September 2020

The First UK Bus Pension Scheme
Statement of Investment Principles –
Default Investment Option for the DC Section

1. Introduction

1.1 The Trustee of the Scheme has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of pension scheme regulations relating to provision of information specific to default investments, referred to as "default arrangement". This should be read in conjunction with the main Statement.

1.2 Specifically, this Statement enables the DC Section of the Scheme to meet the requirements of:

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

1.3 The default arrangements covered by this Statement are:

- the BlackRock LifePath Flexi Funds (new default with effect from October 2020);
- the BlackRock LifePath Capital Funds (the default for a cohort of members);
- the UK Bus Cash Fund (created as a deemed default).

Following a review of the Scheme's investment arrangements in 2019, the Trustee agreed to change the default arrangement to the BlackRock LifePath Flexi Funds having previously been the BlackRock LifePath Capital Funds. Members already within 10 years of their target retirement date at the point at which the change is implemented, will remain in the BlackRock LifePath Capital Funds (so as not to unnecessarily increase the investment risk for those members most likely to be taking a cash lump sum on retirement).

The UK Bus Cash Fund became a default in March 2020 following the suspension of trading by the UK Bus Property Fund. This arose as part of the market disruption caused by the Covid-19 outbreak when the Property fund's independent valuer was no longer able to provide accurate and reliable valuations of the underlying property holdings.

2 Principles

2.1 The Trustee recognises that many members do not consider themselves competent to take investment decisions and have provided a default arrangement to support these members. Their contributions are invested here unless they decide on alternative funds.

The default arrangement is currently made up of the BlackRock LifePath Funds, which are a range of target dated funds with a separate fund for each calendar year for when a member retires.

The structure of the LifePath Funds is as follows:

- When a member is younger, their account is invested in assets that aim for long-term growth, in excess of inflation, which are higher risk in general.

- As the member approaches retirement, their account gradually transitions to a mix of assets that is expected to be lower-risk with lower expected growth.

- The design of **LifePath Flexi** is designed for members who intend to keep their retirement savings invested and draw down income from it.

- The design of **LifePath Capital** is designed for members that are typically expected to take their benefits from this Scheme as cash in retirement.

3 Default Arrangement

Objectives

3.1 The aims of the default arrangement, and the ways in which the Trustee seeks to achieve these aims, are detailed below:

- To generate returns in excess of inflation during the accumulation phase of the strategy whilst managing downside risk.

  The accumulation phase invests 100% of members' accounts in a diversified mix of asset classes and this exposure is expected to provide long-term growth in excess of inflation.

- To provide a strategy that reduces investment risk for members as they approach retirement.

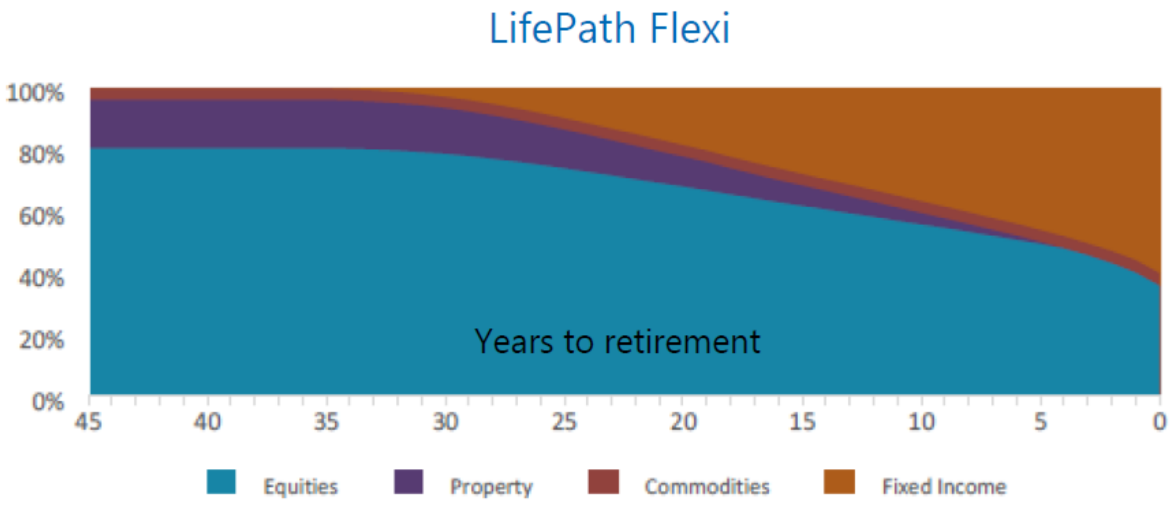
- As members approach retirement, the Trustee believes the primary aim should be to provide protection against market falls from the savings built up.

