

Scotia Gas Networks Pension Scheme- DC Section

Implementation Statement

for the year ending 31 March 2021

Welcome to the trustees' Statement of how they implemented the policies and practices in the Scheme's Statement of Investment Principles during the year ending 31 March 2021.

Why do the Scheme's investments matter to me?

The DC section of the Scheme provides you with benefits on a defined contribution ("DC") basis (sometimes called money purchase benefits). This means that the size of the benefits paid to you when you retire will depend on how much the funds where your savings are invested grow over the years.

What is the Statement of Investment Principles ('SIP')?

The SIP sets out the investment principles and practices the trustees follow when governing the Scheme's investments. It describes the rationale for the investment options which you can choose (including the default arrangement if you don't make a choice), explains the risks and expected returns of the funds used and the trustees' approach to responsible investing (including climate change).

This Implementation Statement is in respect of the Scheme's SIP that was in place as at 31 March 2021. In order to reflect new regulatory requirements, the SIP was reviewed and signed by the Chair during the last Scheme year on 16 September 2020. The next review will take place no later than September 2023.

The following changes were made to the SIP during the last year:

- Updated to reflect the trustees' policies on ESG and other financially material considerations
- Updated to reflect regulatory changes which came into effect in 2020.

If you want to find out more, you can find a copy of the Scheme's current SIP (and the Scheme's Chairs Statement) at <https://vm.aviva.co.uk/sgn-pension-f70102/> .

What is this Implementation Statement for?

Each year from 2020 the trustees are required to prepare an Implementation Statement, which sets out how they have complied with the Scheme's SIP during the last Scheme year and other related matters.

Overall, the trustees are satisfied that:

- **The Scheme's investments have been managed in accordance with the SIP; and**
- **The provisions in the SIP remain suitable for the Scheme's members.**

How the Scheme's investments are governed

The trustees have overall responsibility for how the Scheme's investments are governed and managed in accordance with the Scheme's Trust Deed and Rules as well as Trust Law, Pensions Law and Pension Regulations.

The following changes were made during the last year:

- Duncan Holder was appointed as a new trustee on 1 August 2020 replacing Laurence Goodman.

The trustees have delegated day-to-day investment decisions, such as which investments to buy and sell, to the platform provider and fund managers.

The trustees undertook the following activities during the last year to ensure that their knowledge of investment matters remains up to date:

- The trustees received training on DC Governance, ESG fund developments and Responsible Investment.

The trustees monitor how well their investment advisers meet the objectives agreed with them, which are designed to align with the Trustees' objectives and investment strategy as set out in the SIP.

During the last year the investment advisers agreed the following objectives with the trustees:

- Deliver an investment approach for the default option that maximises risk-adjusted real returns for members.
- Provide advice in relation to self-select range that incorporates sufficient choice for members to meet their own needs in terms of investment risk, investment return and retirement choices, reflecting member feedback where relevant.

The trustees are satisfied that during the last year:

- **The Scheme's DC governance structure was appropriate;**
- **The trustees have maintained their understanding of investment matters; and**
- **Their investment advisers met the agreed objectives.**

How the default arrangement and other investment options are managed

The objectives and rationale are set out in the SIP on pages 3 to 4 for the default arrangement and for the other investment options on pages 5 to 6).

The trustees carried out an in-depth three-yearly review of the default arrangement and other investment options on 16th February 2021 to ensure they remain suitable for most members. This involved:

- Looking at the demographic profile of the Scheme's membership;
- Looking at the members' investment choices and what choices of benefits they make when they retire;
- Considering market conditions and developments in investment thinking;
- Considering the time over which members will be invested in the investment options;
- Deciding whether any changes to the default arrangement's and other investment options' objectives are necessary;
- Monitoring the investment performance of each fund;
- Considering whether the design of the default arrangement and other investment options, as well as the funds they use, still meet their investment objectives;
- Considering whether the default arrangement and other investment options still represent good value for members; and

- Obtaining investment advice on any changes to the default arrangement and other investment options.

