

# *Addendum to the Statement of Investment Principles*

**For the FirstGroup Pension Scheme**

**Effective from: 23 March 2026**

**This addendum to the Statement of Investment Principles (“SIP”) for the FirstGroup Pension Scheme (the “Scheme”) has been produced by the Trustee of the Scheme. It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Scheme’s investment arrangements.**



# Part 1:

## Investment governance, responsibilities, decision-making and fees

**We have decided on the following division of responsibilities and decision making for the Scheme. This division is based upon our understanding of the various legal requirements placed upon us and our view that the division of responsibility allows for efficient operation and governance of the Scheme overall. Our investment powers are set out within the Scheme's governing documentation.**

### 1. Trustee

Our responsibilities include:

- setting the investment strategy, in consultation with the employer.
- setting investment policies, including those relating to financially material factors and the exercise of rights and engagement activities in respect of the investments.
- putting effective governance arrangements in place and documenting these arrangements in a suitable form.
- monitoring, reviewing, engaging with and replacing investment managers, investment advisers, actuary, and other service providers.
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended).
- communicating with members as appropriate on investment matters, such as our assessment of our effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged.
- reviewing the SIP and modifying it as necessary.

We have delegated consideration of certain investment matters to an investment committee ("IC"), although any decisions remain our responsibility.

### 2. Investment managers

The investment managers' responsibilities include:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation.
- taking account of financially material considerations (including climate change, net zero alignment and other Environmental, Social and Governance ("ESG") considerations) as appropriate in managing the assets.
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments.
- providing regular information concerning the management and performance of their respective portfolios, including information on voting and engagement undertaken and progress on net zero alignment over time.
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

### 3. Investment adviser

The investment adviser's responsibilities include:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested.
- advising on and monitoring liability hedging and collateral management.
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the

managers' approaches to financially material considerations (including climate change and other ESG considerations).

- supporting the Trustee in achieving the Scheme's net zero ambition, including through manager selection, monitoring and engagement.
- assisting us with reviews of this SIP.

## **4. Fee structures**

The provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets. We have agreed terms with the Scheme's investment adviser, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The fee structure used in each case has been selected with regard to existing custom and practice, and our view as to the most appropriate arrangements for the Scheme, and we keep the fee structures under review.

## **5. Performance assessment**

We are satisfied that there are adequate resources to support our investment responsibilities, and that we have sufficient expertise to carry out our role effectively. It is our policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. We will also periodically assess the effectiveness of our decision-making and investment governance processes and will decide how this may then be reported to members.

## **6. Working with the sponsoring employers**

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, we seek to give due consideration to the employer's perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the employer, we believe that better outcomes will generally be achieved if we work with the employer collaboratively.

# Part 2:

## Policy towards risk

### 1. Risk capacity and appetite

Risk capacity is the maximum level of risk that we consider to be appropriate to take in the investment strategy. Risk appetite is how much risk we believe is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

When assessing risk and reviewing the investment strategy, we consider:

- the strength of the employer covenant and how this may change over time.
- the agreed journey plan and employer contributions.
- the Scheme's long-term and shorter-term funding targets.
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged.
- the Scheme's cash flow and target return requirements.
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

### 2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and we monitor these on a regular basis. These include, but are not limited to:

#### Risk of inadequate returns

A key objective is that the assets produce a sufficient long-term return in excess of the liabilities, and we have set an appropriate target return for the assets accordingly. There is a risk that the return experienced is not sufficient. This risk has been considered in setting the investment strategy.

#### Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type (eg equities), could materially adversely affect the Scheme's assets. We believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements.

#### Equity risk

We believe that equity risk is a rewarded investment risk, over the long term. We consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

#### Credit risk

The Scheme is subject to credit risk because it invests in bonds via pooled funds. This risk is managed by only investing in pooled funds that have a diversified exposure to different credit issuers, and only invest in bonds that are classified as "investment grade".

#### Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy and believe that it diversifies the strategy and is appropriate.

Furthermore, we manage the amount of currency risk by investing in pooled funds that hedge currency exposure or implement separate currency hedging arrangements.

### **Interest rate and inflation risk**

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bond funds and Liability Driven Investment ("LDI") funds. However, the interest rate and inflation exposure of the Scheme's assets provide protection (hedges) part of the corresponding risks associated with the Scheme's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

### **Investment manager risk**

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we receive written professional advice, and we will typically undertake a manager selection exercise. We monitor the investments regularly against their objectives and receive ongoing professional investment advice as to their suitability.

