The First Bus Retirement Savings Plan

Statement of Investment Principles

Barnett Waddingham LLP

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1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustee and relates to the defined contribution (DC) benefits provided through the First Bus Retirement Savings Plan ("the Plan"). This statement sets down the principles which govern the decisions about investments that enable the Plan 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 (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- the Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023.

1.2. In preparing this statement the Trustee has consulted First Bus (South) Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultant. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustee are set out in Clause 9.3 of the Definitive Trust Deed & Rules, dated 25 August 2023. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustee carefully considers its Investment Objectives, shown in Appendix 1, when designing the range of investment options to offer to its members. The Trustee also acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings – and therefore, whilst seeking good member outcomes net of fees, it also considers the level of risk that is appropriate based on the anticipated needs of the membership profile of the Plan.

2.2. The Trustee's policy is to offer a range of "off-the-shelf" governed investment arrangements plus a core range of investment funds suitable for the Plan's membership profile into which members can choose to invest their contributions and those contributions made by the employer. Details of these are given in the Appendix. In doing so, the Trustee considers the advice of their professional advisers, whom they consider to be suitably qualified and experienced for this role.

2.3. The day-to-day management of the Plan's assets is delegated to one or more investment managers. The Plan's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.4. The Trustee reviews the appropriateness of the Plan's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the Principal Employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustee has discussed and agreed key investment objectives in light of an analysis of the Plan's membership profile as well as the constraints the Trustee faces in achieving these objectives. These are set out in the Appendix.

4. Kinds of investments to be held

4.1. The Plan is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

5. The balance between different kinds of investments

5.1. The Trustee has made available a range of 'Target Date' investment options. Through these options members' assets are automatically invested in line with a pre-determined strategy that changes at different stages of membership. For example, whilst a member is a long way off accessing their retirement savings, emphasis is placed on medium to higher risk funds (i.e. investment largely in growth assets) in search of long-term, inflation-protected growth. As the member's target retirement date approaches, their retirement savings are progressively switched to hold a larger proportion of lower risk assets so as to protect the value of the retirement savings relative to the way in which they are expected to be accessed.

5.2. Members can choose to invest in any of the funds detailed in the Appendix or can elect to invest in a lifestyle strategy. Where members do not choose where their contributions, and those made on their behalf by the employer, are invested, the Trustee will invest these contributions according to the default investment strategy set out in the Appendix.

5.3. The Trustee considers the merits of both active and passive management when selecting the "off-the-shelf" provider of the default strategy and may select different approaches for different asset classes within the self-select fund range.

5.4. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and the asset allocation may need to change as the membership profile evolves.

6. Risks

6.1. Risk in a DC scheme lies with the members themselves. The Trustee has considered a number of risks when designing and providing suitable investment choices to members. A comprehensive list of risks is set out in the Trustee's risk register, however, the main investment risks affecting all members are:

Inflation Risk	The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustee makes available investment options that are expected to provide a long-term real rate of return.
Conversion 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. In the arrangements made available through the Plan (see Appendix), the proportion and type of investments change 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 strategies.
Retirement income risk	The risk that a member's retirement income falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid. The Trustee periodically reviews the appropriateness of the investment options offered to ensure member outcomes can be maximised. Communications to members will seek to encourage them to regularly review the level of their contributions, but ultimately this is a risk which lies with each member.
Investment manager risk	The Trustee monitors the performance of the Plan's DC provider on a regular basis in addition to having meetings with them from time to time as necessary. The Trustee also monitors the performance of the underlying investment managers on a quarterly basis.
Concentration/ Market risk	Each investment manager is expected to manage properly diversified portfolios and to spread assets across a number of individual shares and securities.
Currency risk	The Plan may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. Funds are sterling denominated and the investment manager uses their expertise to set levels of currency hedging.
Loss of investment	The risk of loss of investment by the investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).
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 Plan's investment options over the appropriate time horizon applicable to members invested in those options. The Trustee sets out their policy on financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities in Appendix 2.

7. Expected return on investments

7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustee has selected Aegon as the DC provider to the Plan following a robust selection process and offers a series of 'off-the-shelf' investment strategies that have been designed and implemented by Aegon. The Trustee has delegated the day-to-day management of these off-the-shelf strategies to Aegon, who manage the strategies with reference to a pre-set range of investment parameters and is responsible for the day-to-day selection of investments.

7.3. The Trustee reviews the performance of Aegon, and the underlying investment managers at least quarterly to ensure they perform in line with expectations. This review takes account of the returns achieved and the likely aims and objectives of members.

