High level overview of money purchase assets
Arriva Passenger Services Pension Plan

Section	Investment manager/ provider	Benefit basis
Kent & Sussex DC section	LGIM	Pure DC
Former AMPS DC section	LGIM	DC but many members hold a GMP/PR underpin
AVCs	• LGIM • L&G • Scottish Life • Equitable Life • Prudential • Clerical Medical	Pure DC AVC funds
Former AMPS Scottish Widows With-Profits funds	Scottish Widows	DC but some members hold a GMP/PR underpin where this is included in the underpin value for the test
Former AMPS Prudential With-Profits funds	Prudential	DC but some members hold a GMP/PR underpin where this is included in the underpin value for the test
Shires (CIF investment)	Based on notional CIF Bond & Equity Fund	• DC underpin on DB benefit • Some pure DC transfers-in
Category A, Midland Fox and Crosville Works (CIF investment)	Based on notional CIF Bond & Equity Fund	Pure DC transfers-in
Scotland West (CIF investment)	Based on notional CIF Bond & Equity Fund	DC underpin on DB benefit
Category A, Midland Fox and Crosville Works (Aberdeen investment)	Notional units based on a price feed from Aberdeen Life Multi-Asset Fund	DC underpin on DB benefit, unless under 2 years' service, in which case pure DC

Annual statement regarding governance of the

Arriva Passenger Services Pension Plan ("the Plan")

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") requires the Trustee to prepare an annual statement regarding governance, which should be included in the annual Trustee report and accounts. The governance requirements apply to all defined contribution ("DC") pension arrangements and aim to help members achieve a good outcome from their pension savings.

This statement issued by the Trustee covers the period from 6 April 2019 to 5 April 2020 and is signed on behalf of the Trustee by the Chair. A copy of this Statement will be made available to members of the Plan on request and on publicly accessible websites including: www.arrivapensions.com.

This statement covers governance and charge disclosures in relation to the following:

1. The Default arrangement
2. Processing of core financial transactions
3. Member borne charges and transaction costs
    i. Default arrangement
    ii. Self-select funds
    iii. Additional Voluntary Contributions
    iv. Illustrations of the cumulative effect of these costs and charges
4. Value for Members assessment
5. Trustee knowledge and understanding

The Trustee has also taken actions required to manage the Plan considering the COVID-19 pandemic and have incorporated additional commentary into this statement.

1. The Default Arrangement

The Trustee is required to design the default arrangement in members' interests and keep it under review. The Trustee needs to set out the aims and objectives of the default arrangement and take account of the level of costs and the risk profile that are appropriate for the Plan's membership.

The Plan has several different sections with benefits accrued in some of the sections on a money purchase basis (also known as defined contribution). The Trustee is responsible for investment governance of the Plan. This includes setting and monitoring the investment strategy of the Plan's various money purchase investment options. All the money purchase sections (excluding AVCs – see below) are closed to contributions (and new joiners) but some include investment options which members would have been enrolled into without making an investment selection and therefore would be deemed a default strategy.

The last review of the default arrangement on 7 November 2018 concluded that one single lifestyle strategy would represent an appropriate default arrangement for the Plan's two main DC sections. This default arrangement was named the 'Catch-All' lifestyle. Details of the objectives and the Trustee's policies regarding the default arrangement can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Plan's SIP is attached however the aims and objectives are set out here for ease of reference:

The Trustee's primary objectives for the Plan 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, at which point, they will be gradually switched into assets which are more closely aligned to how they will take their benefits in retirement.

The aims of the default arrangement are:

- During the 'Accumulation' phase, the default arrangement aims to provide real growth (in excess of inflation) over the long term. The default arrangement invests wholly in the 'Global Equity Fund' until 10 years before a member's selected retirement age.
- During the 'Consolidation' phase, the default arrangement aims to provide real growth and capital preservation through means of asset diversification. This is implemented by a gradual switch into the 'Multi Asset Fund'.
- During the 'Transition' or 'Pre-retirement' phase, the default arrangement gradually introduces an allocation to cash with a view that members will want to access their 25% tax-free lump sum at retirement.
- At the point of a member's selected retirement age, the default arrangement will be invested 75% in the 'Multi Asset Fund' and 25% in the Cash Fund.
- Where possible, all funds will be white-labelled, to enable easier Trustee governance and reduce the potential for member confusion.

Investment strategy review

The default arrangement was not formally reviewed during the period covered by this statement.

The last review was completed on the 7 November 2018, with implementation to new funds occurring on 18 February 2019. The review considered the membership profile, the needs of members as well as consideration of expected member outcomes at retirement and associated risks. The Trustee took advice from its investment adviser on all these aspects.

The Trustee undertakes a formal review of the default arrangement every 3 years (and without delay after any significant change in investment policy or demographic profile of the Plan). The next formal review is due to take place by 7 November 2021.

Performance Monitoring

The Trustee also reviews the performance of the default arrangement against its aims and objectives on a quarterly basis. This review includes an analysis of fund performance to check that the risk and return levels meet expectations. Performance is reviewed against target benchmarks that have been agreed with the investment managers.

The gross of fees performance of the component funds of the default arrangement is shown below. The performance is to 31st March 2020 and annualised for periods over 1 year.

	Annualised gross performance (% p.a.)		
Fund name **Benchmark name**	1 year	3 years	5 years
LGIM All World Equity Index Fund *FTSE All-World Index*	-6.2 *-6.3*	2.2 *2.2*	7.2 *7.1*
LGIM Multi Asset Fund *ABI Mixed Investment 40-85% Shares Sector*	-5.3 *-8.2*	1.0 *-1.3*	3.9 *2.8*
LGIM Cash Fund *7 Day LIBID*	0.7 *0.5*	0.5 *0.4*	0.5 *0.4*

The Trustee reviews that took place in the year to 31 March 2020 concluded that the default arrangements were performing broadly as expected.

AVC Arrangements

The Plan also features Additional Voluntary Contribution (AVC) arrangements which continue to receive AVC payments and are also open to new joiners. The AVC arrangements do not feature a default arrangement because members who commence AVC payments must make an investment choice when they join. However, the Trustee has a duty to govern the investment options and as such, the Trustee reviews these periodically, as part of a wider AVC review.

The latest AVC review was carried out in August 2017. The AVC review process has not resulted in any recommended changes to the AVC investment options since 2010. In 2010, the Trustee undertook a rationalisation exercise that reduced the number of investment options/AVC providers available. Whilst the reviews have not led to any investment changes, communications have been issued to AVC members to remind them of the features of the AVC funds that are available.

A subsequent AVC review was started on 1 September 2020.

2. Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions are processed promptly and accurately. Core financial transactions include the investment of contributions, transfer of member funds into and out of the Plan, transfers between different investments within the Plan and payments to and in respect of members/beneficiaries.

The bulk of the core financial transactions are undertaken on behalf of the Trustee by the Plan administrator, Aon Solutions UK Limited (Aon). The Trustee also delegates administration to Aon for its AVC arrangements, although in some cases the member records are administered by the AVC providers.

To determine how well the administration is performing the Trustee has service level agreements ("SLA") in place with Aon. These SLAs detail several key administration processes to be performed and the target timescale within which each of these processes needs to be completed. There are SLAs in place for all core financial transactions. Under the current SLA, Aon aims to accurately complete all financial transactions within 10 working days.

The Trustee has also reviewed the key processes adopted by the administrator and output to minimise the risks of inaccurate or late payment of core financial transactions. Key processes include:

- Daily monitoring of the Trustee bank account
- Checks for all investment and banking transactions prior to processing
- All work processes are documented and subject to a peer review process, with work being calculated and independently checked by another member of the team.
- Aon also provides confirmation to the Trustee annually regarding the current position on common and conditional data as well as any amendments which may be required to rectify gaps in the data.
- Controls around administration and the processing of transactions are documented in the Plan risk register which is regularly reviewed

Some administration issues were identified over the prior reporting period, which have subsequently been rectified. Processes have also been amended to ensure that similar issues do not arise in future. The Trustee also receives annual updates on the Plan's AVC arrangements including fund performance and updates on the AVC providers.

Based on the reporting set out above, the Trustee considers that the majority of the Plan's core financial transactions were processed promptly and accurately over the year.