### **Climate-related risks**

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and we monitor how this risk is being managed in practice. We encourage our managers (where practical) to set credible net zero targets for the funds in which we invest and to align our investments with net zero greenhouse gas emissions by 2050 to help drive real world emissions reduction and reduce systemic risks relating to climate change. We monitor and engage with our managers on their progress towards net zero alignment.

### **Other environmental, social and governance (ESG) risks**

ESG factors are sources of risk, which could be financially material over both the short and longer term. These include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. We seek to appoint investment managers who will manage these risks appropriately and monitor how these risks are being managed in practice.

### **Illiquidity/marketability risk**

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. We are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate

degree of liquidity across the Scheme's investments and by investing in income generating assets, where appropriate.

### **Counterparty risk**

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, Columbia Threadneedle makes use within its LDI funds of derivative and gilt repos contracts. These funds are used to match efficiently a portion of the Scheme's liabilities. Counterparty risk is managed within the funds through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

### **Collateral adequacy risk**

The Scheme is invested in leveraged LDI arrangements to provide hedging protection against adverse changes in interest rates and inflation expectations. From time to time, depending on market movements, additional cash may need to be invested in the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the cash required to maintain the hedging protection is not available for use within the LDI portfolio within the required timeframe. A possible consequence of this risk materialising is that the Scheme's liability hedging could be reduced, potentially leading to a worsening of the Scheme's funding level.

To mitigate this risk, the Trustee has a leverage management plan in place, which is reviewed and updated periodically. This sets out clearly the assets directly available to support the Scheme's LDI arrangements and the approach that is expected to be taken with regards to selling down any other assets to support the LDI arrangements. As part of this leverage management plan, the Trustee periodically monitors the impact of movement in interest rates and inflation expectations and how that compares to the change that can be supported by the assets invested in the LDI arrangements and those directly supporting those arrangements.

The Trustee has also given consideration to what further measures could be taken should the assets referred to in the leverage management plan prove insufficient to support the LDI arrangements, for example, raising additional money from other Scheme assets and/or sourcing money from the employer in the short term.

## Valuation risk

Some of the Scheme's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets (such as private debt held in the Mercer PIP III fund), prices may only be estimated relatively infrequently using one or more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice. This risk is particularly relevant for assets such as property.

We consider exposure to valuation risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

## Other non-investment risks

We recognise that there are other non-investment risks faced by the Scheme. We take these into consideration as far as practical in setting the investment arrangements.

Examples include:

- longevity risk (risk that members live, on average, longer than expected); and
- sponsor covenant risk (risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).
- Both investment and non-investment risks can lead to the funding position materially worsening. We regularly review progress against the funding target.



# Part 3:

## Investment manager arrangements

Details of the investment managers are set out below.

### Columbia Threadneedle Investments (“CT”) – LDI and Liquidity

The Scheme invests in CT’s Dynamic LDI range, via the following pooled funds. The Scheme first invested in these funds on 10 November 2023.:

- **CT Nominal Dynamic LDI Fund:** The objective of the fund is to provide a hedge against changes in interest rates expectations.
- **CT Short Profile Real Dynamic LDI Fund:** The objective of the fund is to provide a hedge against changes in interest rates and inflation expectations.
- **CT Credit-linked Real Dynamic LDI Fund:** The objective of the fund is to provide exposure to credit markets through derivative exposure and hedge against changes in interest rates and inflation expectations.

The LDI funds are sub-funds under the Columbia Threadneedle (Lux) LDI fund, an open-ended umbrella investment company (“OEIC”). The funds are daily dealing.

- **CT Sterling Liquidity Fund:** The objective of the fund is to provide a vehicle that will maintain high levels of liquidity and generate a return in line with money market rates.

The Scheme first invested in this fund on 17 November 2023.

The fund is a sub-fund that forms part of the CT (Lux) LDI Fund, an umbrella fund set up under Luxembourg law and structured as a “Fonds Commun de Placement”. The fund is daily dealing.

CT has appointed State Street Bank Luxembourg S.C.A. as the depositary and transfer agent (effectively covering all custodial roles).

### Columbia Threadneedle Investments (“CT”) – Short duration credit

The Scheme invests in short duration credit via a pooled fund called the CT Net Zero Transition Low Duration Credit (formerly Global Low Duration Credit). The Scheme first invested in this fund on 10 November 2023.

The Trustee switched to the equivalent income-distributing share class of the Fund on 4 February 2026.

