Hydro 1988 Pension Scheme

Engagement Policy Implementation Statement for the year ending 31 March 2023

Introduction

The Trustee Directors of the Hydro 1988 Pension Scheme (the ‘Scheme’) have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustee Directors can promote an investment’s long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.

This statement sets out how, and the extent to which, in the opinion of the Trustee Directors, the policies (set out in the Statement of Investment Principles) on the exercise of rights attaching to the investments, and engagement activities have been followed during the year ending 31 March 2023. This statement also describes the voting behaviour by, or on behalf of, the Trustee Directors in relation to the Scheme’s equity mandates.

The Trustee Directors, having obtained advice from their investment consultant, appoint the investment managers and, where investment is via pooled funds, choose the specific pooled funds to use in order to meet specific policies. They expect that their investment managers make decisions based on assessments about the financial performance of underlying investments including environmental, social and governance (ESG) factors, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme’s performance) over an appropriate time horizon.

The Trustee Directors have decided not to take non-financial matters into account when considering their policy objectives.

Stewardship - monitoring and engagement

The Trustee Directors recognise that investment managers’ ability to influence the companies in which they invest will depend on the nature of the investment.

The Trustee Directors’ policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustee Directors detailing their voting activity.

The Trustee Directors also delegate responsibility for engaging and monitoring investee companies to the investment managers and expect the investment managers to use their discretion to maximise financial returns for members and others over the long term.

The Trustee Directors do not envisage being directly involved with peer-to-peer engagement in investee companies.

The Trustee Directors seek to appoint managers that have strong stewardship policies and processes and are supportive of their investment managers being signatories to the United Nations' Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code 2020. Details of the signatory status of each investment manager held at 31 March 2023 is shown below:

Investment manager	UN PRI Signatory	UK Stewardship Code Signatory
Partners Group	Yes	No
PIMCO	Yes	Yes

The Trustee Directors review each investment manager prior to appointment and monitor them on an ongoing basis through the regular review of the manager's voting and engagement policies, their investment consultant's ESG rating, and a review of each manager's voting and engagement behaviour.

The Trustee Directors will engage with a manager should they consider that manager's voting and engagement policy to be inadequate or if the voting and engagement undertaken is not aligned with the manager's own policies, or if the manager's policies diverge significantly from any stewardship policies identified by the Trustee Directors from time to time.

If the Trustee Directors find any manager's policies or behaviour unacceptable, they may agree an alternative mandate with the manager or decide to review or replace the manager.

The SIP was reviewed during the Scheme year as a result of changes to the investment strategy. The latest version is dated February 2023 and is available online.

(https://www.hydro1988.co.uk/wp-content/uploads/2023/03/Hydro-1988-SIP-Feb-2023.pdf)

Investment manager engagement policies

The Scheme's investment managers are expected to have developed and publicly disclosed an engagement policy. This policy, amongst other things, provides the Trustee Directors with information on how the investment managers engage in dialogue with the companies invested in and how they exercise voting rights. It also provides details on the investment approach taken by the investment manager when considering relevant factors of the investee companies, such as strategy, financial and non-financial performance and risk, and applicable social, environmental, and corporate governance aspects.

The Trustee Directors are comfortable that these policies are broadly in line with the Scheme's chosen stewardship approach and that they do not diverge significantly from any key stewardship priorities identified for the Scheme.

Links to each investment manager's engagement policy or suitable alternative is provided in the Appendix.

These policies are publicly available on each investment manager's websites.

The latest available information provided by the Scheme's investment managers held at 31 March 2023 for the period indicated is as follows:

Engagement	Partners Multi Asset Credit Fund	PIMCO CDI
Period	01/04/2022 – 31/03/2023	01/01/2022 – 31/12/2022
Engagement definition	n/a	See below[1]
Number of companies engaged with over the year	n/a	94
Number of engagements over the year	n/a	156

**n/a indicates the engagement data wasn't provided by the investment manager when requested.*

[1] Engagement definitions

PIMCO: *"As one of the largest bondholders in the world, PIMCO has a large and important platform to engage with issuers to drive meaningful change on sustainability dimensions. Engagement is an essential tool for delivering impact in ESG investing - we believe that ESG investing is not only about partnering with issuers that already demonstrate a deeply unified approach to ESG, but also about engaging with those with less advanced sustainability practices. This can be a direct way for PIMCO to influence positive changes that may benefit all stakeholders, including investors, employees, society and the environment.*

