NASUWT Managed Pension Plan Implementation Report

5 April 2023

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Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their statement of investment principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Plan updated its SIP in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments

The SIP can be found online at the web address: NASUWT Managed Pension Plan SIP | Isio

Implementation Report

This implementation report is to provide evidence that the Trustees continue to follow and act on the principles outlined in the SIP. This report details:

- actions the Trustees have 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 Trustees have 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 5 April 2023 for and on behalf of the Plan including the most significant votes cast by the Plan or on its behalf

Summary of key actions undertaken over the Plan reporting year

- Over the course of the reporting period, the Plan conducted a de-risking exercise by disinvesting completely from the Diversified Growth mandate. The money was used to increase the liability hedge from c.60% to c.90%, with the remainder transferred into a new low risk liquid credit fund, Aegon Asset Backed Securities. This exercise was conducted to lock-in the strong funding position.

- The Plan partially disinvested (c.£5m) from an illiquid holding in The Partners Fund towards the end of the Scheme year, this was reinvested into the Aegon ABS mandate following the Scheme year end as a source of liquidity for the Scheme whilst also generating a return.

- Due to significant gilt market volatility, the Plan's assets are out of line with the strategic benchmark allocation. However, this is expected to be temporary as the Trustees are due to review the Plan's strategy post year-end.

- The SIP was updated to include the Trustees voting and engagement policy on Environmental, Social and Governance (ESG) issues. Furthermore, fund manager benchmarks were updated to replace the now defunct London Interbank Offered Rate (LIBOR) with Sterling Overnight Index Average (SONIA).

Implementation Statement

This report demonstrates that the Trustees of the NASUWT Managed Pension Plan have adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed

Position

Date

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.	The Plan has an LDI mandate in place to manage this risk.	The Plan's hedging arrangements should be reviewed periodically to ensure they remain appropriate, especially after updated actuarial valuation results are finalised. The Plan increased its hedging position from c.60% to c.90% during the reporting period. The Trustees will once again review the Plan's hedging position during a post year-end strategy review.
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 within the diversified growth holdings and Trustee Bank Account to ensure there is a prudent buffer to pay member benefits as they fall due (including transfer values) and meet other liquidity requirements.	No immediate action required, cashflow positive nature of the Plan is sufficient to meet ongoing liquidity needs. The Plan improved its liquidity position by disinvesting from the Diversified Growth mandate and partially disinvesting from The Partners Fund. The Plan further added a liquid mandate, Aegon ABS, to the asset mix.
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.	The Trustees aim to diversify the Scheme's holdings across sectors and asset classes and are satisfied the strategy remains suitably diversified.
Credit	Experiencing losses due to the 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	The Scheme invests in a range of credit funds diversified across geographies and sectors.

		to invest only in debt securities where the yield available sufficiently compensates the Plan 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 Plan's investments.	The Trustees recognise that positive ESG factors can have a positive influence on the long-term stability and returns of investments. However, mandates are selected with the purpose of maximising the chance of achieving the return objectives as set out in their mandates, which in combination aim to optimise the chance of achieving the Plan's overall strategic objective. The extent to which ESG and ethical considerations are taken into account in these decisions is delegated to the investment managers, acting within the guidelines and objectives set by the Trustees.	The updated ESG policy agreed by the Trustees in September 2019 remains in place. Details of how the Trustees have acted in accordance with this policy are included later in this report. During the report period, the Statement of Investment Principles was updated to reflect enhanced Trustee oversight of investment manager voting and engagement practices. This is in accordance with statutory guidance.
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	To largely invest in GBP share classes where possible to eliminate direct currency risk. To largely invest with managers that hedge any exposure to foreign currency risk in underlying holdings, except where active currency positions are held.	All pooled funds held are denominated in GBP to manage direct currency risk. Underlying currency risk from positions denominated in foreign currencies is generally hedged. For example, the Plan's investments in the Partners Group MAC Funds aim to hedge c.95% of underlying foreign currency exposure back to Sterling.

Implementing current ESG policy and approach

ESG as a financially material risk

The SIP describes the Trustees' policy with regards to ESG as a financially material risk. This page details how the Plan's ESG policy is implemented, while the following page outlines Isio's assessment criteria used in evaluating the Plan's managers' ESG policies and procedures. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas which the Plan's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustees may wish to review the Plan's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	• Through the manager selection process ESG considerations will form part of the evaluation criteria • The Trustees have acknowledged responsibility for the voting and engagement policies that are implemented by the Plan's investment managers on their behalf. • The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually.	• The manager has not acted in accordance with their policies and frameworks.

Areas of assessment

The table below outlines the areas on which the Plan's investment managers are assessed when evaluating their ESG policies and engagements.

Risk Management	1. ESG factors are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustees.
Approach / Framework	2. The Trustees acknowledge that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies.
Voting & Engagement	3. ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors.
Reporting & Monitoring	4. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge.
Collaboration	5. Asset managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI and TCFD.

Engagement

As the Plan invests via pooled funds managed by external fund managers, the managers provided details on their engagement actions including a summary of the engagements by category for the 12 months to 31 March 2023 (the closest quarter end date to the Plan's accounting year end date).

