

Kingston Communications Pension Scheme

Implementation Statement



cardano

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Introduction

This implementation statement (the “Statement”) is produced alongside the Trustee Report and Accounts and is required by pensions regulations.¹ Kingston Communications (Hull) Trustees Limited (the “Trustee” or “we”) as trustee of the Kingston Communications Pension Scheme (the “Scheme”) has prepared this Statement to set out how we have acted in line with the stewardship and engagement policies set out in the Statement of Investment Principles (the “SIP”) during the accounting year.

This Statement includes details of:

- Our compliance with our voting and engagement policies in our SIP (the “Stewardship Policy”);
- Any changes made to the Stewardship Policy during the year; and
- Specifically, how our investment managers voted and engaged on our behalf where relevant

This Statement has been prepared by the Trustee to cover the period 31 March 2023 to 31 March 2024.

The Statement is publicly available alongside the SIP at <https://www.kcom.com/responsibility/corporate-governance/pension-schemes/>

Executive summary

The day-to-day management of the Scheme’s assets is delegated to Cardano Risk Management Limited (the “Fiduciary Manager”). In advance of the appointment, the Trustee took steps to ensure that the management of the Scheme’s assets and the Fiduciary Manager’s policies were aligned with the Trustee’s policies. The Trustee continues to monitor the Fiduciary Manager as part of its regular interactions.

The Trustee monitors the voting and engagement activity of the Scheme’s investment managers, and, through the Fiduciary Manager, challenge their decisions.

The Trustee focuses its efforts on those investment managers where voting and engagement is material.

The Scheme follows a cashflow-driven investment strategy which does not include any investments that have direct or indirect voting rights attached to them

The cashflow-driven investment strategy largely invests in government and corporate bonds and these assets do not provide investors with voting rights. This means that there is no voting activity to report.

The Trustee recognises that the underlying investment managers’ engagement with the underlying issuers of these bonds is important to the management of the investment strategy. The Scheme’s engagement policies and activities are covered in this Statement.

The policies of those investment managers are summarised in this Statement, along with examples of the type of engagement activity which took place during the period covered by this Statement. All the investment managers use investment approaches where voting activity is less likely to be relevant or significant. That said, the Trustee is comfortable that our Fiduciary Manager has an appropriate approach to assess the stewardship and voting policies for all investment managers, and we receive a summary of the Fiduciary Manager’s overall assessments of each manager once a quarter.

¹ The Occupational and Personal Pension Scheme (Disclosure of Information) Regulations 2013 (as amended).

1. Our investment policies

1.1. Review of our Statement of Investment Principles

The Trustee amended its SIP at the beginning of the financial year, primarily to reflect new strategic asset allocation policies. For the remainder of the financial year, the Trustee continued to keep the SIP under review but did not make any changes, as there were no revisions to the Trustee's investment objectives or policies.

1.2. Investment objectives

The primary objective of the Trustee is to pay members' benefits in full as they fall due (the "Primary Objective"). The secondary objective is to manage the funding and cash flow risks inherent in the Scheme (the "Secondary Objective").

To work towards meeting these objectives, the Trustee will seek to achieve full funding on its low dependency basis and then seek to maintain a fully funded position on a low dependency basis. Full funding on the Trustee's low dependency basis is expected to be achieved through a combination of contributions from the sponsoring employer (the "Sponsor"), as set out in any future Recovery Plan, payments from the Central Asset Reserves² and investment returns relative to the change in the value of the liabilities.

Once full funding on the Technical Provisions basis (described above) has been achieved, the Trustee will continue to maintain the funding position, through a combination of payments from the Central Asset Reserves and investment returns relative to the change in the value of the liabilities.

The investment risk may be adjusted over time reflecting funding level improvements and/or changes in the ability of the Sponsor to support the Scheme. These considerations will inform the Trustee's view of what is the most secure method at the time to meet the promised benefits for all members.

