Hydraulics Research Pension Scheme

31 March 2023

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.

Implementation Report

This implementation report is to provide evidence that the Hydraulics Research Pension Scheme (the "Scheme") continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address:
https://www.hrwallingford.com/pensions

There have been no changes to the SIP over the reporting year, although it has been updated post yearend to incorporate some additional wording around stewardship in response to DWP regulation.

The Implementation Report details:

- actions the Trustees have taken to manage financially material risks and implement the key policies in the 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 their 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 31 March 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

- The Trustees agreed to implement a new investment strategy at the beginning of 2023, reflecting the de-risking discussions that took place over 2022 and also noting that a greater allocation to LDI and easily accessible collateral assets was required.
- As a result, the Scheme's strategy was updated to allocate 40% to LDI and introduce Absolute Return Bonds (allocation 10%) as a new asset class that would be used as a source of additional collateral for the LDI. Any distributions from the LDI would also be paid into the ARB fund.
- The allocation to Equities and DGF were each reduced to 15%, and the allocation to the M&G Alpha Opportunities Fund was maintained at 20%.
- The Scheme's SIP and IID (Investment Implementation Document) were updated post year end to reflect the updated strategy.

Implementation Statement

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

Signed: C Teagle , Vidett Limited

Position: Chair of Trustees

Date: 24 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 at least the Scheme's funding level (100% of assets).	There have been no changes to the policy over the reporting year.
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.	There have been no changes to the policy over the reporting year. Allocation to Absolute Return Bonds implemented in Q1 2023 to work alongside LDI.
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.	There have been no changes to the policy over the reporting year.
Credit	Default on payments due as part of a financial security contract.	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. To diversify this risk by investing in a range of credit markets across different geographies and sectors.	There have been no changes to the policy over the reporting year.
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 the 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	ESG actions undertaken: 1. The managers' ESG policies were reviewed and presented to the Trustees in an ESG Impact Assessment report. More details of the ESG policy and how it was implemented are presented later in this report.

		4. ESG specific client reporting 5. Collaboration with other market participants on ESG issues, and a signatory to recognised ESG frameworks (i.e. UN PRI). 6. UK Stewardship Code Signatory (added in SIP post yearend) 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.	To hedge 50% of currency risk in overseas equity funds.	There have been no changes to policy over the reporting year.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	There have been no changes to policy over the reporting year.

Changes to the SIP

Policies added to the SIP	
Date updated: Post yearend	
Voting Policy - How the Trustees expect investment managers to vote on their behalf	• 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.

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 the Scheme's current ESG policy, while the following page outlines the areas Isio have used when 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 engagement 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.

Risk Management	1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustees
Approach / Framework	3. The Trustees should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager. 4. ESG factors are relevant to investment decisions in all asset classes. 5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important. 7. ESG factors are dynamic and continually evolving; the Trustees will receive training as required to develop their knowledge. 8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustees will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	9. The Trustees will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach. 10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why. 12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.

