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Introduction

STAR Capital Partnership LLP ('STAR'), a leading private equity firm with over two decades of experience, is dedicated to generating long-term value through strategic investments across sectors including infrastructure, energy, transportation, healthcare, and industrials. As stewards of both financial and environmental resources, STAR has consistently integrated Environmental, Social, and Governance (ESG) principles into its investment process, recognising that sustainable practices are vital for risk management and value creation. This report, aligned with the Task Force on Climate-related Financial Disclosures (TCFD) framework, outlines STAR's ongoing commitment to addressing climate risks and opportunities within its investment portfolio, reflecting its dedication to responsible investment and sustainable growth.



Understanding TCFD

The TCFD is a global initiative established by the Financial Stability Board (FSB) to develop a standardised framework for climate-related financial risk disclosures¹. Its aim is to enhance and improve reporting by organisations about their climate-related financial risks and opportunities, and provide a starting point for integration climate risks into other risk management processes. The TCFD framework focuses on four core elements: governance, strategy, risk management, and metrics and targets around which we have structured our analysis.



Figure 1 TCFD Recommendations²

Notes: 1) <https://www.fsb-tcdf.org/>; 2) <https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf>

Governance

At STAR, robust governance is the cornerstone of our approach to managing climate-related risks and opportunities. We have been assessing ESG risks in the various steps of our investment process for several years, including managing climate exposure where applicable.

Governance Structure

Executive Board Oversight

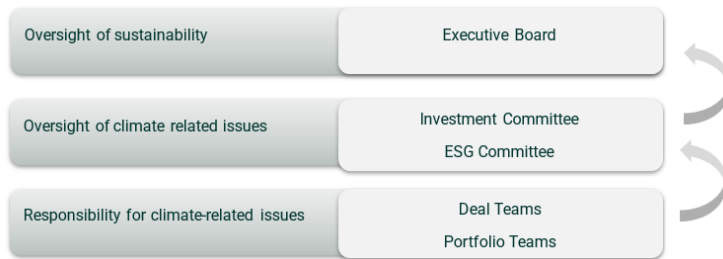
The Executive Board of STAR is ultimately responsible for overseeing the firm’s Sustainable Investment Policy. This includes providing strategic direction and ensuring that climate-related risks are adequately managed across the organisation. The Executive Board has delegated the day-to-day evaluation and monitoring of ESG risks, including climate risks, to the Investment Committee.

Delegation to the Investment Committee

The Investment Committee, comprising senior investment professionals, is tasked with evaluating ESG risks and opportunities for new investment opportunities and ensuring ongoing monitoring post-acquisition. This includes integrating any identified material climate risks into 100-day plans for newly acquired assets. For instance, all of STAR’s portfolio companies are required to report on Scope 1, 2, and 3 greenhouse gas (GHG) emissions, a critical step for effective climate risk management.

ESG Committee’s Role

Complementing the Investment Committee, STAR has established a dedicated ESG Committee that reports directly to the Executive Board to coordinate sustainability efforts across the firm and its portfolio companies. The ESG Committee focuses on enhancing the integration of climate risk assessments into investment cases, ensuring that climate considerations are systematically embedded in our investment process.



Performance Evaluation and Compensation

To drive accountability and continuous improvement, STAR uses specific ESG-related objectives to evaluate staff performance. These objectives include:

- **ESG Integration:** assessing how effectively ESG factors are incorporated into STAR’s investment activities.
- **ESG Strategy Development:** contributing to the advancement of STAR’s overall ESG strategy and policy approach.
- **Stewardship Activities:** enhancing the organisation’s stewardship activities and overall ESG performance.

These performance objectives are taken into account when reviewing compensation on an annual basis, incentivising board members and executives to prioritise ESG considerations.