The trustees are satisfied that the default arrangement remains suitable for most members and meets the Trustees' default arrangement investment objectives because:

- the glidepath offers a suitable balance between a cost effective option as well as providing opportunity for long term growth and meeting the needs of DC Section members at retirement
- whilst performance of the strategy has slightly lagged benchmark over the last 5 years, performance relative to beating inflation by a hurdle over the longer term has been achieved.

The trustees are satisfied that the other investment options remain suitable for members once the L&G Ethical Global Equity Fund is introduced in 2021.

The trustees decided to make the following changes to ensure that the other investment options meet the needs of members:

- **Introduce an ESG fund (the L&G Ethical Global Equity Fund) to the self select fund ranges of the DC and AVC sections.**

Other default arrangements

The Scheme has one legacy default arrangement which is closed to new members which is only utilised by one member who is close to retirement. The trustees believe this arrangement is suitable for this member.

The trustees' investment beliefs

The trustees are in the process of developing a set of DC specific investment beliefs which they will set out in the SIP.

The expected risks and returns on your savings in the Scheme

The investment risks relating to members' DC benefits are described in the SIP on pages 7 and 8 and the expected returns from each type of investment used by the Scheme are described in the SIP on pages 10 and 11.

The trustees believe that the main investment risks members face described in the SIP have not changed materially over the last year.

The trustees are satisfied that the current expected rates of investment return for the types of funds described in the SIP are still reasonable relative to the risks that members face, and that the investment options available are appropriate for managing those risks and meet the objectives set out in the SIP.

The trustees' views on the expected levels of investment risks and returns inform decisions on the strategic asset allocation (i.e. what types of assets and areas of the world the Scheme invests in over the longer-term) for the Scheme's lifestyle option (which gradually change the funds in which your savings are invested as you approach retirement).

The trustees' views on the long-term mix of investments for the Scheme's lifestyle option including the default arrangement did not change during the last year.

Platform providers and fund managers

Choice of platform providers and funds

The trustees monitor the service of the platform provider used by the DC section of the Scheme, Aviva, by:

- Reviewing Aviva's quarterly governance reports on a quarterly basis.

There have been no changes to the platform provider and funds during the last year.

The trustees are satisfied that the platform provider used by the Scheme remain appropriate.

Ability to invest / disinvest promptly

It's important that your contributions can be invested promptly in the default arrangement or the investment options you have chosen and that your investments can be sold promptly when you want to change where they are invested, transfer your pension pot to another scheme or your benefits are due to be paid out when you retire.

The trustees ensure this happens by monitoring the service levels and standards of the investment and disinvestment processes completed by Aviva.

The trustees are satisfied that money can be invested in and taken out of the Scheme's funds without delay as set out in the SIP.

Changes in where funds are invested

The trustees monitor the volume of buying and selling of the assets in which each fund is invested that is carried out by the funds' managers.

Short-term changes in the level of turnover of the assets in which a fund is invested may be expected when a fund manager alters its investment strategy in response to changing market conditions. However, a change in the level of portfolio turnover might indicate a shift in the amount of risk the fund manager is taking, which could mean that a fund is less likely to meet the objectives for which it was chosen by the trustees.

The trustees are satisfied that the level of trading of the funds' assets carried out by the fund managers has been consistent with the funds' objectives.

Security of your savings in the Scheme

In addition to the normal investment risks faced investing in the funds used by the Scheme, the security of your savings in the Scheme depend upon:

- The financial strength of the investment platform provider used by the Scheme;

- The financial strength of the fund managers used by the investment platform; and
- The legal structure of the funds the Scheme invests in.

The financial strength of the platform provider and the fund managers has a bearing on the risk of losses to the Scheme's DC members caused by the remote chance of one of these institutions getting into financial difficulties. The legal structure of the funds used has a bearing on the degree to which the funds' assets are "ring-fenced" from the rest of the provider's or fund managers' business in the unlikely event that the provider or manager becomes insolvent.

