Introduction

Section 35 of the Pensions Act 1995 (“the Act”) requires the Trustees to prepare a statement of the principles governing investment decisions for the purposes of the Scheme. This document fulfils that requirement.

In preparing this statement, and to comply with Section 36 of the Act, the Trustees have obtained advice from Hughes Price Walker. The Trustees will obtain such advice, as they consider appropriate and necessary, whenever they intend to review or revise the Statement.

In preparing this statement, the Trustees have consulted the principal employer of the scheme, Trent Motor Traction Company Limited (“the Employer”) and will do so whenever the Trustees intend to revise the Statement. Responsibility for maintaining the Statement and deciding investment policy rests solely with the Trustees.

The Trustees will review the Statement at least every three years and after any significant change in investment policy.

Investment Objectives

The investment objectives of the Scheme are:

(a) The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the Employer, the cost of benefits which the Scheme provides as set out in the Trust Deed and Rules;

(b) So far as reasonably possible, to avoid the risk of the assets failing to meet the liabilities on an ongoing basis; and

(c) To minimise the long term costs of the Scheme by maximising the return on the assets so far as is both prudent and consistent with the above objectives.

The Trustees have agreed to appoint a number of investment managers, utilising a variety of assets, in broadly the following proportions:

Fund	Allocation
Legal & General All World Equity Index Fund - GBP Currency Hedged	10%
Partners Fund	5%
Legal & General Dynamic Diversified Fund	29%
M&G Total Return Credit Investment Fund	13%
Legal & General LPI Income Property Fund	7%
Legal & General High Yield Bond Fund and Janus Henderson Multi Asset Credit Fund*	10%
Legal & General Fixed Short & Long Matching Core Funds	9%
Legal & General Real Short & Long Matching Core Funds	17%

*The Trustees intend to hold the units in the Legal & General High Yield Bond Fund and not to buy or sell further units for the time being. Therefore, the allocation to the Janus Henderson Multi Asset Credit Fund is 10% minus the existing assets invested in the Legal & General High Yield Bond Fund.

The Trustees aim to achieve between a 90% and 100% hedge of inflation risk and interest rate risk on the Scheme's liabilities through investment in Legal & General Matching Core LDI funds. Consequently, in order to achieve the desired hedge, the actual asset allocation will be variable.

The Trustees believe that the assets are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

The Scheme's investments will be kept under regular review.

The Trustees consider that the distribution of the funds represent a suitable asset allocation benchmark for the Scheme. The Trustees consider that this policy represents investments in suitable assets, is appropriately diversified, and provides a reasonable expectation of meeting the above objectives.

New Monies and Disinvestments

In the normal course of business, day to day investments and disinvestments will be made to and from the Legal & General All World Equity Index Fund - GBP Currency Hedged, the Legal & General Dynamic Diversified Fund and the M&G Total Return Credit Investment Fund, noting that the target proportions of these funds are in the ratio of 10 : 29 : 13 respectively. Priority will be given to the most overweight fund, followed by the next most overweight fund, until the target investment or disinvestment amount is achieved.

From time to time the LDI funds may distribute cash or require a cash injection due to a rebalancing event. Where such an event occurs, the cash will be distributed to / disinvested from as follows:

Fund	Weight
Legal & General All World Equity Index Fund - GBP Currency Hedged	25%
Legal & General Dynamic Diversified Fund	75%
Total	**100%**

Delegation of Investment Discretion

The Trustees have delegated day-to-day investment management to the investment managers.

The investment managers manage the investments of the Scheme's assets in accordance with the following objectives:

Fund	Objective
Legal & General All World Equity Index Fund - GBP Currency Hedged	To track the performance of the FTSE All-World Index (less withholding tax where applicable) - GBP Hedged (with the exception of emerging markets), which is a customised index to within +/- 0.5% per annum for two years out of three.
Partners Fund	To achieve capital growth over the medium to long-term by investing in various alternative asset classes and/or alternative investment strategies.
Legal & General Dynamic Diversified Fund	To provide long-term investment growth through dynamic exposure to a diversified range of asset classes. The long-term expected annualised rate of return for this fund is the Bank of England Base Rate +4.5% per annum, over a full market cycle.
M&G Total Return Credit Investment Fund	The fund seeks a total return of one month Libor/Euribor plus 3% to 5% gross of fees per annum over a cycle.
Legal & General LPI Income Property Fund	To provide an income stream that rises annually in line with LPI (RPI between 0% and 5%).
Janus Henderson Multi Asset Credit Fund	The fund seeks gross returns of SONIA plus 4% to 5% per annum over a five year investment horizon cycle.
LDI fixed interest gilts	To hedge a generic fixed liability profile.
LDI index linked gilts	To hedge a generic inflation linked liability profile.

The terms of the delegation are set out in agreements between the Trustees and the investment managers. The agreements include such matters as investment objectives, the procedures for instructions, custody of the assets, voting, fees and charges.

Realisation of Investments

The Trustees will hold sufficient cash to meet the likely expenditure on benefits and expenses from time to time. The Trustees will also hold sufficient assets in liquid investments to meet unexpected cashflow requirements in the majority of circumstances so that, where possible, the realisation of assets will not disrupt the Scheme's overall investment policy.

Expected Return on Investments

The investment strategy was developed by considering the Trustees' appetite for risk, in consultation with the Employer. The investment strategy was chosen to achieve a required return over gilts, based on the expected return on asset classes, within the appetite for risk as measured by the likely range of potential outcomes. In the Trustees' opinion, the chosen strategy offers an acceptable trade-off between risk and return.

Over the long-term, it is expected that the Scheme's investment returns will exceed the return required to fund the Scheme's Technical Provisions in the medium to long term.

