



# Arriva Passenger Services Pension Plan ("the Plan")

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 Plan 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-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 Plan 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 Plan 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 Plan including the most significant votes cast by the Plan or on its behalf.

## Summary of key investment actions undertaken over the Plan reporting year

At the end of 2022 the Trustee placed a partial redemption from the CBRE Global Alpha fund for the 30 June 2023 dealing date, given this required 6 month's notice. The proceeds of this redemption were received in Q3 2023 and invested by the Trustee into the LDI portfolio to increase the overall collateral position that supports the liability hedge.

In Q2 2023, the Trustee finalised the implementation of the new segregated liability hedging (LDI) portfolio with Legal & General Investment Management (LGIM), transferring assets from the previous LDI manager. As part of this, a new collateral management framework was implemented with LGIM investing excess LDI portfolio collateral into their Absolute Return Bond Fund. An increase in the Technical Provisions interest rate liability hedge to 80% was also implemented as part of this, whilst the 85% inflation target hedge ratio was maintained.

In Q4 2023, Ares notified investors that they planned to wind up the Secured Income Fund. The Plan received two distributions in December totalling £26.3m (c.35% of 30/09/23 holdings). In Q1 2024, Ares continued to return capital to investors making three distributions totalling £19.6m (c. 26% of 30/09/23 holdings). bringing the total distributed to £45.8m (c.61% of holdings). This capital was invested into the Plan's segregated LDI portfolio with LGIM pending a decision on where to invest this over the longer term.

With effect 1 November 2023, responsibility for oversight of the ex-LaSalle property portfolio, formerly managed by CBRE, was handed over to the Trustee. The remaining underlying fund holdings within this portfolio are either in wind up or the Trustee has served redemption notice, with proceeds expected to be received over the next few years.

#### **Implementation Statement**

This report demonstrates that the Arriva Passenger Services Pension Plan 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 26/09/2024**

# 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 Plan 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.	Over the year the Trustee implemented a new segregated LDI portfolio with LGIM. As part of this, the Trustee increased the target interest rate liability hedge ratio to 80%, taking into consideration the level of interest rate risk and collateral requirements from an increased hedge.
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.	<p>At the end of 2022 the Trustee placed a partial redemption from the CBRE Global Alpha fund in order to improve the Plan's overall liquidity position. These proceeds were received in Q3 2023 and invested into the LDI portfolio to increase the collateral position.</p> <p>As part of the decision to increase the liability hedge in Q2 2023 (as referenced above) the Trustee reviewed the Plan's liquidity position , taking into account the expected receipt of funds from the CBRE Global Alpha fund, and were comfortable with this.</p> <p>In addition, distributions made by Ares were retained in the segregated LDI portfolio as liquid collateral, pending a decision on where to invest these proceeds over the long term; since year end it has formally been agreed to invest the proceeds in a liquid credit fund.</p>

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.	As part of the setup of the new segregated LDI portfolio with LGIM, the Trustee increased the target interest rate liability hedge ratio in order to reduce unrewarded interest rate risk.
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 Plan for the risk of default.</p>	Over the period, the Trustee setup a process to invest excess LDI portfolio collateral into the LGIM Absolute Return Bond Fund. This fund is actively managed by LGIM and provides exposure to a diversified range of underlying credit asset classes and markets.
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 Plan'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"> <li>1. Responsible Investment ('RI') Policy / Framework</li> <li>2. Implemented via Investment Process</li> <li>3. A track record of using engagement and any voting rights to manage ESG factors</li> <li>4. ESG specific reporting</li> <li>5. UN PRI Signatory</li> <li>6. UK Stewardship Code signatory</li> </ol> <p>The Trustee monitors the managers on an ongoing basis.</p>	The Trustee considered its ESG policies set out later in this report when selecting the manager for their new LDI mandate, noting that the ability to apply their ESG policy within an LDI portfolio is more limited compared to other asset classes.
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	To invest in funds that hedge the majority of currency risk as far as practically possible, except for where an active decision has been made by the Trustee not to hedge out the currency risk.	Over the year the Trustee reviewed the Plan's currency hedging policy for the Plan's investments with Basalt and CBRE, which are USD-denominated funds that are not hedged back to Sterling. It was agreed to retain this policy of not hedging the currency given the limited contribution to overall strategy risk, and diversification the exposure provides.

Non-financial	Any factor that is not expected to have a financial impact on the Plan's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	No action over the period.
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# 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 Plan'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 Plan'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 Plan'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 Plan's 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"><li>1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Plan</li><li>2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee</li></ol>
Approach / Framework	<ol style="list-style-type: none"><li>3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.</li><li>4. ESG factors are relevant to investment decisions in all asset classes.</li><li>5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.</li></ol>
Reporting & Monitoring	<ol style="list-style-type: none"><li>6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.</li><li>7. ESG factors are dynamic and continually evolving; therefore, the Trustee will receive training as required to develop their knowledge.</li><li>8. The role of the Plan'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.</li></ol>
Voting & Engagement	<ol style="list-style-type: none"><li>9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.</li><li>10. Engaging is more effective in seeking to initiate change than disinvesting.</li></ol>
Collaboration	<ol style="list-style-type: none"><li>11. Asset managers should sign up and comply with common codes and practices such as the UNPRI &amp; Stewardship code. If they do not sign up, they should have a valid reason why.</li><li>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.</li></ol>



