

# *Implementation Statement, covering 1 April 2022 to 31 March 2023*

The Trustee of the Rio Tinto 2009 Pension Fund (“RT09” or the “Fund”) is required to produce a yearly Implementation Statement (“Statement”) to set out how, and the extent to which, the Trustee has followed its Statement of Investment Principles (“SIP”) during the year, as well as details of any review of the SIP during the year, subsequent changes made with the reasons for the changes, and the date of the last SIP review. Information on the last review of the SIP is provided in Section 1 and on the implementation of the SIP in Sections 2-10 below.

The Statement is also required to include a description of the voting behaviour during the year by, and on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year. The Fund is wholly invested in fixed income securities and property funds and does not hold listed equities on which managers can vote. This is noted in Section 11 below.

In preparing the Statement, the Trustee has had regard to the [guidance on Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement](#), issued by the Department for Work and Pensions (“DWP’s guidance”) in June 2022.

**This Statement is based on and uses the same headings as the Fund’s latest SIP dated March 2023. This Statement should be read in conjunction with the SIP which is available at the website below:**

<https://epa.towerswatson.com/doc/RTN/pdf/Rio-Tinto-2009-Pension-Fund-SIP--.pdf>

## **1. Introduction**

The SIP was reviewed and updated during the Fund Year, first in June 2022 and then again in March 2023, to reflect:

- further clarification of the Trustee’s investment beliefs on environmental, social and governance related matters (including climate change); and
- the Trustee’s agreed stewardship priorities when engaging with investment managers, following the release of the DWP’s guidance on stewardship in June 2022.

As part of these SIP updates, the employer was consulted and confirmed it was comfortable with the changes.

The Trustee has, in its opinion, followed the policies in the Fund’s SIP during the year. The following Sections provide detail and commentary about how and the extent to which it did this.

## **2. Fund Governance**

The Trustee established an Investment, Funding and Covenant (“IFC”) Committee. The IFC Committee holds quarterly meetings and considers investment, funding, and covenant factors to enable a more integrated approach to risk management. Details of the IFC Committee’s duties and responsibilities are set out in separate Terms of Reference documents maintained by the Trustee.

## **3. Investment Objective**

The Trustee has agreed that its long-term objective for the Fund is to increase the funding level towards that required to secure pensions in payment with an insurance company. Progress against the long-term objective was reviewed at each of the quarterly meetings as part of the quarterly performance monitoring and funding update reports.

## **4. Risk and Return / Diversification of Risks**

The Trustee last reviewed its investment strategy in June 2022 and agreed to reduce the Fund’s investment risk and increase liquidity in the portfolio, reflecting the Fund’s strong funding position. The Trustee then undertook further restructuring of its corporate bond and gilt portfolios in March 2023 in order to more accurately achieve the Trustee’s agreed liability hedging targets.

Most of the Fund’s assets are managed on a passive basis, although the Trustee has made allocations to certain mandates where it believes a more active approach is warranted. For example, the Fund’s corporate bond

mandates do not seek to track a benchmark – rather they adopt a “buy and maintain” investment approach that looks to avoid some of the inefficiencies of passive management for corporate bond mandates. The Fund’s allocations to alternative credit are also actively managed as passive management is not possible for illiquid assets such as these. The Trustee continues to assess the appropriateness of these mandates through regular quarterly monitoring.

Finally, the Trustee has appointed investment managers it believes will manage environmental, social and corporate governance (“ESG”) risks appropriately on their behalf. Further details of work done in the year are provided in Section 8.

## **5. Strategic Management**

Details of the Fund’s strategic benchmark and tolerance ranges are set out in the Investment Policy Implementation Document (“IPIID”).

## **6. Cashflow Management and Rebalancing**

The Trustee has instructed managers to distribute income from the investment portfolios where possible. In relation to the Fund’s alternative credit allocation, both of the Fund’s portfolios have ended their investment periods and are in the process of returning capital. The Trustee agreed that cash proceeds received will be used to help meet cashflow requirements.

