

# Wessex Water Pension Scheme (DB Section) - Implementation Statement

**Statement of Compliance with the Wessex Water Pension Scheme's Stewardship Policy for the year ending 30 September 2021**

## Introduction

This is the Trustee's statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustees have complied with the Scheme's Stewardship Policy during the period from 1 October 2020 to 30 September 2021 and other policies and practices within the Statement of Investment Principles.

## 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 selecting the investment strategy and explains the risks and expected returns of the funds used and the Trustee's approach to responsible investment (including climate change).

The SIP was last reviewed and agreed upon by the Trustee in September 2021. The main changes made to the SIP during the last year were to update the Scheme's strategic asset allocations following the derisking from growth assets in Q3 2021 and to reflect changes on the Trustee Board.

This Implementation Statement is in respect of the Scheme's SIP that was in place as of 30 September 2021.

You can review the Scheme Stewardship Policy which can be found within the Scheme's Statement of Investment Principles, at [www.wessexwater.co.uk/corporate/the-company/governance-and-assurance](http://www.wessexwater.co.uk/corporate/the-company/governance-and-assurance)

## What is this Implementation Statement for?

Each year the Trustee is required to prepare an Implementation Statement, which sets out how they have complied with the Scheme's SIP relating to DB benefits during the last year.

**Overall, the Trustee is satisfied that:**

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

## How the Scheme's investments are governed

The Trustee has 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 Trustee has established an Investment and Finance Sub-Committee ("IFSC") which focuses on investment issues and makes recommendations to the whole Trustee Board.

The Trustee has delegated powers to the IFSC around the implementation of the investment strategy within certain parameters. The aim is to facilitate more efficient and effective implementation of any recommended changes to the Scheme's investment arrangements.

The Trustee has appointed Hymans Robertson LLP to provide strategic and implementation advice and for monitoring of the Scheme's managers and overall performance.

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

Date	Topic	Aim	Trainer
26/01/2021	Currency hedging	Review of the Scheme's currency hedging, revisiting the rationale for the existing approach and revisions to the policy based on assessments of current valuations and portfolio exposures	Hymans Robertson
26/05/2021	Funding valuation and investment strategy	Review the progress of the Scheme's funding level relative to plan, understand potential implications of the 2022 valuation, and discuss possible actions including de-risking	Hymans Robertson/Aon
28/09/2021	LIBOR	Consider implications from the cessation of LIBOR and review proposed changes to manager benchmarks and targets	Hymans Robertson
Over the year	Capital Markets	Regular updates on the current state of the markets as well as the forward outlook	Hymans Robertson

**The Trustee is satisfied that during the last year:**

- **The Scheme's DB governance structure was appropriate;**
- **The Trustee has maintained its understanding of investment matters;**

The Trustee has set objectives for its investment adviser as part of the CMA review and will monitor progress against the objectives in Q4 2021.

**How the investment strategy is managed**

The Trustee relies on professional fund managers for the day-to-day management of the majority of the Scheme's assets. However, the Trustee retains direct control over the strategic asset allocation, the choice of the fund manager, manager mandates and the selection of the funds in which the Scheme invests. The Trustee makes the decisions about the investment vehicles offered to members for additional voluntary contributions (AVCs).

The Trustee has not carried out a detailed investment strategy review over the last Scheme year for the DB Scheme, but in line with the SIP, expects to review the strategy as part of the 2022 actuarial valuation. The Trustee keeps the strategic asset allocation under review and any changes to the portfolio are made with these allocations in mind in terms of generating the necessary investment returns to meet overall funding objectives – this was the case for the partial sale of growth assets in Q3 2021 to 'lock in' improvements in the funding position.

**How investments are chosen**

The Trustee's approach to the selection of new investments is set out in the SIP.

The Trustee reviews the performance of their manager and mandates regularly against a series of metrics, including, but not limited to, financial performance against the benchmark and objectives of the mandate and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed and the Trustees expect managers to explain any significant deviations.

Over the last Scheme year, the Trustee didn't appoint any new managers to the Scheme.

For any future manager appointments, the Trustee is guided by the policies set out in the SIP, for example considering managers' stated ESG policies in any manager selection exercises.

Over the last Scheme year, the Trustee monitored fund performance relative to the manager's respective benchmarks and targets quarterly. Actual allocations are also monitored against strategic targets (within a tolerance) so that the portfolio can be rebalanced if needed.

