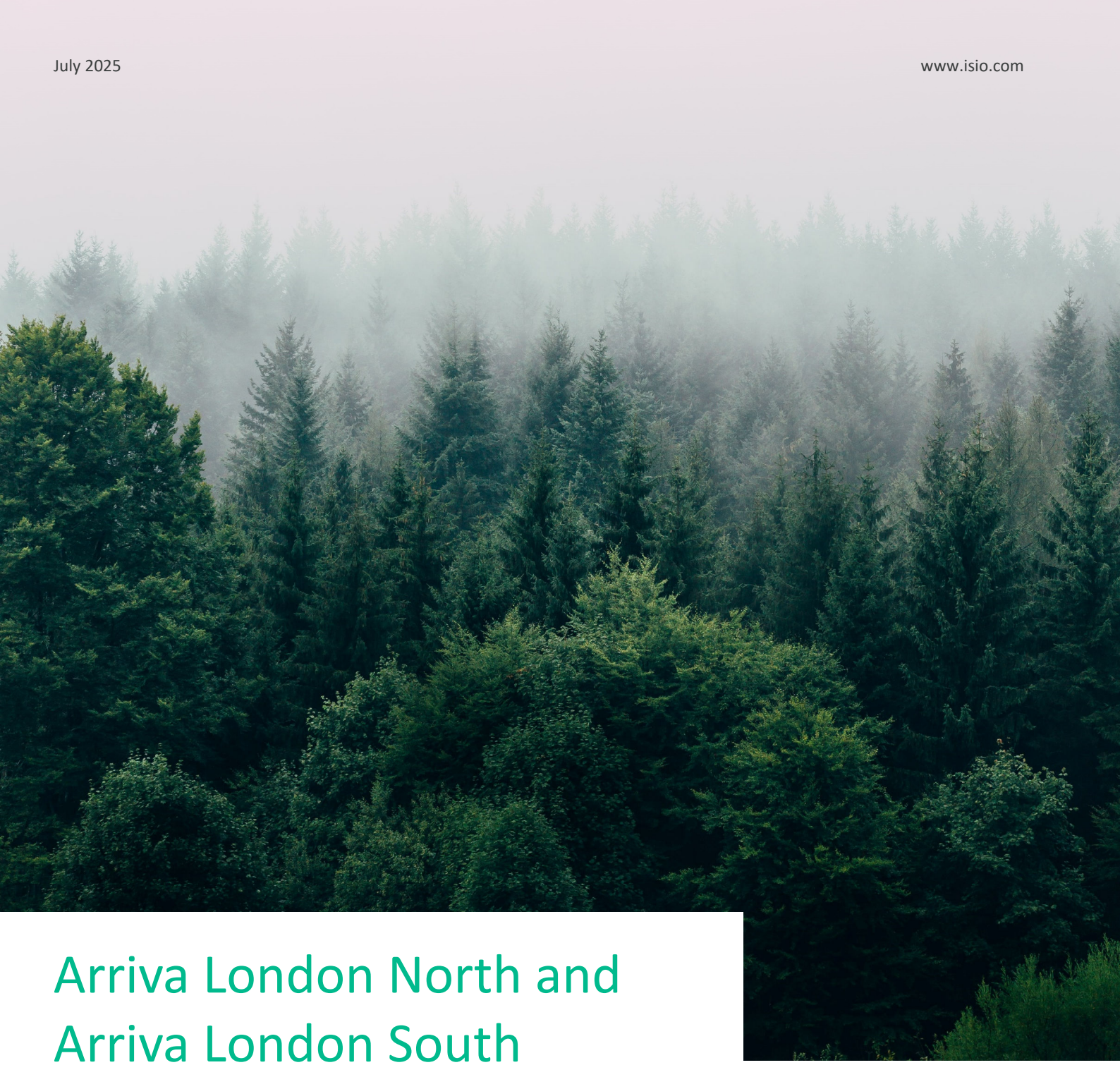

Arriva London North and Arriva London South Pension Scheme ("the Scheme")

31 March 2025

isio.

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/scheme-details/arriva-london-north-and-london-south-pension-scheme-statement-of-investment-principles-10-07-2024.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 towards ESG and the actions taken with managers on managing ESG risks;
- the extent to which the Scheme has followed engagement policies covering engagement actions with its fund managers and, in turn, the engagement activity of the fund managers with the companies in the investment mandate; and
- voting behaviour covering the reporting year up to 31 March 2025 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 12 months to 31 March 2025, the Trustee instructed full redemptions from both of the Scheme's active corporate bond mandates with Legal & General (L&G) and from the Mercer tailored Credit Fund. The majority of these proceeds were invested into the TwentyFour Monument Bond Fund which helped to diversify the Scheme's overall credit exposure through exposure to investment grade European and Australian Asset Backet Securities (ABS). In addition, some of the proceeds were also invested into the Scheme's liability hedging (LDI) portfolio to maintain the Scheme's target hedge ratio and bolster collateral. As at 31 March 2025, the Scheme's target hedge ratio is approximately 100% on the 2023 Technical Provisions basis.

