The First UK Bus Pension Scheme – DB Section Annual Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles ('SIP') for the DB Section, produced by the FirstGroup Pension Scheme Trustee Limited (the 'Trustee'), has been followed during the year to 5 April 2023. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Scheme are included in the SIP for the DB Section of the Scheme.

Review of the SIP

The following changes were made to the SIP over the year to 5 April 2023:

- A change in strategic asset allocation. The new allocations are split between growth assets (approximately 10% within private equity and real assets), cashflow generating assets (approximately 60% in bonds, asset backed securities, secured finance, private debt and buy and maintain investment grade credit) and cash and liability matching instruments (approximately 30%).
- All references to the additional voluntary contributions (AVCs) were removed following the transfer of these into the defined contribution section.

After Scheme year end the Trustee made further changes to the SIP, revising the asset allocation following the gilt market crisis and recognizing the Department of Work and Pensions ('DWP') published guidance in June 2022 around reporting on stewardship.

Assessment of how the policies in the SIP for the DB Section have been followed for the year to 5 April 2023

The information provided in this section highlights the work undertaken by the Trustee during the year, and longer term where relevant. In summary, it is the Trustee's view that the policies in the SIP for the DB Section have been followed during the Scheme year.

Signed

Position

Date

Strategic Asset Allocation

Policy	Location in SIP	How the policy has been met over the Scheme year
Kinds of investments to be held	Section 5.4	A high-level asset allocation, being the split between growth assets (approximately 10% within private equity and real assets), cashflow generating assets (approximately 60% in bonds, asset backed securities, secured finance, private debt and buy and maintain investment grade credit) and cash and liability matching instruments (approximately 30%) has been set by the Trustee for the Scheme, having consulted the Company. The Trustee reviews the growth / matching split periodically and following the completion of each actuarial valuation in setting an appropriate level of risk and return within the portfolio. The assets held mean that the Trustee has acted in line with the policy in this area. Following the gilt crisis, cash collateral requirements for leveraged LDI assets increased substantially amid greater scrutiny from regulators. Therefore, at year end the Scheme's asset allocation deviated from the previously set target. The Trustee recognises that due to the illiquid nature of the Scheme's private assets and the increased collateral requirements the asset allocation will remain different from the target allocation. After Scheme year end the Trustee revised the asset allocation in the SIP to reflect this.
The balance between different kinds of investments	Sections 5.3 & 5.4	The Trustee receives quarterly investment performance reports, which monitor the risk and return of investments within the Scheme. This, along with any review work on the Scheme's investment strategy, enables the Trustee to evaluate the balance between different kinds of investments.
Risks, including the ways in which risks are to be measured and managed	Section 5.3	As detailed in the SIP for the DB Section, the Trustee regards 'risk' as the likelihood of failing to achieve the objectives set out in section 5.1 of the SIP for the DB Section and have, on the advice of the DB Investment Adviser, taken several measures which are set out in the SIP for the DB Section to measure and manage investment risks. The SIP for the DB Section was updated in 2020 to include more detail on monitoring and managing investment risks. The Trustee also maintains a risk register. This includes details on how investment and operational risks, amongst other risks, are measured and managed. The Trustee's willingness to take on investment risk is dependent on the continuing financial strength of the Company. The strength of the Company and its perceived commitment to the Scheme is monitored by the Trustee periodically and the Trustee will seek to reduce investment risk if either of these deteriorates.