In order to achieve the Primary and Secondary Objectives, the Trustee, in consultation with the Sponsor, has adopted a cashflow-driven investment ("CDI") strategy. The CDI strategy involves purchasing assets whose cashflows are largely contractual in nature. The CDI strategy has two objectives:

1. To generate cashflows that are expected to meet members' benefits as they fall due; and . . .
2. To reduce the risk that the Scheme's funding position deteriorates because of changes in the value of its liabilities due to movements in long-term interest rate and inflation expectations

Consistent with the Primary and Secondary Objective, the Scheme's investment objective is:

*"To achieve returns that deliver cashflows to meet the expected benefit payments and meet or exceed the return on the Scheme's Liability Benchmark over the long-term."*³

² The Central Asset Reserves are asset backed contributions provided by the sponsoring employer to help to secure the members' benefits.

³ The Liability Benchmark return measures the change in value of the Scheme's liabilities as measured on the Trustee's low dependency basis. It is agreed between the Trustee and the Fiduciary Manager that the liability cashflows underlying the Liability Benchmark are periodically updated, such as after triennial actuarial valuations or any other substantial update in funding assumptions or change to the Scheme's expected benefit outgo.

1.3. Responsible investment policy

The Trustee has a long-term investment horizon for its portfolio and, as such, the Trustee recognise that being a responsible investor should improve financial outcomes. The Trustee considers responsible investment to be the integration of environmental, social and governance (ESG) factors into investment decisions where financial risk and / or return could be materially affected. These considerations include the potential impact of climate change.

The Trustee delegates responsibility to take account of ESG factors in investment decision-making to the Fiduciary Manager. This includes investments made directly by the Fiduciary Manager as well as those in pooled funds managed by third parties. In the latter case, the Fiduciary Manager is responsible for ensuring that the external investment managers appropriately incorporate ESG factors within their investment process. The Trustee monitors how the Fiduciary Manager incorporates ESG factors on a regular basis.

The Trustee believes that by being a responsible investor, it is managing investment risk with the aim of enhancing long-term portfolio returns, which is in the best interests of the members and beneficiaries of the Scheme. Beyond these requirements of responsible investing, the Trustee does not explicitly target any non-financial matters in its investment decision-making.

Nevertheless, the Trustee recognises that individual members and beneficiaries may have views on non-financial matters (such as ethical views, views on social and environmental impact matters, or views on the present and future quality of life of members) and these views may have implications for the Scheme's investments. The Trustee does not pro-actively take these views into account when making investment decisions, but it does review communications of member views.

The Trustee believes that the above policy of responsible investing is an appropriate reflection of the views of the membership in aggregate, given that individual members may have differing and conflicting views that cannot all be reconciled and incorporated directly.

2. Our Stewardship Policy

2.1. What is Stewardship?

The Trustee believes that "Stewardship" is the responsible allocation, management and oversight of capital to create long-term value for members, which should also lead to sustainable benefits for the economy, the environment and society. In practice, stewardship is affected through exercising the right to vote on any shares which are owned by the Scheme and engaging with the management of any companies or properties where an investment has been made.

As noted above, the Scheme follows a CDI strategy (investing predominantly in government and corporate bonds) which does not include any investments that have direct or indirect voting rights attached to them. Therefore, there is no voting activity to report in this Statement.

The Trustee recognises that the underlying investment managers' engagement with the underlying issuers of these bonds is important for the management of the investment strategy, so engagement is covered in this Statement.

2.2. What is our Stewardship Policy?

The Trustee's Stewardship Policy in force during the financial year was:

"The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attached to investments to the investment managers. The Fiduciary Manager encourages the Scheme's investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council (and the Trustee monitors the Fiduciary Manager's activity in this regard).

The Trustee prefers its investment managers, where relevant, to have an explicit strategy, outlining the circumstances in which they will engage with a company (or issuer of debt or stakeholder) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters) and how they will measure the effectiveness of this strategy.

The Fiduciary Manager is responsible for engaging with investment managers regarding those investment managers' voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact (and the Trustee monitors the Fiduciary Manager's activity in this regard)."

2.3. What are our Stewardship priorities?

The Trustee has recently selected three stewardship priorities. These priorities are shared with the Scheme's underlying investment managers in order to improve the alignment of the managers' engagement activities to our policies and beliefs as well as to enhance disclosure. These priorities are linked to the UN Sustainable Development Goals, which is an international endeavour. The purpose of these priorities is to aim to improve the sustainability within the portfolio and have a direct real-world impact to our members' current and future landscape. The Trustee's three stewardship priorities are:

- **Climate Crisis** (with a focus on climate change and net zero greenhouse gas emissions)
- **Environmental Impact** (with a focus on biodiversity, deforestation and water)
- **Human Rights** (with a focus on living wages, gender equality and health & nutrition)

The Trustee expects the investment managers to incorporate these themes into their future voting practices and engagement activities, and the Fiduciary Manager will monitor future manager disclosures to ensure that there is alignment against these priorities.