3. Member Borne Charges and Transaction costs

The Trustee should regularly monitor the level of charges borne by members through the investment funds. These charges comprise:

- **Charges: these are explicit, and represent the costs associated with operating and managing an investment fund. They can be identified as a Total Expense Ratio (TER), or as an Annual Management Charge (AMC), which is a component of the TER;**
- **Transaction costs: these are not explicit and are incurred when the Plan's fund manager buys and sells assets within investment funds but are exclusive of any costs incurred when members invest in or sell out of funds.**

The Trustee is also required to confirm that the charges on the default arrangement have not exceeded 0.75% p.a. (the charge cap) and produce an illustration of the cumulative effect of the costs and charges on members' retirement fund values as required by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018.

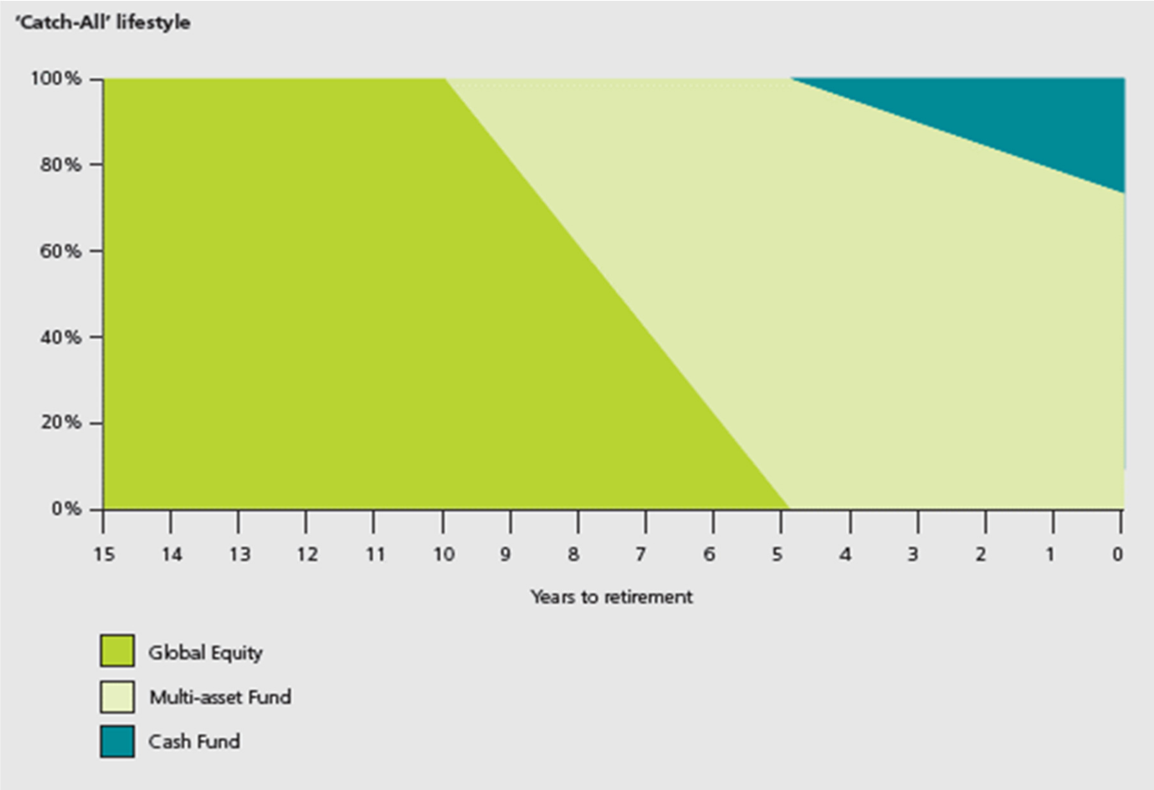
The Trustee has set out the costs and charges that are incurred by members, rather than the employer, over the statement year in respect of each investment fund available to members. These comprise the TER and insofar as we can, transaction costs.

The charges have been supplied by Legal & General Investment Management, who are the Plan's investment manager. Charges have also been provided by the Plan's various AVC providers. Where transaction costs have been provided as a negative cost, these have been set to zero by the Trustees.

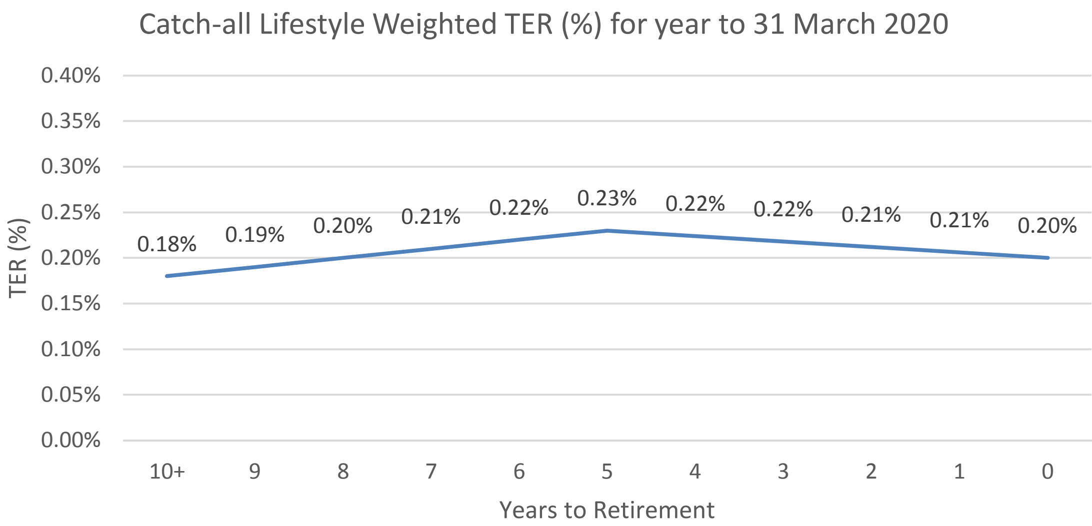
The Trustee has not been able provide to all transaction costs due to manager's inability to report appropriately. The Trustees continue to liaise with Prudential and Clerical Medical to obtain the outstanding information.

(i) Default arrangement – Catch-all Lifestyle

The Catch-all Lifestyle has been set up as a lifestyle arrangement which means that member's assets are automatically moved between different investment fund as they approach their target retirement date. This is illustrated in the chart below.



The TER that a member paid over the year depends on their term to retirement, as shown in the line chart below. The TER over the year to 31 March 2020 ranges from 0.18% p.a. to 0.23 p.a., which is within the 0.75% p.a. charge cap for schemes that are used for auto-enrolling their employees.



Over the year to 31 March 2020, transaction costs ranged between 0.00% p.a. and 0.04% p.a., meaning that the total cost associated with the Catch all Lifestyle for the year to 31 March 2020 is between 0.18% p.a. and 0.27% p.a.

(ii) Self-select investment funds

In addition to the default arrangement (the Catch-all Lifestyle), members also have the option to invest in a further two lifestyles specifically targeting annuity or cash at retirement, and six individual funds.

The TERs, transaction costs and total member borne costs for each of these self-select investment funds over the twelve months to 31 March 2020 are shown in the following tables:

Lifestyles	TER % p.a.	Transaction Costs % p.a.	Total costs % p.a.
Catch-all Lifestyle	0.18 to 0.23	0.00 to 0.04	0.18 to 0.27
Annuity Lifestyle	0.14 to 0.23	0.00 to 0.04	0.14 to 0.27
Cash Lifestyle	0.12 to 0.23	0.00 to 0.04	0.13 to 0.27

Individual funds	TER % p.a.	Transaction Costs % p.a.	Total costs % p.a.
LGIM All World Equity Index Fund*	0.18	0.00	0.18
LGIM UK Equity Index Fund	0.09	0.04	0.13
LGIM Multi Asset Fund (formerly the LGIM Consensus Fund) *	0.23	0.04	0.27
LGIM Index-linked Gilt Index Fund	0.10	0.11	0.21
LGIM Pre Retirement Fund	0.15	0.00	0.15
LGIM Cash Fund*	0.11	0.00	0.11

*Component funds of the new default "Catch-All" Lifestyle.

