APPENDIX III

STAGECOACH GROUP PENSION SCHEME ("THE SCHEME")

CHAIR'S STATEMENT REGARDING DEFINED CONTRIBUTION ("DC") GOVERNANCE FOR THE PERIOD 1 MAY 2022 TO 30 APRIL 2023

This statement is produced pursuant to Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. It explains how the Scheme is meeting the new governance standards which apply to occupational pension schemes that provide money purchase ("DC") benefits. Arrangements are in hand to make relevant information publicly available via the Stagecoach Group plc website.

PART 1 – IN RELATION TO INTERNAL DC BENEFITS HELD WITHIN THE SCHEME

Background

Until 5 April 1997, the Scheme was contracted out of the State Earnings Related Pension Scheme (SERPS) on a Defined Benefit basis. From 6 April 1997, it was decided that members of the Scheme should contract-out of SERPS (later the Second State Pension or 'S2P') on a DC basis to provide what were known as 'protected rights'. The protected rights contributions from both the member and the participating employers, together with National Insurance and other Rebates paid by HM Revenue and Customs (HMRC), were paid into a member's account within the Scheme. These were invested on a notional basis to receive an investment return on a basis determined by the Scheme Actuary and agreed by the Trustees from time to time. In respect of the Scheme year to 30 April 2023, these investments have grown in line with Limited Price Indexation (LPI - the Retail Prices Index capped at 5% in any one year). Over the year to 30 April 2023 these investments grew by 5%.

It is important, however, to note the following points:

- The Scheme remained a DB arrangement.
- Each member's account fund was intended as an 'underpin' from 6th April 1997, as the pension that can be secured by them is compared with the DB pension that they had built up for service since 6 April 1997 to the date of leaving or termination of accrual (whichever is the earlier). Each member will receive whichever provides the highest benefit.
- For members who received a short service refund, a Money Purchase benefit remains in the Scheme until taken.
- Money Purchase benefits are invested within the Scheme assets generally (forming part of the Main or London Section Assets) rather than externally.
- Following the abolition of contracting-out on a DC basis with effect from 6 April 2012, no further amounts were paid to members' accounts from that date and protected rights became conventional Money Purchase benefits.

The members' accounts are currently held within the Scheme (Main or London Section) assets generally and retain a present cash value derived from an investment return as determined by the Scheme Actuary (in accordance with Scheme Rules) and agreed by the Trustees from time to time. At the present time there is no direct correlation between the investment return on the Scheme assets generally and the return applied to these legacy DC benefits. Similarly, there is no default fund as such.

These benefits are mostly trivial in nature as they relate to members whose primary Scheme benefits were otherwise discharged through payment of a short service refund. As such and taking into account the former "underpin" origins, the Trustees are satisfied that the investment arrangements for these benefits over time offer reasonable value for members, taking into account that the member bears no associated charges or transactions costs. Noting that the investments are pooled with all Scheme investments, the Trustees are satisfied that these arrangements are appropriate from investment performance perspective. From a Scheme governance perspective these benefits represent no material risk to the Main or London Sections as a whole.

Processing Transactions

Due to the legacy nature of these benefits no new contributions can be added. The determination of member account values is carried out internally by the in-house Scheme Administrator on a basis determined by the Scheme Actuary and agreed with Trustees with no reliance on any other third party. This means benefits can be processed accurately and efficiently. The trivial nature of these benefits means that fund values are generally paid as "Small Lump Sums" at retirement or any time from age 55 at the member's request. Similarly, a current fund value is paid to a surviving beneficiary in the event of a member's early death.

SGPS Chair's Statement for Year Ended 30 April 2023 (Disclosure Copy)

CHAIR'S STATEMENT (continued)

The Trustees have a formal service level agreement in place with the appointed in-house Scheme Administrator, review performance against agreed targets at every Trustees' meeting and are satisfied that the required service standards for the processing of core financial transactions and settlement of benefits are being met in an accurate and timely fashion. As such the Trustees consider that the requirements for processing core financial transactions in respect of these benefits, as specified in the Occupational Pension Schemes (Scheme Administration) Regulations 1996, have been met.