7.4. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

8. Realisation of investments

8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.

9. Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

9.1. The Trustee has set policies in relation to these matters. These policies are set out in the Appendix 2.

10. Policy on arrangements with asset managers

Incentivising alignment with the Trustee's investment polices

10.1. 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 Plan's investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.

10.2. 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, they will consider using another manager for the mandate (to the extent this is possible through the Aegon arrangement).

10.3. The Trustee carries out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Plan's membership and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.

10.4. In the event that Aegon or an underlying 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 reviewed and ultimately terminated. Aegon has been informed of this by the Trustee.

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

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

10.6. 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 their investment management arrangements.

10.7. 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 3 to 5 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.

10.8. The Trustee expects investment managers to be voting and engaging on behalf of the Plan's holdings and the Plan monitors this activity within the Implementation Statement in the Plan'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.

Method and time horizon for assessing performance

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

10.10. The Plan invests exclusively in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.

10.11. The Trustee believes that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.12. The Trustee asks the Plan's 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 Plan's Value for Member assessments.

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beyond the expected

Portfolio turnover costs

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

10.14. 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.

Duration of arrangement with asset manager

10.15. For the open-ended pooled funds in which the Plan invests, there are no predetermined terms of agreement with the investment managers.

10.16. The suitability of the Plan'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 managers, and the specific funds used, is assessed.

11. Monitoring

11.1. **Investment Performance:** The Trustee reviews the performance of each investment option offered through the Plan against the stated performance objective and, in doing this, the Trustee receives a performance monitoring report on a regular basis. This monitoring takes into account both short-term and long-term performance. The investment manager's overall suitability for each mandate will be monitored as frequently as the Trustee considers appropriate in light of both its performance and other prevailing circumstances.

11.2. **Objectives:** The Trustee monitors the suitability of the objectives for the Plan (as detailed in the appendix) and performance (net of fees) against these objectives at least every three years and also when there is any significant change in the investment policy, underlying economic conditions or the profile of the members.

11.3. **Investment Choices:** The Trustee monitors the ongoing appropriateness of the investment choices offered on a periodic basis.

12. Agreement

12.1. This Statement was agreed by the Trustee, and replaces any previous statements. Copies of this Statement and any subsequent amendments will be made available to the Principal Employer, the investment manager, the actuary and the Plan auditor upon request.

Signed:...   **Date:**.....................

On behalf of the First Bus Retirement Savings Plan

Appendix 1 Note on investment policy of the Plan in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Trustee's main investment objectives are:

- 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 Plan to facilitate drawing down an income in retirement (albeit the facility to do this will be outside of the Plan).

- Seek to achieve good member outcomes net of fees and subject to acceptable levels of risk.

- To offer an appropriate range of investment options so that members can choose the outcome most suitable for them, recognising that members may have different needs and objectives.

- To reduce the risk of the assets failing to meet projected retirement income levels,

The Trustee is responsible for the design of the default investment option and for choosing which investment options to make available to members. Members are responsible for their own choice of investment options (including where the default investment option is selected for them because they have not selected other funds).

The Trustee has made available a range of funds to suit the individual needs of the Plan's members. For example, a range of equity funds is available for those members willing to accept a greater level of volatility in pursuit of higher expected retirement savings. Bond and cash funds are also offered for those members who are less comfortable with the likely volatility of the equity funds.

Alternatively, the Trustee has made available a lifestyle arrangement, whereby a member's assets are automatically invested in line with a pre-determined strategy that changes as the member gets closer to accessing their retirement savings. Emphasis is placed on medium to higher risk funds (i.e. investment largely in growth assets) in search of long-term inflation-protected growth whilst the member is a long way off accessing their retirement savings, switching progressively to protection assets over the years preceding the member's target retirement date so as to protect the purchasing power of the retirement savings.

2. Default option

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 Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings, and so it is not possible to offer a single investment option that will be suitable for each individual member. However, having analysed the Plan's membership profile, the Trustee decided that the 'flexible' arrangement set out below represents a suitable default investment option for the majority of members who do not make a choice about how their contributions (and those made on their behalf by the employer) are invested. The aims, objectives and policies relating to the default option are intended to ensure that assets are invested in the best interests of relevant members and their beneficiaries.

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 Plan'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 was implemented, remained 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.

