SSE Southern Group of the ESPS – Statement of Responsible Investment ("RI") Beliefs

The Trustee ("the Trustee") of the SSE Southern Group of the ESPS ("the Group") believes that:

1. Environmental, Social and Governance ("ESG") issues, including carbon reduction as part of the transition to a low carbon economy, can have a material impact on the long-term performance of the Group's investments.
2. The Trustee recognise that our main should focus is on meeting the Group's financial obligations to pay and secure benefits to members. The Trustee will aim to do this in a way that is in keeping with the transition to a low carbon economy and acknowledge that RI considerations will impact the various asset classes in which the Group invests to different degrees.
3. The Trustee aims to be aware of, and monitor, financially material ESG-related risks and issues through the Group's investment managers.
4. It is important to remain up to date on ESG developments and our understanding of ESG factors should be maintained and improved through ongoing training as well as the continual development of the Group's ESG policy.
5. As asset owners in the 21st Century, it is the Trustee's responsibility to support the transition to a low carbon global economy, consistent with the aims of the Paris 2016 Climate Change agreement to limit temperature increases by 2050 to a maximum of 1.5oC.

SSE Southern Group of the ESPS – Responsible Investment ("RI") policy document

This document records the policies, which includes the actions and expectations of the Trustee, that flow from the Trustee's RI beliefs. It is reviewed regularly and the stakeholders responsible for its development, implementation and oversight of this policy are captured in **Appendix 1 – Governance structure**. **Appendix 2 – Risk management processes** sets out the processes through which wider ESG risks are integrated into the Group's overall risk management processes.

1 Environmental, Social and Governance ("ESG") issues, including carbon reduction as part of the transition to a low carbon economy, can have a material impact on the long-term performance of the Group's investments.

We believe that ESG issues, such as carbon reduction, may have a material impact on investment returns. We also believe that long-term sustainable investment returns are an important consideration, even to the extent that the sustainability of returns extends beyond the expected investment horizon of the Group.

Responsible ownership of companies benefits long-term asset owners, such as the Group, and companies with a clear responsible investment policy are expected to outperform companies without a responsible investment policy, over the longer term.

Therefore, as with all material risks to the long-term success of the Group, RI considerations are factored into our investment decision-making process. As asset owners, we are responsible for setting the Group's policy regarding ESG matters and communicating this to key stakeholders (e.g. investment managers, regulators, members, Sponsor, etc.). It is no longer sufficient to simply delegate responsibility for ESG matters to the Group's investment managers.

We prefer ongoing engagement over divestment with regard to RI matters, to improve corporate behaviours and returns as well as mitigate risks. Where assets are actively managed and attempts to engage with the manager or underlying company have been exhausted, the Trustee retains the right to divest. Where we believe assets may have a negative impact on society or the environment, we would consider restricting investment in such assets.

2 **The Trustee recognise that our main focus is on meeting the Group's financial obligations to pay and secure benefits to members. The Trustee will aim to do this in a way that is in keeping with the transition to a low carbon economy and acknowledge that RI considerations will impact the various asset classes in which the Group invests to different degrees.**

We believe our focus should be on meeting the Group's financial obligations to pay and secure benefits to members. This includes integrating RI, including ESG factors and climate-related risks, into the Group's investment processes because we believe that doing so should lead to better long-term returns on the Group's assets. Our approach is expected to evolve in line with industry practice.

We acknowledge that ESG factors present both risk and opportunities and affect the various asset classes in which the Group invests in different ways which can ultimately impact the Trustee's ability to pay and secure members benefits. This can include the relative importance of sustainable investment and effective stewardship within different asset classes.

For example, effective stewardship will likely be of greater importance to the Group's equity mandates where the managers can exercise voting rights. We consider sustainable investment in terms of both impact (i.e. where the Group's assets are invested) and integration (i.e. how the Group's assets are managed).

3 **The Trustee will monitor financially material ESG-related risks and issues through the Group's investment managers.**

We will work with the Group's investment managers to monitor ESG issues and how the managers exercise stewardship, including engagement and voting rights. Where appropriate, we engage with the Group's investment managers where it is expected to have a beneficial impact on the long-term prospects of the Group, and its ability to pay the members' benefits.

