

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 benefit section 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 DB Section of the Plan provides you with benefits on a defined benefit ('DB') basis. This means that the size of the benefits paid to you when you retire will depend on your salary and service.

Defined Benefit (DB) 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. 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 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 September 2023.

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

- Additional wording on the Trustee's approach to asset stewardship;
- Additional wording on the Trustee's obligations to monitor portfolio turnover and related investment management costs;
- Additional wording on ensuring that the managers have suitable policies in place which address conflicts of interest.

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 the 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

Overall, the Trustee is satisfied that:

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

that their work and actions over the year have complied with the SIP and to produce this Implementation Statement.

How the Plan's investments are governed

The primary objective of the DB Section of the Plan is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

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. The Trustee has established an Investment and Funding Committee ('IFC'), which focuses on investment issues and makes recommendations to the full Trustee Board.

There have been changes to the Trustee directors over the year. Karen Austin stepped down as Chair and Trustee director, 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 for the DB Section.

The Trustee monitors how well its investment adviser meets the objectives agreed with them, which are designed to align with the Trustee objectives and investment strategy set out in the SIP. During the last year, the investment adviser agreed the following DB objectives:

- Advise on a suitable investment strategy, and amendments to the strategy, to deliver the required investment returns from the Plan's investments to support the long-term funding objective;
- Implement a strategy, and amendments to the strategy, that delivers the target returns whilst minimising the associated risk;
- Maintain progress along the agreed journey plan and advise on potential solutions if the journey plan is not on track;
- Deliver an investment approach that reflects the Plan's cashflow position, and likely evolution, and minimises the risk of forced disinvestment;
- Provide advice on cost efficient implementation of the Trustee's strategy, including but not limited to advice on the use of suitable benchmarks, active or passive management, selection of managers;
- Provide relevant and timely advice;
- Develop Trustee knowledge and understanding of the Plan's investment strategy, its implementation and investment matters;
- Provide suitable reporting for the Trustee to understand the Plan's progress towards its investment objectives;
- Ensure advice complies with relevant pensions regulations, legislation and supporting guidance;
- Ensure the Trustee meets the relevant pensions regulations and legislation relating to investment, including the Plan's SIP and approach to responsible investment.

The IFC 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. This involved rating the adviser against the different objectives.

To facilitate meeting those objectives, the Trustee undertook the following during the last year to ensure that its knowledge of investment matters remains up to date:

Date	Topic	Aim	Trainer
20 May 2020	Responsible investment	Training on regulations and reporting requirements for pension schemes' SIP and implementation statement	Hymans Robertson LLP
16 June 2020	Assessing the governance legacy of COVID-19	Training on the governance impact of the pandemic	Hymans Robertson LLP
17 November 2020	Investment costs transparency	Training on manager remuneration, transaction costs and others costs of investing.	Hymans Robertson LLP

The Trustee is satisfied that during the last year:

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

How the investment strategy is managed

The objectives and rationale for the investment strategy is set out in the Plan's current SIP on pages 1 to 2.

The Trustee has not carried out a formal investment strategy review over the year, but expects to review the strategy in 2021 following the triennial actuarial valuation.

How investments are chosen

The Trustee has developed a set of investment beliefs which it uses as a guide when making investment decisions.

The Trustee reviews the performance of its 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.

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

- Reviewing of quarterly investment performance reports;
- Meeting with the managers on a periodic basis;
- Engaging with the investment adviser.

Over the year, the Trustee monitored fund performance relative to the manager's respective benchmarks and targets on a quarterly basis. The deviations away from long-term targets for the majority of the funds

The Trustee is satisfied that during the last year:

- **The Plan's overall investment strategy was appropriate;**
- **The actions taken by the managers to navigate market conditions were appropriate.**

was caused by the global pandemic's impact on markets. The Trustee subsequently undertook a deep-dive into the impact that COVID-19 had on all the Plan's assets and were satisfied with the analysis.

The expected risks and returns in the DB Plan

The investment risks relating to the DB Plan are described in the SIP on pages 4 to 5, and the expected return is described in the SIP on page 5.

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) and the style of management adopted by the Plan.

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

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.

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.

Ability to invest / disinvest promptly

It is important that member benefits can be received promptly, and that the Plan's investments can be realised quickly if required, as set out on page 5 of the SIP. The Trustee also ensures that the Plan has a robust process for the administration team processing cash payments to/from the Plan and to/from the investment funds.

