Southern Water Pension Scheme

Annual Implementation Statement – Scheme year ending 31 March 2024

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Section 1: Introduction

This document is the Annual Implementation Statement ("the Statement") prepared by the Trustee of Southern Water Pension Scheme ("the Scheme") covering the Scheme year to 31 March 2024.

The purpose of this statement is to:

- Set out how, and the extent to which, in the opinion of the Trustee, the Scheme's engagement policy within the SIP (required under regulations 23c of the Occupational Pension Schemes Investment Regulations 2005) has been followed during the year.

- Describe the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by Trustee or on their behalf) during the year.

The Scheme makes use of a wide range of investments; therefore, the principles and policies in the Statement of Investment Principles ("SIP") are intended to be applied in aggregate and proportionately, focusing on areas of maximum impact.

A copy of the Scheme's current SIP has been made available on the following website: https://sites.google.com/view/southern-water-pension-scheme/home

The SIP linked above reflects the latest version of the document, which was updated during the year and is dated June 2023. This implementation statement reflects the policies documented in this updated SIP.

Section 2: Adherence to the Scheme's engagement policies within the SIP Company level engagement and rights attached to investments (including voting):

The Trustee has given the appointed investment managers full discretion when evaluating ESG issues, including climate change considerations, and exercising voting rights and stewardship obligations attached to the Scheme's investments.

Similarly, the Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. However, the Trustee recognises that it remains responsible for the votes cast on its behalf by the Scheme's investment managers.

In accordance with the PLSA's Voting and Engagement Guidelines, the Trustee has agreed on two priorities for stewardship, which are communicated to the investment managers. These are climate change and sustainability, and corporate governance.

Details on voting behaviour (including most significant votes cast) are included in Section 3 of this document.

SIP Engagement Policies, Actions and Examples

1. **Financially material impact**

   Policy:

   - The Trustee believes that good stewardship and environmental, social and governance ('ESG') issues may have a financially material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. Given the Trustee's investment objectives, the potential longer-term impact of these issues is relevant to the Scheme.

   - Non-financial matters (as defined in the Regulations) are not taken into account when determining the Scheme's investment policy. Member views are not actively sought but the Trustee regularly updates members via newsletters and by making a copy of the Statement of Investment Principles publicly available.

   Action:

   - The Trustee takes account of ESG factors when selecting providers for the Scheme.

   Examples:

   - In the Scheme's regular reporting, the Investment Consultant reports on their views of the managers they explicitly research. This research takes into account ESG factors, which feed into the overall assessment of the manager.

   - During the year the Trustee received a detailed presentation from the Scheme's Buy & Maintain credit and passive equity manager, Legal & General Investment Management (LGIM). As part of this presentation, LGIM set out how it incorporates ESG factors into its investment process and provided examples of engagement activities undertaken on the Scheme's behalf.

2. **Voting and Stewardship**

   Policy

   - The Trustee has given the appointed investment managers full discretion when evaluating ESG issues, including climate changes considerations and exercising voting rights and stewardship obligations attached to the Scheme's investments.

- Similarly, the Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

- In accordance with the PLSA's Voting and Engagement Guidelines, the Trustee has agreed on two priorities for stewardship, which are communicated to the investment managers. These are climate change and sustainability, and corporate governance.

Action:

- The Trustee monitors the voting behaviour of the Scheme's investment managers and has detailed the voting policies and behaviours in Section 3 of this Statement.

Examples:

- The examples below of the most significant votes cast by the Scheme's managers show a range of voting activities that seek to improve the governance structures of the companies that the Scheme is invested in.

3. Advisor support

Policy:

- There is an expectation that the Scheme's Investment Consultant will keep the Trustee informed on ESG issues that might arise.

Action:

- The Trustee expects the Investment Consultant to provide periodic updates on developments, in relation to both broader regulatory changes and ESG matters. The Trustee considers the possible impact of these on the Scheme's investment strategy and portfolio.

