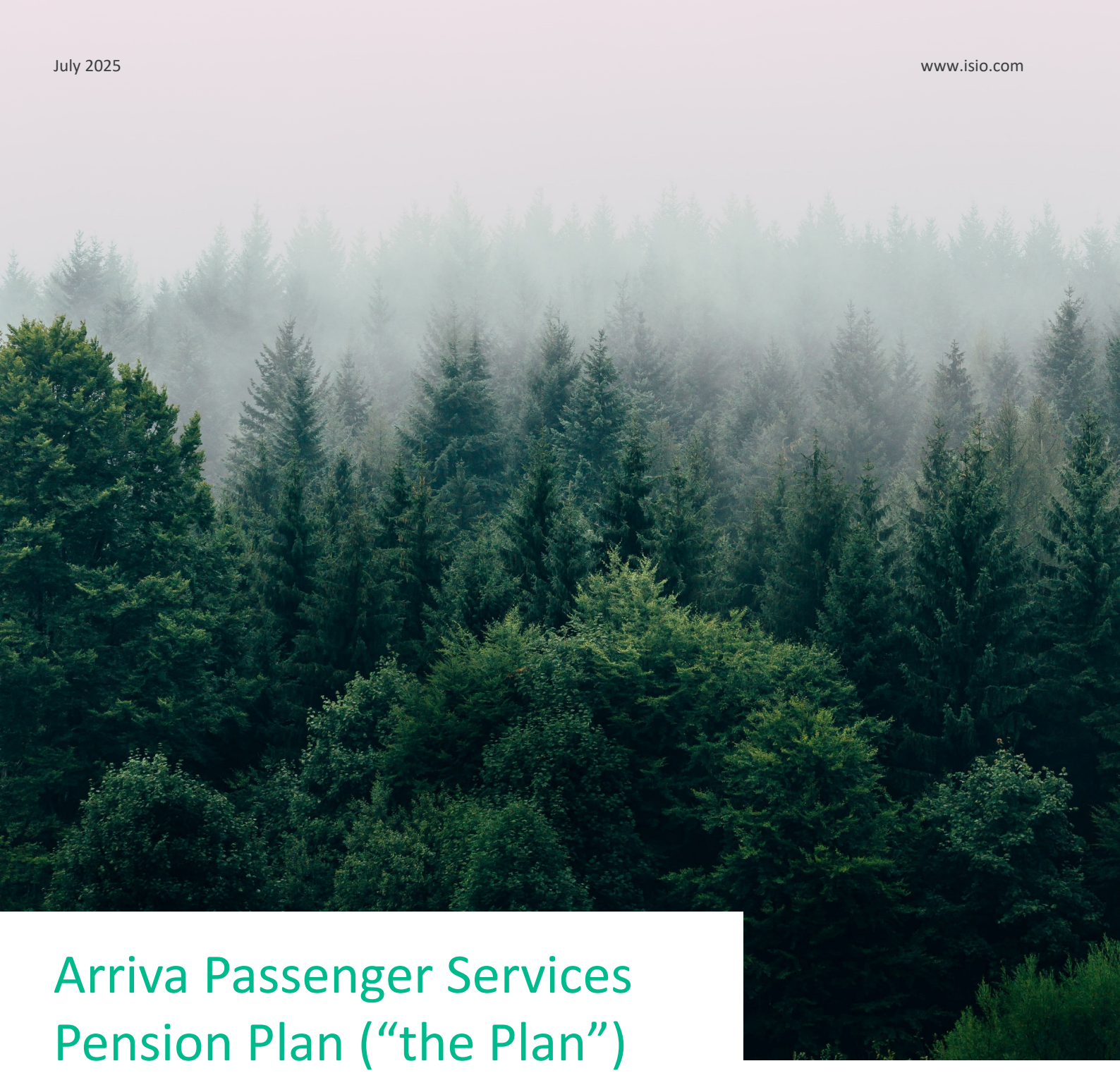

Arriva Passenger Services Pension Plan (“the Plan”)

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 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-plan-statement-of-investment-principles-10-07-2024.pdf

Over the year, the SIP was 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 towards ESG and the actions taken with managers on managing ESG risks;
- the extent to which the Plan 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 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

Over the 12 months to 31 March 2025, a target liability hedge of 97% Technical Provisions interest rate and inflation was implemented, broadly in line with the Technical Provisions funding level.

