Stagecoach Group Pension Scheme - London Section (the "Scheme")
Integrated statement of funding and investment principles

1. The Trustees of the Stagecoach Group Pension Scheme have prepared this, their sixth, **integrated statement of funding and investment principles** in compliance with section 223 of the Pensions Act 2004 and section 35 of the Pensions Act 1995, as amended. It is a written statement which sets out:

   (a) their policy for meeting the "statutory funding objective" (introduced by Part 3 of the 2004 Pensions Act), which requires that a salary-related occupational pension scheme must have sufficient and appropriate assets to cover its "technical provisions" (the amount required, on an actuarial calculation, to make provision for the Scheme's liabilities), and;

   (b) their policy concerning diversification and suitability of Scheme investments and other related matters.

   This statement records the decisions reached by the Trustees as to the methods and assumptions to be used in calculating the Scheme's technical provisions, and the period within which, and the manner in which, any failure to meet the statutory funding objective is to be remedied.

Scheme background

2. The Stagecoach Group Pension Scheme is a fully sectionalised HMRC Registered Pension Scheme, with each Section established as a multi-employer non-segregated occupational pension scheme for associated employers. The assets and liabilities of the London Section (the "Scheme") are pooled in a common trust fund. If any Employer gives notice of its intention to cease contributions to the Scheme, or gives notice of its intention to cease participation, a partial wind-up will occur unless the Trustees determine otherwise. If an Employer becomes insolvent, a partial wind-up of the Scheme will occur.

Advice taken

3. This statement has been prepared by the Board of Trustees of the Scheme after obtaining the advice of the Scheme Actuary, Jonathan Black FFA of Mercer, and the appointed investment adviser, Hymans Robertson LLP, both duly authorised by the Institute & Faculty of Actuaries and the Financial Conduct Authority respectively.

4. The Board of Trustees has agreed the funding principles, method and assumptions for calculating the technical provisions contained in this statement with the Principal Employer, Stagecoach Group Limited, as ultimate parent company representing all Participating Employers.

5. The Trustees have also consulted with the Principal Employer in connection with their investment policy and the investment information used to inform the setting of the discount rates used for funding valuation purposes.

Funding principles

Paragraphs 6 – 39 (Funding Principles) have been removed from this version of the Integrated Statement of Funding & Investment Principles so that investment principles only may be shared with the Scheme's investment managers (and included on public websites for Disclosure purposes).

Investment strategy

40. The Trustees have translated their objectives into a suitable target asset allocation as set out below:

Asset Class	Target Allocation
Equity	15%
Property	10%
Return Seeking Credit	7%
UK Investment Grade Credit	22%
Liability Driven Investment	46%

41. In addressing the management of interest rate and inflation risks, the strategy therefore targets hedge levels, against liabilities discounted at a rate of gilts+0.5% p.a., as follows:

Interest rates: 85% - 95% of liabilities
Inflation: 85% - 95% of liabilities

42. The Trustees will monitor the Scheme's asset allocation, cash yield, hedging levels and expected future returns on a quarterly basis and if any longer-term divergence from these broad targets emerges, in terms of market movements or otherwise, they will consider what further actions, if any, are necessary.

Kinds of investment to be held

43. The Scheme may invest in quoted and unquoted securities of UK and overseas markets, including equities and fixed interest and index linked bonds, cash, property, infrastructure, and commodities either directly or through pooled funds.

44. Subject to discussion with and agreement by the Trustees, the Scheme may also make use of contracts of insurance, derivatives and contracts for difference (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all of these classes of investment to be suitable in the circumstances of the Scheme.

45. The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks or return targets, maintaining the broad principle of diversification within the implementation of their mandate.

Implementation of investment strategy

46. Responsibility for the management of the Scheme's assets is vested in the Trustees, who have delegated responsibility for the day-to-day management of the majority of the Scheme's assets to SEI Investments Ltd ("the Discretionary Manager").

47. The Discretionary Manager is appointed through a Fiduciary Management Agreement which sets out the scope of the manager's duties, fees, and investment restrictions, together with any other relevant matters in relation to the Scheme. The Discretionary Manager may implement strategies through the direct management of assets, the appointment of third-party managers or through the use of in-house funds.

