

# *First Hydro Company Group of the Electricity Supply Pension Scheme*

## *Implementation Statement, covering 1 April 2022 to 31 March 2023 (“Group Year”)*

The Group Trustees of the First Hydro Company Group (the “Group”) of the Electricity Supply Pension Scheme are required to produce a yearly Statement setting out how, and the extent to which, the Group Trustees have followed the voting and engagement policies in their Statement of Investment Principles (“SIP”) during the year.

The Statement is also required to include a description of the voting behaviour during the year by, and on behalf of, the Group Trustees (including the most significant votes cast on behalf of the Group Trustees) and to state any use of the services of a proxy voter during that year.

In preparing the Statement, the Group Trustees have had regard to the [guidance](#) on Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement, issued by the Department for Work and Pensions (“DWP’s guidance”) in June 2022.

### **1. Introduction**

No changes were made to the voting and engagement policies in the SIP during the Group Year. These policies were last updated in December 2021.

The Group Trustees have, in their opinion, followed the Group’s voting and engagement policies during the Group Year, by continuing to delegate to their investment managers the exercise of rights and engagement activities in relation to investments, by seeking to appoint managers that have strong stewardship policies and considering a manager’s ESG credentials during the selection, retention, and realisation of investments.

The Group Trustees took a number of steps to review the Group’s investment managers and funds over the period, as described in the following section.

### **2. Voting and engagement**

The Group Trustees have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. However, the Group Trustees take ownership of the Group’s stewardship by monitoring and engaging with managers as detailed below.

As part of its advice on the selection and ongoing review of the investment managers, the Group’s investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to voting and engagement.

The Group Trustees monitors LCP’s Responsible Investment scores of the Group’s investment managers on a quarterly basis as part of its investment monitoring. The Group Trustees undertakes a more comprehensive review of managers’ voting and engagement practices on a periodic basis, the last such review was in Q1 2022.

The Group Trustees are supportive of the UK Stewardship Code with which they expect the managers to comply and to produce a commitment statement. Over the Group Year all of the Group’s investment managers were signatories to the UK Stewardship Code and were committed to the UN Principles for Responsible Investment.

Following the introduction of DWP’s guidance, the Group Trustees agreed to set stewardship priorities to focus monitoring and engagement with their investment managers on specific ESG factors. The Trustees discussed their stewardship priorities and decided to adopt 3 priorities which were climate change, corporate transparency and business ethics. These priorities were selected as the Group Trustees believe that they reflect key market-wide risks and are areas where good stewardship and engagement can improve long-term financial outcomes for the Group’s members. The Group Trustees communicated these priorities to its managers after the Group Year end.

The Group Trustees are conscious that responsible investment, including voting and engagement, is rapidly evolving and therefore expects most managers will have areas where they could improve. Therefore, the Group Trustees aim to have an ongoing dialogue with managers to clarify expectations and encourage improvements.

### 3. Description of voting behaviour during the Group Year

The Group Trustees' holdings in listed equities are within pooled funds. Therefore, the Group Trustees are not able to direct how votes are exercised and the Group Trustees themselves have not used proxy voting services over the year. All voting is carried out by the investment managers.

In this section we have sought to include relevant voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, on the Group's funds that held equities over the Group Year as follows:

- L&G Low Carbon Transition UK Equity Index
- L&G Low Carbon Transition Developed Markets Equity Index GBP Hedged
- Legal & General Investment Management ("L&G") Dynamic Diversified Fund
- Ruffer Total Return Fund

The Group Trustees fully disinvested from the Ruffer Total Return Fund and the L&G Dynamic Diversified Fund in September 2022, however we have included data on these funds for the full Group Year as L&G was unable to provide data for the part-period.

In addition to the above, the Group Trustees' investment adviser, LCP, contacted the Group's other asset managers. None of the other pooled funds that the Group invested in over the Group Year held any assets with voting opportunities.

#### 3.1 Description of the voting processes

For assets with voting rights, the Group Trustees rely on the voting policies which its managers have in place.

##### L&G

L&G's voting and engagement activities are driven by its ESG professionals and their assessment of the requirements in these areas. L&G seeks to achieve the best outcome for all its clients. L&G's voting policies are reviewed annually and take into account feedback from clients. Every year, L&G holds a stakeholder roundtable event where clients and other stakeholders are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as they continue to develop their voting and engagement policies and define strategic priorities in the years ahead.

All decisions are made by L&G's Investment Stewardship team and in accordance with its relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant companies. The Investment Stewardship team use third parties to augment their own research and proprietary ESG assessment tools when making specific voting decisions.

