

July 2021

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Arriva Passenger Services Pension Plan

05 April 2021

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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 Plans need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that Plans 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 Plan updated its SIP in to 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

https://www.arrivapensions.com/~/_media/Files/A/Arriva-Pensions/documents/arriva-passenger-services-pension-Plan-statement-of-investment-principles.pdf changes to the SIP are detailed on the following page.

Implementation Report

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

- actions the Plan 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 Plan 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 in the investment mandate
- voting behaviour covering the reporting year up to 05 April 2021 for and on behalf of the Plan including the most significant votes cast by the Plan or on its behalf

Summary of key actions undertaken over the Plan reporting year

- Towards the end of the Scheme year the Scheme appointed Isio as its new investment consultant.
- The Plan updated the SIP as at 30 September 2020, which is the latest available SIP.
- The Plan invested into the PIMCO Global Investment Grade Credit Fund on 22 May 2020.
- The Plan invested into a new Buy & Maintain Credit mandate with Robeco in Q4 2020.
- The Plan fully disinvested from the Bain Capital Senior Loans Fund on 01 February 2021. The disinvestment proceeds were invested in the Robeco Buy & Maintain Credit mandate post year end.

Implementation Statement

This report demonstrates that the Arriva Passenger Services Pension Plan has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed

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Grant Suckling

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Position

Trustee Director

Date

28-Sep-2021

Managing risks and policy actions DB

Risk / Policy	Policy
Liquidity Objective	To acquire and maintain suitable assets of appropriate liquidity which will generate income and capital growth.
Funding Objective	To limit the risk of the Plan's assets failing to meet the liabilities over the long term, and to ensure that the Plan has sufficient assets available to pay members' benefits as and when they arise using assumptions underlying the calculation of the Plan's technical provisions.
Diversification Objective	To ensure that the Plan's portfolio of assets is appropriately diversified, achieved via selecting investments spread across a range of asset classes and markets, so as to mitigate concentration risk, geopolitical risk, and currency risk to an appropriate extent.
Cost Objective	To minimise the long-term costs of the Plan by maximising the return on assets whilst having regard to the Plan's "funding objective".
Stability Objective	To have due regard to the employer's ability in meeting its contribution payments given their size and incidence, and to have due regard to the volatility of measures of funding and security.

Changes to the SIP

Policies added to the SIP
Date updated: 30 September 2020
<p>The SIP has since 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.</p> <p>The most recent SIP, including the changes outlined here, was adopted on 30 September 2020, ahead of the 1 October 2020 deadline the SIP can be found here: www.arrivapensions.com.</p> <p>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.</p> <p>The Plan’s managers, present to the Trustees Funding and Investment Committee (the “FIC”) on a rolling basis. The FIC receives performance reporting from their investment advisors and presentations from their managers and the FIC engages with managers on performance, strategy, risk, corporate governance and ESG practice where needed.</p>

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

Current ESG policy and approach

ESG as a financially material risk

This page details the Plan's ESG policy. The next page details views of the managers, actions for engagement and an evaluation of the engagement activity.

Stewardship – Voting and Engagement

The Trustee recognises the importance of their 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 Plan invests, as this ultimately creates long-term financial value for the Plan and its beneficiaries.

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

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

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

The Trustee reviews the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. Where the Trustee identifies significant concerns relating to performance, strategy, risks, social and environmental impact, corporate governance, the capital structure or management of conflicts of interest, of an investment manager or other stakeholder; they will consider the methods by which they would monitor and engage with such an investment manager or other stakeholders.

Members' Views and Non-Financial Factors

In setting and implementing the Plan's investment strategy the Trustee does not explicitly take into account the views of Plan 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").

Engagement

As the Plan invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12-month period to the end of 05 April 2021.

Fund name	Engagement summary	Commentary
Schroders - LDI	<p>Total Engagements: 37</p> <p>Environmental: 1</p> <p>Social: 0</p> <p>Governance: 36</p>	<p>Schroders' ability to influence ESG topics surrounding LDI-related instruments is limited. However, Schroders have a firmwide ESG policy and have shown evidence of regular engagement with the relevant public bodies over the period. This includes attending working groups on issues surrounding reforming LIBOR, issues with gilt and repo markets, and derivatives.</p> <p>Examples of significant engagements:</p> <p>Bank of England - Schroders engaged with the Bank of England over multiple issues, including the Libor reform, risk-free rate ("RFR") bonds and, Repo and Money Markets.</p> <p>Investment Association – Schroders engaged with the Investment Association ("IA") regarding the RPI reform. This involved a call after providing written feedback to the IA and having a round table discussion with other asset managers. The IA incorporated Schroders' comments in their response to the RPI reform.</p>
Legal & General Investment Management ("LGIM") –	<p>This data was requested from the manager, however, the manager is currently unable to produce this level of reporting. We will work with the</p>	<p>LGIM's investment and stewardship teams work together to incorporate ESG issues in decision process, from research and</p>

