the recommendation of the proxy advisor	14.3%	14.4%	14.1%	10.7%	0.9%

*May not sum due to rounding.

Significant Votes

LGIM

LGIM provide a quarterly ESG impact report, which summarises LGIM's votes together with details of 'significant votes'. These reports are reviewed at quarterly Investment Committee meetings, with any comments or questions fed back to LGIM via the Co-op Pensions Department.

In determining what votes are 'significant', LGIM consider the criteria provided by the Pensions & Lifetime Savings Association guidance, such as:

- A high-profile vote (which may be controversial and therefore subject to a degree of client and/or public scrutiny).
- Significant client interest in a vote: communicated directly by clients to the Investment Stewardship team at LGIM's annual stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote.
- A sanction vote as a result of a direct, or collaborative, engagement.
- A vote linked to an LGIM engagement campaign – in line with the LGIM Investment Stewardship team's five-year engagement policy.

The Trustee and the Co-op Pensions Department have reviewed LGIM's reporting and identified the votes on the following page as 'most significant' using these criteria and considering which votes were most aligned with the Trustee's stewardship priorities as set out above. Note that shares in individual companies will likely be held across multiple funds within the DC Sections.

HSBC

HSBC regard votes against management recommendation as the most significant. With regards to climate, in their engagement HSBC encourage companies to disclose their carbon emissions and climate-related risks in line with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). Where companies in energy intensive sectors have persistently failed to disclose their carbon emissions and climate risk governance, HSBC will generally vote against the re-election of the Chairman. HSBC also generally support shareholder resolutions calling for increased disclosure on climate-related issues.

LGIM

Relevant Stewardship priority	Climate change and the protection of the environment	Climate change and the protection of the environment	Labour conditions and equal pay	Climate change and the protection of the environment	Corporate Governance	Corporate Governance
Asset manager	LGIM	LGIM	LGIM	LGIM	LGIM	LGIM
Company	Toyota Motor Corp.	Shell	Amazon.com, Inc.	McDonald's Corp	Microsoft Corporation	Apple Inc
Date of the vote	14 June 2023	23 May 2023	24 May 2023	25 May 2023	7 December 2023	28 February 2024
Approximate size of the Co-op Section of Pace DC's holding (based on holding at year end)	c£1.2m	c£1.9m	c£0.9m	c£0.5m	c£3.7m	c£2.8m
Summary of the resolution	Shareholder resolution to amend Articles to Report on Corporate Climate Lobbying Aligned with Paris Agreement	To approve the Shell Energy Transition Progress report	Shareholder resolution to report on Median and Adjusted Gender/Racial Pay Gaps	Shareholder resolution to adopt Policy to Phase Out Use of Medically-Important Antibiotics in Beef and Pork Supply Chain	Shareholder resolution to report on Risks Related to AI Generated Misinformation and Disinformation	Shareholder resolution to ask Apple to produce a transparency report on the company's use of AI in its business operations and disclose any ethical guidelines that the company has adopted regarding the company's use of AI technology
Why the Trustee considers this vote "significant"	Aligned with the Trustee's engagement priorities; identified as 2023 as one of Pace's top 20 holdings most exposed to deforestation risk.	Aligned with the Trustee's engagement priorities	Aligned with the Trustee's engagement priorities	Aligned with the Trustee's engagement priorities	Aligned with the Trustee's engagement priorities; high profile as an emerging issue	Aligned with the Trustee's engagement priorities; high profile as an emerging issue
How the asset manager voted	In favour (against management)	Against (against management)	In favour (against management)	In favour (against management)	Against	In favour (against management)
Was the voting intention communicated to the company ahead of the vote?	Yes	No	Yes	Yes	No (Voted in line with management)	Yes
Rationale	LGIM views climate lobbying as a crucial	LGIM acknowledges the substantial progress	A vote in favour was applied as LGIM expects	The resolution asks McDonald's to adopt a	Having engaged with Microsoft directly to	LGIM believes companies should be assessing and

