Scottish Hydro-Electric Pension Scheme – Responsible Investment Beliefs

The Trustee of the Scottish Hydro-Electric Pension Scheme (the “Scheme”), the purpose of which is to pay and secure benefits to members, believes that:

1. Responsible Investment issues can have a material impact on the long-term performance of its investments.

2. ESG (Environmental, Social and Governance) factors, including climate risk can have a positive and/or negative impact on long term returns and reputation.

3. Responsible ownership of companies benefits long term asset owners. Companies with a clear responsible investment policy are expected to outperform companies without a responsible investment policy, over the longer term.

4. Responsibility for setting policy over ESG factors sits with the Trustee.

5. Investment managers are best placed to implement policy on ESG matters. They should embed ESG and RI considerations throughout their processes, be responsible for engaging with investee companies and issuers on ESG factors and take responsibility for voting (where relevant).

6. The Trustee should be aware of, and monitor, financially material ESG-related risks and issues through the Scheme’s investment managers. It is important for the Trustee, its advisors and the Scheme’s investment managers to remain up to date on ESG developments.

7. Broad alignment between the Company’s (SSE) approach to managing ESG factors and the Trustee’s management of ESG factors is desirable.

8. In relation to ESG risks, divestment is not always the best option. In cases where a company in which the Trustee has invested does not show demonstrable progress towards carbon reduction, divestment of that holding is one option that the Trustee may consider. However, the Trustee should also consider other measures that may facilitate ESG performance improvement of the investee company.

9. As asset owners in the 21st Century, the Trustee supports a transition to a low carbon global economy, consistent with the aims of the Paris 2016 Climate Change agreement to limit temperature increases by 2050 to a maximum of 2ºC.

Scottish Hydro-Electric Pension Scheme – Responsible Investment Policy

This document records the policies, which includes the actions and expectations of the Trustee, that flow from the Trustee's Responsible Investment ("RI") beliefs. It is reviewed regularly and the stakeholders responsible for its development, implementation and oversight of this policy are captured in **Appendix 1 – Governance structure** and **Appendix 2 – Risk management processes** sets out the processes through which wider ESG risks are integrated into the Scheme's overall risk management.

RI Belief 1: Responsible Investment issues can have a material impact on the long-term performance of its investments.

The Trustee believes its focus should be on meeting the Scheme's financial obligations to pay and secure benefits to members. This includes integrating RI, including ESG factors and climate-related risks, into its investment processes because it believes that doing so should lead to better long-term returns on the Scheme assets. Its approach is expected to evolve in line with industry practice.

RI Belief 2: ESG factors, including climate risk, can have a positive and/or negative impact on long term returns and reputation.

The Scheme's asset allocation has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at the asset class level rather than to individual stocks etc. The Trustee will update these assumptions in line with industry practice as its understanding of ESG factors and climate risk improves and will use scenario analysis periodically to optimise the resilience of the investment strategy.

RI Belief 3: Responsible ownership of companies benefits long term asset owners. Companies with a clear responsible investment policy are expected to outperform companies without a responsible investment policy, over the longer term.

The Trustee expects its investment managers to fully consider investee companies' responsible investment policies as part of the investment process.

RI Belief 4: Responsibility for setting policy over ESG factors sits with the Trustee.

The Trustee will share this RI policy with its investment managers. The Trustee will review this RI Policy at least annually to adapt to changes in the investment strategy, regulation, industry guidance and best practice.

RI Belief 5: Investment managers are best placed to implement policy on ESG matters. They should embed ESG and RI considerations throughout their processes, be responsible for engaging with investee companies and issuers on ESG factors and take responsibility for voting (where relevant).

The Trustee will require their investment managers to take account of all financially material factors including ESG factors, in the implementation of their mandate. The Trustee will monitor and review the Scheme's investment managers in relation to their climate change approach and ESG policies.

Increased reporting from the investment managers on ESG factors will be of benefit to the Trustee as part of its ongoing monitoring activities. The Trustee will ensure that the Scheme meets the TCFD requirements and utilise ESG reporting from its investment managers and advisors. The Trustee will make appropriate disclosures on its RI activities and on ESG factors and climate-related risks associated with its investments using available data.

The Trustee expects investment managers to exercise ownership rights on its behalf where possible as this is consistent with the Trustee's fiduciary duties and in line with regulatory guidance. It expects its managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. It will seek feedback from its managers on such engagements as part of the process of monitoring the performance of the managers.

The Trustee will review investment managers' voting activities as part of its ongoing monitoring. The Trustee has selected climate change, modern slavery, and board composition as 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.