(iii) Additional Voluntary contributions

Unless stated otherwise below or in the accompanying notes, the TERs, transaction costs and total member borne costs for the Plan's AVC arrangements for the year to 31 March 2020 are set out below.

The policy previously held with Equitable Life was transferred to Utmost Life and Pensions as at 1 January 2020. The reporting in this statement covers a 9-month period with Equitable Life and a 3-month period with Utmost Life and Pensions. Members in the With Profits Fund were initially transferred to the Secure Cash Fund with Utmost Life and Pensions and later transferred to the 'Investing by Age Strategy'.

Fund/Providers	TER (% p.a.)	Transaction Costs (% p.a.)	Total Costs (% p.a.)
LGIM			
LGIM Global Equity 50:50 Index Fund	0.17	0.01	0.18
LGIM Pre-Retirement Fund	0.15	0.00	0.15
LGIM UK Equity Index Fund	0.10	0.00	0.10
LGIM World Equity (excluding UK) Index Fund	0.22	0.00	0.22
LGIM Multi Asset Fund (formerly the LGIM Consensus Fund)	0.15	0.04	0.19

LGIM Cash Fund	0.13	0.00	0.13
LGIM Managed Property Fund	0.70	0.00	0.70
LGIM All Stocks Index-Linked Gilts Index Fund	0.10	0.11	0.21
Prudential[1]			
Deposit	0.00	0.00	0.00
Prudential With-Profits Fund	0.80[3]	0.09	0.89
Scottish Widows			
Scottish Widows With Profits Fund	No explicit charges	0.20	0.20
Legal & General[2]			
Legal & General With-Profits Fund	No explicit charges	0.24	0.24
Legal & General Special Deposit Account Fund	No explicit charges	n/a	n/a
Equitable Life[6]			
Equitable Life With Profits Fund	1.50[4]	1.04	2.54
Equitable Life Money Market Fund	0.50	0.01	0.51
Utmost Life and Pensions[2]			
Utmost Life Money Market Fund[5]	0.50	0.01[6]	0.51
Utmost Life Secure Cash Fund	0.50	-[7]	0.50
Utmost Life Multi-Asset Moderate Fund[5]	0.75	0.11	0.86
Utmost Life Multi-Asset Cautious Fund[5]	0.75	0.36	1.11
Clerical Medical[2]			
Clerical Medical With-Profits Fund	0.50	-[8]	0.50[8]
Clerical Medical UK Growth Fund	0.50	0.44	0.94
Clerical Medical International Growth	0.50	0.72	1.22
Clerical Medical Cash	0.50	0.01	0.51
Clerical Medical UK Index-Linked Gilt	0.50	0.00	0.50
Clerical Medical Retirement Protection	0.50	0.08	0.58
Clerical Medical Halifax	0.50	0.00	0.50
Clerical Medical North American	0.50	0.48	0.98
Clerical Medical Japanese	0.50	0.10	0.60
Royal London[2]			
Crest Secure Fund	1.45	0.00	1.45

[1]Currently open to contributions but is closed to new entrants.
[2]AVC policies are closed and are no longer open to receive contributions.
[3] The charges on the Prudential With Profits Fund are not explicit, they are considered when the annual bonus on this Fund is declared. Prudential estimates costs are 0.8% p.a. assuming investment returns are 5% p.a. Transaction cost provided by Prudential covers the 2019 calendar year.
[4] This includes the 0.5% p.a. for cost of guarantees.
[5]Underlying components of the Investing by Age Strategy
[6]Transaction cost provided by Equitable Life and covers the 2019 calendar year.
[7]Transaction costs are not available for the Secure Cash Fund as this was a new fund from 1 January 2020.
8 Transaction costs are not available for this fund at the time of report sign-off.

The funds available in all the other DC funds in the Plan do not have explicit charges because they are invested in notional units with the unit price formulated based on the returns of the underlying investments - with the returns applied to the investment already taking account of any expenses.

(iv) Illustrations of the cumulative effect of costs and charges

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs.

To help members understand the impact that costs and charges can have on their retirement savings, the Trustee has provided four illustrations of their cumulative effect on the value of typical Plan members savings over the period to their retirement.

The illustrations have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on several assumptions about the future which are set out in the appendix.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Plan they are not a substitute for the individual and personalised illustrations which are provided to members in their annual Benefit Statements.

Each illustration, A, B, C and D is shown for a different type of member invested in the default arrangement (the Catch-all Lifestyle), as this is the arrangement that most of our members have their retirement savings in. Each illustration is shown as a chart and a table as follows:

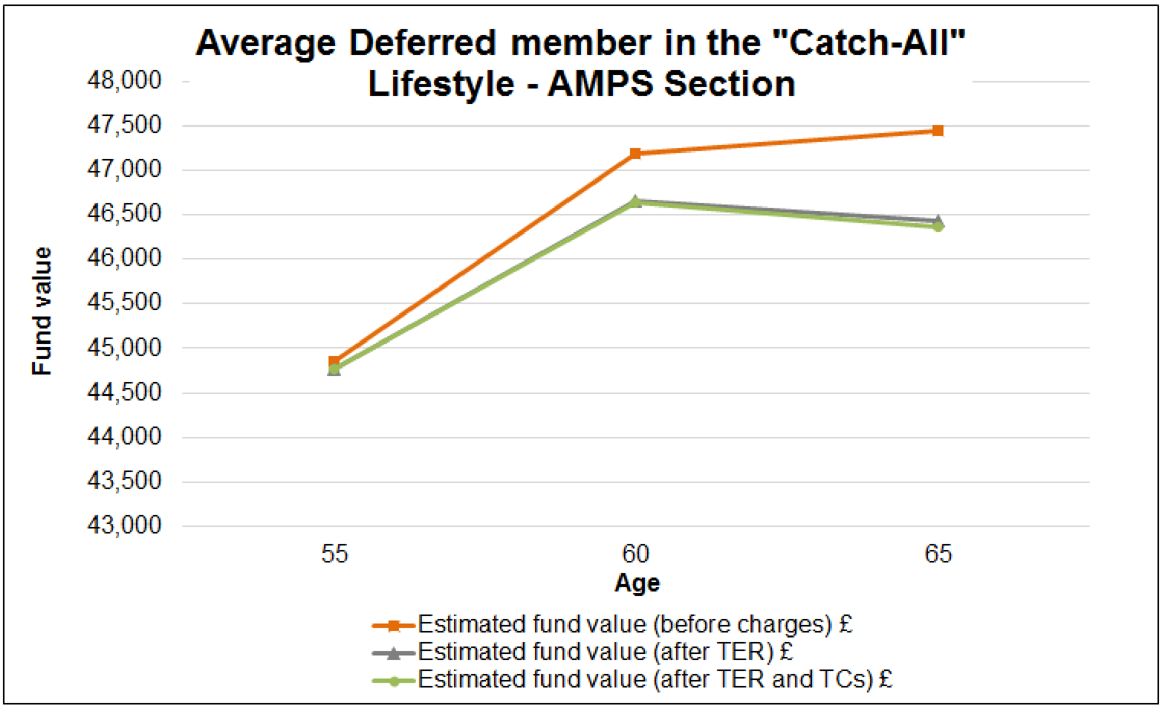
- The Chart shows a projection of the member's retirement savings at retirement age, with and without costs and charges applied.

- As the projected retirement savings are dependent on investment returns as well as the level of costs and charges, we have also included some comparison figures with other investments in the Tables. For comparison purposes, we also show the projected retirement savings if the typical member were invested in a higher risk profile fund -LGIM All World Equity Index Fund- which has a higher expected return and higher charges, and a lower risk profile fund –LGIM Cash Fund- which has a lower expected return and lower charges

All projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future expected inflation.

