

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 31/03/2024.

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 2023 to 31 March 2024. It also describes the voting behaviour of the Group's managers, undertaken on behalf of the Trustee, including the most significant votes cast during that period.

Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the investment principles and practices the Trustee follow when governing the Scheme's investments. It describes the rationale for selecting the investment strategy and explains the risks and expected returns of the investments made on behalf of the Group, as well as the Trustee's approach to responsible investing (including a separate stewardship policy, discussed in the next section).

The Trustee last reviewed and updated the SIP in May and August 2023. The following changes were made during the scheme year to end 31 March 2024:

- Updating the acceptable probability of achieving the Group's long-term funding target to reflect changes to the Group's asset allocation and contributions; and
- Updating the Trustee's statement on its stewardship priority themes, which emphasise the areas the Trustee will concentrate on when carrying out and reviewing stewardship activity.

The SIP is scheduled for its next review during the second half of 2024.

The Trustee has prepared this Implementation Statement on the basis of the SIP that was in force throughout the year to end 31 March 2024. The reporting within this document is in line with the SIP applicable at the relevant time.

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 August 2023.

The most recent changes made to the Stewardship Policy over the Scheme year were as follows:

- 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, Board Composition and Biodiversity.

The Trustee has monitored its investment managers' engagement with underlying investee companies, as well as engaging directly with the managers on the areas of their portfolios that the Trustee have deemed to require specific attention. Manager adherence to industry codes and initiatives has also been monitored. The Trustee are comfortable that the Group's stewardship policies have been followed during the period.

You can review the Group's Stewardship Policy which can be found within the Group's Statement of Investment Principles, at <https://ssepensions.com/scheme-documents/>

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.

How the Scheme's investments are governed

The primary objective of the Group is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustee has overall responsibility for how the Group's investments are governed and managed in accordance with the Group's Trust Deed and Rules as well as Trust Law, Pensions Law and Pension Regulations.

There has been one change to the Board of Trustee during the last year, but no change to governance processes.

The Trustee has delegated day-to-day investment decisions, such as which individual investments to buy and sell, to the Group's investment managers.

The Trustee has agreed a set of objectives with its investment advisor, designed to align with the Trustee's objectives and investment strategy set out in the SIP. The Trustee carried out an evidence-based review of the advisor's performance against these objectives in December 2023 and was satisfied that they had been achieved for the year. This involved assessing the advisor against the different objectives.

The investment risks relating to the Group, and expected return of the investment strategy, are described in the SIP.

The Trustee's views on the expected levels of investment risks and returns inform decisions on the strategic asset allocation (i.e., what type of assets and areas of the world the Group invests in over the longer-term), and the style of management adopted by the Group's investment managers.

The Trustee produce an annual report to meet the Task Force on Climate-Related Financial Disclosures (TCFD) which feeds into a wider TCFD report produced by the Electricity Pension Trustee Limited ("EPTL") as Trustee of the Electricity Supply Pension Scheme ("ESPS"). EPTL are required to submit a TCFD report covering the ESPS in its entirety. This captures all of the Groups within the ESPS and includes detail on each Group's approach to governance and risk management in relation to climate risk and opportunities.

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 2024, the Group Trustee held equity assets through mandates with Baillie Gifford, State Street ("SSGA"), and Storebrand. The Group Trustee's investment managers have reported on how votes were cast in each of these mandates as set out in the tables overleaf.

Baillie Gifford (year to 31 March 2024)

Global Alpha – segregated fund	
Proportion of Group's assets (as at 31 March 2024)	1.9%
No. of meetings eligible to vote at during the year	95
No. of resolutions eligible to vote on during the year	1,290
% of resolutions voted	94.4%
% of resolutions voted with management	95.1%
% of resolutions voted against management	3.5%
% of resolutions abstained	1.4%
% of meetings with at least one vote against management	22.1%

SSGA (year to 31 March 2024)

Fundamental Index – Global Equity (pooled fund)	
Proportion of Group's assets (as at 31 March 2024)	2.3%
No. of meetings eligible to vote at during the year	3,054
No. of resolutions eligible to vote on during the year	38,448
% of resolutions voted	98.3%
% of resolutions voted with management	91.4%
% of resolutions voted against management	8.5%
% of resolutions abstained	0.9%
% of meetings with at least one vote against management	51.6%

