Northern Ireland Water Limited Pension Scheme ("the Scheme")

Engagement Policy Implementation Statement – Year Ended 31 March 2022

1. Introduction

This Engagement Policy Implementation Statement (the "Statement"), prepared by the Trustee of the Scheme, sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ("SIP") has been followed during the year to 31 March 2022 ("the Scheme Year").

The Statement is based on the SIP that was in place for the Scheme Year, which was the SIP dated September 2020. Post year end the Scheme's SIP has been updated to reflect the newly agreed investment strategy with a 15% allocation to index linked gilts. Target holdings in other asset classes, with the exception of Infrastructure and Sustainable Opportunities, were marginally reduced.

This Statement should be read in conjunction with the Scheme's SIP[1]. This Statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

The overall investment policy falls into two parts; the strategic management of the assets, which is fundamentally the responsibility of the Trustee, and the day to day management of the assets, which is delegated to professional investment managers.

The strategic management of the assets is the responsibility of the Trustee acting on expert advice and is driven by its investment objectives. However, the oversight of this strategy and the investment managers is delegated by the Trustee to a sub group of the Trustee – the Investment Sub Committee ("ISC"). The ISC operates under an agreed Terms of Reference and make recommendations to the Trustee as required.

Since the Trustee invests in multi-client pooled investment vehicles (effectively owning units in the funds) the Trustee has delegated to the investment managers the engagement with companies and the exercising of voting rights attached to the investments. Similarly, it has given the investment managers full discretion in evaluating Environmental, Social and Governance ("ESG") factors, including climate change considerations. "Governance" aligns with voting and engagement but also engagement topics are increasingly covering ESG issues at investee companies.

Sections 2.1 and 2.2 of this Statement set out the investment objectives of the Scheme and changes that have been made to the SIP during the Scheme Year, respectively. Section 2.3 outlines the Trustee's view on how their engagement policies have been followed over the Scheme Year.

Section 3 outlines how the ISC and Trustee have implemented their engagement policies. Sections 4 and 5 include a summary of the engagement and voting activity carried out on behalf of the Trustee over the Scheme Year by the investment managers.

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[1]Available on the Company website: https://www.niwater.com/publications/

2. Statement of Investment Principles

2.1. Investment Objectives of the Scheme

The Trustee's objective is to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustee has agreed a number of objectives to help guide it in its strategic management of the assets and control the various risks to which the Scheme is exposed. The Trustee's primary objectives are as follows:

- *To ensure the Scheme can meet its obligations to beneficiaries.*
- *To strike an appropriate balance between risk and return when setting investment strategy.*
- *To consider carefully the risks involved in investing in different asset classes.*

2.2. Review of the SIP

There were no changes made to the Scheme's SIP over the Scheme Year. Post year end the Scheme's SIP has been updated to reflect the newly agreed investment strategy with a 15% allocation to index linked gilts. Target holdings in other asset classes, with the exception of Infrastructure and Sustainable Opportunities, were marginally reduced.

2.3. Assessment of how the policies in the SIP have been followed for the year to 31 March 2022

The information provided in the following section highlights the work undertaken by the ISC and the Trustee during the Scheme Year and sets out how this work followed the Trustee's Engagement policies in the SIP.

In summary, it is the Trustee's view that the policies in the SIP have been followed during the Scheme year to 31 March 2022.

