



The Horserace Totalisator Board (1968) Pension Scheme Implementation Report

12 months to 31 March 2025

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 Horserace Totalisator Board (1968) 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.zedra.com/wp-content/uploads/2023/11/Tote_SIP_2023.pdf

The Implementation 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 Trustee has followed policies on engagement, covering engagement actions with its investment managers and in turn the engagement activity of the investment managers with the companies in the investment mandates.

Summary of key actions undertaken over the Scheme's reporting year

- As a result of the Scheme's triennial actuarial being carried out over the reporting period, the Trustee has not taken any key investment related actions. However, post year-end the Trustee has agreed to carry out an investment strategy review and an LDI retool which is expected to take place in H2 2025.

Implementation Statement

This report demonstrates that The Horserace Totalisator Board (1968) Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed:

Position:

Date:

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 target a hedge of c.100% of the uninsured liabilities on a Low Dependency basis.	The Scheme's current hedging provided by the LDI portfolio is c.100% of the uninsured liabilities on a Low Dependency basis. The Trustee regularly monitors the Scheme's hedging levels and reviews the overall level at least every 12 months.
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.	The Scheme meets a large portion of the member benefits through the buy-in policy and Company contributions. Despite the movements in gilt yields over the reporting year, the Scheme maintained its strong liquidity position, with the LDI mandate largely supported by the Scheme's weekly dealt Absolute Return Bond Fund and Buy & Maintain Credit Fund. Both Funds maintained the strong liquidity profile of the Scheme. Over time, as the Scheme's illiquid mandates continue to distribute capital, the overall liquidity profile of the Scheme is expected to improve. The Trustee regularly monitors the Scheme's liquidity on a quarterly basis through the Investment Performance Report.
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 Scheme reduces market risk by diversifying its assets across a range of asset classes and investment managers. The actual allocations are monitored on a quarterly basis relative to the Strategic Asset Allocation (set out in the SIP) in the Investment Performance Report.

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 Scheme reduces credit risk by diversifying its assets across a range of investment managers which provide exposures to a range of sectors and geographies. These positions are monitored on a quarterly basis relative to the Strategic Asset Allocation in the Investment Performance Report.
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 5. UN PRI Signatory The Trustees monitor the managers on an ongoing basis.	The Scheme monitors the appointed investment managers to ensure that they are managing ESG risks in an appropriate manner. Managers will be required to update the Trustee on actions they have taken in respect of ESG factors and their engagement activity. During the Scheme year, the Trustee undertook a Sustainability Integration Assessment exercise of each of the underlying investment managers as part of their ESG policy. More details of the ESG policy and how it was implemented are presented later in this report.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	The Trustee hedges the Scheme's currency exposure as much as is deemed possible.	There is no direct currency risk within the Scheme's investments, as all units are held in a Sterling share class. Indirect currency risk may exist within pooled vehicles if underlying investments are held in non-Sterling assets. Any potential currency risks are considered as part of the Scheme's strategy reviews and investment selection exercises.
Non-Financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are considered in the selection, retention or realisation of investments.	No Trustee actions or amendments were implemented over the reporting period in respect of non-financial risks.

Changes to the SIP

Over the 12-month period to 31 March 2025, there have been no changes to the Scheme's SIP.

The Scheme's latest SIP, applicable to this statement, was updated in October 2023.

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. The Scheme has agreed a more detailed ESG policy which describes how it monitors and engages with the investment managers regarding the ESG policies. This page details the Scheme's ESG policy. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

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 Trustee
Approach / Framework	3. The Trustee 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; therefore the Trustee 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 Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	9. The Trustee 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

The Scheme completed a Sustainability Integration Assessment in August 2024. The assessment involved reviewing each manager's investment philosophy and approach to incorporating ESG factors and assessed whether these approaches are in line with the Trustee's objectives.

The table below includes an updated summary of each manager's ESG credentials and points for engagement.

