



Arriva Passenger Services National 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.

Implementation Report

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-passenger-services-national-pension-scheme-statement-of-investment-principles-2023.pdf#:~:text=Arriva%20Passenger%20Services%20National%20Pension%20Scheme%20Statement%20of,decisions%20to%20invest%20the%20assets%20of%20the%20Scheme.>

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 investment actions undertaken over the Scheme reporting year

Over the year Ares notified the Trustee that they would be winding up their Secured Income Fund, in which the Scheme invests. As part of the wind up process, distributions were made by Ares and the Trustee agreed to reinvest these proceeds into the Scheme's LDI portfolio to support an increase in the Scheme's target hedge ratio to 55% at the Scheme's LDI manager (as measured on the 2019 Technical Provisions basis), which was implemented just after year end..

Implementation Statement

This report demonstrates that the Arriva Passenger Services National 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 **22/10/2024**

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 as high a percentage of these risk as is possible, given the collateral requirements of the LDI portfolio and taking into consideration the overall liquidity of the investment strategy.	Following the receipt of distributions from the Ares Secured Income Fund, the Trustee agreed to increase the target hedge ratio to 55% of the liabilities, as measured by the Scheme's LDI manager. Implementation occurred in April 2024, just after year end.
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/synthetic equity manager.	As part of the increase in the liability hedge ratio, the Trustee reviewed the LDI collateral position to ensure they were comfortable with this.
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.	Over the year the Trustee continued to meet capital calls for the BlackRock Diversified Private Debt Fund through redemptions from the Schroders Diversified Growth Fund. This transition is intended to better reward the Scheme for the level of risk being taken and provide diversification to the overall strategy.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently	No action over the period.

		compensates the Scheme for the risk of default.	
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 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 <p>The Trustees monitor the managers on an ongoing basis.</p>	No new managers were appointed over the period; however, the Trustee considers ESG risks on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	<p>Hedge all currency risk on all assets that deliver a return through contractual income.</p> <p>Hedge a portion of the currency risk on equities. This may be varied over time depending on the Trustee's views. Currently the Trustee invest 50% of its synthetic equity allocation in a GBP hedged share class fund.</p>	No actions were taken 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 SIP describes the Schemes policy with regards to ESG as a financially material risk. This page details how the Plan's ESG policy is implemented. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

Risk Management	<ol style="list-style-type: none">1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee
Approach / Framework	<ol style="list-style-type: none">3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.4. ESG factors are relevant to investment decisions in all asset classes.5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	<ol style="list-style-type: none">6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.7. ESG factors are dynamic and continually evolving; therefore, the Trustee will receive training as required to develop their knowledge.8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	<ol style="list-style-type: none">9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	<ol style="list-style-type: none">11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why.12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.

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. It should be noted that the Fund is being wound up.	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 and Synthetic Equity (Hedged and Unhedged)	<p>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> <p>Note: LGIM data reflects the 12-month period to 31 December 2023.</p>	<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>
Schroders – Diversified Growth Fund	<p>Total engagements: 1,402</p> <p>Environmental: 847 Social: 235 Governance: 283 Other: 37</p>	<p>Schroders' engagement activities are managed centrally by the Sustainable Investment Team. Engagement methods include one-to-one meetings with company representatives, written and phone correspondence, and discussions with various company advisers and stakeholders.</p> <p>No significant examples of engagement were provided by the investment manager.</p>

**BlackRock –
Diversified
Private Debt**

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.

BlackRock use a proprietary ESG scoring model to rank investments on: Industry & sub-industry rating, ESG factors and data quality (corporate private debt only).

At portfolio level, BlackRock provide these scores as part of their regular quarterly reporting.

Voting (for equity/multi asset funds only)

The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

The Scheme's fund managers have provided details on their voting actions including a summary of the activity covering the reporting year up to 31 March 2024. The Trustee has adopted the managers definition of significant votes and has not set stewardship priorities. Where applicable, the managers have provided examples of votes they deem to be significant, and the Trustee has shown the votes relating to the greatest exposure within the Scheme's investment.

Fund name	Voting summary	Examples of most significant votes	Commentary
LGIM – Synthetic Equity (Hedged and Unhedged)	The Scheme (through the investment manager) does not get voting rights through investments in these funds as all equity exposure is achieved through derivative positions, rather than direct holdings in underlying companies.	n/a	n/a
Schroders – Diversified Growth Fund	<p>Votable Proposals: 14,566 Proposals Voted: 13,675 Voted with management: 12,209 Voted against management: 1,466 Abstain votes: 58</p> <p><i>Figures may not total due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a vote of 'Abstain' is also considered a vote against management.</i></p>	<p>Amazon.com, Inc. – Schroders voted for the disclosure of efforts being made to reduce plastic use. Schroders believe that the Company should be making meaningful steps towards eliminating the use of plastic within its operations. They suggest that their vote for this item will enable shareholders to have a more comprehensive understanding of progress and is ultimately in the financial interest of their clients.</p> <p>Microsoft Corporation – Schroders voted for a report on risks of operating in countries with significant human rights concerns. Schroders believe that shareholders would benefit from further disclosure on how the company mitigates risks in markets in which it operates where there are significant human rights concerns.</p>	Schroders' Corporate Governance analysts assess any company's resolutions and apply Schroders' voting policies and guidelines to each agenda item. The team utilises their own knowledge, as well as utilising external providers' research, such as the Investment Association's guidelines, the Institutional Shareholders Services("ISS") and public reporting. Schroders uses a third-party provider to execute all proxy voting instructions electronically. The manager regularly reviews their arrangement with these providers and benchmark them against peers.

