

Kingston Communications Pension Scheme

Implementation Statement

September 2021

Introduction to this statement

This implementation statement (the “Statement”) is a new addition to the Trustee Report and Accounts and is required by new pensions regulations. It will also be disclosed independently of the Report and Accounts. 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 voting and engagement policies set out in the Statement of Investment Principles (the “SIP”) during the reporting year.

The purpose of this Statement is to report on the Trustee’s stewardship activity, highlighting the proactive steps taken by us and our investment managers to ensure the Scheme’s assets are invested responsibly and for the long-term.

This Statement includes details of:

- Our compliance with our voting and engagement policies in our SIP (the “Stewardship Policy”);
- The changes we 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 accounting year ending on 31 March 2021.

The day to day management of the Scheme’s assets has been delegated to a specialist fiduciary manager selected by the Trustee (the “Fiduciary Manager”). Part of the Fiduciary Manager’s role is to select and appoint third party investment managers in exercise of discretion delegated to it by the Trustee. The Trustee retains responsibility for setting the Scheme’s investment strategy and objectives and for overseeing the Fiduciary Manager and the investment managers appointed by the Fiduciary Manager.

This Statement is publicly available (along with the SIP) at

<https://www.kcom.com/responsibility/corporate-governance/pension-schemes/>

Section 1: Our investment policies

Review of our Statement of Investment Principles

During the year, the Trustee undertook several full reviews of the Scheme's SIP and, as a result of these reviews, the SIP was formally updated in September 2020 and in November 2020.

The SIP was updated in September 2020 to clarify policies and requirements applicable to the Scheme's investment managers and to confirm the Trustee's position on responsible investment. The intent of these revised policies is to improve the Scheme's processes and to more clearly align with environmental, social and governance initiatives set at a legislative level.

The SIP was updated for a second time in November 2020 to reflect a change in the Scheme's investment objective and investment strategy.

On both occasions, the Trustee consulted with the Scheme's sponsoring employer (the "Sponsor") before the SIP was updated.

What is our investment objective?

The primary objective of the Trustee is to pay members' benefits in full as they fall due. The first milestone towards meeting this objective is to achieve full funding on the Technical Provisions basis. This is expected to be achieved through a combination of Sponsor contributions, as set out in the Recovery Plan, payments from the Central Asset Reserves and maximising investment returns relative to the change in the value of the liabilities.

As part of the review during the year the Trustee, in consultation with the Sponsor, changed the approach to investing the Scheme's assets towards 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: firstly, to generate cashflows that are expected to allow the Scheme to meet members' benefits as they fall due; and, secondly, 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.

Once full funding on the Technical Provisions basis has been achieved, the Trustee will continue to seek further improvements in 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.

What is our responsible investment policy?

The Trustee has a long-term time horizon for its portfolio and, as such, the Trustee recognises 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 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 extend into views on how the Scheme's assets should be invested by the Trustee. The Trustee does not pro-actively take these views into account when making investment decisions, but will consider member views raised. The Trustee intends to mention in its forthcoming member newsletter that members can submit their views on these matters to the Trustee.

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.

Section 2: How our policies were implemented

What is stewardship?

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

What is our Stewardship Policy?

The Trustee reviewed and considered its Stewardship Policy during the reporting year and confirmed its Stewardship Policy in September 2020. Our position on Stewardship over the year this Statement covers was as follows:

"The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching 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)."

How have we implemented our Stewardship Policy?

The Trustee holds the Scheme's investments through pooled investment funds that are managed by the Fiduciary Manager and third party investment managers selected by the Fiduciary Manager. The reason investments are implemented in this way is that:

- It provides access to a broader range of investment opportunities which helps to improve the diversification of investments and manage the risks faced by the Scheme;
- Fixed costs are shared amongst several investors which reduce our overall costs; and

- It simplifies the implementation process as existing funds can be used on standard terms and agreements, reducing the overall governance burden on both 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, following their voting and engagement policies. However, the Trustee remains responsible for ensuring that the Fiduciary Manager and the investment managers that the Fiduciary Manager appoints act consistently with the Trustee’s Stewardship Policy.

The Fiduciary Manager has been aligned with our Stewardship Policy throughout the reporting year and has been a signatory of the UN Principles of Responsible Investment since 2011. The Fiduciary Manager is a signatory of the UK Stewardship Code and has a Tier 1 rating from the Financial Reporting Council.

