National Express Group Staff Pension Plan ("the Plan")

Statement of Investment Principles – August 2020

1. Introduction

National Express Group Staff Pension Plan Trustees Limited as Trustee of the Plan have drawn up this Statement of Investment Principles ("the Statement") to set out the Trustee's policy for securing compliance with the requirements of section 36 of the Pensions Act 1995 ("the Act") and other applicable legislation. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. The Trustee consults the Statement when making investment decisions to ensure that its decisions are, where practical, consistent with the principles outlined in the Statement. This Statement details the specifics of the Plan's investment arrangements and is available to members upon request.

In preparing this Statement the Trustee has consulted the Principal Employer (on behalf of itself, and to the extent that there are any, other relevant employers), National Express Group PLC, to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Plan's investment arrangements. The Trustee will seek to maintain a good working relationship with the Principal Employer. However, the Trustee's fiduciary obligations to Plan members and beneficiaries will take precedence over the Principal Employer's wishes as regards investments, should these ever conflict.

In preparing this Statement, the Trustee has also obtained written advice from the Plan's Investment Consultant. Where matters described in this Statement may affect the Plan's funding policy, input has also been obtained from the Plan Actuary. The Trustee will obtain similar advice whenever they review this Statement.

The Trustee, in considering any aspect of its investment responsibilities, will always take into account the fact that the benefits which they are liable to provide are in the main pensions. There are also money purchase benefits arising from members' payments of additional voluntary contributions ("AVCs").

2. Plan Governance

The Trustee is accountable for the investment of the Plan's assets. The Trustee delegates some aspects of the Plan's investment arrangements in order to manage the Plan's affairs effectively. The Plan's principal asset is a bulk annuity with Rothesay Life. The Trustee entered into the bulk annuity contract with Rothesay Life as part of the progression towards an insurer buy-out of the Plan's known liabilities. In addition, the Trustee invests in a cash fund managed by BlackRock Investment Management (UK) Limited ("BlackRock").

The Trustee retains direct responsibility for setting investment objectives, establishing risk and return targets and setting the Plan's strategic benchmark and investment manager structure.

The Plan's governance arrangements are described in further detail in the Appendix.

The Trustee does not expect to revise this Statement frequently because it covers broad principles. The Trustee will review it at least once every three years, and without delay after any significant change in investment policy or if there are relevant material changes to the Plan and/or the circumstances of the Principal Employer. These include changes in the Plan's liabilities and in the attitude to risk of the Trustee or the Principal Employer.

3. Investment Objectives

The Trustee's objective is to invest the Plan's assets in the best interests of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework the Trustee has agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Plan is exposed.

The Trustee, following consultation with the Principal Employer, has entered into a bulk annuity contract issued by Rothesay Life in respect of the Plan's liabilities. The contract is an asset of the Plan. Broadly speaking, under the contract, Rothesay Life make payments equal to the benefit payments due to members as specified in the data provided to Rothesay Life. Rothesay Life is authorised by the Bank of England Prudential Regulation Authority to write contracts of long term life insurance of this nature in the UK.

The Trustee's key short term objective is to ensure an efficient progression towards an insurer buy-out of the Plan's known liabilities, with the aim of achieving an appropriate discharge of liability in respect of known obligations in accordance with the Plan's governing documentation and relevant legislation.

Given that the majority of the Plan's liabilities are covered by the bulk annuity contract, the return required from the remaining invested assets is minimal. As a result, the Trustee has invested the balance of the invested assets in a BlackRock cash fund targeting a return consistent with a short term cash rate.

In due course, in order to complete buy-out, the known members' benefits will be secured by means of individual annuity policies directly with the members, in accordance with the terms of the bulk annuity contract. The Plan will then be wound up. The ultimate aim is to complete the Plan's buy-out and wind-up in such appropriate timescales as are determined by the Trustee.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee considers the following risks to be financially material over the future lifetime of the Plan (i.e. before completing buy-out and wind-up):

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

- The Trustee has sought to mitigate key risks by the purchase of the bulk annuity contract. The Trustee has appointed Rothesay Life as the annuity provider having obtained and considered written advice. The Trustee also acknowledges a number of risks specific to the investment in the bulk annuity with Rothesay Life:

  1) Counterparty risk – the risk that, between now and the completion of buy-out, Rothesay Life may default on its obligations under the bulk annuity contract. Before entering into the bulk annuity contract, the Trustee obtained and carefully

considered professional advice regarding the current financial strength of Rothesay Life. The Trustee accepted the advice, namely that Rothesay Life was financially strong and had sufficient capital resources to support the proposed transaction and that, correspondingly, there was no reason in relation to financial strength why the transaction should not proceed and concluded that the risk was acceptably low. In addition, the Trustee is aware that there is a level of protection offered to members by the Financial Services Compensation Scheme (“FSCS”).