		The degree of investment risk taken will also depend on the Scheme's funding status and liability profile. To enable the Trustee to monitor and review both of these features, the Trustee has access to a daily funding level estimation tool and receives formal funding updates on a quarterly basis (both via the Scheme Actuary). The primary way in which the Trustee monitors the level of investment risk present at the total Scheme level is through 3-year 95% Value at Risk ('VaR') on a Technical Provisions basis as calculated by the DB Investment Adviser at each quarter end. This VaR metric measures the amount by which the deficit could be greater than anticipated in a given number of scenarios (i.e. 95% VaR measures the worst 5th percentile of scenarios) over a given timeframe (i.e. the Trustee monitors VaR over a 3-year period). Over the period, the Trustee has made the following investment strategy changes with the objective of decreasing the risks relating to growth assets: • In Q2 2022, the first two BlackRock DPD drawdowns took place in April and May. The Oldfield Fund was redeemed to balance the risk and return attributes of the portfolio. The BlueBay holding was redeemed, with the proceeds directed to the TwentyFour Sustainable Enhanced Income Fund (SEIF). • In Q3 2022, the Baillie Gifford holding was fully redeemed in three tranches, the Scheme redeemed 99% of the holding in the LGIM ARB Fund, the daily ABS (TwentyFour MBF) was fully redeemed and a portion of the B&M (c£111m) with LGIM was sold. All proceeds were directed to the LGIM QIAIF. • In Q4 2022, the TwentyFour SEIF (Enhanced Income ABS) was fully redeemed with proceeds directed to the LGIM ARB Fund. Further, the Nephila insurance linked Fund was instructed to be redeemed with the first portion of the liquidation settling in Q1 2023 with proceeds used to meet the third BlackRock drawdown request. • At the end of Q1 2023, the Insight Secured Finance Fund was redeemed. Following Scheme year-end proceeds were directed to the LGIM ARB Fund.
Expected return on investments	Section 5.1	In setting the investment strategy, the Trustee makes assumptions about how the risk and return characteristics of the chosen asset classes interact, both independently and relative to one another. The Trustee regards the appropriate investment strategy as one which seeks to deliver the level of expected return above gilts to meet the funding objective in the most efficient (i.e. least risk) manner. The risk of managers underperforming versus their stated investment objectives (and hence the Trustee's expectations) is managed at the total Scheme level by diversifying the portfolio across a number of different investment managers. Underperforming managers are questioned by the Trustee on the reasons for their underperformance when they are invited to Investment Committee meetings. Over the period, the Investment Committee met with the following managers: LGIM, Blackrock, and AXA. Whilst the Trustee is a long-term investor, they also monitor short term performance and may act if they lose conviction in a manager to deliver on their stated objectives on a forward-looking basis.

Investment Mandates

Policy	Location in SIP	How the policy has been met over the Scheme year
Securing compliance with the legal requirements about choosing investments	Sections 1.1 & 1.2 Section 3.2	Advice was received from the DB Investment Adviser in relation to the following strategic changes: In Q1, the Trustee received s36 advice from its DB Investment Adviser in respect of the to the suitability of the Scheme's investments following portfolio changes due to the gilt market volatility.
Realisation of investments	Section 6.8	The Trustee instructed all investment managers with the capability to distribute income regularly to pay this income to the Trustee's cash holdings. This will, in part, meet member benefit payments and other expenses as they fall due. The source of any additional cash required will be determined at the time in consultation with the Investment Consultant. The Trustee also measures the level of liquidity in the Scheme's portfolio when appropriate, acknowledging that some of the Scheme's portfolio is invested in illiquid asset classes (such as private equity, real estate and infrastructure debt, property, secured finance, diversified private debt, and timberland). The Trustee also measures the level of liquidity within the LDI portfolio on a quarterly basis, and more frequently during periods of market stress, to ensure sufficient collateral is available to support the leveraged positions held. The Trustee takes advice from the DB Investment Adviser as and when necessary, in relation to the level of liquidity within the DB Section asset portfolio and the LDI portfolio in particular.

Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments	Section 4.5	The Trustee considers financially material considerations in the selection, retention, and realisation of investments. Consideration of such factors, including environmental, social and governance factors and climate change, is delegated to the investment managers and the Trustee acknowledges responsibility for the voting and engagement policies that are implemented on their behalf. The Trustee also maintains an ESG policy document, separate to the SIP. At Scheme year end, the Trustee had not set any investment restrictions on the appointed investment managers in relation to particular products or activities. The Trustee is also increasingly aware of how ESG issues (including climate change) are integrated within the investment processes adopted by its investment managers and any potential new investment managers. The Trustee monitors the DB Investment Adviser's ESG ratings for the DB Section's managers and has its own criteria for evaluating the integration of ESG issues by its managers. Investment manager ESG integration is considered by the Trustee on a forward-looking basis when appointing new managers and the Trustee is looking to improve the overall level of ESG integration across the Scheme's assets. The Trustee has, in previous years, undertaken ESG training from its DB Investment Adviser, considered investing in sustainable equity funds and considered becoming a signatory to the UN Principles for Responsible Investment.
The extent (if at all) to which non- financial matters are taken into account in the selection, retention and realisation of investments	Section 4.5	Non-financial matters, including members' ethical views, are not currently considered by the Trustee in the selection, retention and realisation of investments. However, the Trustee has considered communicating progress on the integration of ESG within investment processes to members through the Scheme's website and newsletters. The Trustee may also consider obtaining feedback from members in the future regarding the integration of ESG and climate change considerations. Over the year member views on non-financial matters, including their ethical views, were not explicitly considered in the selection, retention and realisation of investments.

Monitoring the Investment Managers

Policy	Location in SIP	How the policy has been met over the Scheme year
Incentivising investment managers to align their investment strategies and decisions with the Trustee's policies, to make decisions based on assessments about medium to long-term financial and non- financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.	Section 6.2	The Trustee discussed its continued appointment of the investment managers and are happy that the contractual arrangements in place continue to incentivise the managers to make decisions based on medium to long term financial and non-financial performance. As the Trustee continues to review its investment strategy, it will review the existing manager appointments and mandate objectives to ensure each manager's target performance is consistent with long term target of the Scheme.
Evaluation of the investment manager's performance and the remuneration for asset management services	Section 6.3	The Trustee's policy on performance evaluation and investment manager remuneration was added during a previous Scheme year to reflect the new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2018. To evaluate performance in respect of the investment managers, the Trustee received and discussed investment performance reports on a quarterly basis. The reports presented performance information and commentary in respect of the Scheme's funding level and investments. Such reports have information covering fund performance for the previous 3 months, 1 year and 3 years for the investment managers and total DB Section. The Trustee reviewed the absolute performance, the relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis.
Monitoring portfolio turnover costs	Section 6.5	The Trustee's policy on monitoring portfolio turnover costs reflects the new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2018. The Trustee does not currently actively monitor the portfolio turnover costs of the DB Section assets. In the quarterly performance report, Investment manager performance is generally reported net of manager fees and transaction costs, and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

		The IC have continued to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee or IC may ask managers to report on portfolio turnover costs explicitly.
The duration of the arrangement with the asset manager	Section 6.6	Details of the appointments are contained in the Investment Management Agreements between the investment managers and the Trustee. In the event that an investment manager ceases to meet the IC's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated.

ESG, Stewardship, Climate Change and Voting Disclosures

Policy	Location in SIP	How the policy has been met over the Scheme year
Undertaking engagement activities in respect of the investments.	Section 4.6	The Trustee required its investment managers to engage with the investee companies on its behalf. Investment managers are expected to provide reporting on a regular basis, at least annually, including stewardship data. Each year the Trustee receives an "impact assessment report" from the investment advisor detailing information on the managers' approach to integrating ESG factors assessed against the Trustee's ESG policy. Further, the report provides an ESG score and Climate score for each manager and, where managers fall short, identifies actions for the investment advisor to engage with the investment managers on. Below is the output for each Fund assessed in the impact assessment and where relevant either an engagement example or high-level data reflecting how the Scheme's investment managers have engaged with companies/issuers they were invested in. **LGIM LDI and Buy & Maintain Credit Fund (QIAIF)** **Summary** LGIM have evidenced their ability to integrate ESG factors in their LDI fund range through counterparty review and engagement. Within the active corporate bond fund range, their ESG approach brings together granular quantitative and qualitative inputs to reflect a full picture of the ESG risks and opportunities embedded within each company. At an overall level, and guided by the central stewardship team, LGIM leverages its scale and influence to engage with companies and policymakers globally, with the aim of improving market ESG standards and best practices. LGIM are working to improve their reporting processes and are looking to provide more granularity on ESG metrics in their standard reporting across all their funds and have strong commitments to net zero and the decarbonisation framework. **Actions for Manager** Reporting – LGIM should include enhanced ESG counterparty reporting in regular client reporting of LDI Funds. Risk Management – Create plans to support the reduction in its carbon weighted temperature alignment and set specific KPIs. Reporting – Include fund-specific engagement activity and coverage of GHG emissions data. Collaboration – look to push towards "Impact" attributes and accreditation if practicably viable. **Engagement**

