Simply Pensions

Winter 2021

Santander (UK) Group Pension Scheme (the Scheme) – Group Section

(formerly the Abbey National Group Pension Fund)

Santander

Contents

Message from the Chair

Welcome to your Winter 2021 edition of Simply Pensions. It is filled with the latest news and views across the Scheme as well as wider pensions related news.

At the start of 2021, the UK has continued to feel the impact of the coronavirus as we entered into another lockdown. I hope that you and your families have stayed well throughout this period and are now enjoying a bit more freedom. I would like to thank my fellow Trustee Directors and everyone in the administration team for their continued dedication to ensure the smooth running of the Scheme over this period. On page 10 you will find updated figures from the Scheme Report and Accounts.

In September we launched the new member site mysantanderpension.co.uk as part of the GMP equalisation consultation. The consultation is now closed but you can find more information about the changes, on the website www.mysantanderpension.co.uk/guaranteed-minimum-pension/. We are very excited to continue to develop the site as a place for you, the members, to find useful information about the Scheme as well as Scheme documents and news updates. You can read more about the new site and our plans for its continued expansion on page 7. For the latest news and changes that could affect you, take a look at the news round-up on page 8.

The new website supports our drive to be more environmentally friendly, providing you with more online content rather than posting printed communications. Where possible we would like to provide future newsletters electronically and I would encourage you to contact the Scheme's administrators to update your email address, so that we can let you know when a new edition of Simply Pensions is ready to view.

We have continued to hear information in the news about the global climate pledge and what we can all do to support the necessary changes. Sustainability is a key focus for the Pension Scheme and part of our duty to you, the Scheme members. In October 2021 I met with members from the Trustee Board and advisers to discuss what the Trustee Board are doing, the policies that are in place and the reasons why. You can read the article on page 4. You can find key Scheme documents with further information, including the Responsible Investment Policy in the 'About the Scheme' section of the website www.mysantanderpension.co.uk/about-the-scheme/

And finally, we want to continue to evolve and improve the way we communicate with you. If you have any questions or suggestions, please get in touch with the Scheme's Administrators, Mercer. You can find their contact details on page 16.

Paul Trickett
Chair of Santander (UK) Group Pension Scheme Trustees Limited

December 2021

Take a look
Scan the code above with your smartphone or tablet to visit the new website.

Sustainability – round table

You might have heard of the term 'ESG'. If you haven't, you will have heard about climate change, sustainability and good governance - and that's what ESG is all about.

A lot of work has already been done to try to resolve the Climate crisis, but the COP26 summit in November really put the focus on the actions needed. The summit saw a coming together of all countries to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change. The steps needed to prevent further changes to the climate affect all organisations and businesses and it will need to be a group effort to achieve the required outcome.

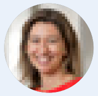
In order to give it the focus that it needs, the Pension Scheme has a separate subcommittee focused on Environmental, Social and Governance (ESG) matters. It is made up of members from the Trustee Board and wider pensions team. We caught up with them virtually to discuss what the Scheme is doing to be more socially responsible.

We were joined by:

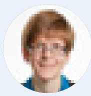
Paul Trickett - Chairman

Ghanbir Hans - Transformation and Risk Manager

Lee Sullivan - Head of Group Pensions



Amaya Mazaira - Company Appointed Trustee



Claire Jones - Partner and Head of Responsible Investment - LCP

Why is sustainability everywhere now?

Amaya - I think COVID has been the final wake up call for everyone to stop ignoring what's happening. People want to take and see action, and the younger generation are now starting to be more vocal.

Claire - It feels to me that we've reached a tipping point in the last year or so, the pandemic is a major cause of that because it's exposed underlying problems. It's certainly brought to the fore some of the issues around inequality in health care, living standards and working conditions, but also helped us develop a greater understanding of issues around the nature crisis.

Lee - A lot of the activity that we now see is also being driven by regulatory requirements. The government has set out a series of requirements that we need to focus on.

Why does climate change/sustainability/ESG matter to a pension scheme?