Climate Risk Management

In 2024, STAR conducted a climate risk analysis of its portfolio companies. The findings of this analysis will be incorporated into the firm’s annual reporting, ensuring that climate-related risks are continuously reviewed by the Executive Board. This approach enables STAR to stay ahead of emerging climate risks and align with best practices in sustainable investing.

Strategy

The strategy section of STAR’s TCFD report outlines our approach to identifying, assessing, and managing climate-related risks and opportunities. To conduct the analysis for this report, STAR contracted a third-party consultant to test our current investment strategy against three climate-scenarios.

The scenario analysis made use of 3 NGFS scenarios, namely the Net-Zero 2050 scenario, the Delayed Transition scenario and the Current Policies scenario. The below graphic highlights the scenarios according to each scenario’s exposure to physical and transitional climate risks.

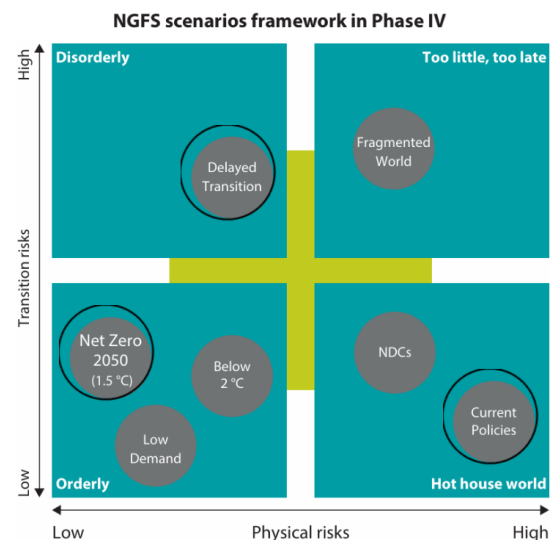


Figure 2 NGFS Scenarios¹

Scenario Descriptions

Net Zero 2050

The Net Zero 2050 scenario envisions a world where governments implement rigorous, binding climate policies, leading to rapid reductions in GHG emissions. This scenario achieves the 1.5°C target of the Paris Agreement without exceeding it and with minimal reliance on Carbon Capture, Utilisation, and Storage (CCUS). Thanks to effective international cooperation, the global economy undergoes a smooth transition with few disruptions and low trade barriers. Physical climate risks and political transition risks are both relatively low in this orderly transition scenario.

Delayed Transition

The Delayed Transition scenario describes a situation where high emissions continue until 2030. After this point, global governments rapidly enforce decarbonisation measures with limited international coordination. This results in global warming being limited to below 2°C, but the economic transition is less smooth. Advanced economies decarbonise more quickly, leading to increased trade barriers between regions. The scenario experiences economic shocks and price volatility, which hinder economic growth more than in the Net Zero 2050 scenario. Due to higher temperatures and fragmented policy efforts, both physical and transition risks are elevated.

Current Policies

In the Current Policies scenario, the world makes minimal progress on decarbonisation over the next few decades. Existing policies continue without significant new climate mitigation efforts. This leads to a temperature rise exceeding 2°C around 2050, reaching approximately 2.9°C by 2100. With a lack of new climate policies, transition risks remain low, but physical climate risks are significantly high.

A note on use of shadow carbon price

The NGFS scenarios use a shadow carbon price as a theoretical construct to simulate the cumulative effect of all climate policies on the economy. This shadow carbon price represents an implicit cost of carbon, reflecting the total regulatory pressure from various climate actions, including taxes, caps, and other emission reduction measures. By integrating the shadow carbon price into their models, the scenarios can project the economic and environmental impacts of different climate policies without specifying the exact form these policies will take. While the shadow carbon price may be higher than actual market prices, it reflects the total economic cost imposed by climate policies.