- The objective of this fund is to deliver a total return commensurate with investment in low duration non-government bonds and other similar assets.

The fund is a sub-fund within Columbia Threadneedle (Lux) LDI, a Luxembourg domiciled OEIC company with variable capital, and is daily dealing.

CT has appointed State Street Bank Luxembourg S.C.A. as the depositary and transfer agent (effectively covering all custodial roles).

### Legal and General Investment Management (“LGIM”) – Global equities

The Scheme invests in global equities, split equally between two pooled funds:

- LGIM Low Carbon Transition Global Equity Index Fund (Hedged)
- LGIM Low Carbon Transition Global Equity Index Fund (Unhedged)

The Scheme first invested in these funds on 15 December 2023.

- The objective of these funds is to produce a return consistent with the index (Solactive L&G Low Carbon Transition Global Index). The index aims to provide exposure to developed and emerging equity markets while reducing carbon intensity by 70% at the outset on a de-carbonisation path to achieve net zero by 2050, whilst also significantly reducing the level of carbon reserves and improving green revenues through exposure to six underlying alternatively weighted indices

The fund has a unit-linked insurance policy structure and is daily dealing.

The custodian of the fund’s underlying assets is Citibank.

## Ninety One – Multi-asset Credit

The Scheme invests in multi-asset credit via a pooled fund called the Ninety One Multi Asset Credit Fund. The Scheme first invested in this fund on 28 March 2024.

- The fund performance target for the GBP-hedged share class is to achieve returns of SONIA +4% pa before fees over a full credit cycle.

The fund is a sub-fund within Ninety One Global Alternative Fund 1, a Luxembourg domiciled open-ended umbrella investment company with variable capital (“SICAV”), regulated by the ‘Commission de Surveillance du Secteur Financier’ (“CSSF”) of Luxembourg. The fund is monthly dealing.

Ninety One Global Alternative Fund 1 has appointed State Street Bank International GmbH, Luxembourg Branch (State Street) as the custodian for the fund.

## TwentyFour Asset Management – Monument Bond Fund

The Scheme invests in asset-backed securities via a pooled fund called the TwentyFour Asset Management Monument Bond Fund. The Scheme first invested in this fund on 13 May 2025.

The Trustee switched to the equivalent income-distributing share class of the Fund on 12 February 2026.

- The key objective of the Fund is to *“provide an attractive level of income relative to prevailing interest rates whilst maintaining a strong focus on capital preservation”*.

The Fund is a sub-fund within MI TwentyFour Investment Funds, an open-ended umbrella investment company (“OEIC”), incorporated in England and Wales and regulated by the Financial Conduct Authority (“FCA”). The fund is daily dealing.

TwentyFour has appointed Northern Trust as the custodian for the Fund. Northern Trust is a large financial institution with a significant level of assets to which it offers custodial and administrative services. It is authorised and regulated by the Financial Conduct Authority.



# Part 4:

## *Monitoring and engaging with managers on voting and engagement*

### Stewardship priorities

We have selected stewardship priority themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We will review them regularly and update them if appropriate. Our current priorities are climate change, diversity equity and inclusion and corporate transparency.

We chose these priorities because they are market-wide areas of risk that are financially material for the investments and can be addressed by good stewardship. Therefore we believe it is in our members' best interests that our managers adopt strong practices in these areas.

We communicated these stewardship priorities to our managers.

### Manager selection

We aim to appoint investment managers that have strong responsible investment skills and processes and have a preference for managers and funds with net zero targets and credible plans to meet them. We therefore favour investment managers who are signatories to the Principles for Responsible Investment, the UK Stewardship Code as well as the Net Zero Asset Managers Initiative.

When selecting new managers, we consider our investment consultant's assessment of potential managers' capabilities in this area. If we meet prospective managers, we usually ask questions about responsible investment.

### Manager monitoring

We receive information regularly to enable us to monitor our managers' responsible investment practices and check how effective they're being.

This information includes metrics such as our investment consultant's responsible investment grades for each manager at a fund level and whether they are signatories to responsible investment initiatives for example.

### Implementation statement including most significant votes

Following the end of each Scheme year, we prepare a statement which explains how we have implemented our Statement of Investment Principles voting and engagement policies during the year. We publish it online for our members to read.

In the statement, we describe how our managers have voted on our behalf during the year, including the most significant votes cast. The Trustee Board selects these votes from a set of significant votes compiled by our investment consultant from those provided by our managers. In doing so, we have regard to:

- whether it relates to one of our stewardship priorities; and
- the size of our holding.