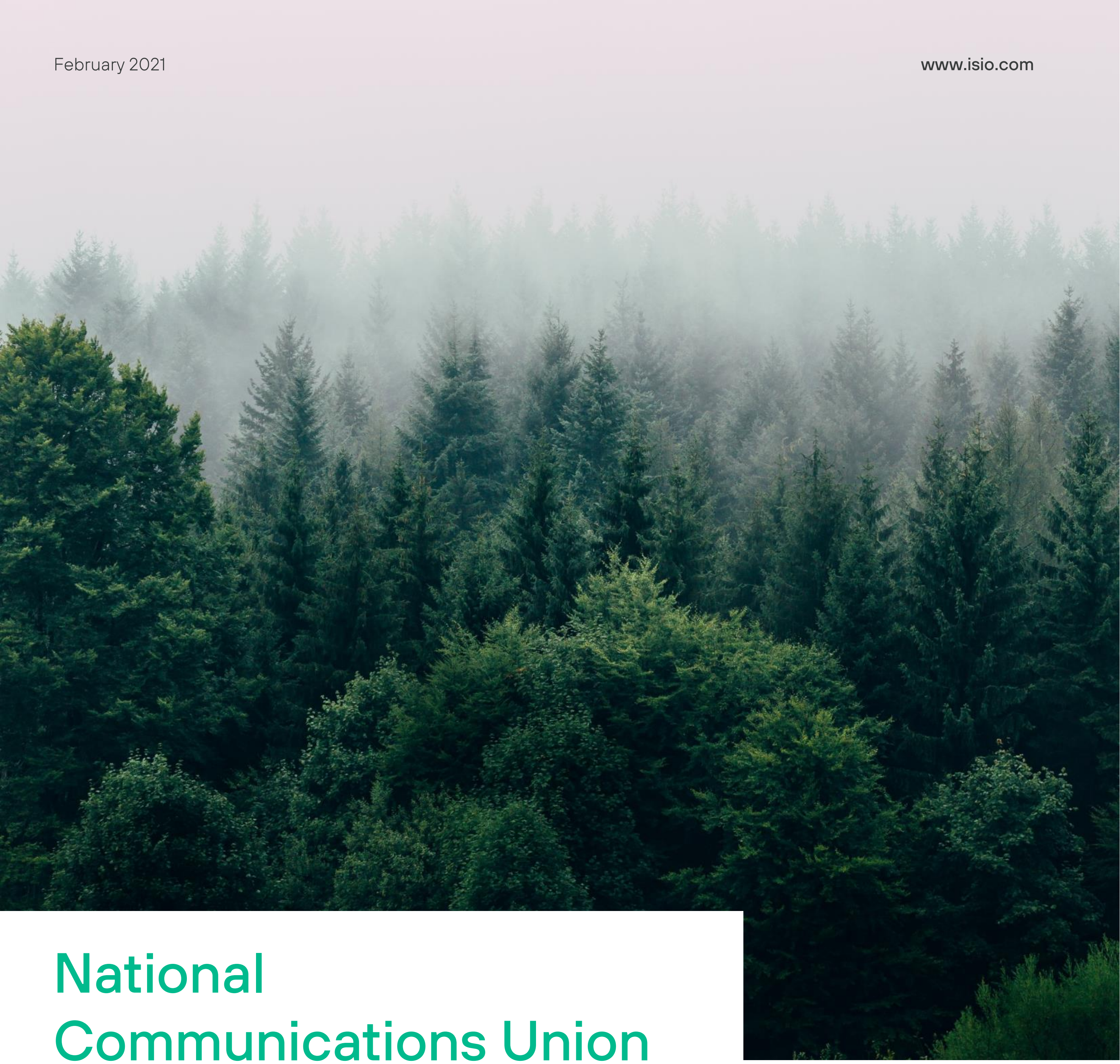

National Communications Union Staff Superannuation Scheme Implementation Report

February 2021

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 Scheme has 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 here .Changes to the SIP are detailed on the following pages.

Implementation Report

This Implementation Report is to provide evidence that the Scheme continues 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 they invest
- voting behaviour covering the reporting year up to 31 December 2020 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf

Summary of key actions undertaken over the Scheme reporting year

- No changes were made to the Scheme's investments during the year.

Implementation Statement

This report demonstrates National Communications Union Staff Superannuation Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed	Brian Healy
Position	Chair, NCUSSS
Date	5 April, 2021

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To invest in a pensioner buy-in to hedge respective pensioner liabilities; and to hedge 100% of liabilities not included in buy-in	There have been no changes to policy over the reporting year.
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	Cashflow requirements are met from the DGF. There have been no changes to policy over the reporting year.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away unrewarded risks, where practicable.	There have been no changes to policy over the reporting year.
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.	There have been no changes to policy over the reporting year.
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	ESG actions undertaken: • This updated ESG policy was reviewed by the Trustees as part of the SIP and IID update in September 2019 .

		3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustees monitor the managers on an ongoing basis.	
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk.	There have been no changes to policy over the reporting year.