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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: Scott Duncan

Position: Trustee Director

Date: 02 October 2025

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Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of a mismatch between the value of the Scheme's 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, while ensuring compliance with all regulatory guidance in relation to leverage and collateral management.	The Trustee agreed to target a liability hedge ratio broadly equal to the Technical Provisions funding level. Over the year, the Scheme target hedge ratio was reduced from 105% to 100% of the 2023 Technical Provisions basis liabilities (as measured by Scheme's LDI manager) to bring this in line with the Technical Provisions funding level.
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 in line with regulatory guidance.	The Scheme currently uses the L&G Sterling Liquidity Fund and the TwentyFour Monument Bond Fund as sources of liquidity for cashflow needs. The L&G Absolute Return Bond Fund is used as a source of collateral for the LDI mandate; the new Monument Bond Fund investment provides an additional source of collateral if required. The SIP contains more details of the Scheme's collateral management policy.
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 practical.	The Trustee reduced the Scheme's corporate bond exposure and invested into investment grade ABS over the year. This will provide some market risk protection in case credit spreads widen from their current low levels.
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	Over the period, the Scheme reduced its Corporate Bond exposure and invested into the TwentyFour Monument Bond Fund which is actively managed and provides exposure to a diversified range

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		manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	of highly quality investment grade asset backed securities. This investment diversified the Scheme's overall credit exposure.
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.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each 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 The Trustee monitors the managers on an ongoing basis.	The TwentyFour Monument Bond Fund was added to the portfolio over the period. This fund is amber rated (partially meets criteria) on Isio's internal ESG scoring system and the Trustee, via Isio, engages with the manager to improve their ESG procedures.
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 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 actions were taken over the period.

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Changes to the SIP

Over the period to 31 March 2025, 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 were reviewed by the Trustee before being finalised. The material changes to the SIP can be found below:

Policies added to the SIP	
Date updated: 10 July 2024	
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.

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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 on 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 on 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 its investment advisers on its investment managers' approaches to engagement.
- The Trustee will engage, via its investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually,
- To mitigate ESG risk, the Trustee has 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

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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 2025.

Fund name	Engagement summary	Commentary
Ares – Secured Income Fund	This data was requested from the manager; however, the manager does not currently track engagements at either the fund or firm level. It should be noted that the fund is being wound up.	The Fund engages on a case-by-case basis, dependent on the materiality of the ESG consideration. All engagements are tailored to the processes of the individual investment teams and their strategies. Notably, Ares launched the Ares Climate Transition ("ACT") program over the period to support borrowers in the energy transition and the management of climate-related risks.
Legal & General Investment Management ("L&G") – LDI	This data was requested from the manager; however, the manager is currently unable to produce this level of reporting. The Trustee's investment adviser will work with the manager to try to ensure that this data is available in the future.	L&G have evidenced their ability to integrate ESG factors in their LDI fund range through counterparty review and engagement. L&G integrates ESG factors in their processes by using proprietary tools to quantify and monitor 34 key metrics which are used to produce an overall ESG score. L&G's Investment Stewardship team had 72 meetings with counterparty banks over 2024, with Environmental and Governance being the key engagement themes.
Legal & General Investment Management ("L&G") – Buy and Maintain Credit	Total Engagements: 331 Environmental: 190 Social: 57 Governance: 64 Other: 20	L&G have engaged with 54% of the eligible fund value on a broad range of topics. L&G are also able to further divide their fund-specific engagements into more specific topics, for example corporate strategy.
Legal & General Investment Management ("L&G") – Absolute Return Bond Fund	Total Engagements: 355 Environmental: 208 Social: 72 Governance: 57 Other: 18	L&G have engaged with 46% of the fund (measured by market capitalisation) on a broad range of topics. L&G are also able to further divide their fund-specific engagements into more specific

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		topics, for example corporate strategy and climate impact pledge.
Legal & General Investment Management ("L&G") – Sterling Liquidity Fund	Total Engagements: 18 Environmental: 14 Social: 0 Governance: 4 Other: 0	L&G were unable to provide any specific examples of how they engaged with the underlying companies for the Sterling Liquidity Fund.
TwentyFour – Monument Bond Fund	Total engagements: 230 Environmental: 18 Social: 13 Governance: 12 Other: 187	TwentyFour explicitly considers ESG factors in the investment process for all funds managed. TwentyFour engage with companies who 'take action' by identifying and selecting companies based on the criteria they have in place. This can range for any size company. There is a particular focus to carbon emission engagements at which all portfolio management teams collaborate on these engagements. An example of significant engagement: Principality Building Society – TwentyFour engaged with the firm to improve the environment from ESG. This was due to the lack of Energy Performance Certificate (EPC) data, specifically the financed emissions. Since the discussion with their ESG team, the company improved their EPC coverage from 49% to 79%. Following this improvement, the firm are aware of wider ESG possibilities to set meaningful targets.

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Voting

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

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