



Tullis Russell Pension Scheme

Implementation Report

July 2022

isio.

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their Statement of Investment Principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The SIP can be found online at the web address: [SIP-Updated-February-2022-Signed.pdf \(tullisrussell.com\)](https://www.tullisrussell.com/SIP-Updated-February-2022-Signed.pdf).

Changes to the SIP are detailed on the following pages.

Implementation Report

This Implementation Report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

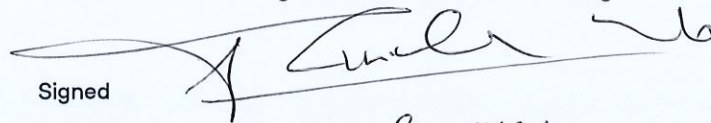
- actions the Trustees have taken to manage financially material risks and implement the key policies in its SIP
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks
- the extent to which the Trustees have followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies they invest
- voting behaviour covering the reporting year up to 5 April 2022 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf.

Summary of key actions undertaken over the Scheme reporting year

- No significant changes were made to the Scheme's investment strategy over the year. The Scheme's strategic asset allocation remains in line with the benchmark stated as at 5 April 2021.
- The Trustees topped up the allocations to the Scheme's multi-asset credit mandates with M&G and CQS in April 2022 to rebalance the funds back to their strategic asset allocations. An additional £1m was allocated to each fund, with cash sourced from the BlackRock Liquidity Fund.

Implementation Statement

This report demonstrates that the Tullis Russell Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed 
Position TRUSTEE CHAIRMAN
Date 8th July 2022

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 90% of movements in interest rates and inflation on a flat gilts basis.	The Scheme's SIP was updated in February 2022 to reflect the Increase in strategic hedge implemented in late March and early April 2021.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members' benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.	<p>The Scheme's liquidity position has reduced over the period as it has been used to meet capital calls for the direct lending mandate, rebalance the Multi Asset Credit ("MAC") mandates and meet LDI recapitalisations caused by yield movements over the beginning of 2022.</p> <p>In order to alleviate the liquidity constrictions in the Scheme, funds from the M&G Alpha Opportunities Fund are due to be transitioned to a similar, but more liquid mandate with M&G in Q3 2022.</p>
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.	<p>The new investment strategy was designed to mitigate market risk as far as practicable whilst ensuring that the Scheme's assets generate an appropriate level of expected return.</p> <p>The changes to the SIP were updated in February 2022.</p>
Credit	Default on payments due as part of a financial security contract.	<p>To diversify this risk by investing in a range of credit markets across different geographies and sectors.</p> <p>To appoint investment managers who actively manage this risk by seeking to invest only in debt</p>	The number of credit managers and breadth of market exposure remained broad over the period, continuing to provide increased diversification of default risk.

		securities where the yield available sufficiently compensates the Scheme for the risk of default.	
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory <p>The Trustees monitor the managers on an ongoing basis.</p>	<p>The ESG policy was reviewed by the Trustees as part of the SIP updates in September 2019, September 2020 and February 2022.</p> <p>The Trustees also undertook an ESG Impact Assessment in November 2021, which assessed how well each of the Scheme's managers are integrating ESG within their fund.</p>
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income	The overseas currency exposure within the two Absolute Return Bond funds is hedged by the investment managers.
Non-financial	The views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme in the selection, retention and realisation of investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments unless specifically requested as part of the evaluation criteria when selecting managers. However, the Trustees may take specific non-financial matters into consideration if they represent the view of a majority of Scheme members.	

Changes to the SIP

Changes to the SIP

Date updated: **February 2022**

The SIP was updated over the period to reflect the increase in the Scheme's liability hedge to 90% of non-insured liabilities on a Technical Provisions basis which was completed in April 2021.

Additionally, the manager benchmarks and objectives were updated to reflect the transition to SONIA from the LIBOR cash benchmark which ceased to be published beyond 31 December 2021.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following page outlines Isio's assessment criteria as well as the ESG beliefs used in evaluating the Scheme's managers' ESG policies and procedures. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustees intend to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	<ul style="list-style-type: none">• Through the manager selection process ESG considerations will form part of the evaluation criteria• The Scheme's investment advisor Isio will monitor managers' ESG policies on an ongoing basis• When attending Trustee meetings, investment managers will be asked to present to the Trustees on actions they have taken in respect of ESG factors and their exercise of rights and engagement activity;• The Trustees are provided with a report detailing the managers' ESG policies as well as a summary of actions Isio has engaged with managers on to ensure the scheme is not exposed to risks relating to Environmental, Social or Governance factors.	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.

Engagement

As the Scheme invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category over the 12 month period to 5 April 2022.