RI Belief 6: The Trustee should be aware of, and monitor, financially material ESG-related risks and issues through the Scheme's investment managers. It is important for the Trustee, its advisors and the Scheme's investment managers to remain up to date on ESG developments.

The Trustee will look to assess its portfolios on climate change and ESG risks where it is practical to do so and incorporate this into its investment decision making process. Investment managers should articulate how they anticipate future ESG issues, their potential impact, and how these are included in their investment decisions.

Risks and opportunities shall be documented in line with the Trustee's integrated risk management approach, in the Trustee's risk register and climate risk dashboard.

The Trustee's RIWG (Responsible Investment Working Group) is responsible for ensuring that all topical ESG developments are addressed promptly. The Trustee will raise ESG developments with its managers as part of the routine monitoring of the Scheme's investments.

RI Belief 7: Broad alignment between the Company's (SSE) approach to managing ESG factors and the Trustee's management of ESG factors is desirable.

The Trustee maintains a register of interests of each of the Trustee Directors and their advisers to ensure that any potential conflicts are dealt with appropriately. Potential conflicts are considered at the start of every formal meeting of the Trustee Board and any working groups.

The Trustee engages with the Company on a regular basis. This forms part of regular covenant monitoring. The Trustee will periodically monitor changes to the Company's approach to ESG factors and consider amending its own approach when appropriate.

RI Belief 8: In relation to ESG risks, divestment is not always the best option. In cases where a company in which the Trustee has invested does not show demonstrable progress towards carbon reduction, divestment of that holding is one option that the Trustee may consider. However, the Trustee should also consider other measures that may facilitate ESG performance improvement of the investee company.

Effective stewardship is important to protect and enhance the value of investments and therefore the Trustee will proactively engage with stakeholders on RI matters, including climate-related risks.

The Trustee expects its investment managers to engage with investee companies about their ESG practices and to consider divestment only when engagement has failed to achieve a satisfactory approach. The Trustee expects its investment managers to set out their policies on exclusions and will monitor and review any changes to such policies.

RI belief 9: As asset owners in the 21st Century, the Trustee supports a transition to a low carbon global economy, consistent with the aims of the Paris 2016 Climate Change agreement to limit temperature increases by 2050 to a maximum of 2oC.

The Trustee expects investment managers to be engaging with investee companies on climate transition plans and alignment with the Paris agreement and will seek feedback on engagements on this topic.

The Trustee will aim to decarbonise the Scheme's investment portfolio in a way that is consistent with achieving global net zero greenhouse gas emissions by 2050 or sooner in line with the Paris agreement. In order to achieve this, the Trustee will monitor investment managers' own targets and efforts to collaborate at industry level on this topic.

Appendix 1 - RI Governance Structure

Introduction

The Trustee has overall responsibility for ensuring that RI considerations are taken into account, where relevant, in all areas of the Scheme's management and retains overall responsibility for the setting and implementation of the Scheme's RI Policy. In fulfilling this duty, the Trustee delegates certain responsibilities to other parties. The parties with a role in the Scheme's management, how they incorporate Environmental, Social and Governance (ESG) considerations into that role and the methods the Trustee uses to assess each party are set out in the sections below.

Scheme management – Key parties

Trustee Board

The Trustee Board has ownership of the overall investment strategy, including the implementation of the Scheme's RI Policy. The Trustee Board is expected to incorporate RI considerations into its management of the Scheme's assets, identifying and managing ESG related risks and opportunities in all areas including asset allocation decisions, manager appointments and its monitoring of the Scheme's current investment managers.

Responsible Investment Working Group

The Responsible Investment Working Group ("RIWG") is a subset of the Trustee Board. The RIWG aims to carry out all tasks required to enable the Trustee to:

- Act in line with the beliefs and principles set out in the Trustee's agreed RI policy.
- Continue to progress towards becoming more active in all areas of RI.
- Meet the requirements of the new climate related regulations that come into force from October 2022.

SSE Pensions Team

The SSE Pensions Team, support the RIWG in the arranging of meetings and taking forward agreed actions between RIWG meetings.

Investment Advisers

The Scheme's investment advisers, Hymans Robertson, are responsible for assisting the RIWG and the Trustee Board to ensure climate related risks and opportunities are embedded into all investment decisions. They provide advice and training to the RIWG and Trustee Board regarding regulatory requirements and are expected to incorporate RI considerations into any advice regarding any strategy changes or manager appointment.

The Trustee has set objectives for its Investment Adviser which include objectives relating to the adviser's support in all RI considerations. The Investment Adviser is assessed against these objectives annually and the objectives themselves are assessed regularly to ensure they remain appropriate. The current Investment Adviser objectives are available as separate document and are updated on a regular basis.

