Wessex Water Pension Scheme (DB Section) - Implementation Statement

Statement of Compliance with the Wessex Water Pension Scheme's Stewardship Policy for the year ending 30 September 2024

Introduction

This is the Trustees' statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the Pensions Regulator's General Code of Practice. This statement sets out how the Trustees have complied with the Scheme's Stewardship Policy during the period from 1 October 2023 to 30 September 2024 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 Trustees' approach to responsible investment (including climate change).

The SIP and the Stewardship Policy are reviewed on an annual basis, with the last review completed in May 2024. This Implementation Statement is in respect of the Scheme's SIP that was in place as of 30 September 2024.

You can review the Scheme Stewardship Policy which can be found within the Scheme's SIP, on the corporate website: Governance and assurance documents (wessexwater.co.uk)

What is this Implementation Statement for?

Each year the Trustees are 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 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 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:

Table 1: Trustees' training and development

Date	Topic	Aim	Trainer
22/11/2023	Cost Transparency	Trustee meeting to look at manager costs such as ongoing charges and other expenses and gain a greater understanding of the implicit costs charged within a portfolio rather than solely the explicit manager fees charged.	Hymans Robertson
26/01/2024	Endgame Options	Trustee meeting to discuss the different pension scheme endgame options, including recent regulatory developments.	Hymans Robertson
06/08/2024	Asset Classes	Trustee meeting to discuss the characteristics and strategic role of different investment asset classes with a focus on the building blocks (equities and fixed income) underlying the Russell mandate.	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; and**
- **The Trustees have maintained their understanding of investment matters.**

The Trustees have set investment consultant objectives for its investment adviser in line with guidance from the Pensions Regulator ("TPR") and will monitor progress against the objectives in Q4 2024.

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 the fund manager, manager mandates and the selection of the funds in which the Scheme invests.

The Trustees carried out a detailed investment strategy review in Q3 2023 for the DB Scheme 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. Further, the review concluded there wasn't much scope to further 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 Trustees keep 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 Trustees' approach to the selection of new investments is set out in the SIP.

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

Over the last Scheme year, the Trustees didn't appoint any new managers to the Scheme, but are reviewing one of the mandates to ensure it continues to deliver the best possible value.

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 quarterly. Actual allocations are also monitored against strategic targets (within a tolerance) so that the portfolio can be rebalanced if needed.

The expected risks and returns in the DB Scheme

The expected return and investment risks relating to the DB Scheme assets are described in the SIP on pages 6 and 7 respectively.

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

The Trustees are 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 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) and the style of management adopted by the Scheme.

Over the last Scheme year, the Trustees' strategic asset allocation targets have 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 Trustees do not currently monitor portfolio turnover, going forward, it will consider, with the support of the investment adviser, monitoring 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 Trustees.

The Trustees will consider reporting 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. Trading costs are monitored in the annual cost transparency report prepared for the Trustees.

Responsible Investment

The Trustees believe that responsible investing covers both sustainable investment and effective stewardship of the assets the Scheme invests in. The Trustees have developed a set of responsible investment beliefs and principles as part of the development of the Scheme's responsible investment and ESG strategy. The Trustees will give further thought to an assessment of climate risk and examine the carbon emissions of the Scheme's investments where data is available (initially the bond and listed equity mandates).

The Trustees have developed and agreed a set of responsible investment beliefs and principles which remain applicable.

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 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 and 6 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).

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

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

Stewardship policy

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

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

The Scheme's Stewardship Policy is reviewed regularly. 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 that affect a company's financial performance.

The Trustees' engagement activity is focused on dialogue with its investment managers which is undertaken in conjunction with their investment advisers. It is anticipated the Trustees (or a subgroup) 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 Trustees also consider managers' exercise of their stewardship through reporting provided by the managers and/or its investment adviser.

The Trustees also regularly monitors compliance with their Stewardship Policy 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 2 and 3 below:

Table 2: Russell Investments voting data

Strategy/Fund name	Russell World Equity Fund II
Proportion of Scheme assets as of 30 September 2024	15%
No. of meetings eligible to vote at during the year	769
No. of resolutions eligible to vote on during the year	10,711
% of resolutions voted	96%
% of resolutions voted with management	92%
% of resolutions voted against management	7%
% of resolutions abstained	<1%
% of meetings with at least one vote against management	50%

Table 3: Pictet voting data

Strategy/Fund name	Pictet II Dynamic Asset Allocation Fund
Proportion of Scheme assets as of 30 September 2024	11%
No. of meetings eligible to vote at during the year	10
No. of resolutions eligible to vote on during the year	158
% of resolutions voted	100%
% of resolutions voted with management	75%
% of resolutions voted against management	25%
% of resolutions abstained	0%
% of meetings with at least one vote against management	70%

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 4 and 5 below:

Table 4: Russell Investments significant votes

Date	Company	Subject	Manager's vote and rationale
February 2024	Apple Inc	Report on Use of Artificial Intelligence (AI)	Russell voted for the resolution, against management. This vote was considered significant because the holding represented 1.4% of the portfolio, and the outcome considered controversial. While the company provides a broad range of disclosure pertaining to AI, Russell believed it could be reasonably enhanced to allow shareholders more insight into how the Company is using and ensuring the ethical application of AI. Outcome of vote: resolution rejected – the level of support for this proposal was c.37%.
May 2024	Tencent Holdings Ltd.	Authority to Issue Shares without Pre-emptive Rights	Russell voted for the resolution, against management. This vote was considered significant because the holding represented 1.3% of the portfolio, and the outcome considered controversial. Russel believed that granting a board such a high level of discretion over a company's capital may negatively affect shareholders' interests, and the Company had not provided the maximum discount rate in the Company's disclosures. Outcome of vote: resolution passed. Approximately 35% of shareholders opposed this resolution.

