

# **THE ARRIVA PENSION SCHEME**

## **STATEMENT OF INVESTMENT PRINCIPLES**

### **1. INTRODUCTION**

The Trustees of the Arriva Pension Scheme (the “Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”), as amended by the Pensions Act 2004 and subsequent regulations. As required under the Act, the Trustees have consulted a suitably qualified person in obtaining written advice from Mercer.

The Trustees in preparing this Statement have also consulted Arriva Plc (the "Sponsoring Company") in particular on the Trustees’ objectives. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on expert advice and is driven by their investment objectives as set out in Section 2 below.

### **2. INVESTMENT OBJECTIVES AND RISK**

#### **2.1 Investment Objectives**

The Trustees’ objective is to invest the Scheme’s assets in the best interests of the members and beneficiaries over the lifetime of the liabilities. The Trustees consider that their broad objective is to invest the Scheme’s assets in such a manner that members’ entitlements can be paid when they fall due. As a key step to achieving this, the Trustees, following consultation with the Sponsoring Company, have entered into an irrevocable bulk annuity contract issued by Aviva Plc. Aviva is authorised by the Prudential Regulation Authority to write contracts of long term life insurance of this nature in the UK. The Trustees also hold Keep Trust Money Purchase units at Legal & General and have investments in AVC’s. The objectives of the Keep Trust Money Purchase units and associated policies are set out in section 5.

The Trustees’ key short term objective is to ensure an efficient progression towards an insurer buy-out of the Scheme’s known liabilities, with the aim of achieving an appropriate discharge of liability in respect of known obligations in accordance with the Scheme’s governing documentation and relevant legislation.

In due course, the known members’ benefits will be secured by means of individual annuity policies issued by Aviva directly to the members, in accordance with the terms of the bulk annuity policy.

The Trustees appointed Aviva as the Scheme’s bulk annuity provider having obtained and considered written advice from their investment advisor, Mercer, and their legal advisor, Fieldfisher, who the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

The Scheme’s principal asset is the bulk annuity policy with Aviva.

## **2.2 Risk**

In determining their investment objective, the Trustees have considered the various risks to which the Scheme is exposed, taking into account the objectives set out in 2.1.

These include;

### **Counterparty risk**

- The principal risk facing the Trustees and Scheme's members is that Aviva may default on its obligations under the bulk annuity policy. Before entering into the bulk annuity contract, the Trustees obtained and carefully considered professional advice regarding the current financial strength of Aviva. The Trustees accepted the report's conclusions, namely that Aviva was financially strong and had sufficient capital resources to support the proposed transaction and that, correspondingly, there was no reason in relation to financial strength why the transaction should not proceed. In addition, the Trustees are aware that there is a high level of protection offered to members by the Financial Services Compensation Scheme ("FSCS").

### **Liquidity risk**

- The Trustees do not expect to be able to obtain cash from the bulk annuity policy other than in respect of benefits insured with Aviva. Prior to purchasing the policies, the Trustees satisfied themselves that all known members' benefits would be insured in full, with the exception of the Keep Trust Money Purchase Section whereby units are held with Legal & General to cover these liabilities and AVC's held with various providers. Under the terms of the policies, a post transaction period of data verification will be undertaken between the Scheme's administrator and Aviva.
- The liquidity is measured by the level of cashflow required by the Scheme over a specified period. It is managed by the Scheme's administrator assessing the level of cash held in order to limit the impact of cash flow requirements on the investment policy.

### **Lack of Diversification**

- The Trustees recognise that holding annuity contracts with a single provider represents a concentration of risk. However, they are satisfied that this risk is acceptable after scrutiny of the provider.

The Trustees monitor these risks on a regular basis and will consider new risks that may emerge from time to time.

## **2.3 Investment Strategy**

The Scheme's principal asset is a bulk annuity with Aviva. As a result, all of the Scheme's assets are represented by this policy, with the exception of:

- Residual units held in relation to the Keep Trust Money Purchase Section members and AVC's.

