The London United Busways Retirement Benefits Plan

Statement of Investment Principles

The Trustee of the London United Busways Retirement Benefits Plan (the "Plan") has prepared and maintains this Statement of Investment Principles (the "Statement") to comply with the requirements of s.35 of the Pensions Act 1995 and relevant requirements of The Occupational Pension Schemes (Investment) Regulations 2005. It is the written statement of the investment principles that govern decisions about the Plan's investments.

In preparing this Statement, the Trustee has obtained and considered the written advice of Mercer Limited ("Mercer"), who the Trustee believes is a suitably qualified person by Mercer's ability and practical experience of financial matters and on the understanding that it has appropriate knowledge and experience of the management of the investments of occupational pension schemes.

The Trustee has also consulted with the London United Busways Limited (the "Company") ahead of the preparation of this Statement and will consult the Company on any future revisions.

This Statement is comprised of 3 Parts as follows:

(A) Part 1: Investment principles governing investment decisions for the purposes of providing defined benefits from the Plan (i.e. the Main Plan)
(B) Part 2: Investment principles governing investment decisions for the purposes of providing money purchase benefits from the Plan (i.e. the AVC and PIP sections)
(C) Part 3: Investment principles governing investment decisions for the purposes of the Plan's money purchase default arrangement (i.e. currently the use of the Clerical Medical With Profits Fund)

Each Part is currently drafted as if it were a standalone document, to give the Trustee the option of physically separating the documents out at different meetings if that would be to the benefit of the governance of the Plan. For that reason there is a degree of repetition between the different Parts when read as one.

Together the Parts comprise the Statement that applies to the Plan for the purposes of s.35 of the Pensions Act 1995.

London United Busways Retirement Benefits Plan

Statement of Investment Principles – September 2019

1. Introduction

The Trustee of the London United Busways Retirement Benefits Plan (the "Plan") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. The Trustee's investment responsibilities are governed by the Plan's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with London United Busways Limited (the "Company") to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Plan's investment arrangements and, in particular on the Trustee's objectives.

2. Process For Choosing Investments

The Trustee has decided to implement a de-risking strategy whereby the level of investment risk reduces as the Plan's funding level improves. The Trustee has agreed the way in which investment risk should be reduced and have delegated the implementation of the de-risking strategy to Mercer through the use of the Mercer Dynamic De-risking Solution ("MDDS"). Mercer constructs portfolios of investments that are expected to maximise the return (net of all costs) given the targeted level of risk.

In considering appropriate investments for the Plan, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Policy and Risk

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee acting on advice from its investment consultant, and is driven by its investment objectives as set out below. The remaining elements of policy are part of the day to day management of the assets which is delegated to professional investment managers and described in the Statement of Investment Arrangements ("SIA"). The format of this statement is designed to provide a logical statement rather than an ordered response to the Act. The Trustee believes, however, that it incorporates a response to all the requirements of the Act.

4. Investment Objectives

The Trustee understands that taking some investment risk, with the support of the Sponsoring Company, is necessary to improve the Plan's funding level. The Trustee recognises that equity investment (and other growth assets) will bring increased volatility of the funding level, but in the expectation of improvements in the Plan's funding level through asset outperformance over and above the liabilities over the long term.

The Trustee's primary objective is to make sure the Plan can meet its obligations to the beneficiaries of the Plan. The long term objective of the Trustee is therefore to reach a position such that the assets would be sufficient to exceed the liabilities as determined, in the event of the Plan winding-up, on the basis of a buyout with an insurance company.

The Trustee recognises that this ultimately means investing in a portfolio of bonds and other liability driven investments, but believe that at the current time some equity and growth asset investment is justified to target enhanced return expectations and thereby target funding level improvements. The Trustee recognises that this introduces investment risk and these risks are discussed further below.

The Trustee has agreed a medium term target of reaching a fully funded position, on a self-sufficiency basis and to moving towards a bond-based investment strategy in order to minimise the volatility of the funding level relative to the liabilities. Further detail on the funding basis and timeframes are given in Section 6. The Trustee will monitor progress against this target.

The Trustee believes that the investment strategy adopted for achieving this objective will also be appropriate for achieving the objectives of avoiding significant volatility in the contribution rate over the longer term. The Trustee recognises that investment in return seeking assets could potentially lead to volatility in the contribution rate over shorter time periods.

5. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management over the Plan's anticipated lifetime is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Plan's assets and its liabilities.

- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's accruing liabilities as well as producing more volatility in the Plan's funding position.

- The Trustee has delegated the Plan's asset allocation to Mercer. The asset allocation has initially been set so that the expected return on the portfolio is sufficient to meet the objectives outlined in Section 4. As the funding level improves, investments will be switched from growth assets into matching assets with the aim of reducing investment risk. Mercer provides the Trustee with regular reports regarding the Plan's asset allocation.

