# *Implementation Statement, covering 1 April 2021 to 31 March 2022 (the "Scheme Year")*

The Trustee of the Anglian Water Group Pension Scheme (the "Scheme") is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed its Statement of Investment Principles ("SIP") during the Scheme Year, as well as details of any review of the SIP during the Scheme Year, subsequent changes made with the reasons for the changes, and the date of the last SIP review. Information is provided on the last review of the SIP in Section 1 and on the implementation of the SIP in Sections 2-11 below.

The Statement is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 12 below.

The Statement covers both the DB Section (including the Main Section and the Hartlepool Section) and DC Section of the Scheme. It does not include the Scheme's Additional Voluntary Contribution ("AVC") arrangements, as the AVCs are not considered significant in relation to the overall investments of the Scheme.

This Statement is based on the Scheme's latest SIP which was in place during the Scheme Year - dated February 2021. This Statement should be read in conjunction with the SIP which can be found here: https://www.awg.com/siteassets/reports/awg-pension-scheme-statement-of-investment-principles.pdf.

## 1. Introduction

No review of the SIP was undertaken during the Scheme Year. The last time the SIP was formally reviewed and updated was February 2021.

The Trustee has, in its opinion, followed the policies in the Scheme's SIP during the Scheme Year. The following Sections provide detail and commentary about how and the extent to which it has done so.

The Trustee has in its opinion, followed the Scheme's voting and engagement policies during the Scheme Year, by continuing to delegate to its investment managers the exercise of rights and engagement activities in relation to investments. The Trustee took a number of steps to review the Scheme's existing managers and funds over the Scheme Year, as described in Section 7 (Financially material considerations and non-financial matters) below.

## 2. Investment objectives

The Trustee is responsible for setting and monitoring the investment strategy for the Scheme and for appointing investment managers. The Trustee consults with the Employer and seeks guidance and written advice from their legal and investment advisers as appropriate when undertaking these activities.

For the DB Section, as at 31 March 2022, both the Main section and Hartlepool section were on track to achieve full funding on the Technical Provisions basis by 2026 (the Trustee's funding target). This date, and the discount basis, is agreed between the Trustee and the Principal employer from time to time.

The Scheme's required returns to achieve the funding target, the overall level of risk and liquidity are also used by the Trustee to assess if changes to the investment strategy are needed. Together with the funding positions, these are all monitored by the Trustee on at least a quarterly basis.

The Trustee is also able to view the progress towards this funding target on an ongoing basis using LCP Visualise online (a tool provided by the Scheme's investment adviser which show key metrics and information on the Scheme).

The Trustee believes that working towards a clearly defined funding target within an agreed risk budget and with a clear focus on meeting cashflows is the best way of ensuring the long-term viability of the Scheme and providing pension payments as and when they fall due.

The Trustee's primary objectives for the DC Section of the Scheme are to provide members with access to:

- a range of investment options that meet their different investment needs and attitudes to risk.
- a default option that facilitates good member outcomes at retirement at a level of investment risk that is appropriate to the majority of members who do not want to make active investment choices.

The performance and strategy of the default arrangements is reviewed at least every three years. The last review concluded in December 2019 with implementation of the changes happening in October 2020. A review of the default arrangement is due to be carried out in Q4 2022.

The Trustee also provides members with access to a range of investment options, which it believes are suitable for this purpose and enable appropriate diversification. The Trustee has made available a self-select fund range to members covering all major assets classes as set out in the SIP.

The Trustee monitors the take up of these funds. The Trustee reviews changes in member choices, behaviour, and trends each quarter using the administration reports. The Trustee reviewed the membership demographics as part of the last formal strategy review.

The Trustee confirms that, in its opinion, it has followed these principles and objectives during the Scheme Year.

## 3. Investment Strategy

The Trustee, with the help of its advisers and in consultation with the sponsoring employer, made one notable change to the DB investment strategy over the year to 31 March 2022. This was to increase the long-term target level of interest rate and inflation hedging on the Scheme to be in line with the funding level on the Technical Provisions basis, allowing for the present value of future contributions due from the employer. This did not require a change to the SIP.

