

## Wessex Water Pension Scheme (Defined Benefit (DB) Section)

### Implementation Statement

Statement of Compliance with the Wessex Water Pension Scheme’s Stewardship Policy for the year ending 30 September 2023

#### 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 Trustee Directors have complied with the Scheme’s Stewardship Policy during the period from 1 October 2022 to 30 September 2023 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 Trustee Directors 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 January 2023.

This Implementation Statement is in respect of the Scheme’s SIP that was in place as of 30 September 2023.

You can review the Scheme Stewardship Policy which can be found within the Scheme’s Statement of Investment Principles, on the corporate website: [Governance and assurance documents \(wessexwater.co.uk\)](https://www.wessexwater.co.uk/governance-and-assurance-documents)

#### 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 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
29/11/2022	Development of the Trustees Responsible Investing beliefs and principles	Trustee meeting to compile and agree Responsible Investing beliefs and principles on Wessex Water Pension Scheme’s ESG approach.	Hymans Robertson
24/01/2023	Responsible Investment reporting considerations	Trustee meeting to understand the ESG characteristics of the Scheme’s mandates in more detail. The Trustees reviewed manager engagement activity and impact and considered possible ESG metrics/targets in reporting that could be developed.	Hymans Robertson
26/09/2023	ESG and Climate Risk Initial assessment	Trustee meeting to review the climate and ESG metric results for the Scheme’s existing mandates.	Hymans Robertson
Over the year	Capital Markets	Regular updates on the current state of the markets as well as the forward outlook.	Hymans Robertson

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The Trustee is satisfied that during the last year:

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

The Trustee set objectives for its investment adviser as part of the CMA review and will monitor progress against these in Q4 2023.

### **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 fund manager, manager mandates and the selection of the funds in which the Scheme invests. The Trustee makes the decision on the investment vehicles offered to members for additional voluntary contributions (AVCs).

The Trustee carried out a detailed investment strategy review in Q3 2023 following completion of the 2022 actuarial valuation. The strategy review concluded that the current asset allocation was still appropriate given the current funding level and contribution commitment. Furthermore, the review concluded there wasn't much scope to immediately de-risk the investment strategy without impacting the likelihood that the Scheme's funding level will meet its target at the end of the specified period. 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.

### **How investments are chosen**

The Trustee approach for selecting new investments is set out in the SIP. The Trustee reviews the performance of managers and mandates on a regular basis 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 Trustee expects managers to provide explanation for 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 will be guided by the policies set out in the SIP, for example considering managers' stated ESG policies in any manager selection exercises.

Over the Scheme year, the Trustee monitored fund performance relative to the manager's respective benchmarks and targets on a quarterly basis. 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 6 and 7 to 8 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 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 has not changed materially.

### **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, they expect with the support of its investment adviser, to monitor the volume of buying and selling of underlying assets in each fund as part of a program 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.

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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 approach to responsible investing has not changed during the Scheme 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 Scheme 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 4 to 6 of the SIP, the Trustee believes it is important that the fund 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 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 fund managers on how they should vote on shareholder issues. The Trustee nevertheless:

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

#### **Stewardship policy**

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

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustee monitor and engage with their 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 believe 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 which affect a company's financial performance.

The Trustee Directors' own 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 via a sub group) will meet its managers periodically 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 its investment adviser.

The Trustee also regularly monitors compliance with its Stewardship Policy 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 monitor investment managers' voting on companies or issues that affect more than one company.

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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:

<b>Table 1. Russell Investments voting data</b>	<b>World Equity Fund (WEF II)</b>
The proportion of Scheme assets as of 30 September 2023	16.1%
No. of meetings eligible to vote at during the year	778
No. of resolutions eligible to vote on during the year	10,871
% of resolutions voted	95%
% of resolutions voted with management	90%
% of resolutions voted against management	9%
% of resolutions abstained	<1%
% of meetings with at least one vote against management	57%

<b>Table 2. Pictet voting data</b>	<b>Dynamic Asset Allocation Fund</b>
The proportion of Scheme assets as of 30 September 2023	9.7%
No. of meetings eligible to vote at during the year	13
No. of resolutions eligible to vote on during the year	215
% of resolutions voted	100%
% of resolutions voted with management	95%
% of resolutions voted against management	5%
% of resolutions abstained	0%
% of meetings with at least one vote against management	54%

### 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 overleaf.

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**Table 3: Russell Investments significant votes**

Date	Company	Subject	Manager's vote and rationale
March 2023	Apple Inc	Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report	Russell voted for the resolution, against management. This vote was considered significant because the holding represented 1.4% of the portfolio.  The outcome of the vote: While current disclosures address how the company is monitoring and managing issues related to pay equity, there is scope for improvements. Furthermore, Russell Investments retain concerns regarding the lack of response from the company given that a similar resolution was filed at the 2022 Annual General Meeting, and it received over 30% support from shareholders. The level of support for this proposal held steady around c.33%.
June 2023	United Health Group Inc	Shareholder Proposal Regarding Severance Approval Policy	Russell voted for the resolution, against management. This vote was considered significant because the holding represented 1.1% of the portfolio.  The outcome of the vote: 35% of shareholders supported this proposal;
June 2023	Meta Platforms Inc	Shareholder Proposal Regarding Recapitalization	Russell voted for the resolution, against management. The vote was considered significant because the holding represented 1.4% of the portfolio.  The outcome of the vote: Russell supports the "one share, one vote" policy of governance. 28% of shareholders supported this proposal;