Manager and/or fund	ESG Summary	Actions identified	Engagement with manager commentary
LaSalle - Real Estate Debt Strategies III ("REDS III")	LaSalle are signatories to NZAMI and actively engage in various industry groups. LaSalle are seeking to improve their data quality by engaging with a third party sustainability consultant (Verco) to provide carbon data analysis. ESG integration is limited to reporting and the ongoing monitoring part of the process, given this is a closed-ended fund that is now fully deployed. There is a lack of ESG data available due to the private nature of the issuers.	As a firm, LaSalle should consider the following actions: - Set up a stewardship policy with Climate and Social factors as explicit priorities; - Become a signatory of initiatives such as ShareAction's Workforce Disclosure Initiative, TISFD or any other social initiatives. The Fund should consider the following actions: - Increase engagement activity with underlying issuers; - Provide evidence of how ESG risks are captured; - Provide quarterly ESG ratings/metrics where possible.	Isio engaged with LaSalle on the Trustee's behalf to review their ESG policies and set actions and priorities. Isio reports back to the Trustee with updates on the LaSalle engagements.
L&G	L&G have strong firm-level policies, for example net zero commitment by 2050. L&G also have a strong approach to stewardship and collaboration, and they are a member of 50+ ESG initiatives and networks.	As a firm, L&G should consider the following actions: - Introduce a formal ESG training program with defined priorities; - Develop connections with leading academic institutions to develop robust risk management frameworks.	Isio engaged with L&G on the Trustee's behalf to review their ESG policies and set actions and priorities. Isio reports back to the Trustee with updates on the L&G engagements.

L&G – Absolute Return Bond Fund	The Fund has a clear, forward-looking quantifiable ESG objective (decarbonisation target). Moreover, the Fund aligns with the Net Zero Investment Framework’s guidance on decarbonisation.	The Fund should consider the following actions: - Engage with more issuers in the fund on an annual basis (currently <33% of issuers); - Utilise third-parties to independently verify ESG data reporting.	See above regarding L&G engagement details.
L&G – Buy and Maintain Credit Fund	L&G score well versus their peers, with strong evidence of sustainability in the investment process. The Fund has forward-looking ESG and climate objectives.	The Fund should consider the following actions: - Increase engagement coverage to above 66% and carbon metric coverage to above 70% of the fund’s NAV per annum; - Include social metrics and engagement details in regular fund reporting.	See above regarding L&G engagement details.
L&G – LDI Funds	L&G embeds ESG within their counterparty review process for LDI funds via their Active ESG tool & engaging with counterparties. However, the LDI funds do not have any explicit ESG objectives.	The Fund should consider expanding the approach to assessing green gilts to complement a relative value assessment in order to create positive externalities within the funds.	See above regarding L&G engagement details.
Partners Group – Private Market Credit Strategies 2015 and 2016 Funds	Partners Groups have a well-resourced central SI team and a structured training program. They also have strong net zero commitments, including pathway to net zero by 2030 on all corporate activities and 2050 across all portfolios. The Funds both have a robust investment approach aligned with industry recognised guidance, e.g. UNGC principles. An ESG scorecard is used during initial due diligence to assess each asset’s ESG risk.	Partners Group should consider the following actions: - Implement firm-level ESG objectives with a quantifiable target to enhance ESG policy; - Establish nature and biodiversity-related stewardship priorities; - Become a signatory to the Net Zero Asset Manager’s Initiative (NZAMI). The Funds should consider the following actions: - Begin regular reporting on fund-level temperature pathway alignment and emissions data; - Engage with a significant number of the underlying issuers and improve the reporting of these engagements.	Isio engaged with Partners Group on the Trustee’s behalf to review their ESG policies and set actions and priorities. Isio reports back to the Trustee with updates on the Partners Group engagements.

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 31 March 2025.

Fund name	Engagement summary	Commentary
LaSalle – Real Estate Debt Strategies III ("REDS III")	Total engagements: 3 *Engagement data covers the 12 month period to 31 December 2024 – LaSalle were unable to provide data covering the 12 month period to 31 March 2025.	As a real estate debt investor, LaSalle do not have management control over the underlying assets, therefore their ability to dictate ESG initiatives at the asset level is limited. However, LaSalle's preference is to work with strong sponsors who incorporate ESG and rely on their engagement as the equity owners. An example of a significant engagement includes: Nobu Hospitality LLC <u>BREEAM In-Use Assessment / Green Tourism Eco-Certification:</u> LaSalle engaged with Nobu Hospitality LLC, in its capacity as Manager of Nobu Shoreditch and on behalf of Willow Corp Sarl (the owner of the property), to mandate Mission Net Zero (MNZ) in 2022 to assist with achieving: 1) a BREEAM Excellent rating (in-use) 2) a silver rating on Green Tourism. LaSalle mandated an external asset manager to support monitoring the progress made in achieving the above ratings. In January 2024, a rating of BREEAM Excellent and a gold rating on Green Tourism were awarded. The gold rating on Green Tourism exceeded LaSalle's original plan of silver.