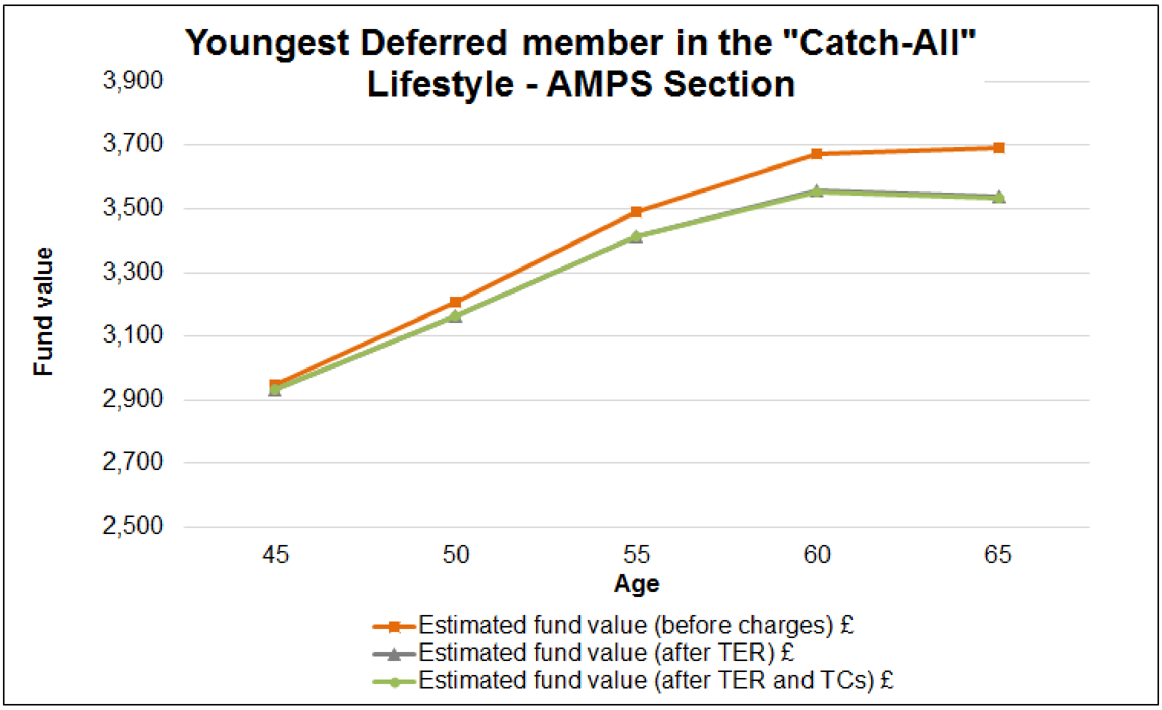
AMPS Section

Illustration A: is based on a deferred member (a member who is no longer making contributions into their Pension Account) who has 11 years to go until their retirement at age 65. The member has a current fund value of £44,100 and is invested in the default arrangement (the Catch-all Lifestyle).



Projected Pension Account in today's money, based on figures for the year to 31 March 2020									
Age	Default arrangement (Catch-all Lifestyle)			LGIM All World Equity Index Fund			LGIM Cash Fund		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
	£	£	£	£	£	£	£	£	£
54	44,100	44,100	0	44,100	44,100	0	44,100	44,100	0
55	44,850	44,780	70	44,850	44,780	70	43,070	43,020	50
60	47,200	46,640	560	48,810	48,310	500	38,260	38,000	260
65	47,440	46,360	1,080	53,130	52,130	1,000	33,980	33,570	410

Illustration B: is based on a deferred member who has 23 years to go until their retirement at age 65. The member has a current fund value of £2,800 and is invested in the default arrangement (the Catch-all Lifestyle).

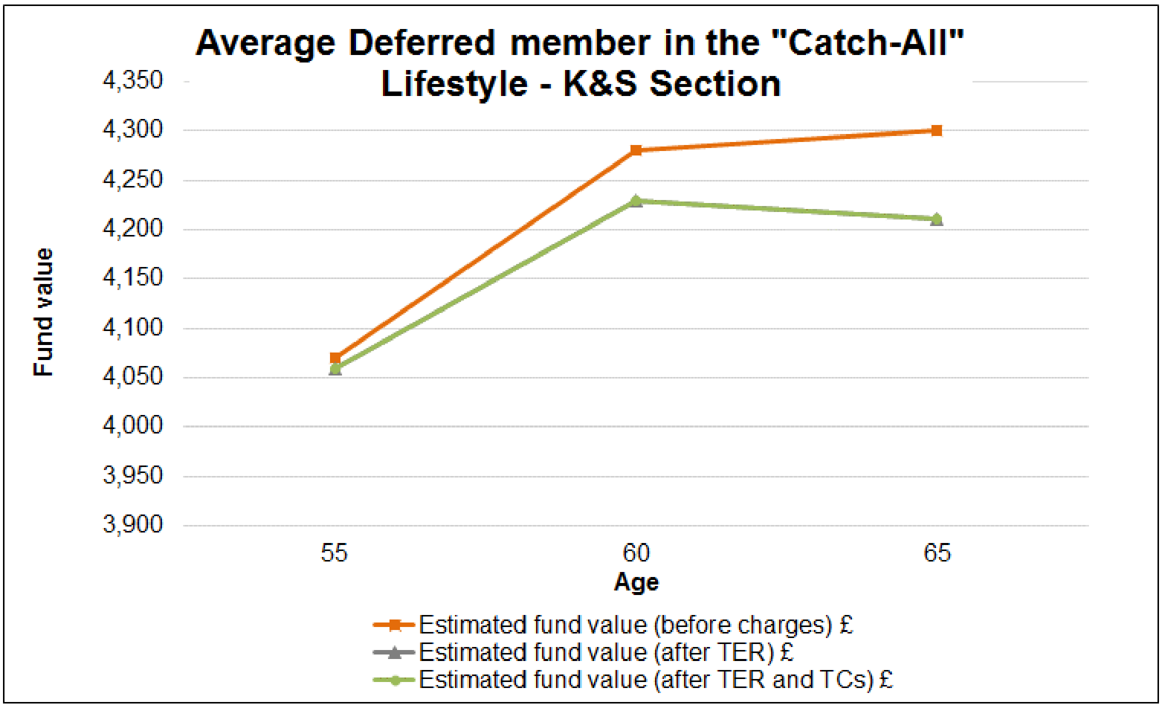


Projected Pension Account in today's money, based on figures for the year to 31 March 2020

Age	Default arrangement (Catch-all Lifestyle)			LGIM All World Equity Index Fund			LGIM Cash Fund		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
	£	£	£	£	£	£	£	£	£
42	2,800	2,800	0	2,800	2,800	0	2,800	2,800	0
45	2,950	2,930	20	2,950	2,930	20	2,610	2,600	10
50	3,210	3,160	50	3,210	3,160	50	2,320	2,300	20
55	3,490	3,410	80	3,490	3,410	80	2,060	2,030	30
60	3,670	3,550	120	3,800	3,680	120	1,830	1,790	40
65	3,690	3,530	160	4,130	3,970	160	1,620	1,580	40