We rely on and expect our investment managers to engage more widely with fellow institutional investors and industry bodies, where we (or the managers) believe this will enhance the effectiveness of the RI initiatives in question. Where a tangible positive impact is expected to be achieved through collective action, the Group should collaborate with other investors.

4 **We believe it is important to remain up to date on ESG developments and our understanding of ESG factors should be maintained and improved through ongoing training as well as the continual development of the Group's ESG policy.**

We will continue to seek to remain well informed on ESG issues with support from our advisors and managers as necessary, including how ESG issues and their evolution relate to the Scheme and its holdings. We will seek out further reporting from the Group's investment advisor and asset managers, as part of our ongoing monitoring activities. We expect that the quality and quantity of data is likely to improve as the industry's thinking on RI continues to evolve, which will further enable us to develop both our knowledge of ESG issues and the Group's policies.

5 **As asset owners in the 21st Century, the Trustee believes it is their responsibility to support the transition to a low carbon global economy, consistent with the aims of the Paris 2016 Climate Change agreement to limit temperature increases by 2050 to a maximum of 1.5oC.**

We are supportive of a global transition to a low carbon economy and will strive to achieve improvements in the Group's carbon footprint over time, to move towards alignment with the Paris Agreement.

Net zero ambition

The Trustee aims to achieve net zero greenhouse gas emissions for all Group assets by 2050.

The Trustee is comfortable that this is in line with its fiduciary responsibility to the Group and its members.

The Trustee's key aim is to make a real-world impact on global emissions, which will be achieved through engagement with the Group's investment managers in relation to their policies and processes, as well as the reallocation of capital where appropriate.

The Trustee will continue to work with the Group's managers to gather the relevant data to allow well informed targets to be put in place which are appropriate for each asset class. The Trustee expects different parts of the portfolio to follow different trajectories as it works towards this aim.

This commitment is based on the expectation that governments and policy makers will deliver on their commitments to achieve the 1.5°C temperature goal of the Paris Agreement. It should be noted that the Group's mandates may be terminated for both RI and/or strategic reasons as the Group de-risks and that this may impact the stated Net Zero journey plan.

TCFD Target setting

The Trustee will report on the performance of the following targets as far as the Trustee is able to do so in line with TCFD requirements. The Trustee aims to achieve:

- 50% reduction in Scope 1 and 2 WACI emissions by 2030, using the average WACI from the Group's carbon reports for 2020 and 2021 as the base line;
- 15% reduction in Scope 1 and 2 WACI emissions by 2025 relative to the baseline

The Trustee also sets the following data quality targets (see appendix for more detail) for the Group's mandates:

- LGIM Buy & Maintain to achieve a data quality score of 3 within the next 2 years (up from a level of 2 set at the time when targets were initially established).
- CBRE UK property mandate to achieve a data quality score of 3 within the next 5 years (up from a level of 2 set at the time when targets were initially established).
- For the two mandates currently scoring 1 for data quality that are of long-term strategic importance to the Group (Insight High Grade ABS, Insight Secured Finance I), both mandates to achieve a score of at least 2 within the next 5 years. It should be noted that data coverage and transparency across these asset classes is very limited and any wider industry changes (e.g. development of methods for ABS metrics estimation) would help in achieving this goal.

The Trustee notes that efforts in improving data quality will be significantly limited by third parties' ability and willingness to provide data. As such, the trustee will use regular engagement with the managers as the main action to improve availability and quality of the climate data.

Stewardship

The Trustee has selected the following as 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:

- Climate Change
- Modern Slavery
- Board Composition
- Biodiversity

Appendix 1 – Group RI governance structure

The following section sets out the key actions each party will take to ensure appropriate management of ESG risks, including climate risk, within the roles set out above. Note: Other parties including auditors, covenant advisors, legal advisors, etc. may provide relevant advice or input as and when required.