Notes: 1) <https://www.ngfs.net/ngfs-scenarios-portal/>

Climate-Related Risks and Opportunities

Transition Risks

To evaluate transition risks, we incorporate scenario analysis using a carbon pricing model. This approach enables us to understand how various regulatory and market scenarios could impact our portfolio companies. Our assessment includes:

- **Carbon Price Integration:** We integrate scenario assumptions into a carbon price model, allowing us to project potential future carbon costs for our portfolio companies.
- **Long-Term Projections:** We project company carbon emissions and revenue through to 2050 under three main scenarios: low, medium, and high regulatory stringency.
- **Risk Categorisation:** Based on these projections, we categorise the portfolio's exposure to transition risks:
 - **High Risk:** Companies with significant potential carbon costs that could adversely affect revenue.
 - **Medium Risk:** Companies with moderate potential carbon costs that may require adjustments to sustain profitability.
 - **Low Risk:** Companies with minimal potential carbon costs and lower sensitivity to carbon pricing changes.

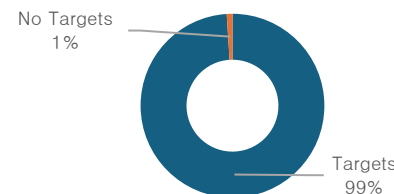
The following table provides an overview of the risk categorisation per portfolio company and scenario, at the time intervals of current, 2030 and 2050¹.

Portfolio Company	Net Zero 2050			Delayed Transition			Current Policies		
	Current	2030	2050	Current	2030	2050	Current	2030	2050
ABL	Very Low	Very Low	Low	Very Low	Very Low	Low	Very Low	Very Low	Very Low
ASL	Very Low	Moderate	High	Very Low	Very Low	High	Very Low	Very Low	Very Low
GSLs	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low
Hawksford	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low
MYFLEXBOX	Very Low	Low	Moderate	Very Low	Very Low	Moderate	Very Low	Very Low	Very Low
ROG	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low
Synergy	Very Low	Very Low	Low	Very Low	Very Low	Low	Very Low	Very Low	Very Low
TASC	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low
Vincorion	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low

Overall, the exposure to transition risks in the portfolio is primarily very low or moderate. Most of STAR's portfolio companies have low emissions in relation to revenue and operate in sectors less exposed to transition risks outlined in the NGFS scenarios. ASL is exposed to transition risks in a Net Zero and Delayed transition scenario. If emissions remain similar in 2030 and 2050, the shadow carbon price provided by the NGFS Net Zero 2050 scenario, this would result in moderate to high costs for the company. However, ASL is one of three companies in the portfolio that have set emission reduction targets and is considered to have begun managing this risk.

Supporting portfolio companies to set emission reduction targets is a key part of STAR's ESG engagement strategy. In total, 99% of STAR's financed emissions come from companies that have set an emission reduction target.

Percentage of portfolio emissions from companies with emission reduction targets



Physical Risks

Our analysis of physical risks focuses on the exposure of STAR's portfolio companies to climate-related physical impacts. This assessment covers:

- **Operational Exposure:** We evaluate the key areas of operations of STAR's portfolio companies, considering their geographic location and susceptibility to climate hazards such as flooding, extreme weather, and temperature changes.
- **Supply Chain Exposure:** We assess the supply chains of our portfolio companies to identify vulnerabilities to physical climate risks. This includes evaluating the resilience of suppliers and the potential for disruptions due to climate events.

The physical risk exposure is quantified as moderate, with a majority of portfolio companies' operations and key suppliers located in Europe. The TCFD analysis made use of several scenarios to assess the company exposure to physical risks through own facilities and the supply chain. The table on the following page shows the portfolio companies' own operational exposure to physical risks using data provided by NGFS over acute-and chronic physical risks.