Kent &Sussex Section

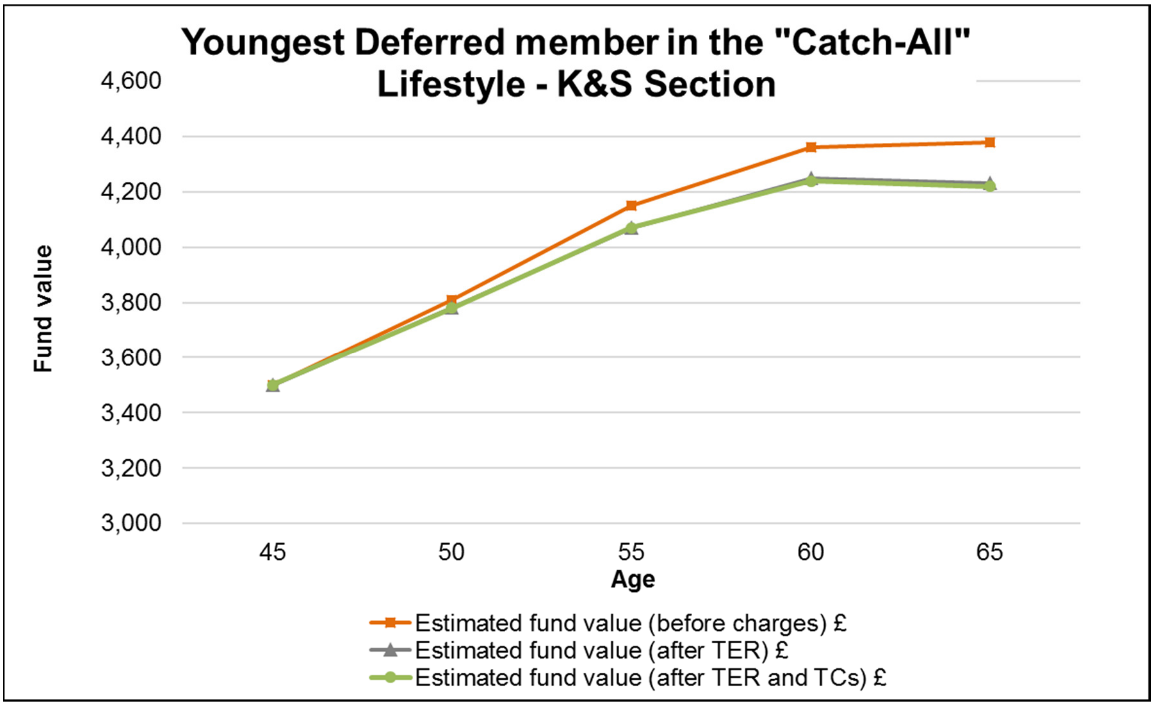
Illustration C: is based on a deferred member who has 11 years to go until their retirement at age 65. The member has a current fund value of £4,000 and is invested in the default arrangement (the Catch-all Lifestyle).



Projected Pension Account in today's money, based on figures for the year to 31 March 2020

Age	Default arrangement (Catch-all Lifestyle)			LGIM All World Equity Index Fund			LGIM Cash Fund		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
	£	£	£	£	£	£	£	£	£
54	4,000	4,000	0	4,000	4,000	0	4,000	4,000	0
55	4,070	4,060	10	4,070	4,060	10	3,910	3,900	10
60	4,280	4,230	50	4,430	4,380	50	3,470	3,450	20
65	4,300	4,210	90	4,820	4,730	90	3,080	3,040	40

Illustration D: is based on a deferred member who has 20 years to go until their retirement at age 65. The member has a current fund value of £3,500 and is invested in the default arrangement (the Catch-all Lifestyle).



Projected Pension Account in today's money, based on figures for the year to 31 March 2020									
Age	Default arrangement (Catch-all Lifestyle)			LGIM All World Equity Index Fund			LGIM Cash Fund		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
	£	£	£	£	£	£	£	£	£
45	3,500	3,500	0	3,500	3,500	0	3,500	3,500	0
50	3,810	3,780	30	3,810	3,780	30	3,110	3,090	20
55	4,150	4,070	80	4,150	4,070	80	2,760	2,730	30
60	4,360	4,240	120	4,510	4,400	110	2,450	2,410	40
65	4,380	4,220	160	4,910	4,740	170	2,180	2,130	50

Members are advised to consider both the level of costs and charges and the expected return on investments (i.e. the risk profile of the strategy) in making investment decisions.

Assumptions and data for illustrations:

The following assumptions have been made for the purposes of the above illustrations:

- *Annual salary growth and inflation is assumed to be 2.5% per annum*
- *The starting fund values used in the projections is representative of the average for the Plan*
- *The projected annual returns on assets are:*
  - *LGIM All World Equity Index Fund 4.25%p.a.*
  - *LGIM Multi Asset Fund 2.50%p.a.*
  - *LGIM Cash Fund 0.10%p.a.*

  For the Catch-all Lifestyle the projection considers the changing proportion invested in the different underlying funds. All funds shown above are underlying funds.
- *The transaction costs have been averaged over a two-year period in line with statutory guidance to reduce the level of volatility, and a floor of 0% pa has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.*
- *Data used is as at 31st March 2020.*

4. Value for Members assessment

The Administration Regulations requires the Trustee to make an assessment of charges and transactions costs borne by members and the extent to which those charges and costs represent good value for money for members.

There is no legal definition of "good value" or the process of determining this for scheme members. Therefore, working in conjunction with our advisers, Aon, the Trustee has developed their cost-benefit analysis framework to make an assessment as to whether our members receive good value from the Plan relative to the costs and charges they pay.

The costs have been identified as TER, Transaction Costs and total member borne costs, and are set out in section 3 of this statement. The Trustee has considered the benefits of membership under the following categories: Plan governance, investments, administration and member experience and member communications. Benchmarking relative to other pension arrangements or industry best practice guidelines is also undertaken.

The Trustee beliefs have formed the basis of the analyses of the benefits of membership. These are set out below along with the main highlights of their assessment.

Plan governance

- **The Trustee believes in having robust processes and structures in place to support effective management of risks and ensure members interests are protected, increasing the likelihood of good outcomes for members**
- Governance covers the time spent by the Trustee to ensure the Plan is run in compliance with the law and regulation, including taking account of the interests of its members.
- The Trustee believes that good governance is key to ensuring that a framework exists and is actively in use to help deliver better member outcomes.
- The Trustee regularly reviews and updates the Plan's governance processes and procedures to make sure that these meet industry best practice.

Investments

- **The Trustee believes that a well-designed investment portfolio that is subject to regular performance monitoring and assessment of suitability for the membership will make a large contribution to the delivery of good member outcomes**
- The DC Section of the Plan provides members with a range of default arrangement, alternative lifestyle strategies and self-select fund options, covering a range of member risk profiles and asset classes.
- The investment funds available have been designed, following advice from the Plan's investment adviser, with the needs of members in mind.
- In addition, the Plan has a range of legacy AVC funds. The Trustee believes that these legacy AVCs compare favourably to the market and intend to review them in due course.

Administration

- **The Trustee believes that good administration and record keeping play a crucial role in ensuring that Plan members receive the retirement income due to them. In addition, that the type and quality of service experienced by members has a bearing on the level of member engagement.**
- As noted above, the Trustee has appointed Aon to provide administration services to the Plan.
- The Trustee is satisfied that Aon have sufficient checks in place to monitor and report on the standard of the administration service.
- As noted above, some administration issues were identified over the prior reporting period, which have subsequently been rectified. Processes have also been amended to ensure that similar issues do not arise in future.
- The Trustee regularly monitors the Plan administration via quarterly reporting.

Member communications

- **The Trustee believes that effective member communications and delivery of the right support and tools helps members understand and improve their retirement outcomes.**
- The Plan provides members with regular, clear communications regarding the choices open to them, as well as annual benefit statements and 'at retirement' communications.
- A variety of communication media are used, including access to well-developed online tools and helpful information around retirement planning via the Plan's member website (www.mypensionline.com/arrivadbscheme).

The Trustee's assessment concluded that the charges and transaction costs borne by Plan members represents good value for members relative to the benefits of Plan membership.

5. Trustees' Knowledge and Understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for the Trustee to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as a Trustee properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.

The comments in this section relate to the Plan as a whole and not solely the DC Section.

The Trustee has processes and procedure in place to meet the Pension Regulator's Trustee Knowledge and Understanding requirements (as set out in their Code of Practice No 7); some of which are identified below:

- The Trustee is conversant with the Plan's legal documents and all of the documents which set out the Trustee's current policies, including the Trust Deed and Rules and the Statement of Investment Principles for the Plan, along with the wider law relating to pensions and trusts. The Trustee reverts to the legal advisor for any clarification if required.
- A Trustee Board Evaluation is undertaken typically on an annual basis to obtain the Trustee Directors' views on their level of TKU and any training needs.
- The Trustee also has Sub-Committees in place for Governance, Funding and Investment and Discretionary Benefit matters. Each Sub-Committee is selected by a review of individual skillsets and selecting the most appropriate Directors for each Sub-Committee.
- Assessing training needs and considering whether any gaps exist in individual Trustees' knowledge and understanding.
- All Trustee Directors are encouraged to complete tPR's Trustee Toolkit.
- Subscription by the Trustees to tPR's emails and other publications

The Secretary to the Trustee maintains training logs for each individual Trustee, which supports the above.

Training completed by the Trustee Directors over the reporting period covered:

- Asset backed contributions;
- Investment Grade Credit
- Mercer webinar – Practical guide to GMP Equalisation and;
- Responsible Investment (ESG).

