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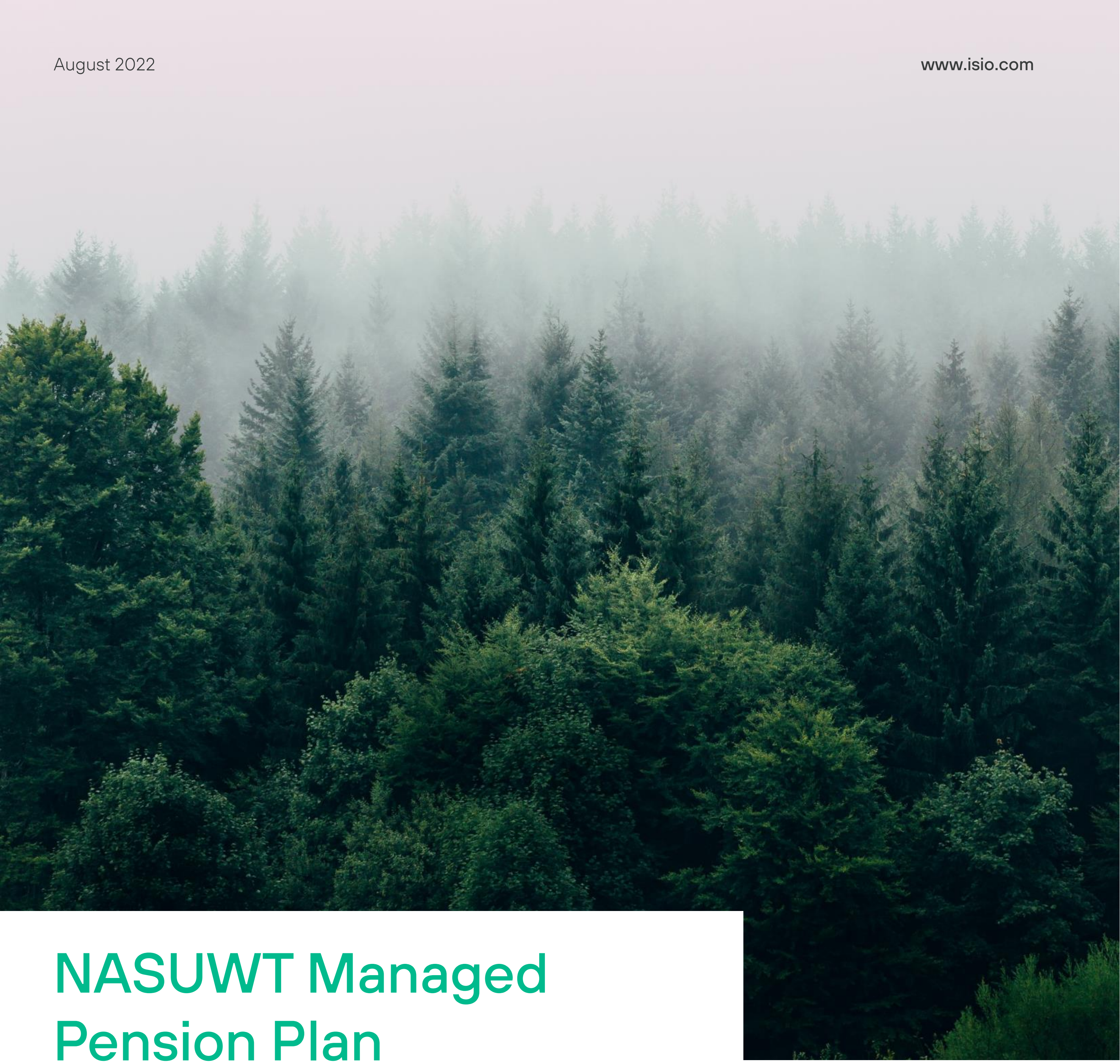

# NASUWT Managed Pension Plan Implementation Report

5 April 2022

Document classification: Public

# 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: https://www.isio.com/scheme-documents/nasuwt-managed-pension-plan/

### 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 2022 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 invested in a new Absolute Return Bond mandate with Insight. The Fund acts as a source of liquidity for the Scheme whilst also generating a return. The original investment was made using excess cash held in the Trustee's Bank Account that was received from Partners Group MAC distributions. It also allows the Scheme to meet future Partners Group MAC drawdowns and Scheme cashflows.