During the last year the trustees, with the help of their investment adviser, have reviewed information from the platform provider on the provider's financial health.

There have been no changes to the structure of the funds used by the Scheme during the last year. The trustees are not aware of any material changes in the financial strength of the investment platform provider or the fund managers used by the platform in the last year.

Conflicts of interest

As described on page 14 of the SIP, the trustees consider potential conflicts of interest:

- When choosing fund managers;
- When monitoring the fund managers' investment performance and the fund managers' approaches to investment stewardship and responsible investing; and
- When the fund manager is making decisions on where each fund is invested.

The trustees expect the fund managers to invest the Scheme's assets in the members' best interests. During the last year the trustees considered the fund objectives when selecting the L&G Ethical Global Equity Fund as a new fund. As the funds used by the Scheme are held at arms-length from the trustees via an investment platform, the trustees have asked the platform provider to report on its own investment governance of the funds including potential conflicts of interest.

The trustees are satisfied that there have been no material conflicts of interest during the year which might affect members' benefit expectations.

Manager incentives

As described on page 11 and 12 of the SIP, the trustees seek to ensure that the fund managers are suitably incentivised to deliver investment performance in keeping with the funds' objectives.

The funds used by the Scheme are held at arms-length from the trustees via an investment platform. Nevertheless, the trustees believe it is in the platform provider's best commercial interests to ensure that the fund managers are suitably incentivised to meet their funds' investment objectives.

The trustees are satisfied that the fund managers are suitably incentivised to deliver good outcomes for the Scheme's members.

Responsible Investment

The trustees believe that responsible investing covers both sustainable investment and effective stewardship of the assets the Scheme invests in.

The trustees made the following changes to their approach to responsible investing during the last year :

- Decided to introduce a fund which is considered a 'Responsible Investment' fund – the L&G Ethical Global Equity Fund to the AVC and DC Section self select fund range.

Sustainable Investment

The trustees believe that investing sustainably is important to control the risks that environmental factors (including climate change), social factors (such as the use of child labour) and corporate governance behaviour (called "ESG" factors) can have on the value of the Scheme's investments and in turn the size of your retirement benefits.

The trustees have considered the length of time members' contributions are invested in the Scheme when choosing and reviewing the funds used in the investment options. The Scheme's youngest members are between age 30 and 39 who could therefore have savings invested for c.35 years which has been taken into account when the trustees introduced and reviewed the default arrangement.

The trustees periodically review the platform provider's approaches to sustainable investing. The trustees receive annual reports from Aviva on how the fund managers have handled these risks.

The trustees are satisfied that during the last year the Scheme's investments were invested in accordance with the policies on sustainable investing set out in the SIP.

Investment stewardship

As described on page 13 of the SIP, the trustees believe it is important that the fund managers as shareholders or bond holders take an active role in the supervision of the companies in which they invest. As the platform provider, Aviva Investors (AI) delegate voting rights to the fund managers listed below (Legal & General Investment Management (LGIM), BlackRock and Schroders) however they also hold their own voting rights through their investment platform, AI. This entails both voting at shareholder meetings and engaging with the management on major issues which affect a company's financial performance (and in turn the value of the Scheme's investments).

As the Scheme's investments are held at arms-length from the trustees and members through an investment platform operated by Aviva, who in turn access funds provided by LGIM, Schroders, BlackRock and their personal AI funds to invest the schemes money. Trustees are not able to instruct the fund managers how they should vote on shareholder issues. The trustees nevertheless:

- Choose fund managers whose voting policy are consistent with the scheme objectives;
- Expect fund managers to vote in a way which enhances the value of the funds in which the scheme invests;
- Monitor how the fund managers exercise their voting rights.

How do the trustees monitor this?

The trustees periodically review the platform provider's and fund managers approaches to stewardship including voting and engagement policies.

The trustees are making arrangements to receive regular reports from the platform provider as to how the fund managers have voted at shareholder meetings and what topics fund managers have discussed with the companies in which they invest.

