



Arriva Passenger Services National Pension Scheme ("the Scheme")

31 March 2023

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a trustee's fiduciary duty.

Implementation Report

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

The SIP can be found online at the web address

<https://www.arrivapensions.com/~media/Files/A/Arriva-Pensions/documents/arriva-passenger-services-national-pension-scheme-statement-of-investment-principles-2023.pdf#:~:text=Arriva%20Passenger%20Services%20National%20Pension%20Scheme%20Statement%20of,decisions%20to%20invest%20the%20assets%20of%20the%20Scheme.>

Changes to the SIP are detailed on the following page.

The Implementation 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 in the investment mandate
- voting behaviour covering the reporting year up to 31 March 2023 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

The Trustee entered into an Enhanced Service with its Liability Driven Investment ("LDI") manager, LGIM, in order to improve the overall operational efficiencies of the LDI mandate. LGIM are now responsible for managing the Scheme's liability hedge ratio to the Trustee's agreed target, and manage the collateral waterfall by having discretion to meet LDI collateral calls on the Trustee's behalf. As part of this move the Trustee agreed to invest in leveraged equity with LGIM, in order to access equity exposure in a capital-efficient way, thereby improving overall Scheme liquidity.

The Trustee also committed to a Diversified Private Debt mandate over the year, with initial commitments being drawn down and funded from the Scheme's Diversified Growth fund mandate.

Implementation Statement

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

Signed

Position On behalf of Ross Trustees Services Limited as Trustee of the Arriva Passenger Services National Pension Scheme

Date 28 September 2023

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge as high a percentage of these risk as is possible, given the collateral requirements of the LDI portfolio and taking into consideration the overall liquidity of the investment strategy.	<p>The Trustee agreed to increase the target hedge ratio following improvements in the funding level.</p> <p>Implementation occurred in Q3 2022.</p> <p>Subsequently, the Trustee reduced the target hedge ratio in Q4 2022 in order to provide an additional collateral buffer and enable the mandate to withstand future interest rate rises.</p>
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI/synthetic equity manager.	The Scheme entered into an Enhanced Service Agreement with its LDI manager, LGIM, and invested in synthetic equity. LGIM are now responsible for meeting LDI and synthetic equity collateral calls on the Scheme's behalf.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.	<p>The Trustee agreed a change in strategy whereby assets invested in Schroders Diversified Growth Fund have been earmarked to fund the future capital calls of the BlackRock Diversified Private Debt Fund.</p> <p>This agreed change was intended to better reward the Scheme for the level of risk being taken, and provide diversification to the overall strategy.</p>
Credit	Default on payments due as part of a financial security contract.	<p>To diversify this risk by investing in a range of credit markets across different geographies and sectors.</p> <p>To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where</p>	The Trustee made an allocation to Diversified Private Credit over the year. The Trustee was satisfied that the manager has sufficient expertise to select the underlying investments, taking into account the expected yield

		the yield available sufficiently compensates the Scheme for the risk of default.	and risk of default, and that these investments are expected to be appropriately diversified across different geographies and sectors.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory 6. UK Stewardship Code signatory <p>The Trustees monitor the managers on an ongoing basis.</p>	The Trustee took into account their ESG policies (as set out later in this report) when selecting the manager for their Diversified Private Debt mandate.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	<p>Hedge all currency risk on all assets that deliver a return through contractual income.</p> <p>Hedge a portion of the currency risk on equities. This may be varied over time depending on the Trustee's views.</p>	The Trustee agreed to invest 50% of the new synthetic equity allocation in a GBP hedged share class fund, in order to mitigate some of the currency risk in the Scheme's overall equity allocation
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	No action over the period.

Changes to the SIP

Over the period to 31 March 2023, the Trustee agreed changes to the SIP to reflect the recent regulatory requirements alongside non-material updates to the formatting following a change in investment strategy. These changes were formalised following year end. The material changes to the SIP can be found below:

Policies added to the SIP

Date updated: 28 April 2023

Voting Policy - How the Trustees expect investment managers to vote on their behalf

- The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'

- The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.
- The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.
- Example stewardship activities that the Trustee have considered are listed below.
 - Selecting and appointing asset managers – the Trustee will consider potential managers' stewardship policies and activities
 - Asset manager engagement and monitoring –the Trustee assesses the voting and engagement activity of their asset managers on an ad hoc basis. The results of this analysis may feed into the Trustee's investment decision making
 - Collaborative investor initiatives – the Trustee will consider joining/ supporting collaborative investor initiatives

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Schemes policy with regards to ESG as a financially material risk. This page details how the Plan's ESG policy is implemented. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

Risk Management	<ol style="list-style-type: none">1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee
Approach / Framework	<ol style="list-style-type: none">3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.4. ESG factors are relevant to investment decisions in all asset classes.5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	<ol style="list-style-type: none">6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge.8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	<ol style="list-style-type: none">9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	<ol style="list-style-type: none">11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why.12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.