Actuarial Advisers

The Scheme's Actuarial advisers, Hymans Robertson, are responsible for identifying any RI considerations which should be incorporated into the Scheme's funding strategy.

Investment Managers

The Scheme's investment managers are expected to integrate ESG considerations, to the extent possible, into their management of each of the Scheme's mandates. The Scheme's investment managers are expected to provide frequent reporting on ESG topics and provide updates at the quarterly manager meetings.

Scheme sponsor

The Scheme's sponsor, SSE, maintains its own RI Policies, objectives, and action plan. The Trustee ensures that there is dialogue with SSE to ensure both parties are aware of each other's approach in this area.

The following section sets out the key actions each party will take to ensure appropriate management of ESG risks, including climate risk, within the roles set out above.

	Setting policy and governance structure	Education	Strategy	Monitoring
Trustee Board	Overall ownership of RI Policy and incorporation of RI into Scheme management. Assess all other parties against expectations and actions delegated to them. Appoint advisors to support RI goals. Maintain the Scheme's RI policy. Determine membership of the RIWG.	Ensure all members of the Trustee Board feel they have the information and education required to fulfil their role.	Approve ESG related targets for the Scheme as a whole and individual investment mandates.	Approve key RI metric reporting requirements. Understand the investment advisers' rating processes for investment managers. Approve the Scheme's annual TCFD report. Regularly assess the activities of the RIWG.
RIWG	Develop and manage a plan to ensure compliance with TCFD requirements.	More granular training on new regulatory requirements and RI developments to ensure appropriate understanding. Identify training requirements for the Trustee.	Discuss and understand managers' RI approach. Ensure managers are clear on the Scheme's RI Policy and reporting / governance expectations. Oversee the identification of ESG risks and opportunities by the investment managers and advisers, and hold investment	Identify key RI metric reporting requirements. Agree reporting processes against agreed metrics and targets. Understand the investment advisers' rating processes for investment managers Review the Scheme's annual TCFD report.

			managers to account in ensuring mitigation plans in place for all major risks. Propose ESG related targets for the Scheme as a whole and individual mandates to the Trustee.	Assess each manager's RI capabilities to determine if that manager's approach is aligned with the Trustee's RI policy.
SSE Pensions Team	Assist with implementation of agreed RI actions. Ensure adequate resources are in place to deliver RI goals and commitments agreed by the Trustee.		Consider capacity constraints when discussing the possibility of going beyond minimum compliance from an RI perspective.	Assist with production of the Scheme's annual TCFD report.
Investment Advisers	Assist RIWG with updates to policy.	Advise RIWG on regulatory requirements. Help identify and provide training as required.	Integration of RI in review of strategy and risk management frameworks. Support the RIWG in determining ESG targets for the Scheme as a whole and individual mandates.	Provide information and views on investment managers' RI processes. Carry out Annual RI Review. Preparation and production of the Scheme's annual TCFD report.
Actuarial Advisers	Assist RIWG with update to policy focussing on actuarial aspects.	Help identify and provide training as required.	Incorporate RI considerations into funding and integrated risk management conversations.	

Investment Managers			Manage each mandate in line with agreed RI objectives and constraints (where applicable) and any agreed targets set by the Trustee. Identification of ESG risks and opportunities as part of their investment process. Effective stewardship of Scheme assets. Engaging with investee companies where appropriate.	Provide relevant RI reporting to RIWG and Trustee. Provide updates on RI policies where relevant.
Scheme Sponsor - SSE	Inform RIWG and Trustee of Sponsor's RI objectives and key actions.			

Other parties including auditors, covenant advisors, legal advisors etc may be provide relevant advice or input as and when required.

Appendix 2 - RI Risk Management Processes

Introduction

As part of the Trustee's responsibility for the setting and implementation of the Scheme's RI Policy, the Trustee must ensure that ESG related risks are identified, assessed and effectively managed and that management of these risks is integrated into the overall risk management of the Scheme. The following sections set out the processes through which ESG risks are integrated into the Scheme's overall risk management.

Identifying ESG Risks

ESG and in particular climate related risks can be identified by various parties including the Responsible Investment Working Group ("RIWG"), the Trustee, investment managers or the Scheme's advisers as part of the ongoing management of the Scheme. ESG risks are identified as part of the following processes:

- **Investment strategy reviews –** The Trustee will consider ESG risks as part of the Scheme's regular investment strategy reviews that are carried out alongside each Actuarial Valuation and on an ad hoc basis as required. The Scheme's Investment Advisers are expected to integrate ESG considerations into their strategy advice and to highlight any key risks that are included within any potential investment strategy. As part of this work the Trustee will carry out scenario analysis to assist in the identification and measurement of climate related risks in the Scheme's overall strategy.