Storebrand (year to 31 March 2024)

Global ESG Plus strategy (pooled fund)	
Proportion of Group's assets (as at 31 March 2024)	5.6%
No. of meetings eligible to vote at during the year	684
No. of resolutions eligible to vote on during the year	9,942
% of resolutions voted	96.9%
% of resolutions voted with management	91.3%
% of resolutions voted against management	8.7%
% of resolutions abstained	0.0%
% of meetings with at least one vote against management	8.4%

Significant votes

The Group Trustee has asked their managers to report on any votes in relation to the Group's four key Stewardship themes: Climate Change, Modern Slavery, Board Composition and Biodiversity, 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 Board Composition over the reporting period.

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
24/05/23	Amazon.com	Climate Change – Climate change reporting	For – Baillie Gifford voted for a shareholder resolution, requesting a report on how its lobbying is consistent with its climate commitments. Baillie Gifford explained that they would like to see the company expand on their current reporting, specifically regarding risk assessment and procedures.	The vote did not pass (c.24% shareholder support).
24/05/23	Amazon.com	Biodiversity – Plastic pollution	For – Baillie Gifford voted for a shareholder resolution requesting a report on plastic use. Baillie Gifford believes that plastic pollution poses financial, operational and reputational risks to the company, and think more could be done by Amazon.com particularly with regard to how they influence their manufacturers in reducing their usage. The manager believes that the company lags peers who disclose total plastic use and reduction targets.	The vote did not pass (c.32% shareholder support).

01/06/23	Netflix Inc	Modern Slavery– Labour rights	For – Baillie Gifford supported a shareholder resolution requesting that the company adopt and disclose a freedom of association and collective bargaining policy. The manager believes that labour issues are identified as a material risk in Netflix's financial statements and believe that shareholders would benefit from a greater understanding of the company's policy and approach to this matter.	The vote did not pass (c.35% shareholder support).
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The resolutions which Baillie Gifford deemed the most significant over the Group year covered the full spectrum of environmental, social and governance 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. We are supportive of the manager’s efforts in these endeavours.

SSGA

Date	Company	Subject	Manager’s vote and rationale	Outcome
26/04/23	Marathon Petroleum Corporation	Climate Change – Climate change reporting	Against - SSGA voted against a shareholder proposal as they believed the company provides sufficient disclosure on assessing the resilience of its assets, conducting climate scenario analysis, and on asset retirement obligations.	The vote did not pass.
02/05/23	Alleima AB	Biodiversity – Chemical waste disclosure	Against - SSGA voted against a shareholder proposal on chemical waste disclosure as they believed the company provides sufficient disclosure on the topic.	The vote did not pass.
16/05/23	The Hershey Company	Modern Slavery – Human rights	Against – SSGA voted against a shareholder resolution on the provision of human rights reporting as they believed that the company is providing sufficient information regarding its cocoa sourcing policies and practices, and how it is managing supply chain human rights risks and risks related to child labour.	The vote did not pass.
02/06/23	Alphabet Inc	Board Composition – Gender diversity	Against – SSGA voted against the nominee due to the lack of gender diversity on the board.	The vote passed.

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

- Votes on environmental-related shareholder proposals;

- Votes on executive compensation proposals where SSGA voted against the management's recommendation;
- Votes against the re-election of board members following poor ESG performance of the companies (as measured by the manager's 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 manager's in-house scoring system); and
- Votes against the re-election of board members due to a lack of gender diversity on the board.

Storebrand

Date	Company	Subject	Manager's vote and rationale	Outcome
04/04/23	Canadian Imperial Bank of Commerce	Climate Change – Restriction of Fossil Fuel Financing	Against – Storebrand voted against a shareholder resolution requesting an investment in the Canadian Oil and Gas sector. Storebrand explained that since the bank has undertaken efforts to support oil and gas clients in low carbon transition, the proposed resolution may hinder the company's ability to meet its Net-Zero goals.	The vote did not pass and c.99% of shareholders voted against the resolution.
04/05/23	The Kraft Heinz Company	Biodiversity – Supply chain water risk exposure	For – Storebrand voted for a shareholder proposal requesting a report on supply chain water risk exposure. The manager believed that the requested report would be beneficial as it would provide additional information on the company's water supply and conservation practices in its supply chains, allowing the company to better manage water related risks and align company commitment to long term shareholder value.	The vote did not pass (c.8% shareholder support).
07/06/23	Minesto AB	Board composition – Gender diversity	Against – Storebrand opposed a shareholder resolution on re-electing a number of directors. The manager believed that there was a lack of gender diversity on the board.	The vote passed.
12/09/23	NIKE, Inc.	Modern Slavery – Human rights and supply chain management	For – Storebrand voted for a shareholder proposal requesting a report on the effectiveness of supply chain management on DEI goals and human rights commitments. Storebrand explained that additional information regarding the processes the company uses to assess human rights impacts in its operations and supply chain would allow shareholders to better gauge how well the company is managing human rights related risks.	The vote did not pass (c.12% shareholder support).

