

Wessex Water Pension Scheme (DB Section) - Implementation Statement for 2019 DB Regulations

Statement of Compliance with the Wessex Water Pension Scheme's Stewardship Policy for the year ending 30 September 2020

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 2019 to 30 September 2020 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 by the Trustee in September 2020. 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.

The changes to the SIP were made in order to meet further regulatory requirements, particularly on responsible investment, and expands on previous changes to the SIP that documented the Trustee's policies with respect to considering financially and non-financially material factors in the investment strategy.

This Implementation Statement is in respect of the Scheme's SIP that was in place as at 30 September 2020.

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

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

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

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

Date	Topic	Aim	Trainer
01/07/2020	COVID-19	Analyse the impact of the global pandemic on the investment strategy and discuss appropriate next steps including rebalancing requirements	Hymans Robertson
01/07/2020	Responsible investment	Training on the implications of the new SIP requirements	Hymans Robertson
01/09/2020	Responsible investment	Establish ESG policies at the Scheme's managers	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 Trustees are satisfied that during the last year:

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

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

How the investment strategy is managed

The Trustees rely on professional fund managers for the day to day management of the majority of the Scheme's assets. However, the Trustees retain 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 Trustees make the decisions about the investment vehicles offered to members for additional voluntary contributions (AVCs).

The Trustee has not carried out a formal investment strategy review over the last Scheme year for the DB Scheme, but in line with the SIP, expects to review the strategy following the triennial actuarial valuation.

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 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 Trustees expect 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 Trustees are 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 Trustees monitored fund performance relative to the manager's respective benchmarks and targets on a quarterly basis. The deviations away from long-term targets for some of the funds was caused by the global pandemic. The Trustees subsequently undertook a deeper dive into the impact that COVID-19 had on all of the Scheme's mandates and were satisfied with the actions taken by the managers to navigate this environment and the composition of the Scheme's investment strategy.

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 targets were unchanged.

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. The emergence of the COVID-19 pandemic in March did bring with it concerns over a lack of liquidity, mainly in credit markets, however with central bank support, these concerns were abated.

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

Portfolio turnover within funds

Although the Trustees do 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.

Responsible Investment

The Trustees believe 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 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 are 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 Trustees believe it is important that the fund managers as shareholders or bond holders take an active role in the supervision of the companies in which they invest, 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 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; and Monitor how the fund managers exercise their voting rights.

Stewardship policy

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

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustees monitor and engage with their investment managers and any other stakeholders.

The Scheme's Stewardship Policy is reviewed on an annual basis in line with the Scheme's Statement of Investment Principles (SIP) review. The Trustees have delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustees 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's own engagement activity is focused on dialogue with its investment managers which is undertaken in conjunction with their investment advisers. The Trustees (or via the IFSC) meets its managers periodically to review financial performance 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 monitors compliance with its Stewardship Policy on a regular basis and is satisfied that it has complied with the Scheme's Stewardship Policy over the last year.

Voting activity

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

The Trustees have 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:

World Equity Fund	
II (WEF II)	
Proportion of Scheme assets as at 30 September 2020	24.5%
No. of meetings eligible to vote at during the year	766
No. of resolutions eligible to vote on during the year	9,863
% of resolutions voted	95%
% of resolutions voted with management	87%
% of resolutions voted against management	8%
% of resolutions abstained	0.6%
% of meetings with at least one vote against management	48%

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

- General governance; for example, proposals regarding median gender pay
- Board of Directors; decisions on electing individual board members

Dynamic Asset Allocation Fund	
Proportion of Scheme assets as at 30 September 2020	11.0%
No. of meetings eligible to vote at during the year	26
No. of resolutions eligible to vote on during the year	156
% of resolutions voted	100%
% of resolutions voted with management	90%
% of resolutions voted against management	10%
% of resolutions abstained	0%
% of meetings with at least one vote against management	50%

The resolutions which Pictet voted against management the most on over the Scheme year were mainly in relation to:

- General governance:
 - Approvals for senior management compensation
 - Appointing members of company's Compensation Committees
 - Appointment of auditors

- Board of Directors:
 - Re-electing individual board members and directors
 - Election of new directors