	part of enabling the transition to a net zero economy. A vote for this proposal is warranted as LGIM believes that companies should advocate for public policies that support global climate ambitions and not stall progress on a Paris-aligned regulatory environment. LGIM acknowledges the progress that Toyota has made in relation to its climate lobbying disclosure in recent years. However, LGIM believes that additional transparency is necessary with regards to the process used by the company to assess how its direct and indirect lobbying activity aligns with its own climate ambitions, and what actions are taken when misalignment is identified. Furthermore, LGIM expects Toyota to improve its governance structure to oversee this climate lobbying review. LGIM believes the company must also explain more clearly how its multi-pathway electrification strategy translates into meeting its decarbonisation targets, and how its climate lobbying	made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, LGIM remains concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both of these are key areas to demonstrate alignment with the 1.5C trajectory.	companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap. This is an important disclosure so that investors can assess the progress of the company's diversity and inclusion initiatives. Board diversity is an engagement and voting issue, as LGIM believes cognitive diversity in business – the bringing together of people of different ages, experiences, genders, ethnicities, sexual orientations, and social and economic backgrounds – is a crucial step towards building a better company, economy and society.	company-wide policy to phase out the use of medically important antibiotics for disease prevention purposes in its beef and pork supply chains and to set targets with timelines, metrics for measuring implementation, and third-party verification. Antimicrobial resistance ('AMR') is a key area of focus within LGIM's approach to health, and LGIM considers AMR to be a systemic risk. In line with the shareholder resolution on AMR (resolution 6) that LGIM has co-filed and LGIM's conviction that AMR is a systemic risk, LGIM consider this a material issue and voted in favour.	discuss its approach to the risks described in this resolution, LGIM considers at the present time that the company is a leader in the disclosures, governance processes and mitigation steps it is taking on risks posed by its operations from generative AI. LGIM therefore took the decision not to vote in favour of this shareholder resolution.	mitigating risks associated with AI and providing transparency to the market on their approach; this applies particularly to those companies that develop AI systems and will shape the way it is used in our economy and society. Apple has announced general plans to further develop its use of generative AI and other AI capabilities; however, the company discloses very little about its approach to managing AI-related risks, nor any principles or guidelines to inform how the company uses AI, putting the company behind its peers and increasing exposure potential regulatory and other risks. LGIM met with the company to discuss these topics, and it did not commit to increasing transparency and disclosures around AI at this time. Apple is among several companies that have outsized influence on the integration of AI into our economy. In line with LGIM's expectations, LGIM believes companies like Apple should be transparent in their uses of AI and their risk management processes.

	practices are in keeping with this.					
Outcome	Not passed – 15.1% of voters supported the resolution.	Pass – 80% of voters supported the resolution.	Not passed – 29% of voters supported the resolution.	Not passed – 16.3% of voters supported the resolution.	Not passed – 21.2% of voters supported the resolution.	Not passed – 37.5% of voters supported the resolution.
Does the asset manager intend to escalate the stewardship efforts?	LGIM will continue to engage with the company and monitor progress.	LGIM continues to undertake extensive engagement with Shell on its climate transition plans.	LGIM will continue to engage with the company and monitor progress.	LGIM will continue to engage with the company and monitor progress.	LGIM will continue to engage with Microsoft on this issue as it evolves and as shareholder expectations evolve, too. AI will continue to be an important issue and Microsoft's position as a leader in its industry brings with it the responsibility to take appropriate actions regarding governance, risk and transparency on this issue.	LGIM will continue to engage with the company and monitor progress.

HSBC

Relevant Stewardship priority	**Corporate Governance**	**Corporate Governance**
Asset manager	HSBC	HSBC
Company	Novartis AG	Apple Inc
Date of the vote	3 May 2024	28 February 2024
Approximate size of the Co-op Section of Pace DC's holding (based on holding at year end)	c£8k	c£91k
Summary of the resolution	To re-elect Patrice Bula as Director	Report on Median Gender/Racial Pay Gap
Why the Trustee considers this vote "significant"	Aligned with the Trustee's engagement priorities	Aligned with the Trustee's engagement priorities
How the asset manager voted	Against (against management)	In favour (against management)
Was the voting intention communicated to the company ahead of the vote?	No	No
Rationale	HSBC voted against the Nomination Committee Chair as HSBC have concerns about insufficient gender diversity of the board.	HSBC believe that the proposal would contribute to improving gender inequality.
Outcome	Pass	Not passed
Does the asset manager intend to escalate the stewardship efforts?	HSBC will likely vote against a similar proposal should they see insufficient improvements.	HSBC will likely vote against the management for a similar proposal should they see insufficient improvements.