The investment strategy for the DC Section was last reviewed in full in December 2019. As part of this review of the DC arrangements the Trustee considered the DC Section membership demographics and the variety of ways that members may draw their benefits in retirement from the Scheme. The Trustee also reviewed retirement data as part of the performance and strategy review of the DC default arrangement, looking at how members chose to access their benefits as well as at what age they accessed them versus when they said they would. Additionally, the Trustee considered whether the default was adequately and appropriately diversified between different asset classes and that whether the self-select options provided a suitably diversified range to choose from.

Based on this analysis, the Trustee decided to transition the assets away from the Phoenix Corporate Investment Services platform to Legal & General and simplify the investment offering at the same time. The fund range was narrowed, with the removal of lifestyle funds and the consolidation of self-select funds from 19 funds to a refined list of 12 funds across a range of asset classes.

During the Scheme Year, the Trustee considered options for the addition of an ESG equity fund. After discussions with its advisers, the Trustee decided to add the LGIM FTSE TPI Global (ex-Fossil Fuels) Equity Index Fund to the self-select range. This fund would allow members to reduce their long-term carbon risk by c.55% whilst also offering stronger exclusions in areas such as fossil fuels. The Trustee is currently considering the appropriate timeline for the addition of this fund, taking into account other potential scheme changes.

## 4. Considerations in setting the investment arrangements

When the Trustee made changes to the DB investment strategy over the course of the year, it considered the investment risks set out in Section 1.5 of the SIP. It also considered a wide range of asset classes for investment, taking into account the expected returns and risks associated with those asset classes as well as how these risks can be mitigated.

Likewise, when the Trustee undertook a performance and strategy review of the DC default arrangement in December 2019 it considered the investment risks set out in Section 1.5 of the SIP. It also considered a wide range of asset classes for investment, taking into account the expected returns and risks associated with those asset classes as well as how these risks can be mitigated.

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 (together called “ESG” factors) can have on the value of the Scheme’s investments and in turn the size of retirement benefits.

In the Scheme Year ending 31 March 2021, the Trustee signed up to the A4S taskforce, which supports the implementation of the recommendations of the Task Force on Climate-related Financial Disclosures. The Trustee is also committed to deepening its understanding of climate risk to make investment decisions for the Scheme.

## 5. Implementation of the investment arrangements

The Trustee has made one notable change to the Scheme's DB investment arrangements over the period which was to update the LDI portfolio to reflect updated hedging targets and a new liability benchmark.

For the DC Section, no changes were made during the Scheme Year.

The Trustee monitors the performance of the Scheme relative to the objectives set by the Trustee, including performance of each of the appointed investment managers for each Section on a quarterly basis, using the quarterly investment report produced by the investment adviser. The report shows the performance of each manager over shorter and longer-term periods. Performance is considered in the context of the manager's benchmark and objectives.

The most recent quarterly report, to 31 March 2022, showed that most of the Scheme's investment managers have produced performance broadly in line with expectations over the long-term.

The Trustee undertook a value for members' assessment in May 2022 for the Scheme Year to 31 March 2022 which assessed a range of factors, including the fees payable to managers in respect of the DC Section; these were found to be reasonable when compared to schemes with similar sizes mandates.

## 6. Realisation of investments

The Trustee, in conjunction with the Employer's Treasury Team, monitors and manages the Scheme's cash flow requirements over the short-term for the DB Section. The Trustee receives income from several of the Scheme's investments that is used to meet these cash flow requirements.

The Trustee reviews the Scheme's expected longer term cashflow requirements on a quarterly basis through the investment adviser's quarterly report. This helps inform discussions on the current and future development of the investment strategy.

For the DC Section, it is the Trustee's policy to invest in funds that offer daily dealing to enable members to realise and change their investments readily. All of the DC Section funds which the Trustee offered during the Scheme Year are daily priced.

The Trustee confirms that, in its opinion, it has followed these principles and objectives during the Scheme Year.

## 7. Financially material considerations and non-financial matters

As part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement.

Over the Scheme Year the Trustee carried out a number of actions (set out below) to monitor its managers' approaches to climate risk, ESG and stewardship as financially material considerations and further its own understanding these issues within the Scheme's investments.