- Alignment to the Trustee's beliefs and objectives, including ESG, is a material consideration as part of the Investment Consultant's ongoing assessment of the manager's appropriateness. The Trustee's Sustainability beliefs are as follows:

    - The Trustee considers sustainability and ESG to be an important part of the investment process and therefore believes it is necessary to not only meet the minimum requirements required for compliance with regulations, but also take a more proactive approach in this area.
    - The Trustee takes account of all financially material considerations in its investment decisions and believes that investments with well considered ESG factors will produce higher risk adjusted returns.
    - The Trustee understands that its approach to ESG needs to be tailored by asset class and sector as the impact of these factors varies across these different areas.
    - Given two otherwise identical investments, the Trustee will invest in the one that has the most positive ESG impact.
    - The Trustee believes that good stewardship of the Scheme's assets is an important part of its fiduciary duty towards the Scheme's members and hence believes it is important to be an active owner and exercise its voting rights.

4. Investment managers

Policy

- The Trustee considers how ESG, climate change and stewardship are integrated within investment processes in appointing new managers. The Trustee also monitors its existing managers' ESG ratings as part of the Scheme's quarterly performance reports, and discuses ESG considerations as part of ongoing reviews.

- To maintain alignment with the SIP, investment managers are provided with the most recent version of the Scheme's Statement of Investment Principles upon updates and are required to confirm that the management of assets is consistent with those policies.

- The Scheme uses many different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement. The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee's policies, where relevant to the mandate.

- As part of its engagement policy, the Trustee monitors the Scheme's investment managers on at least an annual basis in order to assess the sustainable investment, stewardship (including voting) and ESG characteristics and managers' engagement activities. Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager may be replaced.

- The Trustee will review the appointment of any Investment Manager for any reason it considers appropriate. The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets.

- The Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity where possible to drive improved performance over these periods.

- When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

Action:

- No new managers were appointed during the period.

- The Trustee provides a copy of the Scheme's SIP to all the investment managers, who are asked to confirm that their management of the assets of the Scheme is consistent with the policies set out.

- During the year, the Trustee reviewed the performance of the Scheme's investment managers over medium- and long-term time horizons as part of the quarterly reporting prepared by the Investment Consultant, together with the Investment Consultant's assessments of the investment managers where available.

5. Portfolio Turnover

Policy

- The Trustee reviews the costs incurred in managing the Scheme's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

- As part of its engagement policy, the Trustee monitors the Scheme's investment managers on at least an annual basis in order to assess other relevant matters including capital structure of investee companies and the associated management of actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings.

Action:

- During the year, the Trustee received cost reporting from the Scheme's Investment Consultant in line with the MiFID II regulations. This set out the investment related costs and charges associated with the Scheme's portfolio during the 2023 calendar year.

- The turnover for the LGIM Buy and Maintain portfolio was 2.4% over the 12-month period up to 31 December 2023, within the range of typical level of portfolio turnover.
- The turnover for the LGIM World Developed Equity Index Fund was 1.1% (after adjusting for asset flows) over the 12-month period up to 31 December 2023
- The turnover for the LGIM World Developed Equity Index Fund (GBP Hedged) was 0.4% over the 12-month period up to 31 December 2023

Note: As the LGIM equity funds are index funds the turnover is dictated by index rebalancing events and changes.

Section 3: Voting behaviour (including most significant votes)

Voting

The Scheme's equity investments are held within pooled investment vehicles. The holdings managed by Legal & General Investment Management (LGIM) are managed on a passive basis relative to a defined index. The Trustee delegates voting rights and the execution of those rights to LGIM for the securities they hold.

This section details the voting and engagement activities reported by LGIM that were undertaken on behalf of the Trustee during the year. It includes information provided directly form the investment manager on the most significant votes cast, as assessed by the Trustee and LGIM.

