



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

31 March 2024

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Statement of Investment Principles

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address

<https://www.arrivapensions.com/~media/Files/A/Arriva-Pensions/documents/arriva-london-north-arriva-london-south-pension-scheme-statement-of-investment-principles-2023.pdf>

Over the year the SIP has been reviewed by the Trustee. The proposed changes to the SIP are detailed on page 6

The Implementation Report details:

- actions the Scheme has taken to manage financially material risks and implement the key policies in its SIP;
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks;
- the extent to which the Scheme has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate;
- voting behaviour covering the reporting year up to 31 March 2024 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf.

Summary of key actions undertaken over the Scheme reporting year

In Q4 2023, Ares notified investors that they planned to wind up the Secured Income Fund. The Scheme received two distributions in December totalling £11m (c.35% of holdings). In Q1 2024, Ares continued to return capital to investors making three distributions totalling £8.2m (c. 26% of 30/09 holdings). bringing the total distributed amount to £19.5m (c.61% of holdings). This capital was invested into the Sterling Liquidity Fund holding outside of the LDI portfolio, pending a decision where to invest this longer term.

Implementation Statement

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

Signed **Grant Suckling**

Position **Trustee Director**

Date **18/09/2024**

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge a high proportion of these risk on the relevant funding basis	No action over the period.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.	The distributions made from the Ares Secured Income fund over the year were held in the LGIM Sterling Liquidity Fund, to retain as a liquid holding pending a decision on where to invest over the longer term.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.	No action over the period.
Credit	Default on payments due as part of a financial security contract.	<p>To diversify this risk by investing in a range of credit markets across different geographies and sectors.</p> <p>To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.</p>	No action over the period.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 	<p>No new managers were appointed over the period however, the Trustee considers ESG risks on an ongoing basis.</p> <p>Further detail provided later in this report.</p>

		<p>3. A track record of using engagement and any voting rights to manage ESG factors</p> <p>4. ESG specific reporting</p> <p>5. UN PRI Signatory</p> <p>6. UK Stewardship Code signatory</p> <p>The Trustees monitor the managers on an ongoing basis.</p>	
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income.	No action over the period.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	No action over the period.

Changes to the SIP

Over the period to 31 March 2024, draft changes were made to the SIP to reflect the Trustee's approach to managing the Scheme's leverage and collateral within the LDI portfolio. These changes are currently under review by the Trustee before being finalised. The proposed material changes to the SIP can be found below:

Policies added to the SIP

Date updated: To be confirmed

Leverage and Collateral Management - How the Trustee will meet collateral calls from the LDI manager

- The Trustee will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Scheme's liability hedging (LDI) portfolio.
- The Trustee has a stated a collateral management policy. The Trustee has agreed a process for meeting collateral calls should these be made by the Scheme's LDI manager. The Trustee will review and stress test this policy on a regular basis.

Current ESG policy and approach

ESG as a financially material risk

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

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

As set out in the SIP, the Trustee has given appointed investment managers full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights (such as voting rights) attached to the Scheme's investments. The Trustee has implemented the following policy with regards to monitoring and engagement on ESG factors:

- The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental, and corporate governance issues.
- The Trustee received information from their investment advisers on their investment managers' approaches to engagement.
- The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually.
- To mitigate ESG risk, the Trustee have implemented a policy to appoint managers who satisfy the following criteria:
 1. Responsible Investment ('RI') policy / Framework
 2. Implemented via Investment Process
 3. A track record of using engagement and any voting rights to manage ESG factors
 4. ESG specific reporting
 5. UN PRI signatory
 6. UK Stewardship Code signatory

Engagement

As the Scheme invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12-month period to 31 March 2024.