- Between August and September 2021, the Trustee received three training sessions from LCP (its investment adviser) covering responsible investment; climate change and net zero; and stewardship to keep up with the latest developments and best practice in this area.
- In October 2021 the Trustee, through LCP, began collecting data on climate related metrics from its investment managers and monitoring these metrics on a quarterly basis as part of the regular quarterly reporting provided by LCP. In January 2022, this exercise was expanded to a list of 12 sustainability related metrics consistent with a list published by the Investment Consultants Sustainability Working Group (ICSWG). As part of this LCP communicated to the Plan's public equity / debt investment managers the ICSWG's expectation that they should be able to report on the 12 metrics or be working towards being able to report on them as soon as possible. For other asset classes, they communicated the expectation that investment managers should be able to report equivalent metrics, to the extent relevant.
- In December 2021, the Trustee agreed a detailed roadmap of actions to meet the DWP regulations for reporting in line with the TCFD recommendations, in preparation for producing its first DWP compliant report in 2023.
- In January 2022, the Trustee agreed a policy on "Sustainable Investing". This sets out the Trustee's belief that sustainability factors such as the Environment (including Climate Change), Social impacts and Governance (ESG) factors can be financially material risks to the Scheme. The policy also sets out how these risks are to

be managed, along with specific policies on Climate and Stewardship. This policy builds on the Trustee's existing policies within its SIP and is set out in a separate document.

- In January 2022, the Trustee also agreed a commitment to aim for the Scheme's assets to have net-zero carbon emissions by no later than 2040. UK government bond exposure is currently excluded from this commitment given the UK government targets a net-zero date of 2050, as it is a critical component in managing the Scheme's interest rate and inflation risks.
- In March 2022, the Trustee also agreed a Statement on Governance of Climate Change Risks and Opportunities for the Scheme. This statement documents the governance processes the Trustee has put in place to ensure that it has oversight of the climate-related risks and opportunities relevant to the Scheme.
- In March 2022, the Trustee received training on climate-related metrics and targets from LCP. As part of this, the Trustee reviewed the extent to which its investment managers are currently able to report on climate-related metrics and which data gaps to address as a priority through engagement with managers. In the context of the DWP's regulations for reporting in line with the TCFD recommendations the Trustee also provisionally agreed on four climate-related metrics to report on in its first DWP compliant report due in 2023. The Trustee also provisionally agreed on a target to set and agreed short, medium and long-term timescales for this target, although given the lack of data coverage the full details of the target were not agreed at that point.
- On a quarterly basis, the Trustee reviews LCP's sustainable investment (SI) scores for the DB Section's existing managers and funds, along with LCP's qualitative SI assessments for each fund and red flags for any managers of concern. These scores cover each manager's approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP's ongoing manager research programme and it is these that directly affect LCP's manager and fund recommendations. The manager scores and red flags are based on LCP's Responsible Investment Survey 2022. The Trustee monitors this information, as well as progress that managers have made in signing up to industry wide initiatives including the UK Stewardship Code 2020 and the Net Zero Asset Managers Initiative, on an ongoing basis as part of the regular quarterly reporting provided by LCP.
- For the DC Section, the Trustee reviewed LCP's SI scores for the Scheme's existing manager and funds in February 2022. The Trustee was satisfied with the results of the review and no further action was taken with LGIM, the sole investment manager for the DC Section funds, receiving a score of 3 out of 4.
- Additionally, the Trustee receives quarterly updates on ESG and Stewardship related issues from LCP. It also receives ad-hoc briefings on key industry developments including regulatory updates.

Within the DC Section the Trustee recognises that some members may wish for ethical matters to be taken into account in their investments and therefore, as mentioned in the SIP, it made available the LGIM Ethical UK Equity Index Fund as an investment option to members during the Scheme Year ending 31 March 2021. In addition, as discussed above, the Trustee considered options for the addition of an ESG equity fund during the Scheme Year, deciding to add the LGIM FTSE TPI Global (ex-Fossil Fuels) Equity Index Fund to the self-select range.

## 8. Voting and engagement

This is covered in Sections 7 and 12.

## 9. Investment governance, responsibilities, decision-making and fees

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 Trustee has established a decision-making structure, as set out in Section 4 of the SIP, and this was followed over the Scheme Year.

The Trustee assesses the performance of the Scheme's investments on an ongoing basis as part of the quarterly monitoring reports it receives. The Trustee has put in place formal objectives for its investment adviser and will review the adviser's performance against these objectives on a regular basis.