ESG summary and actions with the investment managers

Manager - Fund	ESG Summary	Actions identified	Engagement with manager commentary
Legal & General Investment Management Matching Core LDI Funds	LGIM integrate ESG factors in their LDI funds through counterparty review and engagement. As a firm, LGIM have strong commitments to net zero and the decarbonisation framework.	The manager should include the ESG scoring of counterparties in regular client reporting.	Isio continually engaged with LGIM to improve engagement data of counterparties. Additionally, LGIM noted a timeline for reporting ESG metrics and scoring.
Legal & General Investment Management Passive Equity Funds	LGIM employ a dedicated and experienced ESG team to assess and engage with companies on key ESG issues. Within the Passive Equity Funds, there is limited score to adapt the investment approach to ESG matters.	The manager should consider reporting on fund level coverage of greenhouse gas emissions.	Isio engaged with LGIM over the last year whereby they agreed to provide reporting on voting and stewardship to meet client regulatory requirements.
Legal & General Investment Management Absolute Return Bond Fund	LGIM provide ESG scores for all assets within the mandate and can provide the required TCFD Scope 1 and 2 metrics. The manager also encourages investee companies to align sustainability reporting with best-practice frameworks.	The manager should create plans to support the reduction in its carbon weighted temperature alignment and set specific climate and social KPIs. The manager should also try to increase the number of engagements with companies per annum and introduce fund-level stewardship objectives.	Isio engaged with LGIM to develop specific fund-level ESG/Climate objectives with quantifiable target dates.
BlackRock Investment Management (UK) Limited, Dynamic Diversified Growth Fund	The Fund does not have a dedicated ESG policy in place and lacks any quantifiable objective. However, the Funds makes no investment decisions based on sustainability grounds and actively seeks ESG investment opportunities.	The manager should consider adopting a fund-specific ESG policy and/or targets.	Isio engaged with BlackRock to improve their data availability. As such, ESG metrics are now updated monthly and are available on request.

M&G Investment Management Alpha Opportunities Fund	M&G have a strong firm-wide ESG approach and manage ESG risks within the 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.	The manager should increase the number of portfolio issuers they are actively engaging with on ESG issues.	Isio engaged with M&G to introduce climate scenario modelling and temperature pathways. In addition, another area of engagement was the progress made on reporting metrics with a particular focus on social and engagement reporting.

Engagement

As the Scheme invests via fund managers, the managers provided details on their engagement actions including a summary of the engagements by category for the 12-month period to the end of 31 March 2023. Please note that not all categories sum to the number of total engagements, as some engagements covered more than one ESG area.

Fund name	Engagement summary	Commentary
Legal & General Investment Management Matching Core LDI Funds	**Total Engagements: 33** Environmental: 23 Of which relating to Climate change: 23 Social: 1 Of which relating to Culture: 1 Governance: 8 Of which relating to Remuneration: 4 Capital Management: 2 Other: 1 Of which relating to Strategy: 1 Number of entities engaged: 15	LGIM have shown that they are improving their reporting processes, with the availability of engagement data with counterparties. Isio has no concerns over LGIM's ability to integrate ESG factors in their LDI funds by using proprietary tools to quantify and monitor ESG risk.
Legal & General Investment Management Passive Equity Funds	**Total Engagements: 1,548** Environmental: 697 Of which relating to Climate change: 630 Social: 263 Of which relating to Diversity: 144 Governance: 521 Of which relating to Remuneration: 235 Board Composition: 84	LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based.

	Other: 67 Of which relating to Strategy: 53 Number of entities engaged: 946	
Legal & General Investment Management Absolute Return Bond Fund	**Total Engagements: 133** Environmental: 64 Of which relating to Climate change: 54 Social: 22 Of which relating to Public Health: 8 Governance: 40 Of which relating to Remuneration: 19 Board Composition: 8 Other: 7 Of which relating to Company Disclosure: 4 Number of entities engaged: 69	LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based.
BlackRock Investment Management (UK) Limited, Dynamic Diversified Growth Fund	**Total Engagements: 383** Environmental: 176 Of which relating to Climate Risk Management: 146 Operational Sustainability: 25 Social: 151 Of which relating to Human Capital Management: 100 Governance: 337 Of which relating to Board Composition and Effectiveness: 152 Number of entities engaged: 222	BlackRock engage with their companies through their Investment Stewardship team to provide feedback and inform their voting decisions. Examples of significant engagements include: **Amazon.com, Inc.** – BlackRock engaged with Amazon on multiple occasions to discuss a range of corporate governance and sustainable business matters in order to contribute to the company's ability to deliver durable, long-term returns. Other engagement topics included human capital management, diversity, equity and inclusion, natural capital and executive compensation. **Equinor ASA** – BlackRock believe that as the world transitions to a low-carbon economy, investee companies should be able to demonstrate how they are assessing and managing the risks and opportunities arising from the decarbonisation of the global economy, while also managing for a reliable energy supply and a just transition. As such, BlackRock engaged with Equinor in relation to its climate-related disclosure and strategy. BlackRock were pleased with the engagement as Equinor continue to make notable improvements.