Funds available in the scheme With Voting Rights Attaching to Them:

The funds with voting rights attaching to them that form part of the default fund range are:

- Aviva My Future which is composed of the Aviva My Future Growth and Aviva My Future Consolidation.

The funds with voting rights attached that are available in the self-select range are:

- Aviva Pension Blackrock UK Equity Index Tracker IE
- Schroder Life Intermediated Diversified Growth
- Aviva Pension BlackRock World Ex UK Equity Index Tracker IE
- Aviva Pension BlackRock European Equity Fund
- LGIM diversified fund
- Aviva Pension BlackRock (30:70) Currency Hedged Global Equity Index Tracker IE
- BlackRock Emerging Markets Equity Index

The funds with voting rights attached that are available in the AVC range are:

- Aviva Pension Blackrock UK Equity Index Tracker IE
- Aviva Pension BlackRock (30:70) Currency Hedged Global Equity Index Tracker IE
- LGIM Diversified Fund

How Do the Managers Exercise Their Votes?

Aviva review their voting policy on an annual basis. They seek to prioritise voting and engagements by the size of their holding since this will most likely benefit their clients. They maintain a database to record their voting and engagements with companies, this allows them to review the effectiveness of the votes they have previously cast.

BlackRock have an investment stewardship team which advocates sound corporate governance and makes sure practices are aligned with long-term sustainable financial performance. They prioritise engagements which include the following topics:

- Board quality
- Environmental risks and opportunities
- Corporate strategy and capital allocation
- Compensation that promotes long-termism
- Human capital management

Schroders evaluate voting issues that arise and vote on them in line with their fiduciary responsibilities in what is deemed to be in line with the interests of the client. They utilise company engagement, internal research and investor views to aid there voting decisions.

Legal and General Investment Stewardship team make all decisions regarding voting and engagement in accordance with the relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually by them. 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 company.

Funds with No Voting Rights

The following funds are available to members through either the default fund range or the self-select fund range, but do not have voting rights. Trustees are looking for ways to engage more actively with the managers of these funds.

- Aviva Pension Property FP
- Aviva Pension BlackRock Over 5-Year Index-Linked Gilt Index Tracker IE
- BlackRock Over 15-Year Gilt Index
- BlackRock Corporate Bond Index All Stock
- BlackRock Sterling Liquidity
- Aviva My Future Cash Lump Sum
- Aviva My Future Annuity

Voting information:

	My Future	AI UK equity index fund	Life intermediated diversified growth	AI developed European ex UK equity index
No. of resolutions eligible to vote	38,007	11,058	-	9,328
% resolutions voted for management	71.8%	93.2%	-	67.5%
% resolutions voted against management	26.3%	5.4%	-	26.3%
% resolutions abstained and did not vote	1.9%	1.4%	-	6.1%
	AI developed world ex UK equity index	LGIM diversified	AI 30:70 currency hedged global equity index fund	Blackrock Aquila connect emerging market fund
No. of resolutions eligible to vote	27,012	11,362	35,747	23,180

% resolutions voted for management	65.70%	81.72%	74.00%	90.79%
% resolutions voted against management	32.10%	17.71%	24.00%	9.21%
% resolutions abstained and did not vote	2.20%	0.56%	2.00%	2.77%

The trustees also consider how the fund managers voted on specific issues. The trustees consider 'significant votes' to be either companies with relatively large weightings in the funds members invest in, or where there were shareholder issues that members are expected to have an interest.