  The LifePath funds automatically transition to a mix of asset classes that reflect this belief.

- To provide exposure at retirement to assets that are broadly appropriate for an individual planning to use their savings in the Scheme to facilitate drawing down an income in retirement (albeit the facility to do this will be outside of the Scheme).

  At the member's selected retirement date, member savings will be invested, unless specific otherwise, in the BlackRock LifePath Flexi Funds, which is the relevant strategy within the LifePath range for members that plan to draw down income. The portfolio at retirement is invested largely in equities and fixed income assets at retirement.

The structure of the LifePath Flexi default option is shown in the chart below (source: BlackRock):



BlackRock has the ability to change the allocation above to reflect their views on the asset classes at any time.

Policies in relation to the default arrangement

3.2 The Trustee's policies in relation to the default arrangement are as follows:

- The default arrangement manages investment risks in the accumulation phase through a diversified allocation across a range of asset classes, markets and countries. Section 4 provides further information on the Trustee's risk policies in relation to the default arrangement.

- In designing the default arrangement, the Trustee has considered the trade-off between expected risk and return. This policy is reviewed regularly to ensure that the design remains appropriate for members and reflects developments in the market and with BlackRock's proposition.

- The Trustee has also taken into account the needs of members with regards to the security, quality, liquidity and profitability of a member's portfolio as a whole.

- If members wish to, they can opt to choose their own investment options at any time from a range of self-select fund options that have been decided by the Trustee, having taken professional advice.

- The Trustee monitors performance of the default relative to objectives.

- Assets in the default arrangement are invested in daily traded pooled funds which hold highly liquid assets. The LifePath Fund Range is accessed via an investment platform provided by Aegon.

- The selection, retention and realisation of assets within the default are delegated to BlackRock and will reflect the arrangement of the individual underlying funds.

3.3 The Trustee has also set Environmental, Social and Governance ("ESG") and stewardship policies. These are set out in Appendix 1.

4 Risk

4.1 In deciding on the appropriate arrangements for the default, the Trustee has considered risk from a number of perspectives. These include:

- **Investment return risk** – the risk that low investment returns over members' working lives will not keep pace with inflation and the member's account does not, therefore, secure an adequate pension. The Trustee has sought to reduce this risk by deploying a default that allocates assets to growth-oriented funds over the lifetime of the strategy.

- **Manager risk** – the risk that the decisions taken by an investment manager may have a detrimental impact on the returns of a fund. The Trustee has sought to reduce this risk by investing in a suite of funds which invests predominantly in underlying passive funds.

- **Inflation risk** - this is the risk of investments not keeping pace with inflation. The Trustee has sought to address this risk by investing in funds that are invested in a mix of assets and funds that is expected to outperform inflation over the longer term. This is expected to achieve a real rate of return over both price inflation and earnings growth in the long term.

- **Retirement income risk** – the risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received. The proportion and type of investments in the default strategy changes so that in the run up to retirement the investments gradually start to more closely match how the Trustee expects members to access their retirement savings. The Trustee keeps under review the appropriateness of the strategy.

- **Annuity conversion risk** – the risk that, as the cost of an annuity rises, the value of the investment fund that will be used to purchase the annuity does not change by an equal amount. The cost of purchasing a pension is closely linked to the value of long term bonds. The Trustee has provided access to funds that help to mitigate this risk, outside of the default.

- **Environmental, Social, Governance and climate risk** – the risk that investment performance, and hence members' outcomes at retirement, could be impacted negatively by not managing the investments with regard to Environmental, Social and Governance ("ESG") factors, including but not limited to climate change. The Trustee therefore seeks to take these factors into account in the selection, retention, realisation and monitoring of the Scheme's investment options over the appropriate time horizon applicable to members invested in those options.

5 Suitability of the Default arrangements

Suitability of the BlackRock LifePath Flexi Funds

5.1 Based on their understanding of the Scheme's membership, the Trustee believes that the above objectives and policies reflect members' best interests. The rationale underpinning this belief is as follows:

- An analysis of projected pot sizes at retirement for different member cohorts showed there was no one benefit choice that the Trustee expects will be suitable for all members. Whilst a significant proportion of the membership is expected to take a cash lump (e.g. along with their defined benefit savings), there is a notable portion for whom drawdown is expected to be the favoured route. The LifePath Flexi Funds are most suitable for this objective.