- A separate £4m sponsor contribution from the sponsor was reinvested into the Plan Insight ABS holdings.

- The Trustees agreed to review the Plan's investment strategy to identify points of improvement.

## 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 |
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| 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.<br><br>There has been no LDI review carried out over the reporting period. As such, the Trustees may wish to review the shape of the Plan's hedge relative to its liabilities as they evolve over time. |
| 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.<br><br>Drawdowns from the Partners Group Multi Asset Credit (MAC) VI Fund have been met using excess cash in the Trustees Bank Account in addition to disinvestments made from the Plan's Insight Liquid ABS Fund. |
| 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.<br><br>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. |

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| | | 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.<br>Details of how the Trustees have acted in accordance with this policy are included later in this report. |
| 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.<br>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 |
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| 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<br>• The Plan's investment advisor Isio will monitor managers' ESG policies on an ongoing basis | • 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.

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| 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 2022 (the closest quarter end date to the Plan's accounting year end date).

| Fund name | Engagement summary | Commentary |
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| Insight – Liquid ABS Fund | Total engagements: 50<br><br>Number of different entities engaged: 40 | Insight has demonstrated a comprehensive selection and monitoring process for assessing ESG risks in counterparties.<br><br>Examples of significant engagement include:<br><br>**Pepper (non-bank lender)** – The company scored well from a governance and social perspective due to the policies they have in place such as the independent complaints handling policy and having diverse board management. However, Insight found their environmental risk management to be a weakness following the completion of Insight's proprietary questionnaire. As such, Insight engaged with the issuer on how to improve the quality of data provided as well as details as to how environmental risks are assessed and overseen. Following the engagement, Pepper have confirmed that they are in the process of improving how they gather and track environmental metrics for use in future disclosures.<br><br>**CVC – Cordatus –** Engagement was undertaken in addition to the standard credit underwriting process that |

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| | | was conducted which is an integral part of their due diligence process. This resulted in two material concerns being highlighted around governance concerns and ESG constraints.<br><br>With respect to the governance concerns, this developed from permitted investment activity within the CLO which enabled the CLO manager undue freedom to run inappropriate levels of concentration risk within the structure. Regarding the ESG constraints, Insight deemed the ESG restrictions within the CLO to be too wide. Initial documentation permitted exposure to any obligor as long as under 50% of their revenues came problematic sectors such as from fossil fuel extraction by unconventional sources.<br><br>As a result of Insight's direct engagement, the obligor agreed to amend the terms of the new issue and resolved all of underlying concerns. This included two changes. Firstly, investment restrictions being tightened, leading to a stronger governance control over the permitted investment flexibility of the CLO manager. Secondly, the CLO manager reduced the revenue limit for problematic sectors from 50% to 5% in line with their requirements. |
| Insight LDI | Total engagements: 42<br><br>Social: 2<br><br>Governance: 40 | 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) are limited. Instead, Insight's engagement focuses on liaising with counterparties/suppliers of leverage, and wider LDI market issues. |

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| | | 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.<br><br>An example of significant engagement is:<br><br>**Debt Management Office (DMO) –** Insight engaged with the DMO to discuss the Green Gilt issuance. Insight have had ongoing dialogue with DMO to encourage issuance, provide input on framework and share the views from their clients.<br><br>**FCA, IA, ICMA, PLSA and BNYM –** Insight successfully submitted a response on the FCA consultation CP21/17 on climate-related disclosures. This influenced responses from regulators, industry associations and market participants. This demonstrates Insight's capabilities in assessing ESG risks as this proposal largely follows the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). |
| BNYM Real Return Fund | Total engagements: 56<br><br>Number of different entities engaged: 39 | As a multi-asset manager, BNYM have stronger engagement rights over their equity than fixed income positions. BNYM don't run the Fund with specific ESG restrictions, but do incorporate sustainable investing into their investment process, which is partly implemented via their engagement activities. |