## **7. Implementation of the investment arrangements**

The Trustee intends that negotiated fee structures and termination rights incentivise managers to provide a high-quality service that meets the stated objectives, guidelines and restrictions of the fund.

The Trustee evaluated individual investment manager performance over both shorter and longer-term periods. State Street, the Performance Measurer, provided investment reports to the Trustee each quarter which shows performance analysis over the quarter, year, three-year and longer-term periods. The Q1 2023 quarterly report showed that all managers have produced performance broadly in line with expectations over the long-term.

The Trustee’s investment adviser also provided a quarterly report containing commentary on manager performance and details of any developments at managers that may affect the managers’ ability to achieve their investment objectives. This included any significant change to the investment process or key staff for any of the funds the Fund invests in. No actions were taken over the period as a result of the Trustee’s monitoring process.

## **8. Consideration of financially material and non-financial matters**

ESG factors are sources of risk to the Fund’s investments, which could be financially material, over both the short and longer term. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time review how these risks are being managed in practice.

There are several steps the Trustee has taken in achieving this, as set out below:

- As part of its advice on the selection and ongoing review of the investment managers, the Fund’s investment adviser incorporates its assessment of the nature and effectiveness of managers’ approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement.
- In March 2023, the Trustee reviewed its investment adviser’s responsible investment scores for the Fund’s existing managers and funds, along with its investment adviser’s qualitative responsible investment assessments for each fund and red flags for any areas of concern. The Trustee was comfortable with the outcome of the review and no further action was taken.
- In an effort to understand the potential impact of climate change on the Fund the IFC Committee considered climate scenario analysis prepared by its investment adviser in November 2022. The scenarios considered were: i) a failed transition, where the goals of the Paris Agreement are not met (i.e. average global warming is c.2°C by 2050 and c.4°C by 2100, compared to pre-industrial levels); ii) an orderly transition where the Paris Agreement goals are met (i.e. average global warming stabilises at 1.5°C above pre-industrial levels); and iii) a disorderly transition where the Paris Agreement goals are met. The analysis concluded that the funding position of the Fund is expected to be quite resilient to the potential financial impacts of climate change, largely due to the low-risk nature of the investment strategy.

## 9. Stewardship

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies and exercising voting rights attaching to investments protects and enhances the long-term value of investments. It has given the Investment Managers full discretion in exercising these rights, but encourages them to adopt good stewardship practices, in particular with respect to engaging with investee companies.

Following the introduction of DWP's guidance, the Trustee agreed to set stewardship priorities to focus monitoring and engagement with their investment managers on specific ESG factors. At the Q1 2023 meeting, the Trustee discussed and agreed stewardship priorities for the Fund which were:

- **Climate change** - the Trustee believes climate change to be a source of financial risk that could have a material impact on member outcomes over the short-, medium-, and long-term as a result of the impact of the physical and transition risks on markets and, therefore, investors.
- **Corporate transparency** - the Trustee believes that transparency helps to identify risks that could affect company (and ultimately investment fund) performance. A lack of transparency can also mask exposure to other ESG risks that could have potential reputational consequences for companies and affect company performance.

The Trustee communicated these agreed priorities to the Fund's investment managers in June 2023. The Trustee is conscious that responsible investment, including voting and engagement, is rapidly evolving and therefore expects most managers will have areas where they could improve. Therefore, the Trustee aims to have an ongoing dialogue with managers to clarify expectations and encourage improvements.

As outlined above, in March 2023, the Trustee reviewed the investment adviser's responsible investment scores for the Fund's existing managers, which includes an assessment of the managers' voting policies. Based on the information received the Trustee was comfortable with the approach its managers take to stewardship.

## 10. Compliance with the Statement

The Trustee is comfortable that it has complied with the principles set out in the SIP.

## 11. Description of voting behaviour during the year

The Fund is wholly invested in fixed income securities and property funds and does not hold listed equities on which investment managers can exercise voting rights, therefore there are no actions to report on during this period.