There were multiple distributions over the year, made by the Plan's illiquid managers: Ares, Hayfin, Innisfree, Basalt, CBRE, and the ex-LaSalle legacy property portfolio. In April 2024, the Trustee invested some of these distributions into the Plan's liability hedging (LDI) portfolio to support the liability hedge and provide additional capital efficiency. In December 2024, the Trustee reinvested further distributions from the illiquid managers, along with surplus collateral in the LDI portfolio, into the TwentyFour Monument Bond Fund. The remaining distributions from the Plan's illiquid managers were retained in the Trustee bank account to pay member benefits and manage additional cashflow requirements.

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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 considerations 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 Plan'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.	Over the year a new LDI benchmark was implemented, with the Trustee setting a target hedge ratio of 97% on the 2023 Technical Provisions liability basis, broadly 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.	Distributions from invested assets were retained in the Trustee bank account for ongoing cashflow purposes. The SIP contains the Scheme's collateral management policy. In December 2024, the Plan invested into the TwentyFour Monument Bond Fund, a daily dealt fund that can be used to source LDI collateral or cashflow needs if the Legal & General (L&G) Absolute Return Bond Fund were exhausted.
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 invested in a new asset-backed securities mandate with TwentyFour over the year. This fund is expected to be highly diversified across a number of markets, sectors and securities.
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 Plan for the risk of default.	Over the period, the Trustee invested in the TwentyFour Monument Bond Fund. This fund is actively managed and provides exposure to a diversified range of high quality investment grade asset backed securities.

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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 Plan'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.	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 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.	No actions were taken over the period.
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 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 set out the Trustee's approach to managing the Plan's leverage and collateral within the LDI portfolio. The changes to the SIP are detailed 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 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.

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Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Plan's policy on 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	1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Plan 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 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.
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 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 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. 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 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") – Absolute Return Bonds	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 topics, for example corporate strategy and climate impact pledge.
Basalt – Infrastructure Partners II	This data was requested from the manager; however, the manager was unable to provide the requested information at fund level.	Basalt produces 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

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		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.
CBRE – Global Alpha	This data was requested from the manager; however, the manager does not collate statistics on the number of induvial engagements undertaken by the Fund.	CBRE have an ESG engagement policy which is updated regularly, specifically for managing portfolios where assets are held with external fund managers. CBRE engages with underlying fund managers at least once per year, however reviews may take place on a 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. An example of a significant engagement: Realterm Airport Logistics Properties – This company had clear engagement with CBRE Investment Management having explicit objectives outlined for 2024. These goals included: to track Scope 3 GHG emissions; increasing coverage of new Green Building Certificates; and becoming a signatory to Principles of Responsible Investment (PRI). These objectives, among others, were outlined over an investment presentation. CBRE Investment Management undertook detailed analysis and discussion in the wake of the publication of that year's Global Real Estate Sustainability Benchmark (GRESB) results. This represents the regular dialogue, assisting with the monitoring of sustainability initiatives.
Hayfin – Direct Lending Fund III	Total Engagements: 2 Environmental: 2 Social: 0 Governance: 0 Strategy: 0	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 Key Performance

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		Indicators (KPIs) to measure and improve on over time. An example of a significant engagement: Looping – Hayfin engaged with the firm to improve their ESG policies. They agreed to implement an ESG ratchet and set 5 ESG KPI's to potentially result in a reduction in ESG risk • Reduction in single use plastic bottles by 5% p.a. until maturity • Improve the employee satisfaction metric by 0.5% p.a. • Implementation of carbon footprint analysis As of Hayfin's last report, the company has set these ESG objectives.
Innisfree – Infrastructure 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 ensure that this data is available in the future.	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. 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").
LaSalle – Legacy Property Portfolio	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 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.	aberdeen UK Shopping Centre Trust - aberdeen do not engage with any investments in the portfolio as they directly invest into buildings. aberdeen's engagement is with respect to the industry, occupiers, suppliers and the community. Hunter UK Retail Unit Trust - The Property Investment Advisor (PIA) stated the Trust is in managed wind down and it is not necessary to complete engagement of the Unit Trust.
TwentyFour – Monument Bond Fund	Total engagements: 230 Environmental: 18 Social: 13 Governance: 12	TwentyFour explicitly considers ESG factors in the investment process for all funds managed. TwentyFour engage with companies who 'take action' by identifying and selecting

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	Other: 187	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 and 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 Plan has no direct or indirect equity holdings at year end, there is no voting data to report.

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