In addition to the knowledge and understanding of the Trustee board, the Trustee has engaged with their appointed professional advisers regularly throughout the year to ensure that they run the DC Sections and AVC arrangements and exercise their functions properly and take professional advice where needed. In exercising their functions this has required knowledge of key Plan documents such as the Trust Deed & Rules, Trustee Report & Accounts and Statement of Investment Principles.

The Trustee has also carried out the following tasks over the reporting year (among others), which further demonstrates their knowledge and understanding:

- Retained up to date versions of Plan documents (including the Trust Deed & Rules, the Trustees' Governance Policy document and the Plan booklets), to help maintain a working knowledge of the Plan;
- Made decisions on specific member cases, considering the requirements of the Plan's governing documents (the Trust Deed & Rules), the Plan's agreed policies/practices and also the wider law relating to pensions and trusts;
- Review of the Plan's risk register due to the impact of the COVID-19 pandemic;
- Reviewed and updated the Plan's SIP to include the Trustee's views on social, environmental and ethical considerations;

- Carried out regular annual tasks, such as reviewing and signing off the Trustee Report & Accounts;
- Regularly (quarterly) monitored the performance of each individual investment fund, with advice from its investment adviser (Aon), against targeted benchmarks and the Plan's overall aims and objectives;

There is a comprehensive induction process in place for new trustees. On appointment:

- New Trustee Directors undertake an induction process and are then encouraged to complete tPR's Trustee Toolkit within 6 months of appointment.
- All new Trustee Directors are provided with a welcome pack and bespoke one-to-one training with an adviser followed by attendance at a Trustee training course. The training received is recorded in a training log.

The Trustee also considered the impact of the COVID-19 pandemic on the Trustee board and put in place appropriate plans to ensure that the board could continue to perform effectively during this time. Specifically, the Trustee has reviewed:

- the regularity and format of Trustee meetings;
- key man risks; and
- Trustee decision making protocols and approvals processes.

The Trustee has subsequently taken steps by:

- holding more regular, shorter virtual Trustee meetings;
- identifying designated alternates on the Trustee board; and
- requesting that all advisers & providers ensure business continuity and appropriate Plan governance during the pandemic.

There are 9 Trustee Directors. These Directors have a range of backgrounds, experience and skills which helps to demonstrate the effectiveness and diversity of the Trustee Board.

Considering the training and tasks completed by the Trustee over the reporting year, the Trustee considers that they continue to meet the Pension Regulator's TKU requirements (as set out under Code of Practice No 7) and are confident that the combined knowledge and understanding of the Trustee, together with the input from their specialist advisers, enables them to properly exercise their functions as the Trustee of the Plan.

Signed on behalf of the Chairman of Arriva Passenger Services Pension Trustees Limited

Name: Andrew Bradshaw

Date: 29 September 2020

Arriva Passenger Services Pension Plan: Money Purchase Sections

Statement of Investment Principles

Scope of Statement

This Statement has been prepared in accordance with Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The assets of the Plan are held in trust by the Trustee. The Trustee will review this Statement and the Plan's investment strategy no later than three years after the effective date of this Statement; without delay after any significant change in investment policy; and whenever the Trustee deems that a review is needed for any other reason. The effective date of this statement is 30 September 2020.

The Trustee reviews the continuing suitability of the statement's policies on an annual basis in conjunction with the writing of the Plan's Implementation Statements.

Plan Overview

The Plan comprises the following money purchase sections:

- **Primary money purchase Sections**
  - The Kent and Sussex Defined Contribution Section;
  - The Arriva Money Purchase Scheme (AMPS) Defined Contribution Section;
- **Additional money purchase sections**
  - Additional Voluntary Contributions;
  - Former AMPS With Profits holders (with Scottish Widows);
  - Former AMPS With Profits holders (with Prudential);
  - Shires (CIF investment);
  - Category A, Midland Fox and Crosville Works (CIF investment);
  - Category A, Midland Fox and Crosville Works (Aberdeen investment); and
  - Scotland West (CIF investment).

Consultations Made

The Trustee is responsible for the investment strategy of the Plan and, where appropriate, has obtained written independent advice on the investment strategy for the Plan and on the preparation of this Statement. This advice was provided by Aon Solutions UK Limited who are authorised and regulated by the Financial Conduct Authority.

The day-to-day management of the Plan's assets has been delegated to investment managers who are authorised and regulated by the Financial Conduct Authority. A copy of this Statement will be provided to the investment managers appointed and is available to the members of the Plan on request and on publicly accessible websites including: *www.arrivapensions.com*

Effective decision making

The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. It also recognises that where it takes investment decisions, it must have sufficient expertise and appropriate training to be able to evaluate critically any advice received. The Trustee receives regular investment training from its investment consultant and investment managers in order to make informed decisions.

Money Purchase Sections

Section	Benefit basis	Investment manager/ provider	Open to new members?	Open to new contributions?
Primary Money Purchase Sections				
Kent & Sussex DC Section	Pure DC	LGIM	No	No
Arriva Money Purchase Scheme ("AMPS") DC Section	DC but some members hold a GMP/PR underpin	LGIM	No	No
Additional Money Purchase Sections				
AVCs	DC AVC funds	Clerical Medical / Scottish Widows	Yes	Yes
		L&G	No	No
		LGIM	Yes	Yes
		Royal London	No	No
		Utmost Life	No	No
		Prudential	No	Yes
Former AMPS Scottish Widows With-Profits funds	DC but some members hold a GMP/PR underpin	Scottish Widows	No	No
Former AMPS Prudential With-Profits funds	DC but some members hold a GMP/PR underpin	Prudential	No	No
Shires (CIF investment)	• DC underpin on DB benefit • Some pure DC transfers-in	Based on notional CIF Bond & Equity Fund	No	No
Category A, Midland Fox and Crosville Works (CIF investment)	DC transfers-in	Based on notional CIF Bond & Equity Fund	No	No
Scotland West (CIF investment)	DC underpin on DB benefit	Based on notional CIF Bond & Equity Fund	No	No
Category A, Midland Fox and Crosville Works (Aberdeen investment)	DC underpin on DB benefit, unless under 2 years' service, in which case pure DC	Notional units based on a price feed from Aberdeen Life Multi-Asset Fund	No	No

Objectives and Policy for securing objectives

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.

The Trustee has taken into account members' circumstances, in particular the range of members' attitudes to risk, term to retirement and potential retirement choices.

The Trustee's investment strategy has been chosen to enable members to maximise the likelihood of achieving these objectives. Following due consideration, the Trustee is satisfied that these investment options meet the requirement of Regulation 4 of the Investment Regulations.

Arrangements with Investment Managers

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have different attitudes to risk, and also that different members may wish to target different forms of benefit at retirement.

The Trustee believes that members should be able to make their own investment decisions based on their individual circumstances. The Trustee regards its duty as making available a range of investment options sufficient to enable members to tailor their investment strategy to their own needs, allowing members to build their own bespoke diversified investment portfolio if they so wish.

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.

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 endeavour to first engage with the manager and in the event of a material misalignment, could ultimately replace the manager if deemed necessary.

There is typically no set duration for arrangements with investment managers, although the continued appointment for all managers will be reviewed periodically, and at least every three years.

The Trustee does not monitor the underlying investments made by the investment managers on its behalf against non-financial criteria.

Investment risk measurement and management

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 Trustee monitors the risk arising through the selection or appointment of investment managers on regular basis via investment monitoring reports prepared by their professional advisers. For the two primary money purchase sections, this monitoring occurs quarterly. For the additional Money Purchase sections, including AVCs, this monitoring is carried out annually or in-line with regulatory requirements (where investment in the CIF occurs).

The Trustee has appointed Aon to alert it to any matters of material significance that might affect the ability of the investment manager to achieve its objectives.

The Trustee acknowledges that investment returns achieved outside the expected deviation may be an indication that the investment manager is taking a higher level of risk than indicated.

Choosing Investments

The investment options offered to members are deemed appropriate, given the nature of the membership. Day-to-day selection of stocks is delegated to the investment managers appointed by the Trustee. The Trustee takes professional advice when formally reviewing the investment managers or funds offered to members.