- **Valuations and covenant reviews –** The Trustee will consider ESG risks as part of the triennial Actuarial Valuation process ensuring that this analysis considers the funding, covenant and investment risks in an integrated risk management manner. When assessing the employer's covenant, the Trustee will take into account the ESG risks to the employer.

- **Considering asset classes –** When assessing new asset classes, potential ESG risks will be assessed and discussed as part of the training provided to the Trustee. Key ESG risks will be taken into account when comparing alternative options.

- **Selection of investment managers –** When appointing a new investment manager, the Scheme's Investment Adviser will provide information and their view on each manager's ESG policy and capabilities. Each manager will also be asked to provide information regarding their own ESG risk management processes as part of the selection process. This information allows the Trustee to identify potential risks when comparing potential providers.

- **Individual mandates and investments –** The investment managers on behalf of the Scheme will undertake risk analysis at the individual asset level. In this instance, the Scheme's investment managers are responsible for the identification and assessment of ESG risks, including climate related risks and opportunities. Not only will investment managers be tasked with developing and implementing processes to identify existing ESG risks but also adopting a forward-looking approach to identify emerging risks. Investment managers will be expected to identify these risks to the Trustee in the following ways:

    - As part of their regular reporting.

    - During their presentations at regular manager meetings.

    - By providing climate metric data in line with the TCFD requirements.

- By providing any relevant scenario analysis.

The Trustee meets with each of the Scheme's current investment managers regularly to gain a more in-depth understanding of each managers' process and the risks inherent in each of the current mandates. At all meetings with the Scheme's managers, each manager will be asked to identify their view of the key ESG related risks facing the portfolio at that time. This assessment may be qualitative or quantitative depending on the type of mandate and data available. Any key risks identified will be discussed by the RIWG and monitored on an ongoing basis.

Key risks identified are listed on the Scheme's Risk Register to be monitored on an ongoing basis. A separate climate risk dashboard is being established.

The Trustee notes that evaluation of ESG related risks and opportunities is based on relevant information and tools being available, as well as the quantification of ESG and climate-related risks and opportunities being a developing area based on continuously emerging information.

Managing ESG risks

Once risks are identified, they are then evaluated and prioritised based on the overall threat posed to the Scheme. The Trustee prioritises risks with input from its advisors and investment managers. This helps the Trustee build up a picture of the Scheme's risks more widely and where ESG risks sit in the overall risk management framework.

Once the risks facing the Scheme have been considered and prioritised, mitigation strategies should be established and monitored to ensure that they remain effective. The Trustee will delegate the management of certain risks to other parties, as set out in the Governance Processes document.

Risks that are deemed to be high in likelihood, impact, or both are deemed to take priority for future action. An action in the context of risk management should aim to either introduce an additional control to mitigate the likelihood of a risk occurring or reduce the impact of a risk should it occur. This discussion should also consider whether additional Trustee training is required.

The management of ESG risks is integrated into the Scheme's current processes in the following ways, with all risks considered in the context of the overall risks inherent in any strategy:

- **Monitoring current investment managers / Individual mandates and investments -** The Trustee expects its investment managers to manage the ESG risks identified within their own mandates by:

    - Integrating the analysis of these risks into the overall assessment of any potential investment.

    - Engaging with investee companies where risks have been identified, to understand and encourage their management of ESG and, climate related risks.

- **Setting strategy and choosing asset classes –** The Trustee determines whether exposure to any asset class should be reduced, increased or avoided in light of the ESG risks identified.

- **Selection of investment managers –** The Trustee considers whether or not to invest with managers whose mandates are expected to introduce an unacceptable level of risk or who do not have adequate processes for the identification and management of ESG risks.

- **Valuations and covenant reviews –**The Trustee will consider whether the funding strategy needs to be adjusted to reflect the key ESG risks identified. The Trustee will analyse whether the ESG risks highlighted by the covenant review can be offset by holding certain assets within the investment strategy.

The Trustee’s expectations of the investment managers with regards to the integration of ESG risks are set out in the Scheme’s Statement of Investment Principles (SIP). The Trustee monitors the ESG activities of all managers through regular reporting and meetings, as set out above.

The Trustee, through RIWG engages with current investment managers where risks have been identified to agree a plan of action. This may include setting specific targets for certain mandates and more regular monitoring of mandates at higher risk.

In addition, the Trustee, with the assistance of its Investment Advisers, prepares an annual Implementation Statement which assesses the engagement and voting activities of investment managers and is used to monitor managers’ activities in this area.