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| | | Examples of significant engagements include:<br>**Elanco Animal Health Inc. -** BNYM had arranged a call with the company to better understand its approach towards two structural challenges that exist in the animal health industry – greenhouse-gas (GHG) emissions from livestock and the increasing prevalence of anti-microbial resistance.<br><br>The call offered BNYM the chance to better understand the company's approach to climate risk and to suggest improvements.<br><br>The engagement undertaken, along with additional research conducted as part of our ESG Quality Review of the company meant that the RI team deemed the company to be suitable for investment by our sustainable funds. |
| Ruffer Absolute Return | Total engagements: 22<br><br>Number of different entities engaged: 21 | Ruffer monitor their engagement with portfolio companies throughout their holding period and use an assortment of methods to achieve their ESG objectives. Where issues are identified, Ruffer usually raise it directly with the company management or members of the board. Where this proves ineffective, Ruffer will use different approaches such as voting against management and collaboration with other investors at annual general meetings.<br><br>We expect engagement rights to be strongest for the Fund's equity holdings, which comprised c.36% of the portfolio as at 31 March 2022. We note that a considerable portion of the portfolio (c.32% as at 31 March 2022) is invested in government bonds, where |

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| | | engagement rights are particularly limited.<br><br>Examples of significant ESG activities within portfolio projects include:<br><br>**Carrefour** – Ruffer engaged with the company's senior finance and legal team in relation to CEO remuneration. Ruffer expressed their view that the remuneration package for the CEO was reasonable however they believed that the scheme was poorly designed and administered with too much discretion. Ruffer told the company that they thought that the policy needed to be more robust and transparent. |
| Partners Group Multi Asset Credit 2016 Fund | Total engagements: 4<br><br>Governance: 4<br><br>Please note the data above covers the 12 months to 31 December 2021 as Partners Group only provide engagement data semi-annually. | Examples of significant engagements include:<br><br>**DBI Services** – Partners Group engaged with the company in relation to a restructuring process. DBI services had been suffering from operational issues and a stretched balance sheet and these issues were exacerbated by a challenged corporate governance and COVID-19 setbacks. This resulted in DBI Services not being able to meet certain third-part obligations. Consequently, the valuation of the investments in DBI Services was impaired over the first half of 2022. |
| Partners Group Multi Asset Credit V Fund | Total engagements: 4<br><br>Broad Based ESG: 4<br><br>Please note the data above covers the 12 months to 31 December 2021 as Partners Group only provide engagement data semi-annually. | Given the immaturity of the portfolio, fewer engagements are expected for the MAC V Fund at present. This is expected to increase as the Fund makes more investment.<br><br>Examples of significant engagements include:<br><br>**Advania** – Partners Group engaged with the company regarding a trading update and further discussed a |

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| | | potential UK based acquisition target.<br><br>**Envision Pharma** – Partners Group engaged with the company to provide incremental financing supporting a large potential acquisition. |
| Partners Group Multi Asset Credit VI Fund | Total engagements: 4<br><br>Governance: 4<br><br>Please note the data above covers the 12 months to 31 December 2021 as Partners Group only provide engagement data semi-annually. | Given the immaturity of the portfolio, fewer engagements are expected for the MAC VI Fund at present. This is expected to increase as the Fund makes more investment.<br><br>Examples of significant engagements include:<br><br>**Ligentia** – Partners Group engaged with the company's management and advisors in relation to a potential add-on acquisition. The strategic rationale behind the add-on was discussed. As a result, Partners Group have been holding ongoing discussions and are currently evaluating their appetite to provide any add-on financing. |
| Partners Group The Partners Fund | Total engagements: 10<br><br>Environmental: 6<br><br>Social & Governance: 2<br><br>Governance: 2 | To assist with the engagement with the 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.<br><br>The portfolio invests exclusively in private assets but utilises both equity and debt investments within its strategy. Engagement rights are typically stronger for the equity positions due to the ownership rights this provides, but we note positively the use of board positions to improve engagement in debt positions. In private equity investments, Partners Group can typically exert |

greater influence over the board than public equity managers can as a smaller investor in much larger public corporations.

