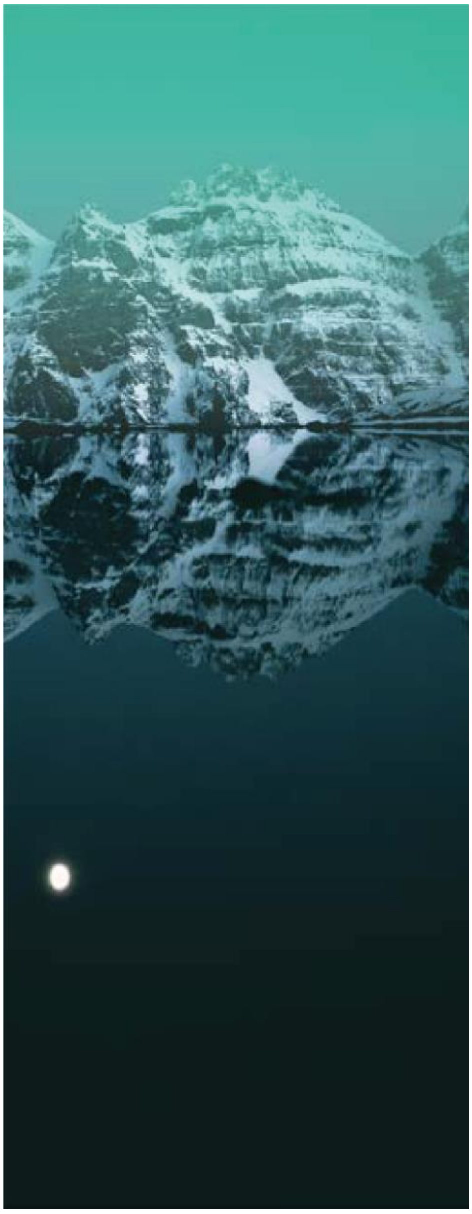
31 March 2023

Kingston Communications Pension Scheme

Implementation Statement



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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 2022 to 31 March 2023.

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).

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1. Our investment policies

1.1. Review of our Statement of Investment Principles

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

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[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
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 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 incorporating these factors is necessary for a robust investment process. They recognise that ESG factors are increasingly essential inputs when evaluating long-term investment opportunities and risks across all public and private asset classes.

LGIM	LGIM believes environmental, social, and governance (ESG) factors are financially material. Responsible investing is, in LGIM's view, essential to mitigate risks, unearth investment opportunities and strengthen long-term returns. Active ownership forms a key part of how LGIM embeds ESG considerations into their investment activities. LGIM is committed to using their scale and influence to encourage companies to improve their management of ESG issues. LGIM has established a fully integrated framework for responsible investing to strength long-term returns and raise market standards. LGIM believes ongoing dialogue with companies is a fundamental aspect of their commitment to responsible investment. LGIM incorporate ESG assessments into their regular dialogue with companies to push for real-world change and long-term sustainable value creation. LGIM set unified company-level objectives and targets, which guide and determine their investment decisions across the capital structure. As a result, stewardship activity is coordinated across public and private asset classes.
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 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.

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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:

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Cardano Cashflow Credit

Key points	Engagement activity
Engagement Theme(s): Environmental **Industry:** Oil & Gas **Outcome:** • Business has set scope 1, 2 and 3 intensity emissions targets • Continue leading collective engagement with issuer to set <u>absolute</u> scope 3 emissions reduction targets	The portfolio holds corporate bonds issued by a Norwegian-based international energy company. From a sustainability perspective, Cardano believes that the Oil and Gas sector should play a vital role in the carbonisation of our society by supporting the lower of global emissions while producing a broad energy mix that will sustain security levels and healthy living conditions. Cardano therefore only invests in select companies in this sector which are demonstrating the adaptive capacity to successfully transition to a more sustainable future. This business falls under a collective engagement initiative which Cardano is responsible for leading. Cardano's objectives are to persuade this business to implement a transition pathway aligned with a below 2 degree Celsius, but preferably a 1.5 degrees Celsius, warming pathway. In line with this objective, Cardano has had two dialogues with the company about its energy transition strategy and have also sent a letter with their practical recommendations to its CEO. The business has taken several steps to align its strategy with the goal of limiting global warming to 1.5 C, by setting scope 1, 2 and 3 intensity emissions reduction targets for the short-, medium- and long-term. However, its absolute reduction targets only cover scope 1 and 2 emissions. As an Oil & Gas business, absolute scope 3 reductions are the key to achieving real-world impact on climate change. Cardano's objectives for future engagement over the coming year are as follows: 1. Set an absolute scope 3 emissions reduction target for own production and products sold consistent with a Paris-aligned global reduction in emissions 2. Commit to stopping investments in greenfield oil projects 3. Ensure that any expansions of gas production align with EU taxonomy, demonstrate that its use cannot be substituted by existing alternatives and have a timeframe aligned to potential near-term demand 4. Increase ambitions for low-carbon solutions by aligning targets with the projected low carbon energy mix in the IEA's 1.5°C scenario 5. Provide a detailed explanation of how the decarbonisation plan contributes to a global decrease in emissions by 2030, in line with the Paris Agreement. This explanation should address updated decarbonisation targets, disclosure on low carbon solution developments and how these will displace fossil-based sources, planned capital expenditure that is aligned with these targets, and the assumptions behind the plan.