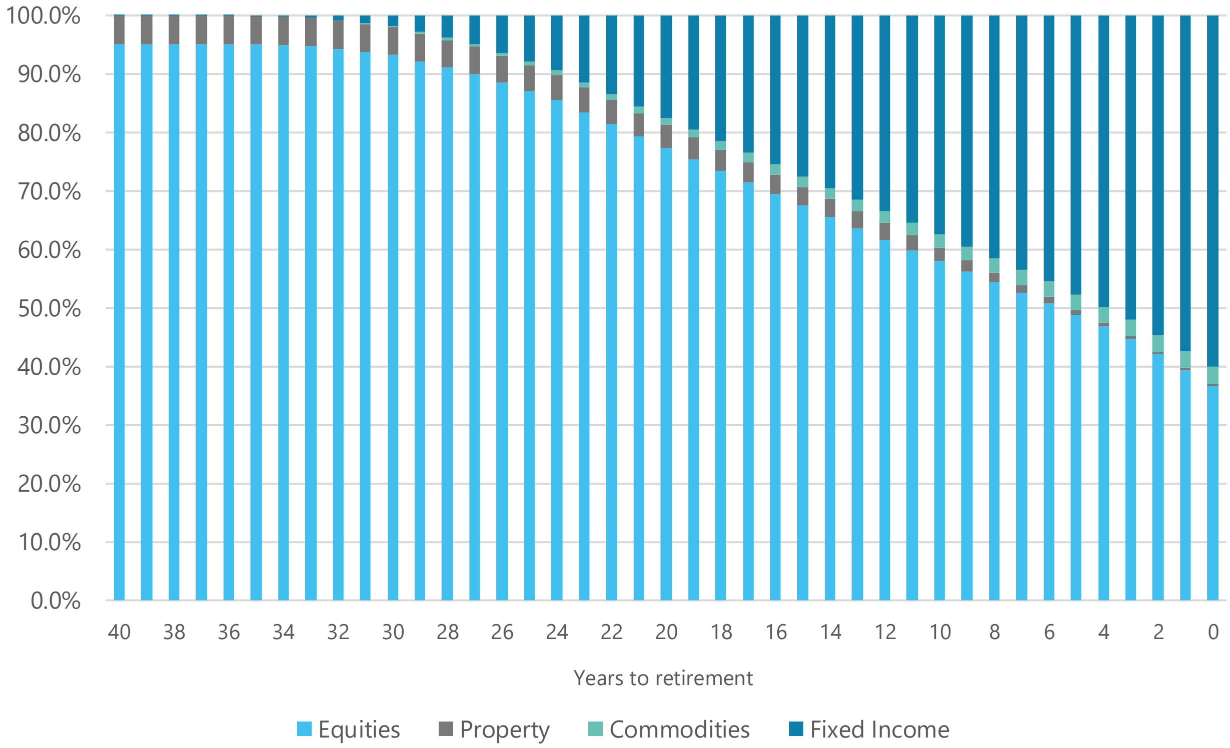
The LifePath funds are a range of target dated funds with a separate fund for each calendar year for when a member retires. The LifePath funds are managed on a day-to-day basis by BlackRock but the Plan accesses the funds via the Aegon platform.

Structure of the LifePath Funds

- 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 Plan as cash in retirement.

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



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.

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

Suitability of the default arrangements

Suitability of the BlackRock LifePath Flexi Funds

Based on their understanding of the Plan'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, 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.

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

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 BlackRock LifePath Cash Fund

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

Policies in relation to the default arrangement

- The default arrangement manages investment risks in the accumulation phase through a diversified allocation across a range of asset classes, markets and countries. Section 6 of the SIP 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.

The statements made in the main body of this Statement of Investment Principles also apply to the default arrangement.

The Trustee has also set out Environmental, Social and Governance ("ESG") and stewardship policies. These are set out in Appendix 2.

Policy on illiquid investments

The Trustee is required by regulations to ensure that it has considered all investment opportunities available to achieve best value for the Plan's members. This includes investment in illiquid assets such as private equity, infrastructure and real estate. The default arrangement for the Plan does not currently invest in these assets but does hold an allocation to a Real Estate Investment Trust (REIT).

The Trustee appreciates that illiquid assets are expected to bring certain benefits to members including diversification, return enhancement and inflation protection. However, given their reduced liquidity, higher complexity and higher fees, the Trustee has delegated decisions around allocation to illiquid assets to Aegon. The Trustee acknowledges that Aegon are signatories to the Mansion House Compact where the aim is to allocate a minimum of 5% of the default investment strategy to unlisted equities by 2030.

3. Alternative investment options

Self-select fund range

The Trustee operates some "white-labelled" alternative self-select funds for member to investment. These funds are provided by Aegon, but invest in underlying funds managed by other asset managers. A list of these fund options, the funds underlying the white-label and their respective benchmarks can be found in the table below.

