IMPLEMENTATION STATEMENT

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.

Introduction

No changes were made to the voting and engagement policies in the SIP during the Group Year. The Group Trustees last reviewed the SIP in February 2020.

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, as well as seeking to appoint managers that have strong stewardship policies and processes.

As set out in the SIP, given the objective of the Group, the Group Trustees exclude non-financial matters in the selection, retention and realisation of investments, and have no formal policy on environmental, social and governance ("ESG") matters or delegation of voting rights, with these issues being delegated to the investment managers.

The Group Trustees took a number of steps to review the Group's new and existing managers and funds over the period, as described in Section 2 (Voting and engagement) below.

Voting and engagement

As part of its advice on the selection and ongoing review of the investment managers, the Group's investment adviser (Jagger & Associates until 31 March 2021, LCP thereafter) incorporates its assessment of the nature and effectiveness of managers' approaches to voting and engagement.

When the investment managers presented to the Group Trustees at meetings during the Group Year, the Group Trustees asked several questions about the managers' voting and engagement practices and were satisfied with the answers they received. The Group Trustees also reviewed reports from their managers on voting and engagement activities undertaken on their behalf.

The Group Trustees invested in a new pooled fund, the L&G Dynamic Diversified Fund in September 2020. L&G's voting and engagement practices were considered as part of the decision-making process in choosing the fund.

Description of voting behaviour during the Group Year

All of 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. Therefore, under the Group Trustees' voting and engagement policy, all voting and consideration of ESG matters is delegated to the pooled fund investment managers.

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

- Legal & General Investment Management ("L&G") Dynamic Diversified Fund;
- L&G Global Equity Fixed 60:40 GBP Currency Hedged Fund;
- Barings Dynamic Asset Allocation Fund; and
- Ruffer Total Return Fund.

The Group Trustees have sought to obtain the relevant voting data for this section from all of the investment managers listed above.

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.

Description of the voting processes

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.

Barings

Barings uses Institutional Shareholder Services (ISS) who are a company that provide advice regarding shareholder votes, for vote recommendations, research and vote processing. Barings reviews its votes for the year to determine which it believes are the most significant.

Barings does not consult with clients before voting opportunities, unless clients specifically request to be consulted. Barings' policy is to vote in line with ISS' recommendations unless it is determined not to be in a client's best interest to do so.

Barings generally does not vote when "share-blocking" applies. Share-blocking markets are markets where proxy voters have their securities blocked from trading during the period of the annual meeting. The period of blocking typically lasts from a few days to two weeks. During the period, any portfolio holdings in these markets cannot be sold without a formal recall.

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.

Summary of voting behaviour over the Group Year

	Fund 1	**Fund 2**	**Fund 3**	**Fund 4**
Manager name	L&G	L&G	Barings	Ruffer
Fund name	Dynamic Diversified Fund	Global Equity 60:40 GBP Hedged Currency Hedged Fund	Dynamic Asset Allocation Fund	Total Return Fund
Total size of fund at end of reporting period	£2.5bn	£364m	£654m	£3.8bn
Value of Group assets at end of reporting period (£ / % of total assets held by the Group)	£15.4m (8%)	£36.4m (19%)	£33.0m (17%)	£37.2m (20%)
Number of equity holdings at end of reporting period	3,951	2,858	80	95
Number of meetings eligible to vote	7,887	3,641	93	85
Number of resolutions eligible to vote	83,262	44,680	885	1,163
% of resolutions voted	99.9%	100%	96.6%	96.9%
Of the resolutions on which voted, % voted with management	84.1%	83.6%	92.2%	89.2%
Of the resolutions on which voted, % voted against management	15.2%	16.2%	7.8%	8.8%
Of the resolutions on which voted, % abstained from voting	0.7%	0.2%	0.0%	2.0%
Of the meetings in which the manager voted, % with at least one vote against management	5.4%	5.5%	38.9%	41.0%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	0.3%	0.4%	0.9%	7.6%

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 investment managers provided multiple examples of their most significant votes over the year, of which we have included two examples for each investment manager. We have interpreted "most significant votes" to incorporate:

- Potential impact on financial outcome on future company performance;
- Potential impact on stewardship outcome;
- Size of holding in the fund/mandate
- Whether the vote was high-profile or controversial, that could be based on level of media interest; level of political or regulatory interest; level of industry debate; and
- Where the manager was subject to a conflict of interest.