- The default arrangement is aimed largely at members who do not feel capable of taking investment decisions. Going forward, the Trustee believes that deploying the LifePath Flexi Funds will best cater for these members as investment decisions and risk management within the strategy are delegated.

5.2 The Trustee intends to monitor members' decisions and other inputs from time to time to ensure that the default arrangement remains suited to their needs. They will also review the investment choices available to members to ensure that those who regard the default arrangement as unsuited to their needs have suitable alternative investment funds to select from.

Suitability of the BlackRock LifePath Capital Funds

5.3 The change in default option from an investment strategy targeting a cash lump sum at retirement to an investment strategy targeting drawdown at retirement means that a member would have greater exposure to growth-seeking assets for longer. The Trustee decided this increased level of risk was not appropriate for those members wanting to access their savings by taking a cash lump sum and close to retirement. The Trustee concluded these members' assets should continue to move into investments that are considered to be less volatile and less likely to fall in value. Therefore, the BlackRock LifePath Capital Funds was deemed suitable for this cohort of members.

Suitability of the UK Bus Cash Fund

5.4 This is an appropriate default for those members impacted by the suspension of the UK Bus Property fund because the value of their contributions is expected to be preserved until the suspension is lifted. The RRP Managed Cash (Active) Fund is also suitable for self-select members looking for a low risk investment option.

6 Review of this Statement

6.1 The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Appendix 1 – Environmental, Social and Governance (“ESG”) and Stewardship policy, and Statement of Manager Arrangements

Financially material considerations

The Trustee held a meeting to consider the financial materiality of environmental, social and governance issues, including climate change (referred together as “ESG issues”), within their default investment strategy and self-select member options. The Trustee views ESG issues within an investment context as financially material (along with the risks set out in section 4.1), however, the Trustee appreciates that taking ESG into account within an investment strategy and process will yield different returns and/or risks for different asset classes. The Trustee’s views on ESG integration within each asset class is outlined below:

Passive equities – the Trustee accepts that when investing passively in equity index tracker funds, there is little that the manager can do within the investment process selecting stocks. However, the Trustee believes that positive engagement on ESG issues through voting and stewardship of assets can lead to improved risk-adjusted returns. Therefore, the Trustee looks to the passive equity manager to positively engage with companies where there is scope to improve the way ESG issues are taken into account when running the company.

Passive gilts – the Trustee does not believe there is scope for ESG issues to improve risk-adjusted returns within the Scheme’s passive gilt holdings.

Multi-asset fund – the Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme’s multi-asset fund manager. The investment process for the multi-asset fund manager should take ESG into account in the selection, retention and realisation of investments. Further to this, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

The Trustee is also cognisant of the different investment timeframes that members will have. Further to this, the Trustee believes that ESG issues, and particularly climate change issues will be more important for members who are further from retirement, as the financial materiality of such issues will have a greater impact over a longer timeframe. Therefore, within the Scheme’s default investment strategy, the Trustee believes there is greater scope for added value during the growth phase.

The Trustee is comfortable that the investment manager is managing its funds with ESG taken into account as far as it is possible for that particular asset class and within applicable guidelines and restrictions.

Before considering any new mandate, the Trustee will expect the manager to be a signatory to the United Nations supported Principles for Responsible Investment (PRI). At the time of writing, the Scheme’s investment manager is a PRI signatory.

The Trustee has instructed its investment advisors, Barnett Waddingham, to review how ESG issues are taken into account for each of the Scheme’s mandates, and to report back against their beliefs so that this can form part of the Trustee’s implementation report that will be produced annually.

Non-financial matters

The Trustee does not take account of non-financial matters (such as member ethical views) within the default investment strategy. However, it considers that it is important to ensure that a suitable range of funds are offered for members who wish to express a preference in their pension saving from an ESG perspective.

As part of the review of the Scheme’s investment arrangements in 2019, the Trustee considered whether there was a suitable fund with an explicit ESG focus, which could be offered to members who self-select their investments. It was concluded that no suitable fund was currently available on the Aegon platform and so the Trustee agreed to revisit this as part of the next triennial review of investment arrangements.

Stewardship and the exercise of voting rights

Stewardship encompasses the exercise of rights (including voting rights) attaching to the Scheme's investments, and the engagement by and with the investment manager.

The Trustee delegates responsibility for stewardship activities attaching to the Scheme's investments to its investment manager. Managers are expected to exercise voting powers with the objective of preserving and enhancing long-term shareholder value. In addition to the exercise of voting rights, the manager is expected to engage with key stakeholders (which may include issuers of debt or equity, corporate management, regulators and governance bodies) relating to its investments in order to improve corporate behaviours and governance, improve performance and social and environmental impact and to mitigate financial risks.

