The Star Group Pension Scheme ("the Scheme") Implementation Statement

5 April 2024

isio.

Document classification: Public

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 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.stargrouppensions.com/wp-content/uploads/2024/04/SGPS-SIP-2024-signed.-DOC.pdf

Changes to the SIP are detailed on the following page.

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 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 2024 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 Scheme Trustees made partial redemptions from the Scheme's BlackRock Long Lease Property and JP Morgan Infrastructure Equity holdings over the period in order to increase overall liquidity of the Scheme assets, in line with the agreed journey plan. These proceeds were invested into the BlackRock liability hedging portfolio to increase the Scheme's liability hedge ratios, thereby reducing interest rate and inflation risk, and to increase the Scheme's collateral position, thereby reducing collateral risk. The Scheme switched from a pooled liability hedging portfolio to a bespoke segregated portfolio with BlackRock just after Scheme year end; the purpose of this was to improve the overall operational flexibility of the mandate.

Implementation Statement

This report demonstrates that The Star Group Pension Scheme has adhered to its investment principles and its policies for managing financially material consideration 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 broadly hedge the risks by using assets sensitive to interest rates and inflation, whilst ensuring compliance with all regulatory guidance in relation to leverage and collateral management.	Over the reporting period the Scheme's target liability hedge levels were increased to 90% on a gilts+0.5%p.a. basis for both interest rate and inflation risk; this was achieved in a phased manner.
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 meet regulatory guidance around providing collateral to the LDI mandate.	Over the period, the Trustees reviewed the overall strategy and cashflow requirements and agreed to disinvest further from the Scheme's illiquid holdings in long lease property and infrastructure equity, and invest the proceeds into the liability hedging portfolio. This was to improve the liquidity of the Scheme's investment strategy, while still meeting overall long-term risk and return objectives.
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.	Over the period, the Trustees decided to de-risk the overall strategy, by increasing the allocation to the liability hedging portfolio and reducing the allocation to growth assets.
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.	The Scheme's direct lending holding is in its realisation period, meaning that underlying loans are maturing, thereby gradually reducing the Scheme's credit risk over time; to date these cashflows have been used to meet benefit outgo and increase the allocation to the liability hedging portfolio.

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 6. UK Stewardship Code signatory The Trustees' have delegated day-to-day responsibility of incorporating ESG factors to the Scheme's investment managers.	Further detail provided later in this report.
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.	No actions or changes over the reporting period.
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.	No actions or changes over the reporting period.

Changes to the SIP

Over the Scheme year the Trustees made changes to the SIP to reflect the recent regulatory requirements as well as updated the wording to reflect the move to a segregated liability hedging portfolio. These changes were signed off just after Scheme year end.

Leverage and collateral management	
Date updated: April 2024	
	• The Trustees will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Scheme's liability hedging (LDI) portfolio. • The Trustees have a stated collateral management framework. The Trustees have agreed a process for meeting collateral calls should these be made by the Scheme's LDI. The Trustees will review and stress test this framework on a regular basis. • Further details on this can be found in the Scheme's IID which is available to members on request.

Risk Policies	
Date updated: April 2024	
Interest rates and inflation	• To broadly hedge the risks by using assets sensitive to interest rates and inflation, whilst ensuring compliance with all regulatory guidance in relation to leverage and collateral management.
Liquidity	• 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 meet regulatory guidance around providing collateral to the LDI mandate.

Investment management arrangements	
Date updated: April 2024	
Custody of Scheme's holdings	• Where the scheme's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager. • With regards to the Scheme's LDI portfolio, the Trustees have appointed a custodian to operate alongside the investment manager in place. The custodian provides safekeeping for the assets and performs all associated administrative duties.

Defined Contribution section (DC Section)	
Date updated: April 2024	
Scheme's DC Section	• Following an employee consultation, ongoing contributions to the DC Section ceased with effect from 1 March 2023 and were directed to the Scottish Widows Master Trust. • Following advice, the Trustees decided to transfer existing members DC Section assets to the Scottish Widows MasterTrust with an effective date of 24 July 2023.
Additional Voluntary Contributions ('AVCs')	• All of the Scheme's previous AVC arrangements have now been transferred to the Scottish Widows Master Trust. Members with DB AVCs which were transferred can transfer these back to the Scheme at retirement in order to retain the same options as prior to the transfer to the Scottish Widows Master Trust.

