

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 2024.

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

Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the investment principles and practices the Trustee follows 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 and 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 August 2023. The following changes were made during the last review:

- Clarification regarding the liquidity of the different assets held by the Scheme.
- Statement regarding the frequency of review of the Scheme's cashflow policy and liquidity position.
- Statement regarding the Trustee's stewardship priority themes, emphasising the areas in which resource will be concentrated when carrying out and reviewing stewardship activity.

The SIP is scheduled for its next review during 2024.

The Trustee has prepared this Implementation Statement on the basis of the Statement of Investment Principles in force throughout the period, with reporting within this document in line with the SIP applicable at the relevant time.

Stewardship policy

The Scheme'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 Scheme's Stewardship Policy is reviewed in line with the Scheme's SIP at least every three years and will normally be reviewed on an annual basis. The last review was completed in August 2023.

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

- Adding a statement that the Trustee has selected three key themes to help guide discussions with the Scheme's investment managers and concentrate areas of engagement. The three key themes are Climate Change, Modern Slavery and Board Composition.
- Statement that the Trustee will review the voting behaviour of the Scheme's investment managers on an annual basis.
- Statement that the Trustee maintains a regular engagement programme with its investment managers and records a log of these engagement activities, with specific concerns being raised with the relevant managers

as necessary.

- Inclusion of Governance Arrangements section.

The Trustee has undertaken monitoring of its investment managers' engagement with underlying investee companies, as well as conducting engagement directly with the managers focused on high-risk areas of the portfolio. Manager adherence to industry codes and initiatives has also been monitored. The Trustee is comfortable that the Scheme's Stewardship Policy has been followed during the period.

You can review the Scheme's Stewardship Policy which can be found within the Scheme's Statement of Investment Principles, at [SSE - Home Page \(ssepensions.com\)](https://www.ssepensions.com)

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 its 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 all aspects of company performance.

How the Scheme's investments are governed

The primary objective of the Scheme 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 Scheme's investments are governed and managed in accordance with the Scheme's Trust Deed and Rules as well as Trust Law, Pensions Law and Pension Regulations.

There was one change to the Trustee Board during the last Scheme 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 Scheme'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 February 2024 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 Scheme, 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 Scheme invests in over the longer-term), and the style of management adopted by the Scheme's managers.

Policy implementation

The Trustee's own engagement activity is focused on dialogue with the Scheme's investment managers which is undertaken in conjunction with its investment advisor. The Trustee aims to meet regularly with the Scheme's investment managers and considers the managers' exercise of stewardship both during these meetings and through reporting provided by the Trustee's investment advisor.

The Trustee monitors, on an annual basis, the Scheme's managers' adherence to the UK Stewardship Code, UN Principles for Responsible Investment 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 own compliance with the Scheme's Stewardship Policy on a regular basis and is satisfied that it has complied with the Stewardship Policy over the last year.

Voting activity

The Trustee seeks to ensure that the Scheme’s managers are exercising voting rights.

During the year ending 31 March 2024, the Scheme held listed equity assets with attached voting rights 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 2024)	2.2%
No. of meetings eligible to vote at during the year	38
No. of resolutions eligible to vote on during the year	420
% of resolutions voted	96.2%
% of resolutions voted with management	94.1%
% of resolutions voted against management	5.2%
% of resolutions abstained	0.7%
% of meetings with at least one vote against management	29.0%

Source: Baillie Gifford as at 31 March 2024

Significant votes

The Trustee has asked Baillie Gifford to provide a report on all the votes cast within the portfolio they manage on behalf of the Scheme. 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 three key Stewardship themes: Climate Change, Modern Slavery and Board Composition.

Date	Company	Subject	Manager’s vote and rationale	Outcome
24/05/23	Amazon Inc.	Climate Change	For – Baillie Gifford supported a shareholder resolution requesting a report on how Amazon’s lobbying aligns with its climate commitments. The manager expressed a desire to see Amazon expand on its current reporting, particularly in terms of risk assessment and procedures. Baillie Gifford believes ensuring agreement between stated commitments and the company’s actions will support Amazon in achieving sustainable long term growth.	Vote failed – The resolution received greater than 20% support from shareholders but failed to gather a majority.
01/06/23	Netflix Inc.	Board Composition	Against – Baillie Gifford opposed a shareholder resolution requesting a policy	Vote failed – The resolution received less than 5% support from

			prohibiting directors from sitting on the board of any other company. Baillie Gifford believes that the experience directors have from sitting on boards of other companies is beneficial to the long term growth of the company.	shareholders.
24/05/23	Amazon Inc.	Modern Slavery	For – Baillie Gifford supported a shareholder resolution on freedom of association. In light of several recent high profile controversies, Baillie Gifford believes that shareholders would benefit from a more thorough examination of the compliance of the company's policies and practices with international fundamental rights.	Vote failed – The resolution received approximately 35% support from shareholders but failed to gather a majority.
25/05/23	Illumina	Board Composition	Against – Baillie Gifford opposed the election of three dissident nominees to the board as Baillie Gifford does not believe they present a compelling alternative to the board's candidates.	Vote passed – The resolution passed and received less than 5% opposition.

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 one of the Scheme's investment managers, HPS. Separately, the Responsible Investment ("RI") Working Group has engaged with Baillie Gifford and Insight as part of their RI annual review with engagement activity fed back to the Trustee. Overall, the Trustee discussed the following.

Date	Fund manager	Subject discussed	Outcome
25/05/23	HPS	<ul style="list-style-type: none"> HPS provided responses to a range of questions in relation to engagement activity and ESG topics. 	<ul style="list-style-type: none"> The Trustee was satisfied with the managers responses.

20/03/24	Insight	<ul style="list-style-type: none"> Insight provided responses to questions in relation to the Scheme's three key themes, climate change, modern slavery, and board composition. 	<ul style="list-style-type: none"> The Trustee requested further detail from Insight on some of its responses, with a subset of the Trustee discussing these on a call with the manager.
20/03/24	Baillie Gifford	<ul style="list-style-type: none"> Baillie Gifford provided responses to questions in relation to the Scheme's three key themes, climate change, modern slavery, and board composition. 	<ul style="list-style-type: none"> The Trustee was satisfied with responses from Baillie Gifford in relation to climate change. The Trustee will engage with the manager for further detail in relation to the questions focusing on modern slavery and board composition.

Summary of manager engagement activity

The Trustee monitors reporting from Baillie Gifford, the Trustee's only listed equity manager, which includes details of their engagement activity.

- Baillie Gifford carried out 217, 57 and 232 engagements in relation to climate change, modern slavery (human rights and supply chain), and board composition respectively over the year ending 31 December 2023 across the manager's entire fund range. Baillie Gifford generally engages with companies individually but, subject to analysis around concert party regulatory rules, it participates in collective engagement on critical issues that could have a material impact on the value of a holding.

Use of a proxy advisor

The Trustee's investment manager Baillie Gifford did not use a proxy advisor over the year ending 31 March 2024. All voting decisions were made in-house in alignment with its own policies.

Review of policies

It is the intention of the Trustee to review the investment managers' RI policies together with their voting practices and policies on an annual basis. This review was last undertaken by the Trustee in March 2024. The review considered the managers' broader approach to RI, their adherence to the relevant industry codes and voting activity over the year.

The Trustee and its advisors remain satisfied that the RI 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 each 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 the Scheme's 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 in understanding 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. Over the Scheme year, the Trustee performed its own costs transparency analysis, with the assistance of its investment advisors, on the Scheme's existing holdings.