**Ammega** – As mentioned above Partners Group aim to have a seat on the advisory board as this allows for meaningful change. Following engagement from the board, Ammega finalized its 2025 ESG & Sustainability vision during the period. This includes steps towards reducing its environmental impact, improving its employee engagement, and further developing controls on sustainability data. The overarching objective is to enable the company to further improve its existing bronze EcoVadis rating. EcoVadis provides holistic sustainability ratings, which blue chip companies often request of suppliers to assess the sustainability of operations.

# 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 March 2022 (the closest quarter end to the Plan's reporting year end). The managers also provided examples of any significant votes.

| Fund name | Voting summary | Examples of significant votes | Commentary |
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| BNYM Real Return Fund | Meetings voted: 98<br><br>Votes cast: 1464<br><br>Votes 'against' management: 236<br><br>Votes 'for' management: 1464<br><br>Vote 'abstain': 0 | **Linde Plc** – BNYM voted against management regarding proposed executive compensation arrangements as they believe they were not aligned with shareholders best interests. The long-term pay awards vest based on time served, rather than the BNYM's preferred measure of rigorous performance conditions that would ensure shareholders' interests are at the forefront of executive decisions. BNYM also deemed some of the CEO perks such as use of company aircraft for personal purposes, financial planning expenditures as unnecessary and excessive. The vote on the proposal passed with only 4.9% of votes cast being against it. Despite the result, BNYM are hopeful that there will be increased focus on this topic in future. | BNYM's responsible investment (RI) team are responsible for the voting procedure the Fund undertakes. If there any contentious issues the RI team will take a deeper dive into the resolutions. The RI team also makes use of proxy research service providers, currently using ISS for administering proxy voting. If an issue remains contentious BNYM will seek further clarity on the issue by conversing with those involved. Each voting decision taken by a member of the responsible investment team must be authorised by an alternate member of the team. |
| Ruffer Absolute Return | Meetings voted: 101<br><br>Votes cast: 1352<br><br>Votes 'against' management: 85<br><br>Votes 'for' management: 1257 | **Ambev** – Ruffer voted against management regarding a proposed increase to its annual compensation cap of 11.2%. This was despite Ruffer's view that the company had a weak share price and margin performance of recent years. Consequently, | It is Ruffer's policy to vote on Annual General Meeting and Extraordinary General Meeting resolutions.<br><br>Ruffer receives proxy voting research from Institutional Shareholder Services (SS) to help inform voting decisions. Although Ruffer |

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| | Vote 'abstain': 10 | Ruffer believed that it would not be appropriate to approve such an increase despite inflation levels as it would perpetuate the inflationary spiral of executive compensation. Ruffer stated that it would send a message that poor performance would be rewarded with higher pay and consequently voted against the company.<br><br>The resolution passed with 86.5% of votes in favour. Ruffer have confirmed their commitment to vote against renumeration policies that they deem to be inappropriate. | makes use of a proxy service they do not delegate their stewardship activities when deciding on how to vote.<br><br>If an agreement cannot be reached on a controversial resolution, there is an option to escalate the decision to the Head of Research or the Chief Investment Officer.<br><br>Ruffer look to engage with companies on issues where the investment could be impacted by seeking additional information. Ruffer maintain a relationship with the company by communication to the company the decision of their vote and an explanation as to why. |
| **The Partners Fund** | Meetings voted: 63<br><br>Votes cast: 743<br><br>Votes 'for' management: 673<br><br>Votes 'against' management: 40<br><br>Vote 'abstain': 29 | Partners Group were unable to provide meaningful voting examples for The Partners Fund. | 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. |