We aim to have an industry leading engagement program within fixed income asset managers. By investing across a diverse asset class and group of issuers – including corporates, municipalities, sovereigns and others – we believe PIMCO is ideally positioned to drive greater change than through exclusions or evaluations alone. In our experience we have found that our collaborative engagement approach has the potential to result in tangible, positive changes in certain companies given the strength and history of our platform. Please refer to the Engagement Section of PIMCO's ESG Investment Policy for further details."

The BNY Mellon Long-Term Global Equity Fund and MFS Global Equity Fund were fully redeemed on 3 October 2022. The latest available information provided by these investment managers for the funds held part way through the year ended 31 March 2023 is as follows:

Engagement	BNY Mellon Long-Term Global Equity Fund	MFS Global Equity Fund
Period	01/04/2022 – 30/09/2022	01/10/2021 – 30/09/2022
Engagement definition	See below[2]	n/a
Number of companies engaged with over the year	5	20
Number of engagements over the year	5	31

[2] **Engagement definitions**

BNY Mellon: *"We distinguish between two types of engagement as explained below.*

Engagement for Information – a meeting or correspondence involving a two-way exchange of information.

Engagement for Change – typically a series of one-to-one meetings and correspondence, where we seek influence with a defined objective. An engagement for change will often relate to sustainability issues and our tailored approach enables us to focus on the issues or concerns material to each company. Through constructive dialogue, we encourage management to take the steps necessary to address areas of concern. Engagements for change are very often long-term in nature, involving numerous meetings with management and close monitoring of progress. Our experience of engaging with companies suggests there is no perfect sustainability scorecard, and all companies face different issues of varying materiality. Given the rigour of our analysis before making an initial investment, we find the need for engagements for change relatively limited when compared to engagements for information."

The holding in the BlackRock Strategic Alternative Income Fund was fully redeemed on 3 January 2023 dealing date. No engagement information was provided for the BlackRock Strategic Alternative Income Fund, which does not invest in publicly listed assets.

Exercising rights and responsibilities

The Trustee Directors recognise that different investment managers should not be expected to exercise stewardship in an identical way, or to the same intensity.

The investment managers are expected to disclose annually a general description of their voting behaviour, an explanation of the most significant votes cast and report on the use of proxy voting advisers. The equity investment managers publish online the overall voting records of the firm on a regular basis.

All the equity investment managers use proxy advisers for the purposes of providing research, advice or voting recommendations that relate to the exercise of voting rights.

The Trustee Directors do not carry out a detailed review of the votes cast by or on behalf of their investment managers but rely on the requirement for their investment managers to provide a high-level analysis of their voting behaviour. The Trustee Directors consider the proportion of votes cast, and the proportion of votes against management to be an important (but not the only) consideration of investor behaviour.

The latest available information provided by each investment manager (for the mandates that contain public equities and were held part way through the year ended 31 March 2023) is as follows:

Voting behaviour	**BNY Mellon Long-Term Global Equity Fund**	**MFS Global Equity Fund**
Period	01/10/2021 – 30/09/2022	01/10/2021 – 30/09/2022
Number of meetings eligible to vote at	48	87
Number of resolutions eligible to vote on	733	1,404
Proportion of votes cast	100.0%	100.0%
Proportion of votes for management	98.0%	95.2%

Proportion of votes against management	2.0%	4.8%
Proportion of resolutions abstained from voting on	0.0%	0.0%

Trustee Directors' assessment

The Trustee Directors regularly undertake a detailed review of each manager's environmental, social and governance policies and their voting and engagement ('ESG') activities. The Trustee Directors accept that, particularly in the case of pooled fund investments, the way in which investment managers exercise their rights and engagement activities may differ from the Trustee Directors' policies as set out in the Statement of Investment Principles.

The Trustee Directors recognise that engagement and voting policies, practices and reporting, will continue to evolve over time and will continue to review the way in which they monitor and engage with their investment managers on a regular basis.