2.4. How have we implemented our Stewardship Policy?

How the Scheme's investments are held

The Trustee holds investments primarily on an indirect basis through pooled funds. These pooled funds are managed by third-party investment managers selected by the Fiduciary Manager or in pooled funds managed by the Fiduciary Manager. The reason investments are implemented in this way is that:

- It provides a broader range of investment opportunities, which helps to improve the diversification of investments, which in turn helps to manage risk; and
- Fixed costs are shared amongst other investors, thereby reducing our overall costs; and
- It simplifies the implementation process as existing funds can be used with standard terms and agreements, reducing the overall governance burden both on the Trustee and the Sponsor

Where investments are made in pooled funds, the Trustee has no direct right to exercise stewardship activity

in respect of the underlying assets held by those pooled funds. Instead, those rights are exercisable by the relevant investment managers who follow their voting and engagement policies. However, the Trustee remains responsible for ensuring that the investment managers our Fiduciary Manager appoints act consistently with the Trustee's Stewardship Policy.

External engagements

The Trustee assesses that the Fiduciary Manager has been aligned with our Stewardship Policy throughout the year. The Fiduciary Manager has been a signatory to the UN Principles for Responsible Investment since 2011 and they are a signatory to the UK Stewardship Code 2020. The Fiduciary Manager also has a Tier 1 rating from the Financial Reporting Council.

In addition, the Fiduciary Manager is a member of a range of sustainable investment organisations. Some of these organisations are set out below:



Engagement beliefs

The development of engagement beliefs is an important Trustee responsibility. We have delegated the day-to-day implementation of our beliefs to the Fiduciary Manager, having concluded that the Fiduciary Manager's core beliefs are consistent with our own. The beliefs driving the Fiduciary Manager's approach to engagement are as follows.

Quality over quantity

- The Fiduciary Manager is interested in a few meaningful quality engagements, with strong reporting (rather than, being interested in, for example, the absolute quantity of votes). They want investment managers to prioritise the highest sustainability impacts in their portfolios

Long-term

- The Fiduciary Manager encourages underlying investment managers to form long-term relationships with companies. Successful stewardship can take many months, maybe even years

Real world impact

- The Fiduciary Manager is interested in engagement on topics that contribute to positive real-world sustainable impact (such as, reduction in absolute carbon emissions)

Transparency

- Some engagement, perhaps even most engagement, will be unsuccessful. The Fiduciary Manager is realistic, and they prefer transparency from the Scheme's investment managers where engagement initiatives haven't been successful

Collaboration

- Engagement is more efficient when investment managers collaborate – not just for the investment managers, but for the companies too (who will field fewer, but higher conviction, engagements from their investors). The Fiduciary Manager encourages underlying investment managers to participate in collaborative initiatives, such as Climate Action 100+

Innovation

- The Fiduciary Manager welcomes innovation, for example, using third-party tools and technology to assess a company's conviction on sustainability topics

Integrated

- The Fiduciary Manager is interested in how (if at all) stewardship contributes to the investment thesis and whether investment managers link their stewardship to other engagement activity (for example, policy engagement)

Manager selection and monitoring

When selecting investment managers, the Fiduciary Manager scrutinises the investment managers' stewardship, voting and engagement policies. Activities of investment managers are assessed before the initial investment to ensure they align with our Stewardship Policy. The Fiduciary Manager monitors our investment managers on an ongoing basis, ensuring their activities align with our Stewardship Policy and engaging with our investment managers to help them improve their stewardship approach.

If an underlying investment manager did not meet our stewardship standards, then the Fiduciary Manager would actively work with them to improve their policies, processes and reporting (where relevant).

