

# **The Bus Section of the FirstGroup Pension Scheme**

## **Statement of Investment Principles**

### **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 Bus Section of the FirstGroup Pension Scheme (“the Scheme”). The Scheme is where the majority of the First UK Bus Pension Scheme’s assets were transferred across to as a result of merger activity that took place on 31 May 2024. A separate Statement has been prepared for the Group Section of the FirstGroup Pension Scheme.
- 1.2 This Statement has been prepared by The FirstGroup 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 August 2024.
- 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 Isio Services Limited (“Isio”) 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 four Trustee members, nominated by the Board, with four votes in total; and
  - up to four Company members, nominated by the Company, with four 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 4 votes in total and the Company members will have 4 votes in total. If there are four members attending from either group, each will have 1 vote; and if there are only two members attending from either group, each will have 2 votes. 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 4 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.
- 1.9 Isio 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 Rule 49 of the First UK Bus Pension Scheme's Trust Deed (with the rules of the First UK Bus Pension Scheme still being applicable to the Scheme in this regard). 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**

Isio has been appointed as the DB Investment Consultant to the Trustee. The details of Isio's appointment, in terms of both obligations and remuneration, are contained in a signed agreement between the Trustee and Isio. Isio 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.

Isio 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 2005.

### **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 defined benefit 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..

#### 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 and acknowledges responsibility for the voting and engagement policies that are implemented on their behalf.

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.

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 in the future.

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 an annual basis; evaluating investment managers versus the Trustee's own ESG criteria. The Trustee, via their Investment Consultant, engages with the underlying managers and/or other relevant persons about relevant matters at least annually.

The IC will review the ESG ratings provided by the Investment Consultant on an annual basis and whenever they meet with each manager. 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.

The Trustee has selected priority ESG themes to provide a focus for monitoring of investment managers' voting and engagement activities. These are:

1. Climate change;
2. Diversity, equity and inclusion; and
3. Corporate transparency

We communicated these stewardship priorities to the managers.

### **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 Consultant 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 5.4 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 held in segregated portfolios or accounts, 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**

The DB Scheme's asset allocation is split between growth assets (approximately 20% within private equity and real assets), cashflow generating assets (approximately 40% in absolute return bonds, asset backed securities, secured finance, private debt and buy and maintain investment grade credit) and cash and liability matching instruments (approximately 40%).

The actual allocation will vary from these proportions over time from market movements and cashflows (for example those into / out of illiquid assets like private equity). The Trustee keeps this under review, consulting the Company on strategic changes and taking advice from their investment consultant.

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 6.3 and 6.4.

#### 6.1 **Diversification**

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.

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.

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 lead portfolio manager or portfolio management team;
- 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.

#### 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 expects to 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.

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 in line with expectations or 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 Realisation of Investments**

The Trustee has instructed all investment managers with the capability to distribute income regularly to pay this income to the Trustee’s Cash holdings. This will, in part, meet member benefit payments and other expenses as they fall due. The source of any additional cash required will be determined at the time in consultation with the Investment Consultant. The Trustee or IC may agree a prevailing cashflow policy from time to time.

**6.9 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.

**6.10 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.

..... <b>Trustee Director</b>	..... <b>Trustee Director</b>
<b>Richard Soper</b>	<b>Martin Carroll</b>
..... <b>Date</b>	..... <b>Date</b>

**For and on behalf of the FirstGroup Pension Scheme Trustee Limited.**