Notes: 1) Please note two portfolio companies are excluded from this assessment. 1. Windlogix (STAR III investment) due to restructuring of the business and nextbike (STAR IV investment) due to investment in the company happening in May 2024

	RCP 2.6		RCP 6.0		RCP 8.5	
	2030	2050	2030	2050	2030	2050
ABL	Very Low	Low	Very Low	Low	Very Low	Low
ASL	Very Low	Low	Very Low	Low	Very Low	Low
Hawksford	Low	Low	Low	Low	Low	Low
MYFLEXBOX	Low	Low	Low	Low	Low	Low
Synergy LMS	Very Low	Low	Very Low	Low	Very Low	Low
TASC	Low	Low	Low	Low	Low	Low
Vincorion	Low	Low	Low	Low	Low	Low
ROG	Very Low	Low	Very Low	Low	Very Low	Low
GSLs	Very Low	Low	Very Low	Low	Very Low	Low

Supply Chain Risks

From a supply chain point of view, the majority of STAR’s portfolio companies have their largest suppliers in Europe, and where the risk levels will be similar to that of operations. Synergy LMS is the outlier in this case, where in 2023, 70% of upstream costs were to companies based in Asia, providing linen products for Synergy LMS’ services, and relying on cotton production.

Climate change is expected to significantly impact cotton production in Asia due to the region’s diverse climatic conditions and agricultural practices. Using RCP 6.0 as the key scenario, production of cotton in Asia is expected to be impacted in the following ways:

Climate Impact	Projected Conditions (RCP 6.0)	Impact on Cotton
Droughts and Water Scarcity	<ul style="list-style-type: none"> • More frequent and severe droughts. • 10–20% decline in water resources in key regions. 	<ul style="list-style-type: none"> • Lower yields and reduced fiber quality. • Increased irrigation challenges.
Rising Temperatures	<ul style="list-style-type: none"> • Average temperature increases of 2–3°C by 2100. 	<ul style="list-style-type: none"> • Shortened growing periods, leading to smaller plants and lower yields. • Increased pest activity (30–50% rise in bollworms).
More Intense Rainfall and Flooding	<ul style="list-style-type: none"> • Increase in monsoon intensity by 10–15%.
– More frequent extreme rainfall events. 	<ul style="list-style-type: none"> • Soil waterlogging, causing root rot and fungal diseases. • Heavy rains during harvest, damaging cotton bolls.
Increased Storms and Extreme Weather	<ul style="list-style-type: none"> • Increased frequency and intensity of tropical storms. 	<ul style="list-style-type: none"> • Physical damage to cotton plants, reducing yields by up to 15%. • Significant soil erosion affecting fertility.
Changing Growing Seasons	<ul style="list-style-type: none"> • Growing seasons shifting by 1–2 months due to temperature and precipitation changes. 	<ul style="list-style-type: none"> • Need to adjust planting and harvesting times, complicating traditional practices.
Soil Salinity and Desertification	<ul style="list-style-type: none"> • Increased evaporation and reduced rainfall leading to higher soil salinity and desertification. 	<ul style="list-style-type: none"> • Land degradation and reduced soil fertility, decreasing yields by up to 10–15%.

With linen being such a significant percentage of Synergy LMS’ upstream supply chain costs, disruptions to linen supply chains in Asia is likely to result in significant increases in costs. This risk could in the future be mitigated by exploring possibilities for supply chain diversification.

Strategic Integration

Scenario Analysis and Planning

To manage these risks effectively, STAR integrates climate risks into our strategic planning process. This involves adjusting our investment decisions based on the outcomes of our climate analysis of companies. The findings from this TCFD report indicate that our investment strategy is well-equipped to deal with upcoming climate risks related to STAR’s portfolio companies, while at the same time providing areas for further improvement in relation to metrics and objectives upon which to analyse portfolio company exposure.

Climate Risk Integration in Investment Process

The findings from our climate risk analysis indicate that while there are portfolio companies that are exposed to transition-related risks, several of these portfolio companies have already begun to manage this risk internally. For many, improving and deepening scope 1, 2 and 3 emissions are a first vital step, with exploring net-zero emission reduction strategies being a second step. Identified material climate risks are included in the 100-day plans for new investments, guiding early-stage risk mitigation efforts. This approach helps STAR manage transition and physical risks from the outset of each investment.