The Co-operative Pension Scheme (Pace) ("the Scheme") Co-operative Bank Section Implementation Statement

17 July 2024

Background

From 1 October 2020, and on an annual basis, the Trustee is required to publish an "Implementation Statement" online and in the Scheme's annual report and accounts. This is the Co-operative Bank Section of Pace's fifth Implementation Statement and covers the Scheme year from 6 April 2023 to 5 April 2024. It sets out:

- How, and the extent to which, in the opinion of the Trustee, the Statement of Investment Principles ("SIP") for the Bank Section Pace has been followed over the year, along with details of any changes to the SIP;
- How the Trustee has implemented its policies on the exercise of voting rights attaching to its investments and engagement activities and how these votes aligned with the Scheme's stewardship priorities; and,
- The voting behaviour of the Trustee, or that undertaken on its behalf, including the most significant votes cast.

The Trustee also publishes an annual governance statement from the Chair, which demonstrates how the DC Section of Pace has complied with broader governance requirements; this is available online and in the report and accounts.

Buy-in transaction

In December 2022, the Co-operative Bank Section of Pace entered into a "buy-in" transaction to purchase a bulk annuity insurance policy with Rothesay Life, a UK insurance company authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority, covering all defined benefit pensioner and non-pensioner liabilities not previously insured with Pension Insurance Corporation ("PIC") as part of the pensioner buy-in transaction implemented in 2020. Under these policies, Rothesay Life and PIC undertake, via the Scheme, to pay the Bank Section's defined benefit obligations as they fall due. In due course, the intention is that the buy-in assets will be moved to a buy-out contract and the Section will be wound up.

The Trustee does not have oversight of the assets backing these buy-in policies or the insurers' set policies on sustainability, although insurer policies on Environmental, Social and Corporate Governance factors were considered as part of the selection of both PIC and Rothesay Life.

The Trustee's review of the SIP over the year

The Trustee maintains a SIP for the Co-operative Bank Section of Pace which sets out the investment principles for both Defined Contribution (DC) and Defined Benefit (DB) investments. The SIP is reviewed at least annually and following any significant changes in investment policy.

Minor changes to the SIP were made in August 2023 to reflect that residual cash held in the Bank Section of Pace DB to meet expenses following the buy-in transaction detailed above would be held in a pooled cash fund. The current version of the Co-operative Bank Section SIP is available via https://bank.pacepensions.co.uk/useful-information/pace-investments/.

In preparing the SIP for the Bank Section of Pace, the Trustee consults with the sponsoring employer, The Co-operative Bank. The Bank is consulted regarding any proposed changes to the SIP and investment strategy, however the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

How have the policies in the SIP been followed over the year?

In the opinion of the Trustee, the SIP have been followed throughout the year for the Co-operative Bank Section, as set out below.

The Trustee's policies for choosing and realising investments, and the kinds of investments to be held (Sections 2.1, 2.4, 3.1, 3.4 and 6 of the SIP)

The SIP sets out the Trustee's policies for choosing investments - identifying a suitable range of options for members of the DC Section, or by identifying appropriate objectives which reflect the Section's risk and return requirements, and then constructing a portfolio of investments to meet these objectives for DB investments.

In considering these objectives and selecting investments, the Trustee obtains and considers written advice from a regulated investment adviser. No material changes were made during the year, although in June 2023 the Trustee selected the BlackRock LEAF ESG aware cash fund as a vehicle to hold residual cash held in the Bank Section of Pace DB to meet expenses following the buy-in transaction, and took advice from its investment consultants that this vehicle was appropriate and met its objectives.

The investment managers have discretion in the timing of realisation of investments, and this has continued over the year.

The Trustee's policies on managing and measuring risk, and expected returns (Sections 2.3, 2.5, 3.3 and 3.4 of the SIP)

For the DC Section, the Trustee's objective is to make available to members a programme of investment, via pooled funds, which seeks to generate income and capital growth and which, together with new contributions from members and the Scheme's employers will provide a fund at retirement with which to provide an income in retirement. In particular, the default arrangement aims to grow member contributions ahead of inflation over a member's working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement. For the DB Section, the Trustee's investment objective is to invest the Section's assets in such a manner that members' entitlements can be paid when they fall due, and following the buy-in detailed above, the Trustees' key short term objective is to ensure an efficient progression towards an insurer buy-out of the Section's known liabilities, with the aim of achieving an appropriate discharge of liability in respect of known obligations in accordance with the Section's governing documentation and relevant legislation. Due to the buy-in policies, the DB Section's investment strategy does not have a return target and instead the target is to maintain liquidity and security to support the buy-out objective.

The Trustee is happy that the risks set out in the SIP have been considered when setting the investment strategy for the DB and DC Sections.