Appendix

Links to the Engagement Policies for each of the investment managers held at 31 March 2023 can be found below. In addition, the investment management agreement governing the PIMCO mandate, which is managed on a segregated basis, includes specific ESG objectives that are appropriate for the mandate.

Investment manager	**Engagement policy (or suitable alternative)**
Partners Group	https://www.partnersgroup.com/en/sustainability/responsible-investment/
PIMCO	https://www.pimco.co.uk/en-gb/our-firm/policy-statements

Information on the most significant votes for each of the funds containing public equities and were held part way through the year ended 31 March 2023 is shown below.

BNY Mellon Long-Term Global Equity Fund	**Vote 1**	**Vote 2**	**Vote 3**
Company name	Compass Group	Prudential	TJX
Date of vote	03/02/2022	26/05/2022	07/06/2022
Approximate size of fund’s holding as at the date of the vote (as % of portfolio)	2.4	2.2	2.1
Summary of the resolution	Authorise Issue of Equity	Authorise issue of equity	Advisory Vote to Ratify Named Executive Officers' Compensation
How the investment manager voted	Against Management	Against Management	Supported Management
Where the investment manager voted against management, did they communicate their intent to the company ahead of the vote	Yes	Yes	No
Rationale for the voting decision	Due to potential dilution greater than 10%	Due to potential dilution greater than 10%	BNY Mellon supported the remuneration proposal which subsequently failed at the AGM.
Outcome of the vote	Passed (91.4% votes for)	Passed (92.1% votes for)	Failed (49.7% votes for)
Implications of the outcome	All significant votes are reviewed and approved by the Investment Stewardship Committee. Any potential learnings from their significant votes are then taken into account for periodic reviews of their Proxy Voting Policy.	All significant votes are reviewed and approved by the Investment Stewardship Committee. Any potential learnings from their significant votes are then taken into account for periodic reviews of their Proxy Voting Policy.	All significant votes are reviewed and approved by the Investment Stewardship Committee. Any potential learnings from their significant votes are then taken into account for periodic reviews of their Proxy Voting Policy.

Criteria on which the vote is assessed to be "most significant"	Vote against management	Vote against management	Case-by-case identification of significant vote with management due to proposal failing at AGM

MFS Global Equity Fund	**Vote 1**	**Vote 2**	**Vote 3**
Company name	Linde Plc	Honeywell International Inc.	Oracle Corporation
Date of vote	25/07/2022	25/04/2022	10/11/2021
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	2.38	2.03	1.75
Summary of the resolution	Adopt Simple Majority Vote	Reduce Ownership Threshold for Shareholders to Call Special Meeting	Elect Directors (Compensation Committee)
How the investment manager voted	Against Management	Against Management	Against Management
Where the investment manager voted against management, did they communicate their intent to the company ahead of the vote	While MFS may engage with issuers ahead of their vote at a shareholder meeting, they may not disclose their final vote decisions that are considered on a case-by-case basis prior to the meeting.		
Rationale for the voting decision	MFS supports shareholder proposals requesting the reduction of the supermajority vote requirement as such an action would further enhance shareholder rights.	MFS generally supports proposals requesting the right for shareholders who hold at least 10% of an issuer's outstanding stock to call a special meeting.	As a reflection of their strong, ongoing concerns with the company's pay practices, MFS also voted against the re-election of the members of the compensation committee due to what they consider to be poor responsiveness to shareholders in addition to consecutive years of low say-on-pay vote results.
Outcome of the vote	52.3%	38.9%	66.6% (average)

Implications of the outcome	This level of support demonstrates clear shareholder desire for the repeal of the company's supermajority vote provisions. They expect to see the issuer work to resolve the issue brought forth in this majority-supported proposal.	MFS believe this level of support indicates a fair level of shareholder concern. They hope to see a robust response from the issuer, as well as engagement efforts to address shareholders' concerns.	Multiple years of low-level support for the executive compensation plan indicates that the compensation committee has demonstrated insufficient responsiveness to shareholder concerns. They expect the compensation committee to engage with shareholders in order to understand their concerns and demonstrate accountability by making meaningful changes to the executive compensation program so that it better aligns with the expectations of shareholders.
Criteria on which the vote is assessed to be “most significant”	For the purpose of this questionnaire, “significant votes” may have the following characteristics, among others: vote is linked to certain engagement priorities, vote considered engagement with the issuer, vote relates to certain thematic or industry trends, etc.		