LGIM – World Developed Equity Index:

Manager's voting policy: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-uk-corporate-governance-and-responsible-investment-policy.pdf

Voting activity	
Number of meetings eligible to vote in over the year to 31 March 2022	2,338
Number of resolutions eligible to vote in over the year to 31 March 2022	30,515
Percentage of resolutions voted	99.8%
Percentage of resolutions voted with management	78.3%
Percentage of resolutions voted against management	21.6%
Percentage abstained from voting	0.13%
Percentage of meetings which had at least one vote against management?	80.1%
Use of Proxy Voting services	ISS (using bespoke policy)
Percentage of resolutions voted against the recommendation of a proxy adviser?	15.8%

Most significant votes – Vote 1

Please provide the name of the company and any relevant details Microsoft Corporation Date of vote – 7 December 2023 Size of fund's holding – 4.4% Category – Corporate Governance
Please provide a summary of the resolution Election of director

How did you vote? Please provide a brief rationale for your voting decision. • If voting against management, did you communicate your intent to the company ahead of the vote Against. LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics. A vote against was applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns.
What was the outcome of the vote? For
What are the implications of this outcome? • **Were there any lessons learned?** • **Will this impact how you vote in future** LGIM will continue to engage with investee companies, publicly advocate its position on this issue and monitor company and market-level progress.
How and why have you assessed this vote to be your "most significant"? LGIM considers this vote to be significant as it is in application of an escalation of the manager's vote policy on the topic of the combination of the board chair and CEO.

Most significant votes – Vote 2

Please provide the name of the company and any relevant details JP Morgan Chase Date of vote – 16 May 2023 Size of fund's holding – 0.7% Category – Climate Change
Please provide a summary of the resolution Report on Climate Transition Plan Describing Efforts to Align Financing Activities with GHG Targets
How did you vote? Please provide a brief rationale for your voting decision. • If voting against management, did you communicate your intent to the company ahead of the vote For (management recommendation: Against). LGIM pre-declared its vote intention for this meeting on the LGIM Blog. As part of this process, a communication was set to the company ahead of the meeting. LGIM generally supports resolutions that seek additional disclosures on how companies aim to manage their financing activities in line with their published targets. It believes detailed information on how a company intends to achieve the targets they have set and published to the market (the 'how' rather than the 'what', including activities and timelines) can further focus the board's attention on the steps and timeframe involved and provides assurance to stakeholders. The onus remains on the board to determine the activities and policies required to fulfil their own ambitions, rather than investors imposing restrictions on the company.
What was the outcome of the vote? Against

What are the implications of this outcome? • **Were there any lessons learned?** • **Will this impact how you vote in future** LGIM will continue to engage with its investee companies, publicly advocate our position on this issue and monitor company and market-level progress.
How and why have you assessed this vote to be your "most significant"? LGIM considers this vote to be significant as it pre-declared its intention to support. It will continue to consider that decarbonisation of the banking sector and its clients is key to ensuring that the goals of the Paris Agreement are met.

Most significant votes – Vote 3

Please provide the name of the company and any relevant details Exxon Mobil Corporation Date of vote – 31 May 2023 Size of fund's holding – 0.7% Category – Climate Change
Please provide a summary of the resolution Shareholder resolution calling for a Report on Asset Retirement Obligations Under IEA Net Zero Emissions Scenario
How did you vote? Please provide a brief rationale for your voting decision. • If voting against management, did you communicate your intent to the company ahead of the vote For (management recommendation: Against). LGIM co-filed this shareholder resolution and pre-declared its vote intention for this meeting on the LGIM Blog. As part of this process, there was regular communication with the company ahead of the meeting. Together with CBIS, LGIMA has co-filed a shareholder resolution asking for more transparency on the retirement costs of Exxon's asset base. In LGIM's view, this is a highly relevant and financially material matter, and by filing this proposal we are seeking greater clarity into the potential costs Exxon may incur in the event of an accelerated energy transition.
What was the outcome of the vote? Against
What are the implications of this outcome? • **Were there any lessons learned?** • **Will this impact how you vote in future** LGIM will continue to engage with the company and monitor progress.
How and why have you assessed this vote to be your "most significant"? LGIM considers this vote to be significant as LGIM co-filed this shareholder resolution as an escalation of its engagement activity, targeting some of the world's largest companies on their strategic management of climate change.