L&G – Absolute Return Bond Fund	Total Engagements: 515 Environmental: 262 Social: 93 Governance: 101 Other: 59 Engagement data covers the 12 month period to 31 March 2025	Examples of significant engagements include: Volkswagen AG L&G engaged directly with Volkswagen regarding human rights concerns which were raised in 2022. The credit team led the engagement, seeking a resolution to end the controversy. Over 2024, Volkswagen decided to sell its stake in the plant in Xinjiang, which reduced the company’s risk exposure to the region. This disinvestment is not expected to have any operational or strategic impact on the company. L&G do not believe any further engagement on this topic will be necessary, given a solution has now been reached. Barclays Plc L&G engaged with Barclays over the reporting period to improve their stance on climate, with a particular focus on aligning their lending portfolios to be consistent with the Paris Agreement. L&G obtained substantial information on Barclays’ policies and due diligence processes, engaging primarily with the head of sustainability. As a result, L&G felt comfortable with the company’s processes and therefore opted to step back from the co-filing group ahead of the AGM. L&G are continuing to engage with Barclays to ensure they remain committed through words and actions in playing their part in addressing the systemic risk of climate change.
L&G – Buy and Maintain Credit Fund	Total Engagements: 511 Environmental: 247 Social: 85 Governance: 113 Other: 66 Engagement data covers the 12 month period to 31 March 2025	Examples of significant engagements include: Toyota Motor Corp L&G engaged with Toyota over the reporting period to improve their corporate governance and sustainability practices. As a result of meeting with the company multiple times, Toyota has made progress on lobbying disclosures and are actively considering investors’ concerns. L&G will continue to engage with the company on both climate and governance issues. BP Plc L&G engaged with BP on climate related topics, given the company’s significant role in the global transition to net zero. L&G met with a variety of senior leaders from the company over the reporting period and years prior. As a result, BP have taken several positive actions, such as committing a substantial amount of its capital to low carbon segments and additionally announced several changes considering their shifts towards clean energy, which involves utilising solar energy and offshore wind farms.
L&G – LDI Funds	L&G has continued to engage with a number of industry participants on long term strategic issues in relation to LDI. L&G were unable to provide a breakdown of their engagement over the period.	L&G leverages the wider capabilities of the global firm to engage with companies. The team also regularly engages with regulators, governments, and other industry participants to address long term structural issues, aiming to stay ahead of regulatory changes and adopt best practice. L&G’s Investment Stewardship team are responsible for engagement activities across all funds. Details of L&G’s engagement policies can be found on their website: Investment stewardship & governance LGIM Institutional L&G were unable to provide examples of significant engagement for the LDI funds.

Partners Group – Private Market Credit Strategies 2015 Fund	Total Engagements: 0 *Engagement data covers the 12 month period to 31 December 2024 – Partners Group were unable to provide data covering the 12 month period to 31 March 2025.	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.
Partners Group – Private Market Credit Strategies 2016 Fund	Total Engagements: 3 Other: 3 *Engagement data covers the 12 month period to 31 December 2024 – Partners Groups were unable to provide data covering the 12 month period to 31 March 2025.	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. An example of a significant engagement includes: Carestream Dental LLC Partners Group engaged with Carestream Dental LLC regarding the realisation of first lien debt. This involved a full realisation which generated a gross IRR of c.5.8% and a total value to paid-in-capital of c.1.35 times.

Voting

There were no voting rights attached to the Scheme's investments over the 12-month period to 31 March 2025. The majority of the Scheme's assets are credit based where there are no voting rights attached.

