First Hydro Company Group of the Electricity Supply Pension Scheme

Implementation Statement, covering 1 April 2023 to 31 March 2024 ("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

The Group Trustees last reviewed and updated the SIP during the Group Year, in October 2023. As part of this, the voting and engagement policies were updated in the SIP to reflect:

- the agreed stewardship priorities (climate change, corporate transparency and business ethics); and
- a general strengthening of the wording around the policies on ESG factors and engagement.

The latest SIP can be found online at https://www.engie.co.uk/ENGIE-UK-pensions.

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.

Should LCP become concerned about the way in which any of the investment managers are undertaking voting and engagement, it would notify the Group Trustees and suggest a course of action to take, which may include more detailed engagement with a manager to improve its policies or possibly to review the manager. There were no significant concerns raised about any of the investment managers during the Group Year.

The Group Trustees monitor LCP's Responsible Investment ("RI") scores of the Group's investment managers on a quarterly basis as part of its investment monitoring. The Group Trustees were satisfied with the results of the reviews during the Group Year and no further action was taken. 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 and this will take place again when LCP's next RI manager survey is released (expected in late 2024).

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 in the previous Group Year 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 during the Group Year and informed the managers of its expectations in relation to ESG and stewardship.

Additionally, the Group Trustees received quarterly updates on ESG and Stewardship related issues from LCP, to ensure they remained up to date on the latest developments in the area.

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

Please note this does not include the AVC investments, as these assets are not considered significant in size, in relation to the overall investments of the Group.

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. L&G also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.

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. This helps ensure the stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to 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.

3.2 Summary of voting behaviour over the Group Year

Manager and Fund name	L&G Low Carbon Transition UK Equity Index	L&G Low Carbon Transition Developed Markets Equity Index
Total size of fund at end of reporting period	£554.8m	£2.1bn
Value of Group assets at end of reporting period (£ / % of total assets)	£5.6m (4%)	£4.5m (3%)
Number of equity holdings at end of reporting period	79	1,416
Number of meetings eligible to vote	96	1,607
Number of resolutions eligible to vote	1,978	22,507
% of resolutions voted	100%	99.8%
Of the resolutions on which voted, % voted with management	95.8%	78.0%
Of the resolutions on which voted, % against management	4.2%	21.8%
Of the resolutions on which voted, % abstained from voting	0.0%	0.2%
Of the meetings in which the manager voted, % with at least one vote against management	41.7%	81.3%
Of resolutions on voted, % voted contrary to recommendation of proxy advisor	3.4%	16.3%

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 Pension and Lifetime Savings Association (PLSA) criteria 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

- **Shell Plc, UK, May 2023. Vote: Against (against management recommendation). Outcome of the vote: For**

  Summary of the resolution: Resolution 25 - Approve the Shell Energy Transition Progress

  Rationale: L&G acknowledge the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, L&G remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both of these are key areas to demonstrate alignment with the 1.5C trajectory.

  Criteria against which this vote has been assessed as "most significant": L&G expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5C scenario. Given the high-profile of such votes, L&G deem such votes to be significant, particularly when votes are against the transition plan.

  Stewardship priority: Climate change

L&G Low Carbon Transition Developed Markets Equity Index

- **Amazon.com Inc, USA, May 2023. Vote: For (against management recommendation). Outcome of the vote: Against**

  Summary of the resolution: Resolution 13 – Report on Median and Adjusted Gender/Racial Pay Gaps

  Rationale: A vote in favour is applied as L&G expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap. This is an important disclosure so that investors can assess the progress of the company's diversity and inclusion initiatives. Board diversity is an engagement and voting issue, as L&G believe cognitive diversity in business – the bringing together of people of different ages, experiences, genders, ethnicities, sexual orientations, and social and economic backgrounds – is a crucial step towards building a better company, economy and society.

  Criteria against which this vote has been assessed as "most significant": L&G views gender diversity as a financially material issue for our clients, with implications for the assets managed on their behalf. The intention to vote against management recommendation was communicated to the company ahead of the vote.

  Stewardship priority: Corporate Transparency

- **JPMorgan Chase & Co., USA, May 2023. Vote: For (against management recommendation). Outcome of the vote: Against**

  Summary of the resolution: Resolution 9 - Report on Climate Transition Plan Describing Efforts to Align Financing Activities with Greenhouse Gas Targets.

  Rationale: L&G generally support resolutions that seek additional disclosures on how they aim to manage their financing activities in line with their published targets. L&G believe detailed information on how a company intends to achieve the 2030 targets they have set and published to the market can further focus the board's attention on the steps and timeframe involved and provides assurance to stakeholders.

  Criteria against which this vote has been assessed as "most significant": L&G considers this vote to be significant as they pre-declared the intention to support. L&G continue to consider that decarbonisation of the banking sector and its clients is key to ensuring that the goals of the Paris Agreement are met.

  Stewardship priority: Climate change

- **The Coca-Cola Company, USA, April 2023. Vote: For (against management recommendation). Outcome of the vote: Against**

  Summary of the resolution: Resolution 7 – Report on Congruency of Political Spending with Company Values and Priorities

Rationale: L&G expects companies to be transparent in their disclosures of their lobbying activities and internal review processes involved. While L&G appreciate the level of transparency Coca-Cola provides in terms of its lobbying practices, it is unclear whether the company systematically reviews any areas of misalignment between its lobbying practices and its publicly stated values. L&G believe that the company is potentially leaving itself exposed to reputational risks related to funding organisations that take positions that are contradictory to those of the company's stated values, and potentially attracting negative attention that could harm the company's public image and brand. Producing a report on the congruency of political spending with company values and priorities may help the company to identify and question its previous political spending priorities.

Criteria against which this vote has been assessed as "most significant": L&G believes that companies should use their influence positively and advocate for public policies that support broader improvements of ESG factors including, for example, climate accountability and public health. In addition, L&G expect companies to be transparent in their disclosures of their lobbying activities and internal review processes involved. The intention to vote against management recommendation was communicated to the company ahead of the vote.

Stewardship priority: Business ethics

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.