Transaction Costs

Due to the nature of these benefits, the members' accounts bear no transaction or any other related costs or charges.

PART 2 – IN RELATION TO EXTERNAL "ADDITIONAL VOLUNTARY CONTRIBUTION SAVINGS" HELD OUTWITH THE SCHEME

Background

The Scheme's AVC arrangements have been closed to new members since 2002 but existing contributors at that time were permitted to continue making contributions so long as they remained active members of the Scheme.

There are approximately 131 Scheme members holding external AVC accounts and of these only three are active members. External AVC investments are predominantly held within the Standard Life Group AVC Plan (the SL Plan).

Default Fund and Other Investment Choices

There is no default fund as such, as the funds only provide benefits which are attributable to AVCs and have been closed to new joiners since 2002. However, the SL Plan offers a wide range of investment choices including "with-profits" funds. See Appendix IV for a full list of applicable funds.

The lifestyle fund itself invests in a series of funds managed by Standard Life designed to provide a diversified portfolio with a moderate risk profile and a gradual switch of fund and asset mix over the 10 year period to retirement to reduce risk as retirement approaches. Members are free to adopt the lifestyle choice or alternatively self select from a wide range of other investment funds including those meeting social, environmental and ethical requirements. The with-profits fund is designed to give members some protection against short term movements in underlying investment markets. The lifestyle and with-profit funds are designed to provide slightly above market returns over the mid to long term with lower volatility.

Processing Transactions

The Trustees have a specific duty to secure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme and payments to and in respect of members) relating to AVCs are processed promptly and accurately.

These transactions are undertaken collectively by the in-house payroll and Scheme Administrator and the SL Plan provider, Standard Life. The Trustees are satisfied that in-house payroll operate adequate internal controls to ensure AVCs are properly deducted, reconciled and remitted to the SL Plan provider promptly. The Trustees are also satisfied that Standard Life has adequate internal controls to manage in an efficient and timely manner any investment changes instigated by members.

The Trustees permit AVC savings to be utilised, in their entirety, as a source of retirement tax free cash payable via the Scheme and are satisfied that adequate processes are in place to allow AVC investments to be realised in an efficient, accurate and timely manner. This activity is monitored as part of the Trustees' regular review of service delivery against agreed targets (referred to above).

In light of the above the Trustees consider that the requirements for processing core financial transactions in respect of these benefits, as specified in the Occupational Pension Schemes (Scheme Administration) Regulations 1996 have been met.

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CHAIR'S STATEMENT (continued)

Transaction and Other Costs

The fund most commonly used by members is the Standard Life With-Profits One Fund (or predecessors to this fund). There is no explicit annual management charge under the with-profits funds.

For the range of alternative funds available, excluding with-profits funds, annual management changes are around 0.60% to 0.65%. These rates incorporate a discount of 0.40% compared to the charges being made by Standard Life to other retail investors. As such the Trustees believe they represent good value for members in the context of being legacy AVC schemes which are predominantly with profits.

Fund charges and other costs (together with illustrative examples of the cumulative effect over time of the application of those charges and costs on the value of members' benefits) are summarised in the table included as **Appendix IV** below.

PART 3 - TRUSTEE KNOWLEDGE AND UNDERSTANDING

The Trustees undergo regular training as part of but separate from routine Trustee meetings with subject matter normally associated with key activities being considered by the Trustees at that time. Trustees are also encouraged to read external pension briefings and bulletins to gain valuable knowledge on pension legislation, regulation and current pension thinking. Records of training are retained within the Scheme's business plan and Trustees are encouraged to complete the Pensions Regulator's Trustee Tool Kit and PMI Award in Pension Trusteeship.