# Engagement

As the Plan 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
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") – Absolute Return Bonds	<p><b>Number of Engagements:</b></p> <p>Environmental- 221</p> <p>Social- 82</p> <p>Governance- 172</p> <p>Strategy- 102</p> <p>Other- 7</p>	<p><b>Engagement example: Volkswagen</b></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 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 then, LGIM have increased their dialogue</p>

		<p>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. The completion of the audit resulted in MSCI subsequently removing its red controversy flag.</p>
<b>Basalt – Infrastructure Partners II</b>	<p>This data was requested from the manager; however, the manager was unable to provide the requested information.</p>	<p>Basalt produce an annual ESG report which includes the ESG policy for the firm, including the manager's key ESG focuses. These include climate resilience, protecting the environment, valuing human capital and good governance. Basalt have highlighted areas of their ESG approach they wish to strengthen. These include: conducting a complete scenario analysis of their investment strategy; measure and reduce greenhouse gas emissions; report under Sustainable Finance Disclosure Regulation ("SFDR"); progress ESG priorities with recently acquired portfolio assets.</p>
<b>CBRE – Global Alpha</b>	<p>This data was requested from the manager, however, the manager does not collate statistics on the number of individual engagements undertaken by the Fund.</p>	<p>CBRE have an ESG engagement policy which is updated regularly, specifically for managing portfolios where assets are held with external fund managers.</p> <p>CBRE engages with underlying fund managers at least quarterly, however reviews may take place on a</p>

		<p>more frequent basis when necessary. CBRE will have a direct relationship with the key stakeholders of a fund including the fund manager and investor relations professional.</p> <p>An example of a significant engagement:</p> <p><b>MBKA US Medical Office Venture II</b> – This venture’s Global Real Estate Sustainability Benchmark (“GRESB”) score decreased by 5 points from 2021 to 2022 with a total score of 65. The CBRE Investment Management team held a few strategy sessions over the first half of 2023 with the operator in order to identify weaknesses and target specific actions to increase performance. This included increasing tenant outreach and education in order to increase the data coverage on utilities.</p> <p>As a result of the strategy sessions, the venture’s score improved by eight points to a total score of 73. The venture focused on three key criteria to improve the score including risk assessment, data coverage and data monitoring.</p>
<p><b>Hayfin – Direct Lending Fund III</b></p>	<p>Total engagements: 26 Environmental: 11 Social: 11 Governance: 1 Strategy: 3</p>	<p>Hayfin’s engagement strategy focuses on collaboration with other investors in order to ensure their investment objectives are met. They engage with sponsors to understand their ESG philosophy, policy and procedures and ensure that ESG performance is ranked in a scorecard. Where they make use of ESG margin ratchets within documentation, they engage with borrowers/sponsors in order to set meaningful ESG KPIs to measure and improve on over time.</p>

		<p>An example of a significant engagement:</p> <p><b>Roderick's Dental – Hayfin</b> engaged with the firm to improve their ESG policies. They agreed to implement an ESG ratchet and set four ESG trigger tests which reduce margin by 12bps if two are met and 20bps if four are met, with KPIs related to the following:</p> <ul style="list-style-type: none"> <li>• Staff churn</li> <li>• Quality control</li> <li>• Patient satisfaction</li> <li>• Staff training</li> </ul> <p>As of Hayfin's last report, the company has met 2/4 KPIs.</p>
<b>Innisfree – Infrastructure Fund</b>	<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 ensure that this data is available in the future.</p>	<p>Innisfree has a firm-wide ESG policy in place, which details Innisfree's commitment to ESG issues both at a project and fund level. Due to the nature of the assets Innisfree invests in, all assets meet the minimum ESG compliance requirements for their governments.</p> <p>All infrastructure projects within the Fund have a social purpose and their environmental impact was considered from the outset. The Innisfree ESG Steering Group meets at least quarterly to coordinate activity for both the project and the Manager level. Innisfree is also an active participant in the Net Zero Working Group set up by the Infrastructure and Projects Authority ("IPA").</p>
<b>LaSalle – Legacy Property Portfolio</b>	<p>This data was requested from the managers of the four remaining portfolio positions, however the managers are currently unable to produce this level of reporting. We will work with the manager to try ensure that this data is available in the future, though we note the Plan's</p>	<p><b>IPIF Feeder Unit Trust - The</b> Fund's approach to engagement is primarily centred around asset occupiers. This differs to the approach taken across the wider LGIM platform as the Fund invests primarily in direct property. A targeted engagement programme has been established</p>

investments in the underlying funds are currently in wind up or redemption notice has been served, so expect to be able to make limited progress in this regard.

consisting of working in tandem with occupiers to make sustainability focused improvements where possible.

**abrdn UK Shopping Centre Trust-** abrdn do not engage with any investments in the portfolio as they directly invest into buildings. abrdn's engagement is with respect to the industry, occupiers, suppliers and the community.

**Hunter UK Retail Unit Trust-** The Property Investment Advisor (PIA) is currently preparing its GRESB submission for 2023. The PIA is also reviewing its ESG policies and preparing its annual ESG report which is due to be issued in Q2 2024.

**Unite UK Student Accommodation Fund-** The fund participates annually in the GRESB assessment, with the Fund's 2023 score remaining at 82, retaining its four star rating. Unite also have a commitment to achieve net zero carbon by 2030 with 99% of the portfolio being EPC A-C rated.

# Voting (for equity/multi asset funds only)

As the Plan has no direct or indirect equity holdings at year end, there is no voting data to report.

