ANGLIAN WATER GROUP PENSION SCHEME
MAIN SECTION STATEMENT OF INVESTMENT PRINCIPLES

INTRODUCTION

This Statement of Investment Principles, effective from 8 October 2018, covers the defined benefit and the defined contribution sections of the Main Section of the Anglian Water Group Pension Scheme ("the Scheme"). It is set out in three parts; firstly the objectives and implementation of the Defined Benefit Section, secondly those of the Defined Contribution Section, and finally the Trustees' overall policies on issues that apply equally to the defined benefit and defined contribution sections.

This SIP is drafted in accordance with the requirements of Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004 and regulations made under it. The Trust is a Registered Pension Scheme for the purposes of the Finance Act 2004.

The Trustees will review the SIP at least every three years and as soon as possible after any significant change in investment policy. Before finalising this SIP, the Trustees have taken written advice from the Trust's Investment Consultant and have consulted with the Employer.

The Trustees are responsible for the trust's investment strategy and for ensuring that this is recorded in the SIP.

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ANGLIAN WATER GROUP PENSION SCHEME
STATEMENT OF INVESTMENT PRINCIPLES

1. DEFINED BENEFIT SECTION

Investment Objective

The Trustees, advised by their Investment Consultant and Actuary, through discussion at the Strategic Pensions Group (SPG) and decision by the Trustee Board, implement an investment strategy through selecting appropriate asset classes to deliver the Scheme's return and risk objectives. Funding levels, liquidity and management of risk are key drivers for the Trustees.

The funding target is to achieve full funding on the Technical Provisions basis (discount rate of gilts+0.35% p.a. used in the 2017 actuarial valuation) by 2026, or such other date, or discount basis as agreed between the Trustees and the Employer from time to time. This is captured by the return assets need to deliver ("the required return") to achieve this funding target.

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

The funding level, required return, risk and liquidity position of the Scheme are monitored on a quarterly basis. The Trustees will consider what action should be taken if these metrics are not in line with the Scheme's objectives.

The Trustees will also review the asset allocation and the objectives from time to time to ensure that they remain achievable and appropriate.

1.1 Asset Allocation

The current asset allocation has been designed following detailed strategy work by the Trustees' advisers. The Principal Employer was also consulted and a Strategic Pensions Group (SPG) has been set up with members from both the Principal Employer and the Trustees, to review and discuss strategy prior to discussion and approval by the Trustees.

The strategy takes into account the Scheme's liabilities and the Sponsor's financial strength. Following the closure of the Section to new joiners in 2002, the liabilities are expected to mature steadily. The strategy specifically recognises the need to match the Scheme's maturing liabilities with "matching" assets for cashflow purposes and to manage the risk that interest rate and inflation sensitivity can pose to the deficit. The Trustees have also decided to retain a portfolio of "return-seeking" assets which seeks to achieve returns over and above the liabilities, whilst managing downside risk, to help close the funding shortfall.

The asset allocation will be structured so that it can be expected to meet the required rate of return to achieve full funding by the target date.

The Trustees have a long-term target of transitioning the allocation to be fully matching when the Scheme funding target is met. Until that point is reached, the Scheme will need to hold an allocation to return-seeking assets to earn the returns necessary to close the remaining deficit. A framework has been agreed for reducing the allocation to return-seeking assets and increasing the allocation to matching assets as and when the required return falls sufficiently.

Matching assets include such assets as corporate bonds, gilts, infrastructure debt and other assets which can be expected to provide high-quality cash flows to match the liabilities. Return-seeking assets include such assets as equities and property, which are not expected to provide regular cash flows but which should provide outperformance over and above the liabilities to help close the deficit.

The return-seeking portfolio contains a mix of equities and other asset classes. The Trustees, on advice from their investment advisers, will vary the mix from time to time in order to retain the best possible balance between risk reduction and return potential.

The Trustees have also agreed to increase the inflation and interest rate hedge ratios to match the funding level over an appropriate period of time. This is important for stabilising the required return to close the deficit.

The Trustees and their advisers will review the asset strategy periodically to ensure that the allocation and in particular the split between return-seeking and matching assets remains appropriate given the Scheme's funding position.

The benchmark allocations within each of the matching and return-seeking portfolios are set out within the Investment Manual, and the Trustees rebalance these portfolios to their respective benchmarks from time to time. The benchmark allocations within the matching and return seeking portfolios are subject to ongoing review by the Trustees and their advisers.