The Trustee monitors any voting and engagement activity of our investment managers and challenges their activity through the Fiduciary Manager. The Trustee recognises that, for the majority of assets the Scheme owns (in particular, bonds, credit and bonds in synthetic form), voting is not possible. However, the Trustee recognises that engagement with the underlying issuers of these bonds is important for the management of the investment strategy. Our Fiduciary Manager therefore categorises our managers according to how material engagement is in their mandate. The Trustee focuses its efforts on any investment managers where engagement is material.

The stewardship policies of the investment managers where their engagement activities are material to the Scheme are summarised below in the managers' own words:

Manager	Stewardship policy
M&G	<p>For all investments, M&G takes into consideration ESG factors that have the potential to have a material financial impact. M&G believes that consideration of the implications for society and the environment are part of investment stewardship and are in line with their fiduciary duties to their investors.</p> <p>M&G take a long-term approach, bearing in mind the time horizon of their clients, the urgency of individual ESG issues and delivery of their own priorities and commitments.</p> <p>As part of that approach, M&G identify ESG themes and risk factors and incorporate them into their general investment and risk management processes. They are active investors and believe in stock selection, engagement and voting (where relevant) over firm exclusions. Their aim is to invest in the solution, not the problem, therefore as a responsible investor they seek to support companies transitioning towards the creation of a more sustainable economy.</p> <p>If an investment, either by the nature of its business or by the nature of the investee company's activities or behaviours, breaches M&G's core values, they will assess the investment under their exclusion process. Where M&G believe engagement and voting has been or will be ineffective in influencing positive change, M&G may exclude the company from their clients' portfolios.</p>
Cardano	<p>Our stewardship activities are rooted in the conviction that engagement and voting are powerful tools to drive companies toward embracing and acting on the sustainability transitions currently underway. Our approach is carefully aligned with the Cardano Sustainable Investment Framework as described in our Sustainable Investment Policy, ensuring that our investments support entities capable of adapting to and thriving in a sustainable future.</p> <p>Our stewardship is not just about dialogue but about setting clear objectives, monitoring progress, and, if necessary, taking decisive actions such as voting against board members, filing shareholder resolutions, or adjusting capital allocation. We understand that some engagements may not always bring the desired outcomes, and we therefore remain transparent and realistic in our approach.</p>

Compliance statement

To the best of our knowledge, the Trustee has complied with the Stewardship Policy over the year.

To ensure compliance, we regularly reviewed the Fiduciary Manager's activities and reports during the year. In particular, this allowed us to confirm that:

- The Fiduciary Manager acted in a manner consistent with our policies – including the requirement to encourage investment managers to discharge their responsibilities in accordance with the UK Stewardship Code – and is a signatory of the UK Stewardship Code; and
- The Fiduciary Manager engaged with investment managers regarding their voting records and level of engagement in relation to their investments which is consistent with our Stewardship Policy

If we identify that investment managers are not aligned with our Stewardship Policy, we will consider whether such misalignment is materially significant and detrimental to the Scheme. If we conclude that is the case, we will seek remedial action from the investment managers through the Fiduciary Manager. If we remain unsatisfied then, in extreme cases, we could instruct the Fiduciary Manager to terminate the investment mandate with the investment manager in question.

3. Voting activity

The Shareholder Rights Directive (SRD II) and the UK Stewardship Code 2020 both emphasise the importance of institutional investors and asset managers engaging with the companies in which they invest. They also stress the importance of exercising shareholder voting rights effectively.

3.1. How did our managers vote?

As explained in the previous section, due to the nature of the assets held by the Trustee, and the manner in which they were held, none of the Scheme's investments that were held across the full reporting period had either direct or indirect voting rights attached to them. Given this, no votes were monitored by the Trustee over the reporting period.

3.2. Use of proxy voting services

Proxy voting services are specialist firms that provide an outsourced voting service. Some investment managers choose to use these services (rather than vote themselves). The reasons for using proxy voting services could include:

- The investment manager lacks the resource to research each vote and submit votes
- The investment manager wants to follow a recognised code of practice and the proxy voting service is an easy way to implement this

Using a proxy voting service does not necessarily mean that voting is done poorly. In fact, many professional proxy voting services are able to devote significant resource to researching AGM motions and are able to follow best practice guides like the Financial Reporting Council's (FRC) Stewardship Code.

