

Wessex Water Pension Scheme (Defined Contribution) Implementation Statement for the year ending 30 September 2021

Welcome to the Trustee's Statement of how they implemented the policies and practices in the Scheme's Statement of Investment Principles during the year ending 30 September 2021.

Why do the Scheme's investments matter to me?

The Wessex Water Pension 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).

The last review of the Scheme's SIP was completed in September 2020 and the next review will take place no later than September 2023. No significant changes were made to the SIP during the last year.

If you want to find out more, you can find a copy of the Scheme's SIP (and the Scheme's Chairs Statement) at <https://www.wessexwater.co.uk/corporate/the-company/governance-and-assurance>

What is this Implementation Statement for?

Each year from October 2020 the Trustees are required to prepare an Implementation Statement, which sets out how they have complied with the Scheme's SIP relating to DC benefits during the last year.

Overall, the Trustees are satisfied that:

- **The Scheme's DC investments have been managed in accordance with the SIP; and**
- **The provisions in the SIP remain suitable for the Scheme's DC 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 Trustees have established a DC Sub-Committee which focuses on DC issues and makes recommendations to the whole Trustee Board.

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

The DC Sub-Committee received additional training on the following areas during the last year to ensure that their knowledge of investment matters remains up to date:

Date	Topic	Aim	Trainer
Quarterly	DC Governance issues	Update on the principles of good governance and emerging trends for 2021 and beyond	Hymans Robertson
1 December 2020	Master Trust proposal	Understanding proposals for a master trust, including key objectives, criteria/weightings in selecting a provider, the current market and timescales/milestones in transferring to a master trust	Hymans Robertson
August 2021	Inadvertent defaults	Changes in the LGAS property fund resulting in the possible creation of a “default” fund; advice given on options to consider, the profile of members affected and suggested approach for those outside the 5 year window	Hymans Robertson

The Trustees have set objectives for its DC investment adviser and keep these under review.

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;**

How the default arrangement and other investment options are managed

The objectives and rationale are set out in the SIP on pages 9 to 10 for the default arrangement and for the other investment options on page 10.

The Trustees carry out an in-depth review of the default arrangement and other investment options at least every three years to ensure they remain suitable for most members. This involves:

- 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;
- 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.

Over the 12 months up to 30 September 2021, the Trustees made no changes to the Scheme’s default arrangements.

However the Trustees have been considering a proposal to move to a master trust for future DC provision. By its nature, this has involved assessing the current investment strategy (and provider) compared with the options available in the wider market place. As at the time of this statement, this review is continuing.

The Trustees objectives for the Scheme's investment options remain the same:

Default arrangement the principal objectives are:

- To manage the principal investment risks faced by an average member during their membership of the Scheme.
- To target the majority of Scheme members who are expected to take 100% cash at their selected retirement date.
- To invest in funds that are expected over the long-term to deliver strong returns relative to inflation for members over 15 years from retirement.
- During the last 3 years before retirement, to increasingly invest in lower-risk funds that are expected to help mitigate fluctuations in the sizes of both members' fund values and the benefits members are likely to take at retirement.

Alternative lifestyle strategies:

- The alternative lifestyle strategies are designed to invest at the point of retirement in assets which are most closely matched to members' requirements after retirement.

Self-select funds:

- The self-select fund range is provided for members who want to take an active part in choosing where their DC savings are invested and complements the default strategy and the alternative lifestyle strategies.
- Covers a broad spectrum of investment risk levels and investment approaches so that members can tailor the investment of their DC Pot more closely to their personal needs and attitude to risk.

The Trustees have recognised that ESG factors can have a material impact on investment returns whereby investments in companies with strong ESG policies are expected to outperform those with weaker or no ESG policies over the long-term. The Trustees have articulated their ESG beliefs and policies in the SIP.

Other default arrangements

As well as the Retirement Planner 15 Year Cash Lifestyle strategy (default) the Scheme also offers the following 'lifestyle' strategies:

- Retirement Planner 15 Year Drawdown Lifestyle
- Retirement Planner 15 Year Annuity Lifestyle

The Trustees are satisfied that the other lifestyle arrangements remain suitable.

The Trustees' investment beliefs

The Trustees have developed a set of investment beliefs which are set out in the SIP on pages 29 to 30 (Appendix E) which they use as a guide when making investment decisions.

There have been no changes to these beliefs in the last year.

The expected risks and returns on your savings in the DC Scheme

The investment risks relating to members' DC benefits are described in the SIP on pages 3 to 4 and the expected returns from each type of investment used by the Scheme are set out in the SIP on page 10.

During the last year the Trustees, with the help of their DC investment adviser, reviewed the appropriateness of the Scheme's investments in the light of the potential risks that members could face.

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.

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 options (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(s) including the default arrangement did not change during the last year.

Choice of platform providers and funds

The Trustees monitor the service of the platform provider (Legal & General, the "Provider") as well as the performance of the funds used by the DC section of the Scheme.

The DC investment adviser monitors the Provider's business activity on an ongoing basis as part of its general research of the provider marketplace and would report to the Trustees on any developments that may impact the Provider's ability to provide services (including administration, communications and investment).

The DC investment adviser provides investment monitoring reports to the Trustees on at least a quarterly basis. The report reviews all the Scheme's fund performance over the quarter and longer-term relative to their respective benchmarks as well as highlighting key information and commentary regarding the management of the funds. Any potential issues regarding any of the funds' performance or management issues at the fund manager are flagged to the DC Subcommittee in the first instance.

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

The Trustees keep the investment platform provider and funds under regular review.