Paul - It matters because being concerned about these things should help us to fulfil our principal role which is to pay the pensions to our members. And I think many of us on the Trustee Board believe that the best way to do this in the long term is to take heed of the fact that there is a transition away from carbon-based economy and markets will be forced to be accountable for that.

Amaya - We need to have a portfolio with assets that are stable, that are resilient, for the next number of years to produce the results that we need to pay pensions. We need to find companies that will help the assets stay safe. And that's why climate and ESG falls very much into the risk management of the pension fund.

Lee - A lot of this comes down to that word sustainability - which means meeting your own needs today but ensuring that other people and future generations can meet their needs too. We need to make sure we are handing over a sustainable scheme to the next set of trustees.

What are the trustees Investment beliefs relating to all things, sustainability related.

Ghanbir - In recent years we have gone into more detail by documenting our beliefs around sustainability, climate change, ESG factors. We need to ensure we are considering risks in their entirety, including climate related and sustainability risks. We need to do as much as we can early on, to ensure that throughout this journey we're well placed to keep on top of updates in regulation, changes in societal attitudes and to make the most of opportunities when they arise.

Amaya - It's been quite a satisfying process to see all the trustees become more and more aware, engaged and knowledgeable as we developed the wider sustainability beliefs especially on climate risk. We're all very much behind the beliefs on how to manage the effect of climate risk on the fund.

What actions is the Scheme taking on climate change?

Ghanbir - Given our position as a large holder of assets and amongst the largest pension schemes in the country, we have signed up to industry groups, which will help us to put pressure on the government and industry to do the right thing. These Industry groups include the Principles for Responsible Investment (PRI) and the Institutional Investors Group on Climate Change (IIGCC). We're in very good company and by joining up it gives us a collective voice.

In addition to that we've made huge improvements to the due diligence from an investment related perspective but also how we look at the companies we engage with. We've been working harder to communicate our beliefs so that our investment managers understand our priorities

We've undertaken a series of very in-depth training sessions for the trustees and members of the pension team to ensure that there is a good level of understanding on what impacts the Scheme, our members and what we can actually do. I think education is key around all of this.

Paul - Collaboration is also critical. Finding the right people to collaborate with is not always easy but we have tried to limit ourselves to selected organisations and take a measured approach to what is best for the Scheme. We want to make meaningful commitments that drive our behaviours going forward.

What are the regulatory requirements that the Scheme has to make?

Claire - The new climate rules are about having good governance processes in place to make sure that the trustees are addressing climate related risks and opportunities appropriately. This includes:

- Being clear on who is responsible for what in relation to climate change.
- Identifying, assessing and managing the climate-related risks and opportunities.
- Taking account of climate change when the trustees make strategic decisions about the Scheme's funding and investments.
- Collecting data on the Scheme's investments so that the trustees can understand the climate exposures that the assets have now and over time.
- Setting a target to improve climate risk exposure.
- Reporting annually what the trustees are doing. This report will be published and linked from members' benefit statements so members will be seeing this reporting in the future.

All these processes are now in place and the trustees will be producing the first report next year. This report will be available to you on our website mysantanderpension.co.uk

Lee - It's fair to say that the regulatory requirement is about looking at what the Scheme is doing and reporting it, it's not about the government imposing investment decisions on schemes. By forcing us to look at what we do and reporting it, it presents an opportunity to compare and contrast to see what other schemes are doing. We want to be doing as well as, if not better, than our peers and this reporting requirement allows us to measure this.

Is sustainability here to stay?

Paul - Yes. Climate change is real, it's not going away. The other issues that concern me personally are areas such as human rights, people trafficking and biodiversity. These issues are going to increase in prominence alongside climate change.

> *Thankfully we have a generation of people who are coming through into positions of influence in the world, who really care and are going to be the policy makers of the future.*

Amaya - We have a lot of work to do now, but I believe that over time this will just become part of our day-to-day processes and the fundamental assessment of any investment assets.

Can you give specific examples of engagement in stewardship?

Ghanbir - We genuinely believe that through positive engagement we make a difference. Using modern slavery and human trafficking risks as an example, we are pleased to say that for our portfolio, we have assessed the risks fully and our investment managers have been very happy to come on the journey with us. For example, we have reached out to some of the fund managers who aren't signatories on the PRI and explained our beliefs and how important it is to us as a Scheme. This engagement has acted as an incentive to a number of our managers to become signatories of the PRI.