### The expected risks and returns in the DB Scheme

The expected return and investment risks relating to the DB Scheme assets are described in the SIP on pages 7 and 9 respectively.

The Trustee believes that the main investment risks the Scheme faces as described in the SIP have not changed materially over the last year.

The Trustee is satisfied that through a diversified portfolio, systemic risk can be mitigated, and accept that it is not possible to make specific provision for all possible eventualities which arise under this heading.

The Trustee's 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) and the style of management adopted by the Scheme.

Over the last Scheme year, the Trustee's strategic asset allocation target was updated in the SIP (page 4) to reflect the derisking from growth assets (noted above). This resulted in the allocation to the Russell equity/fixed income mandate reducing by 5% and the LDI target allocation increasing by 5%.

### Ability to invest / disinvest promptly

It is important that member benefits can be received promptly, and that the Scheme's investments can be realised quickly if required.

**There were no issues of liquidity to report over the last Scheme year.**

### Portfolio turnover within funds

Although the Trustee does not currently monitor portfolio turnover, going forward, it expects with the support of the investment adviser to monitor the volume of buying and selling of underlying assets in each fund as part of a programme of more active engagement with the Scheme's managers (on ESG and other matters such as this, where appropriate).

Short-term changes in the level of turnover may be expected when a 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 manager is taking, which could mean that a fund is less likely to meet the objectives for which it was chosen by the Trustee.

**Once the 'rolling' programme is established, the Trustee will report the level of trading of the Scheme's assets carried out by the fund managers, and whether this has been consistent with the Scheme's objectives.**

### Responsible Investment

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

**The Trustee's approach to responsible investing has not changed during the last year.**

### Sustainable Investment

The Trustee believes 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 Trustee is satisfied that during the last year the Scheme's investments were invested in accordance with the policies on sustainable investing and consideration of financially material factors set out in the SIP.**

### Investment stewardship

As described on pages 5 to 7 of the SIP, the Trustee believes it is important that the fund managers as shareholders or bondholders take an active role in the supervision of the companies in which they invest, both by 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).

The Trustee is not able to instruct the fund managers on how they should vote on shareholder issues. The Trustee nevertheless:

- Chooses fund managers whose voting policy is consistent with the Scheme's objectives;
- Expects fund managers to vote in a way that enhances the value of the funds in which the Scheme invests; and
- Monitors how the fund managers exercise their voting rights.

### Stewardship policy

The Trustee's Stewardship (voting and engagement) Policy sets out how it will behave as an active owner of the Scheme's assets which includes the approach to:

- the exercise of voting rights attached to assets; and
- the undertaking of engagement activity, including how the Trustee monitors and engages with its investment managers and any other stakeholders.

The Scheme's Stewardship Policy is reviewed regularly. The Trustee has delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustee believes it is important that its investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues that affect a company's financial performance.

The Trustee's engagement activity is focused on dialogue with its investment managers which is undertaken in conjunction with their investment advisers. It is anticipated the Trustee (or a subgroup) will meet its managers periodically going forwards to review financial performance and other metrics (such as ESG / climate change) and it is expected more regular engagement will include the assessment of stewardship matters. The Trustee also considers managers' exercise of their stewardship through reporting provided by the managers and/or its investment adviser.

The Trustee also monitors compliance with its Stewardship Policy regularly and is satisfied that it has complied with the Scheme's Stewardship Policy over the last year.

### Voting activity

The Trustee seeks to ensure that its managers are exercising voting rights and where appropriate, to monitor managers' voting patterns. The Trustee also monitors investment managers' voting on companies or issues that affect more than one company.

The Trustee has investments in listed equities with two mandates, one with Russell Investments and the other with Pictet Asset Management. The investment managers have reported on how votes were cast in each of these mandates as set out in tables 1 and 2 below:

**Table 1: Russell Investments voting data**

Strategy/Fund name	World Equity Fund II (WEF II)
The proportion of Scheme assets as of 30 September 2021	22.3%
No. of meetings eligible to vote at during the year	905
No. of resolutions eligible to vote on during the year	10,957
% of resolutions voted	96%
% of resolutions voted with management	88%
% of resolutions voted against management	12%
% of resolutions abstained	<1%
% of meetings with at least one vote against management	59%

The resolutions which Russell voted against management the most on over the Scheme year were mainly concerning:

