

## TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

### Implementation statement DC

#### Changes to the SIP over the year to 5 April 2020

The Statement of Investment Principles (SIP) for the Scheme 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 Scheme's investments, over the appropriate time horizon for the Scheme;
- 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 Scheme. 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.

## TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

### Implementation statement DC (continued)

#### 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.

#### AVC Overview

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

The default arrangement is the Clerical Medical BlackRock Cautious Lifestyle Option. The aim of the default investment option is to provide members with a diversified asset allocation during the accumulation of their retirement savings, and then to gradually de-risk their investment in the years approaching retirement, to reduce volatility.

#### AVC: Self-Select Funds

The Trustee offers twenty-nine self-select funds across six platforms:

Open to new members and new contributions:

Clerical Medical/Scottish Widows; and  
LGIM

Closed to new members and new contributions:

Legal & General  
Prudential  
Utmost Life & Pensions (formerly Equitable Life)  
Royal London

This wide range of options allow members to invest in the main liquid asset classes.

#### 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 also receives 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 them of any market or fund related issues that it 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 default arrangement or alternative investment options over the Scheme year. In addition, no actions were recommended over the year in respect of the Scheme's investments.

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

## TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

### Implementation statement DC (continued)

#### 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. 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.

## TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

### Implementation statement DC (continued)

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. The Trustee's policy is to review the range of funds offered and the suitability of the default investment option periodically.

These risks are considered as part of each formal strategy review.

#### AVC Strategy Review

No review of the Scheme's AVC arrangements was carried out over the Scheme year, with the next one due to be finalised before January 2021. Where deemed appropriate, this review will consider: the membership demographic profile; how members have taken their benefits; the wider AVC market; the default arrangement; alternative lifestyle options; the self-select funds and other wider considerations for the Scheme (e.g. consolidation of arrangements or alternative means of delivery).

As highlighted above, each formal AVC review also considers fund performance relative to objectives. 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. This includes relevant news concerning changes in staff, processes, philosophy, fund objectives or sustained (under) performance.

No actions were recommended over the year in respect of the Scheme's investments, with no changes made to the default arrangement or alternative investment options over the Scheme 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 Scheme's risk register. This risk register considers DC/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.

#### Stewardship Policy

The Trustee invests in pooled funds and as such has delegated responsibility for the selection, retention and realisation of investments to the Scheme'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 Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

As part of their delegated responsibilities, the Trustee expects the Scheme'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 Scheme'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.

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### Implementation statement DC (continued)

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 Scheme'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.

The Trustee sets out in its stewardship policy, within the SIP, that it recognises the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which it invests. It acknowledges that ultimately this protects the financial interests of the Scheme and its members. As such:

- the Trustee expects its investment managers to carry out the Trustee's rights and duties as shareholders, including voting and engaging with underlying companies to promote good corporate governance, accountability and positive change where necessary.
- the Trustee does not consider performance and / or manager monitoring for the AVC sections outside of the triannual review exercise. As such, the Trustee delegates all manager monitoring related responsibilities (including performance monitoring) to their DC investment advisor. This advisor is then expected to notify the Trustee of any concerns which requires attention. This approach, although not best practice, is in-line with peers.

Typically, voting statistics (where available from investment managers) are also to be included later in this statement. However, as highlighted earlier, the Trustee has been unable to do this due to delays by investment managers in providing details of its voting policies, engagement policies, voting examples and voting statistics.

The Trustee, is continuing to engage with investment managers to ensure this information is readily available moving forward.

Given the lack of managers' stewardship policies available in producing this Statement, the Trustee cannot be certain that this policy has been adhered to by its investment managers.

However, the Trustee is satisfied that their DC investment advisor has fulfilled its responsibilities, which has been evidenced through ad hoc updates on fund related news.

### Members' Views and Non-Financial Factors Policy

In setting and implementing the Scheme's investment strategy, the Trustee does not explicitly take into account the views of Scheme 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").

## TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

### Implementation statement DC (continued)

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 Scheme 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 Scheme 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.

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 Scheme'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

Outside of formal AVC strategy reviews, the Scheme's DC investment advisors are expected to provide updates on any material fund related changes that could impact on members. As indicated above, no significant events were highlighted over the Scheme year.

The Trustee has had no indication of concern with the AVC funds over the Scheme year and therefore believe they remain suitable AVC investment options for the Scheme.

In conclusion, the Trustee is satisfied that their AVC investment fund managers are carrying out work competently, have sufficient regard to investments and have been exercising their investment responsibilities in line with expectations.

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### Implementation statement DC (continued)

#### 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 as 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 communicated with detailing the implications of the transfer, actions taken by the Trustee and the ability for them to take advantage of the options available to them.

#### 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

The Trustee offers funds across a single platform - Clerical Medical / Scottish Widows.

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

The Trustee reviews the Total Expense Ratios and transaction costs in relation to the AVC funds as part of the Scheme'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 considers members have sufficient investment options and the ability to maximise their contributions in the long-term (after investment returns).

### Manager Voting & Engagement

The Trustee has not set out further information in this statement regarding manager voting policies, voting statistics and engagement policies as it has been unable to obtain the required information from investment managers.

The Trustee, is continuing to engage with investment managers to ensure this information is readily available moving forward.

### Summary

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

The Trustee acknowledge 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 Scheme.

# ARRIVA PASSENGER SERVICES NATIONAL PENSION SCHEME

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## TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2020

### **Implementation statement DC (continued)**

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 Scheme invests in. The Trustee will continue to use its influence to drive positive behaviour and change among the 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 Scheme are appropriately invested.

### **Employer related investments**

The investments of the Scheme are invested in accordance with Section 40 of the Pensions Act 1995. Details of any Employer related investments are disclosed in note 22 to the financial statements.