

# Scottish Hydro-Electric Pension Scheme - Implementation Statement

**Statement of Compliance with the Scottish Hydro-Electric Pension Scheme's Stewardship Policy for the year ending 31 March 2021.**

## Introduction

This is the Trustee's annual implementation statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustee has complied with the Scheme's Stewardship Policy (as set out in the Statement of Investment Principles) during the period from 1 April 2020 to 31 March 2021. It also describes the voting behaviour on behalf of the Trustee, including the most significant votes cast on its behalf during that period.

## Stewardship policy

The Trustee's Stewardship (voting and engagement) Policy sets out how the Trustee will behave as an active owner of the Scheme's assets which includes the Trustee's approach to;

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustee monitors and engages with its investment managers and any other stakeholders.

The Trustee's Stewardship Policy is reviewed in line with the Scheme's Statement of Investment Principles (SIP) at least every three years and will normally be reviewed on an annual basis. The last review was completed in August 2020.

The following changes were made to the Stewardship Policy during the last year:

- Explanation on how the Trustee monitors and engages with key stakeholders relating to its investments
- Statement on how the Trustee manages conflicts of interest

You can review the Scheme Stewardship Policy which can be found within the Scheme's Statement of Investment Principles, at [SHEPS DB Statement of Investment Principles 2020](#)

The Trustee has delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustee believes it is important that their investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues which affect a company's financial performance.

## Policy implementation

The Trustee's own engagement activity is focused on their dialogue with their investment managers which is undertaken in conjunction with its investment advisers. The Trustee meets regularly with its investment managers and considers the managers' exercise of stewardship both during these meetings and through reporting provided by the Trustee's investment adviser.

The Trustee annually monitors its managers adherence to the UK Stewardship Code, UNPRI and other relevant industry codes or standards where applicable and challenges managers who have not signed up to the relevant codes when appropriate.

The Trustee also monitors its compliance with its Stewardship Policy on a regular basis and is satisfied that it has complied with the Scheme's Stewardship Policy over the last year.

## Voting activity

The Trustee seeks to ensure that its managers are exercising voting rights.

During the year ending 31 March 2021, the Trustee held equity assets through a pooled mandate with Baillie Gifford and a segregated mandate with Longview. These are the only mandates that carry voting rights for the Scheme's holdings. The Trustee's investment managers have reported on how votes were cast in each of these mandates as set out in the tables below.

### Baillie Gifford

Baillie Gifford Long Term Global Growth Investment Fund	
Proportion of Scheme's assets (as at 31 March 2021)	2.4%
No. of meetings eligible to vote at during the year	34
No. of resolutions eligible to vote on during the year	382
% of resolutions voted	100%
% of resolutions voted with management	97.1%
% of resolutions voted against management	2.9%
% of resolutions abstained	0.0%
% of meetings with at least one vote against management	14.7%

### Longview<sup>1</sup>

The Trustee sold down the Longview mandate in its entirety during December 2020. This was as a result of strategic de-risking agreed by the Trustee.

Global Equity – segregated fund	
Proportion of Scheme's assets (as at 31 March 2021)	0.0%
No. of meetings eligible to vote at during the year	28
No. of resolutions eligible to vote on during the year	396
% of resolutions voted	100%
% of resolutions voted with management	91.9%
% of resolutions voted against management	7.6%
% of resolutions abstained	0.5%
% of meetings with at least one vote against management	42.9%

### Significant votes

The Trustee has asked their managers to report on the most significant votes cast within the portfolios they manage on behalf of the Trustee. Managers were asked to explain the reasons why votes were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote. From the managers' reports, and with assistance from their investment advisor, the Trustee has identified the following votes as being of greater relevance to the Scheme.

<sup>1</sup> Voting data from April 2020 to December 2020

**Baillie Gifford**

Date	Company	Subject	Manager's vote and rationale	Outcome
27/05/2020	Amazon Inc	Governance	<b>For</b> – Baillie Gifford supported the resolution put forward by shareholders to improve the transparency of Amazon's corporate lobbying policies and governance. Baillie Gifford believe that greater transparency around political spending and lobbying enables shareholders to better assess Amazon's values and corporate goals.	Vote passed – Baillie Gifford believe Amazon provides good levels of disclosure of direct political expenditure with appropriate Board oversight but believe Amazon can improve on transparency around indirect spending through trade associations and charities.
16/06/2020	Kering	Remuneration Policy	<b>Opposed</b> – This was due to concerns between pay and performance. Baillie Gifford believed the remuneration proposals were backwards looking.	Vote passed – Baillie Gifford will continue to engage with the company on their remuneration policy.
22/09/2020	Tesla Inc	Social	<b>For</b> – This was a shareholder resolution requesting a report on the company's use of arbitration to settle employee disputes. Baillie Gifford believe increased disclosure and transparency on this topic will aid in understanding the company's workplace practices.	Vote passed – Baillie Gifford will continue to engage with the company on this topic as they do not currently report on their employee complaint procedures nor do they provide a breakdown of the racial, ethnic or gender split of the workforce.

The resolutions which Baillie Gifford deemed the most significant over the scheme year were mainly in relation to governance. Baillie Gifford demonstrates a focus on increasing the levels of transparency and disclosure required by companies as shown by the instances above and consistent with the long-term interests of the Trustee.