Fund managers are selected for their specialist expertise and the Trustees' investment advisers recommend a mix of fund managers which aims to maximise the potential for added value as well as providing appropriate diversification.

1.2 Investment Structure

The details of the fund manager structure, investment objectives and mandates for each fund manager are set out in the Investment Manual.

Some fund managers are remunerated on a performance related fee basis. This structure has been chosen to align the fund managers' interests with those of the Scheme.

The investment advisor provides the Trustees with a regular review of the costs of investment of the Scheme's assets. The estimated manager fees are summarised in the quarterly manager performance report received by the Trustees from the investment adviser. The review is used to ensure that the costs incurred are commensurate with the services received.

The Trustees have appointed Northern Trust as the Scheme's custodian. The custodian provides safekeeping for all the Scheme's segregated assets and performs the related administrative duties, such as the collection of interest and dividends and dealing with corporate actions. The mandates are being amended to ensure surplus amounts are paid to the Scheme's accounts at Northern Trust.

The Trustees do not intentionally invest in Employer Related Investments (ERI) as set out in the Pensions Act 2004 and in the Occupational pension Trust (Investments) Regulations 2005. The Trustees monitor the level of ERI annually.

1.4 Corporate Governance

The Trustees have delegated all aspects of monitoring the behaviour of the investee companies to the individual investment managers who are, in the Trustees' opinion, best placed to make judgments and to engage in dialogue with the companies. The Trustees have emphasised to those investment managers with physical equity holdings that:

a) it is good practice for votes to be taken up by each investment manager on behalf of the Trustees.

b) from time to time there may be justifiable reasons why the Trustees may wish to direct the manager to vote in a particular way, and therefore they reserve the right to do so.

c) they expect the managers to monitor that their voting instructions are properly executed by the custodian.

In respect of both Corporate Governance and Environmental, Social and Governance (ESG), the Trustees recognise that where the investments are in pooled funds, the Trustees do not have direct control over the investment managers' actions in these two areas, as the managers invest on behalf of a number of clients. Nevertheless, the Trustees instruct the investment advisers to make the managers aware of their wishes in these matters.

1.5 Additional Voluntary Contributions for the Defined Benefit Section

The Trustees had previously chosen to offer the Defined Contribution Funds to the DB members to purchase AVC benefits. As the Scheme is now closed to future accrual, no new contributions are payable into these AVC funds.

The Trustees' policy is to obtain appropriate advice and review the AVC investments on an annual basis or more frequently, if appropriate. The Trustees have full discretion as to the vehicles available for members' AVCs.

1.6 Risk

In terms of their investment strategy the Trustees view risk as the probability that the chosen strategy would result in the objectives not being met. Factors that may result in a failure to meet the objectives are monitored on a quarterly basis. Such factors include the following, which are discussed in more detail below:

- Mismatch between assets and liabilities (mismatching risk)
- Lower interest rates and/or higher levels of market inflation increasing the value of the liabilities (interest Rate and inflation Risk)
- Members living longer than anticipated (longevity risk)
- Actions by the investment manager (manager risk)
- The need to pay benefits in the short-term and to cover transfers out (liquidity risk)
- The need to cover collateral calls on derivative positions used to manage interest rate and inflation risk and take exposure to certain markets, e.g. equities (collateral risk)
- The failure of a borrower the Scheme is exposed to through a credit investment to make good on their commitments (default risk)
- The risk of being overly exposed to a specific market, sector, company or type of investment (concentration risk)
- Actions by the custodian (custody risk)
- Acts of fraud, poor advice or negligence (operational risk)
- The possibility of failure and/or withdrawal of the Scheme's sponsoring employer (covenant risk)
- 1 in 20 market events occurring which impact the value of the funding level VaR(95%) (market Risk)
- Investing in currencies other than Sterling (currency Risk)
- Political Risk
- Reputational Risk
- Future income and capital repayments from contractual assets not being re-investable at current rates of return (reinvestment risk)
- Expiring derivate contracts not being able to be replaced on the same terms (roll risk)
- Environmental, Social and Governance (ESG) risk factors

- Climate risk

Mismatching Risk

The key risk is that the Scheme is unable to provide in full the benefits as set out in the Trust Deed. The risk arises if the Scheme has not invested its assets to match its liabilities, and is unable to achieve the investment returns, or have maturing investments or cash income required to make all payments as and when they fall due.