48. The Discretionary Manager has responsibility for the management of two portfolios:

- The Growth portfolio which comprises the allocation to Equity and Return Seeking Credit and
- The Matching portfolio which comprises the allocations to UK Investment Grade Credit and Liability Driven Investment Portfolio

49. Appropriate target returns, income yield and interest rate and inflation hedging levels have been agreed with the Discretionary Manager. This will be reviewed from time to time, but no less frequently than annually.

50. The Discretionary Manager has discretion regarding the appointment and monitoring of appropriate specialist managers in the case of segregated accounts or the selection and overseeing of suitable pooled investments to implement the asset allocation within the Delegated Portfolio. The Discretionary Manager will consult with the Trustees prior to implementing material changes to the portfolio.

51. The allocation to property is held within a separate pooled fund managed by an independently appointed investment manager (the Property Manager) and does not form part of the portfolios managed by the Discretionary Manager. The Discretionary Manager will have regard to the property allocation in managing the Growth and Matching portfolios for the Scheme.

52. As long-term investors, the Trustees have not engaged the Discretionary Manager and the Property Manager with a pre-determined term of appointment although the Trustees expect the minimum duration of the appointment will be three to five years, this being the period over which performance of each mandate can be appropriately evaluated.

53. The Discretionary Manager and the Property Manager are subject to ongoing review against various financial and non-financial metrics in addition to considering their continued appropriateness within the overall investment arrangements. Where necessary, the Trustees will highlight any areas of concern identified during such reviews to the Discretionary Manager and request that appropriate action is taken. This may include concerns over performance, risk management, stewardship practices, investment process and operational issues and, where such concerns are raised, the Trustees will require the Discretionary Manager to demonstrate levels of improvement.

54. The Trustees recognize that managers should be fairly paid for the management of assets. The Discretionary Manager is responsible for agreeing the remuneration of managers within the Discretionary Portfolio and will periodically review the fees paid to underlying managers and advise the Trustees on fee levels. The Trustee will periodically review the fees paid to the Discretionary Manager and the Property Manager against industry benchmarks.

55. The Trustees receive quarterly updates on the performance of the Scheme's assets relative to agreed targets and performance of the overall strategy against the Scheme's liabilities. The Scheme’s Funding and Investment Sub Committee also meets at least four times a year to review performance against objectives

56. The Trustees consider all of these arrangements to be appropriate for the Scheme, providing a reasonable and prudent approach to risk and return.

Consideration of financially material factors in investment arrangements

57. The Trustees have adopted a policy of delegating responsibility for the consideration of environmental (including climate change), social and governance (ESG) issues at a security level to their individual Investment Managers. For the Discretionary Manager, this responsibility extends to the consideration of how the underlying managers take account of financially material factors. The stance of each Investment Manager is reviewed at regular intervals with the support of the Trustees’ advisers.

58. In framing their funding and investment strategy, the Trustees request that the Discretionary Manager and the Property Manager provide an indication of the expected income yield and total return for their underlying portfolios. The Trustees anticipate the expected yields and returns quoted will take account of all financially material factors, including the potential impact of ESG factors, including climate change, and that no additional allowance should be made for the impact of ESG factors on the assumptions.

59. The Trustees have not made explicit allowance for the long-term risks of climate change in their high-level investment strategy, believing that this is better managed through the design and implementation of investment mandates. The Trustees test the resilience of their strategy under different climate related scenarios.

60. As part of each triennial review, the Trustees undertake scenario analysis to explore the potential sensitivity of their funding and investment strategy to adverse changes in economic outcomes, including as a consequence of climate change. The Trustees review the range of scenarios considered in this exercise to ensure they remain appropriate to prevailing economic conditions, regulatory requirements and best practices.

Consideration of non-financially material factors in investment arrangements

61. The Trustees have not imposed any restrictions relating to ESG issues on their Investment Managers and there are no exclusions applied to investment arrangements based on non-financially material factors. The Investment Managers have made it clear that their prime concern continues to be the long-term financial interests of the Scheme and the Trustees. Nonetheless, when selecting investments, the Investment Managers

have assured the Trustees that they will take into account relationships with employees, suppliers and customers, and pay due regard to general environmental and other stakeholder interests.

