

**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 31/03/2023.**

**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 2022 to 31 March 2023.

**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 a regular basis in line with the Group's Statement of Investment Principles (SIP) review which was last completed in May 2023.

The following changes were made to the Stewardship Policy:

- inclusion of priority stewardship themes to help guide discussions with appointed investment managers and to report on significant votes in the preparation of the annual implementation statement. These themes will be reviewed annually and are currently set as Climate Change, Modern Slavery and Board Composition.

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 2023, the Group Trustee held equity assets through mandates with Baillie Gifford and State Street (“SSGA”). The Group Trustee also held exposure to equity futures with Legal and General (“LGIM”) through a Qualifying Investor Fund (“QIF”) which was terminated during the year. 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.

### **Baillie Gifford (year to 31 March 2023)**

<b>Global Alpha – segregated fund</b>	
Proportion of Group’s assets (as at 31 March 2023)	1.6%
No. of meetings eligible to vote at during the year	94
No. of resolutions eligible to vote on during the year	1,173
% of resolutions voted	98.3%
% of resolutions voted with management	97.2%
% of resolutions voted against management	2.5%
% of resolutions abstained	0.3%
% of meetings with at least one vote against management	21.3%

### **SSGA ( year to 31 March 2023)**

<b>Fundamental Index – Global Equity</b>	
Proportion of Group’s assets (as at 31 March 2023)	1.8%
No. of meetings eligible to vote at during the year	2,980
No. of resolutions eligible to vote on during the year	37,554
% of resolutions voted	98.3%
% of resolutions voted with management	90.7%
% of resolutions voted against management	9.3%
% of resolutions abstained	1.2%
% of meetings with at least one vote against management	53.7%

### **Significant votes**

The Group Trustee has asked their managers to report on any votes in relation to the Group’s three key Stewardship themes: Climate Change, Modern Slavery and Board Composition as well as those votes the manager deemed to be significant. Managers were asked to explain the reasons for the vote, 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. It should be noted Baillie Gifford did not class any votes as relating to Modern Slavery over the reporting period. SSGA’s voting process did not actively capture Modern Slavery as a topic of focus and the manager was unable to provide bespoke reporting for the Group. The manager has confirmed this will be fed back to the relevant teams for future consideration.

The Group Trustee has identified the following votes as being of greatest relevance to the Group.

### Baillie Gifford

Date	Company	Subject	Manager's vote and rationale	Outcome
04/08/22	Tesla Inc	Board Composition – Diversity	<b>Against</b> – Baillie Gifford voted against a shareholder resolution requesting a report on board diversity.  Baillie Gifford explained they continue to have good discussions with the company on board refreshment and have confidence in their approach to identify quality directors.	The vote did not pass and c89% of shareholders voted against the resolution.
25/05/22	Amazon.com	Social – Gender/ racial pay gap	<b>For</b> – Baillie Gifford voted for a shareholder proposal on gender/racial pay which was against management recommendation.  Baillie Gifford have supported this proposal at Amazon.com for the last two years. The manager believes that women and minorities are underrepresented in leadership positions compared with the broader workforce, and reporting the unadjusted median gap would help to assess structural bias regarding job opportunity and pay.	The vote did not pass (c29% shareholder support).
13/12/22	Microsoft	Environmental – Climate Risk	<b>Against</b> – Baillie Gifford opposed a shareholder resolution requesting a report on the company's retirement funds' management of systemic climate risk.  The manager did not believe this to be a material risk for the company and think they are doing enough by offering employees a range of investment options.	The vote did not pass and c89% of shareholders voted against the resolution.

The resolutions which Baillie Gifford deemed the most significant over the Group year were mainly in relation to 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.

## SSGA

Date	Company	Subject	Manager's vote and rationale	Outcome
25/05/22	Exxon Mobil Corporation	Environmental - recycling	<b>For</b> - SSGA voted for a shareholder proposal as they believed the company's disclosure and/or practices related to recycling could be improved.	The vote did not pass despite receiving c36% shareholder support.
25/05/22	Chevron Corporation	Environmental – Climate Change reporting	<b>For</b> - SSGA voted for a shareholder proposal as they believed the company's disclosure and/or practices related to climate change could be improved.	The vote passed after receiving overwhelming support.
23/06/22	Toray Industries, Inc.	Board Composition – gender diversity	<b>Against</b> – SSGA voted against the nominee due to the lack of gender diversity on the board.	The vote passed with c64% support.

