Hydro 1988 Pension Scheme

Engagement Policy Implementation Statement for the year ending 31 March 2024

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 2024. This statement also describes the voting behaviour by, or on behalf of, the Trustee Directors.

The Trustee Directors have purchased bulk annuity (“buy-in”) policies that are expected to meet members’ DB benefits in full, notwithstanding certain residual liabilities (for example, in relation to the equalisation of Guaranteed Minimum Pensions), which are currently uninsured but will be added to the buy-in policies where appropriate. References to assets in this statement relate solely to the non-insurance assets that are invested by the Trustee Directors.

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 2024 is shown below:

Investment manager	UN PRI Signatory	UK Stewardship Code Signatory
Partners Group	Yes	Yes
Northern Trust	Yes	Yes
Insight	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 after the Scheme year end as a result of changes to the investment strategy. The latest version is dated June 2024 and is available online.

(https://www.hydro1988.co.uk/wp-content/uploads/2024/07/Hydro-1988-SIP-June-2024-v1.0.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 2024 for the period indicated is as follows:

Engagement	Partners Multi Asset Credit Fund	Insight Maturing Buy and Maintain Bond Fund 2046 - 2050
Period	01/01/2023 – 31/12/2023	01/04/2023 – 31/03/2024
Engagement definition	N/A	See below[1]
Number of companies engaged with over the year	N/A	29
Number of engagements over the year	N/A	51

**N/A indicates the engagement data was not provided by the investment manager when requested.*

[1] Engagement definitions

Insight: "*Philosophically, financial materiality has always been at the core of why we (Insight) have engaged with institutions. A financially material factor is one that is deemed relevant and likely to have a positive or negative impact on the financial value of that investment. It is a core part of our process to engage with issuers on such factors which include, but are not limited to, strategy, capital allocation and competitive positioning. ESG factors can also drive engagement where our analysts believe them to have financial relevance. In this sense they are part of the mosaic of factors that should be considered for effective financial analysis.*

Increasingly, however, our clients would like us to use our influence, which is generated by their capital, to go beyond engaging solely on financially material issues and to seek, where possible, to mitigate potential externalities by engendering more sustainable practices. In most circumstances more sustainable behaviours are fully aligned to better long-term risk/return profiles of investments and therefore Insight also engages on ESG issues where they think they can influence improved behaviour, providing it is not detrimental to the return potential of the investment they make. These two rationales drive why Insight engage and lead, broadly, to conducting two types of engagement:

1. Fundamental engagements – focus on financial materiality and business fundamentals. Typically, these engagements may include ESG issues where they are deemed to be relevant to the investment case, but they do not necessarily involve a longer-term, structured programme.

2. ESG engagements – focus on addressing an issuer's performance or impact relating to one or more ESG issues. Typically, such engagements will be longer term, structured around measurable objectives, and may be influenced by our thematic priorities as a firm.

Classical financial analysis organically leads to fundamental engagements as analysts seek to gain full understanding of all the risk factors that may impact an investment. However, systematic analysis of ESG factors requires the consideration of additional data and themes which may be outside of an analyst's normal investigative skillset. To help frame the nature of an engagement Insight look to categorise ESG themes to understand if they fall under a standard fundamental engagement process or if they would benefit from a specific ESG engagement."

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 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.

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 2024 can be found below.

Investment manager	Engagement policy (or suitable alternative)
Partners Group	https://www.partnersgroup.com/~/media/Files/P/Partnersgroup/Universal/about-us/our-impact/responsible-investment/sustainability-report-2023.pdf
Insight	https://www.insightinvestment.com/investing-responsibly/
Northern Trust	https://www.northerntrust.com/content/dam/northerntrust/pws/nt/documents/report-guides/engagement-principles.pdfv

Information on the most significant engagement case studies for Insight, at the firm level, as at 31 March 2024 (latest available) is shown below.