**Table 4: Pictet significant votes**

Date	Company	Subject	Manager's vote and rationale
March 2023	Applied Materials, Inc.	Reduce Ownership Threshold for Shareholders to Call Special Meeting	Pictet voted for the resolution. The vote was considered significant because the holding represented 3.5% of the portfolio.  Pictet believed a vote for this proposal was warranted, as the proposed 10 percent ownership threshold for shareholders to call a special meeting would enhance shareholders' ability to make use of the right. The outcome of the vote: Resolution approved.
March 2023	Givaudan SA	Re-election of Tom Knutzen as Director	Pictet voted for the resolution. The vote was considered significant because the holding represented 1.3% of the portfolio.  Pictet believed Mr. Tom Knutzen has a demonstrated strong knowledge in the field of bio-based ingredients, enzymes and therefore he is instrumental for the core business of Givaudan and its R&D pipeline. The outcome of the vote: Resolution approved.
May 2023	Schneider Electric SE	Approve Compensation of Jean-Pascal Tricoire, Chairman and CEO	Pictet voted for the resolution. The vote was considered significant because the holding represented 3.4% of the portfolio.  Pictet noted that that while they would prefer that post mandate vesting had not been implemented, its potential was clearly set out in previous remuneration policies that had also been voted on by shareholders. The outcome of the vote: Resolution approved.

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.

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#### Engagement activity

The managers have provided case studies of key engagement activity for the 12 months ending 30 September 2023. 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 Trustee Directors (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 believe 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>	Barrick Gold
<b>Engagement topic</b>	Russell expects Companies to report on their risk management practices and strategy concerning human capital management, climate change resilience, and natural capital management (where applicable) to company operations.
<b>Engagement activity and outcomes</b>	<ul style="list-style-type: none"> <li>• <b>Materiality Assessment:</b> The Company conducts an annual "materiality assessment" to understand what stakeholders care about. This helps shape the company's strategy and reporting. The impact of this assessment on the company's direction is uncertain. Russell will assess changes year over year and discuss results in the next engagement.</li> <li>• <b>Human Capital Management:</b> Since December 2022, the company has had five 'on-the-job' deaths. They are working to improve health and safety practices to reach their goal of zero fatalities. They'll hire a third-party auditor, and Russell expects results in early 2024. The manager aims to review the auditor's report and safety metrics for risks.</li> <li>• <b>Environmental Issues:</b> The company is currently measuring its Scope 3 emissions to set meaningful targets. They're also working on a metric to measure the impact of their business on biodiversity and nature at specific mining sites.</li> </ul>
<b>Next steps</b>	Russell will continue to engage with the Company, specifically looking at the improvement of its health & safety practices, disclosing further scope 3 emissions data, and the development of a biodiversity metric by 2025.

#### Case study 2

<b>Company</b>	Uber Technologies Inc
<b>Engagement topic</b>	Russell aims to improve the company's practices and disclosures with regards to human capital management, with particular focus on health & safety.
<b>Engagement activity and outcomes</b>	<ul style="list-style-type: none"> <li>• <b>U.S. Political Engagement Report Update:</b> Since Russell's last engagement, Uber has updated its U.S. Political Engagement Report to include information about its climate lobbying efforts. This change was made in response to strong shareholder support for a resolution at the 2022 Annual General Meeting (AGM). Russell views this response very positively.</li> <li>• <b>Shareholder Proposal Engagement:</b> Regarding the shareholder proposal, Uber has communicated that they engaged extensively but unsuccessfully with the proponent. They mentioned that the proponent frequently changed the proposal's nature and scope. Uber believes that an upcoming independent civil rights assessment, to be published in the next two months, will address the proponent's request. During Russell's conversation with the company, the manager was satisfied with how they addressed "false and misleading claims" in the proponent's statement.</li> </ul> <p><b>Safety-Related Data Challenges:</b> Uber faces challenges in providing updated safety-related data. They require data validation on a three-year cycle. As a result, the data in the 2023 ESG report covers the period from 2019 to 2021. Russell has asked Uber to disclose more current interim data that includes information from various geographic regions, not just the U.S.</p>
<b>Next steps</b>	Russell will continue its dialogue with Uber, with a focus on how they manage their people. At the time of writing, Uber had just released their latest ESG report and intends to release their civil rights audit in due course. Russell plans to have another call to discuss the new information in late 2023.

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### Pictet

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

### Case study 1

<b>Company</b>	Tesla
<b>Engagement topic</b>	Governance
<b>Engagement activity and outcome</b>	Data providers flagged a significant number of factors that diverged from best practices, and which impacted the company's governance and social score. The aim of the engagement was to ensure that the company improves transparency in disclosing employee and social issues, governance, and remuneration indicators.
<b>Next steps</b>	Tesla was very responsive, and the teams were able to engage through various meetings with the company's executives including the board of directors, during which they expressed their willingness to increase disclosure on employees and social issues. In relation to their governance, they agreed that the annual re-election of the directors is the preferred policy and they are keen to study and eventually implement this new governance practice. Concerning transparency in remuneration, management argued that they are already providing a clear table with key performance indicators. The company has also committed to the SBTi, pledging to implement targets for greenhouse gas emissions reduction, aligned with the Paris Agreement. Pictet successfully closed the engagement case.

### 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 own 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 provide Pictet with research services as well as facilitate the execution of voting decisions at all relevant company meetings worldwide. Pictet typically use 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 in order 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 November 2022 and agreed on a set of responsible investment beliefs and principles as part of the development of the Scheme's responsible investment and ESG strategy.

A review meeting was undertaken on 24 January 2023 to better understand the ESG characteristics of the Scheme's investment mandates. The Trustee reviewed manager engagement activity and subsequent impact, before considering possible ESG metrics and targets that could be assessed in regular reporting. Following this initial review, the Trustee assessed the climate risk metrics and ESG factor scores of the Scheme's existing investment mandates on 26 September 2023. The next review is expected to take place in 2024.

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