Tullis Russell Pension Scheme

Implementation Report

July 2023

isio.

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Statement of Investment Principles (SIP)

The SIP can be found online at the web address: Certificates and approvals | Tullis Russell

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 Scheme has 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 Scheme has followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate
- voting behaviour covering the reporting year up to 5 April 2023 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

- To reduce the Scheme's governance burden and improve efficiency for the Liability Driven Investment ("LDI") collateral pool, in June 2022, the Trustees instructed the disinvestment of the M&G Cash Fund, with the proceeds being invested in the BlackRock Cash Fund.

- The Trustees agreed to partially redeem their holdings in the M&G Alpha Opportunities Fund ("AOF") in October 2022 and to fully redeem their holdings in the CQS Credit Multi Asset Fund in December 2022 to provide additional liquidity for the Scheme and support the LDI portfolio.

- In March 2023, the Trustees instructed the remaining holdings in the M&G Alpha Opportunities Fund be traded in-specie with M&G, with the holdings being switched into the Total Return Credit Investment ("TRCI") fund, the daily dealing sister fund of the AOF.

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	John Christie
Position	Trustee Chairman
Date	31st July 2023

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.	Following unprecedented gilt market volatility in September and October 2022, the hedge was reduced from 90% to c. 50% (on a flat gilts basis). The Trustees reviewed the strategy post-reporting period and are considering options to re-increase the hedge using the redemption proceeds from the sales of the Absolute Return Bond funds. Once agreed, these changes will be reflected in the next SIP update.
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.	Following significant volatility in gilt markets over September and October 2022, the Trustees took action to increase the Scheme's liquidity and manage overall liquidity pressures on the Scheme. This included instructing a partial redemption of the Scheme's holdings in the M&G Alpha Opportunities Fund ("AOF") in October 2022 and full redemption from the CQS Credit Multi Asset Fund in December 2022, to increase the overall level of liquid capital available within the strategy. Additionally, the Trustees transitioned their remaining holdings in M&G AOF to the daily dealing sister fund, the M&G Total Return Credit Investment Fund in March 2023. These changes will be reflected in the next SIP update.

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.	The Trustees agreed to a number of strategic and manager changes over the year in response to changing market conditions These changes have been outlined in the previous section. Following the stabilisation of market conditions in Q4 2022 and Q1 2023, the Trustees reviewed the current positioning of the Scheme's strategy post reporting period in Q2 2023. Any changes to the strategy as a result of the review will be reflected in the next SIP update.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	The allocation to Absolute Return Bonds was reduced over the period following disinvestment from the CQS Credit Multi Asset Fund and partial redemption from M&G. These changes were driven by market movements over 2022. Following completion of the strategy review, any changes made to strategic allocations will be reflected in the next SIP update.
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.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 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	The ESG policy was reviewed by the Trustees as part of the SIP updates in September 2019, September 2020 and February 2022. The Trustees also undertook an ESG Impact Assessment in March 2023, which assessed how well each of the Scheme's managers are integrating ESG within their fund.

		5. UN PRI Signatory The Trustees monitor the managers on an ongoing basis.	
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 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.	No additional action or change over reporting period.

Changes to the SIP

Over the period to 5 April 2023, the Trustees made no changes to the SIP.

The SIP was updated post-reporting period in July 2023 to reflect the recent regulatory requirements.

Policies added to the SIP	
Date updated: July 2023	
Voting policy – How the Trustees expect investment	• The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.
Engagement policy – How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'	• The Trustees have acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf. • The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually. • Example stewardship activities that Trustees have considered are listed below: ○ Selecting and appointing asset managers – the Trustees will consider potential managers' stewardship policies and activities. ○ Asset manager engagement and monitoring – on a regular basis, the Trustees assess the voting and engagement activity of their asset managers. The result of this analysis is fed into the Trustees' investment decision making. ○ Collaborative investor initiatives – the Trustees will consider joining/supporting collaborative investor initiatives.