Insight	Case study 1	Case study 2	Case study 3
Name of entity engaged with	NatWest Group plc	Heathrow Funding Ltd	Equinor Asa
Topic	Environment - Climate change Social - Human and labour rights	Environment - Climate change	Environment - Climate change
Rationale	The issuer is a major retail and commercial bank with operations in the UK. Their services include current accounts, credit cards, loans, overdrafts, mortgages, home, and life insurance and investing for retail customers. They registered an increase in climate and sustainable funding and financing year-on-year from £24.5bn (2022) to £29.3bn (2023). This engagement is aligned to SDG10 reduced inequalities and SDG13 climate action.	The issuer is a UK airport, offering facility maintenance, baggage handling, air traffic control, on board catering and aircraft fuelling services. Insight previously engaged with the issuer to better understand its decarbonisation strategy. The company is targeting net zero by 2050. The 2 main challenges the issuer faces are: The degree of the issuer's influence on airlines to decarbonise their fleet Its net zero plan relies on technology which is costly and/or unproven (e.g., sustainable aviation fuel (SAF), hydrogen etc.) This engagement is aligned to SDG13 climate action.	The issuer is an energy company, one of the largest oil and gas operator in northern Europe, and one of the world's largest offshore operators. Insight engaged with the issuer after MSCI changed its definition of unconventional oil and gas exposure to exclude drilling in areas of the Arctic which were ice-free throughout the year, e.g., the Barents Sea. The issuer has a number of sites in this region. Insight does not agree with MSCI's change in definition due to increased probability of pollution and the impact of spills in Arctic assets.

			Furthermore, the issuer's water disclosures were weak, and the company failed to disclose data for the water-related Principal Adverse Impacts (PAI) indicator. The issuer publishes basic water-related metrics such as regular discharges of oil to the sea and the withdrawal and consumption of freshwater in 2022. This engagement is aligned to SDG13 climate action.
What the investment manager has done	The issuer maintains a leading position in financing environmental impact, but it has had a number of governance controversies, including the recent departure of its CEO and Chairman due to the de-banking scandal. The issuer's continued investment to maintain its leadership position in climate strategy is contingent on the new CEO's position on ESG, which remains unclear. Its focus on ESG was in part accelerated by its former CEO and saw strong targets being set, reporting of financed emissions for its material sectors and strong fossil fuel financing policies being introduced in its transition into a leader in low carbon opportunities. It also provided an estimate of its facilitated emissions for the first time.	In a previous engagement with the issuer in 2022 the company was not aware of Carbon Disclosure Project (CDP). Insight was pleased that corporate has since started reporting to CDP however the company opted to do a private submission where a score has not been assigned. This means that the data does not feed through to their models. The last time Insight met with the issuer Insight asked them to get their decarbonisation targets approved by Science-Based Targets initiative (SBTi) due to the materiality of the airlines industry to carbon emissions. In 2023, their target was approved by SBTi: The issuer commits to reduce absolute scope 1, 2 and scope 3 GHG emissions by 46.2% by 2030 from a 2019 base year.	On its transition strategy, the issuer reported good progress against its energy transition plan, with Scope 1 and Scope 2 emissions significantly below the industry average. The company has also increased its low carbon capex from 14% to 20%. The issuer's 2030 absolute emissions reduction target is focused on Scope 1 and Scope 2 emissions. The issuer has only set an intensity-based Scope 3 emissions reduction target as it believes that an absolute reduction target will have unintended consequences by encouraging assets to be sold, which has no impact on global emissions. The issuer stated it is not considering changes to its renewables capex

The issuer retains a dark green rating for its green bonds under their proprietary impact bond assessment framework due to strong ESG performance with well-defined use-of-proceeds categories that are likely to have a positive impact. There are plans to allocate 50% of the net proceeds to refinancing existing mortgages with the remaining 50% allocated to financing new mortgage products over the next 12 months. Human rights is an increasing area of focus for the issuer as evidenced by its publishing of its salient human rights issues as part of its UN Guiding Principles Reporting responsibilities.

The issuer expects to improve on its score under the next Banktrack global human rights assessment in 2024 from their current 4.5/14 (“Follower” rating). Of 50 banks assessed, 28 are followers, 12 are front runners with scores between 7-9, with no leaders. The issuer has a special focus on modern slavery and has been accredited as a global living wage employer. During 2023, it developed a standalone Environmental, Social and Ethical (ESE) Human Rights Risk

Regarding its ESG reporting Insight fed back that their sustainability reporting is strong. The company has set targets against the key focus areas of the sustainability strategy and the report is balanced.

Insight highlighted a number of areas for improvement, including submitting a public disclosure to CDP. Insight also noted some of the issuer’s targets don’t appear to be very ambitious. For example, Heathrow’s target for SAF to be used in airlines operating at the airport by 2030 is only 1% more than the UK government’s ambition. Regarding climate lobbying and trade associations,

Insight highlighted that it would be beneficial to see what the issuer is doing to influence the UK government into supporting SAF as a more material part of fuel supply.

Insight also flagged biodiversity as an emerging risk area, where Heathrow should respond to the TNFD recommendations by assessing nature impacts and dependencies and highlight how they are addressing these risks.

despite peers recently changing their strategy due to weaker than expected returns from renewables.