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PIMCO Cashflow Credit

Key points	Engagement activity
Engagement Theme(s): Environmental **Industry:** Electricity and gas **Outcome:** • Issuer updated their sustainability-linked bond framework in February 2023 • The company's update included additional targets on Scope 3 and taxonomy-aligned capex, both recommended by PIMCO	The issuer is an Italian-based multinational manufacturer and distributor of electricity and gas. PIMCO provided significant input when they first developed their sustainability-linked bond (SLB) framework. Unforeseen circumstances have driven up the issuer's carbon emissions; specifically, 1) weather and 2) the global energy shock arising from the Russia-Ukraine war. PIMCO regularly engages on the implementation of their climate strategy as well as progress on KPIs linked to their SLB issuances. In early 2023, PIMCO discussed the latest trends of the company's progress vs. their targets and the possibility that they miss their SLB objectives. This has resulted in practical action to step up the company's activities The final value is expected to be communicated around April 2024. The renewable's installed capacity is firmly on track. PIMCO has recommended for Enel to consider for inclusion of scope 3 and taxonomy aligned capex into the SLB framework. PIMCO also encouraged them to attribute drivers for their carbon emissions compared to target, to minimise reputational risks of potential step-up. Enel updated their SLB framework in February 2023, including the additional targets on Scope 3 and taxonomy-aligned CAPEX, as recommended. However, the framework now includes step-down mechanisms which PIMCO engaged to share a view against the structure and include an earlier trigger date for future SLB. PIMCO are also following up on its recent human rights controversies and the implications for Global Norms compliance.

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M&G Illiquid Credit

Key points	Engagement activity
Engagement Theme(s): Environmental Social **Industry:** Manufacturing **Outcome:** • Issuer has improved its environmental reporting and disclosures • Issuer is considering setting more ambitious gender and ethnic diversity targets	The issuer is a Belgium-based manufacturer of aluminium systems. M&G's objectives for the engagement were to request that 1) the company improved its carbon emissions data disclosure (by disclosing scope 3 emissions, reporting to CDP and setting carbon reduction targets for scope 1, 2 and 3 emissions) and 2) the company improves its Diversity and Inclusion (D&I) practices by setting and implementing gender diversity targets across its workforce. **Carbon emissions** The Manager met with the company's management team several times which has resulted in: • A commitment to report scope 3 emissions by the end of the financial year. This will include employees' commute, transport and sales of goods • A commitment to SBTi which covers scope 1, 2 and 3 and will be aligned with the Paris Agreement The Manager is pleased to see the progress that has been made to enhance its environmental reporting and disclosures; however, because the issuer has not yet committed to reporting to CDP, the Manager will continue to push for CDP disclosure which it views as industry best practice. **Diversity and Inclusion** Whilst the issuer has set gender diversity targets at its leadership level to employ 16% of women in leadership positions by 2024, "leadership" is narrowly defined and only includes employees at C-suite level. Moreover, there are no gender diversity targets set for the total workforce. The Manager's view is that these targets are not particularly ambitious and they would like to see more ambitious targets set at a board level. Moreover, the issuer does not currently disclose or set targets for ethnic diversity, to which the issuer has explained they're unable to do so due to data privacy concerns. Whilst the Manager's view is that D&I is being taken into account, they are continuing to emphasise that disclosures and targets would be beneficial in the medium-term.

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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