



Arriva Passenger Services Pension Plan: Money Purchase Sections

Implementation Report

Plan 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 Plan 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-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 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 they invest.
- voting behaviour covering the reporting year up to 5 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 Plan year the Plan appointed Isio as its new investment consultant.
- The Plan updated the SIP as at 30 September 2020, which is the latest available SIP.
- No other key actions were undertaken over the Plan’s reporting year.

Implementation Statement

This report demonstrates that the Arriva Passenger Services Pension Plan (Money Purchase Sections) has adhered to its investment principles and its policies for managing financially material considerations 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

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 Plan.	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 Plan is exposed to arises from holdings in the underlying funds.	There have been no changes to the policy over the reporting year.
Market	The Plan 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 Plan’s investment strategy, including the default investment option, the Trustee's primary concern is to act in the best financial interests of the Plan 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 Plan’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 Plan 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 Plan's policy regarding ESG as a financially material risk. This page details how the Plan'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 Plan's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustee intend to review the Plan'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 Plan'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 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 protect and enhance the 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 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 Plan'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 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").

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 Plan's default investment strategy, the Catch All Lifestyle, LGIM have provided details on their engagement actions including a summary of the engagements by category for the 12 months to 5 April 2021.

Fund name	Engagement summary	Commentary
LGIM All World Equity Index Fund	<p>Total engagements: 805</p> <p>Environmental: 394</p> <p>Social: 233</p> <p>Governance: 343</p>	<p>LGIM's investment and stewardship teams work together to incorporate ESG issues in decision 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>
LGIM Multi Asset Fund	We requested this data from LGIM, 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.
LGIM Cash Fund	We requested this data from LGIM, 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.

Voting (for equity/multi asset funds only)

As the Plan invests via LGIM, the manager has provided details on their voting actions including a summary of the activity covering the reporting year up to 5 April 2021. LGIM 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
LGIM Ethical Global Equity Index Fund	<p>Meetings eligible to vote for: 6,779</p> <p>Resolutions eligible to vote for: 70,672</p> <p>Resolutions voted: 99.9%</p> <p>Votes for management: 83.3%</p> <p>Votes against management: 16.0%</p> <p>Abstained from voting: 0.8%</p>	<p>Olympus Corporation – LGIM sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that they expect to see at least one woman on the board. One of the companies targeted was Olympus Corporation. In the beginning of 2020, LGIM announced that they would commence voting against the chair of the nomination committee to signal that the company needed to act on this issue.</p> <p>Medtronic plc - following the end of the financial year, executive directors were granted a special, one-off award of stock options to compensate for no bonus being paid out during the financial year. LGIM voted against the one-off payment as they are not supportive of one-off awards particularly when performance criterion/criteria have not been met.</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>
LGIM Multi-Asset Fund	<p>Meetings eligible to vote for: 11,238</p> <p>Resolutions eligible to vote for: 114,616</p> <p>Resolutions voted: 99.8%</p> <p>Votes for management: 81.7%</p> <p>Votes against management: 17.7%</p>	<p>International Consolidated Airlines Group – LGIM voted against a remuneration report as they were concerned about the level of bonus payments, which are 80% to 90% of current salary for executives and 100% of salary for the departing CEO. LGIM would have expected the remuneration committee to exercise greater discretion considering the financial situation of the company, and to reflect the stakeholder experience (employees and shareholders).</p>	See previous commentary.

	Abstained from voting: 0.6%	SIG plc – LGIM voted against granting the interim CEO a one-off award of £375,000 for work carried out over a two-month period (February - April). LGIM does not generally support one-off payments and believe that the remuneration committee should ensure that executive directors have a remuneration policy in place that is appropriate for their role and level of responsibility.
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