The Trustee's policies on Investment Manager appointment, engagement and monitoring (Section 5 of the SIP)

The table below summarises how the Trustee's policies on investment manager appointment, engagement and monitoring were implemented over the year:

Policy	Assessment
Aligning Manager Appointments with Investment Strategy *Investment managers are appointed based on their capabilities and, therefore, the perceived likelihood of achieving the stated expected return and risk characteristics required for the asset class they are selected to manage.* *If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the wider Trustee investment objectives.*	In June 2023, the Trustee selected the BlackRock Liquid Environmentally Aware Fund ("LEAF") for the investment of the residual cash held by the DB Section following the buy-in transaction, following advice by the Scheme's advisor which believed that the LEAF fund would improve counterparty diversification compared to using a bank account, and aligned with the Bank Section's Environmental, Social and Corporate Governance ("ESG") beliefs as documented in the SIP. The BlackRock LEAF fund applies a screening process whereby issuers that fall within BlackRock's exclusionary screens defined for LEAF are excluded (further details below).
Manager Appointments and Performance *The Trustee receives, and considers, performance reports produced on a quarterly basis, which present performance information and commentary on the funds they invest in over various time periods.* *The Trustee may review a manager's appointment if:* • *There are sustained periods of underperformance.* • *There is a change in the underlying objectives of the investment manager, or a change in the portfolio manager.* • *There is a significant change to the Investment Adviser's rating of the manager; or* • *There is a change to the Trustee's overall strategy that no longer requires exposure to that asset class or manager.* *The investment managers are aware that their continued appointment is based on their success in delivering the mandate for*	The Trustee reviewed investment performance for the DC Section at each quarterly DC Committee meeting over the year. Since the implementation of the LEAF cash fund for the DB Section, the Trustee reviews performance at quarterly meetings. No periods of underperformance, downgrades to investment adviser ratings or changes to objectives were identified that led the Trustee to review manager appointments or to take further action.

which they have been appointed. If the Trustee is dissatisfied, then it may look to replace the manager, or in some circumstances, ask the manager to review the Annual Management Charge.	
Portfolio Turnover Costs *Investment manager performance for the is generally reported net of transaction costs (where possible), and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.* *Transaction costs are collated and reported annually through the Trustee Report and Accounts.* *The Trustee will continue to monitor industry improvements concerning the monitoring and reporting of portfolio turnover costs.*	Over the year, DC transaction costs were collated, and reported in the Chair's Statement in the Trustee Report and Accounts. Since the DB Section is invested solely through the purchase of the bulk annuity policies held with PIC and Rothesay Life, the Trustees are unable to incentivise the insurer, remunerate or monitor portfolio turnover costs as these are not applicable to a bulk annuity policy.
Manager Turnover *The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustee typically expects to retain an investment manager unless:* • *There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager.* • *The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.*	No changes were made over the year that resulted in the termination of any investment manager appointments.

In addition to the policies set out in the SIP for monitoring investment managers, the Trustee also monitors its investment consultants.

The Trustee introduced objectives for each of its investment consultant appointments in December 2019 to comply with regulations governing the role of investment advisors. The Trustee reviews performance against the agreed objectives and the suitability of the consultant's objectives on an annual basis.

Over the year to 5 April 2024, the Trustee reviewed its investment advisers against those objectives.

The Trustee's policies on ESG considerations (Section 8 of the SIP)

The Trustee is committed to achieving its investment objectives in a way that takes into account broader environmental, social and corporate governance concerns. The Trustee believes that as both DC and DB pensions are long-term investments this is important, and it would also like the Scheme's approach to responsible investment to reflect the views of Pace members as far as reasonably possible, and to be consistent with the values of Pace's sponsors, their members and their colleagues. As a result, Pace has developed a Responsible Investment policy covering both DC and DB investments. The policy was developed with input from the Co-op and The Co-operative Bank.

The Responsible Investment Policy is available on the Scheme's website (along with an annual report detailing how Pace has implemented the policy over the year), via https://bank.pacepensions.co.uk/useful-information/pace-investments/.

The Responsible Investment policy should be read in conjunction with, and as if it formed part of, this implementation statement.

