

Affinity Water Pension Plan Implementation Statement for the year ended 31 December 2020

Welcome to the Trustee's Statement of how the Trustee implemented the policies and practices in the Plan's Statement of Investment Principles (SIP) during the year ended 31 December 2020.

This statement covers the defined contribution of the Plan.

Introduction

This is the Trustee's statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. This statement sets out how the Trustee has complied with the Plan's Stewardship Policy during the period from 1 January 2020 to 31 December 2020 and other policies and practices within the Statement of Investment Principles.

The DC Section of the Plan 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.

Defined Contribution (DC) Section

What is the Statement of Investment Principles ('SIP')?

The SIP sets out the investment principles and practices the Trustee follows when governing the Plan's investments. For the DC Section 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 SIP in place throughout 2020. The last review, and subsequent update of the SIP was completed on 22 September 2020 and the next review will take place no later than 2023.

In relation to the DC Section, the following changes were made to the SIP during the last year:

- Addition of factor based investing and legislative/regulatory risks to the Other Investment Risks section;
- Addition of details to cover members' financial interests and conflicts of interest with the platform provider;
- Additional section covering policy on investment manager and fund arrangements which includes the basis of remuneration and review for investment managers.

For convenience, the SIP is separated into two documents, one covering the DB Section and one covering the DC Section. **If you want to find out more, you can find the SIP (and the Chair's Statement on the DC section) on [pensionsWEB](https://www.pensionsWEB.co.uk) at www.affinitywaterpensions.co.uk.**

What is this Implementation Statement for?

Every year, from this year on, the Trustee is required to prepare an Implementation Statement, which sets out how it has complied with the SIP during the last Plan year. The Trustee has worked with its advisers to ensure that their work and actions over the year have complied with the SIP and to produce this Implementation Statement.

Overall, the Trustee is satisfied that:

- **The Plan's DC investments have been managed in accordance with the SIP; and**
- **The provisions in the SIP remain suitable for the Plan's DC members.**

How the Plan's investments are governed

The Trustee has overall responsibility for how the Plan's investments are governed and managed in accordance with the Plan's Trust Deed and Rules as well as Trust Law, Pensions Law and Pension Regulations.

As the Fund provides both defined benefit and defined contribution benefits, the Trustee has also established a DC Committee ("the DCC") which focuses on DC related issues for the Trustee Board.

There have been changes to the Trustee directors over the year. Karen Austin stepped down as Chair and Trustee director on 31 July 2020, being replaced as Chair by Michael Calabrese, an existing Trustee director, from 1 August 2020. Lauren Schogger joined as a Trustee director on 1 December 2020. There have been no changes to the governance processes during the last year.

The Trustee has delegated day-to-day investment decisions, such as which investments to buy and sell, to the investment managers.

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

- Regular reviews of TPR's Code of Practice
- The Trustee received training on:
 - LGIM's approach to Responsible Investment and how this could be integrated within the Plan's investment strategy; and
 - The approach for income drawdown at-retirement and the support provided to members in comparison to what is currently offered.
- The Trustee noted its investment adviser's DC Hot Topics every quarter. During the year, the following topics were presented:
 - The impact of COVID-19 on asset classes;
 - The impact of COVID-19 on DC strategies including member outcomes; and
 - A discussion on UK daily-dealt property funds.
- The Trustee noted its investment adviser's DC Quarterly Updates. During the year, the following topics were presented:
 - ShareAction's ranking of asset managers with regards to Responsible Investment
 - Developments in the market regarding Responsible Investment
 - Small scheme consolidation.

The Trustee monitors how well its investment advisers meet the objectives agreed with them. During the last year, the investment adviser agreed the following DC objectives:

- Provide advice on an investment approach for the default arrangement that maximises long risk-adjusted real returns for members when they are far from retirement and delivers protection against market falls when members are closer to retirement. Note that the concept of risk changes throughout a member's career;
- Provide advice in relation to self-select range and alternative lifestyle funds that incorporates sufficient choice for members to meet their own needs in terms of investment return, investment risk and retirement choices, reflecting member feedback where relevant;
- Ensure fund range remains appropriate for members over time and propose changes on a timely basis where appropriate in relation to the addition or deletion of funds;

- Deliver cost efficient implementation of new strategies as required;
- Provide relevant and timely advice;
- Develop Trustee knowledge and understanding of investment matters;
- Their services to support the ongoing governance shall be proportionate and competitive in terms of costs relative to Hymans Robertson's peer group; and
- Ensure their advice complies with relevant pensions regulations, legislation and supporting guidance.