Information on the most significant engagement case studies for each of the managers containing public equities or bonds is shown below.

Partners Group Multi Asset Credit Fund	**Case study 1**	**Case study 2**
Name of entity engaged with	Galderma	Zentiva
Topic	Strategy, Financial and Reporting - Financial performance	Strategy, Financial and Reporting - Financial performance
Rationale	Size of holding in fund	Size of holding in fund
What the investment manager has done	Update on performance of the business	Update on performance of the business
Outcomes and next steps	Galderma continued strong performance with revenues up 10% vs. PY, largely driven by volume growth in the Aesthetics and Consumer segments. The Company managed to mitigate raw material and freight cost inflation by brand mix improvements, life cycle management and cost cutting programs and gross margins slightly increased.	Zentiva continues to perform strongly (outperforming market growth) by new launches, strategic base portfolio products, and new market expansion.

PIMCO CDI	**Case study 1**	**Case study 2**	**Case study 3**
Name of entity engaged with	American Tower	Standard Chartered	HSBC
Topic	Oversight and management of third-party vendors along with the issuer's emissions reduction targets	ESG team - net zero progress, sector policy and labour rights	Climate change and human rights

What the investment manager has done	Discussed issuer's upcoming corporate social responsibility report and recent corporate actions to improve diversity, which includes hiring a Chief Diversity Officer as well as factoring in ESG into executive compensation. PIMCO suggested to improve oversight, management, and risk mitigation for field third party vendors. Furthermore, suggested to improve disclosure and reporting on third party vendor management. Issuer's carbon emission reduction targets were recently verified by the Science Based Targets initiative (SBTI). They have also made substantial progress transitioning to renewable energy solutions where feasible.	Clarified with the issuer the specifics of their net zero targets. Additionally, the issuer confirmed its exposure to cattle and soy, which is limited, while having robust oversight over palm oil companies. The issuer has also incorporated all recommendations from the OECD guidance on human rights due diligence for banks.	Discussed progress on sectoral target setting, financed emissions, client engagement on transition, clarifications on sector policy and grievance and remediation for human rights. We also discussed the issuer's gaps in their lending policies on natural capital and alignment with net zero and are reviewing the policy though unlikely to be updated in 2022. We encouraged HSBC to clarify their approach to assess and engage clients on transition progress, including clear criteria for assessing clients' transition progress (e.g., against 1.5C pathways, net zero framework by TPI or CA100+). • We recommended more explicit reference to net zero in sector policies, particularly setting out time-bound expectations for all carbon-intensive sectors to have a credible transition plan and/or net zero targets. Furthermore, PIMCO recommended the issuer to set clear criteria for assessing client transition progress, defining engagement strategy, outcomes, and escalation process.

Outcomes and next steps	Issuer plans to expand the scope of operations covered by the carbon emissions reduction target verified by the SBTi and PIMCO will continue to monitor their adequate response on improving oversight, management, and risk mitigation for field third party vendors.	PIMCO recommended for the issuer to clarify how it prioritizes and engages with clients on transition. Furthermore, we encouraged the issuer to consider reducing the remaining indirect coal financing exposure in line with the net zero timeline. The issuer is looking into strengthening their lending due diligence, in regard to human rights, with international mechanisms (e.g., the International Finance Corporation) and the effectiveness of the grievance mechanisms in place.	The issuer recognized the room for improvement in strengthening human rights due diligence in lending and intend to improve over the coming years. The issuer is reviewing the lending policies, with updates expected through 2022.