L&G

- Qantas Airways Limited, Australia, October 2020. Vote: For. Outcome of the vote: For

  Summary of the resolution: To approve the Remuneration Report.

  Rationale: The COVID crisis has had an impact on the Australian airline company's financials. In light of this, the company raised significant capital to be able to execute its recovery plan. It also cancelled dividends, terminated employees and accepted government assistance. The circumstances triggered extra scrutiny from L&G as they wanted to ensure the impact of the COVID crisis on the company's stakeholders was appropriately reflected in the executive pay package. L&G's Investment Stewardship team engaged with the Head of Investor Relations of the company to express their concerns and to understand the company's views. They supported the remuneration report (resolution 4) given the executive salary cuts, short-term incentive cancellations and the CEO's voluntary decision to defer the vesting of the long-term incentive plan.

  Criteria against which this vote has been assessed as "most significant": It highlights the challenges of factoring in the impact of the COVID situation into the executive remuneration package.

- Whitehaven Coal, Australia, October 2020. Vote: For. Outcome of the vote: Against

  Summary of the resolution: Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.

  Rationale: L&G's rationale for voting for the resolution is due to the role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation. In Q4 2020 alone three of Australia's main export markets for coal - Japan, South Korea and China - have announced targets for carbon neutrality around 2050. L&G has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.

Criteria against which this vote has been assessed as "most significant": The vote received media scrutiny and is emblematic of a growing wave of 'green' shareholder activism.

Barings

- East Japan Railway, Japan, June 2020. Vote: Against. Outcome of the vote: For.

  Summary of the resolution: Appointment of a director

  Rationale: Barings voted against the resolution as they felt that the board was not sufficiently independent.

  Criteria against which this vote has been assessed as "most significant": Votes against directors for material holdings are significant.

- Nissan Chemical Corporation, Japan, June 2020. Vote: Against. Outcome of the vote: For.

  Summary of the resolution: Appointment of director Kinoshita, Kojiro

  Rationale: Barings voted against the resolution as they felt there was insufficient gender diversity and no diversity policy in place.

  Criteria against which this vote has been assessed as "most significant": Votes against directors for material holdings are significant.

Ruffer

- ExxonMobil, USA, May 2020. Vote: Against. Outcome of the vote: For.

  Summary of the resolution: Votes for re-election of non-executive directors.

  Rationale: Ruffer stressed that they would like ExxonMobil to further align its strategy with the goals of the Paris Agreement and accept responsibility for its scope 3 emissions. They discussed the progress the European oil and gas companies have made in recent months and suggested that the company join the Energy Transition Commission. As one of the largest oil and gas companies in the world, Ruffer emphasised that they would like to see ExxonMobil helping to address the issues facing the sector. Due to the limited progress since the 2019 AGM, they decided again to vote against the re-election of all non-executive directors because they do not think they have been representing the best interests of shareholders owing to the slow progress of the engagement with the Climate Action 100+ initiative.

  Criteria against which this vote has been assessed as "most significant": Votes against the election of directors for material holdings are significant. The votes against management were in the context of an ongoing engagement with the company and the result of extensive internal discussions.

- Lloyds Bank, UK, May 2020. Vote: Against. Outcome of the vote: For.

  Summary of the resolution: Vote on remuneration policy

  Rationale: Ruffer decided to vote against the proposed remuneration policy at the company as although it reduces the maximum pay-out at the time, it significantly relaxes vesting criteria. Therefore, they did not think it sufficiently incentivises management to deliver shareholder value. They spoke with the Chairman of Lloyds on this issue after they voted and since then the company has made some changes to the remuneration of the new CEO. Even though these do not address all of their concerns, it does make the remuneration criteria more aligned to shareholder interests.

  Criteria against which this vote has been assessed as "most significant": Votes against remuneration policies for material holdings are significant. These arise after discussion between members of the research, portfolio management and responsible investment teams.

A copy of this Implementation Statement is available on the ENGIE website www.engie.co.uk