		The LDI and B&M Credit holdings sit within one bespoke Fund structure. Combined there were the 39 engagements over the year, with 20 unique companies. The top 5 engagement topics were climate change, remuneration, capital management, climate impact pledge and ethnic diversity. **LGIM Absolute Return Bond Fund** **Summary** LGIM provides ESG scores for all assets within the portfolio and can provide the required TCFD Scope 1 and 2 metrics. LGIM also encourages investee companies to align sustainability reporting with best-practice frameworks. LGIM collaborates with a range of industry participants to monitor and influence a broad range of ESG topics. **Actions for Manager** Investment Approach – Develop Fund-specific ESG, climate and social policies. Voting & Engagement – Set clear engagement objectives and milestones for underlying portfolio companies; engage with a higher proportion of portfolio companies. Reporting – Provide Fund-level ESG or sustainability reporting. **Engagement** LGIM had a total of 133 engagements, with 69 unique companies. The top 5 engagement topics were climate change, remuneration, board composition, climate impact pledge, and corporate strategy. **AXA Global Secured Assets II Fund** **Summary** AXA has firm-wide stewardship policies in place; however, climate and social factors aren't a priority for the manager. The Fund has no specific ESG objectives, however, AXA aims to incorporate firm-level priorities in the management of the Fund. **Actions for Manager** Investment Approach - Include a Fund-specific ESG policy with the aim to improve the ESG portfolio score. Risk Management – Demonstrate the transition to align with a temperature pathway. Voting & Engagement - Improve engagement with underlying portfolio companies on managing ESG risks. Climate – Conduct modelling on how climate scenarios could affect the value of the Fund. **Engagement** During the year, AXA engaged with various groups on Climate Change. AXA met with Investcorp to discuss climate change and natural resource uses. The aim of this was to push for an enhanced investment policy at the instrument transaction level in line with AXA sector exclusion.

		Prior to investing in a specific instrument, AXA negotiated an agreement with the manager to align its ESG policy to AXA IM requirements. **BlackRock Diversified Private Debt Fund** **Summary** BlackRock as a firm has strong ESG credentials, in particular a rigorous training program, as well as a firmwide net-zero commitment. While the Fund doesn't have a specific impact focus, it does aim to mitigate ESG risks. That said, there is a lack of fund-specific policies and priorities in place, which is partly due to the nature of the private debt asset classes it invests in. BlackRock aim to manage ESG risks and encourage issuer level improvements via ESG ratchets. They are also aiming to improve their data collection via improved questionnaires to assist with enhanced reporting. **Actions for Manager** Investment Approach - Implement a fund specific ESG policy. Voting & Engagement - Introduce specific stewardship policies for the Fund. Reporting – Include engagement metrics in the regular reporting. **Engagement** BlackRock engaged with Vertex Energy which resulted in the acquisition of a loan that allowed the company to invest in a Gulf Coast refinery from a third-party seller and embarked on an expansion project that would enable the plant to process agricultural by-products and other feedstocks into renewable diesel, or a drop-in biofuel substitute for diesel that carries a significantly lower carbon emissions footprint. **WTW Private Equity** **Summary** WTW have identified firm-wide ESG objectives which clearly identified the key sustainability priorities being targeted. **Actions for Manager** Risk Management – Consider explicitly separating social scoring from the ESG integration score. Voting & Engagement – Implement fund specific stewardship policies. Reporting – Incorporate climate, social and general ESG metrics into regular ESG reporting. This should be done at both fund and firm level. **Engagement** Over the past year WTW continued to encourage portfolio managers to join the ESG Data Convergence Initiative (EDCI).

