



Arriva London North and Arriva London South Pension Scheme ("the Scheme")

June 2022

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 schemes to detail their policies in their statement of investment principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles

In response to the DWP regulation, the Scheme updated its SIP in 2020 to cover:

- policies in relation to investment management arrangements, i.e. monitoring and engagement

The SIP can be found online at the web address,

<https://www.arrivapensions.com/~media/Files/A/Arriva-Pensions/documents/arriva-london-north-arriva-london-south-pension-scheme-statement-of-investment-principles.pdf>

There were no changes to the SIP over the year to 05 April 2022.

Implementation Report

This implementation report provides evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Trustee 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 Trustee has followed policies on engagement covering engagement actions with the Scheme's investment managers and in turn the engagement activity of the managers with the companies they invest in
- voting behaviour covering the reporting year up to 05 April 2022 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's reporting year

Over the year, the Scheme fully disinvested from the Newton Global Equity Fund (the proceeds were temporarily held in the LGIM Sterling Liquidity Fund) and Aberdeen Standard Investments Diversified Growth Fund as part of the Scheme reviewing its investment strategy. The Scheme also made a partial disinvestment of £9.3m from the BlackRock Diversified Growth Fund. The proceeds from these three disinvestments were invested in the Ares Secured Income Fund on 1 October 2021.

Implementation Statement

This report demonstrates that the Arriva London North and Arriva London South Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed

Position

Date

Managing risks and policy actions

In determining the Scheme's investment policy, the Trustee has considered, considering the Scheme's objectives, various risks to which the Scheme is exposed. These include:

- a) The risk of deterioration in the Scheme's funding level;
- b) The risk of a shortfall of assets relative to the liabilities as determined if the Scheme were to wind up; and
- c) The risk that the investment managers, in their day to day management of the assets will not achieve the rate of investment return expected by the Trustee.

The Trustee reviews the funding position of the Scheme regularly, with regard to the risks identified in a) and b) above. The Trustee's policy for dealing with the risk identified in c) is covered within the Scheme's investment strategy.

Changes to the SIP

There have been no changes to the SIP over the year to 05 April 2022.

Current ESG policy and approach

ESG as a financially material risk

The Trustee believes that good stewardship, environmental, social and corporate governance issues may have an impact on investment returns. The Trustee also recognises that long-term sustainability issues, including climate change, present risks as well as opportunities that increasingly may require explicit consideration. The Trustee has considered the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process.

The SIP describes the Scheme's policy with regards to ESG as a financially material risk.

As set out in the SIP, the Trustee has given appointed investment managers full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights (such as voting rights) attached to the Scheme's investments.

ESG summary and actions with the investment managers

Isio, as the Scheme's investment consultant, will engage with all of the Scheme's investment managers on an ongoing basis. ESG and Engagement are specifically covered in both the initial due diligence and ongoing monitoring of funds that Isio actively monitor.

ESG factors were considered when implementing a new mandate with Ares, including within the manager selection process and investment documentation review. Ares have a clear firmwide Responsible Investment policy which focuses on environmental risk, diversity and inclusion, and corporate governance. This policy is applied to the Ares Secured Income Fund. Isio has identified potential areas of improvement for the fund and are currently working with Ares to ensure that the proposed actions are being addressed.

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 05 April 2022.

Fund name & Asset Class	Engagement summary	Commentary
LGIM – Gilts and LDI Funds	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.	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. 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.
LGIM – Corporate Bonds Over 10 years	<p>Total Engagements: 165</p> <p>Environmental Engagements: 102</p> <p>Social Engagements: 52</p> <p>Governance Engagements: 84</p> <p>The sum of the separate ESG sections is greater than the total engagements due to overlap between engagements.</p>	<p>Engagement with companies is done at a firm wide level rather than on a fund basis. This is spearheaded by the central Investment Stewardship Team. We believe that this is a sensible approach as it helps leverage on the size of total holdings to help drive change on any ESG issues.</p> <p>The Active Equity, Active Fixed Income and Investment Stewardship team work together to ensure engagement is in the best interest of all investors. This is useful as engagement on equity holdings may be used for the interest of fixed income strategies. In times of conflicts, engagement is solely done by the Investment Stewardship team.</p>
LGIM – Corporate Bonds All Stocks	<p>Total Engagements: 175</p> <p>Environmental Engagements: 109</p> <p>Social Engagements: 49</p> <p>Governance Engagements: 90</p>	<p>Previously, LGIM were unable to provide any data on engagement at the fund level. However, LGIM now provide overall engagement metrics within each fund – albeit limited with no details on specific company engagements.</p> <p>LGIM are only able to disclose their reporting data as at month end. Therefore, the data provided is to 31 March 2022.</p>

	The sum of the separate ESG sections is greater than the total engagements due to overlap between engagements.	
LGIM – Buy and Maintain	Total Engagements: 192	
	Environmental Engagements: 106	
	Social Engagements: 67	
	Governance Engagements: 103	
	The sum of the separate ESG sections is greater than the total engagements due to overlap between engagements.	
Mercer – Corporate Bonds	Total Company Engagements: 4	Although Mercer have provided examples of engagements, it is unclear whether any of the votes have resulted in any material change.
	Environmental Engagements: 3	Mercer have noted that they are unable to share the issuers' names as per their agreement with the underlying managers.
	Social Engagements: 1	
	Governance Engagements: 0	
BlackRock – Dynamic Diversified Growth Fund	Total Company Engagements: 825	BlackRock's ESG related engagement is led by the BlackRock Investment Stewardship (BIS) team. However, the Diversified Strategies team (which manage the fund) partner with the firm's stewardship team to engage with companies when a holding is flagged due to ESG concerns. This enables the Fund to engage with companies which are a concern to the team, via leveraging BlackRock's size and influence.
	Environmental Engagements: 546	
	Social Engagements: 283	
	Governance Engagements: 693	
	Please note, engagements include multiple company meetings during the period with the same company. The sum of the separate ESG sections is greater than the total engagements due to overlap between engagements.	The engagement activities which BlackRock demonstrated are consistent with the Diversified Strategies team's priorities.
		BlackRock are only able to disclose their reporting data as at month end. Therefore, the data provided is to 31 March 2022.
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 ensure that this data is available in the future.	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.
		The Fund is working to establish ESG Key Performance Indicator's to measure engagement effectiveness.

Voting

Given the nature of the Scheme's investments, voting is only applicable to the BlackRock Dynamic Diversified Growth Fund.

As the Scheme invests via fund managers, the manager provided details on their voting actions for the 12-month period to 05 April 2022.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock Dynamic Diversified Growth Fund	<p>Meetings eligible to vote for: 965</p> <p>Resolutions eligible to vote for: 12,458</p> <p>Resolutions voted for: 12,458</p> <p>Resolutions voted with management: 11,679</p> <p>Resolutions voted against management: 779</p> <p>Resolutions abstained from: 182</p> <p>Please note, BlackRock are only able to disclose their reporting data as at month end. Therefore, the data provided is to 31 March 2022</p>	The manager was unable to provide examples of significant votes	We will continue to work with the manager going forward to try and ensure that this level of information will be available in the future.

This report has been prepared for the sole benefit of the Trustee of the Arriva London North and Arriva London South Pension Scheme and based on their specific facts and circumstances and pursuant to the terms of Isio Group Limited's services contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, Isio Group Limited accepts no responsibility or liability to that party in connection with the Services.