SSGA classifying a vote as significant if it meets one or more of the following criteria:

- Votes on environmental-related shareholder proposals;
- Votes on compensation proposals where SSGA voted against the management's recommendation;
- Votes against the re-election of board members due to poor ESG performance of the companies (as measured by the managers in house scoring system);
- Votes against the re-election of board members due to poor compliance with the local corporate governance score of the companies (as measured by the managers in-house scoring system); and,
- Votes against the re-election of board members due to a lack of gender diversity on the board.

### 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 4 of the Group's managers. The Group Trustee discussed the following issues.

Date	Fund manager	Subject discussed	Outcome
24/05/22	Baillie Gifford	<p>The Group Trustee conducted a deep dive of its holdings with Baillie Gifford.</p> <p>The Group Trustee questioned Baillie Gifford on the fund's Chinese holdings and whether the manager had any concerns over the geopolitical risks of the region given recent events with Russia and Ukraine.</p>	Baillie Gifford stated that while they continue to monitor these stocks closely (particularly from an ESG perspective), they believe that selling the fund's entire holding in Chinese stocks could potentially be harmful for the fund's performance and stressed that Chinese stocks made up only c4% of the mandate at the time of the meeting.
23/08/22	Partners Group	<p>The Group Trustee conducted a deep dive of its mandate with Partners Group.</p> <p>Partners Group touched upon the ESG integration within private debt mandates and the steps they are taking to incorporate this into their investment process.</p>	The Group Trustee noted that Partners Group should include greater detail on the specific ESG considerations within the Group's holdings if they are invited for another meeting albeit noting that the mandate is now in run off and so will be a reducing proportion of total Group assets over time.
22/11/22	LGIM	<p>The Trustee conducted a deep dive of its mandates with LGIM.</p> <p>LGIM provided a summary of the changes that were being undertaken at the time to align the Group's Buy &amp; Maintain ("B&amp;M") credit portfolio with the Trustee's RI beliefs. The initial aim for the portfolio is to target a climate temperature increase of +2.5C or lower by the time the changes are implemented, with a further aim to reduce this to +1.5C by 2030. The aim of the portfolio is to decarbonise throughout time, ahead of the market. Companies are scored across the UN Sustainable Development Goals framework with the portfolio holding a higher standard of bonds with regard to ESG than previously was the case.</p>	LGIM confirmed that the initial move would be to engage with the investee company such that they could remain eligible investments, as the manager invested due to their favourable view of the company's carbon reduction plans. However, if the company is not willing to make the required changes, LGIM would apply further pressure with the potential to disinvest if the company is not open to change/improvement.

		The Group Trustee queried what LGIM would do in the event that a company fell short of the portfolio's RI and ESG requirements.	
22/02/23	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 queried whether there were any specific geopolitical risks that Insight had been considering.</p>	Insight summarised that the manager has assumed that the Ukraine-Russia conflict does not become a broader geographical issue and that tensions between China and Taiwan will remain subdued.

### Summary of manager engagement activity

The Group Trustee receives quarterly reporting on Baillie Gifford's engagement activity at Group level. Whereas, reporting on engagement activity from SSGA is provided at a company level and hence not bespoke to the fund that the Group invests in.

- Baillie Gifford carried out 103 engagements over the year ended 31 March 2023. Engagements were spread across a range of topics from Environmental and Social concerns to Corporate Governance and Annual General Meeting proposals. The main methods of engagement were meetings and calls held with company management.
- At a company-wide level, SSGA carried out 940 comprehensive engagements over the year to end 2023. Across the Environmental, Social and Governance (ESG) spectrum these largely focussed on Governance issues (590) with Social and Environmental issues addressed 314 and 272 times respectively. (More than one topic can be covered by a single engagement).

### 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 to 31 March 2023:

Manager	Proxy Advisor used
<b>Baillie Gifford</b>	Do not use proxy advisor. All voting decisions are made in-house in alignment with their own policies.
<b>SSGA</b>	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 undertaken during the reporting scheme year in May 2022 and was most recently undertaken by the Group Trustee in May 2023. The next review will be carried out again in May 2024.

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 most recently reviewed the results of a cost transparency exercise in Q1 2023 for the year to 31 December 2021.