

# Water Associated Employers Pension Scheme – Defined Contribution Section Implementation Statement for the year ending 31 March 2021

Welcome to the Trustee's Statement of how they implemented the policies and practices in the Scheme's Statement of Investment Principles (SIP) during the year ending 31 March 2021.

## Why do the Scheme's investments matter to me?

The 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 Trustee follows 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 Trustee's approach to responsible investing (including climate change).

This Implementation Statement is in respect of the Scheme's SIP that was in place as at 21 September 2020 on which date the SIP was updated to reflect new regulatory requirements. The main changes to the SIP were as follows:

- How the trustee monitors the age profile of the Scheme's membership to determine an appropriate time horizon;
- Further transparency on manager incentives, portfolio turnover and portfolio duration;
- Updated fee data, due to changes in the Total Expense Ratios of the Scheme's funds.

If you want to find out more, you can find a copy of both the Scheme's Chair's Statement and the Scheme's SIP at: <https://waeps-dc.pensions-directory.co.uk/>

## What is this Implementation Statement for?

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

### Overall, the Trustee is 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 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 following changes were made to the Trustee during the last year:

- Roger Bailey and John Cooke resigned as Trustee Directors on 5 August 2020 and 12 January 2021 respectively.

Given the current positioning of the Scheme, the Trustee Board has currently decided to not elect any additional Trustee Directors but retains the option to do so at a later date.

Despite these changes to the Trustee Board, there were no changes to the governance processes during the last year.

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
June 2020	Market Update	Training on the latest industry developments.	Hymans Robertson
June 2020	Responsible Investment	Training on the implications on the new SIP requirements.	Hymans Robertson
June 2020	Covid-19 and Business Continuity	Covering the importance of appropriate trustee monitoring and contingency planning in light of the tPR's statement.	Hymans Robertson

The Trustee monitors how well their investment advisers meet the objectives agreed with them. Following the requirements from the Competition & Markets Authority to establish investment adviser objectives, during the last year the investment advisers agreed the objectives of the Scheme's DC investments which are outlined in Appendix 1.

**The Trustee is satisfied that during the last year:**

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

**The Trustee will review their investment adviser against their agreed objectives in 2021.**

### How the default arrangement and other investment options are managed

The objectives and rationale for the default arrangement and for the other investment options are set out in the Scheme's current SIP.

The Trustee last carried out a high-level review of the default arrangement and other investment options in May 2019 to ensure they remain suitable for most members. This involved:

- Considering how the market has evolved and establishing whether regulatory, market and product development conditions still supported the current Scheme design;
- Considering whether the design of the default arrangement and other investment options, as well as the funds they use, still meet their investment objectives;
- Analysis of investment advice on any changes to the default arrangement and other investment options.

**The Trustee is satisfied that the default arrangement remains suitable for most members and meets the Trustee's default arrangement objectives.**

### **The Trustee's investment beliefs**

The Trustee has developed a set of investment beliefs which are set out on page 9 of the SIP which they use as a guide when making investment decisions.

**The Trustee did not make any changes to their investment beliefs during 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 5 to 6 and the expected returns from each type of investment used by the Scheme are set out in the SIP on page 6.

**The Trustee believes that the main investment risks members face described in the SIP have not changed materially over the last year.**

**The Trustee is satisfied that, taking into account the different categories and ages of members, 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, and that the investment options available are appropriate for managing those risks and meet the objectives set out in the SIP.**

The Trustee's view 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 Trustee's view on the long-term mix of investments for the Scheme's lifestyle options including the default arrangement and their underlying risk and return profiles did not change during the last year.**

### **Fund manager**

#### **Choice of funds**

The Trustee monitors the performance of the funds used by the DC section of the Plan by:

- Comparing the performance of each fund in which the Plan invests against its stated performance objective;
- Receiving an investment performance monitoring report on a quarterly basis; and
- Annually reviewing investment as part of the Chair's Statement and Value for Members.

**The Trustee is satisfied that the funds used by the Plan remain appropriate.**

Over the medium-term (3- 5 years), all of the funds, with the exception of the LGIM Diversified Growth fund, have achieved returns in line with objectives. The benchmark used for the LGIM Diversified

Growth Fund is an equity comparator and the strength in equity markets over the past 3 – 5 years explains the relative underperformance from this mandate. The Trustee continues to believe that this benchmark is appropriate over the longer term (10-15 years). There have been no changes to the funds during the last year.

### Ability to invest / disinvest promptly

It is 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 Trustee is satisfied that money can be invested in and taken out of the Scheme's funds without delay as set out in the SIP.**

### Changes in where funds are invested

The Trustee monitors the volume of buying and selling of the assets in which each fund is invested that is carried out by the funds' managers.