Trustees are required to be conversant with:

- **The Trust Deed and Rules**
- **Statement of Investment Principles**
- **The law relating to Pensions and Trusts**
- **The principles related to the investment and funding and policies of our scheme**
- **Duties in relation to TKU and TCFD**

To maintain their knowledge and understanding of the Scheme and their underlying duties the Trustees meet regularly with their appointed advisors and receive advice and training on such matters.

Taking account of actions taken individually and as a Trustee body and the professional advice available to them, the Trustees consider that they have the necessary knowledge and understanding to enable them to properly exercise their functions as Trustees of the Scheme.

This Chair's statement regarding DC governance was approved by the Trustees on 30 November 2023 and signed on their behalf by:

John Hamilton

John Hamilton
Chair of Trustees

SGPS Chair's Statement for year ended 30 April 2023 (Disclosure Copy)

APPENDIX IV

STANDARD LIFE GROUP AVC – CHARGES AND COSTS

The table below sets out additional information regarding fund charges (the numbers under member discount reflect the number of members impacted by the discount). The table shows: INVESTMENT FUND, ANNUAL MANAGEMENT CHARGE (AMC%), ADDITIONAL EXPENSES (ADD. EXP. %), TOTAL EXPENSE RATIO (TER) and DISCOUNT. Further information regarding the with profits funds (*) and discount is given below the table.

				MEMBER DISCOUNT & COUNT			
Investment Fund	AMC (%)	ADD. EXP. %	TER	0.175%	0.423%	0.400 %	0.463 %
Standard Life FTSE Tracker Pension Fund	1.00%	0.01%	1.01%	-	-	1	-
Pension Millennium with Profits Fund (*) (0%)	N/A	N/A	N/A	2	31	1	3
Pension With Profits Fund (*) (4%)	N/A	N/A	N/A	2	31	0	3
Pension With Profits One 2006 Fund (*) (0%)	N/A	N/A	N/A	-	-	0	-
Pension With Profits One Fund (*) (0%)	N/A	N/A	N/A	-	-	29	-
Standard Life Far East Equity Pension Fund	1.00%	0.07%	1.07%	-	0	1	-
Standard Life Managed Pension Fund	1.00%	0.02%	1.02%	-	0	6	-
Standard Life Money Market Pension Fund	1.00%	0.01%	1.01%	-	0	4	-
Standard Life Multi Asset Managed (20-60% Shares) Pension	1.00%	0.02%	1.02%	-	-	1	-
Standard Life Stock Exchange Pension Fund	1.00%	0.02%	1.02%	-	0	1	-
Standard Life Asia Pacific ex Japan Equity Pension	1.00%	0.12%	1.12%	-	-	1	-
Standard Life at Retirement (Multi Asset Universal) Pension	1.00%	0.04%	1.04%	-	0	1	-
Standard Life Ethical Pension Fund	1.00%	0.01%	1.01%	-	-	1	-
Standard Life European Equity Pension Fund	1.00%	0.01%	1.01%	-	-	1	-
Standard Life Property Pension Fund	1.00%	0.03%	1.03%	-	-	1	-
Standard Life North American Equity Pension Fund	1.00%	0.01%	1.01%	-	-	1	-

With Profits Investments

There is no explicit charge or additional expenses for the unitised with profits funds as Standard Life allow for these when they calculate the final bonus rates. These charges will be consistent with that for an equivalent investment-linked investment. Standard Life also make deductions for the cost of with profits guarantees and these vary depending on the fund guarantee and when the fund was launched, for example the Pension With-Profits Fund has a 0.75 p.a. deduction.

Currently Standard Life make deductions at a rate of 1% per annum in their new and existing business illustrations for unitised with-profits funds before any discounts. Some additional information on how our With-Profits investment works is given below:

Guarantees
There are two types of guarantee:

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STANDARD LIFE GROUP AVC – CHARGES AND COSTS (continued)

i. Unit price guarantee

The Pension With-Profits Fund has a guaranteed unit price growth rate of 4% per annum.