The Trustee recognises that it may take non-financial factors into consideration, i.e. those motivated by other concerns, such as social impact where the Trustee has good reason to expect that Scheme members would share these concerns (or, for example, members' personal ethical and religious beliefs), and where the decision is not expected to have material financial detriment; aligned with this, the Trustee has made the Pace Growth (Ethical Shares) Fund and the Pace Growth (Shariah) Fund available as self-select options in the DC Section. At year-end the DB Section's assets were fully invested in the buy-in policies with Rothesay and PIC, and as such there is limited scope to apply these principles. Furthermore, as the Trustee's objective is to wind-up the Scheme over the short to medium term the timeframe for consideration of these factors is relatively short.

The Trustee's policies on the exercise of voting rights and undertaking engagement activities

The Trustee's specific policies on engagement are summarised below, together with the Trustee's assessment of how, and the extent to which, these policies have been implemented over the scheme year to 5 April 2024:

Policy	Assessment
The Trustee gives its investment managers full discretion to evaluate ESG factors and engage with companies. The Trustee also encourages its investment managers to adopt best practices in these areas and to act in the best interests of Scheme members. The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes.	The Trustee considers the most effective way to align Pace's investments with its values is to appoint fund managers that take a responsible and sustainable approach to investment, as well as to engage with asset managers in relation to the three broad issues the Trustee identifies as priorities in the Scheme's responsible investment policy, namely: • **Climate change and the protection of the environment**; • **Labour conditions and equal pay**; and • **Corporate governance.**

	Members' pension pots in Pace DC are invested entirely in pooled investment funds alongside other investors, and the Trustee does not therefore directly invest in underlying companies or have the ability to engage directly with these companies, although further detail on the approach taken by Legal & General Investment Management ("LGIM") and (in the case of the Pace Growth (Shariah) Fund) HSBC, to exercise voting rights is set out in the section below this table. The default option currently invests in the Pace Growth (Shares) 2021 Fund and the Pace Growth (Mixed) Fund, switching out of the Shares Fund as members approach retirement, and then into a cash fund over the 10 years prior to a member's expected retirement date. The Pace Growth (Mixed) Fund is invested 100% in the LGIM Future World Multi-Asset Fund, which the Trustee and the sponsors believe is aligned with their shared values. This fund "tilts" investments towards companies that have higher governance standards, and aims to achieve positive social and environmental impacts, including companies which are less carbon-intensive or earn green revenue; it also excludes investment in coal miners, and companies involved in the manufacture or distribution of controversial weapons (companies on the "Future World Protection List"). LGIM also applies its "Climate Impact Pledge" to the fund – each year they engage with the largest companies across the world identified as key to meeting global climate change goals to help improve their strategies, and commit to disinvesting from companies that fail to demonstrate sufficient action. Similarly, the Pace Growth (Shares) 2021 Fund tilts to invest more in companies with strong and improving ESG attributes, and doesn't invest in companies that manufacture controversial weapons or that earn a sizeable revenue from mining coal or using coal for power generation. The Pace Growth (Shariah) Fund follows a process that has been approved by an

	independent Shariah Supervisory Committee which aims to meet the requirements of Shariah law and the principles of Islamic finance. It doesn't invest in financial services companies, companies that manufacture weapons, or companies in industries that are prohibited by the Quran such as alcohol, tobacco, gambling and entertainment, or pork-related products. The Trustee review LGIM's voting policies as part of their engagement on an ongoing basis (and through review of LGIM's quarterly ESG impact reports) and are comfortable that their voting policies and voting behaviour aligns with the Scheme's stewardship priorities as set out above. The 'ESG aware' LEAF cash fund that the DB Section implemented in June 2023 prohibits investment in issuers that fall within the exclusionary screens defined for the LEAF strategy. For example, the exclusionary list screens out issuers that: • have exposure to the production of controversial weapons; • derive 5% or more of their revenues from fossil fuel mining exploration and/or refinement; • derive 5% or more of their revenues from the production or distribution of tar sands or oil sands
The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response.	Over the year, the Trustee engaged with investment managers in relation to climate risk in particular, considering each managers' climate risk policy in detail in quarterly MMIC and Investment Committee meetings. At its December 2023 DC Committee meeting, the Trustee and its DC investment advisors reviewed LGIM's stewardship, and challenged the DC Section's fund manager on its record keeping and on implementing safeguards to ensure its voting practice is aligned with its policies (including demonstrating that it undertook sufficiently detailed analysis of all potentially contentious resolutions and their intended impact). LGIM discussed their response at the 7 March 2024 DC Committee meeting, and dialogue is ongoing.

