



# Arriva Passenger Services Pension Plan (“the Plan”)

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 Plan 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-pension-Plan-statement-of-investment-principles-2023.pdf>

Changes to the SIP are detailed on the following page.

The Implementation 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 31 March 2023 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

The Trustee instructed the full redemption from the PIMCO Global Investment Grade Credit Fund in Q2 2022 in order provide additional capital to meet LDI capital calls.

Post year end, the Trustee transitioned the Plan's previous LDI mandate into a segregated arrangement with a new LDI manager, LGIM. The Buy and Maintain credit portfolio with Robeco was also transitioned into the LDI portfolio with LGIM.

LGIM are 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 and invest excess collateral into their Absolute Return Bond fund.

#### 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

Position: On behalf of Ross Trustees Services Limited as Trustee of the Arriva Passenger Services Pension Plan

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 Plan 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.	The Trustee agreed to decrease the liability hedge target in Q4 2022 during a period of heightened gilt market volatility, in order to avoid a forced reduction due to a lack of sufficient collateral to maintain the liability hedge.
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 manager.	The Trustee instructed the full redemption of the PIMCO Investment Grade Credit Fund and a partial redemption from the Robeco Buy and Maintain portfolio in order to provide additional assets to support the LDI collateral position. A partial redemption from the CBRE Global Alpha Fund was also placed in order to improve overall Plan liquidity.
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.	No action over the period.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors.  To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Plan for the risk of default.	As noted above, the Plan's investment grade credit mandates with PIMCO and Robeco were reduced over the period in order to improve the LDI collateral position.
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 Plan's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:	The Trustee considered its ESG policies set out later in this report when selecting the manager for their new LDI mandate.

		<p>1. Responsible Investment ('RI') Policy / Framework</p> <p>2. Implemented via Investment Process</p> <p>3. A track record of using engagement and any voting rights to manage ESG factors</p> <p>4. ESG specific reporting</p> <p>5. UN PRI Signatory</p> <p>6. UK Stewardship Code signatory</p> <p>The Trustee monitors the managers on an ongoing basis.</p>	
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	To invest in funds that hedge the majority of currency risk as far as practically possible, except for where an active decision has been made by the Trustee not to hedge out the currency risk.	No action over the period.
Non-financial	Any factor that is not expected to have a financial impact on the Plan'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 Trustee expects investment managers to vote on their behalf

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

Engagement Policy - How the Trustee 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 Plan'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 Plan's 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"><li>1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Plan</li><li>2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee</li></ol>
Approach / Framework	<ol style="list-style-type: none"><li>3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.</li><li>4. ESG factors are relevant to investment decisions in all asset classes.</li><li>5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.</li></ol>
Reporting & Monitoring	<ol style="list-style-type: none"><li>6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.</li><li>7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge.</li><li>8. The role of the Plan'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.</li></ol>
Voting & Engagement	<ol style="list-style-type: none"><li>9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.</li><li>10. Engaging is more effective in seeking to initiate change than disinvesting.</li></ol>
Collaboration	<ol style="list-style-type: none"><li>11. Asset managers should sign up and comply with common codes and practices such as the UNPRI &amp; Stewardship code. If they do not sign up, they should have a valid reason why.</li><li>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.</li></ol>



# 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 31 March 2023.

Fund name	Engagement summary	Commentary
Schroders -LDI	Schroders engaged with over 100 public bodies / market participants	<p>Schroders have a firmwide ESG policy and have shown evidence of regular engagement with relevant public bodies and counterparty's over the period. This includes attending working groups on issues surrounding RPI reform, issues with gilt and repo markets, and derivatives.</p> <p>An example of a significant engagement:</p> <p>HSBC - During H2 2022, Schroders engaged with HSBC on its climate transition plan and its funding of oil and gas fields. Following their engagement, HSBC published a note in December 2022 stating that they would cease funding oil and gas exploration.</p>
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>