Ongoing Monitoring and Reporting

To maintain a responsive strategy, we continuously monitor climate-related risks and update our assessments as new information becomes available. Our annual reporting includes findings from our climate risk analysis, ensuring that climate considerations remain a key focus for the Executive Board and informing our ongoing strategic decisions.



ESG Risk Management Process

STAR employs a comprehensive risk management framework to identify, assess, and manage ESG risks throughout the investment lifecycle, in accordance with the TCFD recommendations. This framework is designed to mitigate ESG-related risks and leverage opportunities for value creation, ensuring long-term resilience and sustainability of our investments.

Pre-Investment Phase: ESG Due Diligence

STAR conducts thorough ESG due diligence for all potential investments, focusing on identifying material ESG factors. This involves evaluating potential ESG risks and opportunities that could impact the value and performance of the investment. Key steps in our pre-investment ESG due diligence include:

- **Comprehensive Evaluation:** Assessing material ESG risks and opportunities for each potential investment. This evaluation is conducted in collaboration with the ESG Committee, ensuring that all critical factors are considered.
- **100-Day Plan Development:** Before completion, a 100-day plan is formulated for each company to be acquired under the STAR IV Fund. This plan outlines necessary actions based on ESG-related due diligence findings and includes specific remedial measures to address identified risks and capitalise on potential opportunities.

Post-Investment Phase: Monitoring and Management

Following all acquisitions, STAR implements a robust monitoring and management system to ensure ongoing oversight of ESG risks and opportunities. The Investment Committee is responsible for this phase, involving:

- **Governance Enhancements:** including the adoption of formal rules of procedure for boards and committees and the establishment of ESG Committees at portfolio company level where appropriate.
- **Monitoring Practices:** established to track ESG metrics and objectives. This includes the use of third-party software to ensure accurate and consistent data collection on ESG performance, including climate-related objectives such as Scope 1, 2, and 3 GHG emissions, energy consumption, and emission reduction targets.
- **Regular Reporting:** mechanisms are used to provide relevant information to the board of directors and fund investors. This includes ongoing updates on ESG performance and progress against established targets and objectives.

Use of Technology

To enhance ESG risk management, STAR has invested in software systems designed to facilitate accurate and consistent data collection across portfolio companies. This technology supports effective decision-making by providing insights into ESG performance and helping to track progress on key ESG metrics, including climate-related metrics.

Managing Climate-Related Risks

Transition Risks

STAR proactively manages transition risks by excluding investments in the Oil & Gas and natural resources sectors across all private equity funds. This strategy reduces STAR's exposure to potential negative impacts associated with regulatory changes and market shifts towards a low-carbon economy. Additionally, our commitment to rigorous carbon emissions measurement, particularly improving the quality of Scope 3 GHG emissions data, positions us to better manage transition-related climate risks and align with future net zero targets.

Physical Risks

To address physical risks, STAR evaluates the exposure of our portfolio companies based on their key areas of operations and supply chains. This includes assessing vulnerabilities to climate-related events such as extreme weather and temperature changes. This report provides a starting point for identifying potential physical risks to our investments, and we will continue this work to determine how to best integrate such analysis in our investment process going forward.

Continuous Improvement and Stakeholder Engagement

STAR leverages its influence to drive continuous ESG improvements in its portfolio companies. We set targets and objectives for each company, facilitating progress and demonstrating tangible ESG evolution over STAR's ownership period. This approach mitigates risk and creates opportunities for sustainable value enhancement.

Metrics and Targets

In alignment with TCFD recommendations, STAR utilises a comprehensive set of metrics and targets to evaluate and manage climate-related risks and opportunities. Our approach emphasizes transparency, accountability, and continuous improvement in our environmental performance.

