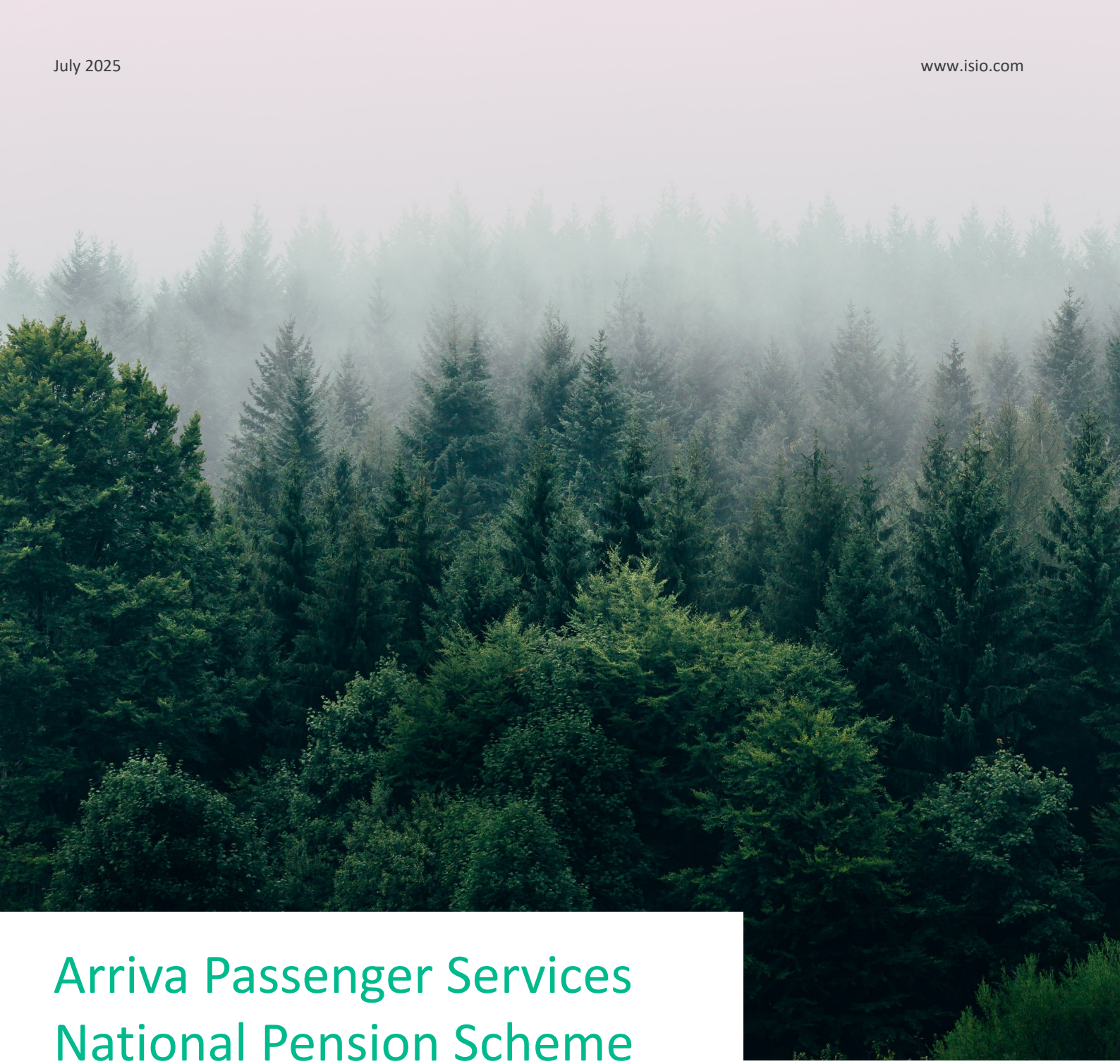

Arriva Passenger Services National Pension Scheme ("the Scheme")

31 March 2025

isio.

Document classification: Public

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-10-07-2024.pdf

Over the year, the SIP has been updated by the Trustee. The 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 de-risked the investment strategy. This included reducing the Scheme's synthetic equity exposure in two tranches, initially from 35% to 20%, then further to 12%. Some of these proceeds were reinvested in the Scheme's liability hedging (LDI) portfolio to support an increase in the target liability hedge ratio over the year to 90% on the 2023 Technical Provisions basis liabilities, in order to reduce the Scheme's interest rate and inflation risk.