The Trustee has delegated day-to-day investment decisions, such as which investments to buy and sell, to the appointed investment managers. For the DC Section, the funds available to members are accessed via an investment-only platform provider. The Trustee assesses the performance of the Scheme's investment managers on an ongoing basis as part of the quarterly monitoring reports it receives.

Fund managers are remunerated on an ad valorem basis for a defined set of services.  Some investment managers are remunerated on a performance related fee basis. This structure has been chosen to align the investment managers' interests with those of the Scheme.

Over the Scheme Year the Trustee identified that the fee it was paying for its LDI mandate was above its expectations for such a portfolio.  As a result, the Trustee underwent a review of its LDI provider.  Following the review and advice from its investment adviser, the Trustee made the decision stay with its current LDI manager.  The competitive tender process enabled the Trustee to negotiate a significant discount compared to the previous fee arrangement.

The Trustee considers the fee levels being paid in the Hartlepool Section to be reasonable and in line with market rates for similar mandates.

The performance of the professional advisers is considered on an ongoing basis by the Trustee.

The Trustees has put in place formal objectives for its investment adviser and will review the adviser's performance against these objectives on a regular basis.

## 10. Policy towards risk (Appendix 2 of SIP)

For the DB Section (both the Main Section and the Hartlepool Section), the SIP lists a number of risk parameters that the Trustee believes may result in a failure to meet the agreed objectives.

Risks are monitored on an ongoing basis with the help of the investment adviser through the quarterly reporting and as part of broader investment strategy discussions.  The Trustee maintains a risk register and this is discussed regularly at meetings.

The Trustee does not consider there to have been any material breaches of risk parameters over the Scheme Year.  In the opinion of the Trustee, the risk parameters have been adequately managed throughout the Scheme Year for both the Main Section and the Hartlepool Section.

For the DC Section, with regard to the risk of inadequate returns, the Trustee makes use of equity and equity-based funds, which are expected to provide positive returns above inflation over the long term.  These are used in the growth phase of the default arrangement and are also made available within the self-select options. These funds are expected to produce adequate real returns over the longer term.

The following risks are covered earlier in this Statement: diversification risk in Sections 3 and 5, investment manager risk and excessive charges in Section 5, illiquidity / marketability risk in Section 6 and ESG risks in Section 7.

## 11. Investment manager arrangements

There are no specific policies in relation to the individual manager arrangements in the Scheme's SIP.

## 12. Description of voting behaviour during the Scheme Year

All of the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Scheme Year.

In this section, we have sought to include voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, on the Scheme's funds that hold equities as follows:

- LGIM Multi-Asset Fund;
- LGIM World (ex-UK) Equity Index Fund;
- LGIM All World Equity Index Fund; and
- LGIM Ethical UK Equity Index Fund.

For the DC Section, this includes all funds with both an equity holding and Scheme assets invested and includes the self-select fund, which incorporates responsible investment factors, recognising that members choosing to invest in this fund may be interested in this information.

The DB Section of the Scheme did not hold any investments with voting rights attached during the period covered by this Statement.

The Trustee has sought to obtain the relevant voting data for Sections 12.2 and 12.3, from all of the investment managers listed above.

### 12.1 Description of the voting processes

**LGIM**

LGIM's voting and engagement activities are driven by ESG professionals and its assessment of the requirements in these areas seeks to achieve the best outcome for all its clients. LGIM's voting policies are reviewed annually and take into account feedback from its clients.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector, and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. LGIM also takes into account client feedback received at regular meetings and / or ad hoc comments or enquiries.

All decisions are made by LGIM's Investment Stewardship team and in accordance with its relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents, which are reviewed annually. Each member of the team is allocated a specific sector globally so that voting is undertaken by the same individuals who engage with the relevant company. This ensures LGIM's stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

LGIM's Investment Stewardship team uses Institutional Shareholder Services' ("ISS") 'ProxyExchange' electronic voting platform to vote clients' shares. All voting decisions are made by LGIM and it does not outsource any part of the strategic decisions. Its use of ISS recommendations is purely to augment its own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services ("IVIS") to supplement the research reports that it receives from ISS for UK companies when making specific voting decisions.