We recognise that by having a suitable Stewardship Policy in place and using our Fiduciary Manager to monitor voting activity, investment managers can create more engagement over time; particularly smaller, more boutique managers with less in-house expertise and resource.

None of the Scheme's investments had direct or indirect voting rights attached to them, so the investment managers did not need to use proxy voting services over the reporting year.

4. Engagement activity

Engagement is considered to be purposeful dialogue with a specific and targeted objective to achieve positive change in the interests of beneficiaries, thereby a key action required for delivering good stewardship. The Fiduciary Manager is passionate about active engagement, as opposed to disinvestment or exclusions practices, in order create positive real-world change. Through engagement, asset managers can build relationships with the companies in which they invest, helping to steward companies on a range of topics, including sustainability.

The tables below provide examples of engagement activity of the Scheme's investment managers where engagement should be a material activity in the management of the assets:

Cardano Cashflow Credit

Key points	Engagement activity
<p>Engagement Theme(s): Environmental</p> <p>Industry: Banking</p> <p>Outcome:</p> <ul style="list-style-type: none"> Business has published a comprehensive update of its oil and gas policy for the first time since 2020 	<p>Key objectives of the Barclays engagement are (1) stop directly financing new oil and gas fields, (2) exclude financing for all pureplay oil and gas companies given their limited ability to transition and (3) introduce a requirement for its clients to provide a 1.5°C aligned climate transition plan.</p> <p>To achieve the objectives Cardano, together with 26 other institutional investors, wrote to the bank requesting it to stop directly financing new oil and gas fields by the end of 2023. Since the bank had neither responded to the letter nor acted on the group's key asks at the end of October 2023, the engagement group including Cardano decided to further escalate by co-filing a shareholder resolution. Barclays then showed willingness to discuss the resolution's key asks with the engagement group. This included two meetings and additional communication by e-mail.</p> <p>Following this constructive engagement process, Barclays updated its oil and gas policy. The new policy contains several positive developments, including a commitment to stop financing new oil and gas projects directly, to restrict financing for 'pureplay' upstream companies and to expect its energy clients to produce climate transition plans by January 2025. The bank has now met the first engagement objective and has made progress on the other two key asks. Given the progress and constructive dialogue, the group agreed to withdraw the resolution. Barclays also publicly committed to continue the engagement in 2024, stating on its website that the policy changes were informed by engagement with stakeholders, including shareholders, clients, climate experts and civil society groups, including ShareAction, confirming the group's influence and effectiveness of the engagement.</p> <ol style="list-style-type: none"> The engagement will continue this year as Barclays' new energy policy still enables the company to retain significant discretion over its continued support of oil & gas expansion activities that are incompatible with 1.5°C scenarios. The engagement group will therefore urge the bank to take further steps and will consider escalating again if it does not make sufficient progress this year.

M&G Illiquid Credit

Key points	Engagement activity
<p>Engagement Theme(s): Social</p> <p>Industry: Telecommunications</p>	<p>The Manager had two objectives for their engagement:</p> <p>Objective 1: Encourage the company to publish a D&I policy and D&I targets</p> <p>Objective 2: Ensure that sufficient cyber security measures are in place to mitigate risks and that these are disclosed</p> <p>Objective 1:</p> <p>M&G met with the company to make expectations known across both D&I commitments and cybersecurity framework.</p> <p>The company confirmed that they have internal D&I targets at the employee level, which are 30 female and 30 from the “global majority” As at end March 2023 the company confirmed their workforce breakdown is 35 female and 34 global majority represented.</p> <ul style="list-style-type: none"> • The company does not currently have diversity targets for the board. They have recently hired a Head of DE&I who plans to work with senior leaders to review this. • The company does not currently have a standalone D&I policy although there is some coverage in their HR policies <p>We made our expectations known around publishing a standalone policy and will continue to track and monitor.</p> <p>Objective 2:</p> <p>The company has recently employed a Chief Security Officer Presently the spend on cyber security as a proportion of overall IT budget (2-3%) is below that of the industry and peers (8-10%)</p> <p>They recognize this is an area that needs improvement and the Chief Security Officer seeks to increase spend on cyber security.</p>

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Cardano | 9th floor, 6 Bevis Marks, London EC3A 7BA
T: +44 (0)20 3170 5910 | E: info@cardano.com | W: cardano.com

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