

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 31/03/2022.

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 2021 to 31 March 2022.

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 February 2022.

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

- Statement on how the Group Trustee will formally review the voting behaviours of the Group's investment managers on an annual basis in line with producing an Implementation Statement.
- Statement on how the Group Trustee maintains a quarterly engagement programme with its investment managers and records a log of these engagement activities.
- Statement on how the Group Trustee independently monitors the carbon intensity and wider ESG risk exposure within the Group's listed assets on an annual basis.

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. The last review of this policy was undertaken in May 2022.

Voting activity

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

During the year ended 31 March 2022, 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 2022)	6.2%
No. of meetings eligible to vote at during the year	105
No. of resolutions eligible to vote on during the year	1,307
% of resolutions voted	96.6%
% of resolutions voted with management	97.3%
% of resolutions voted against management	2.1%
% of resolutions abstained	0.6%
% of meetings with at least one vote against management	16.2%

LGIM¹

All World Equity Index Fund	
Proportion of Group’s assets (as at 31 March 2022) ²	5.0%
No. of meetings eligible to vote at during the year	6,519
No. of resolutions eligible to vote on during the year	64,607
% of resolutions voted	99.8%
% of resolutions voted with management	80.7%
% of resolutions voted against management	18.1%
% of resolutions abstained	1.3%
% of meetings with at least one vote against management	60.0%

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 2022)	8.2%
No. of meetings eligible to vote at during the year	3,089
No. of resolutions eligible to vote on during the year	36,836
% of resolutions voted	99.2%
% of resolutions voted with management	90.6%
% of resolutions voted against management	9.4%
% of resolutions abstained	1.3%
% 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
03/06/2021	Booking Holdings Inc.	Climate	<p>For – Baillie Gifford supported a shareholder resolution which requested the company produce a climate transition report as they believe better disclosure is in the best interests of shareholders.</p> <p>Baillie Gifford were encouraged by the company's progress on the issue; however, they would like to see the company go further than its current reporting and plans. Specifically, the manager would like to see targets to reduce emissions, rather than only focussing on</p>	Vote passed – Baillie Gifford advised the company of their intention to support the resolution prior to the meeting and will continue to monitor this topic in their discussions with the company.

			offsetting, and long-term scenario planning on transition risk.	
07/10/2021	Tesla Inc	Social	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 and protect against opportunistic short term interests. 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.
14/10/2021	BHP Group Plc.	Climate	For – Baillie Gifford supported a shareholder resolution requesting the company to strengthen its review of industry associations to ensure that it identifies areas of inconsistency with the Paris Agreement. This was in line with management's recommendation and the	Vote passed – This resolution had been put forward at the 2019 and 2020 AGMs where it failed, only receiving 27% and 22% support respectively. Previously Baillie Gifford had opposed the resolution as they were comfortable management were making sufficient progress; however, this

			resolution received over 98% support.	year management recommended support for the resolution, and as such voted in favour.
--	--	--	---------------------------------------	--

The resolutions which Baillie Gifford deemed the most significant over the Group year were mainly in relation to climate, governance and social issues. 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 governance polices and reporting 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
04/03/2022	Apple	Social	For – LGIM supported proposals relating to a report on civil rights audit. The manager considers issues relating to diversity and inclusion to be a material risk to companies.	Vote passed – LGIM views gender diversity as a financially material issue for their clients which have implications for the assets they manage on their behalf.
30/11/2021	Microsoft Corporation	Director Elections	Against – LGIM voted against the election of CEO Satya Nadella as Chair as they expect companies to separate the roles of Chair and CEO due to risk management and oversight.	Vote passed – LGIM will continue to vote against combined Chairs and CEOs.
26/05/2021	Amazon.com Inc	Director Elections	Against – LGIM voted against the election of CEO Jeffrey P. Bezos as board Chair. LGIM have a longstanding policy advocating for the separation of the roles of CEO and board Chair as they believe the roles are substantially different and require distinct skills and experience.	Vote passed – LGIM will continue to engage with the company, publicly advocate their position on this issue and monitor company and market-level progress.
26/05/2021	Facebook Inc.	Director Elections	Withhold – LGIM abstained from voting in regard to the election of the company CEO as	Vote passed – LGIM will continue to engage with the company and across other investee