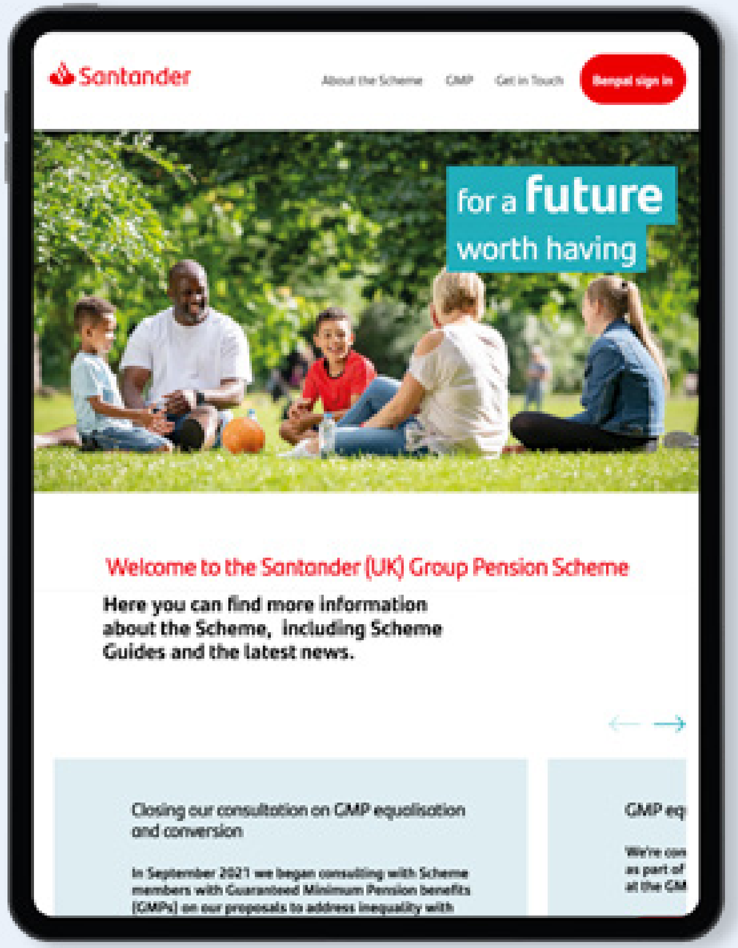
How does the Scheme influence or try to manage the non-compliance of investment managers?

Ghanbir - The key tool for influencing is engagement. Where we don't get a positive response or at least a genuine consideration, we may choose not to renew their contracts beyond the current arrangements. If we're not aligned in what we think, then it's not an effective partnership. The vast majority of the fund managers we've engaged with have been very receptive and supportive of our beliefs.

Amaya - We've built mandates that are quite specific on sustainability and what we expect fund managers to invest and not invest in.

Claire - We also have to be aware of the issue of 'greenwashing' because on the one hand it's positive that all the asset managers now say that they take sustainability seriously, but it does increase the responsibility on the trustee to dig deeper and not to just take the claims at face value.

The Trustees are really passionate about the changes they've made to date and the impact their engagement with the industry will bring about change. You can find more information about what the Scheme is doing in terms of sustainability on the website, mysantanderpension.co.uk.



My Santander Pension

In September this year, we were excited to launch the new member site mysantanderpension.co.uk. This is part of our continued drive to help support choices and explain important aspects of your pension.

On the website you'll find information about the Scheme, useful contacts and organisations, as well as Q&As and a video on the topic of Guaranteed Minimum Pension (GMP), (there's even a handy link to the Benpal site).

And this is just the beginning

We want this website to be a pensions hub with information about the Scheme and wider financial wellbeing (even this year's Simply Pensions has moved onto the site). Keep an eye out over the coming months for more content, tips and tools to help support you throughout your working life and beyond.

And remember

This is your website so please let us know what information you want to see and areas that need more support. You can find contact details on page 16.