Some types of assets (particularly credit assets) were affected by a lack of liquidity in March 2020 due to the COVID-19 pandemic. However, this was quickly resolved in markets, and did not impact the Plan's investment strategy or ability to pay pensions. **The Trustee believes that this was a singular temporary issue which has not materially affected members' interests over the longer term.**

The Trustee is satisfied that money can be invested in and taken out of the majority of DB investments without delay, as set out in the SIP.

Portfolio turnover within funds

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 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 Trustee.

The Trustee carried out a review of investment costs, including transaction costs as a result of turnover, incurred across the portfolio over the 12 month period to 31 March 2020. The Trustee intends to carry out this review on an annual basis.

Over the year, the Trustee has monitored performance for all the funds on a quarterly basis and discussed performance with the Plan’s investment advisers. The Trustee has not identified any instances of material deviations in performance, which would warrant further investigation into portfolio turnover.

Security of the assets

In addition to the normal investment risks faced when investing in the funds used by the Plan, the security of funds in the Plan depend upon:

- The financial strength of the fund managers; and
- The legal structure of the funds the Plan invests in.

The financial strength of the fund managers has a bearing on the risk of losses to the Plan’s 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 managers’ business in the unlikely event that the 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 fund managers over the year.

Conflicts of interest

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

- Maintaining a register of conflicts 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.

The Plan’s asset managers have conflicts of interest policies in place. The managers have not disclosed any potential or actual conflict over the period. 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 or the running of the Plan.

Manager incentives

Following the last review of the SIP and as described on page 2 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 Trustee monitors the actual fees paid to the managers on a quarterly basis and compares the actual fees paid to estimates set at the start of the year.

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 the Plan.

Responsible Investment

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

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.

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, collectively called "ESG" factors, can have on the value of the Plan's investments.

The Trustee has considered the duration of the Plan's liabilities when choosing and reviewing the funds.

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.

Policy implementation

In line with the SIP, no specific actions over the past year have been considered with respect to non-financially material factors in the development and implementation of the Plan's investment strategy. As outlined on page 7 of the SIP, the Trustee has delegated voting and engagement activity in respect of the underlying assets to the Plan's investment managers. The Trustee believes 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 its dialogue with the investment managers which is undertaken in conjunction with the investment adviser. The Trustee meets regularly with its managers and the Trustee considers managers' exercise of their stewardship both during these meetings and through reporting provided by the investment adviser. Over the last 12 months, the Trustee has met with 4 of its 6 DB Section managers.

Stewardship policy

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

- the exercise of voting rights attached to assets; and

- undertaking engagement activity, including how the Trustee monitors and engages with its investment managers and any other stakeholders.

The Plan's Stewardship Policy is reviewed on a periodic basis, in line with the Plan's SIP review. The Trustee has committed to reviewing the managers' stewardship policies on a periodic basis.

The Trustee and its advisers remain satisfied that the stewardship policies of the managers and, where appropriate, the voting policies remain suitable for the Plan.

Voting activity

The Trustee periodically reviews the fund managers approaches to stewardship including voting and engagement policies. Responsibility for investment decisions has been delegated to the investment managers. Where managers are responsible for investing in a new issuance, the Trustee expects the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

As the Plan's equity investments are held via pooled funds, the Trustee is not able to instruct the fund managers how they should vote on shareholder issues. Nevertheless, the Trustee seeks to ensure that its managers are exercising voting rights, and where appropriate, to monitor manager voting patterns. As the Plan's DB assets are invested in only two funds with voting rights (shown in tables below), the Trustee cannot monitor investment managers voting on particular companies or issues that affect more than one company.

Table 1: LGIM voting data

FTSE RAFI All World 3000 Equity Index Fund	
Proportion of Plan's DB assets as at 31 December 2020	5.2%
Did the manager employ the house voting policy in managing the fund?	Yes
Stock lending permitted?	Yes, but policy is to recall shares for votes
Was use made of any proxy voting service during the year?	Yes – Institutional Shareholder Services (ISS)
No. of meetings eligible to vote at during the year	4,020
No. of resolutions eligible to vote on during the year	47,337
% of resolutions voted	99.65%
% of resolutions voted with management	81.49%
% of resolutions voted against management	18.11%
% of resolutions abstained	0.41%
% of meetings with at least one vote against management	5.98%

Table 2: M&G voting data

Debt Opportunities Fund III	
Proportion of Plan's DB assets as at 31 December 2020	2.5%
Did the manager employ the house voting policy in managing the fund?	No – no policy in place for private & alternative assets
Was use made of any proxy voting service during the year?	No
No. of meetings eligible to vote at during the year	8
No. of resolutions eligible to vote on during the year	41
% of resolutions voted	100%
% of resolutions voted with management	100%
% of resolutions voted against management	0%
% of resolutions abstained	0%
% of meetings with at least one vote against management	0%

Significant votes

The Trustee has asked its managers to report on the most significant votes cast within the portfolios they manager on behalf of the Trustee. Managers were asked to explain the reasons why votes identified 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 managers' reports, the Trustee has identified the following votes as being of greater relevance to the Plan. Significant votes can be defined as those that have a large relative size of holding in portfolio, potential impact of vote on company, size of manager position in company, profile of resolution, among others.