To ensure LGIM's proxy provider votes in accordance with LGIM's position on ESG, it has put in place a custom voting policy with specific voting instructions. LGIM retains the ability in all markets to override any vote decisions, which are based on its custom voting policy. LGIM has strict monitoring controls to ensure its votes are fully and effectively executed in accordance with its voting policies by its service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform them of rejected votes that require further action.

### 12.2 Summary of voting behaviour over the Scheme Year

A summary of voting behaviour over the Scheme Year is provided in the table below.

| | LGIM Multi-Asset Fund | LGIM World (ex UK) Equity Index Fund | LGIM All World Equity Index Fund | LGIM Ethical UK Equity Index Fund |
|---|---|---|---|---|
| Total size of fund at 31 March 2022 | £21,667m | £5,504 | 5,841m | £231m |
| Approximate value of Scheme assets as at 31 March 2022 | £1,260k | £271k | £188k | £9k |
| Number of equity holdings as at 31 March 2022 | 6,367 | 2,488 | 3,833 | 210 |
| Number of meetings eligible to vote | 8,842 | 2,931 | 6,519 | 271 |
| Number of resolutions eligible to vote | 88,739 | 34,024 | 64,607 | 4,442 |
| % of resolutions voted | 99.8% | 99.8% | 99.8% | 100.0% |
| % of resolutions voted with management | 78.7% | 79.0% | 80.7% | 93.6% |
| % of resolutions voted against management | 20.5% | 20.1% | 18.1% | 6.4% |
| % of resolutions abstained | 0.8% | 0.9% | 1.3% | 0.0% |
| % of meetings with at least one vote against management | 70.0% | 74.6% | 60.0% | 45.0% |
| % of resolutions, on which there was a vote, was the vote contrary to the recommendation of a proxy adviser | 12.5% | 14.1% | 9.6% | 4.8% |

### 12.3 Most significant votes over the Scheme Year

Commentary on the most significant votes over the Scheme Year, from the Scheme's asset managers who hold listed equities, is set out below. We have interpreted "most significant votes" to be the votes that corresponded to the largest holdings of each of the LGIM Funds. Where there is an overlap in the largest holdings across the LGIM Funds, the next largest holding has been included. These votes are selected from a subset of the votes that were provided by managers.

| Vote | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| **Fund** | LGIM Multi-Asset Fund | LGIM Multi-Asset Fund | LGIM World (ex-UK) Equity Index Fund | LGIM World (ex-UK) Equity Index Fund |
| **Company name** | Apple Inc | Microsoft Corporation | Amazon Inc | Facebook, Inc |
| **Summary of the voting matter** | Report on Civil Rights Audit | To elect director Satya Nadella | To elect director Jeffrey P Bezos | To elect director Mark Zuckerberg |
| **Vote cast** | For | Against | Against | Withhold |
| **Summary of reason for voting decision** | LGIM supports proposals relating to diversity and inclusion policies as it considers these issues to be a material risk to companies | LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight | LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight | LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight |
| **Outcome** | Passed | Passed | Passed | Passed |

| Vote | 5 | 6 | 7 | 8 |
|---|---|---|---|---|
| **Fund** | LGIM All World Equity Index Fund | LGIM All World Equity Index Fund | LGIM Ethical UK Equity Index Fund | LGIM Ethical UK Equity Index Fund |
| **Company name** | JP Morgan Chase & Co | Johnson & Johnson | The Sage Group Plc | EVRAZ Plc |
| **Summary of the voting matter** | To elect director Todd A Combs | To elect director Alex Gorsky | To re-elect a director | To elect director Alexander Abramov |
| **Vote cast** | Against | Against | Against | Against |
| **Summary of reason for voting decision** | LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight | LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight | Lack of progress on gender diversity | Lack of progress on gender diversity |
| **Outcome** | Passed | Passed | Passed | Passed |

## 13. Overview of managers Responsible Investment initiatives

The following of the Scheme's managers are signatories to the **UK Stewardship Code 2020**: Allianz, CQS, BlackRock, ICG, Insight, LGIM, M&G, Schroders, StateStreet

The following of the Scheme's managers are signatories to the **United Nations' Principles for Responsible Investment**: BlackRock, CQS, ICG, Insight, LGIM, M&G, Schroders, StateStreet, Allianz, AQR, HPS