2) Liquidity risk – the risk that the Plan’s assets are not liquid enough to meet the Plan’s cashflow requirements. The risk is managed by the Plan’s administrator assessing the level of cash held in order to limit the impact of cash flow requirements on the investment policy. The Trustee does not expect to be able to obtain cash from the bulk annuity contract other than in respect of benefits insured with Rothesay Life. Prior to entering into the contract, the Trustee was satisfied that all known members’ benefits would be insured in full. Under the terms of the contract, a post-transaction period of data verification is being undertaken between the Plan administrator and Rothesay Life. In addition, the significant amount of cash held with BlackRock will allow unforeseen cashflows to be met.

3) Lack of diversification - The Trustee recognises that entering into a bulk annuity contract with a single provider (Rothesay Life) represents a concentration of risk. However, they are satisfied that this risk is acceptable after due diligence on the provider.

- The Plan also invests in a cash fund with the appointed investment manager, BlackRock, to hold the assets in excess of those transferred to Rothesay to purchase the bulk annuity. The BlackRock Institutional Sterling Government Liquidity Fund in which the Plan invests (the "Fund"), allocates entirely to short dated UK government debt and hence is subject to small amounts of interest rate risk, inflation risk and credit risk. These risks can be measured by the Fund’s weighted average time to maturity. The aim of the Fund is to provide capital security (before fees) and liquidity.

- This is not an exhaustive list of risks that the Plan’s investments may face, but serves to highlight some of the key risks identified to date.

- The documents governing the investment policy of the Fund include a number of guidelines and restrictions which, among other things, are designed to ensure that Fund assets will only be invested in suitable investments. The Fund is also required to comply with overriding restrictions under UCITS regulations.

- Arrangements are in place to monitor the Plan’s investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments.

- The safe custody of the Plan’s assets outside of the bulk annuity is delegated to a professional custodian (via the use of a pooled investment vehicle).

Should there be a material change in the Plan’s circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular, whether the current risk profile remains appropriate.

5. Investment Strategy

The Trustee has implemented the following investment strategy which the Trustee believes is consistent with its objectives.

The Plan's defined benefit assets comprise:

- A bulk annuity contract with Rothesay Life
- Cash held in the Fund (the BlackRock Institutional Sterling Government Liquidity Fund)
- A bank account for day to day cashflow purposes

6. Realisation of Assets

BlackRock has 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 and pooled fund prospectuses. Rothesay Life are responsible for the realisation of assets within the bulk annuity contract in order to make the payments due under the contract.

7. Responsible Investment and Corporate Governance

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

However, since the Plan's principal asset is a bulk annuity contract, it is not possible in practice to take ESG factors into account in the retention and realisation of this investment. As noted above, the Trustee obtained and carefully considered professional advice before entering into the bulk annuity contract, including as regards the selection of Rothesay Life as insurer.

The Trustee has given BlackRock full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments under the Fund, in accordance with BlackRock's corporate governance policies and current best practice, including the UK Corporate Governance Code. However, given the fund in which the Plan invests with BlackRock is in practice currently entirely invested in UK government debt, ESG factors have little relevance.

The Trustee has not taken "non-financial" matters into account in the selection, retention and realisation of investments. Non-financial matters include members' and beneficiaries' ethical views and their views in relation to social and environmental impact and the present and future quality of life of the members and beneficiaries of the Plan.

Subject to the above, corporate governance, stewardship and engagement issues are not relevant for the Plan as the Plan's principal assets (the bulk annuity contract and the BlackRock Fund) will rarely (if ever) give the opportunity to vote or undertake engagement activities in respect of the underlying assets.

The Trustee expects to maintain the current investments until the Plan is wound up. The Trustee would consider the extent to which it would take into account how ESG, climate change and stewardship is integrated within investment processes should they need to appoint a new investment manager in the future.

8. Manager Arrangements

Aligning Manager Appointments with Investment Strategy

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.

The Trustee will seek guidance from the investment consultant, where appropriate, for their forward looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in. The consultant's manager research ratings assist with due diligence and are used in decisions around selection, retention and realisation of manager appointments.

The Trustee will review an appointment if the investment objective for a manager's fund changes to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Where the Trustee invests in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to review the appointment.

Evaluating Investment Manager Performance

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. The Trustee reviews the absolute performance and relative performance against a suitable index used as the benchmark, and against the manager's stated target performance objective (over the relevant time period) on a net of fees basis.

The Trustee's focus is on long term performance but, as noted above, may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager or management team;
- There is a change in the underlying objectives of the investment manager;
- There is a significant change to the investment consultant's rating of the manager.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may ask the manager to review their fees.

Portfolio Turnover Costs

The Trustee does not currently actively monitor portfolio turnover costs. The investment managers' performance net of transaction costs is monitored and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee may ask its managers to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

Manager Turnover

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis.

For open-ended funds (the BlackRock cash allocation for instance), there is no set duration for the manager appointments. The Trustee will therefore retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

9. Additional Voluntary Contribution ("AVC") Arrangements

Under the terms of the Trust Deed the Trustee is responsible for the investment of AVCs paid by members. The Trustee reviews the investment performance of the chosen providers on a regular basis and takes advice as to the providers' continued suitability.