The Trustee periodically reviews engagement activity undertaken by its investment manager to ensure that the policies outlined above are being met and may explore these issues with its investment manager as part of the ongoing monitoring of the ESG integration and stewardship activities of its investment managers.

The Trustee is supportive of the UK Stewardship Code published by the Financial Reporting Council and expects the Scheme's investment manager to have corporate governance policies in place which comply with these principles. The Trustee will review the signatory status of its manager following changes to the UK Stewardship Code in 2020.

Engagement activities

The Trustee acknowledges the importance of ESG and climate risk within its investment framework. When delegating investment decision making to its investment manager it provide its investment manager with a benchmark it expects the investment manager to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

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

The Trustee considers it to be a part of its investment manager's role to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustee also considers it to be part of its investment manager's role to assess and monitor how the companies in which they are investing are managing developments in ESG-related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the manager invests on behalf of the Scheme.

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

The Scheme's investment manager is granted full discretion over whether or not to invest in the Principal Employer's business. Through its consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustee has made the Principal Employer aware of its policy on ESG and climate related risks, how it intends to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's DC Section investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects the investment manager to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes it has managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee, investment manager and the investee companies.

In selecting and reviewing its investment manager, where appropriate, the Trustee will consider the investment manager's policies on engagement and how these policies have been implemented.

Policy on arrangements with asset managers

1. Incentivising alignment with the Trustee's investment policies

Prior to appointing an investment manager, the Trustee discusses the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.

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

The Trustee carries out a strategy review at least every three years where it assesses the continuing relevance of the strategy in the context of the Scheme's membership and its aims, beliefs and constraints. The Trustee monitors the investment manager's approach to ESG and climate-related risks on an annual basis.

In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment manager has been informed of this by the Trustee.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

2. Incentivising assessments based on medium to long term, financial and non-financial considerations

The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in its investment management arrangements.

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

The Trustee expects investment managers to be voting and engaging on behalf of the Scheme's holdings. The Trustee also acknowledges that the Scheme accesses the funds via an investment platform, which is also able to vote and engage on behalf of the Scheme's holdings. The Trustee monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short-term targets.

3. Method and time horizon for assessing performance

The Trustee monitors the performance of its investment manager over medium to long-term periods that are consistent with the Trustee's investment aims, beliefs and constraints.

The Scheme invests exclusively in pooled funds. The investment manager is remunerated based on the amount invested on behalf of the Scheme's members. As the funds grow, due to successful investment by the investment manager and contributions invested by the Employer, they receive more and as values fall they receive less.

The Trustee believes that this fee structure enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustee asks the Scheme's DC investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

4. Portfolio turnover costs

The Trustee acknowledges that portfolio turnover costs can impact on the performance of the Scheme's investments. Overall performance is assessed as part of the quarterly investment monitoring process.

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

5. Duration of arrangement with asset manager

Given the open-ended nature of the pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment manager.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment manager, and the specific funds used, is assessed.

The First UK Bus Pension Scheme

Statement of Investment Principles – for the DB Section

1. Introduction

1.1 The purpose of the Statement of Investment Principles ("the Statement") is to document the principles and policies governing decisions about the investment of the assets of The First UK Bus Pension Scheme ("the Scheme"). This Statement has been prepared by The First UK Bus Pension Scheme Trustee Limited ("the Trustee") as trustee of the Scheme. It sets out the Trustee's policy for complying with the Pensions Act 1995 and the Occupational Pension Scheme (Investment) Regulations 2005 and is adopted with effect from July 2020.

1.2 The Trustee has consulted FirstGroup Holdings Limited ("the Company"), who has been authorised by the Participating Employers to give the views of the Participating Employers on the Statement, and the Trustee has received written advice from the Scheme's investment consultants Mercer Limited ("Mercer") which is regulated by the Financial Conduct Authority ("FCA") in relation to investment services.

1.3 The Trustee seeks to maintain a good working relationship with the Company and will discuss any proposed changes to the Statement with the Company. However, the Trustee has regulatory and fiduciary obligations to the Scheme's members, which will take precedence over the Company's wishes, if these are not consistent.