Table 5: Pictet significant votes

Date	Company	Subject	Manager's vote and rationale
December 2023	Microsoft Corporation	Report on Risks of Operating in Countries with Significant Human Rights Concerns	Pictet voted for the resolution. The vote was considered significant because the holding represented 2.1% of the portfolio. Pictet believed a vote for this proposal was warranted as shareholders would benefit from increased transparency and disclosure on how the company is managing human rights-related risks, particularly regarding freedom of association and collective bargaining rights.

			Outcome of vote: resolution rejected. Approximately 34% of holders supported the shareholder resolution. Where Pictet believe the subject of the vote could present a material concern from an ESG perspective, Pictet will continue to monitor and engage with the company and are doing so in this case. If warranted, Pictet will consider actions as part of their escalation strategy, including future voting decisions.
February 2024	Apple Inc.	Report on Median Gender/Racial Pay Gap	Pictet voted for the resolution. The vote was considered significant because the holding represented 2.2% of the portfolio. Pictet believed a vote for this proposal was warranted, as median pay gap statistics would allow shareholders to better compare and measure the progress of the company's diversity and inclusion initiatives. Outcome of vote: resolution rejected. Approximately 31% of holders supported the shareholder resolution. Pictet will continue to monitor and engage with the company and are doing so in this case. If warranted, Pictet will consider actions as part of their escalation strategy, including future voting decisions.

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 2024. A couple have been documented below, to give you examples of how the managers are dealing with the companies they invest in on your behalf. The intention is that the Trustees (supported by their investment adviser) will monitor the engagement activities as part of the ongoing dialogue with the managers and provide challenges where needed.

Russell Investments

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

Table 6: Case study (Russell World Equity Fund)

Company	Cemex S.A.B de C.V
Objective	Cemex SAB de CV is a Mexico-based operating and holding company primarily engaged in the production, distribution, marketing and sale of cement, ready-mix concrete, aggregates, clinker and other globally provided construction materials.

	Russell's engagement objective was to encourage the company to proactively identify and assess the impacts of their business operations and foster environmental considerations within their decision-making processes.
Summary	**Natural Capital Management** The company has set a water management assessment target for 2022. While they are paying greater attention to the risks associated with water use, they are in the early stages of their strategic development. Lastly, Russell assessed their sustainability reporting as strong overall but encouraged further reporting of water usage metrics and disclosure of this data over time. Biodiversity impact is also an area that needs development. The company will be setting targets and is currently in conversations with SBTN to establish science-based targets. They expect to have the targets verified within the next year.
Next Steps	Russell Investments will continue to engage with Cemex SAB de CV, to support the company in its water management and biodiversity impact target-setting efforts. This involves promoting collaboration, ensuring transparency, and incorporating sustainable practices seamlessly into their strategic development.

Pictet

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

Table 7: Case study (Pictet II Dynamic Asset Allocation Fund)

Company	Twilio
Objective	Governance Twilio is a prominent US-based company in the cloud communications industry and Pictet's Robotics Team engaged to address concerns related to its governance structure. Specifically, Pictet focused on the issue of the dual role of Chairman and CEO, which raised concerns about the separation of powers, potential conflicts of interest, limited independent oversight, and reduced accountability and transparency. The objective of Pictet's engagement was to emphasize the importance of separating these roles to establish a more accountable leadership structure with proper checks and balances.
Summary	Constructive discussions with the company initiated in 2021 resulted in positive outcomes. A new CEO, formerly President of the company's communications division, was appointed, effective January 2024. This appointment followed the decision of the company's co-founder to step down as CEO and as a member of the company's Board. Additionally, a long-standing member of the company's Board and Lead Independent Director since 2017, was appointed as the Chair of the Board. The leadership changes marked a significant step towards addressing the concerns raised and establishing a more transparent and accountable governance structure while ensuring business continuity. The transition from a dual share class to a single share class was also resolved at the end of 2022, with an effective from July 2023.

Next Steps	Pictet continue to engage with the company on various topics, including compensation and the adoption of an annual re-election process for board directors. By continuing these discussions, the aim is to ensure that the company maintains a strong focus on governance, aligns with industry best practices, and fosters a culture of continuous improvement and responsiveness. Through these ongoing engagements, Pictet strive to support the company in its pursuit of sustainable growth and value creation for its shareholders.

Use of a proxy adviser

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

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

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

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

Review of policies

The Trustees have committed to reviewing the managers' RI policies regularly. The Trustees have an agreed set of responsible investment beliefs and principles as part of the development of the Scheme's responsible investment and ESG strategy.

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.