- General governance; for example, proposals regarding median gender pay
- Board of Directors; decisions on electing individual board members, approval of supervisory councils and ratification of auditors

**Table 2: Pictet voting data**

Strategy/Fund name	Dynamic Asset Allocation Fund
The proportion of Scheme assets as of 30 September 2021	10.4%
No. of meetings eligible to vote at during the year	46
No. of resolutions eligible to vote on during the year	496
% of resolutions voted	100%
% of resolutions voted with management	89.3%
% of resolutions voted against management	10.3%
% of resolutions abstained	0.4%
% of meetings with at least one vote against management	30.4%

### Significant votes

The managers have also reported on the most significant votes cast within the portfolios, describing the reasons why the votes were significant, the size of the position in the portfolio, how they voted, any engagement undertaken with the company and the outcome of the vote. From the managers' reports, the significant votes are outlined in tables 3 and 4 below:

**Table 3: Russell Investments significant votes**

Date	Company	Subject	Manager's vote and rationale
December 2020	Microsoft	Shareholder proposal for Microsoft to disclose on Non-Management Employee Representation on the Board	Russell voted against the proposal in line with their house policy and because the requested report would not have any valuable information to shareholders, and it is not apparent that the resources necessary to

			<p>provide the requested report would result in a commensurate benefit to shareholders.</p> <p>This vote was considered significant to the manager as the holding represented 1.54% of the portfolio.</p> <p>The outcome of vote: Management vote not passed</p>
June 2021	Taiwan Semiconductor Manufacturing	Elect Yancey Hai as CFO	<p>Russell voted against management but in line with their house policy. This was considered significant to the manager as the holding represented 2.34% of the portfolio.</p> <p>The outcome of vote: unavailable.</p>
April 2021	Johnson & Johnson	Shareholder Proposal Regarding Independent Board Chair	<p>Russell voted for the proposal in line with their house policy based on the rationale provided by Glass Lewis that require the positions of chairman and CEO to be held by different persons unless the company has all of the following: Designated lead director, elected by and from the independent board members with clearly delineated duties; Two-thirds independent board; The company publicly discloses a comparison of the duties of its independent lead director and its chairman; The company publicly discloses a sufficient explanation of why it chooses not to give the position of chairman to the independent lead director, and instead to combine the chairman and CEO positions; All independent key committees; Established governance guidelines.</p> <p>This was considered significant to the manager as the holding represented 1.15% of the portfolio.</p> <p>The outcome of vote: Management vote not passed</p>

Table 4: Pictet significant votes

Date	Company	Subject	Manager's vote and rationale
October 2020	BHP Group	Adoption of Interim Cultural Heritage Protection measures	Pictet voted against management but in line with their house policy. The vote was considered significant because the

			<p>Investment Manager holds an important stake in the company as part of the fund's holdings.</p> <p>Outcome: Management vote was withdrawn as it was conditional on the passing of a prior item that was not carried.</p>
March 2021	Mitchells & Butlers	Approval of restricted Share plan	<p>Pictet voted against management but in line with their house policy. The vote was considered significant because the Investment Manager holds an important stake in the company as part of the fund's holdings.</p> <p>The outcome of vote: Management vote passed</p>
June 2021	Square Inc.	Requirement of an independent Board Chair	<p>Pictet voted against management but in line with their house policy. The vote was considered significant because the Investment Manager holds an important stake in the company as part of the fund's holdings.</p> <p>The outcome of vote: Management vote not passed</p>
May 2021	American Express	The requirement to publish annually a report assessing Diversity, Equity and Inclusion efforts	<p>Pictet voted against management but in line with their house policy. The vote was considered significant because the Investment Manager holds an important stake in the company as part of the fund's holdings.</p> <p>The outcome of vote: Management vote passed</p>
May 2021	PayPal Holdings Inc.	The requirement to report on whether written policies or unwritten norms reinforce racism in Company culture	<p>Pictet voted against management but in line with their house policy. The vote was considered significant because the Investment Manager holds an important stake in the company as part of the fund's holdings.</p> <p>The outcome of vote: Management vote passed</p>

Both Russell and Pictet have not strayed from their house policies when casting significant votes. Both managers consider the selection of the board of directors to be a significant factor in the steering and governing of the underlying companies in which they have significant positions.

