

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Engagement Policy Implementation Statement - DC Section

Background on the new disclosure requirements

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations ("the Regulations"). The Regulations amongst other things require that the Trustee outlines how it has ensured that the policies and objectives set out in the SIP have been adhered to over the course of the year.

The Implementation Statement ('the Statement' or 'IS') must include:

- Description of any review of the SIP undertaken during the year, with an explanation of any changes made, or if no review, the date of the last review.
- How, and the extent to which, the SIP has been followed that year;
- Description of the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on its behalf) during the year and state any use of the services of a proxy voter during that year.

The Trustee must include the Implementation Statement in the Trustee Report & Accounts and publish this on a publicly available website.

This is the first implementation statement the Trustee has prepared and covers the year ending 5 April 2020.

Purpose and data

The Statement is split into three parts:

- Changes to the SIP over the year
- Meeting objectives and policies
- Engagement Policy Implementation

The Trustee outline in the SIP several key objectives and policies. This statement provides an explanation of how these objectives and policies have been met and adhered to over the course of the year.

The Statement has been prepared for inclusion in the Plan's annual report and accounts, which will be signed after 1 October 2020. The Statement will also have to be posted on a publicly accessible website.

ARRIVA PASSENGER SERVICES PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Changes to the SIP over the year to 5 April 2020

The SIP for the Plan was reviewed and updated on 18 September 2019 to take account of new regulations which came into effect on 1 October 2019. The regulations require the Trustee to include several policies relating to Responsible Investment and Stewardship. The Trustee expanded the SIP to set out:

- How it takes account of financially material considerations, including climate change, in selecting and retaining the Plan's investments over the appropriate time horizon for the Plan;
- How it takes account (if at all) of 'non-financial matters' in selecting and retaining the investments. This means the views of members, such as (but not limited to) ethical views, and views in relation to social & environmental impact and present & future quality of life of the members and beneficiaries;
- Its policies in relation to the stewardship of investments, including engagement, monitoring and exercising voting rights associated with investments; and
- Its policies in relation to the relationships it has with its asset managers.

Updates post year end

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, 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 the 30 September 2020, ahead of the 1 October 2020 deadline.

Objectives and policies in the SIP

The Trustee outlines in the SIP several key objectives and policies relating to various aspects of the Plan. These are noted below together with an explanation of how these objectives have been met and policies adhered to over the course of the year.

Investment Strategy

The Trustee's primary objectives are:

- *"Asset choice" – to ensure members have an appropriate choice of assets for investment; and*
- *"Return objective" – to enable members to benefit from investment in growth assets until they approach retirement, when they will be able to switch to matching assets which are more related to the purchasing cost of their income and cash in retirement.*

ARRIVA PASSENGER SERVICES PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Objectives and policies in the SIP (continued)

DC overview

The DC sections of the Plan are closed to contributions (and new joiners) but include investment options which members would have been enrolled into without making an investment selection and therefore would be deemed a default arrangement (or default investment option).

The default investment option (referred to in member literature as the Catch-all lifestyle) targets flexibility at retirement. It provides members with the potential for higher levels of growth during the accumulation of their retirement savings. This is provided through exposure to equities initially and then gradually diversifies their investments in the years approaching retirement to reduce volatility. The at-retirement allocation provides a broad base of assets from which members determine how best to take their benefits.

The Trustee also offers two alternative lifestyle arrangements:

- Annuity Lifestyle which is intended for members who would like to secure some form of guaranteed income after the point of retirement; and
- Cash Lifestyle, which is intended for members who would like to take their benefits as a cash lump sum after retirement.

DC: Self-Select Funds

The Trustee has also provided members with access to a range of six self-select funds which allow members to invest in the main liquid asset classes.

DC: Review of the arrangement

The Trustee regularly reviews performance of the DC sections' funds within the Plan's Investment Monitoring Report. The Trustee receives an Investment Monitoring Review from its investment advisor outlining the valuation of all investments held and the performance of these investments.

Investment returns are compared with appropriate performance objectives to monitor the relative performance of these investments. No actions were recommended over the year in respect of the Plan's investments.

There were no changes made to the default arrangement or alternative investment options over the Plan year.

As such, the Trustee remain satisfied that the default arrangement and alternative investment options remain appropriate. More specifically, the Trustee's view is that the three lifestyle investments and self-select fund range provide members sufficient asset choice and the ability to meet their return objective over the long-term.

AVC Overview

The AVC section of the Plan is open to contributions and to new joiners.