News round-up...

Longevity Swap

In March 2021 the Trustee completed a longevity swap with Zurich Assurance Limited (Zurich) and Prudential Company of America (PICA).

A longevity swap is a type of investment that transfers the risk of pension scheme members living longer than expected from the pension scheme to an insurer or bank provider. If pensions are paid out for longer than expected then the swap would provide income from Zurich and PICA to the Scheme. This helps to reduce risks and makes the Scheme more secure for you, the members.

You won't see any changes to your benefits, which will continue to be paid directly by the Scheme.

Pensions Scheme Act 2021 and the new code of practice

The Pensions Regulator (TPR) is the body that regulates work-based pension schemes to protect the benefits of pension scheme members. Following a consultation process, TPR announced new regulatory powers and penalties under the Pension Schemes Act 2021. This took effect from 1 October 2021 and includes a new policy for TPR to use criminal powers to prosecute those who put savers' pensions at risk.

Earlier this year, TPR also ran a six-week consultation on changes to its Code of Practice 12. This looked at when and how the regulator should act if an employer's actions were found to have a materially negative effect on the scheme's ability to provide benefits. There are now further tests in place in order to monitor these types of circumstances. The Code of Practice 12 explains the role of these tests and how they are implemented.

Environmental, social and governance ('ESG') has been growing in importance in the pensions industry with various compliance requirements having been introduced in recent years. The next stage of this development for pension schemes under the new Act is to bring in specific climate change risk management and reporting requirements. The trustees will need to put in place effective governance, strategy, risk management and accompanying metrics in relation to climate risks and opportunities. You can see the trustees climate change policy on the website.

You can find more information about these changes and the role of TPR on the TPR website under the document library/codes of practice: www.thepensionsregulator.gov.uk

A reminder about changes to RPI

In the last edition of Simply Pensions we highlighted the changes being made to the way pensions are increased, which was announced by the government last year. Currently, once you stop building up additional pension in the Scheme, it generally increases up to and after retirement in line with inflation (i.e. how much the cost of goods and services increase by in a year). In the UK there are different measures of inflation, and the one that the Rules of the Scheme need to be used for many of the pension increases is the Retail Prices Index (RPI).

The Government and UK Statistics Authority (UKSA) announced that, with effect from February 2030 onwards, increases in the RPI will be aligned with another measure of inflation, the Consumer Prices Index - including owner occupiers' housing costs (CPIH). Broadly this is expected to result in RPI inflation being 1% lower each year from around 2030 onwards. This means that certain pension increases in the Scheme will be lower from 2030 onwards and therefore pensions will not grow as quickly as they did before. However, the affected pension increases are still based on a measure of inflation and therefore are designed to ensure your pension can keep pace with the cost of living.

Whilst pensions are expected to be lower (and therefore liabilities), the assets we hold in the Scheme to fund these pensions are also expected to be lower in value, as many of them were linked to RPI inflation. As both assets and liabilities are expected to reduce in value there has been little impact on the Scheme's funding as a result of this change.

Minimum pension age change reminder

Last year the government confirmed that the earliest age for taking a personal pension will be rising from 55 to 57 in 2028.

This will affect you if you were born in 1973 or later and are planning to start taking benefits from age 55. For more information, please get in touch with the Scheme's Administrators, Mercer. Their contact details can be found on page 16.

Pension Scams

Anyone could be a victim of a pension scam. If you've been contacted by someone offering to help you to take your pension benefits before you reach age 55, or promising guaranteed high investment returns if you transfer your Scheme benefits, you may have been contacted by a scammer. A recent surge in pension scams has seen victims lose an average of £91,000.

If you've been tempted by an offer to transfer your benefits, it's crucial that you check it's legitimate. Once you've handed over your savings, it's too late to act. If you think you may have been scammed check the FCA warning list available at fca.org.uk/scamsmart and report your suspected scammer using the reporting form. If you've applied to transfer your benefits out of the Scheme, but are having doubts or are concerned that it could be a scam, please contact Mercer immediately to see if they're able to stop the transfer before it takes place.

Don't let it happen to you - It's your money - never feel rushed or pressured to transfer your pension. Take the time to find out who you're dealing with and seek impartial advice.