The Trustees are satisfied that the platform provider used by the Scheme remains 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 investing the Scheme's assets in pooled funds which typically offer sufficient liquidity to prompt movement of assets.

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

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 Provider / underlying fund 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 Trustees.

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.

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.

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

A formal conflict of interest policy could apply to:

- 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 to deliver the best possible risk-adjusted returns and in turn member outcomes.

The Trustees do not have a formal policy in place for the DC SIP (it does for the DB SIP), however the Trustee will report any material conflicts of interest which occurred during the year and which might affect members' benefit expectations.

Manager incentives

As described on page 17 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 approach to responsible investing has not changed.

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 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 pages 16 to 17 of the SIP, the Trustees believe 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).

As the Scheme's investments are held at arms-length by the Trustees and members through an investment platform operated by Legal and General, the Trustees are not able to instruct fund managers on how they should vote on shareholder issues. The Trustees nevertheless:

- Choose fund managers whose voting policies are consistent with Scheme objectives;
- Expect fund managers to vote in a way that 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 sustainable investing and receive regular reporting from the provider (in the form of L&G's Active Ownership reports) as to their level of engagement with the underlying investee companies on these issues.

The fund managers have also provided information on how they have voted at shareholder meetings over the Scheme year, including any votes that were deemed to be significant.

The most significant shareholder votes and how the fund managers voted during the last year (for the funds used in the Scheme's default strategy) were:

L&G Future World Fund

The Manager voted on 29,474 eligible resolutions over the period for the Future World Fund. The below table summarises the top five significant votes by way of holding size.

Date	Company	Subject	Manager's vote
22/04/2021	Johnson & Johnson	Elect Director Alex Gorsky	The Manager voted against the resolution. 93.4% of shareholders supported the resolution.
26/05/2021	Amazon.com, Inc.	Elect Director Jeffrey P. Bezos	The Manager voted against the resolution. 95.1% of shareholders supported the resolution.
11/05/2021	Cummins Inc.	Elect Director N. Thomas Linebarger	The Manager voted against the resolution. 89.5% of shareholders supported the resolution.
03/06/2021	Trane Technologies Plc	Elect Director Michael W. Lamach	The Manager voted against the resolution. 91.0% of shareholders supported the resolution.
13/10/2020	The Procter & Gamble Company (P&G)	Report on effort to eliminate deforestation.	The Manager voted in favour of the resolution. 67.7% of shareholders supported the resolution (including LGIM vote).

L&G Multi-Asset Fund

The Manager voted on 76,621 eligible resolutions over the period for the Multi-Asset Fund. The below table summarises the top five significant votes by way of holding size.

Date	Company	Subject	Manager's vote
20/05/2021	NextEra Energy, Inc.	Elect Director James L. Robo	The Manager voted against the resolution. 88.1% of shareholders supported the resolution.
13/05/2021	Union Pacific Corporation	Elect Director Lance M. Fritz	The Manager voted against the resolution. 90.5% of shareholders supported the resolution.

29/04/2021	Prologis, Inc.	Elect Director Hamid R. Moghadam	The Manager voted against the resolution. 93.5% of shareholders supported the resolution.
26/05/2021	American Tower Corporation	Elect Director Pamela D.A. Reeve	The Manager voted against the resolution. The company is deemed to not meet minimum standards with regard to climate risk management and disclosure. 94.7% of shareholders supported the resolution.
26/05/2021	Amazon.com, Inc.	Elect Director Jeffrey P. Bezos	The Manager voted against the resolution. 95.1% of shareholders supported the resolution.

As summarised above, much of the most significant votes LGIM voted across both the Future World and the Multi-Asset Fund over the period were regarding the election of senior management and board positions. LGIM policy advocates for the separation of the roles of CEO and board chair as they believe distinct skill sets and experience are required to fulfil these substantially different roles. Since 2015, LGIM has supported shareholder proposals seeking the appointment of independent board chairs and has been voting against combined board chair/CEO roles since 2020.

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 of the view that impact investing is of financial benefit to the Scheme's members and consistent with the investment objectives of the Scheme's DC investment options.

The Scheme's investment in the L&G Future World Fund was introduced with this in mind. L&G's Future World suite of funds incorporate a climate change pledge, aiming to support the target of net zero emissions by 2050. L&G will score around 1,000 companies responsible for the bulk of greenhouse gas emissions and work with them to encourage change.

Ethical Investing

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

In addition to the Future World Fund, the Scheme also makes available the

- L&G Ethical UK Equity Index Fund. This fund tracks an index that screens out certain investments deemed to be harmful (such as controversial weapons).

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

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 has not changed during the last year.

Member engagement is actively encouraged through a variety of means. In the last few years, the Trustee undertook the following to support member engagement:

- 2019 – Christmas hamper competition hosted by Legal & General to encourage more online registrations which resulted in 31% of members now being registered.
- 2020 – Introduced new wake-up pack communications with Legal & General which is issued to members at age 50 then every 5 years, until benefits are fully crystallised. The aim of the communications are for members to understand the current value of their plans and how much they're paying in, the benefits of online services (via Manage Your Account), important things to be considered before taking any money out, the different ways they can take their money and where to go for advice and guidance.
- 2021 – Manage Your Account (MYA) has been further enhanced to provide a new simplified journey for members wishing to explore their investment options. It is also now much easier to make investment switches and redirect requests. The current level of members registered has increased and is now up to 41%. The quarterly prize draw incentives continued, including prizes such as a fitness bundle and a £500 Amazon gift card.
- 2021 – the L&G member pension App "Coll8" was also launched for easier access to Manage Your Account and to improve the member experience.

The Trustees continue to work closely with Legal & General to seek improvements in service and member engagement.

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 pensions team on:

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