NASUWT Managed Pension Plan Implementation Report

September 2021

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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 Plans need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that Plans 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 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: 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 they invest
- voting behaviour covering the reporting year up to 5 April 2021 for and on behalf of the Plan including the most significant votes cast by the Plan or on its behalf

Summary of key investment strategy actions undertaken over the reporting year

- The Trustees agreed to reallocate £7.0m to a new vintage of the Partners Group Multi Asset Credit Fund, in order to maintain the Plan's target multi asset credit allocation. This allocation was finalised on the 1 October close, and the first drawdown of £1.05m was completed on 22 October 2020. This, along with a subsequent drawdown of c.£1.05m completed on 26 February 2021, was funded from the Trustee Bank Account.

- Following notification that the Plan's existing platform provider, ReAssure (formerly Old Mutual Wealth), that they would be closing their investment platform, the Trustees agreed to transition the assets held on platform to an alternative platform provider (Mobius Life). The transfer was completed on 18 November 2020.

Implementation Statement

This report demonstrates that the NASUWT Managed Pension Plan has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Adopted by the Trustee on 21st October 2021.

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions
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. 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. Drawdowns from the Partners Group Multi Asset Credit (MAC) VI Fund have been met using excess cash in the Trustees Bank Account. Following the end of the reporting period, the Trustees agreed to make an allocation to the Insight Liquid ABS Fund. This enables the Plan to reinvest excess cash in a stable, high quality credit strategy while maintaining wider Plan liquidity.
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 affordable and practicable.	The Trustees decided to commit £7.0m to a new vintage of the Partners Group Multi Asset Credit (MAC) fund range to maintain the strategic allocation and thus the

			diversification of the Plan's overall strategy.
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. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Plan for the risk of default.	By reallocating to the Partners Group Multi Asset Credit mandate, the Plan maintained its allocation to an existing manager with whom the Trustees are familiar and position themselves defensively relative to peers.
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. 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. 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 the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Trustees' policy with regarding 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
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 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.

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 2021 (the closest quarter end date to the Plan's accounting year end date).

Fund name	Engagement summary	Commentary
Insight – Enhanced Selection LDI Long Real Fund	Total Engagements: 17 Environmental, Social & Governance: 1 Social: 2 Governance: 14	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. When identifying material ESG risks, Insight engage 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. An example of significant engagement is: **HM Treasury** - On 22 November 2018, the HM Treasury introduced draft legislation, the Financial Services Bill, that would allow the UK to domesticate changes brought under EU law by the European Market Infrastructure Regulation (EMIR) REFIT should it be agreed by the EU in the two years after exit day in a 'no-deal' scenario. EMIR Refit ensures that certain pension scheme arrangements are temporarily exempt from the clearing obligation until 18 June 2021 in respect of Over The Counter derivative transactions that are measurable as reducing investment risks that directly relate to the financial solvency of the pension schemes. Following the end of the Brexit transition period, UK pension schemes were technically not able to benefit from the temporary clearing exemption under EMIR when transacting with European Economic Area entities. Once the transition period ended, the temporary exemption of certain pension scheme arrangements from the clearing obligation became part of UK retained law. Insight engaged with the UK HM Treasury on ensuring that the UK on-shored EMIR and EMIR Refit rules achieved the following:

		- Ensured UK pension funds are correctly defined and exempted in the UK - Ensured they go beyond EU EMIR by recognising some third-country pension schemes, namely EU pension schemes (which become third-country pension schemes post-Brexit). This ensures that trades with UK banks and EU pension schemes can remain exempt post-Brexit too - UK pension fund clearing exemption was more flexible than in EU EMIR, in that it went outright to June 2023 and has the possibility of the UK HM Treasury to keep extending it indefinitely, should it wish to do so
BNYM Real Return Fund	Total engagements: 53 ESG: 5 Environmental: 18 Environmental & Social: 5 Environmental & Governance: 10 Social: 1 Governance: 14	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. Examples of significant engagements include: **Nike –** BNYM set up a call with investor relations team at Nike to discuss the company's strategy surrounding sustainability and corporate purpose. BNYM was satisfied with the way Nike was able to demonstrate how sustainability is thoughtfully integrated into its business model. The company made it clear that sustainability and innovation were viewed as key drivers of revenue. The company sets sustainability targets every five years, with progress being discussed publicly in annual reports, as such they maintained accountability for the targets set, with the progress being disclosed every quarter internally, ensuring their targets are aligned with the company strategy. **Diageo** – BNYM continued its engagement with the company following its meeting in Q1 2020, the purpose of the meeting being the company's intention to propose a new remuneration policy at its 2020 AGM. BNYM suggested the integration of ESG factors into the design and structure of executives' long-term incentive arrangements. BNYM stressed the importance of ESG standards, and that these should be integrated into the remuneration such that they are specific to the business, measurable, transparent, and auditable. BNYM's suggestion was that ESG measures were to either underpin financial goals or be underpinned by financial goals and for ESG measures associated with carbon intensity, water usage, responsible drinking, and diversity. Following engagement from BNYM the company has introduced specific and measurable ESG targets

