Industry-Wide Coal Staff Superannuation Scheme

Implementation Statement

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustee produces an annual statement called an Implementation Statement ("IS") which outlines the following:

- A description of any review and changes made to the Statement of Investment Principles ("SIP") over the Scheme year.
- Evidence on how the Trustee has fulfilled the objectives and policies included in the SIP over the Scheme year.
- Describe the voting behaviour by or on behalf of the Trustee (including the most significant votes cast) during the Scheme year and state any use of third-party provider of proxy voting services.

The IS has been prepared by the Trustee and covers the DB and DC Sections of the Industry-Wide Coal Staff Superannuation Scheme (the "Scheme") covering the Scheme year from 1 January 2021 to 31 December 2021.

Executive summary

Based on the activity carried out by the Trustee and its investment managers over the year, the Trustee is of the opinion that its policies have been implemented effectively in practice. The Trustee notes that its investment managers were able to disclose evidence of voting and engagement activity.

The Trustee expects improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

1. Review and changes made to the SIP over the year

The Trustee has a policy to review the SIP formally at least every three years, or after any significant change in investment policy or member demographics.

The DB SIP was reviewed during the year to 31 December 2021 and updated in October 2021. No changes were made to the DC SIP during the year.

The SIP was updated to reflect the decision made by the Trustee to delegate the day-to-day management of most of the growth portfolio assets to Legal & General Investment Management (LGIM). The Trustee has agreed asset allocation parameters to manage the growth assets within and this excludes illiquid assets such as property.

The Trustee sought input on these changes from its investment adviser and the Sponsoring Employer.

The latest version of the SIPs available for members are available to view via the Scheme website here:

DB Section: https://www.iwcsss.com/media/3952/iwcsss-sip-2021.pdf
DC Section: https://www.iwcsss.com/media/3601/xx-iwcsss-dc-sip-mrsl-2021.pdf

2. Meeting the objectives and policies outlined in the SIP

DB Section

Requirement	Policy	In the year to 31 December 2021
Strategy	The Trustee monitors strategy relative to the agreed asset allocation benchmarks. It is intended that the investment strategy for each employer section will be reviewed at least every three years following actuarial valuations of the sections. In reviewing strategy, the Trustee will seek written advice as required.	In Q1 2021 following periods of underperformance, The Trustee as recommended by its adviser, fully redeemed the Scheme's position in Invesco Global Targeted Return fund and reinvested the proceeds with LGIM and PIMCO. Building on this, the Trustee decided to restructure management of most of the Schemes' growth assets. Following a tender exercise, LGIM were the selected manager. The transition of growth assets (excluding illiquid assets such as UK Property) commenced on 10 December 2021 and was completed on 25 January 2022.
Performance	The Trustee regularly reviews Scheme performance at an individual fund level and at Scheme level, with reference to specific benchmarks.	The Trustee was provided with quarterly investment reports produced by their investment adviser which provide all of the relevant monitoring information for each fund.
Risk	The Trustee recognises the risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk").	The Trustee and its advisers considered this mismatching risk when setting the investment strategy and monitors the LDI portfolio on an ongoing basis.

Environmental, Social and Governance ("ESG") consideration	In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that ESG factors including climate change negatively impact the value of investments held if not understood and evaluated properly.	Effective 30 June 2021, the Trustee's investment adviser changed its ESG rating evaluation for levels of ESG integration from a scale of 1-4, to the descriptors: Limited-Integrated-Advanced. The investment adviser confirmed that all applicable managers received at least a 2 out of 4 ESG rating over Q1 and at least an Integrated rating from Q2 2021 onwards. This means that the fund management team has taken appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio.
Stewardship	The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.	Information, in particular focussing on case studies of voting and engagement activity, was requested from managers in conjunction with the preparation of this Implementation Statement.