- The Trustee recognises that even if the Plan's assets are invested in matching assets there may still be a mismatch between the interest-rate and inflation sensitivity of the Plan's assets and the Plan's liabilities due to the mismatch in duration between matching assets and actuarial liabilities.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. To help the Trustee ensure the continuing suitability of the current investments, the Trustee delegates responsibility for the hiring, firing and ongoing monitoring of the Plan's investment managers to Mercer. Mercer provides the Trustee with regular reports regarding the appointed investment managers to monitor consistency between the expected and experienced levels of risk and return.

- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active investment managers involves such a risk. However, for specific asset classes, the Trustee believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in markets is deemed efficient where the scope for added value is limited.

- To help diversify manager specific risk, multiple manager appointments are made within each actively managed asset class by investing in multi-manager pooled funds managed by Mercer.

- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), such investments will normally only be made with the purpose of reducing the Plan's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustee will ensure that the assets of the Plan are predominantly invested in regulated markets.

- Responsibility for the safe custody of the Plan's assets is delegated to Mercer who has appointed State Street Bank and Trust Company ("State Street") as custodian of the assets invested in their pooled vehicles. Mercer is responsible for keeping the suitability of State Street under ongoing review.

- The Trustee recognises the risks inherent in holding illiquid assets. The Trustee has carefully considered the Plan's liquidity requirements and time horizon when setting the investment strategy and manages liquidity risk by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.

- The Plan is subject to currency risk because some of the investment vehicles in which the Plane invests are denominated or priced in a foreign currency. Indirect currency risk arises from the Plan's investment in sterling priced investment vehicles which hold underlying investments denominated in foreign currency. In order to limit currency risk, Mercer sets a target non-sterling currency exposure and manages the level of non-sterling exposure using currency hedging derivatives such as forwards and swaps.

- The Trustee recognises that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 11 sets out how these risks are managed

Should there be a material change in the Plan's circumstances, the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular, whether the current de-risking strategy remains appropriate.

In addition, the investment strategy will be reviewed approximately annually.

6. Investment Strategy

The Trustee, with advice from the Plan's Investment Consultant and Plan Actuary, and in conjunction with the Company, reviewed the Plan's investment strategy in 2018. This review considered the Trustee's investment objectives, their ability and willingness to take risk (the risk budget) and how this risk budget should be allocated and implemented (including de-risking strategies).

Following a strategy review in 2014, the key decision was to seek a long term solution to 'de-risk' the Plan's assets relative to its liabilities over time using a dynamic trigger based de-risking framework. The Trustee decided to implement their de-risking strategy through MDDS. Following the review in 2018 the Trustee concluded that a de-risking strategy continued to be appropriate for the Plan, particularly following closure to future accrual and new members.

The solution determined by MDDS determines the asset allocation of the Plan with reference to the Plan's funding level (on an actuarial basis using a single discount rate of 0.4% p.a. in excess of appropriate gilt yields). The de-risking rule mandates the following practices:

- To hold sufficient growth assets to target full funding on a "gilts +0.4%" p.a. basis by 2029;
- To reduce the volatility in the funding level by reducing un-hedged liability exposures; and
- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise.

The de-risking triggers which form the basis of the Plan's dynamic investment strategy are set out in a separate document – the Statement of Investment Arrangements ("SIA").

For the avoidance of doubt, should the funding level deteriorate and fall below a de-risking trigger threshold, the asset allocation will not be automatically "re-risked". The Trustee has also delegated the composition of the growth and matching portfolios to Mercer.

Responsibility for monitoring the Plan's asset allocation and undertaking any rebalancing activity when the rebalancing range restrictions are breached is delegated to Mercer. Mercer reports quarterly to the Trustee of any breaches to the rebalancing range restrictions.

7. Day–to-Day Management of the Assets

The Trustee has delegated day-to-day management of the assets to Mercer who in turn delegates responsibility for the investment of the assets to a range of underlying specialist investment managers. Mercer is responsible for the selection, appointment, removal and monitoring of the underlying investment managers. The underlying investment managers have full discretion to buy and sell investments on behalf of the Plan, subject to agreed constraints.

The Trustee has taken steps to satisfy themselves that Mercer have the appropriate knowledge and experience to choose and combine the underlying investment managers and ensure that they are fit to manage the Plan's investments.

The Trustee regularly reviews the continuing suitability of the Plan's investments, including Mercer's ability to select, appoint, remove and monitor the appointed managers. Mercer is regulated by the Financial Conduct Authority.

8. Realisation of Investments

Mercer and the underlying investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

9. Cash flow and cash flow management

Cash flows, whether positive or negative, are used to move the Plan's asset allocation, including the allocations to the individual underlying investment managers, back towards the strategic allocations as appropriate.

10. Rebalancing

Responsibility for monitoring the Plan's asset allocation and undertaking any rebalancing activity is delegated to Mercer. Mercer will review the actual balance between the Growth and matching portfolios on an ongoing basis. If at any time the actual balance between the Growth and Matching portfolio is deemed to be outside the appropriate tolerance range Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced growth portfolio weight, under the new de-risking band, as defined in the Statement of Investment Arrangements.

