



National Communications Union Staff Superannuation Scheme Implementation Report

April 2023

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 Scheme continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address [here](#) changes to the SIP are detailed on the following page.

The Implementation Report details:

- actions the Scheme has 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 Scheme has 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 31 December 2022 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. However, during the gilt crisis in September/October 2022, some hedging was reduced by the LDI mandate as the LDI manager cut some exposure in response to the market conditions at the time. Post year-end, the Trustees are in discussion regarding reinstating some of the hedging lost.

Implementation Statement

This report demonstrates that the Trustees of the National Communications Union Staff Superannuation Scheme have adhered to their investment principles and their policies for managing financially material consideration including ESG factors and climate change.

Signed	Brian Healy
Position	Chair, NCUSSS
Date	26 May 2023

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 Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To invest in a pensioner buy-in to hedge the respective pensioner liabilities: and to hedge 100% of liabilities not included in buy-in	There have been no changes to the policy over the reporting year. However some hedging was lost during the gilt crisis in September/ October 2022
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 were met from the DGF mandate. There have been no changes to the 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 any unrewarded risks, where practicable.	There have been no changes to the 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 the 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	This updated ESG policy was reviewed by the Trustees as part of the SIP and IID update in May 2023.

		<p>2. Implemented via Investment Process</p> <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>6. UK Stewardship Code signatory</p> <p>The Trustees monitor the managers on an ongoing basis.</p>	
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income	There have been no changes to the policy over the reporting year

Changes to the SIP

Post reporting year-end (31 December 2022), the Trustees made changes to the SIP to reflect the recent regulatory requirements.

Policies added to the SIP

Date updated: May 2023

Voting Policy - How the Trustees expect investment managers to vote on their behalf

- The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'

- The Trustees have acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.
- The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually.

Current ESG policy and approach

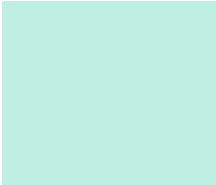
ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG as a financially material risk. The Scheme has agreed a more detailed ESG policy which describes how it monitors and engages with the investment managers regarding the ESG policies. This page details the Scheme's ESG policy. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

Risk Management	<ol style="list-style-type: none">1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustees
Approach / Framework	<ol style="list-style-type: none">3. The Trustees 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	<ol style="list-style-type: none">6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.7. ESG factors are dynamic and continually evolving; therefore the Trustees will receive training as required to develop their knowledge.8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustees will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	<ol style="list-style-type: none">9. The Trustees 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	<ol style="list-style-type: none">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.

ESG summary and actions with the investment managers

Manager, fund	ESG Summary	Actions identified	Engagement with manager commentary
BlackRock – Dynamic Diversified Growth Fund	<p>The manager has a strong set of firm wide ESG policies which aides to identify climate risks and opportunities. Whilst these policies feed into investment decisions related to the fund, there is also room for improvement by developing fund level quantifiable objectives and a specific journey to net zero.</p> <p>BlackRock have a publicly available Global Stewardship Policy and a central stewardship team. ESG metrics are available on request and are updated monthly. BlackRock has a PRI rating of A+ for strategy, governance and integration of responsible investment related issues</p>	<p>Manager to consider implementing fund specific ESG policy and stewardship priorities.</p> <p>BlackRock to consider adapting their reporting to include diversity reporting (on race and gender) and consider the use of climate change scenario analysis framework within their investment decision process.</p>	<p>Isio engaged with BlackRock in Q4 2022 on the Trustees' behalf to review their ESG policies and set actions and priorities</p>
BlackRock – Liability Matching Funds & ICS Heritage Liquidity Fund	<p>BlackRock integrate ESG considerations into each step of their counterparty monitoring and selection process. The manager also has an independent Counterparty Credit Risk function which reviews their history and screens them as part of the initial due diligence process strengthening their active approach towards ESG risks and opportunities within this fund.</p> <p>BlackRock also engages with counterparties on a regular basis to discuss a range of issues from their</p>	<p>BlackRock to consider adopting their own scorecard to score counterparties against ESG criteria.</p> <p>BlackRock to consider setting clear engagement objectives and milestones for counterparties.</p>	<p>Isio engaged with BlackRock in Q4 2022 on the Trustees' behalf to review their ESG policies and set actions and priorities</p>

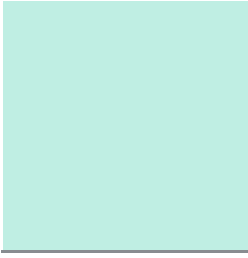


investment teams as well as investment stewardship teams.

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 month period to 31 December 2022.

Fund name	Engagement summary	Commentary
BlackRock – Dynamic Diversified Growth Fund	<p>Total engagements: 652</p> <p>Environmental: 361</p> <p>Social: 267</p> <p>Governance: 578</p> <p><i>(E,S and G engagements include multiple meetings during the year)</i></p>	<p>BlackRock engages with their companies through their Investment Stewardship team to provide feedback and inform their voting decisions. These engagements largely relate to the Fund’s Equity positions only, which comprised c.33% of the overall portfolio as at 31 December 2022.</p> <p>Examples of significant engagements include:</p> <p>Netflix, Inc. – BlackRock has engaged with Netflix on reporting on lobbying payments and policy. Shareholders wanted Netflix to provide clarity on their corporate political activities, which should be made public, as well as understanding how Netflix’s political activities supports their long-term strategy. Netflix did publish their first disclosure in 2021 on corporate political activities, however, BlackRock believed Shareholders would benefit from Netflix making the information more readily accessible on the company’s website, as best practice.</p> <p>Woodside Petroleum Ltd. – BlackRock have engaged with Woodside to support the approval of their Climate Report 2021 which outlines the climate risk and the company’s transition strategy to net zero by 2050 whilst limiting temperature rise to 1.5°C. This allows management to determine how Woodside intends to deliver long term financial performance.</p>
BlackRock – Liability Matching Funds & ICS Heritage Liquidity Fund	<p>We requested this data from the manager however the manager cannot produce this level of reporting for this mandate due to the nature of the fund.</p>	<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>



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 started to engage with derivative counterparties on governance issues and is also engaging them on environmental issues.

Voting (for equity/multi asset funds only)

The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

The Scheme's fund managers have provided details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2022. The Trustees have adopted the managers' definition of significant votes and have not set stewardship priorities. The managers have provided examples of votes they deem to be significant, and the Trustees have shown the votes relating to the greatest exposure within the Scheme's investment. When requesting data annually, via their investment consultant, the Trustees inform their managers what they deem most significant.

Fund name	Voting summary	Examples of most significant votes	Commentary
BlackRock – Dynamic Diversified Growth Fund	<p>Votable Proposals: 11,370</p> <p>Proposals Voted: 10,728*</p> <p>For votes: 10,025</p> <p>Against votes: 474</p> <p>Abstain votes: 186</p> <p>Withhold votes: 35</p> <p>Votes with Management: 10,135</p> <p>Votes against Management: 593</p> <p><i>(Note: * Total votes submitted may be higher than unique proposals voted)</i></p>	<p>Equinor ASA – Blackrock voted in favour of the board developing an action plan for quality assurance and anti-corruption. The aim of the plan is to prevent the company from getting involved in corruption, laundering, violation of human rights and sanctioned business in its projects abroad as the manager highlighted that these material issues are areas for improvement.</p> <p>Meta Platforms, Inc. – BlackRock voted in favour of a Human Rights Impact Assessment of Meta's targeted advertising practices and other practices throughout its business operations. The manager encourages companies to disclose how they integrate human rights considerations into their operations as it may affect the company's ability to generate long-term financial returns.</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>

