St Andrew's Healthcare Pension Scheme ('the Scheme')

July 2021

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance ('ESG') factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their Statement of Investment Principles ('SIP') and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Scheme updated its SIP in September 2020 to in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments

The SIP can be found online at the web address https://www.stah.org/assets/Uploads/STAH-Pension-Scheme-Statement-of-Investment-Principles.pdf and the relevant changes made to the SIP are detailed on the following page. The SIP was further updated on 31 March 2021 and will be uploaded online in due course.

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 to ESG and the actions taken with fund 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 31 March 2021 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

- Over the financial year, the Scheme fully disinvested from three of its investment managers: Odey Asset Management LLP, Genesis Investment Management LLP ('Genesis') and AXA Investment Managers ('AXA').
- These equity managers were terminated to de-risk the investment strategy. By reducing the proportion of "Growth assets" and increasing the proportion of "Bond-like assets" the Scheme was able to reduce risk in the investment strategy and secure improvements in the funding level.

Implementation Statement

This report demonstrates that St Andrew's Healthcare Pension Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Solvency	The risk that economic circumstances force the winding-up of the Scheme at a time when asset values are depressed, and the Sponsor is unable to make good the deficiency.	The Trustee aims to maintain a well-diversified portfolio of assets and investment managers, using active management where appropriate. The Trustees will also monitor and consider the financial strength of the Sponsor in their strategic decisions.	The Scheme has undergone various strategy changes over the reporting year and has worked closely with the Sponsor to ensure solvency risk is mitigated.
Funding Level	The risk of deterioration to the Scheme's funding level.	To protect and maintain the Scheme's funding level and ensure the deficit remains at an acceptable level for the Sponsor.	The Scheme reduced its exposure to 'Growth assets' and increased the proportion of 'Bond-like assets' to reduce risk in the investment strategy and secure improvements in the funding level. These changes to the asset allocation are reflected in the SIP and Investment Policy Implementation Document (IID) which were updated in March 2021.
Investment Return	The risk that the day-to-day management of assets will not achieve the expected rate of investment return by the Scheme Actuary.	The Trustee has appointed an investment advisor to monitor the performance of the assets on at least a quarterly basis.	The investment advisor provides the Trustee with quarterly performance reporting against a performance benchmark.
Volatility	The risk of variation in the Scheme's surplus or deficit resulting from stock market volatility.	The Trustee considers volatility and level of risk in all strategic decisions and how this will impact the surplus or deficit.	The Scheme reduced its exposure to more volatile 'Growth assets' and increased the proportion of 'Bond-like assets' which should reduce the variation in the Scheme's funding level. These changes to the asset allocation are reflected in the SIP and IID which were updated in March 2021.

Volatility in Sponsor contributions	The risk of volatility in the Sponsor contribution rate and the implications of this to the Sponsor and the security of members' benefits.	The Trustees monitor and consider the financial strength of the Sponsor, in their strategic decisions.	The Scheme has undergone various strategy changes over the reporting year and has worked closely with the Sponsor to ensure the impact on Sponsor contributions is minimal.
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 mangers on an ongoing basis.	The Trustee monitors the managers on an ongoing basis. The Trustee has not appointed any new managers over the reporting year.

Changes to the SIP

Policies added to the SIP	
Date updated: September 2020	
How the investment managers are incentivised to align their investment strategy and decisions with the Pension Trustee's policies.	• As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Pension Trustee's policies. However, the Pension Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective. • The Scheme's mandates with Majedie and Orbis are subject to a performance related fee.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Pension Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Pension Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Pension Trustee's policies.	• The Pension Trustee reviews the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Pension Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. • Investment manager fees are reviewed periodically to ensure they remain competitive.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Pension Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
The duration of the Scheme's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. • For closed-ended funds or funds with a lock-in period, the Pension Trustee ensures the timeframe of the investment or lock-in is in line with the Pension Trustee objectives and Scheme's liquidity requirements. • For open-ended funds, the duration is flexible and the Pension Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.

*The SIP has been signed by the Trustees on 31 March 2021 and will be uploaded online in due course.

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 outlines Isio's assessment criteria as well as the ESG beliefs used in evaluating the Scheme's managers' ESG policies and procedures.

Isio's assessment criteria and ESG beliefs

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.

Actions with the investment managers

Over the reporting year, the Pension Trustee has been reviewing their governance structure and the investments strategy. As part of this review, the Pension Trustee has agreed to transition to a fiduciary management to improve the efficiency and sophistication of the investment strategy and governance structure. This change is due to be implemented in the next reporting year.

As a result, a detailed review of each manager's ESG credentials have been put on hold for this reporting year. The Trustee intends to carry out frequent ESG reviews of the selected fiduciary manager once the mandate has been put in place.

The following sections in this report relate to the funds held by the Scheme at the end of the reporting year and exclude fund managers that were terminated during the reporting year.

Engagement

The Scheme invests via fund managers who have provided details on their engagement actions. A summary of the engagements by category for the 12 months to 31 March 2021 is set out below.