Storebrand has not established a formal classification for what constitutes a significant vote. However, such votes are considered significant if they pertain to the company's priority engagement themes, which are outlined below for the period of 2021-2023:

- The Race to Net Zero
- Biodiversity & ecosystems
- Resilient Supply Chain
- Corporate Sustainability Disclosure

Engagement activity

Whilst not all of the Group's mandates carry voting rights, the Group Trustee takes engagement seriously, and aims to meet periodically 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 2 of the Group's managers. The Group Trustee discussed the following issues.

Date	Fund manager	Subject discussed	Outcome
22/08/23	Insight	The Group Trustee invited Insight to present the proposal of a bespoke secured finance mandate at the Investment Meeting, which included how ESG considerations are captured within the secured finance mandate.	Insight noted that ESG is challenging within the asset-backed securities and secured finance asset space, as the level of data and direct ESG analysis is not as developed as in other asset classes such as equity or corporate bonds. Insight explained the four key ESG areas that they focus on: their core process, exclusions, positive allocation and engagement, and discussed some specific case studies to demonstrate the innovative ways in which they are looking to integrate ESG in practice in managing secured finance assets.
12/12/23	LGIM	The Group Trustee invited LGIM to present the investment processes of three ESG equity funds, as well as their key characteristics, similarities, and notable differences.	The Trustee approved the selection of the Future World and Climate Action funds, with a proposal to make a 5% allocation to each fund as part of the Group's updated investment strategy. The Group has since invested in the Future World fund. However, after further consideration, the Group Trustee decided in May 2024 not to proceed with an allocation to the LGIM Climate Action fund.

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 and Storebrand are provided at a company level and hence not bespoke to the fund that the Group invests in.

- Baillie Gifford carried out 147 engagements over the year ended 31 March 2024. Engagements were spread across a range of topics from Environmental and Social concerns to Corporate Governance and Strategy proposals. The main methods of engagement were meetings and calls held with company management.
- At a company-wide level, SSGA carried out 779 comprehensive engagements over the year end 31 December 2023. Please note that data for Q1 2024 was not available at the time of drafting. Across the Environmental, Social and Governance (ESG) spectrum these largely focussed on Governance issues (622) with Social and Environmental issues addressed 350 and 170 times respectively. (More than one topic can be covered by a single engagement).
- At a company-wide level, Storebrand carried out 418 comprehensive engagements over the year ended 31 March 2024. Across the Environmental, Social and Governance (ESG) spectrum these largely focussed on Social issues (185) with

Environmental and Governance issues addressed 175 and 58 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 2024:

Manager	Proxy Advisor used
Baillie Gifford	Do not use proxy advisor. All voting decisions are made in-house in alignment with their own policies.
SSGA	All voting decisions and engagements are made in line with in-house policies and views in conjunction with ISS ‘ProxyExchange’ platform.
Storebrand	The manager has engaged an external proxy advisory firm, ISS-ESG to monitor relevant company events, notify events of special interest, and to vote according to the manager’s instructions. Final decision on voting is taken by the manager independently.

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 2023 and was most recently undertaken by the Group Trustee in June 2024. The next review will be carried out again in Q2 2025. The review considered managers’ broader approach to responsible investment, their adherence to the relevant industry codes and engagement activities over the year.

The Group Trustee and its advisers remain satisfied that the responsible investment policies of the managers and, where appropriate, the voting and engagement 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 conducts cost transparency exercises with the support of ClearGlass, an organisation specialising in supporting clients to understand the total cost of their investments. The Group Trustee most recently reviewed the results of a cost transparency exercise in Q1 2024 for the year to 31 December 2022.