3. Implementation of Engagement Policies

Policy Legal Requirement	How the policy has been met over the year to 31 March 2022
Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustee would monitor and engage with relevant persons about relevant matters) (section 6.3 of the SIP)	As the Scheme invests solely in pooled investment vehicles, the ISC delegates to their investment manager's engagement with the investee companies on their behalf. Currently, the investment managers present to the ISC approximately once every Scheme Year at ISC meetings. The ISC will ask the investment managers to highlight any key engagement activity since they last presented. This Scheme Year the ISC met with investment managers on the following dates: 19 May 2021 (BMO), 23 August 2021 (Ruffer), 26 November 2021 (Insight) & 14 March 2022 (M&G (specifically ICOF) & Mercer). Some of the topics covered at these meetings included: • Potential use of ESG derivatives built around ESG indices within BMO's UK Equity Linked and Overseas Equity Linked funds. • Insight's use of ESG derivatives within the Insight Broad Opportunities Fund (IBOF), the link between fixed income lending and responsible investment. • Information from Ruffer on their engagement topics with clients covering areas within ESG, together with a summary of ESG related initiatives undertaken alongside their newly developed ESG scoring matrix. • The steps taken by M&G in relation to ESG integration for their Illiquid Credit Opportunities Fund. M&G have built proprietary ESG ratings and also sought to estimate carbon emissions data by matching company characteristics to public equivalents. A further selection of engagement activity for a number of the investment managers is outlined below in Section 4. In addition, in advance of the ISC meetings, Mercer on behalf of the ISC will ask for each investment manager to provide the following documents where applicable. Each of these documents will be discussed by the ISC at the ISC meetings, any concerns the ISC may have will be addressed either at the meeting with the investment manager or followed up via email. • Stewardship Code Statement • Responsible Investment Policy • Voting and Engagement Policy At the Scheme year end, all managers, with the exception of Mercer Alternatives, have confirmed that they are signatories of the current UK Stewardship Code 2020. It is important to note that Mercer Alternatives operates as a fund of funds provider and as such does not have ownership rights or a direct relationship with the individual holdings within the Fund; therefore, the Code is not directly relevant to them. The ISC received from their advisers, Mercer, a quarterly investment performance report that includes ESG ratings. These are Mercer's assessment of how well an investment manager integrates the risks and opportunities of ESG, including climate change, and voting and engagement into their investment process (the ratings do not signify that a fund is "sustainable" focussed). In addition, the ISC receives an annual review of their investment managers' ESG ratings compared to the ratings within Mercer's universes for each asset class. The latest annual review of ESG ratings was presented at the November 2021 ISC meeting. This report highlighted that the majority of the Scheme's investment managers have a Mercer ESG rating that is either equal to, or more positive than, the average rating within the respective universe. Work undertaken during the Scheme Year in relation to the Trustee's policy on ESG is outlined below under 'Responsible Investment Activity by the Trustee During the Scheme Year'.

Voting Disclosures

Policy Legal Requirement	How the policy has been met over the year to 31 March 2022
The exercise of the rights (including voting rights) attaching to the investments (Section 6.3 of the SIP)	Given the Trustee invests in pooled investment vehicles, it has delegated its voting rights to the investment managers. Where applicable, the investment managers are expected to provide voting summary reporting on a regular basis, at least annually. Currently, when investment managers who have voting rights attached to the Scheme's investments present to the ISC, the investment managers highlight key voting activity. Over the prior 12 months, the ISC have not felt the need to challenge their investment managers on voting activity. Section 5 below highlights key points on how the Scheme's investment managers have exercised voting rights during the Year, based on information provided by them.

Responsible Investment Activity by the ISC and Trustee during the Scheme Year

Implementing Environmental, Social and Governance ("ESG") factors within the investment strategy

As outlined above, the ISC have reviewed the engagement activities of each of the Scheme's investment managers, particularly the signatory status of the Scheme's investment managers against the UK Stewardship Code 2020. By the Scheme year end all investment managers with the exception of Mercer Alternative were signatories.

In terms of broader ESG the Scheme has considered the following during the Scheme year:

- During the May 2021 ISC meeting, the ISC has considered an ESG implementation plan. The aim of the Plan is to provide a single document that outlines what areas have been considered by the Scheme and action taken, and what could be considered going forward. The Trustees agreed to discuss this annually and update throughout the year combining it with the Scheme's overall business plan.
- The Trustee also made an additional commitment (c.£9.2m) to the Sustainable Opportunities funds within the Mercer Private Investment Partners ("PIP") VI funds.
- Finally at the November 2021 ISC meeting, Mercer presented the Responsible Investment Total Evaluation ("RITE") survey. The survey, outlined Mercer's assessment of how well the Trustee had integrated ESG considerations into their investment arrangements. The outcome of this analysis indicated that the Scheme was a B+, compared to the average Mercer client of C+, and indeed the Scheme ranked in the 15th percentile. The Scheme's score was driven by the allocations to ESG aware assets, with standalone policies the main area of weakness. A number of interventions that the Trustee could consider to improve their score were discussed.

4. Engagement Activity

This section provides examples of the engagement activity undertaken by the Scheme's investment managers.

Legal & General Global Equity & Emerging Market Equity

Legal & General Future World Global Equity Index Fund (GBP Unhedged) and the Future World Emerging Market Equity Index Fund, managed by Legal & General Investment Management ('LGIM'), is one of the Scheme's largest investment holdings that has voting rights attached to the underlying assets.