11. ESG, Stewardship and Climate Change

The Trustee believes that environmental, social and corporate governance (ESG) factors may have a financially material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets, and therefore investors, as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. These beliefs have informed the following Trustee policies. The Trustee has appointed Mercer as fiduciary investment manager and has therefore delegated responsibility for implementation, including integration of ESG, to Mercer.

The Trustee's policy is to require Mercer to integrate factors, including ESG and climate change, that are financially material to a particular investment in the context of the Plan's investment strategy at various stages of the portfolio construction and manager selection processes. The Trustee has set a timeframe running to 2029 to become fully funded on the Plan's self sufficiency basis, and it expects to pay pensioners to member for many years into the future beyond that date. Long-term investment performance is therefore important. However, there may be elements of the investment strategy where the fundamental investment objective is appropriately short-term in nature. When considering whether a factor is financially material the Trustee will consider the objective of the investment, as well as its nature and structure. The Trustee expects its investment consultants, Mercer, to identify financially material factors relevant to the Plan's portfolio and advise accordingly. The Trustee works with Mercer (as investment consultant) to understand its approach to assessing the credentials of underlying managers to integrate ESG factors into their investment processes. The Trustee's policy is to consider such factors proportionately, in the round, as part of any decision to select, retain or realise an investment.

The Trustee also has a policy that requires Mercer (as fiduciary manager) to engage with the underlying investment managers, as it does on behalf of all its clients, to encourage the underlying investment managers to exercise any rights attaching to the investments it holds, and to engage with the companies held where possible.

The Plan is invested in pooled funds (i.e. it owns rights in investment funds in which a number of investors invest). The Trustee does not directly own any of the assets within the fund, which are managed for the benefit of all investors. It does not have any rights, like voting rights, in relation to the underlying assets and is instead relies on the manager's engagement with underlying vehicles in which the fund is invested in (e.g. regarding that vehicle's approach to ESG impact and risk, performance and strategy). It is also not commercially possible for a single investor, like the Trustee, to require managers of pooled funds to make specific changes to their investment approach (e.g. in relation to integration of certain factors like ESG or stewardship). The optimal way for the Trustee to exercise its preference regarding a pooled product manager's approach is part of the decision to select, retain or realise an investment.

Consequently the Trustee's policy is that the manager's approach to financially material factors, such as ESG and climate change, and stewardship forms part of the criteria used when deciding whether to select or retain the fiduciary investment manager (or other pooled fund products). It should also form an appropriate part of the ongoing monitoring of the fiduciary investment managers' performance. It expects managers (passive and active) to comply with the UK Stewardship Code and UK Corporate Governance Code, and other appropriate engagement activities with the issuers or holders of the assets it invests in.

The Trustee has delegated day to day management of the Plan's assets to a fiduciary manager, Mercer. The Trustee will work with Mercer to understand how it selects, retains and realises investments on behalf of the Trustee, and to consider whether this is aligned with the Trustee's policies and beliefs. The Trustee has not set any investment restrictions on Mercer as appointed fiduciary manager in relation to particular products or activities, but may consider this in future. Mercer has given their appointed managers investment restriction in relations to particular products of activities, which the Trustee will continue to monitor. The Trustee will ensure that it receives appropriate reporting from Mercer, in order to monitor Mercer's compliance with this Statement.

The Trustee does and will continue to consider sustainability themed investments as a way to implement its policies and beliefs. The Plan currently invests in a sustainable equity portfolio and may consider private market sustainable opportunities in the future.

The Trustee does not currently engage in any formal way with other pooled fund investors in order to exert pressure on managers. However, Mercer in its role as fiduciary manager has the combined influence of its pension schemes clients, and as such exert more influence than the Trustee could alone. The Trustee considers this beneficial (to the extent it aligns with the Trustee's beliefs).

Non-Financial matters

The Trustee does not take non-financial matters (e.g. anyone's ethical views or personal views in relation to social and environmental impacts or quality of life) into account when making any investment decisions, including selecting, retaining or realising investments. There is not likely to be a common view amongst members. The Trustee will comply with its legal duty to act in the financial interests of the membership as a whole.

12. Fee Structures

Mercer levies a fee (plus VAT where applicable) based on a percentage of the value of the assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying managers also levy fees based on a percentage of the value of the assets under management. Some of the underlying managers may also levy fees based on their performance.

13. Review of this Statement

The Trustee will review this Statement in response to any material changes to any aspects of the Plan, its liabilities, finances, the attitude to risk of the Trustee and the Company which they judge to have a bearing on the stated Investment Policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters, and to have the appropriate knowledge and experience of the management of pension scheme investments.

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Signed on behalf of the Trustee Directors of the London United Busways Retirement Benefits Plan **Date**

London United Busways Retirement Benefit Plan

Statement of Investment Principles

Contents

1. Introduction

This document constitutes the Statement of Investment Principles (the SIP) required under Section 35 of the Pensions Act 1995 for the Trustee of the London United Busways Retirement Benefit Plan (the Plan) for both the PIP and AVC sections. The SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The SIP, as amended in Septemebr 2019, applies from 1 January 2017.