Risk Management

The Trustees recognise and monitor a number of risks involved in the investment of the assets of the Scheme:

- *Solvency risk and mismatching risk:*
    - This is addressed through the underlying asset allocation, mitigated by the use of LDI funds and monitored through ongoing triennial actuarial valuations.
- *Manager risk:*
    - This is addressed through the performance objectives and the ongoing monitoring of the investment managers and enhanced by the diversification effect of using multiple managers.
- *Liquidity risk:*
    - The Scheme's administrators monitor the level of cash held in order to limit the impact of cash flow requirements on the investment policy.
- *Sponsor risk:*
    - This is measured by the level of ability and willingness of the Principal Employer to support the continuation of the Scheme and to make good any current or future deficit.
- *Third party risk:*
    - The chosen funds invest in underlying assets. If the underlying investments suspend trading, the investment managers may defer trading and / or payment to investors. Therefore, the value ultimately payable will depend on the amount the investment manager receives or expects to receive from the underlying investments.
- *Interest rate risk:*
    - Changes to interest rates could affect the value of bond investments. Where long term interest rates rise, the value of bonds is likely to fall, and vice versa.

- *Risk from lack of diversification:*
    - This is mitigated by the Trustees investing in pooled funds with a diversified asset allocation.
- *Currency risk*:
    - This is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values.
- *Credit risk*:
    - This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Scheme is subject to credit risk because it invests in bonds or other types of debt via pooled funds. The Trustees manage their exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers.
- *Political risk:*
    - This is measured by the level of concentration in any one market leading to the risk of an adverse influence on investment values arising from political intervention.
    - It is managed by regular reviews of the actual investments relative to policy and through assessment of the levels of diversification within the existing policy.

Investment Management Monitoring

The Trustees will receive performance reports from the investment managers. The Trustees will also receive quarterly reports from Hughes Price Walker Limited on the Legal & General Dynamic Diversified Fund, including providing performance figures, insight behind the performance, the personnel and information on risk. Through this process of regular reporting and review, the Trustees aim to ensure that the investment managers are performing competently and in compliance with this statement.

Environmental, Social and Corporate Governance (“ESG”) Matters

The Trustees’ overarching responsibility is to deliver financially sustainable returns for an acceptable level of risk to meet the future pension benefits of the members and in a way that Employer contributions paid into the Scheme are as stable and affordable as possible.

The Trustees have a duty to act in the financial interests of the Scheme’s beneficiaries as a long-term investor. This includes considering ESG risks and opportunities that may be financially material to the Scheme.

The Trustees invest in pooled funds and the underlying assets are subject to the investment manager's own policies on ESG considerations, including climate change. The Trustees undertake due diligence when appointing investment managers and review each of those managers' policies on ESG considerations. The Trustees appreciate that those investment managers which integrate ESG considerations can help mitigate risks and have the potential to lead to better, long-term financial outcomes.

The appointed investment managers have opted to sign the United Nations-supported Principles for Responsible Investment ("PRI"). As signatories to the PRI, the investment managers have made the following commitments:

> As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).
>
> We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:
>
> Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
>
> Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
>
> Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
>
> Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
>
> Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
>
> Principle 6: We will each report on our activities and progress towards implementing the Principles.

The investment managers' reports related to PRI and their statements on compliance with the Financial Reporting Council (FRC) Stewardship Code, which is seen as the UK standard for good stewardship, are reviewed by the Trustees at least once every three years.

Exercise of rights

As the Trustees invest in pooled funds, the underlying investment managers make decisions related to:

- the exercise of any rights, including voting rights, attached to the investments; and
- engagement activities in respect of the investments.

Arrangements with the investment managers

The Trustees have appointed their investment managers' funds to each mandate within the Trustees' agreed asset allocation. The Trustees only invest in pooled investment vehicles. Therefore, the Trustees are not able to specify the risk profile and return targets of the manager. However, after considering appropriate investment advice, pooled funds with appropriate expected return and risk characteristics are chosen for each asset class to align with the overall investment strategy.

The underlying investment managers are responsible for all decisions to select and remove individual investments within the portfolios they manage.

In the case of multi-asset funds, the underlying investment managers are responsible for the allocation to separate asset classes.

The Trustees act as a long-term investor and do not look to change the investment arrangements on a frequent basis. The Trustees do not have any fixed-term agreement with any investment manager.

The underlying investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the respective asset class. As long-term investors, the Trustees' focus is on long term performance. The underlying investment managers are remunerated by charges based on the value of the assets that they manage on behalf of the Scheme. This is the primary means of incentivising managers as, if the funds are not performing as required, they may be replaced.

The Trustees therefore consider that the method of remunerating the underling investment managers, combined with their own long-term attitude towards performance, incentivises them to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. This encourages the underlying investment managers to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

Portfolio turnover costs

Portfolio turnover costs means the costs incurred by the buying, selling, lending or borrowing of investments.

The Scheme invests in a range of pooled funds, many of which invest in a wide range of asset classes. As a result, the Trustees do not currently have a target for portfolio costs and neither do they monitor portfolio turnover costs in the funds.

Additional Voluntary Contribution arrangements

The Scheme has provided a facility for members to pay additional voluntary contributions (AVCs) to enhance their benefits at retirement. The Trustees' objective was to provide vehicles that enabled members to generate suitable long-term returns, consistent with their reasonable expectations.

In the past AVCs were paid to Prudential Assurance Company Limited to enhance benefits at retirement. The Trustees selected these vehicles as they were believed to meet the Trustees' objective of providing investment options that enabled AVC members to generate suitable long-term returns.

This schedule has been agreed by the Trustees of the Trent Buses Pension Scheme

October 2023