Future benefits payable from the Scheme will be funded by the bulk annuity policy.

### **3. ADMINISTRATION**

Administration of the Scheme is undertaken by Mercer.

### **4. SOCIALLY RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE**

The Trustees believe that good stewardship, environmental, social and corporate governance ("ESG") issues, including climate change considerations may have an impact on investment returns, however since the Scheme is invested through the purchase of the bulk annuity policy with Aviva, the Trustees accept that it is not possible to have a policy on ESG issues relating to the bulk annuity policy.

Since the Scheme is invested solely through the purchase of the bulk annuity policy at Aviva, which have no voting rights attached, the control of corporate governance issues have been ceded by the Scheme to Aviva.

The Scheme does however hold assets within the Keep Trust Money Purchase Section and AVC's. The Trustees have given the underlying managers full discretion when evaluating ESG factors, including climate change considerations, and exercising any voting rights and stewardship obligations that may be attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. Managers' engagement policies are expected to include all relevant matters including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

For the Keep Trust Money Purchase Section, the Trustees receive ESG fund ratings provided by the Scheme's investment adviser on the fund used in the Scheme. These ratings represent the extent to which managers integrate ESG factors and active ownership into their core processes. The ESG ratings for the existing investment managers are provided on a quarterly basis. However, the current Keep Trust Money Purchase Section assets have no voting rights attached, and therefore, Corporate Governance voting issues are not relevant to the Scheme. In addition, due to the type of assets held (gilts and corporate bonds), the Trustees acknowledge ESG integration has, currently, limited relevance.

The Trustees do not explicitly consult members when making investment decisions and do not take into account member views on non-financial matters but update members, typically annually, via newsletters on any changes to the Scheme's investment arrangements.

## **5. ADDITIONAL VOLUNTARY CONTRIBUTIONS/KEEP TRUST MONEY PURCHASE ASSETS/OTHER ASSETS**

Following a review, Scottish Widows Limited (formerly called Clerical Medical Investment Group) was appointed as the Scheme's AVC provider. There are also other arrangements in place for historical reasons.

The Trustees also hold a portfolio of endowment assurance policies with various insurance companies inherited from other arrangements.

The Trustees also hold Keep Trust Money Purchase Assets with Legal & General. The Keep Trust DC Scheme was transferred into the Arriva Pension Scheme and individual members' money purchase funds are assumed to move in line with the return on the Scheme's assets. The Keep Trust Money Purchase assets were not secured with Aviva when the bulk annuity policy was purchased, therefore the assets relating to these benefits are currently being held in a variety of gilt and corporate bond funds with Legal & General that reflected the overall strategy of the Scheme prior to buy in. The assets were invested in this manner due to historical reasons.

In investing these assets the Trustees' objectives are as follows:

### AVCs

- To inform members about their investment options, particularly in relation to the potential risks and rewards of each option.
- To monitor and take advice on the suitability of the investment options provided.
- To encourage members to seek impartial guidance and / or financial advice where required from an appropriate organisation or person to assist in determining the most suitable option.

### Keep Trust Money Purchase Section

As noted above, due to historical reasons the assets relating to these benefits are currently being held in a variety of gilt and corporate bond funds with Legal & General that reflected the overall strategy of the Scheme prior to buy in. However, the Trustees are currently reviewing this with a view to moving these assets to a more appropriate money purchase arrangement.

It is the Trustees' policy to consider:

- The suitability of the possible styles of investment management and the option of manager diversification for members.
- The need for appropriate diversification both across asset classes and within asset classes.
- The Keep Trust Money Purchase assets are implemented using a range of investment options including corporate bond, gilt and index linked gilt funds.

Both active and passive funds are used. The Keep Trust Money Purchase assets are invested in line with the DB assets prior to the buy in. However, the Trustees are currently reviewing this with a view to moving these assets to a more appropriate money purchase arrangement.