The Trustees review on a quarterly basis the funding level of the trust, and the proportion of hedging within the Scheme, both on a technical provisions basis and on a self-sufficiency basis, as well as the risk and liquidity position.

A key factor in the financial health of the Scheme is the risk that the value of assets and liabilities do not change in the same way when there are changes in interest rates and inflation and longevity (also see interest rate and inflation risk below).

Interest Rate and Inflation Risk

This is measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates. It is managed primarily through a committed framework for interest rate and inflation hedging. This will also be supported by increasing the Scheme's exposure to other assets which broadly match movements in the value of the liabilities due to inflation and interest rates.

Longevity Risk

This is the risk of members living longer than expected. Actuarial assumptions concerning mortality are reviewed triennially.

Manager Risk

In aiming to control manager risk the focus of the Trustees' attention is on the following aspects:

- the risk of the manager underperforming the objectives set; and
- the risks inherent in a particular manager's philosophy.

These issues are considered on the initial appointment of the managers and thereafter as part of the investment review procedures the Trustees have in place and the manager monitoring undertaken by the Investment Advisor.

The first element is monitored on a regular basis via an assessment of the appointed managers' investment portfolios, investment processes, investment results and of any developments which may impact on their continuing ability to fulfil the objectives set and consequently their continuing appointment. In contrast the second element requires consideration of any changes in the Scheme's investment requirements regarding risk and return. An investment manager's philosophy is unlikely to change from one year to the next but a change in the Scheme's needs may mean that continuing with the current investment management arrangements is no longer appropriate.

The Trustees will periodically review the continuing suitability of their appointed managers. The Trustees will take advice and obtain written reports as required from their Investment Adviser in this regard.

Liquidity Risk

Liquidity risk relates to the realisation of investments and ensuring a sufficient level of cash income in order to meet the benefit payments and other related expenses, and the Company is unable to pay sufficient additional contributions to cover the shortfall. If such asset sales are made at depressed prices this may in turn reduce the probability of meeting the primary objectives. The Trustees, in conjunction with the Company's Treasury Team monitor and manage the Scheme's cash flow requirements over the short-term in order to minimise the possibility that this occurs.

Collateral Risk

The Scheme has a hedge portfolio and uses derivatives to manage its exposure to inflation and interest rates and may also use them to take exposure to certain market returns (e.g. equities). Collateral is posted daily and if the market value of these positions is negative, the Scheme will have to post additional collateral to its counterparties to cover the loss. Generally, only gilts and cash can be used as collateral. If the Scheme does not hold sufficient cash and gilts to cover such a collateral call, it will either need to close out the position or divest some of its assets to raise the necessary collateral. The Trustee, the Scheme's LDI manager, the Investment Adviser and the Treasury Team are monitoring the Scheme's collateral position to manage such a scenario and to avoid the Scheme becoming a forced seller of assets and additional cash is held in fairly liquid funds to cover moves in rates of c. 1.5%. The available collateral is reported on a monthly basis by the Scheme's LDI manager with appropriate liquidity levels set to avoid intra month calls on cash.

Concentration Risk

The Trustees diversify its holdings in assets to avoid the risks of one market, one asset type, or one manager failing having a material impact on the Scheme's ability to achieve its objectives. A range of fund managers are appointed across a range of alternative asset classes, with diversified maturities. The Scheme's investment in any individual pooled fund should not be more than 10% of that fund's value unless specific exit safeguards are in place to protect the Scheme from a scenario where other investors exit. If it is more than 10%, the Trustees will consider whether the Scheme's investment is likely to move back below the limit within the foreseeable future. There are no specific limits on the amount of assets that can be held with a single manager but the Trustees will keep this under review and ensure that there is adequate diversification between different fund managers and investment approaches to ensure the Scheme is not overly reliant on a single manager or investment approach.

Custody Risk

Custody risk involves any of the following:

- Misappropriation of assets;
- Delivery that is not in accordance with instructions;
- Unauthorised use of assets for the benefit of other customers or the custodians;
- Inadequate segregation of customer assets;
- Failure to collect income, recover tax or respond to corporate events;
- Custodian default (insolvency).