The PIP and AVC sections are a defined contribution (also known as money purchase) arrangement that operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries and is registered with HMRC under the Finance Act 2004.

The member's retirement benefits depend on:

(i) The level of contributions made by or in respect of the member

(ii) The level of bonus distribution applied by the Plan's provider for members holding with-profit policies

(iii) The investment return achieved by the selected unitised fund

(iv) When and how members choose to access their accumulated fund

Before preparing this SIP, the Plan Trustee confirm that they have consulted with the Plan's Principal Employer, London United Busways. The Trustee has also considered advice from its appointed Investment Advisor.

The PIP and AVC sections are invested in a core selection of funds, including with-profits, which are provided by Equitable Life (the Plan's current Provider), and is a wholly-insured arrangement which has no investments other than specified qualifying insurance policies.

The Trustee is responsible for the investment of the PIP and AVCs assets and arranging administration of these policies. Where the Trustee isrequired to make an investment decision, it will first receive written advice from an Investment Adviser. The Trustee believe that this, together with their own expertise, ensures that they are appropriately familiar with the issues concerned.

The Trustee believes the Investment Adviser to be qualified by their ability in, and practical experience of, financial matters and to have the appropriate knowledge and experience of the investment arrangements that the Plan requires.

The SIP will be reviewed at least every three years, or following any significant change in investment policy.

The Trustee also confirm that they will consult with the Principal Employer and take advice from the Investment Adviser prior to this SIP being revised.

2. Plan governance

The Trustee consider that the following governance structure is appropriate for the PIP and AVC sections, since it enables the Trustee to retain the decision-making role on the investments available to members, while delegating the day-to-day aspects to Equitable Life as appropriate.

Trustee

The Trustee are responsible for, amongst other things:

- Reviewing from time to time (at least every three years, or following any significant change in investment policy) the content of this SIP and modifying it if deemed appropriate in consultation with the Principal Employer and on advice from an Investment Adviser
- Reviewing the investment options and the performance of the available funds at least every three years or following significant change in investment policy, or the demographic profile of relevant members
- Assessing the quality of the performance and processes of Equitable Life by means of regular reviews of the investment results of each fund through meetings and written reports in consultation with an Investment Adviser
- Appointing and dismissing of an Investment Platform Manager (currently Equitable Life) on advice from an Investment Adviser
- Assessing the ongoing effectiveness of an Investment Adviser
- Consulting with the Principal Employer when reviewing investment policy issues
- Monitoring compliance of the investments with the SIP on an ongoing basis
- Providing any appointed organisations/individuals with a copy of the SIP, where appropriate

The Trustee consider that they have sufficient skills and investment knowledge to give appropriate focus to investment issues without appointing a separate investment sub-committee.

Investment Platform Manager

The Investment Platform Manager will be responsible for, amongst other things:

- At their discretion, but within the guidelines agreed with the Trustee, selecting and undertaking transactions in specific investments within each fund, including the selection, retention and realisation of assets.
- Acting in accordance with the principles set out in the SIP
- Providing administration for the PIP and AVCs on behalf of the Trustee, including investment of members' contributions in their chosen funds and providing information to the Trustee in an agreed format
- Providing the Trustee with sufficient information to facilitate the review of their activities, including:
  - Performance and rationale behind past and future strategy for each fund,
  - A full valuation of the assets
  - A transaction report
- Informing the Trustee immediately of:
  - Any breach of this SIP
  - Any serious breach of internal operating procedures
  - Any material change in the knowledge and experience of those involved in the Plan's investment options

Investment Adviser

An Investment Adviser would be responsible for, amongst other things:

- Participating with the Trustee in reviews of the SIP
- Advising the Trustee how any changes, such as in the membership and legislation, may affect the manner in which the assets should be invested
- Advising the Trustee of any changes relating to the Investment Platform Manager and other investment providers that could affect the interests of the Plan
- Assisting the Trustee with monitoring the Investment Platform Manager and arrangements
- Discussing with the Trustee any changes in the investment environment that could either present opportunities or problems for the PIP and AVC sections
- Undertaking reviews of the PIP and AVC's investment arrangements when requested by the Trustee including reviews of the investment options and current Investment Platform Manager, and selection of new manager(s) as appropriate
- Providing written advice as required under Section 36(6) of the Pensions Act 1995

3. Risks

The Trustee recognise a number of risks involved in the investment of PIP and AVC assets.

Defined contribution members face four key risks:

– *Inflation risk* – the risk that the purchasing power of their retirement pot is not maintained

– *Pension income risk* – the risk that the value of pension benefits (or annuity) that can be purchased by a given retirement pot amount is not maintained

– *Investment risk* – the risk that the value of their retirement pot may fall in value. (This is most important to members approaching retirement who may not have sufficient time to regain the value of investments)

– *Opportunity risk* – the risk that members take insufficient investment risk, especially at younger ages, which results in a smaller pot of money with which to provide benefits

The importance of each risk varies with time. Inflation is important throughout the savings period. Pension income and investment risks only become significant as retirement approaches. In considering the member offering, the Trustee acknowledges that the investment time horizon of each individual member is different and will dependen upon their current age and when they expect to retire.