### Engagement activity

The managers have provided case studies of key engagement activity for the 12 months ending 30 September 2021. A few have been documented below, to give you an example of how the managers are dealing with the companies they invest in on your behalf. The intention is that the Trustees (supported by its investment adviser) will monitor the engagement activities as part of the ongoing dialogue with the managers and provide challenges where needed.

### Russell Investments

Russell believes that active ownership of holdings is an essential prerequisite to achieving best-in-class investment outcomes for clients. They make it their fiduciary duty to act as good stewards of your assets through proxy voting and take shareholder engagement seriously.

#### Case study 1 (for Russell World Equity Fund)

<b>Company</b>	US-based Packaging company
<b>Engagement topic</b>	Sustainability disclosures, diversity and executive compensation
<b>Engagement activity and outcome</b>	<p>The Manager discussed the current membership of the board, which given the high number of long-standing board members and the lack of diversity posed a risk of views being entrenched. Following discussion, the company expressed an intention to add fresh perspective via upcoming openings.</p> <p>Russell also flagged executive compensation as an area for discussion after the proxy research provider assigned a low score to the pay for performance metric. It was however determined that the company's program is sufficiently aligned with company performance measures. The company has also begun to incorporate non-financial metrics such as safety measures, and they plan to add a diversity component at the senior level.</p> <p>Lastly, Russell assessed their sustainability reporting as strong overall but encouraged further reporting of water usage metrics and disclosure of this data over time.</p>

### Pictet

Pictet aims to ensure that investee companies are well-run and meet credible reporting standards. They consider it their fiduciary duty to engage selected corporate issuers to positively influence a company's ESG performance and to protect or enhance the value of clients' investments.

#### Case study 1

<b>Company</b>	Tencent Holdings Ltd
<b>Engagement topic</b>	Social - Human rights



**Engagement activity and outcome**

Tencent has increasingly been linked to allegations of surveillance of its users on behalf of the Chinese government. In December 2020, the Wall Street Journal reported that Tencent declined to comment on the topic.

Pictet initiated engagement in September 2021 led by its service provider Sustainalytics. A dialogue was established to discuss the allegations, and Tencent was asked the steps they were taking to protect the relevant rights of its users.

Sustainalytics are seeking to hold a conference call to discuss the above, and Tencent has shown a willingness to engage, which will be the next steps. Sustainalytics continue to monitor the issue and establish due diligence practices and transparent policies relevant to digital rights.

**Case study 2**

<b>Company</b>	Samsung Electronics Co. Ltd
<b>Engagement topic</b>	Governance - Leadership
<b>Engagement activity and outcome</b>	<p>In 2017, a high-level executive of Samsung was arrested in connection with a corruption scheme involving the impeached president of South Korea. After the scandal started, Samsung carried out a variety of measures to strengthen its governance structure and compliance programme. The engagement was established in June 2017 via a letter asking for a conference call. Ongoing dialogue has included in-person meetings, phone calls and email exchanges.</p> <p>In response, the company recently published its 2021 Sustainability report which is being reviewed by Sustainalytics. In addition, Sustainalytics will be assessing any initiatives to promote a culture of integrity across all business units and senior management.</p>

**Use of a proxy adviser**

The Trustee's investment managers have made use of the services of the following proxy voting advisors over the Scheme year:

Manager	Proxy Advisor used
Russell Investments	Glass Lewis
Pictet Asset Management	Institutional Shareholder Services (ISS)

Russell has adopted external service provider Glass Lewis to execute proxy votes aligned to their guidelines. Any votes which are not addressed in Russell's guidelines or require a case-by-case review then fall to Russell's internal proxy analyst who will provide a recommendation to the managers' Proxy Voting committee to arrive at a decision.

ISS provides Pictet with research services as well as facilitates the execution of voting decisions at all relevant company meetings worldwide. Pictet typically uses the recommendation of ISS to inform voting decisions but reserves the right to deviate from third-party voting recommendations on a case-by-case basis to act in the best interests of clients. Such divergences may be initiated by investment teams or by the ESG team and will be supported by detailed written rationale.

### **Review of policies**

The Trustee has committed to reviewing the managers' RI policies regularly. The last detailed review was undertaken on 29 September 2020, which considered the managers' adherence to the main industry standards on responsible investment and their approach to the integration of ESG factors in investment strategies and stewardship of assets. The next review is expected to take place in 2022.

The Trustee and its investment adviser are satisfied that the responsible investment policies of the managers and, where appropriate, the voting policies remain suitable for the Scheme.