Day to day control of custody arrangements has been delegated to a single global custodian resource appointed by the Trustees, namely The Northern Trust Company, which is independent of the investment managers. The Trustees have a service level agreement in place with the custodian and will regularly monitor its performance.

Apart from transactions entered into as part of the normal management of the Fund, the investment managers may only transfer assets to another party on the written instruction of the Trustees. The Trustees' auditors produce an annual statement detailing any issues requiring further consideration.

Operational Risk

The risk of fraud, poor advice, misconduct or acts of negligence ("operational risk"). The Trustees have sought to minimise such risk by ensuring that all advisors and third party providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received. In addition, the Scheme has a Secretary and representative within the Treasury Team to monitor and manage the investments and cashflows in order to help mitigate this risk.

Covenant Risk

The possibility of failure, breakdown of relationship and/or withdrawal of the Scheme's sponsoring employer ("covenant risk"). Regular credit risk assessments of the Employer are undertaken by the Trustees and their advisors, and the Employer provides regular updates as to the financial strength of its organisation, and any changes in its business outlook or regulatory environment. In terms of managing the relationship with the Employer, the Trustees and their advisors work together through the SPG when considering the investment strategy and any proposed changes in asset classes or strategy. The SPG has equal membership from the Trustee Board and the Company.

Market Risk

The Trustees' Investment Advisor monitors this and reports to the SPG on a quarterly basis.

Market risks are tracked and considered as part of the quarterly iRIS risk reports and manager performance updates. The risks are considered in a quantitative as well as a qualitative manner.

Currency Risk

This is measured by the level of exposure to non-Sterling denominated assets.

It is managed by the implementation of a currency hedging programme (through a combination of a segregated currency hedging overlay and currency hedging carried out by some of the Scheme's investment managers) which reduces the impact of exchange rate movements on the Scheme's asset value.

Political Risk

This is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.

It is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.

Reputational Risk

The Trustees are aware of the importance that the Sponsor attaches to this risk and work closely with the Sponsor to ensure that the reputational risks associated with the investment portfolio are monitored and managed.

The Trustees have agreed to adopt the Stewardship Code published by the Financial Reporting Council, as part of its corporate governance policy.

Reinvestment and Roll Risk

The Scheme will hold assets that provide a contractual level of returns (e.g. bonds and gilts). There is a risk that future income and capital repayments from these holdings cannot be reinvested at current rates of return (reinvestment risk). The Scheme will also hold derivate contracts which expire after a specified period and may need to be replaced to maintain hedging positions. When replacing expiring derivate contracts, there is a risk that they cannot be implemented on the same terms as the original contracts (roll risk)

The Trustees will aim to manage these risks by working with their advisers and investment managers to spread the repayment of capital from contractual assets and rolling of derivative contracts as much as possible.

Environmental, Social and Governance (ESG) Risk

The Trustees believe that Environmental, Social and Governance (ESG) factors can have a financial impact on assets held over the time horizon of the Scheme but will have varying importance for different types of assets invested by the Scheme. The Trustees will give due consideration to ESG risks when making investment decisions.

The Trustees incorporate all financially material considerations into decisions on the selection, retention and realisation of investments through strategic asset allocation decisions and the appointment of investment managers, so far as possible.

The Trustees have delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant fund manager.

The Trustees does not factor non-financial decisions (such as ethical or moral beliefs) into their investment decision making.

Climate risk

The Trustees have signed up to the A4S taskforce, a working group committed to supporting the implementation the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The Trustees are committed to furthering their understanding of climate risk within the investments and to consider climate risk when making investment decisions.

Stewardship

Engagement with underlying companies (as well as other relevant persons) of which the Trustees own shares and debt is carried out by the Scheme's investment managers as appropriate. Engagement with relevant persons includes the exercise of rights (including voting rights) attaching to the Scheme's equity investments which are exercised by the asset managers of the Scheme.

When selecting investment managers, the Trustee's investment advisers assess the ability of each investment manager in engaging with underlying companies in order to promote the long-term success of the investments. When selecting, monitoring and de-selecting asset managers, engagement is factored into the decision making process to the appropriate level for the specific asset class in question.

2. Defined Contribution Section

Introduction

Following the bulk transfer of accrued pots to the Legal & General (L&G) Master Trust in 2019, the remaining assets in the Defined Contribution (DC) Section of the Anglian Water Group Pension Scheme relate to DB AVCs (Defined Benefit Additional Voluntary Contributions) and DC top-up benefits. The remaining holdings invest in funds underlying the default strategy and other funds in the self-select range.