Sterling Liquidity Fund	manager to try ensure that this data is available in the future.	<p>engagement to product development. The LGIM Stewardship team also engages with other asset owners on a wide range of ESG-related themes.</p> <p>LGIM provide an annual Active Ownership Report setting out the firm's approach to stewardship and activities during the year. Further to this and on a quarterly basis, LGIM disclose case studies of voting and engagement activities undertaken and/or concluded.</p>
LGIM – Equity (Hedged and Unhedged)	<p>This data was requested from the manager, however the manager is currently unable to produce this level of reporting. We will work with the manager to try ensure that this data is available in the future.</p>	<p>LGIM's investment and stewardship teams work together to incorporate ESG issues in the decision-making process, from research and engagement to product development. LGIM aim to engage directly with individual companies with the LGIM Stewardship team also engaging with other asset owners on a wide range of ESG-related themes.</p> <p>LGIM provide an annual Active Ownership Report setting out the firm's approach to stewardship and activities during the year. Further to this and on a quarterly basis, LGIM disclose case studies of voting and engagement activities undertaken and/or concluded.</p>
Basalt – Infrastructure Partners II	<p>This data was requested from the manager, however, the manager is currently unable to produce this level of reporting. We will work with the manager to try ensure that this data is available in the future.</p>	<p>Basalt produce an annual ESG report which includes their ESG policy for the firm, including the manager's key targets with regards to ESG issues. This includes reducing greenhouse gas emissions, protecting the environment, valuing human capital, and ensuring good governance.</p> <p>An example of a significant engagement:</p> <p>North Star Shipping Ltd – Basalt engaged with the Fuel Card, a fuel card agent for companies, to ensure that any fuel purchases made with the cards for company cars</p>

		<p>automatically contribute to Forest Carbon.</p> <p>Forest Carbon compensates for the company's fuel usage by sponsoring new woodland to offset the carbon produced, making company cars and grey fleet carbon neutral.</p>
Innisfree – Infrastructure Fund	<p>This data was requested from the manager, however, the manager is currently unable to produce this level of reporting. We will work with the manager to try ensure that this data is available in the future.</p>	<p>Innisfree has a firm-wide ESG policy in place, which details Innisfree's commitment to ESG issues both at a project and fund level. Due to the nature of the assets Innisfree invests in, all assets meet the minimum ESG compliance requirements for their governments.</p> <p>Regular audits and surveys are undertaken with regards to health and safety monitoring for the assets. Innisfree also partake in regular engagement with stakeholders and communities, with decisions made with long-term targets in mind as Innisfree aim to hold these assets for the duration of the concessions.</p>
CBRE – Global Alpha Fund	<p>This data was requested from the manager, however, the manager is currently unable to produce this level of reporting. We will work with the manager to try ensure that this data is available in the future.</p>	<p>CBRE have an ESG engagement policy which is updated regularly, specifically for managing portfolios where assets are held with external fund managers.</p> <p>CBRE engages with underlying fund managers at least quarterly, however reviews may take place on a more frequent basis when necessary. CBRE will have a direct relationship with the key stakeholders of a fund including the fund manager and investor relations professional.</p> <p>An example of a significant engagement:</p> <p>Curlew UK Student Housing Programmatic Venture II – CBRE introduced the "Measurabl" environmental data management to Curlew, which allowed the manager to collect and analyse data on energy, waste, and water usage across the portfolio. The system has been tried and</p>

		<p>tested by CBRE in its directly managed portfolios, with the Measurabl system being aligned with the annual Global Real Estate Sustainability Benchmark (“GRESB”) submission, with this allowing Curlew to make their first GRESB submission in 2020, receiving a score of 85/100.</p>
LaSalle – Legacy Portfolio	<p>Total Engagements: 15</p> <p>Environmental: 10</p> <p>Social: 10</p> <p>Governance: 15</p> <p>Note: The numbers above do not sum to the total number of engagements due to engagements covering multiple ESG classifications.</p>	<p>CBRE have an ESG engagement policy which is updated annually, specifically for managing portfolios where assets are held with external fund managers.</p> <p>CBRE engages with underlying fund managers at least quarterly, however reviews may take place on a more frequent basis when necessary. CBRE will have a direct relationship with the key stakeholders of a fund as well as the key investor relations professional.</p> <p>An example of a significant engagement:</p> <p>Ardstone UK Regional Office Fund – CBRE engaged with the fund manager regarding signing up to the UN PRI, committing to the TCFD recommendations and setting up a corporate ESG policy. The Fund agreed to complete the GRESB Resilience module in 2020 and align itself with the TCFD recommendations. Additionally, the Fund agreed to sign up to the UN PRI in 2021.</p>
PIMCO – Global Investment Grade Credit Fund	<p>This data was requested from the manager, however, the manager did not provide the total engagement record for the Fund over the period. We will work with the manager to try ensure that this data is available in the future.</p>	<p>ESG is integrated throughout the investment process, as PIMCO believe ESG factors are increasingly essential factors to consider when evaluating long-term investment opportunities.</p> <p>PIMCO’s investment process involves three categories: Exclude, Evaluate and Engage. This involves firstly, not investing in issuers who are fundamentally misaligned with PIMCO’s sustainability principles. Then PIMCO</p>

