

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 2022.

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 2021 to 31 March 2022. 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 2021.

The following changes were made to the Scheme's SIP during the last year:

- Removal of reference to the Myners Code Adherence Document as it was no longer applicable. This document was replaced with the Investment Implementation Document.

You can review the Scheme Stewardship Policy which can be found within the Scheme's Statement of Investment Principles, at [SSE - Home Page \(compendiahosting.co.uk\)](#).

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 2022, the Trustee held equity assets through a pooled mandate with Baillie Gifford. This is the only mandate that carries voting rights for the Scheme's holdings. The investment manager has reported on how votes were cast in this mandate as set out in the table below.

Baillie Gifford

Baillie Gifford Long Term Global Growth Investment Fund	
Proportion of Scheme's assets (as at 31 March 2022)	1.9%
No. of meetings eligible to vote at during the year	43
No. of resolutions eligible to vote on during the year	409
% of resolutions voted	100%
% of resolutions voted with management	97.3%
% of resolutions voted against management	2.4%
% of resolutions abstained	0.2%
% of meetings with at least one vote against management	14.0%

Significant votes

The Trustee has asked Baillie Gifford to report on the most significant votes cast within the portfolios they manage on behalf of the Trustee. The manager was 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 manager's report, and with assistance from their investment advisor, the Trustee has identified the following votes as being of greater relevance to the Scheme.

Baillie Gifford

Date	Company	Subject	Manager's vote and rationale	Outcome
03/06/2021	Netflix Inc.	Governance	For – Baillie Gifford supported the resolution put forward by shareholders for a report on political contributions as they believe that enhanced disclosure on the company's policies and procedures is in the shareholders best interests given the lack of information originally provided from the company.	Vote passed – The proposal gathered more than 80% support from shareholders. At the time of the vote, Netflix did not disclose any information regarding its political contributions, management, or oversight, and it does not disclose information on amounts spent on political contributions or monies given to trade associations. Baillie Gifford will continue to engage with the company on this topic.

07/10/2021	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 – This was the second year in a row this resolution had been put forward, Baillie Gifford supported the proposal last year and feel that there has been no material change. Baillie Gifford will continue to engage with the company on this topic.
07/10/2021	Tesla Inc	Governance	Against – Baillie Gifford opposed a shareholder resolution requesting to declassify the board (to allow all directors to be up for election annually as opposed to being staggered over different terms). Baillie Gifford believe that full declassification of the board was not in the best interests of shareholders at the time, and instead supported management’s alternate proposal for partial declassification.	Vote passed - Ahead of the AGM Baillie Gifford had a call with chairwoman, Robyn Denholm to discuss the AGM agenda. Denholm explained that currently the wish is to retain some of the protectionist governance provisions they have in place to support their ability to focus on the long-term. Baillie Gifford were supportive of management's proposal for partial declassification of the board and empathise with Denholm's rationale that the board needs to remain focussed on its mission to accelerate the world's transition to sustainable energy.

The resolutions which Baillie Gifford deemed the most significant over the scheme year were mainly in relation to social or governance issues. 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.

Engagement activity

The Trustee aims to meet regularly with the Scheme’s investment managers where, if appropriate, stewardship issues are discussed in further detail. Over the last 12 months, the Trustee has met with three of the Scheme’s investment managers on four occasions. The Trustee discussed the following issues.

Date	Fund manager	Subject discussed	Outcome
27/05/2021 and 24/02/2022	HPS	<ul style="list-style-type: none"> • General RI update • Focus on climate and the manager's ability to support the Scheme in relation to TCFD 	<ul style="list-style-type: none"> • HPS updated the Trustee on integration of ESG factors into the investment process, the use of ESG ratchets in loan terms and work HPS have been doing in relation to reporting carbon emissions and engaging with companies on the information.
26/08/2021	Insight	<ul style="list-style-type: none"> • General RI update • Focus on climate, net zero commitments and the manager's ability to support the Scheme in relation to TCFD 	<ul style="list-style-type: none"> • Insight detailed how they incorporate ESG factors into their investment process and provided an overview of responsible investment in relation to LDI including active engagement, counterparty assessment and consideration of green gilts.
25/11/2021	Baillie Gifford	<ul style="list-style-type: none"> • The Trustee conducted a Responsible Investment focussed review of their mandate with Baillie Gifford, which included an update on the allocation to China and associated potential governance issues. 	<ul style="list-style-type: none"> • Baillie Gifford detailed their approach to the China allocation, how they manage wider governance issues, provided examples of engagement, and set out their new net zero climate plans. • The Trustee is satisfied with the comprehensive responses by the manager.

Summary of manager engagement activity

The Trustee receives quarterly reporting from Baillie Gifford which includes details of their engagement activity.

- Baillie Gifford carried out 46 engagements over the year ending 31 March 2022. Engagements primarily focused on environmental or social concerns, which contributed to 28 of the 46 engagements. The main methods of engagement were meetings held directly with company management.

Use of a proxy adviser

The Trustee's investment manager Baillie Gifford did not use a proxy advisor over the year ending 31 March 2022. All voting decisions are made in-house in alignment with their own policies.

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 2021. 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 expects managers to report on at least an annual basis on the underlying assets held within the portfolio and details of transactions over the period. The Trustee will challenge the manager if there is a sudden change in the portfolio turnover or if the level of turnover seems excessive.

The Trustee has previously conducted cost transparency exercises with the support of ClearGlass, an organisation specialising in supporting clients understand the total cost of their investments. The Trustee may consider similar exercises in future to understand the level of trading of the Scheme's assets carried out by the fund managers, and ensure this has been consistent with the Scheme's objectives.

During the scheme year, the Trustee reviewed the management fees in relation to the LDI mandate.