As part of the appointment of new investment managers and its ongoing monitoring process, the Trustee will consider the Investment Adviser's assessment (in terms of the Investment Adviser's own system of ESG ratings) of how each investment manager embeds ESG and stewardship factors into its investment process and how the manager's responsible investment philosophy aligns with Pace's Responsible Investment policy. This includes the investment managers' policy on voting and engagement. *In addition, the Trustee carries out regular reviews of the managers' ESG policies and actively engages with managers to better understand their processes*	As noted above, the ESG screens used by BlackRock, and the Investment Advisors proprietary ESG fund ratings, were considered as part of the selection and appointment of the BlackRock LEAF fund by the DB Section. The Trustee has directly or through the Co-op Pensions Department's Manager Monitoring and Implementation Committee met with each of the Scheme's ongoing managers throughout the year as part of a rolling program, and ESG factors and engagement with investee companies are discussed at each meeting to understand the managers' approaches to incorporating ESG considerations in the initial selection of investments (and any disinvestments or sales), and areas of engagement as well as developments over the year. In particular, LGIM report on their compliance with their engagement policies annually, via their Active Ownership Report. The 2023 report was published in April 2023 and considered by the DC Committee in the 1 June 2023 meeting. As well as receiving reporting at meetings on ESG considerations when making investment decisions or disinvesting, the Trustee and the DC Committee received reporting over the year from Pace's investment consultants on their researchers' assessment of the integration of ESG considerations into each manager's investment processes and their stewardship practices.
As a responsible investor, the Trustee exercises rights, including any voting rights attaching to Pace's investments, in the best interests of Pace's members. Specifically, the Trustee has instructed the investment managers to exercise voting rights accordingly, where applicable and wherever it is practicable to do so, and to report to the Trustee.	Since Q2 2020 the DC Committee has reviewed LGIM's quarterly ESG impact reports, which includes notes from their engagement with companies and summaries of how LGIM voted on key corporate matters, alongside a summary of their policy work in different regions. The Trustee is comfortable that LGIM's voting policies and voting behaviour aligns with the Scheme's stewardship priorities as set out above.

In each of these areas, the Trustee is comfortable that it has implemented the policies it intended to over the year.

Exercise of voting rights

Following changes to reduce risk in its investment strategy in late 2017, and the implementation of the buy-in policies in 2020 and 2023, the DB Section of Pace no longer invests in company shares (either directly or through pooled funds) and therefore do not hold investments with attaching voting rights.
Pace DC offers options for investment to members which do include exposure to shares (either through equity funds or the multi-asset fund). The Trustee does not directly exercise voting rights as these investments are through pooled funds with many other investors.

LGIM

Voting rights are exercised by LGIM using ISS's ProxyExchange electronic voting platform, although voting decisions are retained by LGIM and strategic decisions are made by LGIM's Investment Stewardship Team in accordance with their governance policies for each region.

HSBC

The legal right to the underlying votes lies with the directors of the HSBC Islamic Global Equity Fund, which is the underlying fund behind the Pace Growth (Shariah) Fund. They have delegated this execution of this voting to HSBC Global Asset Management (UK) Limited.

HSBC uses the ISS to assist with the global application of our voting guidelines. ISS reviews company meeting resolutions and provides recommendations highlighting resolutions which contravene our guidelines. HSBC review voting policy recommendations according to the scale of their overall holdings. The bulk of holdings are voted in line with the recommendation based on their guidelines.

The table below, sets out further details relating to the voting record for stocks held within each fund held within Pace DC which has exposure to equities for the year to 31 March 2024.

	Pace Growth (Shares) 2021 Fund	**Pace Growth (Mixed) Fund**	**Pace Growth (Ethical Shares) Fund**	**Pace Growth (Shariah) Fund***
Size of Bank Section's holdings as at 5 April 2024.	c£23.5m	c£67.7m	c£1.8	c£171k
Asset Manager	LGIM	LGIM	LGIM	HSBC
Number of equity holdings in the fund (at 31 March 2024)	2,229	6,855	1,065	108
Number of meetings at which asset manager was eligible to vote over the year	3,189	8,965	1,167	104
Number of resolutions asset manager was eligible to vote on over the year	36,189	91,840	16,564	1,702
% of resolutions asset manager was eligible to vote on where they exercised that vote	99.9%	99.8%	99.8%	96.0%
% of resolutions where asset manager voted for management / voted against management / abstained from voting*	Voted with 78.3% Voted against 21.4% Abstained 0.4%	Voted with 76.7% Voted against 23.1% Abstained 0.2%	Voted with 81.4% Voted against 18.5% Abstained 0.2%	Voted with 76.0% Voted against 23.0% Abstained 0.0%
% of meetings at which asset manager voted at least once against management	70.0%	73.6%	75.0%	82.0%
% of meetings at which asset manager voted against the recommendation of the proxy advisor	14.3%	14.4%	14.1%	0.9%

*May not sum due to rounding.