**Longview**

Date	Company	Subject	Manager's vote and rationale	Outcome <sup>2</sup>
26/04/2020	Arrow Electronics Inc.	Executive Remuneration	<b>Against</b> – Longview voted against an advisory vote on executive compensation, due to concerns regarding a disconnect between pay and performance. This was considered significant as it related to remuneration and more than 15% of shareholders voted against the proposal.	Longview engaged with the company to understand the reason for the change after Arrow queried Glass Lewis' analysis to vote against this resolution but ultimately believed the proposal was not in the best interest of shareholders. Longview will continue to engage with Arrow on the issue. Longview's proxy voting advisor does not track voting outcomes but according to reports of the AGM, this proposal was approved.
04/11/2020	Charter Communications Inc.	Board Appointments/ Executive Remuneration	<b>Against</b> – Longview voted in favour of a shareholder proposal to appoint an independent Chair. Longview was of the view that an independent chair is better able to oversee the executives of a company and set a pro-shareholder agenda.	Longview, alongside more than 15% of shareholders, voted against management to ensure the proposal passed.

Longview voted against management across a range of topics mainly surrounding executive remuneration and board appointments. Similar to Baillie Gifford they support shareholder resolutions that call for increased transparency and disclosure within companies. Longview's proxy advisor does not track the outcome of the votes cast.

**Engagement activity**

The Trustee aims to meet regularly with the Scheme's investment managers where, if appropriate, stewardship issues are discussed in further detail. Due to the outbreak of the coronavirus pandemic and the move to online meetings, the Trustee was unable to meet with as many investment managers as normal. Over the last 12 months, the Trustee has met with two of the Scheme's investment managers. The Trustee discussed the following issues.

<sup>2</sup> Longview's proxy advisor Glass Lewis & Co. does not track the outcome of the vote.

Date	Fund manager	Subject discussed	Outcome
27/08/2020 and 26/11/2020	Longview	<ul style="list-style-type: none"> <li>• Longview's planned improvements for reporting on the environmental and social element of ESG when selecting investments.</li> <li>• Broad range of ESG topics.</li> <li>• TCFD reporting capabilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Longview acknowledge that whilst ESG issues form a part of the research process they do not report on when a company is rejected due to sustainability issues. This is an area they are working to improve.</li> <li>• The Trustee is satisfied with the comprehensive responses shared by the manager.</li> </ul>
23/03/2021	Baillie Gifford	<ul style="list-style-type: none"> <li>• The Trustee presented the manager with a series of questions surrounding their approach to climate change within their company and investment process as well as querying any potential links between the manager's holdings and human right violations.</li> </ul>	<ul style="list-style-type: none"> <li>• Baillie Gifford responded in full to the Trustee's questions.</li> <li>• The Trustee is satisfied with the comprehensive responses shared by the manager.</li> </ul>

### Summary of manager engagement activity

The Trustee receives quarterly reporting on Longview Partners and Baillie Gifford's engagement activity.

- Baillie Gifford carried out 45 engagements over the year ending 31 March 2021. Engagements primarily focused on staff welfare (e.g. Amazon), commercial strategy (e.g. Beyond Meat) and governance structures (e.g. Pinduoduo). The main methods of engagement were meetings held directly with company management.
- Longview Partners carried out 13 engagements over the year ending 31 March 2021. Engagements primarily focused on climate remuneration (e.g. Whitbread), product governance (e.g. Becton, Dickinson and Company) and ESG integration strategy (e.g. Lloyds Banking Group). The methods of engagement included collaboration with third parties such as Glass Lewis (their proxy advisor) and EY, alongside meetings held directly with company management.

### Use of a proxy adviser

The Trustee’s investment managers have made use of the services of the following proxy voting advisors over the Scheme year:

Manager	Proxy Advisor used
Baillie Gifford	Do not use a proxy advisor. All voting decisions are made in-house in alignment with their own policies.
Longview	All voting decisions are made on a case-by-case basis by proxy advisor Glass Lewis & Co. Where Longview believe Glass Lewis’s decision is not in the best interests of the client their in-house Research team will intervene and engage with the company in question.

### Review of policies

It is the intention of the Trustee to review the investment managers’ Responsible Investment (“RI”) policies together with their voting practices and policies on an annual basis. This review was last undertaken by the Trustee in August 2020. The review considered the managers’ broader approach to responsible investment, their adherence to the relevant industry codes and voting activity over the year.

The Trustee and its advisors remain satisfied that the responsible investment policies of the managers and, where appropriate, the voting policies remain suitable for the Scheme.

### Cost transparency

As the steward of the Scheme’s assets, the Trustee is also responsible for reviewing costs associated with management of the assets to ensure that these accurately reflect value added by the manager and are broadly comparable with industry standards.

The Trustee’s approach to monitoring these costs is set out in the SIP, which states that:

- The Trustee periodically reviews the fees paid to its investment managers against industry standards; and
- The Trustee will request turnover costs incurred by the asset managers over the Scheme reporting year.

The Trustee commissioned a comprehensive cost transparency analysis from ClearGlass, a third-party data analytics provider specialising in collecting cost data from asset managers and carrying out benchmarking exercises. Due to lags in data availability, this was carried out for costs over the Scheme year 19/20. This confirmed total investment manager costs represented 0.5% of Scheme assets (excluding the bulk annuity ‘buy-in’ policies), which was in line with the fees the Trustee has agreed with its investment managers and the Trustee’s expectations.