Engagement

As the Scheme 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 31 March 2023.

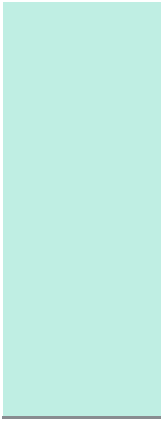
Fund name	Engagement summary	Commentary
Ares – Secured Income Fund	This data was requested from the manager; however, the manager is currently unable to produce this level of reporting. We will work with the manager to try to ensure that this data is available in the future.	<p>The Fund’s ESG-related engagement is primarily led by the individual investment teams, who monitor ESG credentials over time and lead on engagements given they have the most issuer level knowledge where engagement is deemed necessary.</p> <p>The Fund is working to establish ESG Key Performance Indicator’s to measure engagement effectiveness.</p>
Legal & General Investment Management (“LGIM”) – LDI and Synthetic Equity (Hedged and Unhedged)	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 to ensure that this data is available in the future.	<p>LGIM have evidenced their ability to integrate ESG factors in their LDI fund range through counterparty review and engagement. LGIM integrates ESG factors in their processes by using proprietary tools to quantify and monitor ESG risk.</p> <p>LGIM have shown that they are improving their reporting processes, with ESG LDI and Derivatives reports available on an ad hoc basis which include engagement summaries.</p>
Schroders – Diversified Growth Fund	<p>Total engagements: 1,534</p> <p>Environmental: 976</p> <p>Social: 248</p> <p>Governance: 310</p>	<p>Schroders’ engagement activities are managed centrally by the Sustainable Investment Team. Engagement methods include one-to- one meetings with company representatives, written and phone correspondence, and discussions with various company advisers and stakeholders.</p> <p>No significant examples of engagement were provided by the investment manager.</p>

Voting (for equity/multi asset funds only)

The Trustee/s has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

The Scheme's fund managers have provided details on their voting actions including a summary of the activity covering the reporting year up to 31 March 2023. The Trustee has adopted the managers definition of significant votes and has not set stewardship priorities. Where applicable, the managers have provided examples of votes they deem to be significant, and the Trustee has shown the votes relating to the greatest exposure within the Scheme's investment.

Fund name	Voting summary	Examples of most significant votes	Commentary
LGIM – Synthetic Equity (Hedged and Unhedged)	The Scheme (through the investment manager) does not get voting rights through investments in these funds as all equity exposure is achieved through derivative positions, rather than direct holdings in underlying companies.	n/a	n/a
Schroders – Diversified Growth Fund	<p>Votable Proposals : 15,662 Proposals Voted : 14,926 Voted with management : 13,412 Voted against management: 1,514 Abstain votes: 93</p> <p><i>Figures may not total due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a vote of 'Abstain' is also considered a vote against management.</i></p>	<p>Charter Communications, Inc. – Schroders voted for the disclosure of a climate action plan and GHG emissions reduction targets. Schroders believe their vote for this item will maximise the value to their clients. The company is asked to publish a climate action plan and GHG emissions reduction targets. they are keen to see the company develop its strategies, disclosures and targets relating to emissions reductions, and are concerned about the risks associated with delayed action on climate change.</p> <p>Citigroup Inc. –</p>	<p>Schroders' Corporate Governance analysts assess any company's resolutions and apply Schroders' voting policies and guidelines to each agenda item. The team utilises their own knowledge, as well as utilising external providers' research, such as the Investment Association's guidelines, the Institutional Shareholders Services("ISS") and public reporting. Schroders uses a third-party provider to execute all proxy voting instructions electronically. The manager regularly reviews their arrangement with these providers and benchmark them against peers.</p>



Schroders voted for a report on respecting indigenous peoples' rights.

Schroders believe the bank and its shareholders are likely to benefit from increased transparency regarding due diligence around Indigenous Peoples' rights in project-related financing and clients' activities, for existing and future business.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.