ESG summary and actions with the investment managers

Manager, fund	ESG Summary	Actions identified	Engagement with manager commentary
M&G – Total Return Credit Investment Fund	M&G have a strong firm-wide ESG approach and have evidenced their ability to manage ESG risks in this Fund. However, reporting is a slightly weaker area due to data reporting issues in certain areas of the portfolio, which M&G are working to address.	M&G to introduce Key Performance Indicators ("KPIs") to track the Fund's alignment with the firm-wide ESG policy. M&G to continue to develop temperature scenario modelling. M&G should increase the number of portfolio issuers they are actively engaging with on ESG specific issues. M&G should continue to improve data coverage and reporting metrics, with a particular focus on social and engagement reporting.	Isio engaged with M&G over the year and discussed possible actions the Manager could take for the Fund. Isio discussed the Manager's development of temperature scenario modelling, noting that M&G have introduced climate scenario modelling and temperature pathways, but are yet to model a scenario of a temperature increase of below 2°C.
Partners Group – PMCS 2020	While Partners Group have demonstrated growth within their ESG team and practices, they are lagging compared to peers across a number of areas, primarily reporting.	Partners Group to identify Fund Level ESG targets. Partners Group to provide a Diversity Report and improve diversity reporting metrics. The manager should look to adopt engagement targets and include engagement information in quarterly reporting. Partners Group should report on the Task Force on Climate-Related Financial Disclosures ("TCFD") Climate Change Metrics and incorporate ESG metrics into quarterly reports.	Isio engaged with Partners Group over the year and discussed possible actions the Manager could take for the Fund. Partners Group have confirmed the process to improve diversity reporting is to begin in early 2023. The manager also confirmed that they will begin reporting on TCFD metrics and these will be incorporated into quarterly reports by June 2023.
BlackRock – LDI	BlackRock integrate ESG considerations into their counterparty selection and monitoring process.	BlackRock should roll out their own scorecard to score counterparties against ESG criteria. BlackRock should be able to articulate ESG risks for each counterparty and have an escalation policy if ESG risks are considered too high.	Isio engaged with BlackRock over the year and discussed possible actions the Manager could take for the Fund. Isio noted that since their last engagement in 2021, BlackRock had made no progress on ESG reporting.

	BlackRock should set clear engagement objectives and milestones for counterparties. BlackRock should start reporting on counterparty engagements and ESG scores.

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 2023.

Fund name	Engagement summary	Commentary
M&G Total Return Credit Investment*	Total engagements: 11 Environmental: 5 Social: 4 Governance: 2	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. M&G Analysts are expected to have a more granular awareness of key ESG risks which impact the individual 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. Examples of significant engagements include: Marks & Spencer - M&G reached out to the British retailer to explore their plans to become Real Living Wage accredited. Following this, M&S confirmed that they have no plans to pursue accreditation as a Living Wage Employer. M&S confirmed that their employees' rates currently exceed the real living wage and external factors such as the living wage rate are considered when setting their hourly rates. In addition, M&S provide employees with a reward package, including pensions, and company wide discounts. M&G were comfortable with the company's rationale and their efforts to ensure their employees were being fairly paid. ArcelorMittal – M&G met with the CFO and Head of Investor Relations at the company to encourage them to implement a short-term carbon reduction target, such as 2025. ArcelorMittal have already made a commitment to carbon reduction targets by 2030 and to become carbon neutral by 2050. Given these commitments and the progress started to achieve these, the company felt this target would be unrealistic and therefore, could not commit to a shorter term target than those already in place.

Partners Group Private Markets Credit Strategies 2020 Fund	Total engagements: 4 ESG: 2 Corporate: 2 *Note that Partners Group provide data semi-annually, and as such the engagement data shown reflects their activity over the 2022 calendar year	Partners Group ('PG') 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. While PG have demonstrated growth within their ESG team and practices, they are lagging compared to peers across a number of areas, primarily reporting. 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: Ligentia– Partners Group engaged with the Sponsor and Company on the inclusion of ESG related SLL terms on the new financing. At present, the exact terms of the ESG margin rachet are currently being agreed on.
BlackRock Liability Matching Funds BlackRock Cash Fund	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. Within LDI, BlackRock has started to engage with derivative counterparties on governance issues and is currently developing an Environmental screen for assessing banking counterparties. 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.

*M&G Total Return Credit Investment Fund invested in March 2023. Engagement data provided for the full 12-month reporting period.

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