Here are five tell-tale signs of a pension scam:

1. You've been contacted out of the blue, received a cold-call or other unsolicited message about taking your pension benefits
2. You've been told you must act fast as the offer is only available for a short period of time
3. You've been promised returns that seem too good to be true
4. You've been approached by someone claiming to be from Pension Wise, The Money Advice Service or another legitimate sounding organisation
5. The contact details for the organisation they claim to be from are mobile numbers or a PO Box address

For more information, visit the FCA website FCA.org.uk/Scamsmart

Facts and figures

The trustees and company have been continuing to work hard to make sure your benefits are as secure as possible. A key focus for the Scheme is to reach self-sufficiency by 2026.

The trustees produce a formal set of accounts each year, showing the financial transactions for each Section. This year's set is now available, following its audit by KPMG. Here's a summary of the financial highlights.

If you want to see a copy of the full Report and Accounts for 2021, please ask the Scheme's Administrators (see the contact details on Page 16).

Group Section

	£'000s
Group Section value at 1 April 2020	**2,132,204**
Money In	
Member contributions	11
Employer contributions	80,768
Transfers in	17
Other income	207
Total income	**81,003**
Money Out	
Pensions	20,873
Lump sums on retirement	5,538
Lump sum death benefits	276
Refunds of contributions on death	176
Individual transfers out	18,045
Tax where allowances exceeded	113
Other payments	442
Total Expenditure	**45,463**
Income less expenditure	(35,540)
Increase in market value of investments	18,911
Group Section assets at 31 March 2021	**2,186,655**

The table below shows how the value of the Section has changed over the past five years.

2021	£2,187m	+	**2.5%**
2020	£2,132m	+	**9%**
2019	£1,955m	+	**5.1%**
2018	£1,859m	+	**3.2%**
2017	£1,800m	+	**20.9%**

Quick head count – Who's in the Section?

Active 2021	Deferred 2021	Pensioners 2021	2021 Total
1,153	**10,827**	**3,452**	**15,432**

Active 2020	Deferred 2020	Pensioners 2020	2020 Total
1,241	**11,037**	**3,270**	**15,548**

Where's your money invested?

The trustees invest the Scheme's assets in the Common Investment Fund and delegate day-to-day investment decisions to the trustees of the Common Investment Fund. The asset allocation for the Scheme as a whole at 31 March 2021 was:

Cash	**1.2%**
Credit	**5.1%**
Infrastructure	**3.2%**
LDI	**48.7%**
Listed Equity	**10.6%**
Private Equity	**9.4%**
Real estate	**12.1%**
CDI	**7.2%**
Multi Asset	**2.5%**

As at 31 March 2021 the value of these investments were £12.5 billion.

Update on the Common Investment Fund

The pandemic continued to impact businesses at the end of the last financial year. Over the year to the end of March 2021 the fund continued to generate positive absolute returns and over 1yr the performance was 3.4% compared with the Strategic Benchmark return of 6.5%. The longer term performance remains ahead of the Benchmark and over the 3 years to 31 March 2021, the fund returned 5.4% annualised compared with the Benchmark return of 4.9%. Over the longer term* the fund has returned 8.1% annualised compared with the Benchmark return of 6.5%. During the year there was a reduction in volatility brought on by the monetary measures that were put in place to protect against the impact of Covid-19. Towards the end of the period we started to see concerns over higher inflation. It remains to be seen whether these are temporary or more long term.

Let's look in more detail at the performance of the Fund over the year:

- Inflation expectations started to increase following the distribution of the Covid-19 vaccines towards the end of 2020. This resulted in bond yields rising.
- Spreads on corporate bonds finished the period lower than before the pandemic. This was due to strong support by Central Banks.
- The improved outlook saw a better rate of return on procyclical assets during the second half of the year.

Looking ahead, the outlook on financial markets relies heavily on the global vaccination programme, which is gradually allowing economies to reopen. If inflation proves to be persistent there is the possibility of a negative return in bonds and equities.

The Fund has a number of strategies in place to help lessen the impact of the more uncertain environment. These help to add another layer of protection to the overall fund performance.