DC Section

Requirement	Policy	In the year to 31 December 2021
Strategy	The Trustee's policy is to obtain written advice concerning the continued appropriateness of the investment strategy, investment manager and the range of funds available every three years, or sooner in the event of any significant changes to their investment objectives. The investment strategy review also considers the key risks inherent within the DC section. Investment in the insurance contract is under the control of the Trustee and it is the Trustee's policy to review the investments and to obtain written advice about them periodically.	The last formal investment strategy review was carried out in 2020 therefore the Trustee did not carry out a formal review of the investment strategy or the funds made available to members during this Scheme year. The next investment strategy review is due to take place in 2023.
Performance	The Trustee monitors DC fund performance on a quarterly basis, with reference to each funds' benchmark (or expected return, if applicable)	The Trustee reviewed the performance of the DC funds, using the quarterly report issued by Legal & General at Administration, Risk and Finance Sub-committee meetings held on 18 March 2021, 17 June 2021, 16 September 2021 and 2 December 2021.

Costs	The Trustee is aware of the importance of monitoring the costs and charges borne by members, and the impact these can have on member outcomes. It obtains information about the level of costs and charges, as part of the work to prepare the Chair's Statement each year.	The costs and charges for all DC and Additional Voluntary Contribution ('AVC') funds held by members over the year to 31 December 2020 were obtained from the providers and were set out in the Chair's Statement for the year ended 31 December 2020.
	The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable, as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency, the mandate will be reviewed.	The Trustee carried out a high-level review of transaction costs for DC and AVC funds when carrying out the value for members assessment for the year ended 31 December 2020. The Trustee did not identify any inconsistencies in the transaction costs reported for the year ended 31 December 2020, compared to previous years.
Stewardship	The Trustee reviews the continuing suitability of the appointed provider at least every three years and takes advice from its investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. The Trustee reviews the stewardship activities of the fund managers on an annual basis, covering both engagement and voting actions.	The Trustee reviewed the continuing suitability of Legal & General as the provider of the DC Section (and Aviva as the AVC provider) using the governance and value assessment report presented by its investment advisers at the Administration, Risk and Finance Sub-committee meeting on 17 June 2021. As stated above, the Trustee's investment adviser changed its ESG ratings evaluation from a scale of 1-4, to the descriptors: Limited-Integrated-Advanced with effect from 30 June 2021. For the funds held by members of the DC Section (in the underlying funds for which stewardship is material), LGIM received a 2 or 3 out of 4 ESG rating over Q1 and an 'Advanced' or 'Integrated' rating from Q2 2021 onwards. This means that LGIM has taken appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio. The Trustee's investment adviser did not formally review the ESG integration in the funds members AVCs are held in due to the very small amounts invested in these funds.

3. Voting and engagement activity undertaken over the year

The DB and DC Section of the Scheme invests in pooled funds across a range of asset classes, and the Trustee has delegated responsibility for the selection, retention, and realisation of investments to the Scheme's investment managers in whose funds it invests.

As part of the production of this statement, the Trustee – supported by its investment advisers, Aon – has reviewed the voting and engagement activities carried out on its behalf by the Scheme's DB and DC investment managers. Where the stewardship of managers is found to be falling short of the standards set out by the Trustee (exercising votes and engaging in order to create long-term financial value) may take further action – for example by meeting with the manager in question or requesting that Aon engage on its behalf.

The Scheme's investment managers have provided commentary on their approach to voting, including the use of any proxy voting services provided (relevant for equity managers only) as well as their approach to engaging with underlying security issuers. The Trustee acknowledges that the concept of stewardship may be less applicable with respect to its property investments, short-term money market instruments, liability driven investment ("LDI") and gilt investments. As such, these investments have not been covered in this statement.

The Scheme's equity investment manager has provided examples of significant votes. There are a number of different criteria under which investment managers can determine whether a vote is significant, with examples including:

- a vote where a significant proportion of the votes (e.g., more than 20%) went against the management's proposal
- a vote where the investment manager voted against a management recommendation or against the recommendation of a third-party provider of proxy voting
- a vote that is connected to a wider engagement initiative with the company involved
- a vote that demonstrates clear and considered rationale
- a vote that the client considers inappropriate or based on inappropriate rationale
- a vote that has significant relevance to members of the Scheme.