Climate-Related Metrics

To effectively monitor and manage climate-related risks, STAR tracks a range of key metrics across its portfolio companies:

- **Portfolio Companies with Carbon Emissions Targets:** STAR measures the percentage of its portfolio companies that have established specific carbon emissions reduction targets. This metric reflects our commitment to encouraging companies to set and achieve climate-related goals.
- **GHG Emissions (Scope 1–3):** We collect data on GHG emissions across all three scopes where available:
 - Scope 1: direct emissions from owned or controlled sources.
 - Scope 2: indirect emissions from the generation of purchased electricity, steam, heating, and cooling.
 - Scope 3: other indirect emissions that occur in the value chain, including Category 15 (financed emissions), which represent the emissions associated with the investments in our portfolio companies. Improving the granularity and completeness of scope 3 emissions is an on-going process and is expected to improve over time.
- **Price of CO₂:** This TCFD analysis integrated carbon pricing as an element for assessing transition risks for the first time. Going forward, we will continue to evaluate how this data can be further integrated into our investment processes.
- **Exposure to Physical Risks in the Supply Chain:** evaluating the exposure of STAR's portfolio companies to physical climate risks within their supply chains, including assessing vulnerabilities related to climate events such as extreme weather and disruptions affecting critical suppliers.
- **Percentage of Energy Produced That Was Renewable:** tracking the percentage of energy generated from renewable sources within our portfolio companies, highlighting our progress towards increasing renewable energy use and reducing reliance on fossil fuels.

Climate-Related Targets

STAR is committed to setting ambitious climate-related targets to guide our progress and enhance our impact on sustainability. Current targets under development include:

- **Net-Zero Emission Reduction Target:** We are actively working towards establishing a net-zero emission reduction target for STAR's portfolio companies. This target will align with global efforts to limit climate change and will involve setting specific goals for reducing emissions across all scopes.
- **Improvement of Emissions Data Quality:** We continue to prioritise the enhancement of emissions data quality within STAR's portfolio companies. This involves supporting portfolio companies in improving the accuracy and consistency of their GHG emissions reporting, particularly for Scope 3 emissions.
- **Enhanced ESG Questionnaire:** We are focused on refining and streamlining our ESG questionnaire to better capture material climate-related risks. This improvement will facilitate more effective data collection and analysis, enabling us to identify and address significant climate risks more efficiently.

Tracking Progress and Reporting

Monitoring and Reporting

We utilise third-party software to track climate-related objectives on an ongoing basis. This system supports the accurate collection of data on emissions, carbon pricing, and other relevant metrics. Regular updates on these metrics are provided to the boards of directors and fund investors, ensuring transparency and accountability in our climate-related performance.

Data Collection and Quality Improvement

STAR work closely with portfolio companies to improve the accuracy of Scope 3 emissions data. This initiative is crucial for setting robust net-zero targets and for making informed decisions about climate risk management.

Metrics Table

The below table provides an overview of STAR's carbon emissions, followed by a breakdown on scope 3, category 15 emissions (investments).

Carbon emissions

	2022	2023
Scope 1, TCO ₂ e	5	0
Scope 2 (market based), TCO ₂ e	0	0
Scope 3 (incl. investments), TCO ₂ e	968,649	1,027,139
Scope 3 (excl. investments), TCO ₂ e	237	307

Portfolio emissions

	Equity ownership %	Total emissions ¹ TCO ₂ e	Scope 1 & 2 ¹ TCO ₂ e	Scope 3 ¹ TCO ₂ e
ASL	49%	1,216,192	997,612	218,580
GSLS	93%	1,966	1,146	820
Hawksford	65%	777	108	699
ROG	64%	905	596	309
Synergy	93%	47,715	15,381	32,344
Vincorion	85%	8,759	751	8,008
TASC	80%	75	24	51
ABL Technic	89%	18,092	11,212	6,880
MYFLEXBOX	51%	360	4	356
Total		1,294,840	1,026,833	268,007

Notes: 1) Emissions based on STAR III and IV ownership percentage