Significant Votes

LGIM

LGIM provide a quarterly ESG impact report, which summarises LGIM's votes together with details of 'significant votes'. These reports are reviewed at quarterly Investment Committee meetings, with any comments or questions fed back to LGIM via the Co-op Pensions Department.

In determining what votes are 'significant', LGIM consider the criteria provided by the Pensions & Lifetime Savings Association guidance, such as:

- A high-profile vote (which may be controversial and therefore subject to a degree of client and/or public scrutiny).
- Significant client interest in a vote: communicated directly by clients to the Investment Stewardship team at LGIM's annual stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote.
- A sanction vote as a result of a direct, or collaborative, engagement.
- A vote linked to an LGIM engagement campaign – in line with the LGIM Investment Stewardship team's five-year engagement policy.

The Trustee and the Co-op Pensions Department have reviewed LGIM's reporting and identified the votes on the following page as 'most significant' using these criteria and considering which votes were most aligned with the Trustee's stewardship priorities as set out above. Note that shares in individual companies will likely be held across multiple funds within the DC Sections.

HSBC

HSBC regard votes against management recommendation as the most significant. With regards to climate, in their engagement HSBC encourage companies to disclose their carbon emissions and climate-related risks in line with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). Where companies in energy intensive sectors have persistently failed to disclose their carbon emissions and climate risk governance, HSBC will generally vote against the re-election of the Chairman. HSBC also generally support shareholder resolutions calling for increased disclosure on climate-related issues.

Given the size of the holding in the Shariah fund, none of the underlying votes were considered significant in the context of Pace DC as a whole.

LGIM

Relevant Stewardship priority	Climate change and the protection of the environment	Climate change and the protection of the environment	Labour conditions and equal pay	Climate change and the protection of the environment	Corporate Governance	Corporate Governance
Asset manager	LGIM	LGIM	LGIM	LGIM	LGIM	LGIM
Company	Toyota Motor Corp.	Shell	Amazon.com, Inc.	McDonald’s Corp	Microsoft Corporation	Apple Inc
Date of the vote	14 June 2023	23 May 2023	24 May 2023	25 May 2023	7 December 2023	28 February 2024
Approximate size of the Co-op Section of Pace DC’s holding (based on holding at year end)	c£190k	c£270k	c£120k	c£60k	c£620k	c£490k
Summary of the resolution	Shareholder resolution to amend Articles to Report on Corporate Climate Lobbying Aligned with Paris Agreement	To approve the Shell Energy Transition Progress report	Shareholder resolution to report on Median and Adjusted Gender/Racial Pay Gaps	Shareholder resolution to adopt Policy to Phase Out Use of Medically-Important Antibiotics in Beef and Pork Supply Chain	Shareholder resolution to report on Risks Related to AI Generated Misinformation and Disinformation	Shareholder resolution to ask Apple to produce a transparency report on the company’s use of AI in its business operations and disclose any ethical guidelines that the company has adopted regarding the company’s use of AI technology
Why the Trustee considers this vote “significant”	Aligned with the Trustee's engagement priorities; identified as 2023 as one of Pace’s top 20 holdings most exposed to deforestation risk.	Aligned with the Trustee's engagement priorities	Aligned with the Trustee's engagement priorities	Aligned with the Trustee's engagement priorities	Aligned with the Trustee's engagement priorities; high profile as an emerging issue	Aligned with the Trustee's engagement priorities; high profile as an emerging issue
How the asset manager voted	In favour (against management)	Against (against management)	In favour (against management)	In favour (against management)	Against	In favour (against management)
Was the voting intention communicated to the company ahead of the vote?	Yes	No	Yes	Yes	No (Voted in line with management)	Yes