Party	Setting policy and governance structure	Education	Strategy	Monitoring
Trustee	Overall ownership of RI Policy and incorporation of RI into the management of the Group. Assess all other parties against expectations and actions delegated to them. Appoint advisors to support RI goals. Maintain the Group's RI policy. Develop and manage a plan to ensure compliance with TCFD requirements.	Ensure all members of the Trustee feel they have the information and education required to fulfil their role. Receive regular training on new regulatory requirements and RI developments to ensure appropriate understanding of emerging best practice.	Discuss and approve ESG related targets for the Group as a whole and individual investment mandates. Discuss and understand managers' RI approach. Ensure managers are clear on the Group's RI Policy and reporting / governance expectations. Oversee the identification of ESG risks and opportunities by the investment managers and advisors and hold investment managers to account in ensuring mitigation plans in place for all major ESG risks.	Identify and approve key RI metric reporting requirements. Agree reporting processes against agreed metrics and targets. Understand the investment advisor's rating processes for investment managers. Assess each manager's RI capabilities to determine if that manager's approach is aligned with the Trustee's RI policy. Review and approve the Group's annual TCFD report.
SSE Pensions Team	Assist with implementation of agreed RI actions. Ensure adequate resources are in place to deliver RI goals and commitments agreed by the Trustee.	Document all relevant training received by the Trustee to ensure no pertinent knowledge gaps.	Consider capacity constraints when discussing the possibility of going beyond minimum compliance from an RI perspective.	Assist with production of the Group's annual TCFD report.

Party	Setting policy and governance structure	Education	Strategy	Monitoring
Investment Advisors (Hymans Robertson)	Assist Trustee with updates to policy.	Advise Trustee on regulatory requirements. Help to identify and deliver training as appropriate.	Integration of RI in review of strategy and risk management frameworks. Support the Trustee in determining ESG targets for the Group as a whole and individual mandates. Give due consideration to the ESG characteristics of the benchmark chosen to assess the manager.	Provide information and views on the investment managers' RI processes, and update for any changes. Carry out the Group's annual RI policy review. Carry out the Group's annual carbon footprinting analysis. Production of the Group's annual TCFD report.
Actuarial Advisors (Aon)	Assist Trustee with updates to RI policy, focussing on actuarial and funding aspects.	Help to identify and provide training as required.	Incorporate RI considerations into funding and integrated risk management conversations.	
Investment Managers (Various)			Manage each mandate in line with agreed RI objectives and constraints (where applicable) and any agreed targets set by the Trustee. Identification of ESG risks and opportunities as part of their investment process. Effective stewardship of Group assets. Engaging with investee companies where appropriate.	Provide relevant RI reporting to Trustee. Provide updates on RI policies where relevant.
Group Sponsor	Inform Trustee of Sponsor's RI objectives and key actions.			

Appendix 2 – Group RI Risk Management Processes

This document forms an Appendix of the Responsible Investment (“RI”) Policy for SSE Southern Group Trustee Limited (“the Trustee”), as Group Trustee of the SSE Southern Group of the ESPS (“the Group”).

Introduction

As part of the Trustee’s responsibility for the setting and implementation of the Group’s RI Policy, we must ensure that ESG related risks are identified, assessed, and effectively managed; and that the management of these risks is integrated into the overall risk management systems of the Group. The following sections set out the processes through which ESG risks are integrated into the Group’s overall risk management.

Identifying ESG Risks

ESG and in particular climate related risks can be identified and assessed by various parties including the Trustee, investment managers, or the Group’s advisors as part of the ongoing management of the Group. ESG risks are identified and assessed as part of the following processes:

- **Investment strategy reviews –** The Trustee considers ESG risks as part of the Group’s regular investment strategy reviews. Hymans Robertson, as the Group’s Investment Advisor, are expected to integrate ESG considerations into their strategy advice and to highlight the key risks within any potential investment strategy. As part of this work the Trustee will carry out scenario analysis to assist in the identification and measurement of climate related risks in the Group’s overall strategy.

- **Valuations and covenant reviews –** The Trustee will consider ESG risks as part of the triennial valuation process, ensuring that this analysis considers the funding, covenant, and investment risks in an integrated risk management manner. When assessing the employer’s covenant, the Trustee will take into account the ESG risks to the sponsoring employer.

- **Considering asset classes –** When assessing new asset classes, potential ESG risks will be assessed and discussed as part of the training provided to the Trustee. Key ESG risks will be taken into account when comparing alternative options.

- **Selection of investment managers –** When appointing a new investment manager, Hymans Robertson will provide the Trustee with information and their view on each manager’s ESG policy and capabilities. Each manager will also be asked to provide information regarding their own ESG risk management processes as part of the selection process. This information allows the Trustee to identify potential ESG risks when comparing potential providers.