Short-term changes in the level of turnover of the assets in which a fund is invested may be expected when a fund manager alters its investment strategy in response to changing market conditions. However, a change in the level of portfolio turnover or the time the fund invests in an asset might indicate a shift in the amount of risk the fund manager is taking, which could mean that a fund is less likely to meet the objectives for which it was chosen by the Trustee.

**The Trustee has monitored the performance for the funds on a quarterly basis and discussed performance with the Scheme's investment advisors. The Trustee has not identified any instances of material deviation in performance, which would warrant further investigation into portfolio turnover.**

### 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 depends upon:

- The financial strength of the fund manager; and
- The legal structure of the funds the Scheme invests in.

The financial strength of the fund manager 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 fund manager's business in the unlikely event that the manager becomes insolvent.

**There have been no changes to the structure of the funds used by the Scheme during the last year. The Trustee is not aware of any material changes in the financial strength of the fund manager in the last year.**

### Manager Incentives

As described on page 9 of the SIP, the Trustee seeks to ensure that the fund manager is suitably incentivised to deliver investment performance in keeping with the funds' objectives.

The remuneration policy for LGIM is calculated as a flat policy charge based on assets under management. There is no outperformance fee applied to any of the mandates which ensures that the manager is not incentivised to take excessive amounts of risk to deliver excess return. This ensures that LGIM act in accordance with the interests of the Scheme's members.

**The Trustee is satisfied that the fund manager is suitably incentivised to deliver good outcomes for the Plan's members.**

### Responsible Investment

The Trustee believes 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 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 has considered the length of time members' contributions are invested in the Scheme when choosing and reviewing the funds used in the investment options.

The Trustee periodically reviews the fund manager's approaches to sustainable investing. The Trustee receives annual reports from LGIM on how the fund manager has handled these risks. On a quarterly basis, as part of the investment monitoring report, the Trustee discusses whether the Plan's mandates have been managed in accordance with their stated investment philosophies. With the support of their investment advisor, the Trustee is satisfied that all mandates followed the agreed sustainable investing approach over the past 12 months.

**The Trustee is satisfied that during the last year the Scheme's investments were invested in accordance with the policies on sustainable investing set out in the SIP.**

### Investment stewardship

As described on page 11 of the SIP, the Trustee believes it is important that the fund manager, as shareholders or bond holders, takes an active role in the supervision of the companies in which they invest or have lent monies to, both by voting at shareholder meetings and / or 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 nevertheless:

- Delegates voting on shareholder issues to the underlying fund manager in accordance with the manager's house policies;
- Expects the fund manager to vote in a way which enhances the value of the funds in which the Scheme invests;
- Monitors how the fund manager exercises its voting rights.

### Voting activity

The Trustee seeks to ensure that their manager is exercising voting rights and where appropriate, to monitor manager's voting patterns. The Trustee also monitors their investment manager's voting on particular companies or issues that affect more than one company.

A summary of each of the funds for which the Trustee was able to retrieve voting activity in the 12 months to 31 March 2021 is given below.

**Table 1: Voting summary for the LGIM passive equity funds**

	Global Equity Fixed Weights (50:50) Index Fund	Diversified Fund
Proportion of total DC Scheme assets	60.84%	31.27%
No. of meetings eligible to vote at during the year	3,641	11,362
No. of resolutions eligible to vote on during the year	44,680	115,604
% of resolutions voted	99.97%	98.98%
% of resolutions voted with management	83.56%	81.72%
% of resolutions voted against management	16.29%	17.71%
% of resolutions abstained	0.15%	0.56%
% of meetings with at least one vote against management	5.46%	6.35%

### Significant votes

The manager has reported on the most significant votes cast within the funds they manage on behalf of the Trustee. The manager were asked to explain the reasons why votes were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote. From the manager's reports, the Trustee has identified the following votes as being of greater relevance to the Scheme:

**Table 2: Significant votes for the LGIM Global Equity & Diversified Funds (applicable to both)**

Date	Company	Subject	Manager's vote and rationale	Outcome
05/05/2020	Lagardere	Director Appointments	For – Amber Capital, a 16% shareholder proposed removing all incumbent director pre-2019 and appointing 8 new directors to the Supervisory Board (SB). LGIM agreed with their opinion that company strategy was not creating value for shareholders and the structure was restricting the SB from holding management accountable.	Vote rejected – The vote did not pass but did receive a significant portion of overall votes at c35%, suggesting other shareholders have similar concerns. LGIM continue to engage with the company on its future strategy, corporate structure and long-term plans.
27/05/2020	Amazon	Social and Corporate Governance	LGIM voted to support 10 of 12 resolutions put forward. These were wide ranging and covered Governance, Separation of CEO and board roles, data transparency, Amazon's climate pledge, workplace culture and employee health and safety. These followed widespread allegations throughout the pandemic from employees of unsafe working conditions and issues with the internal culture.	Most resolutions did not receive shareholder support but the intense focus on these issues within Amazon has remained. LGIM continue to engage within Amazon and have done so on numerous occasions over the last 12 months on a broad range of ESG issues.