On unconventional oil and gas exposure, Insight asked the issuer if it has had any oil spills in the Arctic or Barents Sea. The issuer responded that there were 10 minor spills last year, but none were in the Barents Sea. The issuer also confirmed the remote location of its unconventional oil and natural gas sites in the Barents Sea presents a challenge for spills, due to access issues associated with the clean-up. However, the issuer did flag that it is collaborating with operators in the area to run drills to minimise any impact. There is also a large site coming online in the Barents Sea which will be a producing 150,000 bpd at peak. Due to the size of the site, the new site will be a centre for emergency response.

On water disclosure, Insight highlighted the issuer’s lack of response to the CDP water questionnaire and the lack of disclosure in the water related PAI Indicator on water pollution could lead to its exclusion from Insight’s Article 8/9 funds.

Acceptance Criteria (RAC) which applies requirements around human rights due diligence to additional sectors with heighted human rights risk not already covered by an ESE RAC. This includes a sustainability questionnaire, escalation process, considers supply chain, European regulation CSDDD and identification of best practice examples.

The issuer remains committed to SBTi and will re-submit their target and strategy in 2025. They remain engaged with SBTi despite uncertainty with sector guidance that is causing challenges for explaining their plans for achieving decarbonisation targets by 2030. Work continues on carbon pathway models. They are cognisant of Scope 3 finance emissions that are likely to increase for activities enabling the net zero transition. This is driving their purchase of carbon offsets and credits and training of frontline bankers and relationship managers via a partnership with Edinburgh University and sectoral deep dives. They also engage with politicians, civil service, and other banks on the transition, offer green mortgages but recognise the limitations of current metrics (e.g., EPCs).

	They have also appointed their first Head of Nature but is not ready to report against TNFD. Their Dutch subsidiary is leading the research on the LEAP approach and ENCORE tool.		
Outcomes and next steps	Insight continues to monitor the issuer against the targets and plans they discussed. Insight reissued the counterparty engagement programme questionnaire in early 2024 which explores these themes in more detail.	The issuer evidenced good progress since their last engagement, and Insight were pleased to see that Heathrow has an SBTi-approved decarbonisation target. Insight understands that there are limitations to how much influence the issuer has with the fuel used by airlines but emphasise the unique position the issuer has to encourage and incentivise positive change in the industry. Insight will continue to monitor the progress of the airport's decarbonisation trajectory.	Insight decided not to adopt MSCI's change in definition in unconventional oil and gas exposure due to the increased risk associated with oil spills. Although Insight kept the previous definition of unconventional oil and gas, Insight was pleased to see that the issuer recently dropped below the 5% revenue threshold, meaning it is no longer excluded.

Information on the most significant engagement case studies for Partners Group, at the firm level, as at 31 December 2023 (latest available) is shown below.

Partners Group	Case study 1	Case study 2	Case study 3
Name of entity engaged with	Zentiva B.V.	Envision Healthcare Holdings, Inc.	Galderma
Topic	Refinancing and realization of first and second lien debt - Fully realized	Restructuring progress	Call with management
Rationale	Size of the fund	Size of the fund	Size of the fund
What the investment manager has done	Partners Group had initially supported the spin-off from Sanofi by Advent in 2018. Since then, Zentiva experienced robust revenue and EBITDA growth, expanded its market share and deleveraged. Zentiva refinanced its debt in anticipation of the upcoming maturity.	On May 14, 2023, Envision filed for bankruptcy after its business unit EMG ran out of liquidity and as a result missed payments on its debt obligations.	Trading update
Outcomes and next steps	The full realisation generated a gIRR of 6.2% and a gTVPI of 1.30x for the first lien investments as well as gIRR of 8.3% and a gTVPI of 1.38x for the second lien investment, respectively.	In November 2023, the company emerged from bankruptcy, Envision Healthcare and Amsurg are now two separate, standalone entities. Envision Healthcare is the legacy long-term physician staffing business and Amsurg is the ambulatory	Galderma (a.k.a. Nestle Skin Health) is a manufacturer of pharmaceutical preparation and performed well above PY as of Q4 (revenue ~+7% and EBITDA ~+14%) driven by high single digit organic growth driven by momentum across all segments

	surgery center business. Amsurg current financial performance is strong. The business is meeting budget, with positive quarterly YoY growth in revenue and EBITDA. Post-bankruptcy, Partners Group's investment exposure changed to a c. 18% equity stake in Amsurg, the more stable of the two businesses, and de minimis common equity exposure to Envision Healthcare. There is no remaining debt exposure.	(Injectable Aesthetics +7.5%; Dermatological Skincare +10.8%; Therapeutic Dermatology +9.6%).