		that determine the outcome of a portion of executives' variable pay awards.
Ruffer Absolute Return	Total engagements: 27 ESG: 1 Environment & Governance: 7 Environmental: 2 Social & Environmental: 1 Social & Governance: 2 Governance: 12 Social: 2	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. We expect engagement rights to be strongest for the Fund's equity holdings, which comprised c.17% of the portfolio as at 31 March 2021. We note that a considerable portion of the portfolio (c.30% as at 31 March 2021) is invested in global government bonds, where engagement rights are particularly limited. Examples of significant ESG activities within portfolio projects include: **Land Securities Group Plc -** Ruffer set up a call with the Firm's senior sustainability team and head of investor relations on the company's ambitions in the environmental sustainability sector. During the call the company explained the importance it places on sustainability and highlighted industry initiatives that they have participated in to drive changes at a sector level. Ruffer highlighted the importance of sharing best practices and encouraged the company to continue working with its peers and other stakeholders, including tenants, on sustainability efforts. Ruffer also discussed green building certifications and encouraged the company to continue standing behind industry standards and certifications. Through the engagement Ruffer learnt more about the culture at the company and were encouraged to see sustainability embedded in the business processes, targets and remuneration. Ruffer were pleased to see that the company had also recently increased its CO2 emissions reduction targets from 40% to 70% by 2030.
The Partners Fund	Total engagements: 10 Environmental & Governance: 8 Social & 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 companies and formulate a dialogue with portfolio companies to monitor investment decisions. 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.

		Techem – 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, Techem initiated a new sustainability program across the company in 2020. As a part of this program, a new hire was made specifically for sustainability communication. The starting point of the program was to engage with key stakeholders within and outside the organization with the end goal to define priority topics. These topics will form the basis for Techem's sustainability management, which the company will start to report on as of 2021.
Partners Group Multi Asset Credit 2016 Fund/ V / VI Fund	**Multi Asset Credit 2016:** Total engagements: 7 Corporate: 7 **Multi Asset Credit V:** Total engagements: 10 Corporate: 10 **Multi Asset Credit VI:** Partners Group have notified us that they haven't yet produced an engagement report for MAC VI as it was only launched in October 2020. Partners Group have advised that a couple of the engagement credits in MAC VI are also in MAC V, so that would be the most relevant as a proxy in the meantime.	Partners Group maintain ongoing contact with the management teams of their portfolio companies, however, given their position as lenders they will typically rely on the equity sponsor to report ESG-related concerns and drive ESG improvements. Investing in private companies also reduces the transparency of the information available to assess ESG risks. Partners Group aim to have a seat on the advisory board to enhance engagement capabilities beyond that of a typical debt investor and formulate a dialogue with portfolio companies to monitor investment decisions. As part of the multi asset credit ESG efforts, Partners will collect further ESG key performance indicators ("KPIs") as of 2022 (34 KPIs in total). These ESG KPIs cover material ESG factors such as carbon emissions, board diversity, or cybersecurity measures. This will allow Partners Group to identify ESG risks at an earlier stage. Partners Group have begun originating sustainability-linked loans, which include ESG 'ratchets', whereby the interest rate paid by the borrower is linked to performance relative to key pre-defined ESG-related KPIs. Partners Group have completed three ESG-linked unitranche deals with ESG margin ratchets. These ratchets mean that certain ESG KPIs are included in the covenants and are tested every quarter, helping to reduce risk by aligning the interests of the manager and portfolio company. Partners Group were unable to provide meaningful ESG related engagement examples for The Partners Fund. However, Partners Group were able to provide us with examples of non-ESG related engagement activity such as: **Access Group – Partners Group Multi Asset Credit V Fund –** Partners Group held a call with the CFO and equity sponsors of Access Group regarding the provision of incremental acquisition financing to support the Company's buy and build strategy. Partners Group was able to assist Access Group, a software consultancy and developer, which was seeking to raise £370m of incremental debt to finance the acquisition of an attractive M&A target.

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 2021 (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
BNYM Real Return Fund	Meetings voted: 98 Votes cast: 1297 Votes 'against' management: 190 Votes 'for' management: 1107 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 9.6% 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. 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: 85 Votes cast: 1163 Votes 'against' management: 102 Votes 'for' management: 1061 Vote 'abstain': 19	**Aena S.M.E** - Ruffer voted in favour of three shareholder resolutions, which requested the company to submit its climate transition plan to a shareholder advisory vote at its 2021 annual general meeting and to follow up with updates on the plan on an annual basis from 2022. Ruffer's reasoning for the vote is that they believe that climate change risks will play a significant in the long-term performance of Aena and that the vote would also lead to greater transparency on the company's progress on the climate transition plan, leading further alignment with shareholder interests. The three resolutions	It is Ruffer's policy to vote on Annual General Meeting and Extraordinary General Meeting resolutions. Ruffer receives proxy voting research from Institutional Shareholder Services (SS) to help inform voting decisions. Although Ruffer makes use of a proxy service they do not delegate their stewardship activities when deciding on how to vote.

		passed with significant majorities of 99.2%, 98.1% and 96.5% of shareholder support. Following the vote, management committed to giving shareholders an annual vote on its climate transition plan.	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. 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: 69 Votes cast: 759 Votes 'for' management: 707 Votes 'against' management: 52 Vote 'abstain': 43	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.

**Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a vote of 'Abstain' is also considered a vote against management.*

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