

SSE Southern Group of the ESPS - Implementation Statement

Statement of Compliance with the SSE Southern Group of the ESPS Stewardship Policy for the year ended 31/03/21.

Introduction

This is the Group Trustee's statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Group Trustee has complied with the Group's Stewardship Policy (as set out in the Statement of Investment Principles) during the period from 1 April 2020 to 31 March 2021.

Stewardship policy

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

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

The Group Trustee's Stewardship Policy is reviewed on an annual basis in line with the Group's Statement of Investment Principles (SIP) review which was last completed in August 2020.

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

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

You can review the Scheme Stewardship Policy which can be found within the Group's Statement of Investment Principles, at <https://sse-live-rwd.compendiahosting.co.uk/>

The Group Trustee has delegated voting and engagement activity in respect of the underlying assets to the Group's investment managers. The Group 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 Group Trustee's own engagement activity is focused on their dialogue with their investment managers which is undertaken in conjunction with its investment advisors. The Group Trustee meets regularly with its managers and considers the managers' exercise of stewardship both during these meetings and through reporting provided by the Group Trustee's investment adviser.

The Group Trustee also monitors its compliance with its Stewardship Policy on an annual basis and is satisfied that they have complied with the Group's Stewardship Policy over the last year.

Voting activity

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

During the year ended 31 March 2021, the Group Trustee held equity assets through mandates with Baillie Gifford and State Street (“SSGA”) as well as exposure to equity futures with Legal and General (“LGIM”) through the Qualifying Investor Fund (“QIF”). The Group Trustee’s investment managers have reported on how votes were cast in each of these mandates as set out in the tables below.

The equity futures held with LGIM are designed to broadly track the FTSE All World Equity Index, and whilst there are no voting rights attributed to the derivatives held, holdings in the FTSE All World Equity Index fund have been included below as a proxy for these holdings.

Baillie Gifford

Proportion of Group’s assets (as at 31 March 2021)	10.0%
No. of meetings eligible to vote at during the year	113
No. of resolutions eligible to vote on during the year	1226
% of resolutions voted	93.6%
% of resolutions voted with management	96.9%
% of resolutions voted against management	2.4%
% of resolutions abstained	0.7%
% of meetings with at least one vote against management	16.8%

LGIM¹

All World Equity Index Fund	
Proportion of Group’s assets (as at 31 March 2021) ²	7.2%
No. of meetings eligible to vote at during the year	6779
No. of resolutions eligible to vote on during the year	70,672
% of resolutions voted	99.9%
% of resolutions voted with management	83.3%
% of resolutions voted against management	16.0%
% of resolutions abstained	0.8%
% of meetings with at least one vote against management	5.6%

¹ LGIM All World Equity Index Fund is being used as a proxy for the Group’s holdings in equity futures with LGIM

² This represents the proportion of Group’s assets invested in synthetic equity with LGIM

SSGA

Fundamental Index – Global Equity	
Proportion of Group’s assets (as at 31 March 2021)	7.5%
No. of meetings eligible to vote at during the year	3185
No. of resolutions eligible to vote on during the year	39,040
% of resolutions voted	99.2%
% of resolutions voted with management	90.2%
% of resolutions voted against management	9.8%
% of resolutions abstained	1.0%
% of meetings with at least one vote against management	52.8%

Significant votes

The Group Trustee has asked their managers to report on the most significant votes cast within the portfolios they manage on behalf of the Group 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, the Group Trustee has identified the following votes as being of greater relevance to the Group.

Baillie Gifford

Date	Company	Subject	Manager’s vote and rationale	Outcome
23/04/2020	CRH PLC	Remuneration Policy	For – Baillie Gifford chose to support the remuneration report as it incorporated their suggestions after previously opposing the policy over several years.	Vote passed – Baillie Gifford agreed to continue discussions with the company over further improvements but believe the new performance targets are much more stringent following incorporation of their feedback.
27/05/2020	Amazon Inc	Governance	For – Baillie Gifford supported the resolution put forward by shareholders to improve the transparency of Amazon’s corporate lobbying policies and governance. Baillie	Vote passed – Baillie Gifford believe Amazon provides good levels of disclosure of direct political expenditure with sufficed board oversight but believe Amazon can improve on

			Gifford believe that greater transparency around political spending and lobbying enables shareholders to better assess Amazon's values and corporate goals.	transparency around indirect spending through trade associations and charities.
22/09/2020	Tesla Inc	Social	For – 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 failed – 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 Group year were mainly in relation to remuneration and governance. Baillie Gifford demonstrate a focus on increasing the levels of transparency and disclosure required by companies and are willing to engage with companies to improve their remuneration policies and practices as shown by the instances above. This is in favour of the long-term interest of the Group.

