

IMPLEMENTATION STATEMENT

The Group Trustee of the International Power Group (the “Group”) of the Electricity Supply Pension Scheme (International Power Group Trustee Limited) is required to produce a yearly Statement setting out how, and the extent to which, during the year the Group Trustees have followed the voting and engagement policies in the Statement of Investment Principles (“SIP”).

For simplicity throughout this implementation statement reference is made to Group Trustees in lieu of the more accurate phrase ‘the directors of the Group Trustee’.

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 September 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 the 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.

The Group Trustees delegate such matters to their investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. The investment managers are expected to use engagement with company management for positive influence as opposed to disinvestment from companies unaligned with the Group’s objectives.

The Group Trustee took several steps to review the Group’s 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 (Hymans Robertson until 31 March 2021, Lane Clark and Peacock LLP 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 Trustee also reviewed reports from their managers on voting and engagement activities undertaken on their behalf.

The Group Trustees are supportive of the UK Stewardship Code with which they expect the managers to comply and to produce a commitment statement. It also requires that investment managers be committed to the United Nations’ Principles for Responsible Investment. Over the Group Year all of the Group’s investment managers were Tier 1 signatories to the UK

Stewardship Code and were committed to the United Nations' Principles for Responsible Investment.

Description of voting behaviour during the Group Year

The Group Trustees' holdings in listed equities are held via pooled funds and in a segregated mandate with Ruffer. The Group Trustees are not able to direct how votes are exercised for those equities held in pooled funds. However, they are able to for those equities held with Ruffer. Nevertheless, in accordance with the voting and engagement policy, as with pooled funds, the Group Trustees have delegated decisions on voting opportunities to Ruffer.

The Group Trustees have not used proxy voting services during the year. All voting is carried out by the investment managers.

The section which follows presents a summarised description of voting processes and mandates used by the Group that hold equities. The Group Trustees have sought to obtain the relevant voting data for this section from all of the investment managers listed below:

- Legal & General Investment Management (“L&G”) RAFI Multi-Factor Developed Equity Index Fund;
- L&G World Equity Index Fund;
- Fidelity Emerging Market Equities Fund; and
- Ruffer Total Return portfolio

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.

Fidelity

Voting is an integral component of its approach to stewardship, alongside securities selection, proprietary research, monitoring, and dialogue with investee companies and other key stakeholders. Fidelity votes in accordance with its proxy voting guidelines as a house, leveraging the combined scale of its managed funds' combined ownership. Fidelity does not seek client feedback ahead of individual voting resolutions, but welcomes clients' views on its stewardship preferences and how its corporate engagement strategy and proxy voting guidelines could evolve to meet them.

Fidelity has a dedicated Sustainable Investing Team that works closely with the investment teams and is responsible for consolidating Fidelity's approach to stewardship, engagement, ESG integration and the exercise of votes at general meetings. Information to inform the voting process is derived from a variety of sources and includes material provided by the company, proxy voting advisory services, internal and external research. Discussions may also be held with investee companies themselves.

All votes are cast in accordance with Fidelity's established voting policies after consultation with the relevant portfolio managers where appropriate. Fidelity will vote on all equity securities where there is a regulatory obligation for them to do so or where the expected benefit of voting outweighs the expected costs. Fidelity will also take account of the particular circumstances of the investee company concerned and of prevailing local market best practice. Fidelity's approach and policy with regard to the exercise of voting rights are in accordance with all applicable laws and regulations as well as being consistent with the respective investment objectives of the various portfolios.

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 encouragement of 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 its 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 Institutional Shareholder Services (ISS) which is company that provide advice regarding shareholder votes, 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 its investment.

Summary of voting behaviour over the Group Year

	Fund 1	Fund 2	Fund 3	Fund 4
Manager name	L&G	L&G	Fidelity	Ruffer
Fund name	RAFI Multi-Factor Developed Equity Index Fund	World Equity Index Fund	Emerging Market Equities Fund	Total return portfolio
Total size of fund at end of reporting period	£1.6bn	£1.0bn	£3.2bn	n/a (segregated mandate)
Value of Group assets at end of reporting period (£ / % of total assets held by the Group)	£45.3m (11%)	£48.4m (11%)	£9.8m (2%)	£53.9m (13%)
Number of equity holdings at end of reporting period	2,417	2,644	55	38
Number of meetings eligible to vote	3,294	3,294	81	33
Number of resolutions eligible to vote	40,625	39,477	752	517
% of resolutions voted	99.7%	99.9%	99.6%	86.5%
Of the resolutions on which voted, % voted with management	80.9%	81.4%	95.7%	86.8%
Of the resolutions on which voted, % voted against management	18.9%	18.0%	3.9%	11.4%
Of the resolutions on which voted, % abstained from voting	0.2%	0.6%	0.4%	1.8%
Of the meetings in which the manager voted, % with at least one vote against management	6.2%	6.0%	17.7%	45.5%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	0.4%	0.3%	8.9%	12.3%

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 investment managers provided multiple examples of their most significant votes over the year, of which two examples for each investment manager are set out below. "Most significant votes" has been interpreted to incorporate:

- Potential impact on financial outcome of 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 it wanted to ensure the impact of the COVID crisis Quantas Airways' 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 asked 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 - 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.

Fidelity

- X5 Retail Group, Russia, April 2020. Vote: Against. Outcome of the vote: Against.

Summary of the resolution: Vote on remuneration policy

Rationale: Fidelity has had an engagement campaign since 2012 aimed at encouraging European investee companies to adopt long-term incentive plans for senior management with a minimum share release period of five years. This is intended to focus management’s attention beyond the quarterly reporting cycle by linking a substantial portion of their remuneration with shareholders over a five-year time horizon. An insufficient proportion of the incentive arrangement is performance based, along with poor disclosure of compensation targets, led Fidelity to vote against this resolution.

Criteria against which this vote has been assessed as “most significant”: Significant concerns regarding the remuneration of Directors.

- Localiza Rent A Car SA, Brazil, November 2020. Vote: For. Outcome of the vote: For.

Summary of the resolution: Approve Merger between the Company and Companhia de Locacao das Americas

Rationale: Fidelity’s view was that a merger made sense for both sides from a strategic perspective given sectoral consolidation pressures and the Localiza management team’s strong track record of delivering value accretive mergers and acquisitions. Fidelity’s investment team engaged with both companies following the announcement of merger talks.

Criteria against which this vote has been assessed as “most significant”: Fidelity holds a material allocation in the stock and the outcome of the vote was of importance to investors.

Ruffer

- Cigna, USA, April 2020. Vote: Against. Outcome of the vote: For.

Summary of the resolution: Vote on remuneration policy

Rationale: After taking into account the average tenure of members of the board, the regions in which the company is domiciled and the sector in which the company operates, Ruffer did not support the re-election of a number of directors in the period because of concerns that they were not independent.

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

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

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

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, Ruffer did not believe it sufficiently incentivises management to deliver shareholder value. Ruffer spoke with the Chairman of Lloyds on this issue after voting and since then the company has made some changes to the remuneration of the new CEO. Even though these do not address all of Ruffer's 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.