Table 3: Legal & General significant votes

Date	Company	Subject (theme and summary)	Manager's vote and rationale	Why considered significant
05/05/2020	Lagardere	Shareholder resolutions A to P. Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board (SB) of Lagardere, as well as to remove all the incumbent directors (apart from two 2019 appointments).	LGIM voted in favour of five of the Amber-proposed candidates (resolutions H,J,K,L,M) and voted off five of the incumbent Lagardere SB directors (resolutions B,C,E,F,G).	LGIM noted significant media and public interest on this vote given the proposed revocation of the company's board.
07/05/2020	Barclays	Resolution 29 - Approve Barclays' Commitment in Tackling Climate Change Resolution 30 - Approve ShareAction Requisitioned Resolution	LGIM voted for resolution 29, proposed by Barclays and for resolution 30, proposed by ShareAction.	Since the beginning of the year there has been significant client interest in LGIM's voting intentions and engagement activities in relation to the 2020 Barclays AGM. LGIM consider the outcome to be extremely positive for all parties: Barclays, ShareAction and long-term asset owners.
27/05/2020	Amazon	Shareholder resolutions 5 to 16	Of 12 shareholder proposals, LGIM voted to support 10. LGIM looked into the individual merits of each individual proposal, and there are two main areas which drove decision-making: disclosure to encourage a better understanding of process and performance of material issues (resolutions 5, 6, 7, 8, 10, 13, 15 and 16) and governance structures that benefit long-term	The market attention was significant leading up to the AGM, with: 12 shareholder proposals on the table, the largest number of any major US company this proxy season; diverse investor coalitions submitting and rallying behind the proposals, including global, different types of investors and first time co-filers/engagers; substantial press coverage with largely negative sentiment related to

Date	Company	Subject (theme and summary)	Manager's vote and rationale	Why considered significant
			shareholders (resolutions 9 and 14).	the company's governance profile and its initial management of COVID-19; multiple state treasurers speaking out and even holding an online targeted pre-annual meeting investor forum entitled 'Workplace & Investor Risks in Amazon.com, Inc.'s COVID-19 Response'. Anecdotally, the Stewardship team received more in queries related to Amazon than any other company this season.
27/05/2020	ExxonMobil	Resolution 1.10 - Elect Director Darren W. Woods	LGIM voted against the resolution.	LGIM voted against the chair of the board as part of LGIM's 'Climate Impact Pledge' escalation sanction.
30/07/2020	Olympus Corporation	'Resolution 3.1: Elect Director Takeuchi, Yasuo' at the company's annual shareholder meeting held on 30 July 2020.	LGIM voted against the resolution.	This vote is deemed significant as LGIM considers it imperative that the boards of Japanese companies increase their diversity.
07/09/2020	International Consolidated Airlines Group	Resolution 8: Approve Remuneration Report' was proposed at the company's annual shareholder meeting held on 7 September 2020.	LGIM voted against the resolution.	LGIM considers this vote significant as it illustrates the importance for investors of monitoring investee companies' responses to the COVID-19 crisis.
13/10/2020	The Procter & Gamble Company (P&G)	Resolution 5 Report on effort to eliminate deforestation.	LGIM voted in favour of the resolution.	It is linked to LGIM's five-year strategy to tackle climate change and attracted a great deal of client interest.
11/12/2020	Medtronic plc	Resolution 3 - Advisory Vote to Ratify Named Executive Officers' Compensation.	LGIM voted against the resolution.	LGIM believe it is contrary to best practice in general and pay principles in particular to award one-off awards, especially if they are to compensate for a forgone payment.

Engagement activity

The Trustee holds meetings with its investment managers on a regular basis where stewardship issues are discussed in further detail.

Over the year, the Trustee met with 4 of its 6 DB investment fund managers. The 2 managers it did not meet with (DWS and Patrizia) manage funds that are currently in wind down and represent a small proportion of the Plan's assets.