- **Individual mandates and investments –** The investment managers undertake risk analysis at the individual asset level on behalf of the Group. In this instance, the managers are responsible for the identification and assessment of ESG risks, including climate related risks and opportunities. Not only will investment managers be tasked with developing and implementing processes to identify existing ESG risks, but also adopting a forward-looking approach to identify emerging risks. Investment managers will be expected to identify these risks to the Trustee as part of their regular reporting; during their presentations at regular manager meetings; by providing climate metric data in line with the TCFD requirements; and by providing any relevant scenario analysis.

The Trustee meets with each of the Group’s current investment managers regularly to gain an in-depth understanding of each managers’ process and the risks inherent in each of the mandates. At these meetings each manager is asked to identify their view of the key ESG related risks facing the portfolio at that time. This assessment may be qualitative or quantitative depending on the type of mandate and data available. Any key risks identified are discussed by the Trustee and monitored on an ongoing basis. The Trustee have also developed a climate risk dashboard to monitor the key climate risks and opportunities across the Group's mandates.

The Trustee notes that the evaluation of ESG related risks and opportunities is based on relevant information and tools being available. We also acknowledge that the quantification of ESG and climate-related risks and opportunities is a developing area, based on continuously emerging information and evolving best practice.

Managing ESG risks

Once risks are identified, they are then evaluated and prioritised based on the overall threat posed to the Group. The Trustee prioritises risks with input from its advisors and investment managers. This helps the Trustee build up a picture of the Group's risks more widely and where ESG risks sit in the overall risk management framework.

Once the risks facing the Group have been considered and prioritised, mitigation strategies are established and monitored to ensure that they remain effective. The Trustee will delegate the management of certain risks to other parties, as set out in the Governance Processes document.

Risks that are deemed to be high in likelihood, impact, or both take priority for future action. An action in the context of risk management should aim to either introduce an additional control to mitigate the likelihood of a risk occurring or reduce the impact of a risk should it occur. This discussion should also consider whether additional Trustee training is required.

The management of ESG risks is integrated into the Group's current processes in the following ways, with all risks considered in the context of the overall risks inherent in any strategy:

- **Monitoring current investment managers / Individual mandates and investments –** The Trustee expects its investment managers to manage the ESG risks identified within their own mandates by engaging with investee companies where risks have been identified, to understand and encourage their management of ESG and climate related risks; and integrating the analysis of these risks into the overall assessment of any potential investment.

- **Setting strategy and choosing asset classes –** The Trustee determines whether exposure to any asset class should be reduced, increased, or avoided in light of the ESG risks identified.

- **Selection of investment managers –** The Trustee considers whether or not to invest with managers whose mandates are expected to introduce an unacceptable level of ESG risk, or who do not have adequate processes for the identification and management of ESG risks.

- **Valuations and covenant reviews –** The Trustee will consider whether the funding strategy needs to be adjusted to reflect the key ESG risks identified. The Trustee will analyse whether the ESG risks highlighted by the covenant review can be offset by holding certain assets within the asset allocation. The Trustee's expectations of the investment managers with regards to the integration of ESG risks are set out in the Group's Statement of Investment Principles (SIP). The Trustee monitors the ESG activities of all managers through regular reporting and meetings, as set out above.

The Trustee engages with the Group's investment managers where risks have been identified to agree a plan of action. This may include setting specific targets for certain mandates, or making amendments to the relevant mandate's investment guidelines, and more regular monitoring of mandates at higher risk.

In addition, the Trustee, with the assistance of its Investment Advisors, prepares an annual Implementation Statement which assesses the engagement and voting activities of investment managers and is used to monitor managers' activities in this area.

Appendix 3 – Data quality (as at November 2022)

Score	Emissions data requirements	Current mandate score[1]
4 – Excellent	At least 90% of actual data available OR >95% overall coverage including at least 75% actual data	SSGA RAFI, Baillie Gifford
3 – Good	At least 65% actual data available OR >75% overall coverage including at least 50% actual data	SSGA corporate bonds
2 – Adequate	At least 45% of actual data available OR >75% overall coverage using estimates	CBRE Property, LGIM Buy & Maintain corporate bonds, LGIM LDI
1 – Poor	Less than 45% of actual data available OR <75% overall coverage using estimates	Insight High Grade, Secured Finance, Partners Group Private Debt

[1] Source: Investment Managers and the Group's carbon footprinting report (MSCI). Coverage only considers emissions data. Accurate as at November 2022.