The most significant shareholder votes and how the fund managers voted during the last year were:

	Alphabet	AstraZeneca	Amazon	Samsung	Tencent Holdings	Taiwan Semiconductors
Resolution	3 May 2020 Establish human rights risk oversight committee	29 April 2020 Re-elect Marcus Wallenberg as director	27 May 2020 Shareholder resolution requiring to company adopt/amend its human rights policy	17 March 2021 Elect Park Byung-gook as outside director.	13 May 2020 Approve reissuance of repurchased shares	9 June 2020 Amend procedures for lending funds to other parties
Blackrock	Not held in portfolio	Not held in portfolio	Not held in portfolio	Against	Against	For
LGIM	Not held in portfolio	Not held in portfolio	For*	Against	Against	Not held in portfolio
Schroders	Against*	For*	For*	Against*	Not held in portfolio	For*
Aviva	For	Against	For	Not held in portfolio	Not held in portfolio	Not held in portfolio

<p>Comments</p>	<p>AI, BlackRock and LGIM all find that the lack of clear human rights program in Alphabet is a business risk. Schroders find that the current board should have ample room to address any human rights issues.</p>	<p>Aviva believe that Marcus Wallenberg has too many other commitments to be re-elected. Whereas Aviva voted with management for his re-election</p>	<p>The three funds that hold amazon stock all voted for this resolution on the grounds that Amazon had been subject to significant scrutiny over the Covid-19 pandemic and all funds agreed that the human rights policy needed to be amended.</p>	<p>3 funds voted against this resolution. They all cite that Samsung did not sufficiently severe ties with criminally convicted members of the company.</p>	<p>Tencent holdings is part of both BlackRock and LGIM's top 10 holdings and they both voted against the resolution.</p>	<p>Taiwan semiconductor is the BlackRock fund's biggest holding, making up 6% of the portfolio. Both BlackRock and Schroders voted for this resolution.</p>
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Source: Proxy insight

* This holding does not represent one of the top 10 holdings for the funds but does exist in the portfolio

How do fund managers implement their votes?

The managers often make use of proxy voting to inform their decision making. The managers use the following organisations as proxies for their voting activity:

Manager	Comment on approach
LGIM	LGIM uses ISS to place its electronic votes through ISS ProxyExchange. LGIM have a custom voting policy in place to ensure their provider votes in accordance with their position on ESG.
BlackRock	BlackRock uses ISS for vote instruction and they also use proxy research firms for custom recommendations.
Schroders	Schroders utilise company engagement, internal research, investor views, governance expertise and external research (from ISS and IVIS) when considering voting decisions. Schroders make use of a third-party proxy voting service.
Aviva	Aviva subscribe to proxy advisory services for independent research and recommendations. These providers include the IVIS service, ISS-Ethix and MSCI.

The trustees are satisfied that the fund managers' voting record on the companies in which their funds invest was aligned with the stewardship policy described in the SIP.

Impact Investing

Impact investing relates to investments that are intended to have a positive and measurable environmental or social impact, alongside a financial return. For instance, investing in businesses and projects which benefit the local community or investing globally in companies and projects which are expected to have a positive impact on greenhouse gas emissions.

The trustees are monitoring the development and availability of funds suitable for DC which aim to have a positive impact globally.

Ethical Investing

The trustees recognise that some members will have strong views on where their pension savings should be invested.

The trustees have instructed Aviva to include the L&G Ethical Global Equity Fund to the self-select fund range of both the AVC and DC Sections which invests in companies across the world which are less carbon-intensive and have strong governance values i.e. companies who have high ethical, environmental and social principles

Nevertheless, the trustees recognise that it is not possible to cater for everyone's views on non-financial/ethical matters.

The trustees monitor the investments held by the Scheme's ethical investment options. The trustees also monitor developments in ethical investing funds which could be appropriate to the Scheme's members.

The trustees' approach to ethical investing has not changed.

The trustees are satisfied that the Scheme offers ethical investment options for members in accordance with the SIP.

Communication and member engagement

The trustees' approach to communicating the Scheme's investment options and investment governance have not changed during the last year.

Members are encouraged to feedback comments regarding the DC Section to the SSE Pensions Team.

Limitations and missing information

During the last year the trustees followed all the policies and practices described in the SIP

More information

We hope this Statement helps you understand how the Scheme's investment of your savings for retirement has been managed in the last year. If you have any questions or feedback, please contact the SSE Pensions Team.