As members are required to select an investment fund, there is no default fund (or deemed default fund).

AVC: Self-Select Funds

The Trustee has also provided members with access to a range of twenty-nine self-select funds which allow members to invest in the main liquid asset classes.

ARRIVA PASSENGER SERVICES PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Objectives and policies in the SIP (continued)

AVC: Review of the arrangement

The Trustee reviews the AVC sections every three years, with the next review due to be carried out later in 2020.

As part of this review, the Trustee will receive a full Investment Monitoring Review from its investment advisor outlining the valuation of all investments held and the performance of these investments. Investment returns are compared with appropriate performance objectives to monitor the relative performance of these investments.

Outside of any formal reviews, the Trustee has arrangements for its DC Investment Adviser to notify the Trustee of any AVC market or fund related issues that they should be aware of. This includes relevant fund news concerning changes in staff, processes, philosophy, fund objectives or sustained (under) performance.

There were no changes made to the investment options over the Plan year. In addition, no actions were recommended over the year in respect of the Plan's investments.

As such, the Trustee remains satisfied that the investment options remain appropriate. More specifically, the Trustee's view is that the fund range provide members sufficient asset choice and the ability to meet their return objective over the long-term.

Risk Management Policy

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.

The investment options made available to members have been chosen with the aim of enabling members to control the following risks:

- Inflation risk. 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.
- Volatility risk. The risk of significant short-term fluctuations in the value of members' invested capital which some members may be concerned about.
- Capital risk. The risk of a significant fall in the value of members' invested capital as they approach retirement.
- Conversion risk. The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in benefits secured.

ARRIVA PASSENGER SERVICES PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Objectives and policies in the SIP (continued)

A number of other risks have also been considered when deciding on the investment options to make available to members:

- Default investment option risk. 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.
- Investment Manager Risk. 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 passive options that avoid active management risk.
- Diversification Risk. The Trustee has chosen funds that are constructed from well diversified portfolios of assets to reduce the stock specific risk faced by the Plan.
- Liquidity Risk. 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.
- Geared or speculative investments using derivatives. The Trustee has not invested in funds that are geared or make largely speculative use of derivatives.
- Credit Risk. 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.
- Market Risk. 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.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). 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.

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal strategy review.

These risks are considered as part of each formal strategy review. In addition, the Trustee measures risk in terms of the performance of the assets compared to the benchmarks on a regular basis as part of each quarterly reporting cycle.

ARRIVA PASSENGER SERVICES PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Objectives and policies in the SIP (continued)

DC: Investment Strategy Review

No review of the Plan's DC investment strategy was carried out over the Plan year, with the next one due to be finalised by November 2021.

DC: Performance Review

Performance is monitored within the Investment Monitoring Report. The Trustee, with support from its DC advisors, reviews the fund ratings given by Aon's Manager Research Team. Any rating changes are highlighted as soon as practically possible with required actions discussed appropriately.

No performance concerns occurred over the year.

AVC Strategy Review

No review of the Plan's AVC arrangements was carried out over the Plan year, with the next one due to be finalised before January 2021.

Outside of any formal reviews, the Trustee has arrangements with its DC Investment Adviser to notify it of any fund related issues that the Trustee should be aware of.

No actions were recommended over the year in respect of the Plan's investments, with no changes made to the investment options over the Plan year.

As such, the Trustee remains satisfied that the default arrangement and alternative investment options remain appropriate.

Risk Register

Over the course of the year, the Trustee also reviewed the Plan's risk register. This risk register considers DC and AVC specific events, together with potential outcomes and control procedures in place. An example of some of the risks included are quality of administration, poor investment performance, lack of member understanding, inadequate security of assets and reduction in manager capabilities.

Because of the analysis carried out in the Investment Monitoring Report, the triennial investment strategy reviews and as part of the risk register review, the Trustee is comfortable that the risks for both DC & AVC sections have been managed and mitigated appropriately given their objectives for members of the Plan.

Stewardship Policy

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 its investment adviser when setting the Plan's investment strategy (including the different options available to members), when selecting managers and when monitoring their performance.

The Trustee invests in pooled funds and as such has delegated responsibility for the selection, retention and realisation of investments to the Plan's investment managers in whose funds they invest.

ARRIVA PASSENGER SERVICES PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Objectives and policies in the SIP (continued)

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 endeavors 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.

