

# Wessex Water Pension Scheme (Defined Contribution) Implementation Statement for the year ending 30 September 2020

**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 30 September 2020.**

## **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.

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

The main changes made to the SIP during the last year were as follows:

- Further details on the Trustee's manager engagement policies – setting out for example how the fund's arrangement incentivises the manager to align its investment strategy with that of the Trustee, how the Trustee monitors portfolio turnover costs and the duration of the arrangement with the fund manager; and
- Expanding on the Trustee's existing stewardship policies; and .
- Updating details on the funds following the restructure of the Scheme's lifestyle strategies, which was implemented in April 2020, to replace the L&G Global Equity Market Weights 30:70 Fund with the L&G Future World Fund.

**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
28/11/2019	PLSA UK retirement living standards	Considered the launch of the new Pensions and Lifetime Savings Association (PLSA) living standards which set out the income targets required to achieve minimum, modest and comfortable living standards and whether these should be adopted for the Scheme in future	Hymans Robertson
02/06/2020	DC Governance issues	Update on the principles of good governance and emerging trends for 2020 and beyond	Hymans Robertson

The Trustees have set objectives for its DC investment adviser and will monitor progress against the objectives in Q1 2021.

#### 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.

Following the last detailed review, the Trustees implemented the agreed changes in April 2020, which involved the L&G Global Equity Market Weights 30:70 Fund being replaced by the L&G Future World Fund on a like-for-like basis within the growth phase of the default strategy (Retirement Planner 15 Year Cash Lifestyle) and the alternative lifestyle strategies.

The Future World Fund uses a “multi factor” approach which allocates to companies based on more metrics than just market capitalisation (i.e. the size of a company’s share of the index). There is also a much greater focus on incorporating environmental, social and governance (ESG) factors (including the risk of climate change) into its investment strategy which the Trustees believe will provide better long term net risk-adjusted returns. The Future World Fund was also made available as a self-select option for members who prefer to select their own investment choices.

The next review of the default arrangement is scheduled for 2021.

### **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 members who, in the case of the Scheme, are expected to take 100% cash at their selected retirement date.
- To invest in funds which 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 which 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.

When implementing the above changes to the Scheme’s lifestyle arrangements and the self-select fund range the Trustees undertook the following:

- Communicated the changes to members in the Trustee Newsletter

- Sent personalised letters to members invested in the default and self-select lifestyle arrangements to inform them of the changes (along with rationale and impact on charges) whilst specifying actions and deadlines for members who preferred to take alternative action.
- Sent letters to members who were invested in any of the self-select standalone fund options to make them aware of the new L&G Future World Fund now available.
- Carried out a post transition check once all the fund switches had been completed.

### 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
- Retirement Planner 15 Year Legacy Annuity profile

As part of the April 2020 changes, members in the 'growth' phase of the Legacy Annuity Profile were moved to the new Annuity Profile.

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 and believe the introduction of the Future World Fund in the default improves diversification and net risk-adjusted returns.**

### Choice of platform providers and funds

The Trustees monitor the service of the platform provider (Legal & General) 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 and reports on their ability to provide services (including administration, communications and investment) to the Trustees. In 2020 the Trustees reviewed how the provider was able to continue functioning during the lockdown restrictions which were imposed in March 2020. Whilst there was an initial disruption caused by the move to working from home which temporarily impacted service levels, on the whole the Scheme's provider has been able to operate effectively.

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 is flagged to the DC Subcommittee in the first instance.

There have been no changes to the platform provider and funds during the last year, except for the introduction of the Future World Fund noted above.

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.**

In March, in common with many funds which invest directly in commercial property (offices, shops, factories and warehouses), the L&G Managed Property Fund was temporarily closed to the investment of new contributions and disinvestment by the fund manager because of the Covid-19 pandemic and the inability of valuers to accurately value the underlying property assets. The Trustees agreed that it was in the best interests of members to temporarily redirect contributions from this Fund to the L&G Cash Fund. The provider (L&G) contacted the members affected to explain the action being taken. The fund suspension was lifted on 1 October 2020.

**The Trustees believe that these are temporary issues which have not materially affected members' interests over the longer term.**

#### **Changes in where funds are invested**

Although the Trustees does not currently monitor portfolio turnover, going forward, the Trustees (supported by its investment adviser) expect to monitor the volume of buying and selling of underlying assets in each fund.

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.