BNY Mellon Long-Term Global Equity Fund (strategy level)	**Case study 1**	**Case study 2**	**Case study 3**
Name of entity engaged with	The Walt Disney Company	Cognex	Intuitive Surgical
Topic	Governance - Leadership - Chair/CEO	Environment - Carbon Footprint	Environment - Carbon Footprint

Rationale	Having a suitably independent board is of paramount importance in ensuring the company's management team is held to account in a satisfactory way. This is a core tenet of their engagement policy and helps foster sustainable economic growth, directly linked to goal 8 of the SDGs in particular. Objective: Independent Chair when Iger retires.	BNY’s engagement policy targets regular and constructive interactions with company management and expressly cites the review of environment as an example of desirable engagement. Objective: Climate Change Goals. BNY’s engagement policy targets regular and constructive interactions with company management and expressly cites the review of environment as an example of desirable engagement.	BNY’s engagement policy targets regular and constructive interactions with company management and expressly cites the review of environment as an example of desirable engagement. Objective: Climate Change Goals. BNY’s engagement policy targets regular and constructive interactions with company management and expressly cites the review of environment as an example of desirable engagement.
What the investment manager has done	Members of the Research team at BNY led the engagement. In previous meetings with Disney’s Investor Relations and other corporate representatives, a key topic of discussion was the role of the chair. In October 2021, BNY had a conference call with with Susan Arnold, Disney's Lead Independent Director, and the IR team in response to their June 2021 letter requesting an independent Chair of the Board on Bob Iger's expected retirement at the end of this year.	Members of the research team at BNY led the engagement. In September 2022, Cognex released its first Sustainability Report for 2021. There are suggestions that they are working on emissions reductions targets within this report.	Members of the Research team at BNY led the engagement. Investor Relations conference call. Intuitive will start TCFD alignment with filing of 2022 sustainability report in Q1'23. BNY hope to follow that up with a CDP report - when depends a bit on their reporting cycle. Marshall Mohr (ex CFO) is leading these developments in his new role as head of business services. Intuitive have also hired a new head of sustainability and social responsibility from Stanford, Fahmida Bangert.
Outcomes and next steps	It was announced on 2 December that Susan Arnold - the Lead Independent Director - will succeed Iger as Chair of the Board, which makes this engagement for change successful.	The release of this Sustainability Report marks an improvement in disclosure. Cognex are now largely aligned with TCFD.	BNY to look out for level of disclosure in their Sustainability Report early 2023.

MFS Global Equity Fund (firm level)	**Case study 1**	**Case study 2**	**Case study 3**
Name of entity engaged with	Comcast Corporation	Rolls Royce Holdings PLC	PPG Industries Inc.
Topic	Governance - Remuneration; Governance - Board effectiveness; Social - Conduct, culture, and ethics; Strategy, Financial and Reporting - Capital allocation.	Environment - Climate Change	Environment - Natural resource use/impact; Social - Human capital management; Strategy, Financial and Reporting - Risk management; Governance - Leadership - Chair/CEO
Rationale	Illustrates a number of core MFS practices as active owners - regular dialogue, collaboration within MFS and with the company, long term approach, resulting in recent signs of improvement. Objective: Ensure quality and independence of board, given shareholding structure, combined CEO & CH role, executive compensation culture, historical capital allocation policy and apparent valuation discount.	Illustrates their involvement with Climate Action 100+ Rolls Royce engagement group. Objective: To enhance their ability to engage with the company on both its own decarbonization plans and how its technology can help other companies further down in the aviation supply chain to decarbonize.	Illustrates how we approach important industry issues such as sustainability and succession planning. Objective: To discuss the growth potential of their 'sustainable' products, the subject of tracking of water stress; to question the voluntary front line staff turnover in the firm; to open an engagement item on the approach to cyber security and to discuss the increasing importance that the board is placing on CEO succession planning.