No further contributions are being paid into the DC Section.

The level of pension benefit will depend on two factors:
(i) The return on a member's accumulated fund over the period to their selected date of retirement
(ii) The cost of turning the accumulated fund into pension benefit (i.e. cash, income drawdown or annuity purchase) at retirement.

Investment Objective

The Trustees' aim is to provide members of the DC Section with a range of investment options that meet their different investment needs and attitudes to risk.

The Trustees' objectives in selecting the component funds are as follows:

The Trustees retain the responsibility for selecting and monitoring the underlying investment managers of each fund, in such a way that changes to these can be implemented easily (including existing investments) without affecting members' recorded unit holdings.

The Trustees' Investment Objective is implemented using a range of active and passive investment options as set out in the Scheme's Investment Manual.

The Lifestyle strategies used within the DC Section are defined and reviewed by the Trustees in conjunction with their Investment Adviser. Details of the current strategies are held in the Investment Manual.

The Trustees carried out a detailed review of the DC Section's default Lifestyle strategies and self-select fund range following Freedom and Choice and implemented substantive changes with a view to delivering better outcomes for members and their beneficiaries at retirement.

The Trustees believe it is in the best interests of members to operate a Default Option which helps to manage the principal investment risks members may face over the savings period. In addition, the Default Option is a lifestyle strategy which automatically moves members' accumulated funds from higher risk investments to lower risk investments as the selected retirement age nears. This is designed to be appropriate to meet the needs of a majority of the membership. Members who choose not to go into the Default Option can invest on a "self-select" basis (the funds available within the Default Option are also available in the self-select fund range).

In designing the default lifestyle strategy – the 2015 Lifestyle Option – the Trustees took into account a number of factors including (but not limited to) members' projected pot sizes at retirement, contribution levels, risk and return profile of the investments within the default Lifestyle strategy and the DC charge cap. The analysis of projected pot sizes informs a view as the likely form of benefits members will take at retirement. The Trustees continue to keep the default and self-select investment strategies under review in light of changes to the membership profile.

2.1 Objectives of the Default Option

The main objective of the 2015 Lifestyle Option is to provide good member outcomes at retirement while subject to a level of investment risk which is appropriate to the majority of members who do not want to make active investment choices.

The principal objectives of the 2015 Lifestyle Option are:

- To manage the principal investment risks faced by an average member during their membership of the Scheme.
- To target the majority of members who are expected to use Flexible Access Income Drawdown during their retirement.
- To invest in funds which are expected over the long-term to deliver strong returns relative to inflation for members up to 25 years from retirement.
- To progressively invest in funds which are expected over the long-term to deliver good returns relative to inflation, while seeking to control the level of volatility in fund values compared to equities, for members between 10 and 25 years from retirement whose DC Pots are expected by then to have grown to a size where the value at risk is material.
- During the last 10 years before retirement, to increasingly invest in lower risk funds which are expected to help mitigate fluctuations in the sizes of both members' fund values and the benefits members are likely to take at retirement.

The self-select fund range is provided for members who want to take an active part in choosing where their accumulated fund is invested and complements the 2015 Lifestyle Option. The self-select fund range covers a spectrum of investment risk levels and investment approaches, so that members can tailor their investments more closely to their personal needs and attitude to risk, although it cannot be expected to cover all the investment needs of all members.

2.2 Risk Measurement and Management

The Trustees recognise the key risk is that members will have insufficient income in retirement or an income that does not meet their expectations. The Trustees consider this risk when setting the investment options and strategy for the DC Section. The Trustees' policies in respect of risk measurement methods and risk management processes are set out below.