1.4 The Scheme's investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Implementation Policy Document ("IIPD"). Both are available to members on request. The Trustee is responsible for maintaining this Statement but has delegated responsibility for the IIPD, and decisions to be made on items described in the IIPD, to the Investment Committee ("IC"). The IC makes routine administrative decisions on investment matters and considers investment strategy and policy, but the Trustee will ratify major changes to the investment strategy / policy.

1.5 The IC is comprised of the following:

- up to three Trustee members, nominated by the Board, with three votes in total; and
- up to three Company members, nominated by the Company, with three votes in total.

At the time of writing this Statement, the Company has nominated two members for the IC, namely the Group Pensions Director and the Group Pensions Manager.

1.6 The members attending a meeting of the IC will have weighted voting rights such that the Trustee members present will have 3 votes in total and the Company members will have 3 votes in total. If there are three members attending from either group, each will have 1 vote; and if there are only two members attending from either group, one will have 2 votes and the other 1 vote. This voting allocation will be confirmed at the start of the meeting. If there is only one member attending from either group, they will have 3 votes. The meeting will not be quorate unless there is at least one member present from each group.

1.7 Decisions at IC meetings will be subject to a majority vote. For the avoidance of doubt, if a vote of the members of the IC is tied on a particular matter, there shall be no casting vote and that matter shall be referred to the Trustee board.

1.8 The Scheme is governed by its Trust Deed and Rules which sets out all of the benefits in detail and specifies the Trustee's investment powers. The investment powers do not conflict with this Statement. Protected rights assets are invested separately.

1.9 Mercer has confirmed in writing to the Trustee that it has the appropriate knowledge and experience to give the advice required by the Pensions Act 1995 and the Occupational Pension Scheme (Investment) Regulations 2005.

1.10 A copy of this Statement will be sent to each external investment manager on request. The Trustee does not expect to revise this Statement frequently because it covers broad principles rather than their implementation. The Trustee expects to review this statement at least annually and without delay upon a material change to the Scheme or the Company.

2. Decision-Making Structure

2.1 Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee or IC, acting on expert advice, and is driven by the investment objectives as set out in Section 5. The remaining elements of policy are part of the day-to-day management of the assets which is delegated to professional investment managers and is described in Section 6.

3. Fund Governance

A brief overview of the various parties involved in the Scheme's governance structure is set out below. A more detailed description is listed in the IIPD.

3.1 **The Trustee**

The Scheme's assets are held in trust by the Trustee. The investment powers of the Trustee are set out in Clause 49 of the Scheme's Governing Deed. The Trustee is responsible for the investment of the Scheme's assets. The Trustee is able to delegate certain decisions. When determining which decisions to delegate, the Trustee has taken into account whether they have the appropriate training and is able to secure the necessary expert advice in order to make informed decisions. Further, the Trustee's ability to execute decisions effectively is also considered.

3.2 **The DB Investment Consultant**

Mercer has been appointed as the DB Investment Consultant to the Trustee. The details of Mercer's appointment, in terms of both obligations and remuneration, are contained in a signed agreement between the Trustee and Mercer. Mercer provides the Trustee and IC with sufficient information to ensure that they are fully informed as to the decisions they take and to monitor those that they delegate. The Trustee monitors its own performance and that of its DB Investment Consultant in accordance with the Investment Governance Group ("IGG") Principles and the Competition and Markets Authorities (CMA) Objectives.

Mercer confirms that it is qualified to give 'proper advice' to the Trustee for the purposes of section 36 (6) of the Pensions Act 1995. All such advice shall be in writing or confirmed in writing.

3.3 **The Investment Managers**

The Trustee has appointed investment managers to manage assets on a day to day basis. Details of the appointments are contained in the Investment Management Agreements between the investment managers and the Trustee.

The Investment Management Agreements specify:

- the investment objectives along with the attaching benchmark(s) and risk parameters;
- the investment managers' approach in attempting to achieve the objectives;
- the timescale of performance measurement and assessment; and
- the basis for fees payable.

Each investment manager must comply with the Occupational Pension Schemes (Investment) Regulations 2006.

3.4 The Custodian

A Custodian is appointed by the Trustee to provide safekeeping of the Scheme's assets not invested in pooled funds or policies of insurance and performs the associated administrative duties. The details of this appointment are detailed in the contract between the Trustee and the Custodian.

4. Factors Influencing the Investment Objectives

The Trustee has considered its key investment objectives to guide it in strategic management of the assets. The Company will be consulted regarding issues that would lead to changes in the Statement. The Trustee recognises that while investment of the Scheme's assets has a long-term time horizon, the Scheme also has shorter term cashflow and other needs. The Scheme closed to future accrual with effect from 5 April 2018.