LGIM

Date	Company	Subject	Manager's vote and rationale	Outcome
05/05/2020	Lagardere	Director Appointments	For – Amber Capital, a 16% shareholder proposed removing all incumbent director pre-2019 and appointing 8 new directors to the Supervisory Board (SB). LGIM agreed with their opinion that company strategy was not creating	Vote rejected – The vote did not pass but did receive a significant portion of overall votes at c35%, suggesting other shareholders have similar concerns. LGIM continue to engage with the company on its future strategy, corporate structure and long-term plans.

			value for shareholders and the structure was restricting the SB from holding management accountable.	
27/05/2020	Amazon	Social and Corporate Governance	LGIM voted to support 10 of 12 resolutions put forward. These were wide ranging and covered Governance, Separation of CEO and board roles, data transparency, Amazon's climate pledge, workplace culture and employee health and safety. These followed widespread allegations throughout the pandemic from employees of unsafe working conditions and issues with the internal culture.	Most resolutions did not receive shareholder support but the intense focus on these issues within Amazon has remained. LGIM continue to engage within Amazon and have done so on numerous occasions over the last 12 months on a broad range of ESG issues.
30/06/20	Olympus Corporation	Director Appointment	Opposed – LGIM believe that Japanese companies lack diversity at board level when compared to Europe and the US regarding the proportion of women in senior roles.	Vote passed – LGIM continue to engage with all Japanese company boards and since the beginning of 2020 have voted against board appointments within the largest Japanese companies who have no female directors on their board.
07/09/2020	International Consolidated Airlines Group	Remuneration	Opposed – LGIM believed the size of the bonus payments	Vote passed – Around 30% of shareholders voted against the

			to the departing CEO and current executives was excessive given recent events in laying off 30% of the workforce, seeking an additional €2.75bn from investors during the pandemic and withdrawing their 2020 dividends.	remuneration package and LGIM will continue to closely engage with the new board.
13/10/2020	The Procter & Gamble Company (P&G)	Environmental	For – P&G to produce a report on their effort to eliminate deforestation. P&G use palm oil and forest pulp as raw materials within their products and have only obtained sustainable certification for around one-third of its supplies despite setting a goal of 100% by 2020. These are significant contributors to illegal deforestation and LGIM believe they have not done enough to combat this nor show significant commitment to doing so in the future.	Vote passed – The resolution received two-thirds of shareholders support including LGIM who continue to engage with P&G on the issue and monitor its sustainability disclosure for improvements.
22/10/2020	Whitehaven Coal	Environmental	For – Shareholders asked for a report exploring an increase in the	Vote rejected – only a small percentage of shareholders voted for this resolution. The company has

			amount of capital returned to them following the potential wind-down of the company's coal operations. LGIM have publicly supported this stance.	previously broken environmental laws surrounding mining and is on LGIM's Future World protection List of exclusions with their ESG funds not investing in this company. They continue to monitor the company.
23/10/2020	Qantas Airways Limited	Remuneration	<p>Opposed – Long term incentive plan (LTIP) to CEO Alan Joyce given the share price at the time and the inability of the remuneration committee to exercise discretion for such plans which is against best practice.</p> <p>For – Remuneration report which was altered given the effects from Covid and reflected pay cuts, short-term incentive cancellations and the deferrals of the CEO's LTIP.</p>	<p>Votes passed – Both votes received c90% of shareholder support. LGIM say this highlights their tougher stance on executive remuneration and will continue to engage with the company</p>

LGIM voted against management across a wide range of topics including remuneration, environmental and governance. They take an active role when engaging with companies to better understand the reasons behind a resolution and vote against the majority if they believe a better outcome can be achieved.

SSGA

Date	Company	Subject	Manager's vote and rationale	Outcome
15/03/2021	Swedbank AB	Climate Change	SSGA abstained from voting on the proposal relating to climate change action.	The manager noted that while the company's disclosures and practices related to climate change can be enhanced, they are currently broadly in line with the wider market and so no action is needed at present.