Fund	Underlying Fund	Benchmark Index/Investment objective
UK Bus Global Equity	Aegon BlackRock Aquila Life 40/60 Global Equity (BLK) Fund	40% FTSE All Share Index/60% All World Developed ex UK Index
UK Bus Shariah Global Equity	Aegon HSBC Islamic Global Equity Index (BLK) Fund	Dow Jones Islamic Titan Index
UK Bus EM Equity	Aegon Dimensional Emerging Markets (BLK) Fund	MSCI Emerging Markets Index (net Total Return)
UK Bus ESG Equity	Aegon BlackRock ACS World ESG Equity Tracker	MSCI World ESG Focus Low Carbon Screened NET Index
UK Bus Diversified Growth	Aegon BlackRock DC Diversified Growth (BLK) Fund	Bank of England official Bank Rate + 3.5% p.a.
UK Bus Property	Aegon Property (BLK) Fund	IPD All Balanced Property Funds Index
UK Bus Corporate Bonds	Aegon Standard Life Corporate Bond (BLK) Fund	iBoxx-Sterling Non-Gilts Stock Index
UK Bus Index-Linked Gilts	Aegon BlackRock Over 5 Year Index-Linked Gilt Index (BLK) Fund	FTSE UK Gilts Index-Linked Over 5 Years Index
UK Bus Fixed Interest Gilts	Aegon BlackRock Over 15 Year Gilt Index (BLK) Fund	FTSE UK Gilts Over 15 Years Index
UK Bus Cash	Aegon BlackRock Cash (BLK) Fund	SONIA

The performance of the investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

Alternative target-date fund range

Acknowledging the challenge of identifying the best solution for different groups of members, and in focusing on its key objective, the Trustee has focused on outcome-orientated investment options. Alongside the default investment option, the Trustee has arranged for Aegon to provide two additional investment options:

- Annuity focused Target Date Funds
- Cash Lump Sum focused Target Date Funds.

Both of these investment options use the same growth phase as the Default Target Date Fund and then tailor the strategy towards the member's desired outcome over the period to retirement.

The performance of investment options will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

Appendix 2: Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

1. Financially material considerations

The Trustee is cognisant that Plan members have a long investment time horizon, and have considered the risks of ESG factors over the long-term. The Trustee believes that ESG issues, and particularly climate change issues have the potential to 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.

The Trustee has elected to invest the Plan's assets through pooled funds. The choice of underlying funds is made by the Trustee after taking advice from their investment consultant. The Trustee, and the managers of the underlying funds, takes into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustee takes those factors into account in the selection, retention and realisation of investments as follows:

Selection of investments: assess the investment managers' ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.

Retention of investments: Developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.

Realisation of investments: The Trustee will request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustee will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Plan's investments.

The Trustee will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:

- The Trustee will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Plan and its investments;
- As part of ongoing monitoring of the Plan's investment managers, the Trustee will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Plan's investment managers take account of ESG issues; and
- Through their investment consultant the Trustee will request that all of the Plan's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.

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 6), 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 Plan'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 Plan'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 Plan'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 Plan'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 Plan'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.

2. Non-financially material considerations

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. A ESG-focussed global equity fund was therefore added to the self-select fund range.

3. The exercise of voting rights

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

The Trustee has set stewardship priorities in order to concentrate their stewardship efforts in areas that are most relevant to the Plan. The current stewardship priorities are:

1. Climate change: For example, companies should put in place clear plans to achieve Net Zero, including meaningful interim targets ideally with independent verification. Each company's targets should reflect the nature of their business activities, as well as the country and sector in which they operate.

2. Diversity, equity and inclusion: For example, companies should strive to promote the representation and participation of different groups, reflecting academic evidence that diverse teams tend to make better decisions.

The Trustee has communicated these stewardship priorities to Aegon. Managers are expected to be able to evidence their stewardship activity in these areas. The Trustee will also consider alignment with these priorities in the selection, retention, monitoring, and realisation of funds held, alongside other relevant factors. However, the Trustee acknowledges that continued pressure needs to be placed across the industry to improve disclosures. Therefore, to the extent concerns are identified, they will engage with their managers in the first instance, often via their investment consultant.

The Trustee otherwise delegates responsibility for stewardship activities attaching to the Plan's investments to its investment manager. Managers are also 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 Plan's investment manager to have corporate governance policies in place which comply with these principles.

4. 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 Plan or as part of the pooled fund in which the Plan 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 Plan.

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

The Plan'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 Plan's 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.