Other risks involved in the investment of assets include the following:

- *Underperformance risk* – addressed through monitoring the performance of the Investment Platform Manager and taking necessary action when this is not satisfactory
- *Application of Market Value Adjustment* – as some assets are primarily invested in a with profit policy with Equitable Life, members' crystallising benefits prior to, or post normal pension age can be subject to a market value adjustment (MVA). The MVA can be applied by Equitable Life at anytime without prior notification. The Trustee, where possible, will notify members who are claiming benefits outside their normal pension date of the potential of an MVA being applied
- *Communication risk* – the risk that communications (or the lack of communications) to members lead to poor decisions being made - addressed through the Trustee regularly monitoring member communications and updating them, where appropriate, as part of the ongoing governance of the Plan
- *Inappropriate member decision* – addressed through communications to members and highlighting the benefits of members seeking independent financial advice

- *Organisational risk* – addressed through regular monitoring of the Investment Platform Manager and Investment Adviser
- *Country/political risk* – the risk of an adverse influence on investment values from political intervention is reduced by offering investment options for members to achieve diversification across several countries
- *Manager risk* – the risk that the decisions taken by an investment manager may have a detrimental impact on the returns of a fund. The Trustee is aware that it is reliant on the manager to take appropriate investment decisions in pursuit of the investment objective.
- *Benefit Conversion Risk* – the risk that the value of the member's pre-retirement investment fund does not keep pace with the 'value' of the retirement benefits they intend to secure. This risk is not specifically mitigated within the default but fund options are available to members to manage this risk outside of the default.
- *Solvency Risk* – this is the risk that Equitable Life becomes insolvent which prevents them paying the returns across to members. The Trustee expects Equitable lIfe to be setting aside sufficient solvency capital to ensure benefits can be paid in this event.

The Trustee will have regard for these risks when determining investment strategy and will keep these risks under regular review.

4. Corporate Governance and Social, Environmental or Ethical Investment

The Trustee believes that environmental, social and corporate governance (ESG) factors may have a financially material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets, and therefore investors, as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Plan is invested in pooled funds (i.e. it owns rights in investment funds in which a number of investors invest). It is not commercially possible for a single investor, like the Trustee, to require managers of pooled funds to make specific changes to their investment approach (e.g. in relation to integration of certain factors like ESG or stewardship). The optimal way for the Trustee to exercise its preference regarding a pooled product manager's approach is part of the decision to select, retain or realise an investment.

Consequently the Trustee's policy is that the manager's approach to financially material factors, such as ESG and climate change, and stewardship forms part of the criteria used when deciding whether to select or retain a pooled fund product. It should also form an appropriate part of the ongoing monitoring of the investment managers' performance. It expects managers (passive and active) to comply with the UK Stewardship Code and UK Corporate Governance Code, and other appropriate engagement activities with the issuers or holders of the assets it invests in.

The Trustee has delegated day to day management of the Plan's assets to Equitable Life.

The Trustee has not set any investment restrictions on Clerical Medical as appointed manager in relation to particular products or activities, but may consider this in future. The Trustee does and will continue to consider sustainability themed investments as a way to implement its policies and beliefs.

The Trustee does not currently engage in any formal way with other pooled fund investors in order to exert pressure on managers.

5. Investment aims and objectives

The Trustee aims and objectives are to:

- Offer a suitable range of funds, so that the PIP and AVC members have a range of investment options to choose from
- Review, in conjunction with an Investment Adviser, by means of discussion with the Investment Platform Manager, any fund option offered to members that either underperforms its benchmark over a significant timeframe or carries a level of risk to the security of the investment which may be thought to be unreasonable in the context of the PIP and AVC investment aims and objectives. There will be no obligation to make any changes to the range of funds offered to members as part of such a review.

6. Investment Strategy

The investment strategy consists of a range of investment options. Whilst there are no contributions from active members currently being invested, the Trustee is aware that historically, contributions of some members may been invested into the Clerical Medical With-Profits Fund, which is provided on the Equitable Life platform. As such, this option is classified as a default option for the Plan and the Trustee has produced a specific Statement of Investment Principles for this default, as required by legislation, which is appended to this main Statement.

The investment choices comprise a wide range of assets including developed market equities, emerging market equities, gilts, index-linked gilts, with profits and cash. The members are responsible, having considered their own appetite for risk, for decideing the balance of different kinds of investments. This will determine expected returns.

Equitable Life With-profits

The primary objective of the traditional and unitised with-profits funds, is to achieve a stable and smoothed level of investment return over the medium to long term. This will enable the Investment Platform Manager to pay any guaranteed benefits and reduce the level of on risk assets in the future.