Engagement activity – Legal and General Investment Management (LGIM) - as manager of the DC Section assets and most of the Scheme's DB growth assets

Management of most of the Scheme's DB growth assets excluding illiquid assets such as property has been delegated to (LGIM) with the transition beginning on 10 December 2021. Although engagement information has not been provided for this statement due to the limited time as manager of most of the Scheme's growth assets, it has been agreed with LGIM that information will be provided for future statements.

Voting and Engagement activity – Equity & Multi-Asset funds

Over the year, the material equity investments held by the Scheme were:

Fund Manager	Fund
DB Section:	
LGIM	UK Equity Index Fund
	North America Equity Index Fund
	Europe (ex UK) Equity Index Fund
	Japan Equity Index Fund
	Asia Pacific (ex Japan) Equity Index Fund
	World Emerging Markets Equity Index Fund
DC Section	
LGIM	Multi-Asset Fund

LGIM uses the services of proxy voting organisations for various services that may include research, vote recommendations, administration, and vote execution.

LGIM

<u>Voting policy</u>

LGIM makes use of Institutional Shareholder Services ("ISS") proxy voting platform to electronically vote and augment its own research and proprietary ESG assessment tools but does not outsource any part of the strategic decisions. The manager has put in place a custom voting policy with specific instructions that apply to all markets globally, which seeks to uphold what it considers to be minimum best practice standards all companies should observe. LGIM retains the ability to override any voting decisions based on the voting policy if appropriate, for example if engagements with the company have provided additional information. LGIM has strict monitoring controls to ensure its votes are fully and effectively executed in accordance with its voting policies by the service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform LGIM of rejected votes which require further action.

All decisions are made by LGIM's Investment Stewardship team and in accordance with its relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This is to ensure a smooth flow of stewardship throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.
The Investment Stewardship team also uses the research reports of Institutional Voting Information Services to supplement the research reports that they receive from ISS for UK companies when making specific voting decisions.

Please find voting statistics for the year to 31 December 2021 in the Appendix.

Voting examples

North America Equity Index Fund:
On 27 April 2021, LGIM voted for the shareholder resolution to report on the Racial Equity Audit of Wells Fargo & Company, a financial services corporation. A vote in favour was applied as LGIM supports proposals related to diversity and inclusion policies, as LGIM consider these issues to be a material risk to companies. 12.9% of shareholders supported the resolution. LGIM noted that it will continue to engage with its investee companies, publicly advocate LGIM's position on this issue and monitor company and market-level progress. LGIM deemed this vote significant as LGIM views diversity as a financially material issue for its clients, with implications for the assets it manages on their behalf.

UK Equity Fund:
In June 2021, LGIM voted against the resolutions to re-elect Manfred Wennemer as the Director of TI Fluid Systems Plc given the company was not aligned with LGIM's views on gender diversity. LGIM views gender diversity as a financially material issue for its clients, with implications for the assets it manages on their behalf. For 10 years, it has been using its position to engage with companies on this issue. It applies voting sanctions to those FTSE 350 companies that do not have a minimum of 30% women on the board. LGIM also applies voting sanctions to the FTSE 100 companies that do not have 30% women on their executive committee (as was the case with TI Fluid Systems Plc). LGIM will continue to engage with the investee companies, publicly advocate its position on this issue and monitor company and market-level progress.

Engagement policy

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues
2. Formulate the engagement strategy
3. Enhance the power of engagement
4. Public Policy and collaborative engagement
5. Voting
6. Reporting to stakeholders on activity

The manager takes an active role in stewardship and considers it is its duty to be accountable for its clients' assets, to ensure it upholds the highest corporate governance standards and identifies ESG risks and opportunities. It monitors a number of areas and conducts engagements on various issues. LGIM's top five engagement topics/ESG issues are climate change, remuneration, diversity, board composition and strategy.

All decisions are made by LGIM's Investment Stewardship team and in accordance with its relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. LGIM's engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all their clients.