**Since December 2012*

How did the investments perform?

You can see below the return for the investments in the Common Investment Fund over the 12-month period, 3 year period and since commencement to 31 March 2021.

	Fund	Strategic Benchmark	Difference
12 month period to 31 March 2021	3.4%	6.5%**	3.1%

	Fund	Benchmark	Difference
3 year period to 31 March 2021	5.4%	4.9%	0.5%
Since commencement (December 2012)	8.1%	6.5%	1.6%

***The strategic benchmark asset allocation weights were updated at the end of Q3 2020 to reflect progressive asset de-risking and journey plan progress. As a result, 1yr performance against the strategic benchmark is not representative of fund's actual performance. 1yr performance was ahead of the portfolio weighted benchmark.*

The Summary
Funding Statement

The Summary Funding Statement
(Group Section)

When reading this Statement, please bear in mind that all references to 'the Section' refer to the Group Section of the Santander (UK) Group Pension Scheme.

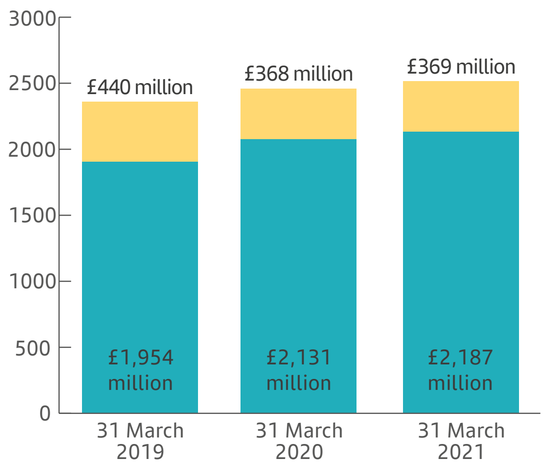
Working out the funding position

Our Scheme has seven separate Sections. Although they hold their investments together in the Common Investment Fund, each Section is treated separately when it comes to funding. The Trustee Board must commission a full valuation of each Section, an 'Actuarial Valuation', every three years. In between, they receive annual actuarial reports for each Section. The Actuarial Valuation helps the Trustee Board to plan for the future, while the annual reports allow them to see whether or not its plans are on track.

The latest formal valuation

At the time of the last Simply Pensions, the 2020 actuarial report results were communicated. At 31 March 2020 the Section was 85% funded, with a shortfall of £368 million. Here, in this Summary Funding Statement, we report on the Section results from the 2021 actuarial report. As at 31 March 2021 the section was 86% funded, with a shortfall of £369 million.

The graph below shows the funding position on an 'ongoing basis' assuming the Section continues in its current form:

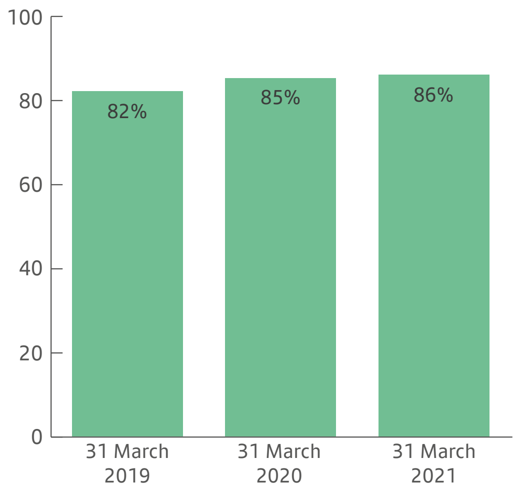


The total liabilities for each year are the assets plus the shortfall.

This means that the Section's assets covered **86%** of its liabilities in 2021.

Change in funding position since the previous statement

At 31 March 2021 the funding position was **86%**, an improvement by **1%** since 31 March 2020 (the date of the actuarial report communicated in the last edition of Simply Pensions). The main reason for the improvement in funding position was that deficit contributions were paid.