M&G Investment Management Alpha Opportunities Fund	**Total Engagements: 11** Environmental: 5 Of which relating to Climate change: 4 Social: 4 Of which relating to Human & labour rights: 3 Governance: 2 Of which relating to Leadership: 1 Number of entities engaged: 10	M&G's activities are consistent with their ESG policies and they have a systematic approach around engagements in which specific objectives are outlined in advance and measured based on the outcomes from the engagements. Examples of significant engagements include: **Grifols SA –** M&G met with the senior director of Sustainability to discuss the company's decarbonisation plans, whereby stressing the importance of monitoring climate initiatives and linking targets to long-term incentives. The company has confirmed they are working with an external party to reduce their carbon emissions and becoming Paris-aligned. M&G will continue engaging with Grifols to review their emissions methodology and monitor their progress. **NewRiver Reit Plc –** M&G met with the CEO, COO and Company Secretary to discuss and encourage the company to improve diversity and inclusion practices by increasing board gender diversity and setting and disclosing diversity targets throughout the workforce. Given the size of the company. M&G were pleased with the progress they are making, which will be regularly monitored.

Voting (for equity/multi asset funds only)

The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

The Scheme's fund managers have provided details on their voting actions including a summary of the activity covering the reporting year up to 31 March 2023.

Fund name	Voting summary	Examples of significant votes	Commentary
Legal & General Investment Management Passive Equity Index Funds	Voteable Proposals: 110, 731 Proposals Voted: 110,575 Votes With Management: 87,431 Votes Against Management: 22,161 Votes Abstained: 983	**Shin-Etsu Chemical –** LGIM voted against the resolution to elect a Board member as there was lack of meaningful diversity and external perspective to the Board. LGIM believe all boards should be comprise of 33% of independent directors. **BP Plc –** LGIM voted in favour of the resolution to approve the company's Net Zero Action Report. Although, LGIM were pleased that the company has made significant improvements towards a net zero pathway and they will continue engaging with the company on its net zero strategy and implementation.	LGIM's Investment Stewardship team manage the voting and engagement across all funds, leveraging all possible capital to maximise effectiveness. LGIM produce an annual Active Ownership report to summarise how they have worked towards creating sustainable value for clients.
BlackRock Investment Management (UK) Limited Dynamic Diversified Growth Fund	[1] Voteable Proposals: 11,775 Proposals Voted: 10,948 Votes For: 9,965 Votes Against: 758 Votes Abstained: 155 Votes Withheld: 38	**Netflix, Inc –** Blackrock voted in favour of shareholder proposal seeking to enhance disclosure practices by the company on their corporate political activities. BlackRock believe the availability of information would help investors to understand how Netflix's political activities support their long-term strategy,	BlackRock's proxy voting process is led by the BlackRock Investment Stewardship Team (BIS) which consists of regional teams. BlackRock use Institutional Shareholder Services (ISS), an electronic platform, to access voting research and to execute their vote instructions.

[1] In cases of different votes submitted across ballots for a given meeting, votes cast are distinctly counted by type per proposal where total votes submitted may be higher than unique proposals voted.

		and consequently their public policy priorities. **Woodside Petroleum Ltd. –** Blackrock voted in favour of a management proposal to approve the company's climate report, which incorporates shareholder feedback and provides investors insight into the company's actions to date and plans to become net zero by 2050. BlackRock have note that the report is TCFD-aligned and sets out the company's plans to meet their targets, Hence, BlackRock are supportive of the report as investors can benefit from climate-related disclosures in assessing the company's emissions.	BlackRock aims to engage with the company in the first instance to give management time to address the issue, however, they are not afraid to vote against companies where they believe the Board or management have not acted in the interests of long-term investors.

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