The other unitised with profits funds including the Millennium With-Profits Fund have a guaranteed unit price growth rate of 0% per annum.

ii. Guaranteed amount

If a guarantee applies to the with profits investment when it comes to an end, Standard Life will pay at least the guaranteed amount. If the with profits investment is worth more, Standard Life will pay a final bonus on top of the guaranteed amount.

The guarantee applies if, after taking any tax-free lump sum, the member takes a guaranteed income (an annuity):

- Through Standard Life or with another provider
- On the retirement date that was selected when their plan started (the guarantee also applies at other dates for some plans)

However Standard Life's practice is currently more generous than this as they pay at least the guaranteed amount when the member takes their retirement benefits immediately at any retirement date. Their practice may change in the future.

Refer to document WP110 for more information on what our current practice is:

http:/lib.standardlife.com/library/uk/wp110.pdf

Bonuses

There are two types of bonus, Regular and Final bonus.

i. Regular Bonus

Standard Life normally declare their regular bonus growth rates at the end of January or start of February. The regular bonus is in addition to the guaranteed unit price growth rate as mentioned earlier to give a total bonus growth rate.

The Pension With-Profits fund has a current regular bonus growth rate of 0% and a guaranteed unit price growth rate of 4% per annum so the total bonus growth rate is 4% per annum. The other unitised with profits funds including the Millennium With Profits Fund have a current bonus growth rate of 0.75% per annum and a guaranteed growth rate of 0% per annum and so the total growth is 0.75% per annum.

If you look at the unit price of each fund you will see the unit price growing at these growth rates i.e. they are not reduced by any charges (unless there are initial unit charges applicable under the plan). Once any guaranteed growth has been added into the plan this gives us the guaranteed amount.

Refer to document WP3 for more information on Guaranteed growth and bonus growth rates.

http://lib.standardlife.com/library/uk/wp3.pdf

ii. Final Bonus

Standard Life may pay a final bonus when a with profits investment ends on retirement, death or any other movement out of with profits. The amount of final bonus depends on a number of factors, including the returns on the assets we invest in, and so the final bonus payable on any plan may go up or down over time.

If Standard Life are paying a final bonus this means that the customer's fair pay-out is higher than their guaranteed amount.

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STANDARD LIFE GROUP AVC – CHARGES AND COSTS (continued)

ii. Final Bonus (continued)

It is also worth highlighting here that there may be times when a Market Value reduction (MVR) or a Market Value Adjustment (MVA) applies under the member's plan value. This means that the member's fair pay-out is less than their guaranteed amount. An MVR is not a penalty; the transfer value is a fair pay-out that takes account of how the fund has performed while the plan has been invested in with profits.

Standard Life usually review their final bonus rates twice a year, when they announce their regular bonus rates and also in the summer at the end of July or start of August.

Smoothing

Smoothing is a feature of with profits investments which helps protect the plan values from short-term market movements. Smoothing aims to even out the day-to-day ups and downs of the market and provides some protection and stability to the plan value.

For more information on unitised with profits investments please read the with profits guide. http://lib.standardlife.com/library/uk/uwp1p.pdf

Member Discount

Standard Life apply a discount to the investment charge – the discount is applied on a monthly basis and additional units are added to the member's policies. The majority of members joined the Stagecoach schemes pre-February 2002, and the discount reflects the terms that were applied to ensure members were in a no worse off position as a result of Standard Life converting the charging basis to a single charge.

From August 2005 Standard Life stopped adding units at a rate of 0.175% on investments in their with profits funds. They do, however take account of the change when they calculate Terminal Bonus by reducing the deduction, they make for their charges by the same amount of 0.175%. As is the case with all with profits policies, the amount of Terminal Bonus cannot be guaranteed. They therefore cannot guarantee that the 0.175% pa reduction in charges referred to above will always be fully reflected in pay-outs.

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