The Trustee considers that the AVC facilities available to members provide the following:

- An asset mix which allows members to obtain access to real returns which will offset the adverse effects of inflation. This is achieved through a significant exposure to equities and other growth assets, and is particularly appropriate for younger members, whose long term perspective allows for acceptance of volatility in relation to investment returns (e.g. changes in market values, or variations in rates of bonus declarations) over the period of investment.

- A suitably diversified asset mix to protect members from poor investment returns from any one particular asset category.

- A fund with capital guarantees, to enable members to protect their AVCs from downside volatility, for example in the years immediately prior to expected retirement.

The Trustee is of the opinion that the type and range of facilities described above are suitable to provide for the requirements of the members in any of the circumstances likely to arise.

The current facility is a with-profit contract with the Prudential Assurance Company, which the Trustee considers to be an appropriate provider having taken into account such factors as investment performance, charges and administrative efficiency.

Appendix - Plan Governance

The Trustee is responsible for the investment of the Plan's assets. The Trustee takes some decisions and delegates the balance, within the framework documented in the Statement.

The Trustee has the following duties and responsibilities:

- Review and propose changes to the investment strategy and structure, particularly following the results of each actuarial review and/or asset liability modelling exercise, in consultation with the Investment Consultant and Plan Actuary.
- Implement the agreed investment strategy and any changes to the investment structure.
- Negotiate the terms of appointment (including a fee scale and detailed investment guidelines) for each investment manager, in consultation with the Investment Consultant.
- Ensure, as far as is possible, that the Plan's assets are managed in accordance with the Statement and other guidelines set by the Trustee.
- Review and propose changes to the suite of investment managers.
- Assess the quality of the performance and processes of the investment managers by means of regular reviews of their investment results and other information, in consultation with the Investment Consultant.
- Agree the terms of appointment of other external service providers (e.g. the Investment Consultant).
- Address ad hoc investment issues as and when they arise, taking appropriate advice from suitably qualified persons on such issues.
- Review this Statement at least every three years.
- Monitor and react to legislative, financial and economic changes.

An Investment Consultant (Mercer Limited) has also been appointed by the Trustee. ***The Investment Consultant's duties and responsibilities are to:***

- Advise the Trustee on the preparation, review and any amendments to this Statement.
- Advise the Trustee on investment policy as required.
- Advise the Trustee on performance measurement.
- Aid and advise the Trustee in its responsibility for reviewing the Investment Managers' performance including how changes at the Investment Managers' organisations could affect the interests of the Plan.
- Advise the Trustee on how changes in the investment environment could either present opportunities or problems for the Plan.
- Advise the Trustee on the selection of new investment managers.
- Undertake project work as requested.

The details of the Investment Consultant's appointment, including the scope of its remit and its fees are set out in a contract entered into between the Trustee and the Investment Consultant.

The Trustee has chosen to delegate day-to-day management of the Plan's investments (excluding the bulk annuity contract) to BlackRock, in accordance with Section 34 of the Pensions Act 1995. The terms of BlackRock's appointment are contained in the Fund's governing documents, comprising a prospectus, account opening form, memorandum of association and articles of association. BlackRock's responsibilities are also governed by applicable law***. The investment managers' roles in practice include the responsibility to:***

- Manage the portfolios of assets within the investment guidelines, objectives and restrictions set out in the Fund's governing documentation but, subject to that, exercising discretion as appropriate when investing the portfolio.
- Have regard to the need for diversification of investments so far as appropriate and to the suitability of investments.
- Exercise the powers of investment with a view to giving effect to the content of this Statement, so far as reasonably practicable.
- Provide the Trustee with a quarterly statement of the assets and cash flows and a quarterly report on investment performance, the results of significant investment decisions and any changes to the investment process and, where possible, on corporate actions and their future policies in that regard.
- Inform the Trustee of any changes in the internal performance objective guidelines of any pooled fund used by the Plan as soon as practicable.

Given that the Plan invests in a pooled fund, the safekeeping of the underlying assets is undertaken by parties selected by the fiduciaries of the pooled fund. The Custodian is responsible for the safekeeping of the Plan's assets and performs the associated administrative duties (e.g. trade settlement, dividend collection, corporate actions, tax reclamation and proxy voting). ***The Custodian's duties and responsibilities are:***

- To hold the Plan's assets in safekeeping.
- Settle all investment trades as instructed by the investment managers.

The details of the Custodian's appointment, including service levels and fee details, are set out in a contract between the Investment Manager and the Custodian.

The Plan Actuary assesses the financial position of the Plan at least every three years, in accordance with regulatory requirements***. The Plan Actuary's role with regard to investments is as follows:***

- Perform triennial (or more frequently as required) valuations and advise the Trustee on the appropriate contribution levels.
- Provide the Investment Consultant with information regarding the financial characteristics of the Plan, to enable the Investment Consultant to review the suitability of the Plan's investment strategy.
- Advise the Trustee, in conjunction with the Investment Consultant, on how changes in the Plan's benefits, membership, and funding position may affect the manner in which the assets should be invested.