		<p>evaluates current holdings using their independent proprietary ESG scoring system. Lastly, PIMCO engages with issuers based on opportunities they believe will produce the greatest ESG impacts for the issuers.</p> <p>PIMCO has a collaborative approach to ESG engagement with credit analysts regularly engaging with portfolio companies they cover on ESG issues.</p> <p>An example of a significant engagement:</p> <p>Dell – PIMCO engaged with Dell to discuss some concerns regarding minimising future exposures to non-conformant suppliers. PIMCO suggested to Dell that they should disclose supplier coverage for its audit program and make a public commitment to Responsible Minerals Assurance Process (RMAP) assurance for conflict mineral sourcing.</p>
Robeco - Buy & Maintain Credit Fund	<p>Total Engagements: 9</p> <p>Environmental: 4</p> <p>Social: 3</p> <p>Governance: 2</p> <p>The Robeco Buy & Maintain mandate only has data from portfolio inception which was Dec 2020.</p>	<p>Robeco has a firmwide Stewardship policy which encases the firm's engagement policy. Robeco has two types of engagement, enhanced and value engagement.</p> <p>Enhanced engagement involves engaging with a firm, with no differentiation between investment styles or asset classes, and aims to set minimal standards for expected behaviour in relation to the UN Global Compact and OECD Guidelines for Multinational Enterprises.</p> <p>Value engagement involves engaging with the portfolio company to help improve the risk/return profile for the investment. Robeco take the approach of a long-term investor, whether from a shareholder or credit perspective, with these views normally being aligned.</p>

	<p>An example of a significant engagement:</p> <p>Enel – Robeco engaged with Enel on multiple occasions including discussion on the Climate Action 100+ Initiative’s net zero initiative. Robeco have seen that Enel are supportive of the net zero benchmark and keen to use it to meet investor expectations and provide clear communication on its progress. Robeco plan to follow up later in 2021 about the firm’s progress.</p>
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Voting (for equity/multi asset funds only)

As the Plan invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 05 April 2021. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
LGIM – Equity (Hedged and Unhedged)	<p><i>Votable Proposals : 15435</i> <i>Proposals Voted : 15435</i> <i>For votes : 12630</i> <i>Against votes : 2768</i> <i>Abstain votes : 37</i> <i>Withhold votes : 0</i></p>	<p>Medtronic plc –</p> <p>LGIM voted against a vote to ratify Named Executive Officers' compensation, although the vote still passed.</p> <p>The vote was to award Executive Directors a one-off award of stock options to compensate for the lack of bonus paid out during the financial year. LGIM voted against the resolution as LGIM are generally against one-off awards and especially when the criteria for receiving the award have not been met, which as the case for this vote. LGIM did engage with the company prior to the Annual General Meeting and communicated their concerns and will continue to monitor their progress.</p> <p>Fast Retailing Co. Limited –</p> <p>LGIM voted against a vote to elect a Director, however the Director was elected anyway.</p> <p>LGIM had concerns about Japanese companies lagging European and US firms in ensuring greater female representation on boards. Globally, LGIM deem having a minimum of one woman on a board as a minimum standard, and globally aspire for all</p>	<p>LGIM use Institutional Shareholder Services' (ISS) electronic platform to execute vote instructions. Voting decisions are made by the LGIM Investment Stewardship ("IS") team and they do not delegate any voting decisions to external parties. Each member of the IS team allocated a specific sector globally which ensures that any voting decision remains consistent throughout the engagement and voting process.</p> <p>LGIM have also produced a custom voting policy for ISS to follow which incorporates LGIM's view on ESG issues.</p>



boards to have 30% of the board comprised of women.

Therefore, LGIM has a policy of voting against the chair of the nominations committee for any company in the TOPIX100 (Tokyo Stock Price Index) where this standard is not held. Hence, LGIM voted against the election of the Director to signal to the firm that they needed to act on the issue of women representation and will monitor their progress on this issue.

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