

The First UK Bus Pension Scheme (“the Scheme”)

Statement of Investment Principles

This Statement has been updated to reflect merger activity that took place on 31 May 2024 - through which the majority of the Scheme’s assets were transferred across to the Bus Section of the FirstGroup Pension Scheme. The Scheme now has a smaller, simpler asset portfolio.

This Statement relates only to the assets retained by the Scheme after the merger. At the time of writing, the Trustee is exploring winding up the Scheme and potentially offering eligible members a wind-up lump sum (“WULS”) as part of this process.

If WULS payments are made to members, assets held by the Scheme will be sold to fund these payments as needed. However, any assets not sold for WULS payments or for other cashflow purposes, are expected to ultimately be transferred (alongside the relevant liabilities) to the Bus Section of the FirstGroup Pension Scheme, in line with documentation agreed for the merger.

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 Scheme. 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 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

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 Legal and General Investment Management (“LGIM”) to manage the Scheme’s assets on a day to day basis. Details of the appointment are contained in the Investment Management Agreement and/or equivalent documentation between LGIM and the Trustee.

The Investment Management Agreement (or equivalent documentation) specifies:

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

LGIM must comply with the Occupational Pension Schemes (Investment) Regulations 2005.

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 was originally 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 some 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 and Liquidity

The Scheme has typically had a long-term investment horizon.

However, following recent merger activity, a key objective for the Trustee is for the Scheme to have sufficient liquidity in the short-term to give the Trustee flexibility to offer

WULS payments to eligible members if they wish to do so as part of winding up the Scheme.

Any assets not sold for WULS payments or for other cashflow purposes, are expected to ultimately be transferred (alongside the relevant liabilities) to the Bus Section of the FirstGroup Pension Scheme, in line with documentation agreed for the merger.

4.4 **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 LGIM 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 LGIM 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 LGIM 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 LGIM’s versus the Trustee’s own ESG criteria. The Trustee, via their Investment Consultant, engages with LGIM 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 LGIM. In addition, the IC will consider how LGIM embeds ESG factors into its investment process and how LGIM’s responsible investment philosophy aligns with the Trustee’s responsible investment policy. More generally, LGIM are expected to report on their own ESG policies whenever they join meetings and as and when requested by the Trustee and IC.

In the event that any 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.

4.5 Activism

The Scheme's voting rights are exercised by LGIM 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. LGIM are expected to exercise voting powers with the objective of preserving and enhancing long-term shareholder value.

The investment manager has 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 manager at least annually. The Trustee accepts that it is not practicable for the investment manager 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

These stewardship priorities have been communicated to LGIM.

5. Strategic Management

5.1 Investment Objectives

Following recent merger activity, the key objectives are set out below:

- To maintain sufficient liquidity and flexibility to be able to offer WULS payments to eligible members and to meet any other short-term cashflow needs as they fall due.
- 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 overall level of risk, return and liquidity periodically, to determine if any changes to the portfolio are warranted.

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 liability profile and considerations relating to any potential WULS exercise and the potential future transfer of more assets and liabilities to the Bus Section of the FirstGroup Pension Scheme. The Trustee will monitor these areas with a view to altering their objectives and risk tolerances if there is a substantive change.

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 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); and
- the insolvency of the Sponsor (covenant risk).

5.4 Strategic Management

The DB Scheme's asset allocation is split 50:50 between the LGIM Sterling Liquidity Fund and the LGIM Absolute Return Bond Fund. The expected return and performance benchmark of the funds is SONIA and SONIA + 1.5% respectively.

The allocation will vary from these proportions over time from market movements and cashflows. The Trustee keeps this under review, consulting the Company on strategic changes and taking advice from their investment consultant.

6. Day-to-Day Management

The Trustee has delegated the authority to the IC to decide how the high level strategy outlined in 5.4 is implemented. The Trustee has delegated the day-to-day management of the assets to the investment manager

6.1 Aligning Manager Appointments with Investment Strategy

LGIM has been appointed by the IC based on its capabilities and, therefore, the perceived likelihood of achieving the desired risk, return and liquidity 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 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 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.

6.2 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 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.

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.

6.3 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.

6.4 Portfolio Turnover Costs

The Trustee does not currently actively monitor the portfolio turnover costs. Investment manager performance is generally reported net of manager fees and transaction costs, and therefore LGIM 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.

6.5 Manager Turnover

The Trustee is not looking to change the investment arrangements on a frequent basis.

The IC therefore expects to retain LGIM unless:

- a) There is a strategic change to the overall strategy that no longer requires exposure to the current asset classes (or to LGIM);
- b) The manager appointment has been reviewed and the IC has decided to terminate the mandate (and replace LGIM with a new manager).

6.6 Rebalancing Policy

The IC is responsible for determining the rebalancing policy. The IC monitors asset allocation on a regular basis and decides if any rebalancing is required, for example taking into account liquidity, risk and return factors.

6.7 Realisation of Investments

The IC monitors asset allocation on a regular basis and decides where any required disinvestments to pay benefits should be taken from. This may be implemented by agreeing a prevailing cashflow policy from time to time.

6.8 Compliance with this Statement

The Trustee will monitor compliance with this Statement annually or more frequently if necessary. The Trustee undertakes to advise the investment managers promptly and in writing of any material change to this Statement.

6.9 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.

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Trustee Director	Trustee Director
Richard Soper	Martin Carroll
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Date	Date

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