ARRIVA PASSENGER SERVICES PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Objectives and policies in the SIP (continued)

Aon's manager research team discuss the engagement policies of fund managers as part of their fund rating review. Voting statistics (where available from investment managers) are also included later in this statement. In determining which "Significant" manager votes to disclose within this report, Pension and Lifetime Savings Association (PLSA) guidance suggests focusing on a range of potential criteria including, but not limited to:

- impact on financial outcome;
- impact on stewardship outcome;
- size of holding;
- high profile (or controversial) nature of vote;
- potential conflicts of interest; and
- existing trustee policies and information.

The voting examples set out in this Statement represent what the managers believe to be those with the greatest impact on financial and / or stewardship outcome. It is the Trustee's (and their advisor's) expectation that the managers will provide a more comprehensive range of voting examples for future reports. This will ensure that the Trustee has more opportunity to provide examples which closer align to their specific policies.

On review of managers' stewardship policies and voting statistics as part of the production of this Statement, the Trustee considers that policy has been adhered to.

Members' Views and Non-Financial Factors Policy

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.

Following the Plan year end, the Trustee updated this policy and will, on a reactive basis, consider views from members and other stakeholders, including in relation to social and environmental impact, or views with respect to non-financial matters.

Arrangements with Investment Managers

The Trustee monitors the investment options made available to Plan members, including the default investment option. This considers the extent to which the investment strategy and decisions of the appointed investment managers are aligned with the Trustee's *policies, as set out in this statement. This includes monitoring the extent to which investment managers:*

- make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by its advisers.

ARRIVA PASSENGER SERVICES PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Objectives and policies in the SIP (continued)

The Trustee receives reporting and verbal updates from its advisers on various items including the investment strategy, performance, and longer-term positioning of the strategy. The Trustee focusses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan's objectives and assesses the investment managers over the long-term.

If and when a new investment manager is appointed, the Trustee endeavours to review any required governing documentation associated with the investment and consider the extent to which it aligns with the Trustee's policies. Where necessary, the Trustee will seek to express its expectations to the investment managers to try to achieve greater alignment.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers (e.g. verbally or in writing at time of appointment), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial performance.

Where investment managers are considered to be making decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will endeavor to first engage with the manager and in the event of a material misalignment, could ultimately replace the manager if deemed necessary.

Appropriateness of Funds

Aon's Manager Research Team 'Buy' rate all of the funds managed by LGIM, including all funds held within the DC and AVC sections of the Plan. This rating is based on LGIM's capabilities in terms of investment staff, investment processes, risk management, performance analysis, operational due diligence and terms and conditions. The Plan's investment advisors provide regular updates on these ratings within the investment monitoring reports and highlight material updates as soon as practically possible. No significant changes were made to LGIM's ratings over the Plan year.

As part of this Statement, with support from the Plan's DC investment advisors, the Trustee has reviewed LGIM's policies, specifically on voting and engagement. The Trustee believe they are acting as a suitable steward. The Trustee will continue to work with the DC investment manager and review their policies to ensure they meet Trustee expectations.

The Trustee has had no indication of concern with LGIM over the Plan year and therefore considers they remain a suitable investment manager for the DC sections of the Plan.

In conclusion, the Trustee is satisfied that the investment manager is carrying out work competently, has sufficient regard to investments and has been exercising its investment responsibilities in line with expectations.

Professional Advice

The Trustee takes professional advice when formally reviewing the investment managers or funds offered to members.

The Trustee can demonstrate that this policy has been met both in September/October 2019 and in May 2020 (outside of the Plan year).

ARRIVA PASSENGER SERVICES PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Objectives and policies in the SIP (continued)

Equitable Life transfer to Utmost Life

In September and October 2019, the Trustee took professional advice from Aon UK Limited, regarding the transfer of assets from Equitable Life to Utmost Life & Pensions.

Following receipt of this advice, members were directly communicated with detailing the implications of the proposed transfer, the actions taken by the Trustee and the ability for members to make alternative decisions.

LGIM Managed Property Fund

In May 2020, the Trustee took professional advice from Aon UK Limited, regarding the temporary suspension of the LGIM Managed Property Fund.

Affected members' contributions were temporarily retained within the Trustee bank account until the fund re-opened. During the intervening period, members were directly communicated with detailing the suspension, the action taken by the Trustee, the ability for them to take an alternative approach if requested and finally confirmation that the fund had been re-opened for investment of contributions.

Additional Voluntary Contribution ("AVC") Arrangement Policies

The oversight exercised by the Trustee in respect of these sections meets the necessary regulatory requirements and is proportionate to the relatively small value that these arrangements represent as a proportion of any individual member's overall benefit entitlement.