The Trustee recognises that the key source of financial risk in relation to meeting its objectives normally arises from the choice of funds offered to members and retains responsibility for the asset choice and (where lifestyle options exist) allocation pattern via an individual matrix and takes expert advice as required from its professional advisers. A full range of available asset classes will be considered on an ongoing basis. This will include consideration of so called 'alternative' asset classes.

Primary money purchase sections: Kent & Sussex DC Section and AMPS DC Section

For members who do not wish to make an active decision regarding the investment of their assets, a default investment option has been put in place following consideration of the Plan membership.

In setting the three lifestyles, the Trustee has reviewed the extent to which the return on investments (after deduction of any charges relating to those investments) is consistent with the objectives of the strategy, which is broadly to provide an appropriate risk/return profile given the needs of members.

The Trustee regularly reviews the appropriateness of the three lifestyles and may make changes from time to time. Members are advised accordingly of any changes.

The switching of assets between the different funds within each lifestyle is carried out monthly by the platform provider, at which point members' funds are rebalanced in line with the lifestyle matrix illustrated in the charts on the following pages.

Details of the three lifestyles are provided below.

<u>Catch All Lifestyle (the default investment option)</u>

The Catch All Lifestyle works on the principle that a member electing this option will, at the point of retirement, transfer the balance of their account to a specialist income drawdown arrangement.

- During the 'Growth' / 'Accumulation' phase, the Catch All Lifestyle aims to provide real growth (in excess of inflation) over the long term. The Catch All Lifestyle initially invests wholly in the LGIM All World Equity Fund until 10 years before a member's selected retirement age.

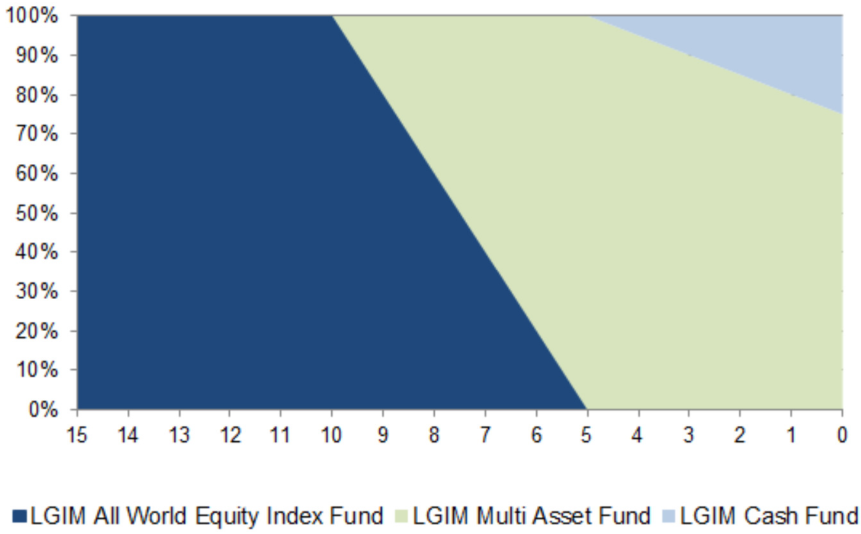
- During the 'Consolidation' phase, the Catch All Lifestyle aims to provide real growth and capital preservation through means of asset diversification. This is implemented by a gradual switch into the LGIM Multi Asset Fund.

- During the 'Transition' phase, the Catch All Lifestyle gradually introduces an allocation to the LGIM Cash Fund with a view that members will wish to access their 25% tax-free lump sum at retirement.

- At the point of a member's selected retirement age, the Catch All Lifestyle will be invested 75% in the LGIM Multi Asset Fund and 25% in the LGIM Cash Fund.

This structure is summarised below.

Chart 1: Catch All Lifestyle (default investment option)



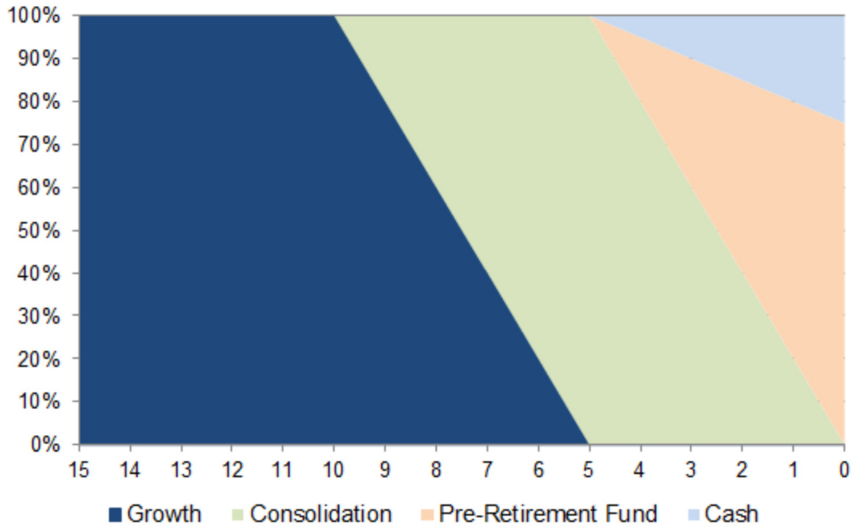
<u>Annuity Lifestyle</u>

The Annuity Lifestyle works on the principle that a member electing this option will, at the point of retirement, take the maximum tax-free cash sum and use the rest of their account to purchase an annuity at retirement.

- During the 'Growth' / 'Accumulation' phase, the Annuity Lifestyle initially invests wholly in the LGIM All World Equity Fund until 10 years before a member's selected retirement age.
- During the 'Consolidation' phase, the Annuity Lifestyle aims to provide real growth and capital preservation through means of asset diversification. This is implemented by a gradual switch into the LGIM Multi Asset Fund until a member's selected retirement age.
- During the 'Transition' / "De-risking" phase, the Annuity Lifestyle aims to protect the value of each member's investments relative to movements in annuity prices. This is implemented by a gradual switch into the LGIM Pre Retirement Fund.
- Before retirement, the Annuity Lifestyle gradually introduces an allocation to the LGIM Cash Fund with a view that members will take tax-free cash lump sum at retirement.
- At the point of a member's selected retirement age, the Annuity Lifestyle will be invested 75% in the LGIM Pre Retirement Fund and 25% in the LGIM Cash Fund.

This structure is summarised below.

Chart 2: Annuity Lifestyle



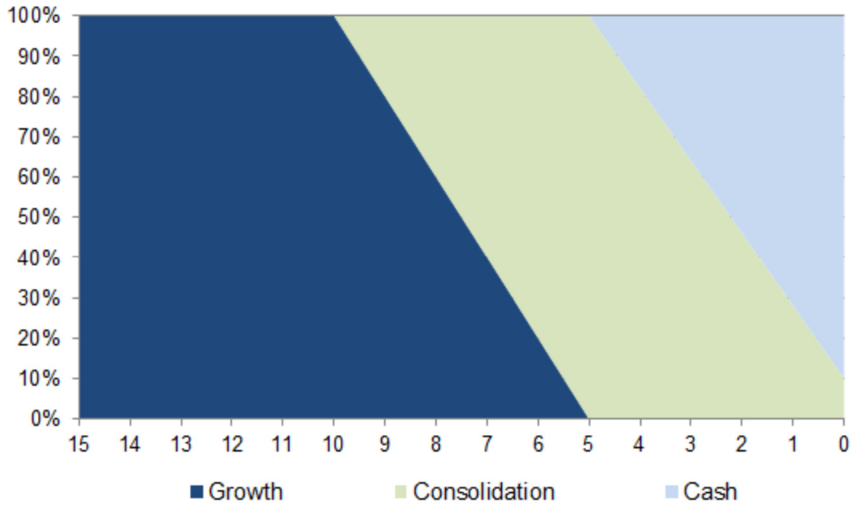
Cash Lifestyle

The Cash Lifestyle works on the principle that a member electing this option will take the whole of their account as a cash lump sum at retirement.