Several core beliefs drive the Fiduciary Manager’s approach to voting and engagement. They are:

- Focused governance – spending most time on the most material issues;
- Transparency – improved reporting enables better quality dialogue, risk awareness and higher engagement impact with investee companies
- Engagement – through education and close, regular dialogue; and
- Integration – leads to consistency, clarity of messaging and improved dialogue, leading in turn to greater engagement impact

The Trustee categorises its investment managers according to how material voting and engagement is in their mandate. It focusses on those where it is material to the mandate. The Trustee recognises that, for the majority of the assets it owns (in particular bonds, credit and those in synthetic form), voting is not possible.

The stewardship policies of these investment managers are summarised below:

Manager	Stewardship policy
Cashflow credit manager	The manager’s stewardship activities are incorporated into its investment process as part of its approach to ESG integration. The manager defines this as the consistent consideration of material ESG factors into its investment research process to aim to enhance its clients’ risk-adjusted returns. Such factors may include but are not limited to: climate change risks; biodiversity; social inequality; human rights; shifting consumer preferences; regulatory risks; and, talent management or misconduct at an issuer. The manager believes incorporating these factors should be part of a robust investment process.
Emerging market debt manager	The manager believes that constructive engagement with issuers is the most effective way to improve ESG characteristics over time. For emerging markets sovereigns, ESG factors have long been embedded into the manager’s country

Manager	Stewardship policy
	<p>research process used to assess the relative credit strength of all the countries their research team covers.</p> <p>The manager’s primary objective is to assess the ESG risks of each issuer to ensure that clients are sufficiently compensated for those risks in their portfolios.</p> <p>The manager’s stewardship activities are driven by ESG factors that are integrated into its investment philosophy and process:</p> <ul style="list-style-type: none"> • Social stability and quality of governance: political stability, quality of policies and strength of institutions are all critically important factors in assessing both the probability of default and the relative value of different sovereigns’ government debt • Governance is a key component in their country scoring quantitative model that is used across countries <p>The manager uses both external data from sources such as the World Bank and Transparency International as well as their own internal assessments developed by their research team to evaluate these risks in portfolios.</p>
Multi-asset credit manager	<p>The manager recognises that ESG factors can directly, where material, impact both the financial and non-financial operations of an issuer and hence, investment performance. For example, unsafe products or services or substandard corporate governance procedures can produce a threat of litigation, regulatory fines and create significant reputational risk for a company that may hinder its ability to meet its ongoing financial obligations.</p> <p>To the extent that the manager has significant influence with respect to an issuer, the manager may seek to engage management teams and foster change in applicable circumstances to advance ESG-related practices, particularly where the manager believes that such engagement would result in financial or non-financial benefits that would enhance the investment performance of the underlying issuer.</p>

In addition, we held funds with the following investment managers, but either there was no direct exposure to public market equities held physically, the proportion of public market equities held was very low (less than 5% of the mandate in question) and/or the holding period was very short, and we therefore focus less on these managers’ voting and engagement activities.

Liability driven investment funds	Cash funds	Exchange-traded funds (ETFs)	Private debt
Liability-driven investment manager	Liquidity manager	Global equities ETF manager	Private debt manager

Liability driven investment funds	Cash funds	Exchange-traded funds (ETFs)	Private debt
		Commodities ETF manager	

Was our Stewardship Policy complied with during the reporting year?

To the best of our knowledge, our Stewardship Policy was complied with 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 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.

Section 3: How voting was done

How were our rights to vote exercised?

As explained in Section 2, 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 had direct or indirect voting rights attached to them over the course of the reporting period. Given this, no votes were able to be cast or monitored by the Trustee.

The table below is based on the average allocation to each investment manager over the year:

Manager	Average % of Scheme assets over the year	Number of potential votes	Proportion of votes cast
Cashflow credit manager	15.2%	0	n/a
Emerging market debt manager	1.6%	0	n/a
Multi-asset credit manager	0.8%	0	n/a
Liability-driven investment manager	40.9%	0	n/a
Liquidity manager	13.2%	0	n/a
Global equities ETF manager	3.0%	0	n/a
Commodities ETF manager	1.1%	0	n/a
Private debt manager	6.3%	0	n/a

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 voting themselves. The reasons for using a proxy voting service 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 a cost-effective means of implementing this approach.

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

However, a potential concern is that the investment manager who has chosen to invest in the company is arguably in the best position to vote and engage with that company and, by failing to do so directly, may be signalling indifference to management.

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.

Section 4: How did the managers engage with our investments

Engagement is purposeful dialogue with a specific and targeted objective to achieve positive change in the interests of asset owners, and so is a prerequisite for delivering good stewardship.