To ensure its proxy provider votes in accordance with its position on ESG, L&G has put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what it considers to be minimum best practice standards which all companies globally should observe, irrespective of local regulation or practice.

L&G retains the ability in all markets to override any vote decisions, which are based on its custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows L&G to apply a qualitative overlay to its voting judgement. It has strict monitoring controls to ensure its votes are fully and effectively executed in accordance with its voting policies by the service provider. This includes a regular manual check of the votes inputted into the platform, and an electronic alert service to inform L&G of rejected votes which require further action.

##### Ruffer

Ruffer acts as a steward of its clients' assets and uses its judgement to determine when to engage and how to vote at shareholder meetings, to best protect the interests of clients while being cognisant of the impact on all

stakeholders. Ruffer takes the opportunity to vote seriously, as it enables them to encourage boards and management teams to consider and address areas that Ruffer is concerned about. Ruffer reviews local best practices and corporate governance codes when voting clients' shares, and where relevant considers companies' explanations for not complying with best practice to ensure that it votes in the best interests of clients. It is Ruffer's policy to vote on Annual General Meeting and Extraordinary General Meeting resolutions, including shareholder resolutions, as well as corporate actions. This policy is subject to materiality considerations and applies unless voting is not in their clients' best interests (for example, in markets where share blocking applies) or where not casting a vote is the preferred course of action.

Ruffer has internal voting guidelines as well as access to proxy voting research, currently from ISS, to assist in the assessment of resolutions and the identification of contentious issues. Although it is cognisant of proxy advisers' voting recommendations, it does not delegate or outsource its stewardship activities when deciding how to vote on clients' shares.

Ruffer does not have a formal policy on consulting with clients before voting. However, it can accommodate client voting instructions for specific areas of concern or specific companies where feasible.

Research analysts are responsible, supported by their responsible investment team, for reviewing the relevant issues on a case-by-case basis and exercising their judgement, based upon their in-depth knowledge of the company that Ruffer is invested in. If there are any controversial resolutions, a discussion is convened with senior investment staff and, if agreement cannot be reached, there is an option to escalate the decision to the Head of Research or the Chief Investment Officer. Ruffer looks to discuss with companies any relevant or material issue that could impact their investment.

### 3.2 Summary of voting behaviour over the Group Year

	Fund 1	Fund 2	Fund 3	Fund 4
Manager name	L&G	L&G	L&G	Ruffer
Fund name	Low Carbon Transition UK Equity Index	Low Carbon Transition Developed Markets (ex UK) Equity Index	Dynamic Diversified Fund	Total Return Fund
Total size of fund at end of reporting period	£247.5m	£2.3bn	£1.7bn	£3.4bn
Value of Group assets at end of reporting period (£ / % of total assets)	£11.8m (6%)	£9.2m (5%)	Fully disinvested	Fully disinvested
Number of equity holdings at end of reporting period	86	1,482	6,646	73
Number of meetings eligible to vote	114	1,760	9,496	80
Number of resolutions eligible to vote	2,188	24,018	98,210	1,362
% of resolutions voted	100%	99.8%	99.8%	97.0%
Of the resolutions on which voted, % voted with management	95.2%	78.5%	77.7%	95.0%
Of the resolutions on which voted, % against management	4.8%	21.3%	21.6%	4.8%
Of the resolutions on which voted, % abstained from voting	0.0%	0.2%	0.7%	0.2%
Of the meetings in which the manager voted, % with at least one vote against management	46.5%	81.0%	71.7%	41.3%
Of resolutions on voted, % voted contrary to recommendation of proxy advisor	4.2%	15.0%	12.7%	5.9%

### 3.3 Most significant votes over the Group Year

Commentary on the most significant votes over the period, from the Group's asset managers who hold listed equities, is set out below. The Group Trustees have reported on the significant votes that were most relevant to its stewardship priorities.

Given the large number of votes which are cast by managers during every Annual General Meeting season, the timescales over which voting takes place as well as the resource requirements necessary to allow this, the Group Trustees did not identify significant voting ahead of the reporting period. Instead, the Group Trustees have retrospectively created a shortlist of most significant votes by requesting each manager provide a shortlist of votes, which comprises a minimum of ten most significant votes, and suggested the managers could use the PLSA's criteria<sup>1</sup> for creating this shortlist.

The Group Trustees have interpreted "significant votes" to mean those that align with the stewardship priorities (climate change, corporate transparency and business ethics.)

