



Arriva Passenger Services National Pension Scheme: Money Purchase Sections

Implementation Report

Scheme Year to 5 April 2021

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their Statement of Investment Principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Scheme has updated its SIP in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments

The SIP can be found online at the web address here:

<https://www.arrivapensions.com/~media/Files/A/Arriva-Pensions/documents/arriva-passenger-services-national-pension-scheme-money-purchase-section.pdf>

Changes to the SIP are detailed on the following pages.

Implementation Report

This Implementation Report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Scheme has taken to manage financially material risks and implement the key policies in its SIP.
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks.
- the extent to which the Scheme has followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies they invest.
- voting behaviour covering the reporting year up to 5 April 2021 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf.

Summary of key actions undertaken over the Scheme reporting year

- Towards the end of the Scheme year the Scheme appointed Isio as its new investment consultant.
- No other key actions were undertaken over the Scheme's reporting year.

Implementation Statement

This report demonstrates that the Arriva Passenger Services National Pension Scheme (Money Purpose Sections) has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed  EE96B5A2B5FD49E...

Position **Trustee Director**

Date **28-Sep-2021**

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions
Inflation	The risk that the level of investment return over members' working lives will not keep pace with inflation and will not, therefore secure an adequate retirement benefit.	The Trustee recognises that members take the investment risk. The Trustee takes account of this in the selection and monitoring of investment managers and the choice of funds offered to members.	There have been no changes to the policy over the reporting year.
Volatility	The risk of significant short-term fluctuations in the value of members' invested capital which some members may be concerned about.	Same policy as above.	There have been no changes to the policy over the reporting year.
Capital	The risk of a significant fall in value of members' invested capital as they approach retirement.	Same policy as above.	There have been no changes to the policy over the reporting year.
Conversion	The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in benefits secured.	Same policy as above.	There have been no changes to the policy over the reporting year.
Default investment option	The risk of the default investment option being unsuitable for the requirements of some members.	The Trustee has provided additional lifestyle and individual fund options in addition to the default investment option and has communicated to members the need to review their own requirements and circumstances before making any investment decisions.	There have been no changes to the policy over the reporting year.
Investment manager	The risk that the selected investment managers underperform their objectives.	The Trustee regularly reviews each fund's investment performance and takes ongoing advice from the investment adviser on the ongoing suitability of the funds and investment managers. The Trustee focuses on providing	There have been no changes to the policy over the reporting year.

		passive options that avoid active management risk.	
Diversification	No definition included in the SIP.	The Trustee has chosen funds that are constructed from well diversified portfolios of assets to reduce the stock specific risk faced by the Scheme.	There have been no changes to the policy over the reporting year.
Liquidity	Being forced to sell investments to pay benefits in unfavourable financial market conditions.	The Trustee has invested in unitised pooled funds which are easily redeemable.	There have been no changes to the policy over the reporting year.
Geared or speculative investments using derivatives	No definition included in the SIP.	The Trustee has not invested in funds that are geared or make largely speculative use of derivatives.	There have been no changes to the policy over the reporting year.
Credit	The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.	The credit risk the Scheme is exposed to arises from holdings in the underlying funds.	There have been no changes to the policy over the reporting year.
Market	The Scheme is subject to currency, interest rate and other price risk associated with the underlying investments. These risks can impact the valuations of the funds.	The Trustee has selected a sufficient range of funds to be available to allow members to suitably diversify their investments to manage these risks. This is also considered when setting the lifestyle strategies. Further, the Trustee closely monitors the performance of the funds and receives formal reports from the investment adviser giving views on their continuing appropriateness, and that of the underlying investment managers.	There have been no changes to the policy over the reporting year.
Fraud, poor advice or acts of negligence ('operational risk')	No definition included in the SIP.	The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.	There have been no changes to the policy over the reporting year.

Responsible investment	In setting the Scheme’s investment strategy, including the default investment option, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly.	The Trustee considers this risk by taking advice from their investment adviser when setting the Scheme’s investment strategy (including the different options available to members), when selecting managers and when monitoring their performance.	More details on the responsible investment policy and how it is implemented are presented later in this report.
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Changes to the SIP

The following policies were reported in the previous Scheme Year’s Implementation Statement and were updated in the SIP in September 2020 which is covered by the current reporting year.

Policies added to the SIP
Date updated: 30 September 2020

The SIP has been reviewed and revised over the course of 2020 to take account of further regulatory changes. The Trustee has outlined its policies regarding how it incentivises asset managers to achieve their long-term objectives, their policies on cost transparency, their policies on voting & stewardship, and how their policies align with that of the sponsoring employer in relation to sustainability.

The most recent SIP, including the changes outlined here, was signed by the Trustee on 30 September 2020, ahead of the 1 October 2020 deadline for disclosing policies on the areas set out above. The SIP can be found here: www.arrivapensions.com.

The Trustee has informed the managers of the importance of appropriately considering environmental, social, and corporate governance (ESG) factors with regards to the companies that they invest in. Similarly, the Trustee has made it known its expectation that asset managers should use their shareholder rights to influence and improve the companies they invest in, to generate better long-term financial outcomes.

The Trustees Funding and Investment Committee (the “FIC”) receives performance reporting from their investment advisors and the FIC will engage with managers on performance, strategy, risk, corporate governance and ESG practice where needed.