Rationale	LGIM views climate lobbying as a crucial part of enabling the transition to a net zero economy. A vote for this proposal is warranted as LGIM believes that companies should advocate for public policies that support global climate ambitions and not stall progress on a Paris-aligned regulatory environment. LGIM acknowledges the progress that Toyota has made in relation to its climate lobbying disclosure in recent years. However, LGIM believes that additional transparency is necessary with regards to the process used by the company to assess how its direct and indirect lobbying activity aligns with its own climate ambitions, and what actions are taken when misalignment is identified. Furthermore, LGIM expects Toyota to improve its governance structure to oversee this climate lobbying review. LGIM believes the company must also explain more clearly how its multi-pathway electrification strategy translates into meeting its decarbonisation targets, and how its	LGIM acknowledges the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, LGIM remains concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both of these are key areas to demonstrate alignment with the 1.5C trajectory.	A vote in favour was applied as LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap. This is an important disclosure so that investors can assess the progress of the company's diversity and inclusion initiatives. Board diversity is an engagement and voting issue, as LGIM believes cognitive diversity in business – the bringing together of people of different ages, experiences, genders, ethnicities, sexual orientations, and social and economic backgrounds – is a crucial step towards building a better company, economy and society.	The resolution asks McDonald's to adopt a company-wide policy to phase out the use of medically important antibiotics for disease prevention purposes in its beef and pork supply chains and to set targets with timelines, metrics for measuring implementation, and third-party verification. Antimicrobial resistance ('AMR') is a key area of focus within LGIM's approach to health, and LGIM considers AMR to be a systemic risk. In line with the shareholder resolution on AMR (resolution 6) that LGIM has co-filed and LGIM's conviction that AMR is a systemic risk, LGIM consider this a material issue and voted in favour.	Having engaged Microsoft directly to discuss its approach to the risks described in this resolution, LGIM considers at the present time that the company is a leader in the disclosures, governance processes and mitigation steps it is taking on risks posed by its operations from generative AI. LGIM therefore took the decision not to vote in favour of this shareholder resolution.	LGIM believes companies should be assessing and mitigating risks associated with AI and providing transparency to the market on their approach; this applies particularly to those companies that develop AI systems and will shape the way it is used in our economy and society. Apple has announced general plans to further develop its use of generative AI and other AI capabilities; however, the company discloses very little about its approach to managing AI-related risks, nor any principles or guidelines to inform how the company uses AI, putting the company behind its peers and increasing exposure potential regulatory and other risks. LGIM met with the company to discuss these topics, and it did not commit to increasing transparency and disclosures around AI at this time. Apple is among several companies that have outsized influence on the integration of AI into our economy. In line with LGIM's expectations, LGIM believes companies like Apple should be transparent in their uses

	climate lobbying practices are in keeping with this.					of AI and their risk management processes.
Outcome	Not passed – 15.1% of voters supported the resolution.	Pass – 80% of voters supported the resolution.	Not passed – 29% of voters supported the resolution.	Not passed – 16.3% of voters supported the resolution.	Not passed – 21.2% of voters supported the resolution.	Not passed – 37.5% of voters supported the resolution.
Does the asset manager intend to escalate the stewardship efforts?	LGIM will continue to engage with the company and monitor progress.	LGIM continues to undertake extensive engagement with Shell on its climate transition plans	LGIM will continue to engage with the company and monitor progress.	LGIM will continue to engage with the company and monitor progress.	LGIM will continue to engage with Microsoft on this issue as it evolves and as shareholder expectations evolve, too. AI will continue to be an important issue and Microsoft's position as a leader in its industry brings with it the responsibility to take appropriate actions regarding governance, risk and transparency on this issue.	LGIM will continue to engage with the company and monitor progress.

HSBC

Relevant Stewardship priority	Corporate Governance	Corporate Governance
Asset manager	HSBC	HSBC
Company	Novartis AG	Apple Inc
Date of the vote	3 May 2024	28 February 2024
Approximate size of the Co-op Section of Pace DC's holding (based on holding at year end)	c£1k	c£14k
Summary of the resolution	To re-elect Patrice Bula as Director	Report on Median Gender/Racial Pay Gap
Why the Trustee considers this vote "significant"	Aligned with the Trustee's engagement priorities	Aligned with the Trustee's engagement priorities
How the asset manager voted	Against (against management)	In favour (against management)
Was the voting intention communicated to the company ahead of the vote?	No	No
Rationale	HSBC voted against the Nomination Committee Chair as HSBC have concerns about insufficient gender diversity of the board.	HSBC believe that the proposal would contribute to improving gender inequality.
Outcome	Pass	Not passed
Does the asset manager intend to escalate the stewardship efforts?	HSBC will likely vote against a similar proposal should they see insufficient improvements.	HSBC will likely vote against the management for a similar proposal should they see insufficient improvements.