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 2019	Microsoft	Precategory shareholder proposal for Microsoft to disclose its global median gender pay gap across race and ethnicity, including base, bonus, and equity compensation.	<p>Russell voted against the proposal in line with their house policy and because the company's existing disclosures were sufficiently detailed to provide shareholders with an adequate representation of how the company is both considering issues related to pay equity and how it is ensuring the diversity of its workforce.</p> <p>This vote was considered significant to the manager as the holding represented 1.68% of the portfolio.</p> <p>Outcome of vote: Management vote passed</p>
March 2020	Samsung Electronics	Elect Yoon-Ho Choi as President/CFO	<p>Russell voted against management but in line with their house policy. This was considered significant to the manager as the holding represented 1.86% of the portfolio.</p> <p>Outcome of vote: unavailable.</p>
February 2020	Apple	Precategory shareholder proposal for the Company to issue a report on freedom of expression and access to information, with the proponent's primary focus appearing to be on the Company's role in China's internet censorship practices.	<p>Russell voted for the proposal in line with their house policy based on rationale provided by Glass Lewis that additional disclosure was warranted given instances at other companies of employee and public backlash to projects that could potentially limit freedom of expression in China and that enhanced transparency would allow shareholders and stakeholders to better understand how the Company is ensuring the freedom of expression of its users.</p>

			<p>This was considered significant to the manager as the holding represented 1.35% of the portfolio.</p> <p>Outcome of vote: Management vote not passed</p>
September 2020	Alibaba Group Holding Ltd.	Elect Maggie Wei Wu 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 1.05% of the portfolio.</p> <p>Outcome of vote: Management vote passed</p>

Table 4: Pictet significant votes

Date	Company	Subject	Manager's vote and rationale
October 2019	Tufton Oceanics Assets Limited	Re-elect Robert King as director	<p>Pictet voted against management but in line with their house policy. The vote was considered significant because the company represents part of the fund's top ten (equity) holdings.</p> <p>Outcome: Management vote passed</p>
December 2019	Amedeo Air Four Plus Ltd	Re-elect Laurence Barron as director	<p>Pictet voted against management but in line with their house policy. The vote was considered significant because the company represents part of the fund's top ten holdings.</p> <p>Outcome of vote: Management vote passed</p>
March 2020	SGS SA	<p>Appoint Ian Gallienne as Member of the Compensation Committee</p> <p>Appoint Shelby du Pasquier as Member of the Compensation Committee</p>	<p>Pictet voted against management but in line with their house policy. The vote was considered significant because the company represents part of the fund's top ten holdings.</p> <p>Outcome of vote: Management vote passed</p>
April 2020	Sanofi	Approve compensation of Olivier Brandicourt, CEO until August 31 st 2019	<p>Pictet voted against management but in line with their house policy. The vote was considered significant because the company represents part of the fund's top ten holdings.</p> <p>Outcome of vote: Management vote not passed</p>

April 2020	Hexagon AB	Re-elect Ola Rollen, Gun Nilsson (Chair), Ulrika Francke, John Brandon, Henrik Henriksson, Sofia Schorling Hogberg and Marta Schorling Andreen as Directors; elect Patrick Soderlund as New Director; ratify Ernst & Young as auditors	<p>Pictet voted against management but in line with their house policy. The vote was considered significant because the company represents part of the fund's top ten holdings.</p> <p>Outcome of vote: Management vote passed</p>
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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-month period ending 30 September 2020. A few have been documented below, to give you an example of how the managers are dealing with the companies they invest 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 challenge as 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)

Company	US-based packaging company
Engagement topic	Board diversity and executive compensation
Engagement activity and outcome	<p>The Manager discussed the current membership of the board, which given 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>

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 2

Company	Informa
Engagement topic	Improving remuneration practices
Engagement activity and outcome	<p>Pictet set up multiple bilateral meetings with the chairman, remuneration committee and Investor Relations to positively influence the company's ESG performance and to protect or enhance the value of clients' investments.</p> <p>Following these engagements, the company has committed to including a cash returns measure in the Long Term Incentive Plan. Pictet continue to monitor the issue to gain further clarity on how this commitment will be implemented.</p>

Case study 3

Company	Vonovia
Engagement topic	Customer satisfaction and community development
Engagement activity and outcome	<p>Pictet attended numerous bilateral meetings with management team and the Head of Investor Relations to engage the company to improve the transparency on climate change related improvements in their buildings (e.g. green building certifications etc).</p> <p>Pictet were pleased with the progress made in 2019 (linked to announcement of customer satisfaction index as one of four metrics used within management's long term incentive plan and other positive developments relating to the engagement) – this engagement objective is now closed.</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 have 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 on an annual basis. The last review was undertaken on 29 September 2020. The review 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 Trustee and its advisors remain satisfied that the responsible investment policies of the managers and, where appropriate, the voting policies remain suitable for the Scheme.