#### L&G Low Carbon Transition UK Equity Index

- **Rio Tinto Plc, UK, April 2022. Vote: Against. Outcome of the vote: For**

**Summary of the resolution:** Resolution 17 - Approve Climate Action Plan

**Rationale:** L&G recognise the considerable progress the company has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation linked to the company's decarbonisation efforts. However, while L&G acknowledge the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, they remain concerned with the absence of quantifiable targets for such a material component of the company's overall emissions profile, as well as the lack of commitment to an annual vote which would allow shareholders to monitor progress in a timely manner.

**Criteria against which this vote has been assessed as "most significant":** L&G considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.

**Stewardship priority:** Climate change

#### L&G Low Carbon Transition Developed Markets (ex UK) Equity Index

- **Meta Platforms Inc, USA, May 2022. Vote: For. Outcome of the vote: Against**

**Summary of the resolution:** Resolution 5 - Require Independent Board Chair

**Rationale:** Shareholder Resolution - Joint Chair/CEO: A vote in favour is applied as L&G expects companies to establish the role of independent Board Chair.

**Criteria against which this vote has been assessed as "most significant":** L&G considers this vote to be significant as it is in application of an escalation of their vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).

**Stewardship priority:** Corporate Transparency

#### L&G Dynamic Diversified Fund

- **Royal Dutch Shell Plc, UK, May 2022. Vote: Against. Outcome of the vote: For**

**Summary of the resolution:** Resolution 20 - Approve the Shell Energy Transition Progress Update

**Rationale:** A vote against is applied, though not without reservations. L&G acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong

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<sup>1</sup> [Vote reporting template for pension scheme implementation statement – Guidance for Trustees \(plsa.co.uk\). Trustees are expected to select "most significant votes" from the long-list of significant votes provided by their investment managers.](#)

commitment towards a low carbon pathway. However, L&G remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.

**Criteria against which this vote has been assessed as “most significant”:** L&G considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.

**Stewardship priority:** Climate change

L&G stated that it will continue to engage with its investee companies, publicly advocate its position on the above issues, and monitor company and market-level progress.

## Ruffer

- **Equinor ASA, UK, May 2022. Vote: For. Outcome of the vote: For.**

**Summary of the resolution:** Environmental - Approve Company's Energy Transition Plan (Advisory Vote)

**Rationale:** Ruffer voted for the transition plan because it was supportive of Equinor's efforts to decarbonise. Ruffer had engaged with the company and discussed their plan and decided it was in the interest of the fund's investors.

**Criteria against which this vote has been assessed as “most significant”:** Ruffer believe this vote will be of particular interest to clients. The management resolution aims to increase the transparency of the company's climate transition planning and outcomes.

**Stewardship priority:** Climate change

- **Cigna Corporation, USA, April 2022. Vote: Against. Outcome of the vote: Against.**

**Summary of the resolution:** Report on Gender Pay Gap

**Rationale:** Cigna uses an "equal pay for equal work" statistic and reports that there are no material differences in pay data related to gender or race. Although the equal pay for equal work statistic is subjective in that it allows the company to define what it considers an "equal job," the company does report its gender representation statistics and it additionally set a parity goal for leadership positions. As such, shareholders have enough information to assess how effectively company practices are working to eliminate discrimination in pay and opportunity in its workforce. Therefore, support for this resolution is not warranted at this time.

**Criteria against which this vote has been assessed as “most significant”:** Ruffer believe this vote will be of particular interest to clients. Ruffer support management in their effort to provide accurate and transparent information on Gender Pay Gaps.

**Stewardship priority:** Business ethics

- **Meta Platforms Inc, USA, May 2022. Vote: For. Outcome of the vote: Against.**

**Summary of the resolution:** Publish Third Party Human Rights Impact Assessment

**Rationale:** Facebook has received substantial media backlash over the use of its targeted advertising to discriminate against marginalised groups. Although the company has recently tightened its restrictions for targeting options, it still appears to be facing scrutiny on the topic. It has faced a number of legal risks due to lawsuits. Given the large amount of company revenue that comes from advertisements, a third-party human rights impact assessment on the company's policies and practices related to targeted advertising could help shareholders assess Meta's management of human rights related risks.

**Criteria against which this vote has been assessed as “most significant”:** Ruffer believe this vote will be of particular interest to clients. Ruffer support resolutions in their effort to get accurate and transparent information on the company's revenue streams.

**Stewardship priority:** Corporate transparency & business ethics