Engagement in Practice
Working with Policy Makers in Agriculture
The agriculture sector is responsible for approximately 12% of global greenhouse gas (GHG) emissions, and emission reduction has plateaued over the past 10 years. This represents a systemic environmental risk. Policymakers have a key role to play in making progress in agriculture. One tool available to them is reforming their significant agricultural subsidy programmes to help align the land sector with the Paris Agreement treaty on climate change. LGIM has co-authored a paper with policy experts on how the European Commission can align the Common Agricultural Policy (CAP) with the Green Deal and EU climate law. To help achieve this, LGIM brought together an alliance of policy experts, business groups and investors (representing €2 trillion of assets under management) who have publically supported LGIM's aforementioned recommendations to the EU. Given the systemic risk that agriculture poses, LGIM wrote to the European Commission with serious concerns regarding the tabled proposals for how activity in this sector would be treated in the EU's classification for sustainable activities. LGIM's intervention has contributed to the delay by the EU on how to approach the agriculture sector.
Finance for the Future
Following a multi-year engagement with JP Morgan Chase, LGIM have seen a positive change at the bank gather pace, with a commitment to Paris Alignment across the financing of a number of high-emission sections and the 2021 publication of JP Morgan's interim targets towards decarbonisation. As one of the largest global financiers across geographies, including important emerging markets, LGIM will continue to monitor the banks progress in this area. In Asian markets, LGIM supported shareholder proposals at Mitsubishi URJ Financial Group in relation to disclosures and stronger decarbonisation commitments. This was only the second climate-related proposal at the Japanese company. LGIM also added Industrial & Commercial Bank of China to their divestment list as part of 'engagement with consequences' under the 2021 Climate Impact Pledge, given the lack of thermal coal policy and scope 3 emission disclosures associated with its investments.
The living wage
Pay equality and fairness has been a priority for LGIM for several years. LGIM ask companies to help reduce global poverty by paying at least the living wage, or the real living wage for UK based employees. LGIM also ask them to ensure that their Tier 1 suppliers do the same.

LGIM are pleased that half of FTSE 100 companies and major household names in the UK are now real living wage accredited including companies with which LGIM have engaged on this topic, such as Taylor Wimpey. LGIM also took steps to ensure that suppliers were abiding by these principles. As part of their engagements with companies during the past year, LGIM ask for assurance that all employees are offered the opportunity to work a minimum of 15 hours a week, should they wish to.

For further information, please visit https://www.lgim.com/uk/en/capabilities/investment-stewardship/active-ownership/

Ruffer Absolute Return Fund

Engagement in Practice
Executive Compensation
Ruffer met with Chesapeake a North American onshore oil and gas producer a number of times throughout 2021/22. In Q4 2021 Ruffer arranged a meeting to discuss Chesapeake's ESG approach following the company's restructuring and recent CEO appointment. Ruffer were assured that the new CEO, is embracing ESG considerations in his management. Alongside an ESG Advisory Board, an ESG Council was established in 2021 and comprises a cross-section of the employee base. Ruffer also discussed the company's MSCI ESG rating (upgraded from 'CCC' to 'B' rated in July 2021) and how his could be further improved. In Q1 2022, Ruffer met again with the board members of Chesapeake to discuss their new compensation scheme, Ruffer were particularly interested in the thought process behind the design of the new scheme. Historically, compensation had been linked to relative performance but going forward, more emphasis would be put on absolute performance. The long-term incentive plan (LTIP) would be 50% weighted to absolute return and 25% weighted to relative performance (relative total shareholder returns), meaning 75% of reward would become performance driven. The compensation committee highlighted that ESG metrics would be 20% of the annual incentive plan. After the meeting Ruffer remained comfortable with the rationale for the compensation structure and acknowledge the board were thoughtful about the revised approach, including balancing retention of human capital over 'right-sizing' the amount of total pay.
Remuneration increase
Ruffer requested a meeting to discuss the concerns they had with WH Smith's remuneration report. Ruffer had written to the board in advance to communicate their view that the intention to go ahead with a pre-planned base remuneration increase for management was not appropriate in the current circumstances. At the time, the company was loss-making, had suspended its dividend, raised equity, was benefiting from government support and had made staff redundant. Whilst Ruffer voted against management on the approval of the report, Ruffer made clear their view did not express a negative appraisal of the performance of the CEO and management team during the challenging period. Following the meeting, the board confirmed they are revising the remuneration report and will not include the executive pay increase, due to the feedback from shareholders.