Overview

In addition to the core DC arrangement, some members have contributions invested in legacy AVC arrangements with external insurance companies and providers. Most of these legacy arrangements are closed to new contributions and are not explicitly covered in the DC SIP.

The Trustee offers funds across six platforms, including: Clerical Medical / Scottish Widows, Legal & General, LGIM, Royal London, Utmost Life and Pensions and Prudential.

The range of assets classes covered within the AVC arrangements include equity, fixed income, property, multi-asset, cash and With Profits funds.

The Trustee reviews the Total Expense Ratios and transaction costs in relation to the AVC funds as part of the Plan's Chair Statement. The Trustee found that whilst the AVC arrangements are generally more expensive than the core DC arrangements, the Trustee deems that these costs are within the range expected from comparable AVC arrangements

Given most asset classes, management styles and cost ranges have been made available, the Trustee believes the members have sufficient investment options and the ability to maximise their contributions in the long-term (after investment returns).

ARRIVA PASSENGER SERVICES PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Manager voting and engagement – Equity and Multi Asset

The Trustee's DC investment advisors have contacted all DC and AVC managers to request information in relation to stewardship and engagement.

Although information on behalf of the DC sections was available, information in relation to some of the AVC investment managers was unavailable at the time of writing.

On behalf of the Trustee, the DC Investment advisor is continuing to engage with these managers to ensure this information is readily available moving forward. A summary of responses received is set out below. On a materiality basis and given stewardship is less relevant to fixed income, only equity-based funds have been included.

Over the year, the Plan was invested in the multi-asset and equity funds with the following managers:

- Legal and General Investment Management ('LGIM')
- Prudential
- Utmost Life & Pensions
- Royal London
- Clerical Medical / Scottish Widows

LGIM / Legal & General

Voting Policy

The following voting policy and example relate to LGIM overall as a manager rather than the individual funds. Consistent with a number of other investment managers, LGIM are evolving their policies and have not yet provide information around their engagement policy and, crucially, how it relates to ESG.

LGIM use the Institutional Shareholder Services ('ISS') as a proxy advisor for voting on this fund. LGIM regularly monitor the proxy voting services through quarterly due diligence meetings to ensure execution is in line with their voting policy. LGIM receive an electronic alert for rejected votes which require further action. LGIM are audited annually and receive an assessment report on their voting activities.

LGIM are currently in the process of building a tool to collate specific engagement and voting data at a strategy level and will align this and their definition of a significant vote with PLSA guidelines. LGIM also strengthened its voting policy in 2020 to state they will not vote against misaligned pensions for directors. Weekly voting meetings are recorded and audited annually within the team, with all votes having a rationale behind them.

Example of a significant vote: Rio Tinto

One example of LGIM voting against a shareholder proposal was in relation to Rio Tinto in 2019. The proposal was for Rio Tinto, a mining company, to set out a transition plan and publish Scope 1, 2, and 3 targets aligned with the Paris agreement. LGIM considered this resolution (for Scope 3 targets) to be too prescriptive under current technology limitations for the sector but has been pushing the company to tackle this through their engagement.

LGIM supported and was a co-filer in the shareholder proposal put forward by Climate Action 100+ for BP to publish a strategy consistent with the Paris Agreement, including capital expenditure and targets. This was supported by over 99% of shareholders at the company's AGM, and support from the board was achieved.

ARRIVA PASSENGER SERVICES PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Manager voting and engagement – Equity and Multi Asset (continued)

LGIM UK Equity Index Fund

Summary Voting Statistics

	Over the year
Resolutions voted	99.8%
Resolutions voted against management	6.5%
Resolutions abstained	0%

LGIM All World Equity Index Fund

Summary Voting Statistics

	Over the year
Resolutions voted	97.3%
Resolutions voted against management	16.7%
Resolutions abstained	0.5%

LGIM Multi Asset Fund

Summary Voting Statistics

	Over the year
Resolutions voted	97%
Resolutions voted against management	17%
Resolutions abstained	0.3%

LGIM Global Equity 50:50 Index Fund

Summary Voting Statistics

	Over the year
Resolutions voted	98.6%
Resolutions voted against management	14.4%
Resolutions abstained	0%

LGIM World Equity (ex UK) Index Fund

Summary Voting Statistics

	Over the year
Resolutions voted	99.1%
Resolutions voted against management	18.1%
Resolutions abstained	0%

ARRIVA PASSENGER SERVICES PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Manager voting and engagement – Equity and Multi Asset (continued)

Prudential

Voting Policy

Prudential consider an active voting policy to be an integral part of their role as investment managers. Where votes are cast, this is done to protect their interests as shareholders and add value for their clients. Prudential do not solicit clients' views in advance of voting however they will take them into account if a client makes them known.