Fund name	Engagement summary	Commentary
Aberdeen Standard Corporate Bond Fund	Aberdeen Standard have confirmed they do not provide fund-level engagement data and have not stated a plan of when they will do so.	n/a
Aberdeen Standard / Vanguard UK Inflation Linked Gilt Index Fund	Aberdeen Standard have confirmed they do not provide fund-level engagement data and have not stated a plan of when they will do so.	This fund is jointly managed by Vanguard and Aberdeen Standard. Vanguard have confirmed that they do not have engagement activities directly linked to fixed income products.
Aberdeen Standard Deposit and Treasury Fund	Aberdeen Standard have confirmed they do not provide fund-level engagement data and have not stated a plan of when they will do so.	n/a
Cantillon Global Equity Fund*	Total Engagements: 24 Governance: 20 Social: 2 Sustainability: 1 Governance and Social: 1	Cantillon actively engage with their underlying portfolio companies and have continuous interaction with the underlying board of directors and CEOs on ESG issues. An example engagement includes: **Hargreaves Lansdown:** Cantillon met with the Chair/Non-Executive Director to obtain a governance update following their independent review and assessment of their processes and governance structures. Following this engagement, Hargreaves Lansdown confirmed their governance structures had been improved.

CQS Multi Asset Credit Fund	Total Engagements: 29 Environmental: 7 Governance: 3 Social: 6 Environmental and Social: 1 Governance and Social: 6 Environmental, Social & Governance: 6	ESG engagement activity is handled on a firm wide basis rather than a specific team, which means all of the portfolio managers have access to all engagements that are carried out across the firm. CQS are in the process of implementing an updated framework that offers greater guidance on their engagement process and the effectiveness of their engagement. Examples of engagement: EQT Corporation: CQS engaged with EQT on climate change and how the company plans to transition towards being a low carbon emitter. Following the completion on CQS' Climate Audit questionnaire, EQT evidenced processes which will support the responsible production of natural gas. Spin Holdco Inc: CQS engaged with the company's management team on various ESG initiatives and has now been included in a CQS targeted engagement programme.
Majedie UK Equity Fund	Total Engagements: 21 Governance: 7 Climate & Sustainability: 9 Other: 5	The fund manager is responsible for engaging with underlying companies on all ESG issues and is largely driven by the materiality assessment of each company. This analysis is carried out using a joint financial and ESG perspective. Example of engagement: Avon Rubber: The purpose of this engagement was to discuss the company's exposure to supply chain risk, as well as improve the sustainability of the supply chain. Avon Rubber demonstrated to Majedie that they are able to maintain a stable manufacturing platform for their products, as well as researching more environmentally friendly technologies to improve the company's carbon footprint.

Orbis Global Equity Fund	Total Engagements: 116 Environmental: 33 Environmental & Social: 3 Environmental & Governance: 5 Social: 19 Social & Governance: 7 Governance: 42 E, S & G: 7	Orbis have engaged on a wide variety of ESG issues as a part of their ongoing engagement activity. They have demonstrated a particular focus on climate change. Examples of climate-focused engagements include: British American Tobacco: Discussions around the environmental impact of cigarettes and the impact of public health policies. BMW: Discussions around the development of their electrification strategy as well as board remuneration and independence.

*Cantillon have provided engagement activity covering the 12 months to 31 December 2020.

Voting (for equity funds only)

The Scheme invests via fund managers who have provided details on their voting actions. A summary of the activity covering the reporting year up to 31 March 2021 is shown below. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Cantillon Global Equity Fund	Meetings eligible to vote: 62 Votes cast: 765 Votes 'for' management: 714 Votes 'against' management: 31 Votes 'abstained or withheld': 20	Alphabet: Cantillon voted against a proposal to amend Alphabet's Omnibus stock plan. This followed ISS's recommendation to vote against this proposal as the Omnibus plan's costs were excessive and transferred stock without shareholder approval.	Cantillon's Proxy Voting Policy states the fund manager is to vote proxies on any given issue in the same way for all of their clients. Cantillon accept they have a fiduciary duty to maximise the value of a client's investment through their ownership of shares and their influence. They will ensure a sufficient amount of research and understanding has been gained before a proxy vote is cast. Cantillon also use research and proxy-related services provided by Institutional Shareholder Services ("ISS") to assist them with the mechanics of voting and provide guidance where necessary.
Majedie UK Equity Fund	Meetings eligible to vote: 157 Votes cast: 2301 Votes 'for' management: 2208 Votes 'against' management: 78 Votes 'abstained or withheld': 15	Barclays: Majedie voted for a company proposal that outlined Barclays' commitment for tackling climate change. In this instance, the shareholders proposed a similar climate-related proposal, however Majedie and the ISS decided the approval of both would lead to legal uncertainty.	Majedie is guided by a set of Voting Principles and similarly to Cantillon, will use research and proxy-related services provided by ISS. On many occasions, Majedie will vote in line with the ISS recommendation, except where there is concern on political donations and expenditure. Within the UK Small Cap space, they scrutinise the recommendations of company management and ISS.

Orbis Global Equity Fund	Meetings eligible to vote: 66 Votes cast: 941 Votes 'for' management: 875 Votes 'against' management: 28 Votes 'abstained or withheld': 38	XPO Logistics: Orbis voted against a proposal to integrate ESG metrics into executive compensation as they believed it is the role of the Compensation Committee, not the shareholders, to determine the appropriate compensation metrics. They also felt the current metrics adequately included ESG performance.	Orbis have a Proxy Voting Policy in place which outlines the principles and processes they adopt when voting on behalf of their clients. The key principle is to act in what they believe to be the best long-term economic interest of the funds and the investors. Orbis have chosen not to adopt a set of rules for proxy voting as they believe this would limit flexibility as an investment manager. Analysts will review all voting material before a proposal is given a vote. This ensures the vote is always in the best interest of the client.

Some of the information provided in this report is provided by the Scheme's investment managers, and so we are reliant on these third parties for the accuracy of these data sets. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.