What the investment manager has done	While the engagement described below took place during the one-year timeframe to end September 2022, engagement may have been ongoing for a number of years. At a firm level MFS have open dialogue with companies that are long-term in nature. Led by: Investment team, Proxy Voting team, Covering industry analyst. There have been various meetings over several years with different Comcast representatives including CEO/CH, CFO, IR, Lead Independent Director, Head of Governance and Chief Legal Officer & Corporate Secretary and also with other companies in the industry. Proxy led engagement dialogues over the last five years have focused largely on compensation, board structure, director refreshment and the board's oversight of certain issues. In February 2021, MFS analysts met with Comcast's chief legal officer and corporate secretary to discuss governance issues. MFS generally supports the separation of the roles of CEO and board chair, which is widely regarded as best practice for avoiding any perceived or actual conflict of interest given the board's role as a check to ensure that management is running the company effectively. Currently, Comcast believes its CEO is well suited to act in both capacities simultaneously. They will continue to monitor the situation closely. The team also engaged on executive compensation, which they deem to be excessive, during the meeting. While there	While the engagement described below took place during the one-year timeframe to end September 2022, engagement may have been ongoing for a number of years. At a firm level we have open dialogue with companies that are long-term in nature. Led by: Covering industry analyst, portfolio managers. Collaborative engagement: MFS is an investor member of Climate 100+ and is an active participant in the group. Their team had a number of engagements with Rolls Royce during Q1 2021, including with their chief people officer and chief sustainability officer. MFS also joined the Climate Action 100+ Rolls Royce engagement group. During Q2 2021, the team engaged with Rolls Royce both individually and on a collective basis as part of their ongoing Climate Action 100+ engagement. Their conversations focused on the company's efforts to reduce the climate impacts of air travel, with a particular focus on sustainable aviation fuels and alternative propulsion technologies (e.g., hydrogen).	While the engagement described below took place during the one year timeframe to end September 2022, engagement may have been ongoing for a number of years. At a firm level we have open dialogue with companies that are long-term in nature. Led by: Analyst team, Stewardship team. During Q4 2021, MFS met with this speciality chemicals company. They discussed the growth potential of their 'sustainable' products and opened the subject of tracking of water stress, with the intent to continue this conversation in future engagements. They questioned the voluntary front line staff turnover in the firm, which is higher than their peers. We opened an engagement item on the approach to cyber security, which is currently outsourced to outside consultants. They also discussed the increasing importance that the board is placing on CEO succession planning.

	appear to be plans to amend executive remuneration to align with better governance practices and bring Comcast in line with some of its competitors, it also appears that the absolute level of compensation will stay the same. Due to these ongoing governance concerns, the covering analyst applied a discount to their fair value estimate of Comcast. In November 2021, MFS followed up an engagement with Comcast, by sending a formal letter asking it to disclose employee turnover data. They sent the same letter a year ago, and it explains their perspective on the matter, summarily they believe that an organization's culture is critical to its long-term success or failure, and a crucial driver of long-term value creation.

Outcomes and next steps	So far, the result of the various engagements over several years has been increasing confidence around the broad governance issues at Comcast – for example management change at NBCU, changes in capital allocation policy (buyback, increased dividend) discussion of performance related compensation metrics, board diversity. Their equity analyst continues to apply a valuation discount for these concerns but directionally is encouraged. On proxy led engagement dialogues, they have observed improvements to the compensation program, including stricter performance hurdles and extended vesting periods, which have incorporated feedback from shareholders. From February 2021 meeting: Due to these ongoing governance concerns, the covering analyst applied a discount to their fair value estimate of Comcast. From November 2021 meeting: They commended Comcast on their diversity and composition disclosures and much appreciate the progress they have made. They do not feel like there is a 'correct' absolute level or trend for employee attrition but think disclosure can facilitate a dialogue from which they can understand the reasons for changes and long-term objectives of the company. They also sent examples of other companies in the telecom industry who they think are doing a particularly good job in this area.	Their team found that Rolls Royce has already run both large and small engines on 100% sustainable aviation fuels. However, the adoption of such fuels will likely continue to be constrained by regulation for some time. The team was more positive on the company's small modular nuclear reactor business. Rolls Royce is going to manufacture these small module reactors in a central facility which will reduce time to energy production and the higher costs associated with traditional reactor construction. Learnings from these Q2 2021 meetings with Rolls Royce were combined with related research on other, similar companies (such as Ryanair) to inform a dedicated sector team meeting on climate risks and opportunities in aviation. Going forward the team will track Rolls Royce's progress on publishing a clearer pathway towards net zero emissions, including its approach to lowering scope 3 emissions, which represent the bulk of its total emissions. Additionally, the team plans to closely monitor and engage on Roll's Royce's strategic investment in technology. The covering analyst notes the risk of regulation on customer demand favouring	MFS will continue to track and monitor.

	They will continue the dialogue and monitoring of the framework.	technologies other than those in which the company has invested to become a leader. Given the pace of technology, loss of market share from bad bets is a significant risk.	