The DCC carried out an evidence-based review of the investment adviser's performance against these objectives and was satisfied that they had been achieved for the year.

The Trustee is satisfied that during the last year:

- **The Plan's DC governance structure was appropriate;**
- **The Trustee has maintained its understanding of investment matters; and**
- **Its investment adviser met the agreed objectives.**

How the default arrangement and other investment options are managed

The objectives and rationale are set out in the SIP on pages 5 to 6 for the default arrangement and for the other investment options on page 6.

The Trustee regularly reviews the performance of each fund in which the Plan invests against its stated performance objective. The Trustee receives an investment performance monitoring report on a quarterly basis.

The Trustee monitors the suitability of the objectives for the default arrangement and for the other investment options and performance (after the deduction of charges) against these objectives at least every three years and without delay after any significant change in: (i) investment policy; or (ii) the demographic profile of the membership. The next triennial review is due in 2021 and will cover:

- Looking at the demographic profile of the Plan's membership;
- Considering market conditions and developments in investment thinking;
- Considering the time over which members will be invested in the investment options;
- Deciding whether any changes to the default arrangement's and other investment options' objectives are appropriate;
- Monitoring the investment performance of each fund/phase;
- Monitoring the turnover of the assets in which each fund is invested;
- Considering whether the design of the default arrangement and other investment options, as well as the funds used, still meet the Plan's investment objectives; and
- Obtaining investment advice on any changes to the default arrangement and other investment options.

Other default arrangements

During the last year the LGIM Managed Property Fund was temporarily suspended for the investment of new contributions and disinvestment by the fund manager. Suspensions were put in place because valuers were unable to accurately value properties with any certainty due to a lack of transactions and operational activity due to COVID-19.

The LGIM Managed Property Fund does not form part of the default solution or alternative lifestyles but is available as a self-select fund to members.

The Trustee agreed that it was in the best interests of members to redirect contributions as follows:

- Any member who invested in the managed property fund alongside other funds would have their contribution to property equally split between the remaining funds.
- Any member who invested their contributions solely in property would have their contributions redirected to the LGIM Cash Fund.

The Trustee decided not to re-direct contributions back to the LGIM Property Fund once the suspension was lifted and instead opted to communicate with affected members to let them know that they can invest back into the LGIM Property Fund.

The LGIM Cash Fund became an inadvertent default arrangement for the Plan following the redirection of contributions.

The Trustee is satisfied that the default arrangement and other investment options performed in line with expectations over the year and are meeting the objectives set for them. The Trustee will carry out a full review next year.

The Trustee's investment beliefs

The Trustee has developed a set of investment beliefs (including responsible investment beliefs) which it uses as a guide when making investment decisions. The Trustee's investment beliefs cover a wide range of factors, and provide a framework for setting the investment strategy for the Plan and for making investment-related decisions.

There have been no changes to these beliefs in the last year.

The expected risks and returns on your savings in the DC Plan

The investment risks relating to members' DC benefits are described in the SIP on pages 1 to 3 and the expected returns from each type of investment used by the Plan are set out in the SIP on page 3.

During the last year the Trustee, with the help of its investment adviser, reviewed the appropriateness of the expected risk and returns.

The Trustee believes that the main investment risks members face described in the SIP have not changed materially over the last year, other than the short-term volatility experienced due to COVID-19.

The Trustee is 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 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 Plan invests in over the longer-term) for the Plan's lifestyle options (which gradually change the funds in which your savings are invested as you approach retirement).

The Trustee's views on the long-term mix of investments for the Plan's lifestyle options including the default arrangement did not change during the last year.