			board Chair. This was an example of escalation of the manager's voting policy on the topic of the combination of the board Chair and CEO.	companies on this matter.
18/05/2021	JP Morgan Chase & Co.	Director Elections	Against – LGIM voted against the election of Director Todd A Combs as they expect companies to separate the roles of Chair and CEO as they believe the two roles are substantially different.	Vote passed – LGIM will continue to engage with the company, publicly advocate their position on this issue and monitor company and market-level progress.

LGIM voted across a wide range of topics including remuneration, climate, governance and social issues. 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
04/03/2022	Apple	Remuneration	Against - SSGA voted against an advisory vote to ratify an executive officers' compensation.	The manager noted that this proposal did not merit support as they had concerns with the proposed remuneration structure for senior executives at the company.

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

Whilst not all of the Group's mandates carry voting rights, the Group Trustee takes engagement seriously, and aims to meet regularly with the Group's investment managers where, if appropriate, stewardship issues are discussed in further detail and engagement is challenged as necessary.

Over the 12 month period, the Group Trustee met with 3 of the Group's managers. The Group Trustee discussed the following issues.

Date	Fund manager	Subject discussed	Outcome
18/05/2021	LGIM	<p>The Group Trustee asked LGIM for an update on responsible investment, and specifically questioned the manager on the recent changes to their Investment Stewardship team given the departure of the teams Director.</p> <p>The Trustee also questioned the underperformance of certain sectors within their mandate and whether this was linked to a shift away from certain investments on ESG grounds.</p>	<p>LGIM responded to the Group Trustee’s questions and were satisfied with the responses by the manager.</p>
23/08/2021	Insight	<p>The Group Trustee conducted a deep dive of its holdings with Insight. The manager also explained to the Trustee their ESG screening process.</p> <p>The Group Trustee asked the manager on their experiences of rejecting loans on the basis of ESG grounds.</p>	<p>Insight explained that they have rejected loans on ESG grounds and are also able to put loans on hold pending adequate information / tangible improvement with respect to ESG issues.</p>
23/11/2021	SSGA	<p>The Group Trustee conducted a deep dive of its holdings with SSgA. The managers also explained to the Trustee the approach to ESG within the Group’s holdings which is done through their Responsibility Factor (‘R-Factor’) framework.</p> <p>The Group Trustee queried the constitution of the manager’s “R-factor” from a sector perspective and questioned what SSGA do to ensure companies are taking action on climate change.</p>	<p>SSGA provided further details on the managers “R-factor” following the meeting.</p> <p>The manager also detailed one such measure to ensure companies are taking action on climate change is to put pressure on companies to disclose figures on carbon emissions and reduction targets.</p> <p>The Group Trustee were satisfied with the managers responses on the questions raised.</p>

25/02/2022	LGIM	<p>The Group Trustee questioned LGIM on the further departures from their Stewardship team and how the size of the team might impact their progress in this area going forwards.</p> <p>The Group Trustee also asked the manager for details on their voting practices.</p>	The Group Trustee were satisfied with the managers responses on the questions raised.
------------	------	---	---

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 68 engagements over the year ended 31 March 2022. Engagements primarily focused on Environmental or Social concerns which contributed to 32 out of the 68 engagements. The main methods of engagement were meetings held with company management.
- Firm wide SSGA carried out 878 comprehensive engagements over the year to end 2021. These covered a wide range of topics with the main two issues relating to compensation (344) and human capital (229).
- LGIM carried out 1,173 engagements over 2021 firm wide. The four most engaged topics were Climate Change (246), Remuneration (205), LGIM’s ESG Score (133), and Company Disclosure and Transparency (131). The main methods of engagement were shareholder meetings, calls and written engagements.

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 2022. 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 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 Group Trustee is in the process of conducting a similar exercise to understand the level of trading of the Group's assets carried out by the fund managers and ensure this has been consistent with the Group's objectives over the year to end 2021.