

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 2023.

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 2022 to 31 March 2023. 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 2022.

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

- Statement that the Trustee Directors review their investment managers' ESG policies on an annual basis and actively challenge the managers where appropriate.
- Statement that the Trustee Directors will review the voting behaviour of the Scheme's investment managers on an annual basis.
- Statement that the Trustee Directors maintain a regular engagement programme with their investment managers and record a log of these engagement activities, with specific concerns being raised with the relevant manager.
- Inclusion of Governance Arrangements section.

You can review the Scheme Stewardship Policy which can be found within the Scheme's Statement of Investment Principles, at [SSE - Home Page \(compendiahosting.co.uk\)](https://www.sse.com/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 2023, 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 2023)	2.3%
No. of meetings eligible to vote at during the year	45
No. of resolutions eligible to vote on during the year	483
% of resolutions voted	100%
% of resolutions voted with management	95.9%
% of resolutions voted against management	3.5%
% of resolutions abstained	0.6%
% of meetings with at least one vote against management	20.0%

Significant votes

The Trustee has asked Baillie Gifford to provide a report on all the votes cast within the portfolios they manage on behalf of the Trustee. 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 in relation to the Scheme's three key Stewardship themes: Climate Change, Modern Slavery and Board Composition where possible. It should be noted Baillie Gifford did not class any votes as relating to Modern Slavery over the reporting period.

Baillie Gifford

Date	Company	Subject	Manager's vote and rationale	Outcome
25/05/22	Amazon Inc.	Climate Change	Against – Baillie Gifford opposed a shareholder proposal on aligning retirement plan options with climate action goals. Baillie Gifford consider that the current options offer sufficient choice on this topic.	Vote failed – The resolution received c9% support from shareholders and so failed to gather a majority.
04/08/22	Tesla Inc.	Board Composition	Against – Baillie Gifford opposed a shareholder proposal requesting a report on board diversity. Baillie Gifford stated they continue to have good discussions with the company on board	Vote failed – The resolution received c10% support from shareholders and so failed to gather a majority.

			refreshment and have confidence in their approach to identify quality directors.	
04/08/22	Tesla Inc.	Climate Change	Against – Baillie Gifford opposed a shareholder resolution requesting a report on how the company's corporate lobbying is aligned with the Paris Climate Agreement. Baillie Gifford believe that given Tesla's core mission is to accelerate the world's transition to sustainable energy and its entire business strategy is in alignment with the Paris Agreement, the additional disclosures would be burdensome with no real benefit to shareholders.	Vote failed – The resolution received c34% support from shareholders and so failed to gather a majority.
08/02/23	PDD Holdings Inc.	Board Composition	Against – Baillie Gifford opposed management recommendation for the election of a director who is the chair of the nomination committee because the board remains entirely male. Baillie Gifford have previously engaged with the company on this issue and explained that they expected the gender diversity of the board to improve by this annual general meeting. Baillie Gifford believe that diversity would bring different perspectives to the board which is ultimately important for the long-term prospects of the company.	Vote passed – The resolution passed with c85% shareholder support.

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 two of the Scheme's investment managers. The Trustee discussed the following issues.

Date	Fund manager	Subject discussed	Outcome
26/05/22	Baillie Gifford	<ul style="list-style-type: none"> Baillie Gifford provided an update on their net zero targets for the Scheme's equity fund and answered a range of questions around challenges of stewardship in China and other regions. 	<ul style="list-style-type: none"> The Trustee were satisfied with the managers presentation and answers provided.
24/11/22	Insight	<ul style="list-style-type: none"> Insight discussed the events and fallout from the mini budget announcement and provided updates on the Scheme's mandates. Insight described how they integrate ESG within each stage of their investment process including their proprietary Prime ratings system. 	<ul style="list-style-type: none"> The Trustee were satisfied with the managers presentation and answers provided.

Summary of manager engagement activity

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

- Baillie Gifford carried out 65 engagements over the year ending 31 March 2023. Engagements primarily focused on governance or environmental/social concerns, which contributed to 51 of the 65 engagements. The main methods of engagement were meetings or calls 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 2023. 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 December 2022. 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.