Platform providers and fund managers

Choice of platform providers and funds

The Trustee monitors the service of the platform provider used by the DC section of the Plan by:

- Receiving quarterly updates from LGIM; and

- Inviting LGIM to present at periodic DCC meetings.

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
- Performing an annual review of investment as part of the Chair's Statement and Value for Members.

The Trustee carries out a triennial investment strategy review, with the next due in Q3 2021.

There have been no changes to the platform provider and funds during the last year.

The Trustee is satisfied that the platform provider used by the Plan remains appropriate.

Ability to invest / disinvest without delay

It's important that your contributions can be invested without excessive delay in the default arrangement or the investment options you have chosen and that your investments can be sold when you want to change where they are invested, transfer your pension pot to another Plan or your benefits are due to be paid out when you retire. The Trustee is satisfied that the funds available for members to invest have sufficient liquidity and may be realised quickly if required, under most circumstances. Member communications will notify members where funds, such as those investing in property, may occasionally impose constraints on liquidity.

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

During the last year, the COVID-19 pandemic led to a suspension of investments in and disinvestments from the LGIM Managed Property Fund (as outlined earlier). This was the case for many funds which invest directly in commercial property (offices, shops, factories and warehouses).

The Trustee believes that this is a temporary issue which has not materially affected members' interests over the longer term.

Changes in where funds are invested

Following the last review of the SIP, the Trustee monitors the volume of buying and selling of the assets and the nature of those assets in which each fund is invested that is carried out by the funds' managers.

The Trustee monitors the performance of the assets net of costs on a quarterly basis and any material deviation in performance relative to target returns or benchmarks will warrant an investigation into the activity carried out by the fund manager, including the buying and selling of assets. In this way, the Trustee indirectly monitors portfolio turnover and the associated transaction costs.

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 is satisfied that the level of trading of the funds' assets carried out by the fund managers has been consistent with the funds' objectives.

Security of your savings in the Plan

Following the last review of the SIP, in addition to the normal investment risks faced investing in the funds used by the Plan, the security of your savings in the Plan depends upon:

- The financial strength of the investment platform provider used by the Plan;
- The financial strength of the fund managers used by the investment platform; and
- The legal structure of the funds the Plan invests in.

The financial strength of the platform provider and the fund managers has a bearing on the risk of losses to the Plan'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 Plan during the last year. The Trustee is 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

Following the last review of the SIP and as described on pages 7 and 10 of the SIP, the Trustee considers potential conflicts of interest by:

- Maintaining a register of interest for Trustee directors and its advisers, which is regularly reviewed;
- Ensuring that the platform provider and investment managers have appropriate conflicts of interest policies in place; and
- Considering the impact of any conflicts of interest arising in the management of funds used by the Plan, when given notice.

The Trustee expects the fund manager to invest the Plan's assets in the members' best interests. As the funds used by the Plan are held at arms-length from the Trustee via an investment platform, the Trustee asks the platform provider to report on its own investment governance of the funds.

Going forward, the Trustee will formally ask managers to confirm any conflicts of interest when managers meet with the Trustee.

The Trustee is satisfied that there have been no material conflicts of interest disclosed during the year which might affect members' benefit expectations.

Manager incentives

Following the last review of the SIP and as described on pages 11 and 12 of the SIP, the Trustee seeks to ensure that the fund managers are suitably incentivised to deliver investment performance in keeping with the funds' objectives.

The funds used by the Plan are held on an investment platform specified by the Trustee on advice from its investment adviser. The Trustee believes it is in the platform provider's best commercial interests to ensure that the fund managers are sufficiently rewarded to meet its funds' investment objectives.

Going forward, the Trustee will formally ask managers to confirm any changes to their internal remuneration policy when managers meet with the Trustee.

The Trustee is satisfied that the fees paid to managers over the year were appropriate and that the managers are suitably incentivised to deliver good outcomes for members.

Responsible Investment

The Trustee believes that responsible investing covers both sustainable investment and effective stewardship of the assets the Plan invests in.

Sustainable investment

Over the year, the Trustee updated the SIP document to include policies on stewardship. Otherwise the Trustee has not made any changes to its approach to responsible investing over the year.