In October 2010, BlackRock was appointed by Equitable Life to manage its with-profits fund with the aim of maximising returns, whilst at the same time satisfying Equitable Life's regulatory solvency ratios. As a result, it was expected to continue to largely invest in gilts and corporate bonds. This appointment was another of the changes made to help recreate shareholder value.

To avoid increasing guaranteed benefits and further help manage its solvency requirements, Equitable Life does not pay regular (or reversionary) bonuses unless contractually bound to do so.

The Investment Platform Manager achieves this on their with-profit fund by investing in different assets as shown in the table below.

Asset Type	Percentage of fund at 31 December 2015
Gilts	55%
Corporate Bonds	24%
Short-term gilts & cash	19%
Other	2%
Total	**100%**

The with-profit fund appointed Actuary or investment advisor will regularly review the asset mix to ensure that the above objective is met. The underlying fund managers will then be responsible for managing each respective asset portion of the fund.

Regular bonus

To avoid increasing guaranteed benefits and further help manage its solvency requirements, Equitable Life does not pay regular (or reversionary) bonuses unless contractually bound to do so.

For the Plan bonuses of 2.0% per annum have been added to the policy value for the last few years, but are discretionary and can increase or decrease at any time.

Terminal bonus

A terminal or final bonus may also be payable once a member reaches his or her Plan retirement date, or transfers out of the Plan.

Equitable Life can change or remove the terminal bonus at any time, so it is not guaranteed.

Capital distribution and Market Value Reduction

In April 2016, Equitable Life announced that on 1 April 2016 it would maintain the 35% capital distribution payable to with-profits policyholders. This means that for every £1,000 held in with-profits as at 31 December 2015, Equitable Life allocated an extra capital distribution of £350. The capital distribution is not guaranteed and can go up and down in future depending on, among other things, Equitable Life's regulatory requirements and capital needs.

A Market Value Reduction (MVR) is a deduction that can sometimes be made from members who are invested in the unitised with-profits fund in the event of early retirement or transfer out of the fund before reaching their retirement date within the policy. The purpose of the MVR is to help manage the with-profits fund and ensure all policyholders receive the benefits to which they are due.

Equitable Life is not currently applying an MVR, although this can be applied in the future when a member switches to another investment fund within the plan, transfers to another pension plan or when a member is still in service with the employer and takes benefits before the scheme retirement age. An MVR is not deducted on death, from a member's scheme retirement age or when a member is retiring and taking benefits when they have left service.

Clerical Medical with-profits

The Plan also offers a unit-linked with-profits fund which means that it is the unit price that is increased each year in line with the regular bonus rate. This is the default for the purposes of the Plan

Regular bonus

The regular bonus rate is reviewed each year Once a regular bonus has been paid, it cannot be taken away because the unit-price cannot be reduced.

Terminal bonus

A terminal, or final, bonus may be paid when benefits are either transferred out of the with-profits fund or at retirement, and is calculated when such an event occurs. The final bonus can be changed or removed at any time, and is therefore not guaranteed.

Market Value Reduction

As at January 2017, an MVR is not currently being deducted on early transfer out of the with-profits fund. Clerical Medical reviews this regularly and it can be applied at any time. An MVR is not deducted on death, or when a member reaches their scheme retirement age.

Unit linked funds

In 2001, Equitable Life re-insured its unit-linked funds through Halifax Life, which is now part of the Lloyds Banking Group (Lloyds). In March 2015, Equitable Life announced that it had taken back control of its unit-linked funds and this will reduce the amount of capital Equitable Life will need to hold in respect of the reinsurance contract.

In addition to the unit-linked Clerical Medical with-profits fund, the list of unit-linked funds, managed by Equitable Life, being used in the PIP and AVC arrangements are as follows:

- European
- Far Eastern
- Gilt & Fixed Interest
- International Growth
- Managed
- Money
- Pelican
- North American
- Fund of Investment Trusts

7. Monitoring

The Trustee will monitor the performance of the Plan's Investment Platform Manager against the agreed performance of the objective for each fund.

The Trustee will undertake regular reviews (at least annually) of the Investment Platform Manager to consider whether they are continuing to carry out their work competently and continue to have the appropriate knowledge and experience to manage the assets of the Plan.

In any event the Trustee should formally review the progress and performance of the Investment Platform Manager every three years. As part of this review, the Trustee will consider whether or not the Investment Platform Manager:

- Is carrying out its work competently
- Has regard to the need for diversification of investments
- Has regard to the suitability of each investment and each category of investment
- Has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical

Advisers

The Trustee will monitor the advice given by an Investment Adviser on a regular basis.

Trustee

The Trustee will monitor all the decisions they take by maintaining a record of all decisions taken, together with the rationale in each case.

Other

The Trustee will review this SIP regularly (at least triennially) and modify it if deemed appropriate, in consultation with the Principal Employer and an Investment Adviser.

8. Charges

An Annual Management Charge (AMC) is an annual fee levied on the members to cover the costs of managing their funds. It is calculated as a percentage of the value of the fund.