27/05/2020	ExxonMobil	Director Appointment	Against - In June 2019, under LGIM's annual 'Climate Impact Pledge' ranking of corporate climate leaders and laggards, LGIM announced that they will be removing ExxonMobil from their Future World fund range and will be voting against the chair of the board.	Vote passed - 93.2% of shareholders supported the re-election of the combined chair and CEO Darren Woods.
30/07/2020	Olympus Corporation	Director Appointment	Against- LGIM believe that Japanese companies lack diversity at board level when compared to Europe and the US regarding the proportion of women in senior roles.	Vote passed – LGIM continue to engage with all Japanese company boards and since the beginning of 2020 have voted against board appointments within the largest Japanese companies who have no female directors on their board.
18/09/2020	Pearson	Remuneration	Against - Pearson issued a series of profit warnings under its previous CEO. Yet shareholders were continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy. However, the company decided to put forward an all-or-nothing proposal in the form of an amendment to the company's remuneration policy.	Vote passed - At the EGM, 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO.
13/10/2020	The Procter & Gamble Company (P&G)	Environmental	For – P&G to produce a report on their effort to eliminate deforestation. P&G use palm oil and forest pulp as raw materials within their products and have only obtained sustainable certification for around one-third of its supplies despite setting a goal of 100% by 2020. These are significant contributors to illegal deforestation and LGIM believe they have not done enough to combat this nor show significant commitment to doing so in the future.	Vote passed – The resolution received two-thirds of shareholders support including LGIM who continue to engage with P&G on the issue and monitor its sustainability disclosure for improvements.
04/11/2020	Cardinal Health	Remuneration	Against - The company paid out an above target bonus to the CEO, the same year it recorded a total pre-tax charge of \$5.63 billion (\$5.14 billion after tax) for expected opioid settlement costs during the fiscal year ended 30 June 2020. The Compensation Committee excluded the settlement costs from the earnings calculations which resulted in executive pay being boosted.	Vote passed - The resolution encountered a significant amount of oppose votes from shareholders, with 38.6% voting against the resolution and 61.4% supporting the proposal.
22/10/2020	Whitehaven Coal	Environmental	For – Shareholders asked for a report exploring an increase in the amount of capital returned to them following the potential wind-down of the company's coal operations. LGIM have publicly supported this stance.	Vote rejected – only a small percentage of shareholders voted for this resolution. The company has previously broken environmental laws surrounding mining .



26/11/2020	Fast Retailing Co. Limited	Director Appointment	Against– LGIM believe that Japanese companies lack diversity at board level when compared to Europe and the US regarding the proportion of women in senior roles.	Vote passed – LGIM continue to engage with all Japanese company boards and since the beginning of 2020 have voted against board appointments within the largest Japanese companies who have no female directors on their board.
11/12/2020	Medtronic plc	Remuneration	Against - Following the end of the financial year, executive directors were granted a special, one-off award of stock options to compensate for no bonus being paid out during the financial year. LGIM voted against the one-off payment as they are not supportive of one-off awards in general and in particular when these are awarded to compensate for a payment for which the performance criterion/criteria were not met	Vote passed - The vote was supported by 91.73% of shareholders. Prior to the AGM, LGIM engaged with the company and communicated their concerns over one-off payments.
03/02/2021	Imperial Brands plc	Remuneration	Against - The company appointed a new CEO during 2020, who was granted a significantly higher base salary than his predecessor. Prior to the AGM, LGIM engaged with the company outlining their concerns over the remuneration structure. LGIM also indicated that they publish specific remuneration guidelines for UK-listed companies and keep remuneration consultants up to date with their thinking.	Votes passed - both resolutions were passed by majority vote
11/02/2021	Future plc	Remuneration	Against - The company proposed a bonus scheme that could award its chief executive just over £40m. The Value Creation Plan could pay out up to £95m in stock-based awards annually over three years to employees, based on total shareholder return and dividends. LGIM voted against the value creation plan due to the potential increase in total quantum of pay and also voted against the chair of the remuneration committee as LGIM have current and previous concerns with the remuneration plans.	Votes passed - whilst all resolutions passed, the company did receive significant votes against a number of these resolutions.
11/03/2021	Mitchells & Butlers	Social and Corporate Governance	Against - Three of the company's major shareholders came together and consolidated their holdings under a new holding company, Odyzean Limited. LGIM opposed Open Offer given concerns about the influence of the newly incorporated holding company, Odyzean Limited, over investee company's governance and the interests of minority investors. LGIM would have expected a fair traditional rights issue to protect minority investors.	Vote passed, as only 6.8% of shareholders opposed these resolutions.