The Trustee believes that investing sustainably is important to control the risks that environmental risks (including climate change), social risks (such as the use of child labour) and corporate governance behaviour, collectively called “ESG” factors, can have on the value of the Plan’s investments and in turn the value of members’ retirement benefits.

The Trustee has considered the length of time members’ contributions are invested in the Plan when choosing and reviewing the funds used in the investment options. The Plan potentially has members who will be invested in funds for in excess of 40 years.

The Trustee will periodically review the platform provider’s and fund manager’s approaches to sustainable investing. The Trustee will receive reports from LGIM on how they have handled these risks.

The Trustee’s approach to sustainable investing has not changed during the last year. The Trustee is satisfied that during the year the Plan’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 9 to 10 of the SIP, the Trustee believes 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 Plan’s investments).

As the Plan’s investments are held at arms-length from the Trustee and members through an investment platform operated by LGIM, the Trustee is not able to instruct the fund managers how they should vote on shareholder issues. The Trustee nevertheless:

- Chooses fund managers whose voting policy are consistent with the Plan’s objectives;
- Expects fund managers to vote in a way which enhances the value of the funds in which the Plan invests;
- Monitors how the fund managers exercise their voting rights.

Members also have access to funds with voting rights attached through AVC policies held with Prudential.

How does the Trustee monitor this?

The Trustee periodically reviews the platform provider’s and fund managers’ approaches to stewardship including voting and engagement policies.

The Trustee is making arrangements to receive quarterly reports from the platform provider on how the fund managers have voted at shareholder meetings and what topics fund managers have discussed with the companies in which they invest. In addition, the Trustee will seek reporting in relation to non-equity funds.

DC section – Legal and General

The funds with voting rights attached that are available to members as part of the default fund range or the self-select fund range are listed below along with summary voting statistics for each fund.

- LGIM Dynamic Diversified Fund
- LGIM Global Equity (70:30) Index Fund
- LGIM Retirement Income Multi-Asset Fund
- LGIM UK Equity Index Fund
- LGIM World Equity Index Fund (currency hedged and unhedged versions)

LGIM use Institutional Shareholder Services (ISS) as a proxy voting service across all these funds. LGIM employ their house voting policy in managing all these funds. We note that LGIM are able to lend out stocks from these funds, however, their policy is to recall stocks in order to vote.

	Dynamic Diversified	Global Equity (70:30)	Retirement Income Multi-Asset	UK Equity	World Equity
No. of resolutions eligible to vote	81,093	77,223	111,748	12,468	39,613
% resolutions voted	99.86%	99.69%	99.61%	100.00%	99.50%
% resolutions voted against management	15.00%	14.75%	17.41%	6.87%	17.92%
% resolutions abstained	0.68%	0.72%	0.55%	0.01%	0.53%

The Trustee also considers how the fund managers voted on specific issues. The Trustee considers 'significant votes' to be either companies with relatively large weightings in the funds members invest in, or where there were shareholder issues that members are expected to have an interest. The most significant shareholder votes and how the fund managers voted during the last year were:

Date	Company	Subject	Manager's vote
7 May 2020	Barclays	Approve Barclays' Commitment in Tackling Climate Change and proposals by ShareAction.	The manager voted for the proposals, after significant engagements in this area. The outcome of the vote was successful.
27 May 2020	Exxon Mobil	Elect Director Darren W. Woods.	The manager voted against, reflecting commitments as part of their climate pledge to hold the board to account on climate issues.
27 May 2020	Amazon	<p>Shareholder proposals 5 to 16</p> <p>Proposal 5 - Report on Management of Food Waste.</p> <p>Proposal 6 - Report on Customers' Use of its Surveillance and Computer Vision Products or Cloud-Based Services.</p> <p>Proposal 7 - 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.</p> <p>Proposal 8 - Report on Products Promoting Hate Speech and Sales of Offensive Products.</p> <p>Proposal 9 - Require Independent Board Chairman.</p> <p>Proposal 10 - Report on Global Median Gender/Racial Pay Gap.</p> <p>Proposal 11 - Report on Reducing Environmental and Health Harms to Communities of Colour.</p> <p>Proposal 12 - Report on Viewpoint Discrimination evaluating the range of risks and costs associated with discriminating</p>	<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> <p>Disclosure to encourage a better understanding of process and performance of material issues (resolutions 5, 6, 7, 8, 10, 13, 15 and 16) and</p> <p>Governance structures that benefit long-term shareholders (resolutions 9 and 14).</p> <p>The manager voted against proposals 11 and 12.</p>