It is the Trustee's policy to provide suitable information to members so that they can make appropriate investment decisions. The long-term returns on the bonds are expected to be lower than equity investments.

Each fund used in the Scheme has an associated benchmark or target which the Trustees view as the expected return. Passive funds are expected to match their benchmark. Active funds are expected to outperform their target.

## **Risk Measurement and Management**

The Trustees recognise the key risk is that members will have insufficient income in retirement or an income that does not meet their expectations.

The Trustees consider this risk when setting the investment options and strategy for the Scheme. The Trustees policy in respect of risk measurement methods and risk management processes in relation to the Keep Trust Money Purchase Section assets are set out below.

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

The Trustees consider the following sources of risk:

<b>Type of Risk</b>	<b>Risk</b>	<b>Description</b>	<b>How is the risk monitored and managed?</b>
Market risks	Inflation risk	The risk that returns do not keep pace with inflation and will not, therefore, secure an adequate income in retirement.	<p>The Keep Trust Money Purchase Section assets are invested in gilt and corporate bond funds. However, the Trustees are currently reviewing this with a view to moving these assets to a more appropriate money purchase arrangement.</p> <p>Within active funds, management of many of these market risks is delegated to the investment manager.</p>
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	Credit risk is delegated to the investment manager.

Liquidity risk	The risk that the Scheme's assets cannot be realised at short notice in line with member demand.	The Scheme is invested in weekly dealt/priced pooled funds and the investment managers have discretion over the management of assets to ensure sufficient liquidity. These pooled funds are themselves regulated and underlying investments are all in regulated markets, and therefore should be realisable at short notice, based on member or Trustees' demand.
Investment Manager risk	The risk of the appointed investment manager not meeting their objectives, fail to carry out operational tasks, do not ensure safe-keeping of assets or breach agreed guidelines.	<p>The Trustees measure risk in terms of the performance of the assets compared to relevant benchmarks on a regular basis, usually quarterly, along with monitoring any significant issues with the fund managers that may impact their ability to meet their performance targets.</p> <p>This risk is considered by the Trustees and advisers both upon the initial appointment of the fund manager and on an ongoing basis thereafter.</p>
Pension Conversion risk	The risk that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	The Keep Trust Money Purchase assets were invested in line with the DB assets prior to the buy in. However, the Trustees are currently reviewing this with a view to moving these assets to a more appropriate money purchase arrangement.
Environmental, Social and Corporate Governance ("ESG") risk	The risk that ESG concerns, including climate change, have a financially material impact on the return of the Scheme's assets.	<p>The management of ESG related risks is to the responsibility of the investment manager.</p> <p>See Section 4 of this Statement for the Trustees' responsible investment and corporate governance statement.</p>

The items listed in this section of this Statement are in relation to what the Trustees consider 'financially material considerations'.

## **Member views**

Member views on non-financial matters are currently not explicitly taken into account in the selection, retention and realisation of investments.

## **6. ARRANGEMENTS WITH ASSET MANAGERS**

### Main Assets

The Trustees have appointed Aviva plc as their annuity provider having obtained and considered the written advice from their investment advisor, Mercer, and their legal advisor, who the Trustees consider to be suitably qualified to provide such advice.

In this context, relevant investment advice relates to that provided in accordance with the requirements of Section 36 of the Pensions Act 1995 (as amended).

The Trustees will also hold Residual units held in relation to the Keep Trust Money Purchase Section members and AVC's.

Since the Scheme is invested solely through the purchase of the bulk annuity policy at Aviva plc, the Trustees are unable to incentivise the insurer, remunerate them or monitor portfolio turnover costs as these are not applicable to a bulk annuity.

### Keep Trust Money Purchase Section

The Trustees appoint investment managers based on their capabilities and, therefore the perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected. The Trustees look to their investment advisor for a forward looking assessment of a manager's ability to achieve their objective. The advisor's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees and are used in decisions around selection, retention and realisation of manager appointments.