Appendix B	
Date updated: April 2024	
How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies	• The Trustees have a segregated arrangement with its LDI manager, thereby allowing the investment manager to align their strategy with the Trustees' policies. This is reviewed on an ongoing basis.

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. 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 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; therefore 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
Partners Group – Private Credit Fund	The manager has a firmwide ESG policy that includes ESG targets that focus on climate change, diversity & inclusion, and corporate governance. ESG factors have been clearly integrated throughout the investment process with the manager utilising an ESG scorecard as part of their due diligence process.	Isio proposed that the manager develop Fund Level ESG targets. The manager should improve their diversity reporting. Isio proposed that the manager implement formal engagement targets, including engagement metrics within quarterly reporting. Isio also proposed that Partners Group should begin reporting on TCFD metrics.	The Fund has set ESG-objectives through sustainability-linked loans but does not have an over-arching or quantifiable target. The Fund does not review and update the ESG scorecard on an annual basis and does not include climate and social risks within their ESG assessments.
Alcentra – European Direct Lending (EDL) Fund III	The manager has a firm-wide ESG policy in place, but no fund-level ESG priorities or objectives. ESG risk ratings are reviewed by the manager's Responsible Investment Team. Their ESG scorecard has been updated to incorporate a Climate Risk Tool which generates a climate risk score. This helps them assess and manage companies' exposure to climate-related risks.	The manager should set fund-level ESG priorities and introduce fund-level ESG policies. They should also introduce engagement/stewardship objectives and milestones for portfolio companies and provide fund-level engagement data. Additionally, the manager should consider adopting a firm-wide net zero commitment and climate policy.	Isio has engaged with the manager on the Scheme's behalf, and the manager has mentioned they are looking to implement engagement objectives and milestones going forward.
BlackRock – Liability Matching Funds	The manager integrates ESG considerations into their counterparty selection and monitoring process. They also have a dedicated Sustainable Investing team, which oversee the firm's global efforts on sustainable investing., however there is a lack of ESG risk measurement for counterparties.	The manager should roll out their own scorecard to enable to them to score counterparties against ESG criteria. They should also set clear engagement objectives and milestones for counterparties, which would lead to better reporting on counterparty engagements and ESG scores.	During the period, the Scheme switched from a pooled mandate to a segregated mandate; as this is now a bespoke mandate, BlackRock are able to more closely algin with the Trustees' policies . Isio will continue to engage with the manager on proposed actions and progress against these.

BlackRock – Absolute Return Bond Fund (ARB)	The manager has a clear firmwide ESG policy. However, they should set clear measurable fund specific ESG objectives with quantifiable KPIs.	The manager should set fund level objectives, and report against an implied temperature pathway. They should also set fund level stewardship policies, report social metrics in quarterly reporting as well as engage with social organisations.	The manager has not made sufficient progress on setting fund level objectives or reporting social metrics. However, following engagement by Isio the manager now models climate scenario impacts on the fund value and reports against an implied temperature pathway.
BlackRock – UK Long Lease Property (LLP) Fund	The manager has a robust firm wide ESG process that is well integrated into their Real Assets platform. The manager reviews each asset from an ESG standpoint, noting however, that they have limited control over properties. They currently report on some ESG metrics, but are looking to enhance this once data quality has improved.	The manager should report and monitor engagement effectiveness over time, as well as consider updating their ESG scorecards more frequently (where possible).	The manager is providing ESG metrics within their reporting cycle however, the range of reported metrics is limited. Isio continue to engage with BlackRock to provide more data going forwards and have begun including carbon data in reporting.
J.P. Morgan – Infrastructure Investment Fund ('IIF')	The manager has demonstrated that they have clear ESG policies and priorities in place and that ESG is integrated through all stages of the investment process. The level of ESG integration is strong and reporting is in line with its peers in the market.	The manager should include measurable climate and social objectives. The manager should report on ESG specific risk in quarterly reports. The manager should implement a firm wide target for carbon emissions and temperature increases.	The manager now produces a Sustainable Investing Statement outlining key sustainability themes and has set up fund specific ESG policies/objectives. The manager includes data on modern slavery and the gender pay gap in their annual sustainability report. The manager is involved in industry groups like PRI and GRESB.