Equitable Life With-profits fund

The Equitable Life With-profits fund has an AMC of 1.5%, which is allowed for within the bonus rates that are declared. The AMC consists of a 1% charge to cover the cost of administration plus a charge of 0.5% to provide capital to meet the expected cost of the guarantees.

There is also an initial charge of 2.5% on any contributions paid which is deducted from the contribution before investment. As at 1 January 2017, there were no members under Q1005 or Q2003 contributing to the Equitable Life With-profits fund.

Equitable Life unit-linked funds

The AMC for the unit-linked funds are as follows:

Fund	**AMC from April 2016**
European Pn	0.75%
Far Eastern Pn	0.75%
Gilt & Fixed Interest Pn	0.50%
International Growth Pn	0.75%
Managed Pn	0.75%
Money Pn	0.50%
Pelican Pn	0.75%
Clerical Medical With-profits	0.50%

Any contributions to the unit-linked funds are subject to an initial charge which is deducted from the contribution before investment. Under scheme Q1005 the initial charge is 3.0% and under scheme Q2003 the charge is 2.5%

9. Declaration

The Trustee confirm that this SIP reflects the investment strategy they have implemented for the PIP and AVC arrangements under the Plan. The Trustee acknowledge that it is its responsibility, with guidance from the Investment Adviser, to ensure the assets of the PIP and AVCs are invested in accordance with these principles.

……………………………………………………

Signed

On behalf of the Trustee of the London United Busways Retirement Benefit Plan

THE LONDON UNITED BUSWAYS RETIREMENT BENEFIT PLAN (THE "PLAN")

STATEMENT OF INVESTMENT PRINCIPLES IN RESPECT OF THE DEFAULT INVESTMENT OPTION

1. Introduction

1.1 The Trustee of the Plan has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of Section 2A the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation, relating to provision of information specific to default investments, referred to as "default arrangement". This should be read in conjunction with the main Statement.

1.2 The default arrangement covered by this Statement is the Clerical Medical With Profits Fund.

2. Principles

2.1 The Trustee recognises that many members do not consider themselves able to take investment decisions. In addition, the Trustee is aware that members who have not actively decided upon an investment option will have had their contributions invested for them, making their arrangements a default arrangement.

2.2 Whilst no contributions are currently being paid into the Plan, investments may have historically been placed in the default arrangement.

2.3 The default arrangement is the Clerical Medical With Profits Fund which is accessed on a platform provided by the Equitable Life Assurance Society ("Equitable Life").

3. Default Arrangement

Objectives

3.1 The aims of the default arrangement and the ways in which the Trustee seeks to achieve these are detailed below:

- To achieve a stable and smoothed level return over the medium to long term

- *The Trustee has selected a with profits fund as the default arrangement. With profits funds have objectives that are consistent with that stated above.*

- *The Trustee has delegated management of the default arrangement to Clerical Medical The Clerical Medical With Profits Fund is invested in a range of assets including equities, government and corporate bonds, property and cash. The strategic investment mix is reviewed regularly by Clerical Medical and assets are chosen with a view to getting the best possible long-term performance; and making sure that the with-profits fund can always meet its guarantees*.

- To provide members with bonuses, at the discretion of the provider, depending on prevailing investment performance.

  The policies with regards to the payment of bonuses can be found in the Principles and Practices of Financial Management (which is a Clerical Medical document that sets out how the Clerical Medical With Profits Fund is managed

Policies in relation to the default arrangement

3.2 The Trustee's policies in relation to the default arrangement, in relation to regulation 2A of the Occupational Pension Schemes (investment) Regulations, Section (b) (i) to (vi are as follows:

- The Trustee has selected a with profits arrangement which means that the policy on the kinds of investments and the balance between different kinds to be held has been delegated to Clerical Medical. The Trustee acknowledges that it cannot control these decisions.
- The default arrangement manages investment risks during the lifetime of the investment. Section 4 provides further information on the Trustee's risk policies in relation to the default arrangement.
- In providing the default arrangement the Trustee has considered the trade-off between expected risk and return. This is reviewed periodically. The Trustee's expectation is that the default arrangement will provide a positive real return over the long term in a steady manner, noting that it is reliant on asset allocation decisions taken by Clerical Medical to achieve this expectation.
- The Trustee has taken into account the needs of members with regards the investment in relation to the security, quality, liquidity and profitability. To a great extent, the Trustee is reliant on the provider to manage these aspects.
- If members wish to, they can opt to choose their own investment options at any time from a limited range of daily dealt unit-linked funds. The Trustee has communicated with members where penalties may apply on disinvestment.
- The Trustee monitors performance of the default arrangement. The Trustee does not provide advice to members on their individual choice of investment options.
- The selection, retention and realisation of assets within the With Profits fund is delegated to Clerical Medical in line with its Principles and Practices of Financial Management guidelines. Clerical Medical has full discretion on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

Member's Interests

3.3 Taking into account the demographics of the DC Section's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the current default options are appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

4. Corporate Governance and Social, Environmental or Ethical Investment

The Trustee believes that environmental, social and corporate governance (ESG) factors may have a financially material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets, and therefore investors, as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Plan is invested in pooled funds (i.e. it owns rights in investment funds in which a number of investors invest). It is not commercially possible for a single investor, like the Trustee, to require managers of pooled funds to make specific changes to their investment approach (e.g. in relation to integration of certain factors like ESG or stewardship). The optimal way for the Trustee to exercise its preference regarding a pooled product manager's approach is part of the decision to select, retain or realise an investment.