Prudential use research provided by the ISS and IVIS (Institutional Voting Information Service) to highlight any controversial issues which need to be considered when voting. They do not just follow their proxy agent's recommendations. Rather, they have a custom arrangement with the ISS giving them a voting service which reflects their public voting policy. Voting decisions are taken by the stewardship team however when a contentious issue arises the relevant fund managers will also be involved. Routine resolutions are voted by the ISS on their behalf when it is clear that the resolutions do not fulfil the necessary criteria.

Prudential start with a view to supporting the management of the companies they invest in; however, they do oppose management when resolutions are put forth which they feel will be not in the best interests of the company. When doing so, they endeavour to inform the company of this prior to the vote.

Example of a significant vote: FirstGroup Plc

A 10 percent shareholder in the company sought to remove six members of the board and replace them with seven nominees. The goal for doing so was to enable them to remove the chairman. Prudential voted against this resolution since they felt that maintaining the current board would be in the best interests of shareholders and the company.

Example of a significant vote: Persimmon

In 2012 Persimmon initiated a long-term incentive plan which would see executive directors receiving benefits of great financial worth. The initial plan was originally intended to be delivered until 2021 and the benefits directors were to receive were uncapped. Under this plan, £99 million worth of benefits was delivered to 3 executive directors in December 2017. As a result of these payments, the chairman and the remuneration committee chairman resigned.

The senior independent director and new remuneration committee chairman then requested a meeting with Prudential to discuss their views. Prudential recommended that compromise should be reached with the executives so that planned payments to executives would be significantly reduced.

In February 2018 the company published an announcement detailing the compromise they had reached with the executives. The planned benefits were significantly reduced, and the executives agreed to waive their entitlement to over £50 million.

Prudential still considered the plan to be excessive but were in favour of the agreed compromise. They voted in favour of a resolution to re-elect the executives but voted against the advisory remuneration report.

ARRIVA PASSENGER SERVICES PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

Investment report (continued)

Manager voting and engagement – Equity and Multi Asset (continued)

Engagement

Prudential believe that long-term success of companies is supported by effective investor stewardship and high standards of corporate governance. They acknowledge that investors have a key role to play in ensuring a company is managed well so that it can be successful in the long term. They also acknowledge that consideration of social and environmental issues can impact on company performance and that well managed companies take these issues into consideration as part of their successful development.

They engage with investee companies on issues including board composition, strategy, culture, capital allocation and mergers and acquisitions. A key method they employ to do this is to arrange meetings with leadership figures in their investee companies. In 2018 they had 1403 such meetings.

Engagement Example: Gibson Energy

In 2017 Prudential published a public letter discussing their view of the oil and gas service provider and outlining the steps they felt it should take to improve the business. Specifically, they felt that Gibson Energy was too diversified and needed to sell off non-core businesses to become more focussed on infrastructure.

In the second half of 2017 Gibson appointed a new CEO who commenced a strategic review of the company and announced the sale of several non-core businesses.

Manager engagement – Fixed income & Property

In addition to the equity investments mentioned above, the Trustee invests in fixed income, property and cash funds with the following managers:

- Legal and General Investment Management ('LGIM')
- Utmost Life & Pensions
- Clerical Medical

The Trustee acknowledges that the concept of stewardship may be less applicable with respect to these investments. In addition, the Trustee has not been made aware of any concerns by its DC adviser.

Summary

Overall, the Trustee considers that it has worked in line with its policies and objectives set out within the SIP during the Plan year.

The Trustee acknowledges that stewardship may be less applicable to certain asset classes and management styles, but still expects to see Sustainable Investment type policies and processes formalised and developed over time from the investment managers linked to the Plan.

The Trustee recognises that it has a responsibility as an institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Plan invests in. The Trustee will continue to use its influence to drive positive behaviour and change among the DC Investment Manager, AVC managers and other third parties that the Trustee relies on such as the DC investment advisor. The Trustee will, as appropriate, set increasingly higher standards for these parties in future, and will monitor, assess and ultimately hold them to account to ensure that the assets of the Plan are appropriately invested.