Statement of Investment Principles

Bournemouth Transport Limited Pension Plan

21 December 2022

This is the Statement of Investment Principles (the "Statement") made by the Trustee of the Bournemouth Transport Limited Pension Plan ("the Plan") in accordance with the Pensions Act 1995 (as amended). The Statement, which was approved by the Trustee on 21 December 2022, is subject to periodic review at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustee has taken and considered written advice from Hymans Robertson LLP as Investment Consultant.

The Trustee is supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustee expects Investment Managers to comply with the code and to produce a statement of their commitment to the code.

Plan objective

The primary objective of the Plan is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Trustee's over-riding funding principles for the Plan are:

- to ensure that there are always sufficient assets of the Plan (at their realisable value) to meet 100% of benefits as they fall due for payment to members; and
- to ensure that the Plan can meet the members' entitlement as they fall due, in accordance with the Trustee Deed and Rules and overriding PPF requirements during the PPF assessment period.

For employee members, benefits are based on service completed. The value of liabilities is calculated on the basis agreed by the Trustee and the Plan Actuary. The funding position is monitored regularly by the Trustee.

Investment strategy

The Trustee has translated its objectives into a suitable strategic (asset allocation) benchmark for the Plan. The strategic benchmark is consistent with the Trustee's view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The strategic benchmark is reflected in the choice and mix of funds in which the Plan invests.

The investment strategy takes account of the maturity profile of the Plan (in terms of the relative proportions of liabilities in respect of pensioners and deferred), together with the level of disclosed surplus or deficit (relative to the funding bases used).

The Trustee monitors strategy relative to its agreed asset allocation benchmark. It is intended that the investment strategy will be reviewed at least every three years following actuarial valuations of the Plan, and will normally be reviewed annually. Written advice is received as required from professional advisers.

The Trustee has delegated all day to day investment decisions to an authorised Investment Manager.

Choosing investments

The Trustee has appointed one Investment Manager to manage the Plan's investments. The Investment Manager is authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Trustee has appointed its Investment Manager to deliver a specific benchmark, which overall will align to deliver the broader Plan investment strategy. The Trustee ensures that all manager engagements have clearly defined benchmarks, objectives and management parameters.

The Trustee has deemed it appropriate to invest in pooled funds where the objectives of the fund and the policies of the Investment Manager will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Plan.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustee may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustee periodically reviews the fees paid to all of its managers against industry standards.

The Trustee reviews the nature of the Plan's investments on a regular basis, with particular reference to suitability and diversification. The Trustee seeks and considers written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Plan, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustee is proposed, appropriate advice is sought and considered to ensure its suitability. The Trustee recognises the long term nature of its liability profile and appoints its managers to invest in such a way that generates long term sustainable returns. The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Plan's objective.

The duration of each mandate is determined by the Trustee at the inception of each mandate. For open-ended investments, the Trustee generally engages managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustee expects the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

The Trustee monitors its manager's performance against their respective benchmarks on a frequent basis over a long term time horizon. The Trustee will measure a fund's relative tracking error where appropriate. Managers are expected to provide explanation for any significant deviations away from benchmark.

Kinds of investment to be held

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

The Plan 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 Trustee considers all of these classes of investment to be suitable in the circumstances of the Plan.

Insurance policies

The Plan may enter into bulk insurance policies. Such a policy allows the Plan to reduce the overall investment risk taken whilst safeguarding a proportion of liabilities.

Balance between different kinds of investments

The Plan's Investment Manager holds a mix of investments which reflects their views relative to their respective benchmarks or return targets. Within each major market the manager will maintain a diversified portfolio of stocks.

Risk

The Plan is exposed to a number of risks which pose a threat to the Plan meeting its objectives. The principal risks affecting the Plan are:

Funding risks

- Financial mismatch – The risk that Plan assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of the Plan benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or Investment Managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Plan's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

The Trustee measures and manages financial mismatch in two ways. As indicated above, the Trustee has set a strategic asset allocation benchmark for the Plan. The Trustee assesses risk relative to that benchmark by monitoring the Plan's asset allocation and investment returns relative to the benchmark. The Trustee also assesses risk relative to liabilities by monitoring the delivery of returns relative to liabilities.

The Trustee keeps mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations and the Trustee may enter into insurance contracts, e.g. bulk annuities, to reduce these demographic risks.

The Trustee seeks to mitigate systemic risks through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- **Concentration** - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- **Illiquidity** - The risk that the Plan cannot meet its immediate liabilities because it has insufficient liquid assets.
- **Currency risk** – The risk that the currency of the Plan's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- **Manager underperformance** - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- **Environmental, Social and Governance ("ESG") risks** – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- **Climate risk** - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustee manages asset risks as follows.

By investing across a range of assets, including quoted equities, bonds (and possibly in the future bulk annuity policies), the Trustee recognises the need to access funds in the short term to pay benefits.

The decision to appoint only one Investment Manager does involve some degree of risk (from potential underperformance of that manager) which the Trustee accepts as a reasonable compromise given the size of the portfolio, albeit spread across multiple funds.

The Trustee does not expect managers to take excess short term risk and will regularly monitor the manager's performance against the benchmarks and objectives set on a short, medium and long terms basis.

The Trustee's approach to the consideration of ESG risks and climate risk is set out in further detail below.

Other provider risk

- **Transition risk** - The risk of incurring unexpected costs in relation to the transition of assets among managers.
- **Custody risk** - The risk of loss of Plan assets, when held in custody or when being traded.
- **Credit default** - The possibility of default of a counterparty in meeting its obligations.

The Trustee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Plan, or has delegated such monitoring and management of risk to the appointed Investment Managers as appropriate (e.g. custody risk in relation to pooled funds). When carrying out significant transitions, the Trustee seeks professional advice.

Expected return on investments

The investment strategy aims to broadly match the Plan's liabilities.

Realisation of investments

All of the Plan's investments may be realised quickly if required.

Portfolio turnover

The Trustee has expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee expects 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.

Consideration of financially material factors in investment arrangements

The Trustee recognises that the consideration of financially material factors over the appropriate time horizon of the investments, including ESG factors, is relevant at different stages of the investment process. The Trustee considers these to be financially material over the long-term.

Strategic considerations

The strategic benchmark has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

Structural considerations

In an active mandate, the Trustee expects that the Investment Manager will take account of all financially material factors including the potential impact of ESG factors in the implementation of their mandate.

Within active mandates, the Trustee has delegated responsibility for the consideration of stock specific issues to the individual Investment Manager. The Trustee is satisfied that the Investment Manager is following an approach which takes account of all financially material factors.

Consideration of non-financially material factors in investment arrangements

Given the objectives of the Plan, the Trustee has not considered any non-financially material factors in the development and implementation of their investment strategy.

The Trustee has not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with Investment Managers and the monitoring of compliance with agreed policies.

Engagement

Where appropriate, the Trustee will engage with and may seek further information from their Investment Manager on how portfolios may be affected by a particular issue.

The Trustee does not engage directly but actively encourages its Investment Manager to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks.

Responsibility for investment decisions has been delegated to the Investment Manager which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustee expects the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

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The Trustee separately considers any conflicts of interest arising in the management of the Plan and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

Additional Voluntary Contributions (AVCs)

The Trustee gives members the opportunity to pay AVCs to Prudential. A range of funds is available for investment at members' discretion.

Signed for and on behalf of Open Trustees Limited sole trustee of the Trustee of The Bournemouth Transport Limited Pension Plan:

Director: (authorised signatory)

Name: Tricia Angulatta

Date 21 December 2022

Directo (authorised signatory)

Name: Paul Matthews