Consequently the Trustee's policy is that the manager's approach to financially material factors, such as ESG and climate change, and stewardship forms part of the criteria used when deciding whether to select or retain a pooled fund product. It should also form an appropriate part of the ongoing monitoring of the investment managers' performance. It expects managers (passive and active) to comply with the UK Stewardship Code and UK Corporate Governance Code, and other appropriate engagement activities with the issuers or holders of the assets it invests in.

The Trustee has delegated day to day management of the Plan's assets to Clerical Medical.

The Trustee has not set any investment restrictions on Clerical Medical as appointed manager in relation to particular products or activities, but may consider this in future. The Trustee does and will continue to consider sustainability themed investments as a way to implement its policies and beliefs.

The Trustee does not currently engage in any formal way with other pooled fund investors in order to exert pressure on managers

Non-Financial matters

4.1 The Trustee does not take non-financial matters (e.g. anyone's ethical views or personal views in relation to social and environmental impacts or quality of life) into account when making any investment decisions, including selecting, retaining or realising investments. There is not likely to be a common view amongst members. The Trustee will comply with its legal duty to act in the financial interests of the membership as a whole

5. Risk

5.1 The Trustee has set out a number of risks in the main Statement of Investment Principles, as required by (b) (iv) of the Regulations. The means by which those relevant for the default arrangement are managed or mitigated is set out below:

- ***Investment return risk*** – the risk that low investment returns over members' working lives will be lower than expectation. The Trustee has sought to reduce this risk by offering a fund that invests in assets with long term growth expectations, noting this cannot be guaranteed.

- ***Manager risk*** – the risk that the decisions taken by an investment manager may have a detrimental impact on the returns of a fund. The Trustee is aware that it is reliant on the manager to take appropriate investment decisions in pursuit of the investment objective.

- ***Benefit Conversion Risk*** – the risk that the value of the member's pre-retirement investment fund does not keep pace with the 'value' of the retirement benefits they intend to secure. This risk is not specifically mitigated within the default but fund options are available to members to manage this risk outside of the default.

- ***Inflation risk*** - this is the risk of investment returns not keeping pace with inflation. The Trustee has sought to address this risk by offering a fund that is across a range of asset classes that are expected to achieve a real rate of return over inflation. This may be further enhanced by returns paid in the form of discretionary bonuses.

- ***Market Value Adjustment*** – this is the risk that Clerical Medical impose a penalty on members' investments should they transfer their benefits or take 'non-standard' retirement. The Trustee does not have the direct ability to mitigate this risk but will look to communicate with members so as to manage member expectations in the event of this adjustment.

- ***Solvency*** **Risk** – this is the risk that the Clerical Medical becomes insolvent which prevents them paying the returns across to members. The Trustee expects Clericall Medical to be setting aside sufficient solvency capital to ensure benefits can be paid in this event.

- **Risk of operational costs -** The members who invest in the Clerical Medical with profits fund bear profits and losses arising from expenses and there is a risk that these will increase. The Trustee has noted that Clerical Medical's policy states that they plan to deduct no more than 1% in any one year, but in very adverse market conditions, may have to deduct more than this to ensure that guarantees are met

- ***Transparency*** – the Trustee has noted that it will not necessarily have access to the methodology used to calculate investment returns and bonuses.

- ***Timing risk*** – this is the risk that members invested who leave the Clerical Medical With Profits Fund later are impacted by less favourable returns that those who left earlier. The Trustee expects Clerical Medical to adopt a fair mechanism for the distribution of returns across all members.

6. Suitability of the Default

6.1 Based on their understanding of the Plan's membership, the Trustee believes that the above objectives and policies reflect their needs:

- The aim of achieving a smooth steady return is deemed to be in the best interest for members to provide growth to their contributions to achieve better outcomes in retirement.

- Investing in a fund that may apply bonus returns (noting that these are discretionary) will also have a positive impact of member outcomes, which is also in the best interests of members.

- Investing in a fund that mitigates risk through diversification, for which the kind of assets and the balance between these has been delegated to a professional manager, is believed to improve the chances of achieving a smooth and steady return, which is in members' best interests.

6.2 The default arrangement is aimed largely at members who have elected not to make investment decisions. The Trustee is aware that the default may not be suitable for all members.

7. Review of this Statement

7.1 The Trustee will review this Statement at least once every three years and without delay after any significant change in the membership profile or investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed: Richard Carl

Date:24/9/19