



National Communications Union Staff Superannuation Scheme Implementation Report

March 2022

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 2021 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 the 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

Position

Date

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: <ul style="list-style-type: none"> This updated ESG policy was reviewed by the Trustees as part of the SIP and IID update in September 2019. There has been no changes to the SIP since.

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

Changes to the SIP

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

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regards 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	<ul style="list-style-type: none">• 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.	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.

Areas of assessment and ESG beliefs

Risk Management	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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

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 the end of 2021.

Manager and Fund	ESG Summary	Actions identified	Engagement details
BlackRock Liability Matching Funds & ICS Heritage Liquidity Fund	<p>BlackRock has demonstrated active participation on ESG matters and comprehensive risk monitoring for assessing ESG risks in counterparties. BlackRock has extensive firm-wide capabilities in assessing and applying ESG factors. However, it continues to believe there is little opportunity to pursue an ESG agenda within LDI funds.</p> <p>BlackRock has however, made progress towards incorporating ESG factors within its wider LDI offering, including the introduction of a market leading ESG focussed cash fund and ESG screened synthetic strategies that sit alongside the standard LDI funds. BlackRock's list of affiliations with ESG focussed organisations is particularly impressive.</p>	<p>BlackRock to consider providing diversity data and internal diversity targets, focussed not just on gender but also race.</p> <p>BlackRock to consider the development and inclusion of an engagement summary/counterparty ESG scores in regular reporting.</p>	<p>Isio engaged with BlackRock in Q3 2021 on the Trustees' behalf to review their ESG policies and set actions and priorities</p>
BlackRock Dynamic Diversified Growth Fund	<p>The Fund benefits from BlackRock's scale to drive improvements in its ESG capabilities. The integration of ESG factors is clear in the identification of risks and opportunities which ultimately translate into investment decisions.</p>	<p>Isio proposed that BlackRock could include ESG metrics and Voting & Engagement data in quarterly reporting to clients.</p> <p>BlackRock advised that they have introduced sustainable equity indices and the team are looking to progress this across other asset classes. Isio have also proposed BlackRock could produce regular diversity reports including diversity metrics and the progress made towards any targets. They</p>	<p>Isio engaged with BlackRock in Q3 2021 on the Trustees' behalf to review their ESG policies and set actions and priorities</p>



could also consider running
climate change scenario
analysis on the portfolio.

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 2021.

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.	<p>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.</p> <p>BlackRock state that engagement is not something it can apply within LDI funds, as the instruments traded are not directly linked to public corporations.</p> <p>For derivative counterparties, BlackRock conduct in-depth due diligence reviews focused on the credit fundamentals of the counterparty which includes criteria on governance. BlackRock has made little progress on the environmental and social screens. They have stated that this is under development but could provide no timescales.</p>
BlackRock Dynamic Diversified Growth Fund	<p>Total Engagements: 745</p> <p>Environmental: 509</p> <p>Social: 266</p> <p>Governance: 509</p>	<p>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.37% of the overall portfolio as at 31 December 2021.</p> <p>Examples of significant engagements include:</p> <p>Moody's Corporation – BlackRock has been engaging with Moody's on its climate commitments for several years, BlackRock considers Moody's to be an industry leader on climate disclosure. Moody's have a decarbonization plan that meets BlackRock's expectations. However, BlackRock will monitor Moody's progress and hold the directors accountable.</p> <p>Jonhson & Johnson (J&J)– Blackrock have engaged with J&J for several years to discuss Board Effectiveness. BlackRock believe J&J faces growing risk due to litigation and media scrutiny from allegations of product safety. BlackRock has discussed these topics with the company and feel that the risk</p>



oversight function of the company is acceptable, however they will continue to monitor the developments of the COVID-19 vaccine.

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 2021. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock Dynamic Diversified Growth Fund	<p>Voteable Proposals: 13,020</p> <p>Proposals Voted: 12,082*</p> <p>For Votes: 11,104</p> <p>Against Votes: 808</p> <p>Abstain Votes: 122</p> <p>Withheld Votes: 32</p> <p>Votes with Management: 11,273</p> <p>Votes Against Management: 754</p>	<p>BP plc – BlackRock voted in support of a proposal for BP to set and publish quantitative target that are consistent with the Paris Agreement to combat climate change. BlackRock believe that BP are already aligned with this but should continue to refine their greenhouse gas emissions targets. Blackrock believe organisations like the Science -Based Target initiative will help define the transition pathway for large energy companies.</p> <p>Chevron Corporation - BlackRock have a long history of engagement with Chevron. BlackRock recently voted for reduction in Scope 3 Emissions. Chevron aims to increase its renewable products offerings to help customers lower their carbon footprints. BlackRock noted that the company has made good effort on reducing emissions to date and believe this is constant with that they expect from large companies.</p>	<p>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.</p>

Note: * Total votes submitted may be higher than unique proposals voted.