		Within First UK Bus Pension Scheme's private equity portfolio, the following firms have now joined the initiative: AE Industrial Partners, ForgePoint Capital, Gallant and GENUI. The initiative's objective is to streamline the private investment industry's historically fragmented approach to collecting and reporting ESG data in order to create a critical mass of meaningful, performance based, comparable ESG data from private companies. This allows GPs and portfolio companies to benchmark their current position and generate progress toward ESG improvements while enabling greater transparency and more comparable portfolio information for LPs. **Macquarie Infrastructure Debt** **Summary** As Macquarie invest in long-term, illiquid assets, integrating ESG considerations at the initial due diligence stage is key. While there is some evidence of this, Macquarie lack a formal quantitative scorecard approach to assess issuers. Macquarie also lack fund specific ESG policies and are particularly weak in terms of voting & engagement and reporting. Macquarie are however looking to renew their policies and frameworks in private credit, including improving their system for recording engagements. **Actions for Manager** Risk Management – Develop an ESG scorecard that can be used as part of due diligence. Voting & Engagement – Develop a stewardship policy and commence an engagement program with portfolio issuers. Reporting – Develop a system for recording and publishing fund-level engagement data. Commence reporting of TCFD metrics. **Engagement** Macquarie did not provide any examples of engagement taken over the year. **Stafford SIT VI Timber Fund** **Engagement** Stafford engaged in a Climate Risk Project to assess the levels of exposure the Stafford Timberland portfolio has to inherent risks such as fire, wind/storms, insect damage and disease. The presence and severity of these risks are well researched and controlled across major forestry regions, and Stafford routinely considers these risks within investment evaluations where they are present. Additionally, several initiatives have occurred across properties to improve biodiversity by way of providing space for natural forests and allowing researchers and technology on the property to assess ways in which they can better the population of local species. This has been seen in efforts such as a Wedgetail Eagle protection scheme in Australia and the Omataroa Kiwi Project in New Zealand.

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<td>Insight Secured Finance Fund

Engagement

Insight engaged with BP on ESG related issues given the sector in which they operate. Insight views this engagement as meeting objectives over time due to the progress BP has made which is in line with Insight's expectations. This year BP submitted a climate questionnaire and received a score of A- from CDP for their response.

Pantheon, Partners, Lansdowne, Nephila

Due to the size and/or type and/or maturity of these mandates they have been excluded from the impact assessment.</td>
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<td>The exercise of the rights (including voting rights) attaching to the investments</td>
<td>Section 4.6</td>
<td>The Trustee has given the investment managers full discretion in exercising rights and stewardship obligations attached to the Scheme's investments. The Trustee expects managers to exercise these rights in accordance with their own corporate governance policies, considering best practice including the UK Corporate Governance Code and the UK Stewardship Code.

The investment managers have full discretion to vote in the best financial interests of the beneficiaries of the Scheme. Details of the voting activity undertaken in relation to the Scheme's equity investments is detailed below:

<table>
<tr><th>Investment Manager</th><th>Total votable proposals</th><th>Number of proposals voted on behalf of investors</th><th>Participation rate</th><th>% votes against management</th></tr>
<tr><td>Lansdowne – Z Shares</td><td>57</td><td>57</td><td>100.0%</td><td>1.8%%</td></tr>
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Commentary on an example of Lansdowne's most significant voting activity (as defined by the manager) is provided below:

Lansdowne Z Shares Fund – Portfolio company Velocys Plc proposed to authorise the issue of equity without pre-emptive rights. The manager abstained from voting on this but communicated to management that next year they would vote against it because they think these should no longer be put forward.

The Trustee did not use the direct services of a proxy voting manager over the period but acknowledges that some investment managers may choose to appoint a proxy voting manager for the funds in which the Scheme invests. Some managers also make use of proxy voting research in informing their stewardship activities.

The Trustee has not challenged its investment managers with regards to their voting activity during the period.

The Trustee also accepts that it is not practicable for the investment managers to vote in all circumstances.

The remainder of the Scheme's assets fall under private equity, credit, or UK government bond and therefore have no voting rights attached.</td>
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