4.1 Goal

The Scheme has been established primarily to pay benefits to members on retiring from the Scheme as well as to provide benefits to members' dependants on death before retirement.

4.2 Nature

Deferred members' benefits are re-valued in line with inflation, subject to a cap over the period to retirement. Pensions in payment are increased in line with inflation subject to an annual cap. For the majority of members, inflation is measured by reference to the annual increase in the Consumer Price Index ("CPI") for these purposes. Where guaranteed minimum increases or alternative indices apply, these are taken into account too.

4.3 Investment Horizon

The Scheme has a long-term time investment horizon provided the Trustee is confident that the Company will continue to be willing and able to support the Scheme. The continuing appropriateness of this horizon will be reviewed on a regular basis by the Trustee. The Trustee, through its Governance Committee, appoints a leading Accounting firm to conduct periodic independent reviews of the Company's covenant and has adopted a covenant monitoring policy.

4.4 Trustee's Considerations

The Trustee seeks to maintain the security of the Scheme members' benefits by targeting and then maintaining a funding position of 100% on an ongoing basis, as determined by the Scheme Actuary, for the defined benefit Section.

4.5 **Responsible Investment and Corporate Governance**

The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues, including climate change, will have a financially material impact on investment risk and return outcomes and has a separate formal ESG policy setting out how the Trustee takes these issues into consideration.

Prior to appointing an investment manager, the Trustee discusses the investment manager's approach to the management of ESG and climate related risks with the Scheme's Investment Consultant, and how their policies are aligned with the Trustee's own investment beliefs.

The Trustee has given the investment managers full discretion when evaluating these issues and in exercising rights and stewardship obligations attached to the Scheme's investments.

Similarly, the Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Equity managers who are regulated by appropriate UK (or other relevant) authorities are expected to report on their adherence to the UK Stewardship Code on an annual basis.

The Trustee and IC is also increasingly considering how ESG, climate change and stewardship is integrated within the investment processes adopted by its investment managers and considers these issues as part of the criteria when appointing new investment managers and monitoring existing investment managers. If the IC deems any aspect of these policies or processes to be out of line with their own investment objectives, it will consider using another manager for the mandate.

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities but keeps this position under review and may re-consider this is in the future.

With regard to the DB Section of the Scheme the Trustee and IC is working to improve the overall level of ESG integration across the Scheme's assets (where relevant) and monitoring is undertaken on a quarterly basis; evaluating investment managers versus the Trustee's own ESG criteria.

The IC will review the ESG ratings provided by the Investment Consultant as part of their quarterly reporting. In addition, the IC will consider how each investment manager embeds ESG factors into its investment process and how each investment manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. Managers will be expected to report on their own ESG policies as and when requested by the Trustee and IC. These policies and how they have been implemented are discussed as part of the managers' attendance at meetings.

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.

Member views on non-financial matters, including their ethical views, are not currently explicitly taken into account in the selection, retention and realisation of investments. However, the Trustee has considered communicating the progress on the integration of ESG within investment processes to members through the Scheme's website and newsletters. The Trustee may also consider seeking feedback from members in the future regarding the integration of ESG and climate change considerations.

4.6 **Activism**

The Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. Managers are expected to exercise voting powers with the objective of preserving and enhancing long-term shareholder value.

The investment managers have full discretion in exceptional cases to vote acting in the best financial interests of the beneficiaries of the Scheme and from time to time would be expected to report to the Trustee with an explanation of their actions. The IC, on behalf of the Trustee, monitors the voting and engagement activity of the relevant investment managers at least annually. The Trustee accepts that it is not practicable for the investment managers to vote in all circumstances.

The Trustee also considers it part of the investment manager's role to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

The Trustee expects the investment manager to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes it has managed the potential for conflicts of interest between the Trustee, investment manager and investee companies.

5. Strategic Management

5.1 **Investment Objectives**

- To achieve the long-term investment return underlying the funding of the Scheme whilst limiting the chance of a deficit arising that would cause an increase in contributions.

- To maintain the support of the Company, the Trustee aims to set an investment policy which is amenable to both parties, recognising that the Company is the underwriter of part of the liabilities.

- To monitor the level of investment risk and return to "lock in" any gains in excess of those expected, if and when they arise.

5.2 **Review of Objectives**

These objectives will be reviewed from time to time, and the Trustee will monitor their continued relevance as part of the ongoing monitoring of the Scheme's investments.

5.3 **Investment Risk**

The Trustee regards 'risk' as the likelihood of failing to achieve the objectives set out in 5.1 and have on the advice of the DB Investment Consultant taken several measures which are set out in this Statement to minimise this risk, so far as is possible.