- During the 'Growth' / 'Accumulation' phase, the Cash Lifestyle aims to provide real growth (in excess of inflation) over the long term. The Cash Lifestyle initially invests wholly in the LGIM All World Equity Fund until 10 years before a member's selected retirement age.
- During the 'Consolidation' phase, the Cash Lifestyle aims to provide real growth and capital preservation through means of asset diversification. This is implemented by a gradual switch into the LGIM Multi Asset Fund.
- During the 'Transition' / "De-risking" phase, the Cash Lifestyle gradually switches towards an allocation of 90% in the LGIM Cash Fund and 10% in the LGIM Multi Asset Fund" at the point of retirement.
- The 10% allocation to non-cash assets at retirement allows a reasonable balance to be achieved between achieving positive returns (after fees) and mismatch / downside in risk.

This structure is summarised in the below.

Chart 3: Cash Lifestyle



Default investment option: Rationale

The Trustee selected the Catch All Lifestyle as the default investment option for the two primary DC sections, as set out above, for those members of the Plan who do not want to make a decision with regards their investments.

The lifestyle strategies, including the default investment option, have been constructed following analysis of the existing membership of the Plan. This analysis took into account factors such as age, projected fund values and term to retirement, to identify different types of member.

The design of the default investment option offered to members reflects this analysis and also taking into account the various options members will have regarding the way in which they draw their benefits in retirement.

The aim of the default investment option is to provide members with the potential for higher levels of growth during the accumulation of their retirement savings though exposure to equities, and then to gradually diversify their investments in the years approaching retirement, to reduce volatility and provide a broad base of assets from which members can choose the type of benefits they wish to take.

The outcomes of the default investment option and other Lifestyle strategies will be reviewed periodically with reference to the manner in which members take their benefits from the Plan. This periodic review will also take into account any significant changes in the demographic profile of the relevant members.

Additional Money Purchase Sections

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.

Custody

Investment in pooled funds gives the Trustee rights to the cash value of the units rather than to the underlying assets. The underlying investment manager of each of the pooled funds is responsible for the appointment and monitoring of the custodian of the fund's assets.

Expected returns on assets

Over the long term the Trustee's expectations are:

- for units representing "growth" assets, to achieve a return which provides a real return above the increase in price inflation over the same period. The Trustee considers short-term volatility in equity price behaviour as acceptable, given the general expectation that over the long-term equities will outperform the other major asset classes;
- for units representing monetary assets (corporate bonds and gilts), to achieve a rate of return which is expected to be approximately in line with changes in the cost of providing fixed income annuities or a cash sum at retirement.

Returns achieved by the investment managers are assessed against performance benchmarks set by the Trustee in consultation with its advisers and investment managers.

Potential Risks

The Trustee recognises that members take the investment risk. The Trustee takes account of this in the selection and monitoring of the investment manager and the choice of funds offered to members. and has considered risk from a number of perspectives.

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.

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. In addition, the Trustee's measure risk in terms of the performance of the assets compared to the benchmarks on a regular basis as part of each quarterly reporting cycle.

Realisation of Investment / Liquidity

The Trustee recognises that there is a risk of holding assets that cannot easily be realised should the need arise. The majority of assets held on behalf of members are realisable at short notice (through the sale of units in pooled funds).

Responsible Investment

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

Stewardship – Voting & Engagement

The Trustee invests in pooled funds and as such have delegated responsibility for the selection, retention and realisation of investments to the Plan'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 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 endeavours 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.

Members' Views and Non-Financial Factors

On a reactive basis, the Trustee considers views from members and other stakeholders, including views in relation to social and environmental impact, or views with respect to non-financial matters.

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.

Alignment with wider corporate sustainability policies and practices

Although cognisant of the Employer's policies, the Trustee is not currently looking to integrate its own policies and practices with those of the Employer. This position will be considered on an annual basis.

Costs & Transparency

Adviser related costs

The Trustee's advisers are paid for advice received on the basis of the time spent on appropriate work. For significant areas of advice (for example large projects, such as a review of the lifestyle strategies), the Trustee may agree a project budget. These arrangements recognise the bespoke nature of the advice given, and that no investment decisions have been delegated to the adviser**.** These costs are not met by members and are not included in member borne costs.

Member borne costs

It is the Trustee's view that long term performance, net of fees, is the most important metric on which to evaluate its investment managers.

Investment managers are remunerated by the deduction of set percentages of assets under management. This is in-line with market practice and avoids a short-term approach to investment performance that may be the result of any performance-related fees. The Trustee therefore believes it is important to understand all the different costs and charges, which are paid by members (through a deduction from the unit price). These include:

- explicit charges, such as the annual management charge, and additional expenses that are disclosed by investment managers as part of the Total Expense Ratio ('TER');

- implicit charges, such as the portfolio turnover costs (transaction costs) borne within a fund. The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the fund's portfolio. These are incurred on an ongoing basis and are implicit within the performance of each fund.

The Trustee collects information on these member-borne costs and charges on an annual basis, where available, and sets these out in the Plan's annual Governance Statements which are made available to members in a publicly accessible location.

No specific ranges are set for acceptable costs and charges, particularly in relation to portfolio turnover costs. However, the Trustee expects its advisers to highlight if these costs and charges appear unreasonable when they are collected as part of the annual Governance Statement exercise.

In general, the Trustee believes that low cost passive funds offer good value for money, for members, and these should be used in a default investment option. However, it also believes that there can be opportunities for active managers to add value and accordingly may make available active funds either as part of the default investment option or on a self-select basis.

Agreed and approved by the Trustees of the Arriva Passenger Services Pension Plan

Appendix: Kent and Sussex Defined Contribution Section and AMPS Defined Contribution Section

The options available for Freestyle (or self-select) members are shown in the table below.

Asset Class	Fund
UK Equities	LGIM UK Equity Index Fund
Global Equities	LGIM All World Equity Index Fund
Multi Asset	LGIM Multi Asset Fund
Index-Linked Gilts	LGIM Index-Linked Gilt Index Fund
Pre-Retirement Fund	LGIM Pre-Retirement Fund
Cash	LGIM Cash Fund

The following describes the mandates given to the investment manager within each asset class of the Defined Contribution Section.

1. UK Equity Fund

Manager/Fund	Performance Measurement Benchmark	Benchmark Outperformance Target	Expected Tracking Error
LGIM UK Equity Index Fund	FTSE All-Share Index	To track the benchmark	+/- 0.25% p.a. for two years in three

2. Global Equity Fund

Manager/Fund	Performance Measurement Benchmark	Benchmark Outperformance Target	Expected Tracking Error
LGIM All World Equity Index Fund	FTSE All-World Index	To track the benchmark	+/- 0.50% p.a. for two years in three

3. *Multi-Asset*

Manager/Fund	Performance Measurement Benchmark	Benchmark Outperformance Target	Expected Tracking Error
LGIM Multi Asset Fund	Not applicable, compared to the ABI Mixed Investment 40-85% Shares Sector	Provide long-term investment growth through exposure to a diversified range of asset classes, excluding physical property	Not applicable

4. *Index-Linked Gilts*

Manager/Fund	Performance Measurement Benchmark	Benchmark Outperformance Target	Expected Tracking Error
LGIM Index-Linked Gilt Index Fund	FTSE Actuaries UK Index-Linked Gilts All Stocks Index	To track the benchmark	+/- 0.25% p.a. for two years in three

5. *Pre-Retirement Fund*

Manager/Fund	Performance Measurement Benchmark	Benchmark Outperformance Target	Expected Tracking Error
LGIM Pre-Retirement Fund	Composite of gilts and corporate bond funds.	To track the benchmark	Not applicable

6. *Cash Fund*

Manager/Fund	Performance Measurement Benchmark	Benchmark Outperformance Target	Expected Tracking Error
LGIM Cash Fund	7 Day LIBID	To track the benchmark	Not applicable

7. Summary of Investment Management Fee Arrangements

Manager/Fund	Fund	Fee Scale
LGIM	UK Equity Index Fund	0.085% p.a.
LGIM	All World Equity Index Fund	0.180% p.a.
LGIM	Multi Asset Fund	0.230% p.a.
LGIM	Index-Linked Gilt Index Fund	0.100% p.a.
LGIM	Pre-Retirement Fund	0.150% p.a.
LGIM	Cash Fund	0.110% p.a.