		<p>against different social, political, and religious viewpoints.</p> <p>Proposal 13 - Report on Promotion Velocity which assesses the time it takes from the date of hire to promotion, or between one promotion and the next.</p> <p>Proposal 14 - Reduce Ownership Threshold for Shareholders to Call Special Meeting.</p> <p>Proposal 15 - Human Rights Risk Assessment.</p> <p>Proposal 16 - Report on Lobbying Payments and Policy.</p>	
05 July 2020	Luckin Coffee Inc.	Remove Director Charles Zhengyao Lu proposed at the company's special shareholder meeting held on 5th July 2020.	<p>The manager voted in favour.</p> <p>This vote came following an investigation revealing the firm having fabricated sales of approximately \$300 million, representing almost half of the company's 2019 sales. Given the findings of the investigation, the manager decided to sanction the board for its lack of oversight.</p>

AVC section - Prudential

The funds with voting rights attached that are available to members with AVC policies are listed below along with summary voting statistics for each fund.

- Prudential With Profits Fund
- Prudential Discretionary Fund
- Prudential Global Equity Fund
- Prudential UK Equity Fund

	With Profits	Discretionary	Global Equity	UK Equity
No. of resolutions eligible to vote	28,798	22,685	19,262	7,963
% resolutions voted	82%	67.97%	76.35%	99.23%
% resolutions voted against management	7%	4.16%	4.24%	1.62%
% resolutions abstained	1%	1.07%	1.10%	1.15%

The most significant shareholder votes and how the fund managers voted during the last year were:

Date	Company	Subject	Manager's vote
07 May 2020	Facebook, Inc Class A	Shareholder proposal to report on political advertising.	Voted against management recommendation to vote down a shareholder proposal for Facebook to report on political advertising on Facebook's social media platforms and assess impact on democratic processes. They voted against management as shareholders would benefit from increased disclosures to better understand specific risks that Facebook may face as well as broader societal impact in terms of public discourse and democratic processes.
19 May 2020	Royal Dutch Shell	Shareholder resolution requesting Shell to set and publish targets for greenhouse gas (GHG) emissions.	The manager voted in favour as, in their view, the company should provide comprehensive disclosure to shareholders on its environmental impacts and risks.
19 May 2020	JP Morgan Chase & Co.	Shareholder resolution requesting that the Board issue a report "describing how JPMorgan Chase plans to respond to rising reputational risks for the Company and questions about its role in society related to involvement in Canadian oil sands production, oil sands pipeline companies, and Arctic oil and gas exploration and production."	The manager voted in favour as they believed this to be in the shareholder's interests.
29 May 2020	Total SA	Instruct Company to Set and publish targets for greenhouse gas (GHG) emissions aligned with the goal of the Paris Climate Agreement and amend article 19 of bylaws accordingly.	The manager abstained from the vote, amid concerns that the resolution would be able to be implemented in a way that is not detrimental to shareholder's interests.

The Trustee is 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.

During the next Plan year, the Trustee will build on its approach for monitoring its fund managers' stewardship activities, focussing on key engagement themes.

Ethical Investing

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

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 Plan's investment options and investment governance have not changed during the last year.

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

- Effective member engagement will help develop suitable investment options; and
- Member engagement is actively encouraged.

The Trustee believes that it has sought effective member feedback on Responsible Investment via a member survey which has enabled the Trustee to further consider the use of Responsible Investment funds in the default solution.

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

More information

The Trustee hopes this Statement helps you understand how the Plan's investment of your savings for retirement has been managed in the last year.

If you want any more information on how the Plan is run, please visit pensionsWEB at www.affinitywaterpensions.co.uk. If you have any questions or feedback, please contact Hymans Robertson on 0207 082 6182 (affinity@hymans.co.uk).