The table below summarises selective examples of the engagement activity of the Scheme’s investment managers where the Trustee considers that engagement should be a material activity in the management of the assets:

Manager	Examples of engagement activity
Cashflow credit manager	<p>The manager holds debt securities issued by a European investment bank. The bank has made a commitment to downsize its investment banking and non-core divisions, re-focus its business on domestic retail and credit operations, and has instigated a five-year plan aimed at improving culture and conduct after incurring significant litigation costs. On social impact, the manager believes the bank is at a very early stage of its thinking other than stating it is considering alignment with sustainable development goals (SDGs). The bank has a Social Innovation Facility that runs sessions among staff to consider products that can have social impact, including solutions to the challenges outlined in the SDGs.</p> <p>The manager’s engagement objectives are to:</p> <ul style="list-style-type: none"> • Drive improvement in the bank’s culture change program. The manager believes that although the bank has a robust transformational framework, it is failing on some of its own metrics to measure progress; • Encourage senior buy-in. The culture program was launched by a previous CEO, and it is unclear to the manager if the new management team is fully behind it despite a Board Committee dedicated to this activity. The current CEO has been involved in a conduct controversy; • Raise awareness about the positives about allocating capital towards issuers with products and services that contribute to sustainable development <p>The manager aims to achieve these objectives by:</p> <ul style="list-style-type: none"> • Advocating for a new “tone from the top” relating to cultural change • Encouraging the bank to evaluate its progress against SDGs and setting specific strategies to align with these goals • Formally reviewing why performance has fallen behind on customer and conduct metrics and setting specific actions to address the problem

Manager	Examples of engagement activity
	<p>The manager believes that these efforts have resulted in some positive change to date; for example, management has put in place a rigorous framework around the bank's culture change program. The manager does not view this as a job well done and believes continual engagement will be necessary to ensure that the transformation program is a success.</p>
<p>Emerging market debt manager</p>	<p>The manager holds debt securities in an emerging market energy supplier. The company's management recently completed a strategic reorganisation plan in response to the government's response to the Paris Accord, which would allow independent power producers to enter the market to generate more of the country's electricity from solar sources rather than fossil fuels. Under the plans, the energy supplier would play less of a role in the generation of electricity but would retain its monopoly over transmission and distribution. The manager conducted an ESG-related review of the strategy and shared the results with management. The manager noted several issues with the plan:</p> <ul style="list-style-type: none"> • First, solar farm construction is expected to be either in the central or southern parts of the country which will require significant new transmission construction to bring power to population centres in the north • Secondly, management should monitor the expected level of demand for gas generation, as any step improvements in battery storage, paired with solar, could undercut gas generation on price • Third, the company will need to install emissions reduction technology on its units that will be converted to dual fuel for national security reasons <p>Management implemented several changes because of this feedback which the manager views positively:</p> <ul style="list-style-type: none"> • Worker's unions have agreed not to strike until 2025 • Limited challenges related to coal ash disposal • Implemented a more robust cyber security program • Increased their use of seawater and reclaimed water for coastal plants to mitigate the risk of droughts on the country's energy supply
<p>Multi-asset credit manager</p>	<p>The manager has helped to provide financing to a large US energy company which provides critical utilities for the State of California. The manager played an important role for the company by being one of the largest backstop equity providers to help the company to deliver a more sustainable balance sheet. As a result of the financing plan, as well as financial and legal support, the company is in a better position to deliver positive operating performance as well as take proactive steps from an environmental and social perspective. For example, wildfire mitigation is a key component of the company's operational and safety improvement plan. The company has taken steps to minimise environmental disruption by eliminating exposed electricity lines</p>

Manager	Examples of engagement activity
	<p>where possible as well as enhancing its inspection cycles. The latter involved building weather stations, installing high definition cameras, and using aircraft for faster and around-the-clock patrols. The company has also established fire detection and fire spread modelling capabilities based on industry-leading satellite systems that offers advanced warning of potential new fire incidents.</p> <p>The company is committed to California’s clean energy future by implementing and advocating for a clean energy policy and investing in electrification. This includes implementing state policy goals to achieve carbon neutrality by 2045. The company advocates for a federal price on carbon, supports California’s stringent tailpipe emissions standards, and supports local ordinances promoting all electric new construction. The company also promotes transparency and reporting, and plans to release a Climate Strategy Report in 2021 in addition to other voluntary reports.</p> <p>The company has also taken steps which can have a positive social impact: supporting low income customers to ensure energy affordability, increasing access to clean energy technologies, and integrating environmental and social justice considerations into business operations. The manager believes that these factors and programs are important to the company’s long term financial performance and reduce potential risks to our investment. The manager believes that these bonds offer attractive risk adjusted return potential and should experience spread tightening as the company continues to execute on its operational, environmental, and social plans.</p>