As the Trustees invest in pooled investment vehicles they accept that they have limited ability to influence investment managers to align their decisions with the Trustees' policies set out in this Statement. However, appropriate funds can be selected to align with the Trustees' overall investment strategy. If the investment objective of a particular fund changes, the Trustees will review the use of that fund to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

The Trustees expect investment managers to incorporate the consideration of longer term factors, such as ESG factors, into their decision making process where appropriate. Voting and engagement activity should be used by investment managers to discuss the performance of an issuer of debt or equity. The Trustees also consider the investment adviser's assessment of how each investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. However, the current Keep Trust Money Purchase Section assets have no voting rights attached, and therefore, Corporate Governance voting issues are not relevant to the Scheme. In addition, due to

the type of assets held (gilts and corporate bonds), the Trustees acknowledge ESG integration has, currently, limited relevance.

The Trustees' focus is on longer-term performance but shorter-term performance is monitored to ensure any concerns can be identified in a timely manner. The Trustees review both absolute and relative performance against a portfolio or underlying investment manager's benchmark on a quarterly basis, including assessments of both shorter and longer time horizons. The Trustees also rely upon Mercer's manager research capabilities. The remuneration for investment managers used by the Scheme is based on assets under management. The levels of member borne fees, which include investment manager fees, are reviewed annually as part of the annual value for members assessment, within the Chair's statement, to ensure they continue to represent value for members. If performance is not satisfactory, the Trustees may request further action be taken, including a review of fees.

Portfolio turnover costs for each of the funds are reviewed on an annual basis as part of the annual value for members assessment, within the Chair's statement. The ability to assess the appropriateness of these costs is currently limited by the availability of data and the lack of industry-wide benchmarks. The Trustees will monitor industry developments in how to assess these costs and incorporate this in future value for members assessments. Importantly, performance is reviewed net of portfolio turnover costs.

The Trustees are long term investors. All funds are open-ended and therefore there is no set duration for manager appointments. The Trustees are responsible for the selection, appointment, monitoring and removal of the investment managers. The Trustees will cease using a fund if it is no longer considered to be optimal nor have a place in the default strategy or general fund range.

## **7. COMPLIANCE WITH THIS STATEMENT**

The Trustees of the Scheme, the investment managers, and the Scheme's consultants Mercer (all of whom have been appointed by the Trustees), each have duties to perform to ensure compliance with this Statement. These are:

The **Trustees** will review this Statement on the advice of the Scheme's consultants every year or more frequently if circumstances dictate. If the Statement is revised, the Trustees will provide the investment managers with the revised Statement.

The **Insurance Provider** will report to the Trustees on

- records of all transactions

**Mercer**, the Scheme's consultants, will provide appropriate advice to allow the Trustees to review and update this Statement annually (or more frequently if required).

## **8. REVIEW OF THIS STATEMENT**

The Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees



and the Sponsoring Company which they judge to have a bearing on the stated Investment Policy.

Any such review will again be based on written, expert investment advice and will be in consultation with the Sponsoring Company.

Notwithstanding the review set out above, the Trustees will review this Statement at least every 3 years in accordance with the statutory requirement set out in Occupational Pension Schemes (Investment) Regulations 2005.

## **Date of Amendments**

First Amendment: November 1999  
Second Amendment: June 2000  
Third Amendment: January 2003  
Fourth Amendment: April 2004  
Fifth Amendment: July 2006  
Sixth Amendment: October 2007  
Seventh Amendment: December 2009  
Eighth Amendment: January 2010  
Ninth Amendment: May 2010  
Tenth Amendment: June 2011  
Eleventh Amendment: July 2013  
Twelfth Amendment: January 2014  
Thirteenth Amendment: November 2014  
Fourteenth Amendment: March 2016  
Fifteenth Amendment: October 2017  
Sixteenth Amendment: April 2018  
Seventeenth Amendment: October 2018  
Eighteenth Amendment: September 2019  
Nineteenth Amendment: September 2020