Engagement example (Firm Level Example):

Over 2021, LGIM engaged with a number of companies on the topic of antimicrobial resistance. Antimicrobial resistance occurs when bacteria, viruses, fungi and parasites change over time and no longer respond to medicines making infections harder to treat and increasing the risk of disease. LGIM states that the overuse and inappropriate use of antimicrobials in human activities are often linked to the uncontrolled release of antimicrobial agents into the ecosystem. In particular, water sanitation systems have not been designed to address antimicrobial resistance.

LGIM reached out to 20 water utility companies through an open letter to understand if they were aware of the issue of antimicrobial resistance and if they plan to introduce monitoring systems to detect agents such as antibiotic resistant bacteria. LGIM also had meetings with some of the companies and found that awareness of antimicrobial resistance was generally low. LGIM believed this was due to the lack of regulatory requirements and little perception of the potential business risks.

After these engagements, LGIM found several investee companies were considering their approach to antimicrobial resistance. One utility company sought to understand what happens to contaminants in its wastewater treatment process and implemented a programme to try to understand improvements it could make to its systems.

LGIM believes it is important to promote an enhanced and standardised approach to antimicrobial resistance through influencing the regulatory landscape. As such, it is also working with its peers in the Investor Action on Antimicrobial Resistance initiative.

Engagement activity – BlackRock – as manager of the DB Scheme’s Property Fund

The Trustee acknowledges that the ability of property managers to engage with and influence investee companies may be less compared to equity managers. However, it is encouraging to see from the information provided for the implementation statement that the manager is aware and active in its role as a steward of capital.

The Scheme was invested in the BlackRock UK Property Fund over the year to 31 December 2021. The following section demonstrates some of the engagement activity being carried out by BlackRock over the year.

The UK property fund invests directly in UK real estate. BlackRock reports annually on its property funds to the Global ESG Benchmark for Real Estate (“GRESB”), which aims to assess and benchmark the ESG and other related performance of real assets across the market.

Engagement Example

Sustainability campaigns have been implemented at various properties within the BlackRock UK Property Fund with the aim to engage with tenants on a range of sustainability topics; from energy efficiency and carbon reduction, to sustainable transport and travel, waste management and recycling, wildlife conservation, and health and well-being. Birmingham Business Park (“BBP”) is a large office campus comprising over 1.7m sq ft of office space, spread across 148 acres of mature parkland, and with over 130 occupants, including Rolls Royce, IMI and Goodyear. Ongoing sustainability campaigns, together with quarterly ‘Sustainability Week’ events are now held at BBP and are open to all occupiers, as well as the wider local community.

BlackRock has conducted numerous campaigns and initiatives, a few examples being:

- The establishment of three on site beehives. The ‘BBP Honey’ generated by the bees is sold on site to tenants and visitors, with all proceedings going to local charities.
- On site pond dipping, woodland walks and ‘wildlife awareness’ talks at lunchtimes and after hours.
- The provision of ‘Pool Bikes’, together with on-site cycle storage facilities, for the use of all tenants.

As a result, BBP was awarded the Transport for West Midlands Top Cycling Award and Top Walking Award in 2017 in recognition of the efforts to encourage more sustainable modes of transport for all occupiers and tenants.

Appendix

Voting Statistics for the year ending 31 December 2021

	Number of resolutions eligible to vote on over the period	% of resolutions voted on for which the fund was eligible	Of the resolutions on which the fund voted, % that were voted against management	Of the resolutions on which the fund voted, % that were abstained from
UK Equity Index Fund	9,923	100%	7.23%	0.00%
North America Equity Index Fund	7,846	99.73%	28.98%	0.06%
Europe (ex UK) Equity Index Fund	7,665	99.97%	17.45%	0.37%
Japan Equity Index Fund	5,306	100.00%	13.74%	0.00%
Asia Pacific (ex Japan) Equity Index Fund	3,797	99.92%	21.74%	0.18%
World Emerging Markets Equity Index Fund	31,303	99.79%	16.29%	1.90%
Multi-Asset Fund	77,612	99.80%	20.26%	0.69%

Source: LGIM