National Communications Union Staff Superannuation Scheme Implementation Statement

May 2024

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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 2023 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

In December 2023 the Trustees reinstated the interest rate and inflation hedge level to 100%, as measured on a Technical Provisions basis. This followed some of the hedging in the LDI mandate being lost during the gilt crisis in September/October 2022; in addition the hedging was refreshed using updated liability cashflows that were available following completion of the 31 December 2022 Actuarial Valuation.

The Trustees also updated the Scheme Statement of Investment Principles to reflect the recent DWP regulatory requirements regarding ESG matters.

No other changes were made to the Scheme investments during the year.

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	17 May 2024

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	During the year, the Trustees undertook an exercise to reinstate the interest rate and inflation hedge level to 100% of Technical Provision liabilities (not including buy-in).
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 2. Implemented via Investment Process	The SIP was updated in May 2023 – see next section.

		3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory 6. UK Stewardship Code signatory The Trustees monitor the mangers on an ongoing basis.	
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

Over the period to 31 December 2023, 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 polices. 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	1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustees
Approach / Framework	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	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	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	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.

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 2023.

Fund name	Engagement summary	Commentary
BlackRock – Dynamic Diversified Growth Fund	Total engagements: 326 Environmental: 108 Social: 108 Governance: 299 (E, S and G engagements include multiple meetings during the year)	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 (36.3% as at 31 December 2023). An example of a significant engagement includes: **Broadcom, Inc.**: BlackRock Investment Stewardship (BIS), over several years, had communicated with Broadcom regarding executive compensation practices, aiming to align pay outcomes with long-term strategic performance. In recent engagements BIS raised concerns about the company's long-term incentive plan, one-off awards, and the absence of a clawback policy. A significant issue was a special $10 million equity award granted in 2022, with unclear performance criteria and a short performance period of one year. The concluding concern was the attention to short-term goals and unclear compensation strategies, leading to BIS choosing to not support the pay proposal and the election of the Compensation Committee members.
BlackRock – Liability Matching Funds & ICS Heritage Liquidity Fund	We've requested this information from the manager, but due to the fund's characteristics, the manager is unable to generate this degree of reporting for this mandate.	BlackRock incorporates ESG factors into its decision-making process through three different pathways. The first is the cash fund, utilised to back the derivative exposure. The second involves the derivative counterparties utilised, and the third encompasses the physical instruments held. BlackRock believes that engagement can't be incorporated within LDI funds, as the instruments being traded have no direct association with public companies. BlackRock, when dealing with derivative counterparties, performs thorough due diligence assessments centred around the counterparty's credit fundamentals, including governance aspects. They've initiated discussions with these

derivative counterparties on issues of governance and are also involving them in discussions about environmental matters.

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 2023. The Trustees have adopted the managers definition of significant votes and have/has 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	Votable Proposals : 7,491 Proposals Voted : 6,989* Votes with management : 6,627 Votes against management : 362 Abstain votes : 115 Votes contrary to proxy advisor: 15 *(Note: * Total votes submitted may be higher than unique proposals voted)*	**Shell plc - BlackRock voted in favour to approve Shell's Energy Transition Strategy.** Shell proposed their Energy Transition Strategy at the 2021 AGM, gaining nearly 89% shareholder support, including BIS, due to their clear plans for managing climate-related risks and a clear roadmap towards climate-related targets. In Shell's 2022 AGM, an advisory vote was proposed on progress on the Strategy which BIS supported due to detailed disclosure. Again, in the 2023 AGM, an advisory vote on this progress was supported by BIS. Shell continues to provide a clear plan to manage climate-related risks and shows consistent delivery on their Energy Transition Strategy. **Shell plc - BlackRock voted against Shell's proposal to align its 2030 reduction target with the goal of the Paris Agreement.** BIS voted against a shareholder proposal which asked for the alignment of its existing 2030 target for reducing Scope 3 greenhouse gas emissions with the Paris Climate Agreement's aims. BIS's reasoning was that the proposal was overly restrictive and impeded managerial decision-making. While they understand the importance of scope 3 emissions and their influence on long-term risks they also acknowledged that companies' current scope 3 disclosures are mainly on a good-faith, best-efforts basis. As for Shell, BIS	BlackRock's approach to stewardship and governance form part of their Global Principles framework which describes their philosophy on stewardship, including how they monitor and engage with companies. These high-level principles are the groundwork for more detailed, market-specific voting guidelines. BlackRock do not see engagement as one conversation and have ongoing direct dialogue with portfolio companies to explain their views and how they evaluate their actions on relevant ESG issues over time. Where BlackRock have concerns that are not addressed by these conversations, they may vote against management for their action or inaction. Where concerns are raised either through voting or during engagement, BlackRock monitor developments and assess whether the company has addressed our concerns.

		noted that they already have a target to reduce the net carbon intensity of energy products by 20% by 2030, which is in line with the Paris Agreement's objectives. But the demands of the shareholder proposal, with its insistence on absolute emission reduction, could hinder management. Therefore, BIS believed the proposal was not in shareholders' financial interest and decided against supporting it.

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