Fund name	Engagement summary	Commentary
Insight – Liquid ABS	Total engagements: 50 Number of different entities engaged: 40	Insight has demonstrated a comprehensive selection and monitoring process for assessing ESG risks in counterparties. Examples of significant engagement include: **European Data Warehouse (EDW**) – Insight engaged with EDW to enhance ESG data quality, collation, and availability. They further suggested approaches that can strengthen investor visibility of company ESG metrics. The company was receptive to Insights proposals; however, Insight acknowledge this is an iterative process and will take time to find the right solution. **Lloyds –** The company is a major player in the UK residential financing market. As such, Insight have been working with the company to support it on its ESG integration processes. They have discussed the possibility of the company including measures similar to peers as part of its funding provisions, examples of this include rate incentives for borrowers linked to ESG metrics, and the provision of EPC certificates across their loan deals. The company agreed to provide EPC certificates on their new originations, Insight will continue engaging with the company to further enhance their ESG integration.
Insight - LDI	Total engagements: 165 Environmental: 22 Social: 26 Governance: 15 Strategy: 102	The mandate only invests in UK government bonds and derivatives (such as swaps) to obtain hedging exposure. As such engagement rights with the underlying issuer (i.e. the UK government) a re limited. Instead, Insight's engagement focuses on liaising with counterparties/suppliers of leverage, and wider LDI market issues. When identifying material ESG risks, Insight engages with relevant companies and other issuers to understand the issues and exert

		influence on behalf of clients to encourage change. Some issues are too big to tackle alone, in which case they may collaborate with other stakeholders. An example of significant engagement is: **UBS** - The manager engaged with the company by holding a dedicated meeting to discuss the company's weak governance scores, lack of diversity in management and ESG integration. Insight was satisfied with improvements in governance as the company have overhauled their previous controls framework in relation to tax. Further, the company increased its gender inclusion target from 25% of management to be composed of women to 30%. Lastly, the company agreed to tighten lending criteria to squeeze out new coal lending.
Aegon – European ABS	Total engagements: 132 Number of different entities engaged: 95 Note: The Aegon ABS engagement data is as at 31 December 2022. This is due to the investment manager not having 5 April data available at the time this statement was produced.	Examples of significant engagements at the firm level include: **SSE** – Climate is a high priority engagement area for Aegon. The investment manager focuses on the biggest contributors to greenhouse gas emissions. They look to improve monitoring, reporting and goal setting around emissions to reduce the company's carbon footprint. Aegon engaged with the company to support them in setting targets to reduce there long-term GHG reduction targets, and in aligning their capital expenditure with their long-term GHG reduction targets. This has resulted in the company improving there year-on-year score on the CA100+ net zero benchmark.

Partners Group - Multi Asset Credit 2016 Fund	Total engagements: 4 Broad Based ESG: 4 Note: The above engagement data is as at 31 December 2022. This is due to the investment manager producing data bi-annually.	Examples of significant engagements include: **Cote** – Partners Group engaged with the company in relation to restructuring processes and value creating initiatives. Despite macro environmental challenges, such as high inflation, low consumer confidence and a tight labour market, this engagement has given Partners Group confidence in Cote's financial performance.
Partners Group – Multi Asset Credit V Fund	Total engagements: 4 Broad Based ESG: 4 Note: The above engagement data is as at 31 December 2022. This is due to the investment manager producing data bi-annually.	Examples of significant engagements include: **Riverside Insights** – Partners Group engaged with the company regarding a trading update and further discussed the performance of a recently acquired subsidiary. The acquisition is performing but below budget, and the company are in talks to rationalise the cost structure. **Azets** – Partners Group engaged with the company to support them in reorganising their capital structure.
Partners Group – Multi Asset Credit VI Fund	Total engagements: 5 Broad Based ESG: 5 Note: The above engagement data is as at 31 December 2022. This is due to the investment manager producing data bi-annually.	Examples of significant engagements include: **Ligentia** – Partners Group engaged with the company's management and advisors in relation to an ESG margin ratchet on new provisions of financing. This would align the company's operating performance with its ESG performance and incentivise the company to tightly manage ESG metrics.
Partners Group - The Partners Fund	The Partners Fund did not provide a breakdown of engagement.	To assist with the engagement on private companies in which they invest, Partners Group aim to have a seat on the advisory board of each company and formulate a dialogue with portfolio companies to monitor investment decisions. The Partners Fund regularly engages with its portfolio companies across ESG themes. Working with them to incorporate, monitor and improve their ESG scores. One of the ways by which they do this is encouraging companies to conduct ESG surveys and produce detailed annual ESG reports.

Voting (for equity/multi asset funds only)

As the Plan invests in pooled funds via third party fund managers, the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2022 (the closest quarter end to the Plan's reporting year end). The managers also provided examples of any significant votes.

The Trustees haves adopted the managers definition of significant votes and have not set stewardship priorities.

Fund name	Voting summary	Examples of significant votes	Commentary
The Partners Fund	Meetings voted: 58 Votes cast: 853 Votes 'for' management: 802 Votes 'against' management: 34 Vote 'abstain': 17 Note: The above voting data is as at 31 December 2022. This is due to the investment manager producing data bi-annually.	**Confluent Health -** Confluent has an environmental impact assessment underway and has also engaged a third-party consultant to determine its greenhouse gas footprint. Confluent also established a Diversity, Equity & Inclusion council, which is currently creating goals and roadmaps with a target to complete by the end of the third quarter of 2022. Thereafter, ownership of each initiative will be identified. Confluent has also expanded its stakeholder benefits program. In 2022, the company launched stock options for all physical therapists and made significant investments in benefits, including reduced Eligible Employee premiums and increased communication around its wellness programs. It should be noted that Partners Group have control of the board at Confluent Health.	Partners Group's voting rights are a particularly useful tool for managing ESG risks within their private equity holdings, whereas their debt positions do not carry any voting rights and are more reliant on any engagement rights Partners Group can establish. As mentioned above for engagement, as a larger shareholder in smaller private companies, Partners Group's vote carries more weight and can drive more action than other managers can in larger public corporations. Private markets investments are the largest exposure within the fund, and these are typically held directly, where Partners Group controls the board and therefore direction/strategy of the business. The Partners Fund's exposure in listed equity is usually <5%.

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