11/03/2021	AmerisourceBergen Corporation	Remuneration	Against - During the same year the Company recorded a \$6.6 billion charge related to opioid lawsuits, its CEO's total compensation was approximately 25% higher than the previous year. By excluding the settlement costs, the Compensation Committee ensured executive pay was not impacted by an operating loss of \$5.1bn (on unadjusted basis).	Vote passed - The resolution encountered a significant amount of oppose votes from shareholders, with 48.36% voting against the resolution and 51.63% supporting the proposal.
17/03/2021	Samsung Electronics	Director Appointment	Against - LGIM were concerned that vice-Chairman Lee Jae-yong continues to make strategic company decisions from prison. Additionally, they were not satisfied with the independence of the company board and that the independent directors are really able to challenge management. LGIM voted against resolutions to appoint 3 outside directors whom have collectively failed to remove criminally convicted directors from the board.	The meeting results are not yet available.
18/03/2021	Toshiba Corp.	Social and Corporate Governance	For - LGIM supported the resolution calling for the appointment of investigators to address doubts over the company's 2020 AGM conduct and vote tallying. They believed the enquiry, which is unlikely to be a burden on the company, will be an important step in rebuilding trust between shareholders and the company's executive team and board. They also supported the shareholder resolution mandating the company to present its strategic investment policy to a shareholder vote in order to increase transparency and accountability.	The first resolution passed with 57.9% of participating shareholders in support. The company promptly put investigators in place and set up a confidential hotline for any individuals who are willing to provide information. The second resolution received 39.3% support and did not pass.

**The Trustee is satisfied that the fund manager's voting record on the companies in which their funds invest was aligned with the stewardship policy described in the SIP.**

### Use of a proxy adviser

In their management of the Plan's equity assets, LGIM used an in-house custom voting policy in conjunction with the ISS 'ProxyExchange' platform in the period to 31 March 2021. LGIM makes all voting decisions and does not outsource the strategic decisions to ISS.

**The Trustee is satisfied that the fund manager's voting record on the companies in which their funds invest was aligned with the stewardship policy described in the SIP.**

### Ethical Investing

The Trustee recognises that some members will have strong views on where their pension savings should be invested. Nevertheless, the Trustee recognises that it is not possible to cater for everyone's views on non-financial/ethical matters.

The Trustee monitors developments in ethical investing funds which could be appropriate to the Plan's members.

**The Trustee's approach to ethical investing has not changed during the last year.**

#### Communication and member engagement

The Trustee's approach to communicating the Scheme's investment options and investment governance has not changed during the last year.

The Trustee's current policy on member engagement is in outline:

- Effective member engagement will help develop suitable options;
- Member engagement is actively encouraged through a variety of means.

During the last year the Trustee undertook the following to support member engagement:

- Publishing the SIP online;
- Producing an annual DC benefit statement, including statutory money purchase illustrations;

**During the last year the Trustee followed all of the policies and practices described in the SIP.**

#### 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 Scheme Secretary [Robert.Chandler@capita.com](mailto:Robert.Chandler@capita.com).

## Appendix 1 – Objectives for the Defined Contribution Section

During the last year the investment adviser agreed the following DC objectives:

- Provide recommendations, information and modelling to inform Trustee decisions on integration of ESG, climate risk and stewardship considerations in their investment strategy decisions and manager appointments
- Ensure appropriate range of funds offered according to the Scheme's membership profile, including an appropriate lifestyle strategy targeted at an appropriate decumulation option
- Provide advice on portfolio construction, manager selection and retention
- Client communications and reporting are clear and engaging, are aimed at an appropriate level and are delivered on time
- Provide a comprehensive system of monitoring manager performance
- Continually monitor the fee arrangements of manager to identify cost reductions
- The basis on which fees are charged should be transparent
- Advise Trustee on preparation and revision of Statement of Investment Principles (SIP) and Chair's Statement
- Provide training / education to the Trustee to support them in determining their investment beliefs and engaging with new opportunities and emerging risks
- Client team demonstrates a strong understanding of all relevant aspects of the Scheme
- Work collaboratively with other advisers and provide effective support to the Trustee