Stewardship & Engagement

62. The Trustees meet with the Discretionary Manager on a regular basis to review the portfolio and the Property Manager on at least an annual basis. Both managers are provided with a detailed agenda for discussion including ESG issues, which are a standing agenda item. Where necessary, the Trustees will engage with and may seek further information from their Investment Managers on how portfolios may be affected by a particular issue.

63. Performance of the Discretionary Manager and Property Manager are measured against the stated growth and yield expectations and, in the case of the Discretionary Manager, the hedging target. Managers are regularly challenged both directly by the Trustees and by their investment advisers on the impact of any significant issues that affect either the prospects for individual holdings or the underlying managers.

64. The Trustees do not engage directly with issuers but actively encourage and expect their Managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate or government behaviours, improve performance and mitigate financial risks. Where necessary, Managers are expected to notify the Trustees of any issue on which it may be beneficial for the Trustees to undertake further engagement. The Trustees will review engagement activity undertaken by their Managers as part of their broader monitoring activity.

65. Responsibility for stewardship activity is also delegated and the Trustees note that the Discretionary Manager has employed a specialist third party, Sustainalytics, for the provision of responsible engagement overlay and voting services. In addition, the Discretionary Manager has also added a second engagement specialist, BMO Reo, to focus on climate change engagement. On an annual basis, the Trustees will request the Discretionary Manager to provide details of any change in approach including any changes to underlying policies.

66. The Discretionary Manager reports on voting activity to the Trustees on a periodic basis. The Trustees will monitor the Discretionary Managers' voting activity and may periodically review voting patterns, using modified PLSA or other reporting templates. The Trustees may also monitor voting on specified companies or issues affecting more than one company.

67. The Trustees separately consider any conflicts of interest arising in the management of the Scheme and its investments and have ensured that each Manager has an appropriate conflicts of interest policy in place.

Attitudes to Risk

68. The Trustees have good reason to believe that each of their Managers is professional in their approach to investment. The Managers hold diversified portfolios of assets to reduce any single security specific or country specific risks faced by the Scheme.

69. The Trustees have exercised due diligence in the selection of the Managers. Through the Discretionary Management arrangement, the Trustees gain diversity in terms of investment styles and investment market coverage. This multi-manager strategy limits the impact on the Scheme of possible under-performance by an individual manager or managers and is expected to enhance long-term Scheme returns.

70. The Trustees consider that they have an investment strategy appropriate for an ongoing pension scheme with a focus on investment and appropriate measures to deal with uncertainty through the investment mandates they agree with each of their appointed managers and the regular detailed monitoring of those managers against their mandates, agreed targets, and trading disciplines. The relationship between the assets and liabilities is monitored by the Trustees, the Scheme Actuary and the Principal Employer through regular actuarial valuations and updates.

71. The Trustees regularly monitor payments into and out of Trustee Bank Accounts, primarily to anticipate short cash requirements, partly to ensure Participating Employers comply with the agreed Schedule of Contributions, and also to act as an early warning of any material changes in the liability profile or cash demands for the Scheme. The Trustees also monitor their longer-term cash flow projections for the Scheme.

Credit risk

72. The Scheme invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the pooled investment vehicles and indirectly exposed to credit risks arising on the financial instruments held in the pooled investment vehicles.

73. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled managers and the regulatory environments in which the pooled managers operate.

74. Indirect credit risk arises in relation to underlying investments held in pooled investment vehicles. This risk is mitigated by the investment restrictions in place for each of the pooled investment vehicles.

75. Credit risk arising on nominal and index-linked securities is mitigated by investing in government index-linked securities where the risk of default is expected to be minimal. In the case of corporate debt, credit risk is managed through the skills of the Investment Managers in assessing and selecting appropriate assets.

Currency risk

76. The Scheme is subject to currency risk because some of the investments are listed on overseas markets. Even investments listed in the UK may also be subject to currency risks affecting revenues, costs and profits from overseas subsidiary and associate

businesses. The Trustees' investment managers take into account the hedging policies of the underlying businesses as part of their investment process.

77. The Scheme’s overall exposure to overseas investments held in mandates who do not already employ their own hedging strategy is relatively limited in the context of the portfolio as a whole, and therefore the Trustees and the Discretionary Manager have chosen not to employ any further currency hedging.