The Trustee's willingness to take on investment risk is dependent on the continuing financial strength of the Company and its willingness to contribute to the Scheme. The strength of the Company and its perceived commitment to the Scheme is monitored by the Trustee and risk will be reduced if either of these deteriorates.

The degree of investment risk taken will also depend on the Scheme's funding status and liability profile. The Trustee will monitor these with a view to altering their objectives and risk tolerances if there is a change in either.

The target level of risk has been set based on assumptions regarding the relative returns and volatility of the asset classes. The behaviour of investment markets change over time. The Trustee monitors this behaviour with help from their Investment Consultants to gauge whether the underlying assumptions should be updated, and consequential changes made to the investment strategy.

In arriving at their investment strategy and the production of this Statement, the Trustee has considered (amongst others) the following risks as being financially material over the expected lifetime of the Scheme:

- actions by the investment manager (investment manager risk);
- the need to pay benefits when due (cash-flow risk);
- the failure of some investments (concentration risk);
- changes in exchange rates affect the values of overseas assets compared to the Plan's sterling liabilities (currency risk);
- differences between the projected cash-flow profile of the Scheme's benefit payments to members and the liability matching assets held by the Scheme (interest rate and inflation risk);
- the inability of an issuer of a financial instrument owned by the Scheme to make contractual payments as they fall due (credit risk);
- actions by the custodian (custody risk); and
- the insolvency of the Sponsor (covenant risk).

As well as setting an investment strategy outlined in 5.5 to manage market risks (such as interest rate and inflation risk, currency risk and credit risk) and cash-flow risk, the Trustee has taken other decisions to control risks to which the Scheme is exposed:

- The assets are divided between a number of managers. This reduces the risk associated with one manager having responsibility for all of the Scheme's assets, reducing both investment manager and concentration risks.
- The benchmarks set for the investment managers are expected to contain a wide range of assets suitable for a pension scheme. With the exception of any index-tracking portfolios, the managers have some discretion to move away from their benchmark positions to seek to enhance the return relative to their benchmarks.
- Each investment manager has been set a series of restrictions on the way the portfolio is managed. The purpose of the restrictions is to limit the risks from each individual investment and to prevent unsuitable investment activity by the investment manager.
- The Trustee appoints a custodian to safeguard the assets having conducted due diligence.

- The Trustee undertakes covenant reviews at least triennially to assess the interaction between the Scheme and the Sponsor's business, the Sponsor's creditworthiness and its capacity to meet any current and potential future obligations to the Scheme.

5.4 **Strategic Management**

A high level asset allocation, being the split between growth assets (approximately 65% within publicly quoted equities, property, private equity, growth fixed income and alternative assets), and risk reducing assets (approximately 35% in bonds, asset backed securities, buy and maintain investment grade credit, cash and liability matching instruments) has been set by the Trustee for the Scheme, having consulted the Company.

A currency hedging program is also in place to manage the risk associated with owning underlying assets denominated in foreign currencies (where it is not part of the investment manager's mandate to hedge these exposures back to Sterling) or invested in pooled funds denominated in foreign currencies (e.g. US Dollars) by hedging these exposures back to Sterling.

6. Day-to-Day Management

The Trustee has delegated the authority to the IC to decide how the high level strategy outlined in 5.5 is implemented. The Trustee has delegated the day-to-day management of the assets to the investment managers and authorises the use of derivatives where deemed appropriate (subject to arrangements in place with individual investment managers). The mandates and attaching fees are set out in the IIPD. The process followed for monitoring the managers is set out in 6.5.

6.1 **Main Assets**

The IC ensures that the spread of assets by asset class and the spread of individual securities held provides adequate diversification of investments.

6.2 **Aligning Manager Appointments with Investment Strategy**

The investment managers are appointed by the IC based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics. The IC utilises the DB Investment Consultant's forward looking manager research ratings in decisions around the selection, retention and realisation of manager appointments. These ratings are based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management.

The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the IC and are used in decisions around selection, retention and realisation of manager appointments.

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

As the Scheme invests in some pooled investment vehicles, the IC accept that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

Some appointments are segregated. Where this is the case, the IC has specified criteria in the investment manager agreements to ensure that the mandate is managed in line with the Trustee's specific investment requirements.

Some appointments are actively managed and some of the relevant active managers are incentivised through remuneration (via performance related fees) and performance targets (an appointment will be reviewed following periods of sustained underperformance).