Changes to the SIP

Policies added to the SIP	
Date updated: September 2019	
How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies.	• As the Scheme is invested in pooled funds (aside from the buy-in), there is not scope for these funds to tailor their strategy and decisions in line with the Trustees' policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies.	• The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. • Investment manager fees are reviewed periodically to make sure the correct amounts have been charged and that they remain competitive.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Scheme's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. • For open-ended funds, the holding periods are flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regarding to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following page outlines Isio's assessment criteria as well as the ESG beliefs used in evaluating the Scheme'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 Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustees intend to review the Scheme'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 Scheme's investment advisor Isio will monitor managers' ESG policies on an ongoing basis • When attending Trustee meetings, investment managers will be asked to present to the Trustees on actions they have taken in respect of ESG factors and their exercise of rights and engagement activity.	• The manager has not acted in accordance with their policies and frameworks.

	Areas of assessment and ESG beliefs
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. 2. The Trustees believe that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.
Approach / Framework	3. The Trustees want to understand how asset managers integrate ESG within their investment process and in their stewardship activities. 4. The Trustees believe that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will allocate to these sectors. 5. The Trustees will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets.
Voting & Engagement	6. 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. 7. The Trustees believe that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. 8. The Trustees want to understand the impact of voting & engagement activity within their investment mandates.
Reporting & Monitoring	9. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge. 10. The Trustees will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
Collaboration	11. 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. 12. The Trustees should seek to sign up to a recognised ESG framework to collaborate with other investors on key issues.

ESG summary and engagement with the investment managers

Manager and Fund	ESG Summary	Actions identified	Engagement details
BlackRock Liability Matching Funds & ICS Heritage Liquidity Fund	BlackRock has extensive firm-wide capabilities in assessing and applying ESG factors. However, it has previously believed that there are few opportunities to integrate ESG into LDI funds. Following discussions with Isio, BlackRock has made and continues to make progress towards incorporating ESG factors within their LDI funds. It is, however, still behind some of its competitors who can more clearly evidence how they incorporate ESG into their range of LDI funds.	BlackRock to incorporate environmental and social screens in their counterparty analysis. BlackRock to commit to regularly report on portfolio-level engagement activity, effectiveness and ESG metrics information	
BlackRock Dynamic Diversified Growth Fund	BlackRock has a clear firm-wide sustainability policy. Although the Diversified Strategies team have shown that they consider ESG issues when investing, there are currently no Fund-specific measurable targets in place to judge the level of incorporation of ESG.	Isio proposed that BlackRock could incorporate more ESG focused indices into their investment process. BlackRock advised that they have introduced sustainable equity indices and the team are looking to progress this across other asset classes.	Isio engaged with BlackRock in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities

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 months to 31 December 2020.

Fund name	Engagement summary	Commentary
BlackRock Liability Matching Funds & ICS Heritage Liquidity Fund	We requested this data from the manager however currently the manager cannot produce this level of reporting for this mandate due to the nature of the Fund.	BlackRock engage through 3 avenues where ESG factors can be considered, one is the cash fund which is used to support the derivative exposure, one is the derivative counterparties used, and the other is the physical instruments held. For derivative counterparties, BlackRock conduct in-depth due diligence reviews focused on the credit fundamentals of the counterparty which includes criteria on governance. They are further working on incorporating an 'Environmental' screen across the counterparties used. The framework for initial and ongoing due diligence incorporates the review of a counterparty at a legal entity level; its ownership structure, track record, financial health, external credit ratings, credit check results, securities clearing arrangements, the potential for credit support and/or credit enhancement, and internal and/or external credit research.
BlackRock Dynamic Diversified Growth Fund	Total Engagements: 1,109 Environmental: 653 Social: 457 Governance: 1005	BlackRock engage with their companies through their Investment Stewardship team in order to provide feedback and inform their voting decisions. These engagements largely relate to the Fund's equity positions only, which comprised c.30% of the overall portfolio as at 31 December 2020. Examples of significant engagements include: **Royal Dutch Shell PLC -** BlackRock has been engaged with Shell on its climate commitments for several years, particularly on its transition target to a low-carbon economy. BlackRock believe Shell have some of the most ambitious climate targets in the industry and that the company already makes strong TCFD disclosures. **Woodside –** Following several years of engagement with the company, BlackRock placed Woodside on their watch list and expressed public concern about

		the insufficient progress made on climate risk and reporting within the firm. When equity positions are placed 'on watch' BlackRock expect the companies to make substantial progress within 12 months before voting action is taken against boards and management.

Voting (for equity/multi asset funds only)

As the Scheme invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2020. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock Dynamic Diversified Growth Fund	Voteable Proposals: 11,872 Proposals Voted: 11,371 For Votes: 10,456 Against Votes: 769 Abstain Votes: 108 Withheld Votes: 29 Votes With Management: 10,731 Votes Against Management: 640	**Exxon Mobil Corporation -** BlackRock voted in support of a proposal to produce a report on the risks of petrochemical operations in flood prone areas, due to the lack of adequate corporate disclosure. In their annual Investment Stewardship Report, BlackRock list Exxon Mobil as an example of a company where they continue to use their vote to encourage progress on ESG issues, particularly around climate risk management. **Chevron Corporation -** BlackRock voted against a resolution to establish an Environmental Board Committee, citing that corporate policy decisions should be left to the board, with the board being held accountable for its decisions through the election of directors.	BlackRock use Institutional Shareholder Services (ISS) electronic platform to execute vote instructions. BlackRock categorise their voting actions into two groups: holdings directors accountable and supporting shareholder proposals. Where BlackRock have concerns around the lack of effective governance on an issue, they usually vote against the re-election of the directors responsible to express this concern.

www.isio.com