Note: The content in the table above has been taken from the previous Implementation Statement, which included updates to the SIP from 2019 to 2020.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy regarding ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following pages outline our view of the managers, our actions for engagement and an evaluation of the stewardship activity.

The below outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustee intends to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the Current ESG Policy

Stewardship – Voting & Engagement

The Trustee invests in pooled funds and as such have delegated responsibility for the selection, retention, and realisation of investments to the Scheme's investment managers in whose funds they invest.

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Scheme's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser regarding any changes. Where appropriate, this advice includes stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards that the Trustee has set out in its Responsible Investment policy, the Trustee undertakes to engage with the manager and seek a more sustainable position (where possible) but may look to replace the manager.

The Trustee endeavours to review the stewardship activities of its investment managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of its policies to those of the Scheme's investment managers and ensure the managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

On an annual basis, the Trustee expects managers to provide aggregate voting information at a fund level and voting rationale for significant votes (defined as where votes were cast against management or where voting differed from the standard voting policy of the manager).

The Trustee will engage with its investment managers, as necessary, for more information to ensure that robust active ownership behaviours, reflective of its active ownership policies, are being actioned. From time to time, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, an investment manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy, the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

The underlying funds that make up the default investment option, the alternative lifestyle options and other self-select funds should not apply personal ethical or moral judgements as the sole basis for an investment decision.

Engagement

As the fund manager for the Scheme's default investment strategy, the BlackRock Cautious Lifestyle Option, BlackRock has provided details on their engagement actions including a summary of the engagements by category for the 12-month period to 5 April 2021.

Fund name	Engagement summary	Commentary
BlackRock Aquila Connect World (ex UK) Equity Index Fund	Total engagements: 1,564 Environmental: 1,042 Social: 684 Governance: 1,388	BlackRock's approach to corporate governance and stewardship is explained in their Global Principles, which are reviewed annually to reflect market standards, evolving governance practice and insights gained from engagement over the prior year. BlackRock's Investment Stewardship team engages with companies to provide feedback on their practices and inform their voting including, focussing on ESG considerations where there may be a long-term impact for these companies.
BlackRock Aquila Connect UK Equity Index Fund	Total engagements: 2,845 Environmental: 1,764 Social: 1,158 Governance: 2,563	See previous commentary.
BlackRock Aquila Connect Corporate Bond All Stocks Fund	We requested this data from BlackRock, however, they are currently unable to produce this level of reporting. We are working with them to ensure that this data is available in future.	See previous commentary.
BlackRock Aquila Connect Over 5 Year Index-Linked Gilts Index Fund	We requested this data from BlackRock, however, they are currently unable to produce this level of reporting. We are working with them to ensure that this data is available in future.	See previous commentary.
BlackRock Aquila Connect Over 15 Years UK Gilt Index Fund	We requested this data from BlackRock, however, they are currently unable to produce this level of reporting. We are working with them to ensure	See previous commentary.

	that this data is available in future.
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Voting (for equity/multi asset funds only)

As the Scheme invests via BlackRock, the manager has provided details on their voting actions including a summary of the activity covering the reporting year up to 5 April 2021. BlackRock also provided examples of any significant votes.

This section is required for equity and multi asset funds only.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock Aquila Connect World (ex UK) Equity Index Fund	<p>Meetings eligible to vote for: 2,203</p> <p>Resolutions eligible to vote for: 27,246</p> <p>Resolutions voted: 92.0%</p> <p>Votes for management: 93.7%</p> <p>Votes against management: 6.3%</p> <p>Abstained from voting: 0.3 %</p>	<p>Mizuho Financial Group – Mizuho received a shareholder proposal requesting that as part of annual reporting, they disclose how they align investments with the goals of the Paris Agreement. BlackRock voted against this proposal. They felt the additional reporting was not needed as Mizuho are already making good progress with their sustainability integration and recently released a 5 year business plan for strengthening their environmental policies.</p>	<p>BlackRock uses institutional Shareholder Services (ISS) electronic platform to execute vote instructions. BlackRock categorise their voting actions into two groups: holdings directors accountable and supporting shareholder proposals. Where BlackRock have concerns around the lack of effective governance on an issue, they usually vote against the re-election of the directors responsible to express this concern.</p>
BlackRock Aquila Connect UK Equity Index Fund	<p>Meetings eligible to vote for: 808</p> <p>Resolutions eligible to vote for: 11,044</p> <p>Resolutions voted: 100.0%</p> <p>Votes for management: 94.9%</p> <p>Votes against management: 5.1%</p> <p>Abstained from voting: 0.7%</p>	<p>Volkswagen AG – BlackRock have concerns with the insufficient level of independence on the Supervisory Board and its sub-committees. They therefore voted against the discharge of nomination committee members due to the insufficient level of independence.</p> <p>National Fuel Gas Company - given the significant material climate risks for the company, BlackRock would have expected the company to be farther along in its reporting. In line with BlackRock's approach of holding directors accountable when a company is not effectively addressing a material issue, they voted against the Chair of the Audit Committee and longest tenured director up for election because of the company's lagging</p>	<p>See previous commentary.</p>

	disclosure related to the oversight and management of climate-related risks and the materiality of the risk to the company.
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