6.3 Quantitative Assessment of the Investment Managers

The Scheme's performance is monitored by the IC.

For the main assets, the Trustee receives investment manager performance reports from the DB Investment Consultant on a quarterly basis, which present performance information, which is sourced from the managers over 3 months, 1 year, 3 years and since inception. The Trustee reviews absolute performance and in many cases relative performance, either against a suitable index used as a benchmark (where relevant) and/or against the manager's stated performance target (over the relevant time period). The Trustee may also evaluate a manager's performance using risk metrics. The Trustee's focus is primarily on long term performance, but short term performance is also reviewed. As noted above, the Trustee may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager;
- There is a change in the underlying objectives of the investment manager;
- There is a significant change to the Investment Consultant's rating of the manager.
- The Trustee fundamentally loses confidence in the manager.

The IC aims to meet the investment managers approximately once every two years or more regularly if their performance has deviated materially from its expected outcome (positively or negatively), or if there has been a significant development requiring explanation.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the IC may initially ask the manager to review their fees instead of terminating the appointment.

Typically, the investment managers provide quarterly investment reports including:

- performance of the Scheme's investments over various historic periods, including benchmark returns; and
- a valuation of all investments held for the Scheme at prevailing market value on the last day of the quarter.

For the Defined Contribution assets, Aegon provides quarterly reporting to the Trustee on all funds that are offered to members (including performance and asset valuation information). The Trustee will request additional reporting information from their appointed DC Investor Advisor as appropriate.

The Trustee also monitors the performance and ongoing suitability of the AVC providers.

6.4 Qualitative Assessment of the Investment Managers

The Trustee's DB Investment Consultant provides further assistance in monitoring the investment managers. The DB Investment Consultant provides qualitative advice related to the factors likely to affect the investment managers' performance in future.

In addition, the Trustee's DB Investment Consultant provides such supplementary information as requested by the Trustee or IC.

6.5 **Portfolio Turnover Costs**

The Trustee does not currently actively monitor the portfolio turnover costs of the main DB assets. 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 will continue 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. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

6.6 **Manager Turnover**

The Trustee is a long term investor and is not looking to change the investment arrangements on a frequent basis.

For open-ended funds, the IC will retain an investment manager unless:

a) There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

b) The manager appointment has been reviewed and the IC has decided to terminate the mandate.

For closed-ended funds, the Scheme is invested in a manager's fund for the lifetime of the fund. At the time of appointment, the investment managers provide an indication of the expected investment duration of their funds and have the discretion to extend the lifetime of the fund in line with the fund's governing documentation. In order to maintain a strategic allocation to an asset class, the IC may choose to stay with a manager in a new vintage of the fund or appoint a different manager.

6.7 **Rebalancing Policy**

The IC is responsible for determining the rebalancing policy. The IC monitors asset allocation on a regular basis and decides where future contributions should be invested and where any required disinvestments to pay benefits should be taken from. These details are outlined in the IIPD.

The IC also monitors the funding level of the Scheme on a quarterly basis (and more regularly on an approximate basis using online tools) to assess whether the funding level has improved by more than expected. As a result of this monitoring, the IC may decide to alter the asset allocation. For example, the IC may decide to use funding based triggers to identify opportunities for de-risking over time. Details of any such arrangement would be included in the IIPD.

6.8 **Additional Assets**

The Trustee has appointed Aegon as the provider for members' additional voluntary contributions (AVCs) and Defined Contribution assets – since 2015.

The Trustee offers a range of funds to members.

In terms of the Defined Contribution assets, the Trustee is required to have specific policies and principles in relation to the default that supports the design of the default option. These are set out in a separate “Statement of Investment Principles in relation to the Default”. The Trustee will review and update the document as part of any strategic changes to the default or the policies that are agreed with reference to it.

6.9 **Realisation of Investments**

In general, the investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The investment managers have responsibility for generating cash as and when required for benefit payments and other expenses.

6.10 **Compliance with this Statement**

The Trustee will monitor compliance with this Statement annually or more frequently if necessary. The investment managers have provided written confirmation that they have complied with their obligations under the Pensions Act 1995. The Trustee undertakes to advise the investment managers promptly and in writing of any material change to this Statement.

6.11 **Review of this Statement**

The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances, or the attitude to risk of the Trustee or Company which they judge to have a bearing on the stated investment policy. This review is expected to occur at least annually, but immediately upon any changes to the Trustee’s investment policy outlined in this statement. Any such review will again be based on written expert advice and will be in consultation with the Company.

A copy of this Statement will be provided to the Company.