Fund name	Engagement summary	Commentary
CQS Multi Asset Credit Fund	Total engagements: 64	<p>CQS have a clear and robust due diligence process and investment framework. CQS have implemented an updated engagement framework that offers greater guidance on the engagement process and improves the overall ability to monitor the effectiveness of their engagement across the firm in line with stewardship priorities. The engagements are handled by investment analysts and recorded in the internal ESG universe, thereby enabling PMs to look at previous engagements with individual names and discuss the potential for further targeted engagement. The "Engagement Group" team provide oversight and review engagement activity centrally ensuring that engagements are coordinated and shared across the business.</p> <p>An example of a significant engagement includes:</p> <p>First Quantum Minerals Ltd – CQS engaged with the company about their emissions targets and whether they intended to set net zero pledges. The Company noted that they are intending to set absolute emission targets rather than a net zero pledge. Their goal is to remain focused on the steps that will lead to net zero as opposed to setting broad based targets with little clarity on how to achieve them. CQS provided the Company with a couple of examples of absolute emission targets which the Company responded positively to. First Quantum is familiar with the green bond market and sees the benefits in lowering their cost of capital, noting they will consider financing sustainability initiatives through the green bond market as the need arises. CQS will continue to engage with the Company and note that they appear receptive to CQS' input and interest.</p>
	General ESG: 12	
	General ESG and Climate Change: 2	
	Environmental: 26	
	Social: 6	
	Governance: 2	
	Climate Change: 3	
	Environmental & Social: 5	
	Environmental & Governance: 4	
	Social & Governance: 2	
M&G Alpha Opportunities Fund	Environmental & Climate Change: 1	<p>M&G have a systematic approach to engagements whereby specific objectives are outlined in advance and results measured based on the outcomes from the engagements.</p> <p>M&G Analysts are expected to have a more granular awareness of key ESG risks which impact the individual</p>
	Governance & Climate Change: 1	
	Total engagements: 26	
	Environmental: 20	
	Social: 1	
	Governance: 5	

		<p>issues they monitor. Where engagements are deemed to be necessary, analysts engage with issuers supported by M&G's Sustainability and Stewardship Team, allowing them to leverage their expertise and sustainability themes. M&G monitor the success of engagement by assessing whether they have met their objective and log this in a central system.</p> <p>Examples of significant engagements include:</p> <p>HSBC Bank Plc – M&G engaged with the global banking group to outline the requirements of M&G's coal position statement, explain their expectations of the bank's targets, and encourage the consideration of additional commitments. M&G stated that they would like to see a timeline to zero coal being financed by 2030/2040, with quantitative targets being set for the short and medium term. M&G highlighted the need for the policy to include the mining of thermal coal, new and existing coal operations, and lending to businesses which have coal in their portfolio. M&G noted that HSBC were receptive during the dialogue and that they will continue engagement where necessary.</p> <p>Royal Dutch Shell Plc – M&G engaged with the oil company regarding their operations in Nigeria and associated oil spills. M&G met with the managing director of the Nigerian team, and found Shell is working hard to improve the situation, and that Shell has made significant improvements in the total volume of spills. Shell also has a 5 year project underway, where \$900m will be spent on the clean-up efforts and preventative measures to help them reach their goal of zero spills.</p>
Partners Group Private Markets Credit Strategies 2020 Fund	<p>Total engagements: 2</p> <p>Corporate: 2</p> <p>*Note that Partners Group provide data semi-annually, and as such the engagement data shown reflects their activity over the 2021 calendar year</p>	<p>Partners Group maintain ongoing contact with the management teams of their portfolio companies, however, given their position as lenders they will typically rely on the equity sponsor to report ESG-related concerns and drive ESG improvements. Investing in private companies also reduces the transparency of the information available to assess ESG risks.</p> <p>Partners Group has engaged on mostly governance related issues over the period, rather than environmental or social considerations. An example of a significant corporate governance activity within the portfolio project includes:</p> <p>Affordable Care – Partners Group engaged with the equity sponsor in relation to an exit announcement. The existing sponsor had agreed to sell the business to a new</p>

		Private Equity owner. Following this engagement, the company was acquired by the new private equity firm, and the second lien debt and equity investments in the company were realised.
BlackRock Liability Matching Funds	BlackRock were unable to provide engagement data.	At firm-level, BlackRock engages with companies and issuers through its Investment Stewardship team, which is responsible for applying firm wide corporate governance practices and has responsibility for engagement and proxy voting practices.
BlackRock Cash Fund		<p>Within LDI, BlackRock has started to engage with derivative counterparties on governance issues and is currently developing an Environmental screen for assessing banking counterparties. The default cash fund within the Liability Matching Funds (LMF) is LEAF, which is the firm's environmentally aware money market fund. Issuers will be excluded from direct investment if they have below average Environmental practices as viewed by MSCI.</p> <p>BlackRock have stated that engagement is not something it can apply within LDI funds, as the instruments traded are not directly linked to public corporations. As such, BlackRock currently do not collect engagement data for the underlying LDI and cash funds.</p>
M&G PP Cash Fund	M&G were unable to provide engagement data.	M&G currently do not collect engagement data for the cash fund.

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