SSGA will often vote against management if they have concerns over remuneration policies, a lack of diversity on the board or believe a company's disclosures and/or practices relating to climate change could be improved.

Engagement activity

The Group Trustee aims to meet regularly with the Group's investment managers where, if appropriate, stewardship issues are discussed in further detail. Over the 12 month period, the Group Trustee met with 4 of the Group's managers. The Group Trustee discussed the following issues.

Date	Fund manager	Subject discussed	Outcome
12/05/2020	Partners	The ISC conducted a deep dive of its mandate with Partners Group and invited the manager to present at the ISC meeting where the ISC questioned the manager on their ESG policies.	Partners outlined their process for selecting investments including ESG considerations.
25/08/2020	CBRE	The Group Trustee questioned CBRE and discussed their approach to ESG matters pertaining to the Group's UK property mandate	CBRE responded to the Group Trustee's questions and were satisfied with the responses by the manager.
03/11/2020	Barings	The Group Trustee questioned Barings on the managers process for considering ESG factors within each new investment and how they are looking to improve their ESG framework.	Barings explained their process for considering ESG factors within investments. The manager noted the Group's mandate had a lower carbon exposure than its comparator and the firm is ahead of the curve on carbon reporting of high yield debt but were continuing to explore new ESG initiatives to improve.

27/11/2020 and 23/02/2021	Baillie Gifford	The Group Trustee discussed the Paris-Aligned variant of their current mandate with the manager.	The Group Trustee chose not to switch any of their investments and instead seek to better understand the Group's current carbon exposure and climate change objectives before making this decision.
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Summary of manager engagement activity

The Group Trustee receives quarterly reporting on Baillie Gifford's engagement activity at fund level and a firm wide level for SSGA.

- Baillie Gifford carried out 87 engagements over the year ended 31 March 2021. Engagements primarily focused on Corporate Governance (e.g. Tesla), Environmental and Social issues e.g. (Rio Tinto, Amazon) and Executive Remuneration (e.g. CRH PLC). The main methods of engagement were meetings held directly with company management.
- Firm wide SSGA engaged 2,412 times with 1,721 companies. Topics included Sustainability (e.g. Commonwealth Bank of Australia and Unilever), Human Rights-Related Risks (e.g. Alphabet Inc), Board Leadership and Succession Planning (e.g. Compagnie Financière Richemont SA) and Ethical Content Management (e.g. Amazon). The main methods of engagement were through letter-written campaigns and in-person or video conference calls.
- LGIM carried out 891 engagements over 2020. The five most engaged topics were Climate Change (407), Remuneration (234), Diversity (174), Board Composition (94) and Strategy (92). The main methods of engagement were management meetings, shareholder calls and AGMs.

As part of ongoing governance, the Group Trustee meets with all the Group's investment managers on a rotational quarterly basis. Only the investments with SSGA and Baillie Gifford hold voting rights, but the Group Trustee does ensure that all of the Group's other investment managers are actively engaging on the Group's behalf.

Use of a proxy adviser

The Group Trustee's investment managers have made use of the services of the following proxy voting advisers over the Group year:

Manager	Proxy Advisor used
Baillie Gifford	Do not use proxy advisor. All voting decisions are made in-house in alignment with their own policies.
LGIM	In-house custom voting policy in conjunction with ISS 'ProxyExchange' platform.
State Street	All voting decisions and engagements are made in line with in-house policies and views in conjunction with ISS 'ProxyExchange' platform.

Review of policies

It is the intention of the Group Trustee to review the managers' Responsible Investment ("RI") policies together with their voting practices and policies on an annual basis. This review was last undertaken by the Group Trustee in May 2021. The review considered managers' broader approach to responsible investment, their adherence to the relevant industry codes and voting activity over the year.

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

Cost transparency

As the steward of the Group's assets, the Group 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 Group Trustee's approach to monitoring these costs is set out in the SIP, which states that:

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

The Group Trustee commissioned a comprehensive cost transparency analysis over a 12-month period from ClearGlass, a third-party data analytics provider specialising in collecting cost data from asset managers and carrying out benchmarking exercises. This confirmed total investment manager costs represented 1.0% of Group assets (excluding the buy-in assets), in line with fees the Group Trustee has agreed with its investment managers and expectations.