The Co-operative Pension Scheme ("Pace")

The Chair of the Trustee's Annual Governance Statement
Year ending 5 April 2025

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 2025 in relation to:

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

On 22 March 2025, all Bank section members of Pace DC transferred to the Legal and General Worksave Master Trust (the Co-operative Bank Pension Savings Plan), following a consultation with active members. The exception was Bank DB AVCs, which remain in Pace DC under a new policy number. The Bank section of Pace DC closed to new contributions on 28 February 2025. For more information, please see here.

However, given Bank members were still invested in the Scheme during the Scheme year, we have shown their investments in this Statement.

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2 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 opt in to join Pace DC without choosing their own investment options, the Trustee ("we") invests contributions in a default investment know as '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) 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.

No changes were made to the Co-op Section SIP during the scheme year; however the SIP was subsequently updated in June 2025 (i.e. after the scheme year end) and minor updates were made in order to elaborate on the process for choosing investments within the DC section.

Minor changes to the Bank Section SIP were made in July 2024 to better reflect the Bank Section's approach to illiquid assets in order 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

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cannot easily or quickly be sold or exchanged for cash and include any such assets held in a collective investment scheme). A further review and update took place following the scheme year end, in June 2025, to capture the transfer of DC section assets to the Legal and General Worksave Master Trust.

The most recent SIPs can be found by visiting:

Co-op: https://coop.pacepensions.co.uk/useful-information/pace-investments/
Bank: https://bank.pacepensions.co.uk/im-in-pace-complete/pace-complete-investments/

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 Trustee initiated its latest triennial strategic review in June 2025 and received advice from LCP (the "investment adviser" or the "DC adviser") on 4 June 2025. As part of the review, 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 10 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 (e.g. annuity purchase or transfer to an income drawdown arrangement). 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.

The Trustee also concluded that the default and alternate lifestyle options continue to be appropriate and that the freestyle range is comprehensive and covers all key asset classes.

Given the aforementioned transfer of all Bank section members of Pace DC to the Legal and General Worksave Master Trust (the Co-operative Bank Pension Savings Plan), the triennial strategic review focussed exclusively on Co-op Section members.

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 as part of the triennial strategic review on 4 June 2025.

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.

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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. The latest triannual strategy review also included a review of the responsible investment credentials of the default lifestyle. It was concluded that the default continues to integrate ESG in a reasonable manner.

3 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 (ESOG), including internal controls, to confirm that they are compliant with the Pensions Regulator's new General Code of Practice (published in January 2024). The 2025 review of the ESOG is currently underway.

We also ensure that our AVC providers (see section 8) 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.

4 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.

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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/useful-information/library/

All transaction costs and illustrations quoted have been supplied by the provider of that pension arrangement. Please note that the net investment return assumptions are aligned with regulations (AS TM1).

5 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/useful-information/library/

The net investment returns for L&G and the AVC providers are shown over the period to 31 March 2025, as the closest date available to 5 April 2025, dating back 5 years where available.

6 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

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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	0.5%	0.5%	1.8%	75.4%
Bonds	13.5%	13.5%	45.1%	11.3%
Corporate Bonds	*5.7%*	*5.7%*	*19.1%*	*4.8%*
Government Bonds	*3.8%*	*3.8%*	*12.6%*	*3.2%*
Other Bonds	*4.0%*	*4.0%*	*13.4%*	*3.3%*
Listed equities	82.0%	82.0%	39.8%	10.0%
Private equity*	0.5%	0.5%	1.8%	0.5%
Infrastructure*	1.6%	1.6%	5.3%	1.3%
Property*	1.9%	1.9%	6.2%	1.5%
Private debt	0.0%	0.0%	0.0%	0.0%
Other	0.0%	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

*via listed assets

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	0.9%	1.4%	1.8%	75.4%
Bonds	22.6%	33.8%	45.1%	11.3%
Corporate Bonds	*9.6%*	*14.3%*	*19.1%*	*4.8%*
Government Bonds	*6.3%*	*9.5%*	*12.6%*	*3.2%*
Other Bonds	*6.7%*	*10.1%*	*13.4%*	*3.3%*
Listed equities	69.9%	54.9%	39.8%	10.0%
Private equity*	0.9%	1.4%	1.8%	0.5%
Infrastructure*	2.7%	4.0%	5.3%	1.3%
Property*	3.1%	4.7%	6.2%	1.5%
Private debt	0.0%	0.0%	0.0%	0.0%
Other	0.0%	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

*via listed assets

7 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.

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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 2025. 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 2025, 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 more balanced 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.

8 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 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%.

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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.

9 Trustee knowledge and understanding (TKU)

From 15 June 2024, Independent Trustee Services Limited (ITS, part of Independent Governance Group) remained appointed to the trustee board 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.

The Pace Trustee has an Effective System of Governance (ESOG) in place which is reviewed on a regular basis. The first Own Risk Assessment (ORA) for Pace will need to be completed by 5 April 2026 (i.e. within 12 months of the end of the first scheme year that begins after the General Code came into force on 27 March 2024). It is also anticipated that a review of the effectiveness of the Pace Trustee will be included in the process of carrying out the ORA. This will be a review by the Pace Trustee in conjunction with the Trustee Services Team.

As Trustee, 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.

- We identify, assess and manage risks and opportunities associated with climate change to comply with TCFD reporting requirements. The DC Committee also regularly reviews the climate specific DC risk on the risk register

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.

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Signed by the Chair on behalf of the Pace Trustee:

Signed **Dated**

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