Interest rate risk

78. As the Trustees have begun to migrate their investment strategy towards one that more closely matches liability cashflows with predictable cashflows from fixed income assets, so the Trustees recognise that changes to long-term interest rates create a risk between how assets and liabilities are valued. The Matching Portfolio provides a match to the profile of the Scheme’s longer-term cashflows.

79. The Trustees note that the approach taken to the management of interest rate and inflation risk creates a slight mismatch risk, in that the instruments held are exposed to slightly different terms. This may mean that the value of the assets moves slightly differently from the value of the liabilities if the shape of the interest rate and inflation curve changes. This risk is accepted as a means of achieving the overall hedging target and is managed by minimising the mismatch through the design of the Matching Portfolio.

Inflation risks

80. The Trustees recognise that inflation presents a real risk through its impact on future liability payments from the Scheme, where this is provided for by the Rules of the Scheme. The Trustees manage exposure to inflation risk directly through the Matching Portfolio which provides an explicit match to future price inflation.

81. The Trustees also recognise the indirect link to inflation which is provided through the Equity, and Property allocations, their expectation being that these mandates will deliver returns in excess of future price inflation over the long-term.

Leverage risk

82. The Trustees recognise that investment in leveraged funds introduces operational risk in the event that nominal and/or real yields rise significantly over a short time period, particularly the need to recollateralise portfolios to ensure that hedging levels are maintained in line with target. The Trustees manage this risk in several ways:

- Ensuring that leverage levels within the pooled funds are maintained within an agreed tolerance range;
- Ensuring that there are sufficient liquid assets elsewhere within the strategy to meet collateral as necessary;
- Ensuring that there are high levels of direct control and transparency over the hedging arrangements; and
- Monitoring hedging levels and available collateral on a regular basis.

Climate risk

83. The Scheme may be exposed to the physical and transition risks arising from climate change. Such risks are likely to manifest initially as impacts on the value of and returns derived from the Scheme's invested assets. In extremis, climate risks could give rise to an asset, or a proportion of an asset being stranded and having nil value.

84. The Trustees expect the Discretionary Manager to manage exposure to climate related risks primarily through the selection and monitoring of the underlying managers and design of the portfolios. The Trustees regularly review the processes employed by the Discretionary Managers and their approach to assessing climate related risks both within the portfolios managed on behalf of the Scheme, and at a broader firm level. The Trustees review this assessment on an annual basis and report the outcome of their assessment through their regulatory disclosures.

Realisation of Investments

85. The Trustees' policy is to ensure that the majority of assets invested are sufficiently realisable, when necessary, to enable the Trustees to meet their obligations to provide benefits as they fall due. This is monitored regularly on a short term basis to ensure the Scheme has sufficient cash at all times to pay benefits as they fall due and, on a long term basis, to identify projected peak demands for cash to pay benefits, so that appropriate disinvestment policies can be agreed to minimise impact on the Scheme's retained investments. The Trustees are satisfied that the arrangements in place conform to this policy.

Portfolio turnover

86. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect the Managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustees will challenge their Managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive. The Trustees will request and review turnover costs incurred by the Managers over the Scheme reporting year.

Additional Voluntary Contributions

87. The Scheme retains legacy Unit Linked AVC arrangements with Standard Life (which includes UK Equity, International Equity, Ethical, Long Term Gilt, With Profits and Cash options) and Utmost Life.

Compliance

This integrated Statement (including the Appendices) has been agreed by the Trustees.

Signed on behalf of the Trustees by:

Signed:	*John Hamilton*
Name:	John Hamilton (Trustee)
Date:	31 May 2023

This Statement of Funding Principles (paragraphs 6 – 30) has been agreed by Stagecoach Group Limited (as Principal Employer and on behalf of all Employers under the Scheme).

Stagecoach Group Limited (as Principal Employer and on behalf of all Employers under the Scheme) acknowledge that the Trustees have consulted with them in relation to this entire document and in particular in relation to this Statement of Investment Principles (paragraphs 31 – 87).

Signed on behalf of Stagecoach Group Limited (as Principal Employer and on behalf of all Employers under the Scheme) by:

Signed:	*Bruce Dingwall*
Name:	Bruce Dingwall
Date:	31 May 2023