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 5 April 2024

Fund name	Engagement summary	Commentary
Partners Group – Private Credit Fund	Total Engagements: 4 Exit: 3 Corporate: 1	Although there has been some progress made in implementing engagement targets, the private credit space has been less active with this, due to a lack of ownership and influence on the asset. However, the introduction of Sustainability-Linked Loans has led to an increase in the scope for engagement. Examples of significant engagements include: **PetVet Care Centers** – The company had residual credit yet to be realised. The manager engaged with this company to obtain full repayment of its existing debt investment in PetVet Care Centres. Since Partners' investment in 2017, PetVet demonstrated significant growth, expanding to over 450 veterinary hospitals across 40 states, denoting a substantial network extension. **Envision Healthcare Holdings** – Post Envision Healthcare's bankruptcy in 2023, Partners Group converted its debt exposure to a c.18% equity holding in Amsurg, Envision's more stable, ambulatory surgery

		business. Amburg is currently meeting budget, reporting robust financial performance and positive revenue growth.
Alcentra – European Direct Lending Fund ("EDL") III	Total engagements: 99 Environmental: 8 Social: 14 Governance: 23 ESG Questionnaires: 54 Number of entities engaged: 60	The manager engages directly with companies through management meetings, sponsor meetings, and diligence reviews on ESG matters. They believe that their stewardship activities directly support their objective of delivering strong, long-term investment returns for their clients. Examples of significant engagements include: **Consumer markets insight provider:** Alcentra engaged with the company on ESG topics since becoming a shareholder in 2020. Alcentra has since driven ESG principles into the core strategy of the consumer markets insights provider and has pushed for a balanced governance structure at the board level, which has improved decision-making. Under Alcentra's oversight the company has seen a marked increase in community participation and diversity, and a digital first approach which reduces material consumption. Key performance indicators will continue to be monitored to drive ongoing improvement.
BlackRock – Liability hedging	BlackRock currently do not provide details of their engagement activities at a Fund level. However, this is something they are looking to implement. Isio remains in contact with BlackRock on engagement reporting.	Within the Liability Matching Funds, there are 3 avenues where ESG factors can be considered: 1. the cash fund which is used to support the derivative exposure

		2. the derivative counterparties BlackRock use 3. the physical instruments held For derivative counterparties, BlackRock conduct in-depth due diligence reviews focused on the credit fundamentals of the counterparty which includes criteria on governance. In addition, BlackRock continues to work on incorporating an 'Environmental' screening across the counterparties used.
BlackRock – Absolute Return Bond Fund	Total engagements: 1108 Environmental: 182 Social: 196 Governance: 730	BlackRock engage with portfolio companies through their Investment Stewardship team. This team works closely with BlackRock's active portfolio management and fixed income teams. Although BlackRock were unable to provide detailed descriptions of their engagements, they have now been able to provide an overview of topics as well as numbers of engagements. Isio will continue to work with BlackRock in order to progress their engagement data process.
BlackRock – UK Long Lease Property Fund	BlackRock currently do not provide details of their engagement activities at a Fund level. However, this is something they are looking to implement. Isio remains in contact with BlackRock surrounding the firm's engagement reporting.	BlackRock's ESG related engagement is led by the BlackRock Investment Stewardship team. BlackRock lease on full repairing and insuring terms, which means that whilst a tenant is in a property, BlackRock have little control over that property, therefore engagement opportunities are limited.
J.P. Morgan - Infrastructure Investment Fund ('IIF')	JP Morgan do not currently provide strategy level numbers for annual engagement.	J.P. Morgan Asset Management is actively engaged with the underlying portfolio companies and management teams with regards to ESG matters.

Each portfolio company customises a comprehensive ESG framework crafted by the Fund's team with specific goals and objectives, training sessions, monitoring procedures, and practical implementation of best practices. The Fund endeavours to align management teams with ESG objectives through compensation structures.

In addition, ESG is a Board agenda item and updates are given at each board meeting, including benchmarking results. Furthermore, each year the Fund's portfolio companies participate in the GRESB assessment which benchmarks each company's ESG practices against industry standards and provides insights into areas of strength and areas of improvement.

An example of a significant engagement is:

El Paso Electric (EPE) – The company had a goal of reducing carbon intensity over time, and to align with global prioritisation of transitioning to a low carbon economy. IIF engaged with EPE to navigate transition risks tied to a low/no-carbon energy future. This aligns with the UN Sustainable Development Goal of Climate Action. Through 100% ownership, IIF worked with management to set specific carbon reduction goals and put in place an action plan. As a result, EPE has set and published significant carbon reduction targets: to be 80% carbon-free energy by 2035 and complete decarbonisation of their generation portfolio by 2045.

Voting (for equity/multi asset funds only)

There are currently no funds held by the Scheme which have direct or indirect equity voting rights.

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