Basalt – Infrastructure Partners II	<p>Total engagements: 120 Environmental: 26 Social: 35 Governance: 27 Strategy: 45</p> <p>Note the total engagement figure is smaller than the sum of its parts due some engagements covering multiple categories.</p>	<p>Basalt produce an annual ESG report which includes the ESG policy for the firm, including the manager’s key ESG targets. This includes reducing greenhouse gas emissions, protecting the environment, valuing human capital, and ensuring good governance. An example of a significant engagement:</p> <p>Anthesis – post-acquisition Basalt carried out the following work:</p> <ul style="list-style-type: none"> <li>• Carried out ESG reviews</li> <li>• Led training for the Executive Board on climate risk</li> <li>• Held climate workshops across the portfolio companies, by sector, enabling discussion, knowledge sharing, upskilling, and looking at risks and opportunities created by climate change</li> <li>• Assisted the ESG Manager with Annual ESG Report</li> <li>• Produced a climate report to help meet the recommendations under TCFD</li> </ul>
CBRE – Global Alpha	<p>This data was requested from the manager, however, the manager did not produce this level of reporting. We will work with the manager to try and 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 Student Trust – CBRE engaged the manager to strategize improvements in the Global Real Estate Sustainability Benchmark</p>

		<p>("GRESB") score. The manager has been proactive in asserting a strategy for 2023 and has highlighted a number of areas for improvement, including incorporating ESG related KPIs for all employees, acquiring Building Research Establishment Environmental Assessment Method ("BREEAM") New Construction certifications and reporting disclosures on the company website.</p>
Hayfin – Direct Lending Fund III	<p>Total engagements: 4 Environmental: 3 Social: 1 Governance: 0</p>	<p>Hayfin's engagement strategy focuses on collaboration with other investors in order to ensure their investment objectives are met. They engage with sponsors to understand their ESG philosophy, policy and procedures and ensure that ESG performance is ranked in a scorecard. Where they make use of ESG margin ratchets within documentation, they engage with borrowers/sponsors in order to set meaningful ESG KPIs to measure and improve on over time.</p> <p>An example of a significant engagement:</p> <p>The Collinson Group – Hayfin engaged with the firm to improve their ESG policies. They agreed not to implement an ESG ratchet, but instead an ESG information requirement; the Company will now start tracking this information and reporting it to Hayfin annually:</p> <ul style="list-style-type: none"> <li>• Greenhouse gas emissions</li> <li>• Energy efficiency</li> <li>• Composition of the workforce</li> <li>• Removal or change of any non-executive director</li> <li>• Number of independent non-executive directors</li> </ul>
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</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</p>

	available in the future.	<p>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>
LaSalle – Legacy Portfolio (CBRE now managing this portfolio)	<p>Total engagements: 2</p> <p>Environmental: 2</p> <p>Social: 0</p> <p>Governance: 0</p> <p>Strategy: 0</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>Industrial Property Investment Fund - Following a review of the fund's ESG Scorecard, which CBRE use as an internal tool to measure performance relative to other funds, they identified potential areas for improvement. They engaged with the manager to understand how they would look to improve performance regarding a variety of ESG-related data points; key topics included: (i) Building Certifications, (ii) net zero carbon targets, (iii)GRESB Performance and (iv) Utility Data Coverage.</p>

Robeco - Buy  
& Maintain  
Credit Fund

Total Engagements: 5  
Environmental: 3  
Social: 1  
Governance: 1

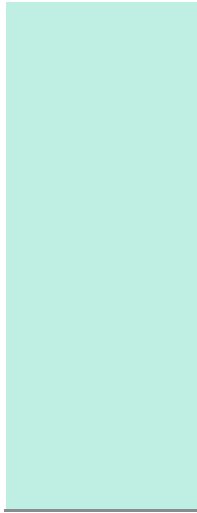
Robeco has a firmwide Stewardship policy which encases the firm's engagement policy. Robeco has two types of engagement, enhanced and value engagement.

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.

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.

An example of a significant engagement:

Proctor & Gamble - Robeco started the engagement in 2019. The company had set a target to only use 100% recyclable plastic or reusable packaging by 2030. This is five years after most other companies reach the same target. P&G expects to reach 95% of fully recyclable packaging by 2025, but some packaging solutions will require more time to be implemented. While Robeco are positive on the recycling strategy of the company and their participation in the Alliance to End Plastic Waste, they will continue to encourage the company to develop solutions to decrease their plastic packaging impact globally. During this engagement Robeco collaborated with the Plastic Solutions Investor Alliance. The company set up a



dedicated portal on ESG for Investors on the P&G website. It contains progress reporting on relevant frameworks such as Task Force on Climate-related Financial Disclosures reporting, Carbon Disclosure Project assessments, Sustainable Development Goal alignments and the Ambition 2030 Goals. Robeco see this a promising development in the banning of single use plastics. coupled with proper disclosures

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# Voting (for equity/multi asset funds only)

As the Plan has no direct or indirect equity holdings at year end, there is no voting data to report.

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.