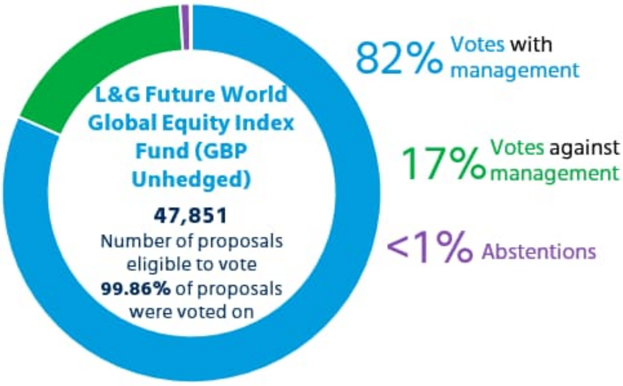
For further information, please visit https://www.ruffer.co.uk/

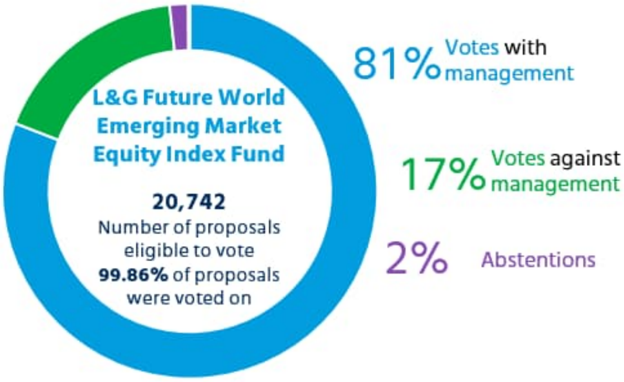
Selected Other Scheme Managers – Engagement in Practice

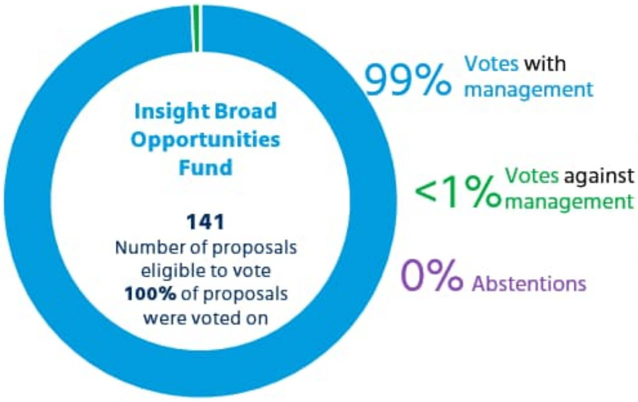
Engagement in Practice
Insight Secured Finance Fund
Sustainable lending
Following a proprietary questionnaire given to the buy-to-let mortgage issuer, Together Financial Services. Insight highlighted two areas of weakness from the responses: Lack of climate risk analysis and environmental metrics. Insight met with senior management to discuss their responses and the highlighted areas of concern. This initial engagement highlighted concerns with the issuer. The issuers have listened to Insight's feedback and agreed to consider the provision of information in relation to climate risk and carbon footprint. Insight commented that they will continue to assess the issuer and review their practices, with a follow-up scheduled to monitor progress.
Insight Broad Opportunities Fund
Succession
Over 2022, a number of The Renewable Infrastructure Group's independent Board members are expected to retire, having served 9 years in their roles. Moreover the company's dividend target has remained unchanged from 2020 whilst Insight have continued to express a preference for fully covered, progressive increases. During Q4 2021, Insight held meetings with the Board and asset manager of this renewable infrastructure holding, with a particular focus on effective succession planning and capability transitions. Insight have agreed to follow up on the Board's personnel changes to ensure successful capability transition and continue to express their preference for fully covered dividend growth.
M&G Illiquid Credit Opportunities
Cyber Security and Carbon Reduction
M&G have engaged with Webhelp on improving their disclosure on data and cyber security. In addition, M&G want to work with Webhelp to help them set out carbon reduction targets. Following the engagement, M&G received a verbal commitment from Webhelp to put a science-based target, in light of the 1.5°C pathway. Management have explained that ESG is a priority for them and that they are in the process of updating their ESG targets including updating the carbon reduction target. The aim is for Webhelp to attain a total carbon reduction of between 30-40% by 2030-2045. M&G also received a verbal disclosure of the data and cyber security policies put in place at Webhelp.