**In future DB Implementation Statements (2021 onwards), the Trustees 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 conflicts 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.

**Whilst the Trustees are yet to establish a formal policy in place for the DC SIP (it does for the DB SIP), in future DC Implementation Statements (2021 onwards), 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.

### Investment stewardship

As described on page 16 to 17 of the SIP, the Trustees believe it is important that the fund managers

**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.**

as shareholders or bond holders 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 from the Trustees and members through an investment platform operated by Legal and General, the 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's 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 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

Date	Company	Subject	Manager's vote
27/05/2020	Amazon	<p>Shareholder proposals 5 to 16</p> <ul style="list-style-type: none"> <li>• <b>Proposal 5</b> - Report on Management of Food Waste</li> <li>• <b>Proposal 6</b> - Report on Customers' Use of its Surveillance and Computer Vision Products or Cloud-Based Services.</li> <li>• <b>Proposal 7</b> - Report on Potential Human Rights Impacts of Customers' Use of Rekognition (Amazon's software service which provides fast and accurate face search for individuals in photos and videos) regarding threats to privacy/civil rights, use by authoritarian governments, good will and financial risks.</li> <li>• <b>Proposal 8</b> - Report on Products Promoting Hate Speech and Sales of Offensive Products.</li> <li>• <b>Proposal 9</b> - Require Independent Board Chairman.</li> <li>• <b>Proposal 10</b> - Report on Global Median Gender/Racial Pay Gap.</li> <li>• <b>Proposal 11</b> - Report on Reducing Environmental and Health Harms to Communities of Colour.</li> <li>• <b>Proposal 12</b> - Report on Viewpoint Discrimination evaluating the range of risks and costs associated with discriminating against different social, political, and religious viewpoints.</li> <li>• <b>Proposal 13</b> - Report on Promotion Velocity which assesses the the time it takes from the date of hire to promotion, or between one promotion and the next.</li> <li>• <b>Proposal 14</b> - Reduce Ownership Threshold for Shareholders to Call Special Meeting</li> <li>• <b>Proposal 15</b> - Human Rights Risk Assessment</li> <li>• <b>Proposal 16</b> - Report on Lobbying Payments and Policy</li> </ul>	<p>Of the 12 shareholder proposals, the Manager voted to support 10.</p> <p>The Manager looked into the individual merits of each proposal, and identified two main areas which drove their decision-making:</p> <ol style="list-style-type: none"> <li>1. Disclosure to encourage a better understanding of process and performance of material issues (resolutions 5, 6, 7, 8, 10, 13, 15 and 16) and</li> <li>2. Governance structures that benefit long-term shareholders (resolutions 9 and 14).</li> </ol> <p>The Manager voted against proposals 11 and 12.</p>
18/09/2020	Pearson	Amend remuneration policy	The Manager voted against the amendment to the remuneration policy



## L&amp;G Global Equity Market Weight (30:70) Index Fund

Date	Company	Subject	Manager's vote
07/05/2020	Barclays	<ul style="list-style-type: none"> <li>Approve Barclays' Commitment in Tackling Climate Change</li> <li>Approve ShareAction Requisitioned Resolution</li> </ul>	The Manager voted for both resolutions.
27/05/2020	ExxonMobil	Elect Director Darren W. Woods	The Manager voted against.
07/09/2020	International Consolidated Airlines Group	Approve Remuneration Report was proposed at the company's annual shareholder meeting held on 7 September 2020.	The Manager voted against resolution.
16/09/2020	Plus 500 Ltd	Approve Special Bonus Payment to CFO Elad Even-Chen	The Manager voted against the special bonus based on the belief that such transaction bonuses do not align with the achievement of pre-set targets. Separately, LGIM also voted against an amendment to the company's remuneration policy, which continues to allow for the flexibility to make one-off awards and offers long-term incentives that remain outside best market practice in terms of long-term performance alignment.
30/07/2020	Olympus Corporation	Elect Director Takeuchi, Yasuo	The Manager voted against resolution.

For the L&G Multi-Asset Fund, the most significant votes included the Amazon, Barclays and ExxonMobil votes (as described above) and therefore followed the same process.

**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 done 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 which screens out certain investments deemed to be harmful (such as controversial weapons).

Nevertheless, the Trustees recognise that it is not possible to cater for 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 have not changed during the last year.

Member engagement is actively encouraged through a variety of means. During the last year 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 considering before taking any money out, the different ways they can take their money and where to go for advice and guidance.

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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