Scotia Gas Networks Pension Scheme – Implementation Statement

Welcome to the trustees' Statement of how they implemented the policies and practices in the Scotia Gas Networks Pension Scheme's ("the Scheme") Stewardship Policy for the year ending 31 March 2024.

Introduction

This is the trustees' statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the trustees have complied with the Scheme's Stewardship Policy during the period from 1 April 2023 to 31 March 2024 and other policies and practices within the Statement of Investment Principles.

Stewardship policy

The trustees' Stewardship (voting and engagement) Policy sets out how the trustees will behave as an active owner of the Scheme's assets which includes how the trustees monitor and engage with the Scheme's investment managers and any other stakeholders. This statement does not include the AVCs.

The Scheme's Stewardship Policy is reviewed periodically in line with the Scheme's Statement of Investment Principles (SIP) review, which was last completed in December 2023. You can review the SIP at https://www.sgnpensionscheme.co.uk/media/2bmirnuh/db-statement-of-investment-principles-december-2023.pdf

The trustees have delegated engagement activity (having de-risked from equity, there are no voting rights to exercise) in respect of the underlying assets to the Scheme's investment manager. The trustees believe it is important that their investment manager takes an active role in the supervision of the companies in which they invest and engaging with the management on issues which affect a company's financial performance.

Policy implementation

The trustees' own engagement activity is focused on their dialogue with their investment manager which is undertaken in conjunction with their investment advisers. The trustees meet regularly with their managers and the trustees consider how managers have exercised their stewardship both during these meetings and through reporting provided by their investment adviser.

The trustees also monitor their compliance with the Scheme's Stewardship Policy on a regular basis and are satisfied that they have complied with the Stewardship Policy over the year to 31 March 2024.

Given the Scheme's strong funding position, the trustees carried out de-risking activity during Q1 2023; reducing the strategic allocation to listed equity to zero and the complete disinvestment from equity assets. Therefore, within the reporting period the Scheme held no investment in equity assets. The information below is based on the Scheme's investments held over the year to 31 March 2024.

Voting activity – equities no longer held

The Scheme does not currently invest in public equities and therefore has no exposure to assets which carry any voting rights.

While equities were still held by the Scheme, the trustees sought to ensure that where relevant, their manager exercised voting rights and, where appropriate, monitored the manager's voting patterns..

Engagement activity

Over the year the trustees agreed to transition the Scheme's credit and LDI mandates to an integrated solution with a single manager. Throughout the manager selection process RI and ESG factors were considered, and the manager's ability to meet RI objectives of the Scheme a key factor in the selection process. Following the selection process, Insight Investment Management (Global) Limited ("Insight") were appointed in January 2024 as the Scheme's credit and LDI manager, in part due to a comprehensive offering in terms of RI considerations in asset selection and reporting.

Given the difficulty and restrictions in applying RI polices to LDI (and limited opportunity to influence the primary underlying issuer, being the UK government), the focus of engagement has been on the credit mandate.

In agreeing investment guidelines with Insight, the trustees incorporated clear policies and restrictions for management of assets in line with the Scheme's objectives and SIP. Insight manages the portfolio on a segregated basis, to investment guidelines that restrict investment in certain bonds dependant on sector, credit rating and sustainability.

- Sustainability guidelines restrict Insight from investing in issuers that are materially involved in any of the following activities:
    - Adult entertainment
    - gambling
    - civilian weapons
    - controversial weapons
    - cannabis production
    - tobacco production
    - thermal coal mining
    - coal power generation
    - unconventional oil and gas extraction
- Climate focused guidelines are also in force, including not investing in issuers that do not have a 2050 net zero commitment, are highly carbon intensive, or are materially involved in thermal coal mining, coal power generation and unconventional oil/gas extraction.
- Allocation restrictions include a minimum of 35% allocation to impact investments (defined as a Use-of-Proceeds bond that has been assessed by the manager and not assigned the weakest level of impact rating, or bonds issued by issuers that in the opinion of the manager are not materially misaligned with the UN Sustainable Development Goals and have at least 20% of their revenue or capex linked to activities deemed to have a positive environmental and/or social impact).

The mandate also shall not invest in issuers that have the weakest level of overall ESG rating (as assigned by the manager).

The trustees hold meetings with all of their investment managers on a regular basis where stewardship issues are discussed in further detail.

Summary of manager engagement activity

Over the year to 31 March 2024, the credit mandates invested by the Scheme have engaged with a number of investee companies, with the engagement topics for most of these companies including climate change, in particular de-carbonisation, and gender diversity beyond board level.

As outlined above, credit investments transitioned from BlackRock and GSAM to a single mandate managed by Insight part way through the year – a summary of engagement by all three managers is provided in table 1 below.

Table 1: Summary of manager engagements

Manager: Fund	Engagements	Topics engaged on
BlackRock: Corporate bond*	BlackRock engaged with 85 companies over the year to 31 March 2024 (out of 455 in portfolio), totalling 202 active engagements. Across the ESG spectrum 41% of engagements included environmental topics, 43% social and 90% governance.	Environmental issues (climate change, biodiversity/land use and operational sustainability), social issues (diversity & inclusion, privacy and health & safety) and governance issues (executive remuneration, board composition and gender diversity).
GSAM: Corporate bond	GSAM engaged with 58 companies over the reporting period to disinvestment, totalling 95 active engagements. Across the ESG spectrum 43% of engagements included environmental topics, 27% social and 30% governance.	Environmental issues (climate change, biodiversity/land use and green business opportunities), social issues (human rights, diversity & inclusion and financial inclusion) and governance issues (compensation, board composition and controversies).
Insight: Buy & Maintain Investment Grade credit	The portfolio was invested for just over two months during the reporting period. Examples include: - Engaging with a Norwegian oil and gas company on unconventional oil and gas production and water impact - Understanding a German utility company's coal exposure and providing feedback on its green bond framework - Seeking to improve a technology and e-ecommerce company's water-related performance - Clarifying a global food and beverage company's water use and biodiversity risk - Exploring an energy company's transition plans after it failed Insight's coal screen	Engagement is carried out on a wide range of ESG and RI factors. Insight conducts a formal half-yearly evaluation of ESG risks for each issuer considered for inclusion in the Scheme's portfolio and have developed a screening procedure to target and prioritise those companies for which ESG risks may be of particular concern. The manager believes that integrating ESG factors in research processes and engaging with companies to improve their ESG standards is an important part of effectively managing risk and fulfilling our stewardship obligations.

* Engagement summary shown for full year to 31 March 2024 (NB Scheme disinvested on 23 January 2024)

Review of policies

The trustees and their advisors remain satisfied that the voting policies of the managers remain suitable for the Scheme at present and intend to review this periodically.