If the Section had to wind up

Although there are no plans to wind up the Section, we're required by law to also tell you what the position would be if the Section had been wound up at the date of the formal Actuarial Valuation. That is to say, what would happen if the Company no longer was able to fund the Section. This is known as the 'Solvency Position', and is based on the Scheme Actuary's estimate of how much would be needed to 'buy out' the Section's benefits with an insurance company. The Actuary estimated that the Section's full solvency position as at 31 March 2019 was **2%** (**44%** as at 31 March 2016). This means that, in addition to the existing Section assets, the estimated amount of **£1,789 million** is needed to make sure that all the members' earned benefits (as at 31 March 2019) could be bought in full from an insurance company.

The full solvency position will usually have a larger shortfall than that worked out on the ongoing basis, as it expected to cost more to buy out the benefits immediately than to spread the cost over the future life of the Section. Also, insurance companies are obliged to take a very cautious view of the future and need to make allowance for costs and profit.

Making up the shortfall

At each formal Actuarial Valuation, the Scheme Actuary works out the amount of contributions needed not only to pay for the benefits that active members will build up in the future, but also to reduce the shortfall over time. The details are agreed between the Trustees and Company, and then set out in the 'Schedule of Contributions' and the 'Recovery Plan'. To fund the benefits earnt by active members over a year, the Company contributes at the rate of **38.5%** of the members' capped pensionable salaries, while the members themselves pay **4%** of their capped pensionable salary. The Company has agreed that, to reduce the shortfall over time, it will pay contributions of:

- **£8.49 million** per month from 1 September 2019 to 31 March 2020
- **£62.07 million** per annum from 1 April 2020 to 31 March 2026 increasing by 5% each year

The Trustees and the Company have also agreed that extra Company contributions may be required under certain circumstances. These contributions will be up to a maximum of **£167 million** in respect of the whole Scheme over the period 1 July 2020 to 31 July 2026 should the funding shortfall not reduce as expected. Finally, we are required, by law, to tell you:

- of any payments made by the Section to the Company since the last Summary Funding Statement
- whether or not The Pensions Regulator has modified the Section, issued directions to the Trustee Board or imposed a Schedule of Contributions.

We can confirm that no such payments have been made, and that The Pensions Regulator has not needed to take action.

You can find all the documents mentioned in this statement on Benpal. If you can't find what you are looking for, get in touch with the Scheme's Administrators (see page 16).

Nomination of Beneficiary Forms

The Scheme provides valuable benefits after you die, including a cash lump sum and a pension payable for life for a qualifying dependent. It's really important that you let us know who you'd like to receive any lump sum death benefits when you die. It's the Trustee Board's decision who will receive your benefits but by letting us know your wishes we can make sure that payments are made to your loved ones as quickly as possible.

If you haven't already told us, or you'd like to change your nominee, you can update your Nomination of Beneficiary Form online using Benpal:
https://login.benpal.com/

If you have any difficulties logging in to Benpal, please contact the Scheme's Administrators Mercer (contact details on the right).

Keeping in touch and useful contacts

The Scheme's Administrators

If you have any questions about your benefits or if you want to tell us about a change to your personal details, you can do this online using Benpal: **https://login.benpal.com/**

If you can't find the information you need on Benpal, please contact the Scheme's Administrators Mercer:

Email: SPU@Mercer.com

Phone: 01689 887500

If you would rather write to Mercer or need to send them any paperwork, please write to:
Mercer
Post Handling Centre
St James's Tower
7 Charlotte Street
Manchester M1 4DZ

If you're being paid a pension from the Scheme and have a query about your payments, you should be able to find the information you need on Benpal. If you can't, please contact the Pensioner Payroll team at Mercer.

Please always remember to put your full name and National Insurance number on any correspondence.

We want to hear from you!

We'd love to hear your thoughts on Simply Pensions as well as comments and suggestions for the new website. What content would you like to see? What information would help you with your financial planning?

We've introduced a short survey on the website so now, you can have your say.

Take a look

Simply scan the code below with your smartphone or tablet and it will take you straight to the website Home page. The survey will automatically pop up.

To scan the QR code:

- open the camera on your smartphone or tablet
- point the camera at the QR code - then click on the open website instruction

Look at the new content, leave feedback, it's all there on the site.