Table 4: Trustee's engagement activity with investment managers over the year to 31 December 2020

Date	Fund manager	Subject discussed	Outcome
6 March 2020	LGIM	<ul style="list-style-type: none"> Business update Market review Fund activity and performance Active ownership and ESG implementation and examples 	The IFC was content with the update and had no further actions for LGIM following the meeting.
20 May 2020	Insight	<ul style="list-style-type: none"> Business and team update Overview of markets Solution characteristics and assessment of investment strategy Performance of underlying assets Buy and maintain bonds credit ratings update 	<p>All portfolios were discussed as part of the session. The IFC was content with the update and expressed its satisfaction that Insight had managed the portfolio well during the pandemic period. The IFC noted that the Plan remained on track with its long-term investment objective and that no further action was required at this time. The buffer will continue to be monitored on a quarterly basis.</p> <p>Considering that Insight manage the majority of the Plan's assets, the Trustee reiterated its desire to organise a meeting at Insight's offices which had been put on hold due to the pandemic.</p>
15 September 2020	M&G	<ul style="list-style-type: none"> Corporate update, including the demerger between Prudential and M&G Plc. Team changes at M&G Debt Opportunities fund activity and portfolio update, including engagement with companies European Loan market outlook, performance, watch-list and ESG considerations 	The IFC was content with the engagement activity update but agreed to track performance closely. Hymans Robertson, the Trustee's investment advisers, will be conducting regular conference calls with the manager.
17 November 2020	Partners Group	<ul style="list-style-type: none"> Business update How ESG is incorporated into their investment process 	The IFC was content with the update and had no further actions for Partners Group following the meeting. The IFC was pleased that the manager addressed a

Date	Fund manager	Subject discussed	Outcome
		<ul style="list-style-type: none"> • Engagement activities • Portfolio update and RAG analysis of the underlying loans • Forecast cashflow profile 	<p>topical example of restructuring a loan under distress during the pandemic.</p> <p>The IFC noted that the original distribution forecast had been delayed 6 months due to the pandemic. Future distributions are to be invested in the Insight LDI/CDI portfolio. An alternative option is to use the distributions for a future private debt vintage but the IFC noted that this would not fit in with its long-term investment objective and time horizon.</p>

Summary of manager engagement activity

The following table summarises the key engagement activity for the DB managers over the year.

Table 5 – Summary of management activity

Fund	Number of engagements	Topic engaged on
Legal & General FTSE RAFI AW 3000 Equity Index	4,020 eligible meetings to vote at. 47,337 eligible resolutions to vote on (voted 99.7%).	Climate change, integrating ESG into index construction, shareholder resolutions, non-salary related compensation and directors related issues.
M&G Debt Opportunities Fund III	41 eligible meetings to vote at. 42 eligible resolutions to vote on (voted 100%).	Board diversity, board remuneration, climate change, COVID-19, emission targets, environmental strategy, modern slavery, sustainability
DWS Pan European Infrastructure Fund	The manager at a Group level voted at 1,859 shareholder meetings over the year, of which 440 individual engagements with companies were held on ESG topics.	Strategy, financial performance, social and environmental impact, culture and remuneration, transparency on practices, climate transition risks.
Patrizia European Property	There is currently 1 property left in the portfolio to be sold. One Annual General Meeting where Limited Partners vote with two eligible resolutions to vote on.	Report & Accounts and appointment of auditor.
M&G European Loans Fund	M&G's fixed income team carried out 464 interactions with companies where ESG matters were discussed. In addition, the M&G Stewardship and Sustainability team had 256 additional meetings with company chairs and/or directors over the year.	Leadership and governance, Environment, Business model and innovation, social capital, human capital and other topics.
Partners Group Multi Asset Credit 2017	The manager has actively engaged with 4 issuers in the fund over the year.	Financial performance, operations during COVID-19 and governance, exit plans for specific loans.
Insight segregated account (Buy and maintain bonds, LDI and asset-backed securities)	There are no voting rights for this account. Within the fixed income and credit team, the manager engaged with their underlying portfolio loans on 1,210 times, with 90% of them including some form of ESG dialogue.	Insight promoted engagement on the RPI reform consultation throughout the year. Broad ESG matters, climate change, environmental issues, governance, social issues, risk management, strategy, refinancing.

Fund	Number of engagements	Topic engaged on
	61% of the meetings included the board and/or senior management.	

More information

The Trustee hopes this Statement helps you understand how the Plan's DB investments been managed over the 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, please contact Hymans Robertson on: 0207 082 6182 (affinity@hymans.co.uk).