The Trustee also redeemed 100% of the Scheme's holdings in the Schroders Diversified Growth Fund, reinvesting the proceeds into the Legal & General (L&G) Absolute Return Bond ('ARB') Fund, along with some of the proceeds from the equity allocation reduction. This new allocation provides a source of collateral within the LDI portfolio, whilst aiming to deliver an excess return over cash rates.

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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: 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 risks 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.	As part of wider de-risking, the Trustee agreed to target a liability hedge ratio broadly equal to the Technical Provisions funding level. As at Scheme year end, the hedge ratio was 90% of the 2023 Technical Provisions basis liabilities, as measured by the Scheme's LDI manager.
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 in line with regulatory guidance.	Over the period, the Trustee added a new allocation to the L&G ARB fund which provides a source of collateral for the LDI portfolio and synthetic equity funds.
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 de-risked the Scheme's portfolio over the year, reducing synthetic equity exposure and fully disinvesting from the Schroders Diversified Growth Fund. Proceeds were then re-allocated to the L&G ARB fund and to the Scheme's LDI portfolio to increase the liability hedge.
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 compensates the Scheme for the risk of default.	The Trustee invested into the L&G ARB fund over the period. This fund invests predominately in investment grade-rated bonds across a broad range of geographies and sectors.

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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 mangers on an ongoing basis.	ESG risk considerations were integrated into the selection process of the L&G ARB fund, with the fund holding a green "meets criteria" rating under Isio's proprietary ESG scoring framework.
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. Hedge a portion of the currency risk on equities. This may be varied over time depending on the Trustee's views.	No actions were taken over the period. Currently the Trustee invests 50% of its synthetic equity allocation in a GBP hedged share class fund.
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 agreed and signed by the Trustee in July 2024:

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 SIP describes the Schemes policy on ESG as a financially material risk. This page details how the Scheme'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	1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee
Approach / Framework	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	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	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	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.

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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 either at 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 and Synthetic Equity (Hedged and Unhedged)	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.	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 28 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") – Absolute Return Bond Fund	Total engagements: 355 Environmental: 208 Social: 72 Governance: 57 Other: 18 The Scheme invested into the fund in September 2024.	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 topics, for example corporate strategy and climate impact pledge.

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Schroders – Diversified Growth Fund	Total engagements: 1,550 Environmental: 992 Social: 241 Governance: 275 Other: 42 Note: Schroders data reflects the 12-month period to 31 December 2024. The Scheme disinvested from the fund in August 2024.	The firm engaged with firms relevant to the fund as part of a wider focus on human capital management within portfolio companies. Notably, Schroders engaged with Meta on their content moderation policies and practices, shareholder rights, and the responsible use of Artificial Intelligence. Schroders will continue to monitor Meta's progress on disclosure and alignment to shareholder expectations.
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 include ESG-linked ratchets on certain deals, whereby the borrowers interest rate is linked to some pre-specified ESG targets. Over the year BlackRock updated their proprietary scorecard to capture further climate risks and track any ESG ratchets in place.

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Voting

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 2025. 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
L&G – 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	Votable Proposals: 16,606 Proposals Voted: 16,010 Voted with management: 14,328 Voted against management: 1,682 Abstain votes: 21 *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.*	Alphabet, Inc. – Schroders supported a shareholder proposal encouraging the adoption of publicly disclosed child safety targets across the company's platforms. Schroders believe that formalising these metrics would establish a standardised framework to assess risks, enhance transparency, and proactively reduce child safety incidents. Amazon.com, Inc. – Schroders voted for the implementation of independent oversight on working conditions, acknowledging the company's constructive engagement on labour practice but also noting the importance of enhancing accountability amid persistent scrutiny. Schroders' view this oversight as a way to mitigate operational and reputational risks, align with global labour standards, and strengthen investor confidence in the company's governance.	Schroders' Corporate Governance analysts cast votes based on their proprietary research in line with Schroders' house voting policy. Each proposal is assessed individually, combining Schroders' internal expertise with insights from external research providers. Schroders partners with Glass Lewis ("GL") to process the electronic execution of proxy votes.

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