31 March 2022

Kingston Communications Pension Scheme

Implementation Statement

cardano

cardano

Contents

cardano

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 2021 to 31 March 2022.

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.

We monitor 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 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 once a quarter.

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

cardano

1. Our investment policies

1.1. Review of our Statement of Investment Principles

During the year, the Trustee reviewed the SIP and, as a result, formally updated the SIP in February 2022.

The SIP was updated to reflect a change in the Scheme's investment objective and investment strategy. The Trustee consulted with the sponsoring employer (the "Sponsor" before the SIP was updated.

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, once there, maintain the position. This is expected to be achieved through a combination of Sponsor contributions, as set out in any future Recovery Plan, payments from the Central Asset Reserves[2] 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]

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

---

[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.

cardano

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) 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).*
>
> *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. 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. 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 responsibility 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:

cardano

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 sustainability 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

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, third-party tools 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 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.

The Trustee monitors any voting and engagement activity of our investment managers and challenges their activity through the Fiduciary Manager. We categorise our managers according to how material voting and engagement is in their mandate. The Trustee focuses its efforts on any investment managers where voting and engagement is material. 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.

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

Manager	Stewardship policy
PIMCO	PIMCO's stewardship activities are incorporated into its investment process as part of its approach to ESG integration. PIMCO defines "stewardship" as the consistent consideration of material ESG factors into its investment research process to aim to enhance its clients' risk-adjusted returns. Material ESG 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. PIMCO believes that incorporate these factors should be part of a robust investment process. They recognise that ESG factors are increasingly essential inputs when evaluating long-term investment opportunities and risks for all asset classes, in public as well as private markets.
M&G	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. 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. 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. If an investment, either by the nature of its business or by the nature of the investee company's activities or behaviours, breaches our core values, we will assess the investment under our exclusion process. Where we believe engagement and voting has been or will be ineffective in influencing positive change, we may exclude the company from our clients' portfolios.

cardano

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 investment managers' voting and engagement activities:

Liability driven investment funds	Cash funds	Credit funds	Exchange-traded funds (ETFs)
LGIM	JP Morgan	GoldenTree	Lyxor Global Income
	LGIM	Wellington	iShares
		LGIM	

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.

cardano

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 stress the importance of exercising shareholder voting rights effectively. Voting only applies to equities held by the Scheme.

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.

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
PIMCO*	45.2%	0	n/a
JP Morgan*	3.2%	0	n/a
GoldenTree	0.3%	0	n/a
Wellington	0.5%	0	n/a
Lyxor	0.1%	0	n/a
iShares	0.3%	0	n/a
M&G*	6.2%	0	n/a
LGIM LDI*	25.7%	0	n/a
LGIM B&M*	2.4%	0	n/a
LGIM Liquidity*	3.7%	0	n/a

*These investments were held by the Scheme across the full reporting period and now form part of the Scheme's CDI strategy. None of these investment managers held investments in equities or other assets that have direct or indirect voting rights attached to them.

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.

cardano

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:

PIMCO Cashflow Credit

Key points	Engagement activity
Engagement Theme: Environmental **Industry:** Construction **Outcome:** • Improved focus on sustainability in new home construction will have long term environmental benefits • Net zero initiatives align with climate change regulations set at a global level • Creating alignment between affordable and sustainable housing ensures social and environmental benefits are also aligned	The issuer is the UK's largest housing association, through its ownership and management of 100,000+ homes. The Manager notes the issuer as a leader on the environmental front, exemplified by an innovative sustainability bond framework to fund residential real estate projects in the UK with both environmental and social benefits (energy efficient affordable homes). This is particularly relevant to issuers in the sector. The Manager saw an opportunity to make an impact through engagement with the issuer, given their expertise on best practice for impact (green, social, sustainability and sustainability-linked bond issuance). The Manager engaged on the green bond framework (e.g., carbon thresholds for eligibility criteria, energy performance levels) and the importance of setting a net zero or science-based target. The issuer provided granular details across these factors and communicated a roadmap to achieve Zero Carbon New Homes by 2025. The company issued sustainability bonds and social bonds. One issue focuses on new construction meeting the "Certified Sustainable Housing Label" which combines both environmental and social criteria and practices, and was specifically developed for affordable housing companies (e.g., rent levels below local market average, energy efficiency).

cardano

M&G Illiquid Credit

Key points	Engagement activity
Engagement Theme: Environmental – Net Zero **Industry:** Automotive **Outcome:** • By continuing to apply pressure in relation to finite resources, the Manager is able to minimise the overall impact the Company has on the environment	The Manager engaged with an automotive Company to improve on its weakest areas highlighted by the Climate Action 100+ benchmarking exercise, including aligning its capital expenditures with decarbonisation objectives and to get management's perspective on the process and results. The Company is pleased with its benchmark position relative to its peers. They highlighted that, at present, there was no scientifically accepted 1.5°C pathway for the automotive sector; however, they are working on this with the Science Based Target initiative. The Manager asked the Company for more clarity on short- to medium-term Greenhouse Gas reduction targets and pushed for greater disclosure on the proportion of revenues arising from electric vehicles (vs. fossil fuel) as well as any corporate commitments around these revenue objectives. The Manager also made it clear that increased disclosure from the Company around the processes and commitments to align lobbying activities with the Paris Agreement would give investors more confidence in how the Company is acting with regard to emerging legislation and regulation. The Manager has suggested that the Company might consider a vote on its transition plan at its next AGM to highlight its leadership position and give investors a voice. The Manager intends to continue engaging with the Company on these topics over the coming year.

cardano

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