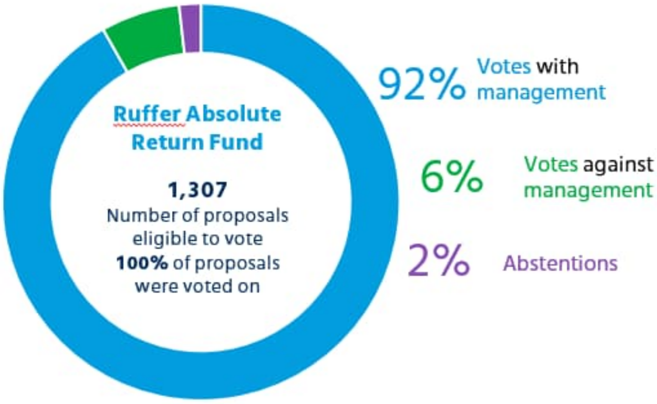
5. Voting Activity during the Scheme Year

A summary of the voting activity for the Scheme's dedicated equity fund holdings and Ruffer's equity holdings in their diversified growth fund is set out below. The statistics below cover the 1 April 2021 to 31 March 2022 period. LGIM and Ruffer use Institutional Shareholder Services (ISS) as proxy voting advisor.









Votes "with / against management" assess how active managers are in voting against management and seeks to obtain the rationale behind voting activities, particularly in cases where split votes may occur.

Some proposals were unvoted – reasons include conflicts of interest, power of attorney markets (voting can only be carried out by an individual actually attending the meeting) and share blocking markets (regulatory barriers to voting).

Sample of signficant votes

There is no official definition of what constitutes a significant vote, albeit further guidance is expected to be available from October 2022. In the meanitme, managers have adopted a variety of interpretations such as:

- There is a particular interest in a specific vote relating to an issue,
- The potential impact on the financial outcome,
- Size of the holding in the Scheme / mandate, an
- Whether the vote was high-profile or controversial.

The table below highlights the sample of significant votes for Legal & General and Ruffer. The 'Vote by Management' and the 'Vote by Investment Manager' columns highlight whether the company management team and investment manager voted for (✓) or against (✗) the sample of proposals shown below. Where the investment manager voted differently to the company management team, a rationale for their decision is provided.

Investment Manager	Issuer	Date	Vote Category	Proposal	Vote by Investment Manager	Recommendation by management
Ruffer	Royal Dutch Shell	18 May 2021	Environmental	Energy Transition Strategy Plan	☑	☑
	Manager Rationale and Outcome					
	Ruffer voted for the proposed plan, which they did so in the context of the progress Shell has made as a result of engagement and commitment of the management to meaningfully engage on the areas of Climate Action 100+. The resolution passed with 88.7% votes in favour.					
Ruffer	American Express	4 May 2021	Social	Request for Diversity and Inclusion Report (shareholder resolution)	☑	☒
	Manager Rationale and Outcome					
	Ruffer voted in favour of the report, which requires the company to annually publish a report assessing Diversity, Equity and Inclusion Efforts. Ruffer believe that whilst the company have made progress to promote inclusion and diversity, there is still room for progress. The resolution passed with 59.7% votes in favour.					
LGIM	Apple Inc	4 Mar 2022	Social	Report on Civil Rights Audit (shareholder resolution)	☑	☒
	Manager Rationale and Outcome					
	LGIM voted in favour of the report as they support proposals related to diversity and inclusion policies as they consider these issues to be a material risk to companies. The resolution passed with 53.6% votes in favour.					
LGIM	Microsoft Corporation	30 Nov 2021	Governance	Elect Satya Nadella as Director	☒	☑
	Manager Rationale and Outcome					
	LGIM voted against the resolutions as they expect companies to separate the roles of Chair and CEO due to risk management and oversight. The resolution passed with 94.7% votes in favour					
LGIM	Housing Development Finance Corporation	20 July 2021	Governance	Accept Financial Statements and Statutory Reports	☒	☑
	Manager Rationale and Outcome					
	LGIM voted against the Reports. The company did not meet minimum standards in relation to climate risk management and risk disclosure. The resolution passed with 98.9% votes in favour.					
LGIM	Industrial and Commercial Bank of China Limited	21 June 2021	Governance	Approve Work Report of the Board of Directors	☒	☑
	Manager Rationale and Outcome					
	The company did not meet minimum standards in relation to climate risk management and risk disclosure. Furthermore, the company was disinvested by LGIM across its Future World range of funds. The resolution passed with 99.8% votes in favour.					