Fund name	Engagement summary	Commentary
Ares – Secured Income Fund	This data was requested from the manager; however, the manager is currently unable to produce this level of reporting. We will work with the manager to try to ensure that this data is available in the future.	The Fund's ESG-related engagement is primarily led by the individual investment teams, who monitor ESG credentials over time and lead on engagements given they have the most issuer level knowledge where engagement is deemed necessary.
Legal & General Investment Management ("LGIM") – LDI	This data was requested from the manager; however, the manager is currently unable to produce this level of reporting. We will work with the manager to try to ensure that this data is available in the future.	<p>LGIM have evidenced their ability to integrate ESG factors in their LDI fund range through counterparty review and engagement.</p> <p>LGIM integrates ESG factors in their processes by using proprietary tools to quantify and monitor 28 key metrics which are used to produce an overall ESG score.</p> <p>LGIM's Investment Stewardship team had 48 meetings with counterparty banks over 2023, with Environmental and Governance being the key engagement themes.</p>
Legal & General Investment Management ("LGIM") – Active Corporate Bonds*	Number of Engagements: Environmental - 117 Social - 40 Governance - 105 Strategy - 64 Other - 1	Engagement example: JPMorgan Chase LGIM engaged with JPMorgan Chase on their coal policy, their scope 3 emissions and the sectors to which their 1.5 degree target alignment applies.

	<p>Note: The above engagement data is from the Active Corporate Bond – All Stocks fund, however, given the overlap with the Active Corporate Bond – Over 10 year fund, this data is representative of both.</p>	<p>In November 2023, JPMorgan published their recent climate report, which includes updated targets on 9 sectors, which are now based on the International Energy Agency (IEA) Net Zero Emissions by 2050 (NZE50) scenario, including updated targets on oil & gas and energy mix and absolute emissions disclosures to augment intensity target ranges. LGIM welcomed these tightened targets and additional sectors. Following the update to its emissions targets, LGIM further encouraged the bank to review its coal policy and continue to monitor the company's progress against targets.</p>
Legal & General Investment Management ("LGIM") – Buy and Maintain Credit*	<p>Number of Engagements:</p> <p>Environmental- 176</p> <p>Social- 122</p> <p>Governance- 233</p> <p>Strategy- 97</p> <p>Other- 2</p>	<p>Engagement example: Tesco</p> <p>In 2023, LGIM launched their own campaign on income inequality targeting 15 of the largest food retailers globally, asking them to pay a living wage to their own employees and supply chain workers. Tesco is one of the companies that were targeted. Although they are paying their own employees a real living wage, LGIM believe there is much to do in terms of contractors and supply chain workers.</p> <p>LGIM believe their engagement with Tesco has delivered results as they are now paying all of their own UK employees a real living wage, which they were not in 2022.</p>
Legal & General Investment Management ("LGIM") – Absolute Return Bonds*	<p>Number of Engagements:</p> <p>Environmental_- 221</p> <p>Social_- 82</p> <p>Governance_- 172</p> <p>Strategy_- 102</p> <p>Other_- 7</p>	<p>Engagement example: Volkswagen</p> <p>Volkswagen opened a plant in Urumqi, Xinjiang in 2013 via one of its Joint Ventures. Over recent years, multinational corporations have faced allegations of using forced labour in their</p>

		<p>operations in this region. In late 2022 MSCI responded to allegations of forced labour by assigning a red controversy flag to Volkswagen.</p> <p>Since MSCI assigned a Red Flag controversy in late 2022, LGIM increased their dialogue with the company further, and have engaged on the question of Human Rights and the company's presence in Urumqi with senior management including the CFO and head of Treasury. Communication has taken place via multiple communication channels, including in-person, conference calls and written correspondence.</p> <p>Following investor engagement, Volkswagen resolved to obtain an independent audit of its JV plant in Xinjiang, which was conducted in December 2023. This audit was conducted by a high profile and well respected body, and appears to address the main concerns around operations at the plant. The completion of the audit resulted in MSCI subsequently removing its red controversy flag.</p>
Mercer – Tailored Credit Fund	The data was requested from the manager; however, fund level summary statistics were not provided.	<p>The fund is set up as a 'fund of funds' so Mercer engage with the underlying managers to ensure stewardship priorities are aligned.</p> <p>Mercer produce an annual stewardship report which includes the results of engagements with managers and how the stewardship policy has been implemented.</p>

Note: *As at 31 December 2023. LGIM produce engagement data on a bi-annual basis.

Voting

The Scheme is not invested in any assets that have voting rights.