The Trustees consider the following sources of risk:

- Risk of not meeting the reasonable expectations of members, taking into account their contributions to date. The Trustees consider the risks to members in terms of the possibility of low pensions, volatility of their funds in the medium-term and the volatility in the run-up to annuity purchase at retirement. The fund options and communication plans are set following consideration of which risks are most important to the majority of members.
- Risk of fund managers not meeting their objectives ("manager risk"). This risk is considered by the Trustees and its adviser both upon the initial appointment of the fund manager and on an ongoing basis thereafter. The Trustees' Investment Adviser researches the fund managers and reports the findings back to the Trustees on a quarterly basis, or more often if there are significant developments. The Trustees monitor the managers' performance and adviser's views quarterly.
- Risk of the funds being unsuitable for the requirements of some members. Advice is taken from the Investment Advisor to mitigate this risk.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustees have sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.
- The risk associated with the investment platform (held with Phoenix Life Corporate Investment Services), which the Trustees monitor on a regular basis as part of its governance process.
- The risk that the relative market movements in the years just prior to retirement, for members wishing to purchase an annuity, will lead to a substantial reduction in the pension and cash lump sum secured ("pension conversion risk").
- The risk that funds which invest in more illiquid assets will not be able to accept investments or disinvestments requested by the Trustees and/or members ("liquidity risk"). The Trustees are satisfied that the pooled funds in which the DC Section is invested usually have sufficient liquidity and may be realized quickly if required.

Due to the complex and interrelated nature of these risks, the Trustees consider these risks in a qualitative rather than quantitative manner as part of each formal strategy review. The Trustees' policy is to review the range of funds offered on at least a three year basis or more frequently if required.

These risks are considered as part of any strategy review. In addition, the Trustees measure risk in terms of the performance of the assets, compared to the benchmarks on a regular basis, usually quarterly, along with monitoring any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustees.

2.3 Expected Return on Investments

The Trustees believe it is important to balance investment risks with the likely long term returns from different types of investment funds (taking the charges into account).

The expected returns on the principal asset classes and fund types within the DC Section are:

- Equities (i.e. company shares) – should achieve a strong positive return relative to inflation over the longer-term, but tends to be the most volatile asset class over the shorter-term.
- Property (e.g. offices, shops and warehouses) – should achieve a positive return relative to inflation over the longer-term which is lower than that for equities, but with a lower level of shorter-term volatility than equities.
- Multi-Asset (e.g. investing in a mix of asset classes) – should deliver positive returns relative to inflation over the longer term, with lower short term volatility than equities.
- Corporate Bonds (i.e. debt issued by companies) – should achieve a positive return relative to inflation over the longer-term which is lower than that for equities and property, but with a lower level of shorter-term volatility than equities or property.
- Fixed Interest Government Bonds (Gilts) – should deliver a positive return relative to inflation over the longer-term which is lower than that of equities, property and corporate bonds, but with a lower level of shorter-term volatility than equities, property and corporate bonds.
- Index-linked Government Bonds (Index-Linked Gilts) – should deliver a return in line with inflation over the longer-term, but with a lower level of shorter-term volatility than equities, property and corporate bonds.
- Cash (and cash-like instruments) – should deliver a positive return which may not always keep pace with inflation (net of fees), while normally providing a minimal level of volatility and high degree (but not complete) of capital security.
- Long-dated Government Bonds (Gilts) and long-dated Corporate Bonds – values should move broadly in line with the financial factors influencing annuity rates.
- Diversified Growth/Multi-Asset Funds – invest in a varying mix of asset classes with an objective of delivering a target level of positive returns relative to inflation over the longer-term, with a target level of shorter-term volatility lower than equities.

The Trustees believe that both active and passive management have a place in defined contribution arrangements. Some asset classes or investment approaches (such as property, cash and diversified growth strategies) are only available as actively managed funds.

2.4 Types of funds used

The Trustees make available pooled funds through a direct contract with the investment platform. The Trustees have delegated the day-to-day investment decisions including the management of financially material considerations (see next section) to the investment managers responsible for the various investment funds.

The Trustees expect that the fund managers will normally be able to sell assets within a reasonable timescale to meet withdrawals. There may, however, be occasions where the manager needs to impose restrictions on the timing of sales and purchases of funds (most notably for funds investing in property) in some market conditions to protect the interests of all investors in that fund. Nonetheless, the Trustees recognise that most members' pensions have a long investment timeframe, during which assets which are less easily traded (such as property or infrastructure) can be managed to deliver good long-term returns while avoiding the impact of liquidity issues at retirement.

Overall the Trustees believe that the DC Section's investment options cater to members with varying risk and return requirements and appropriately manage the risks faced by most members.

2.5 Responsible Investment

2.5.1 Financially and non-financially material considerations

The Trustees recognise that financially material considerations, including environmental, social and governance (ESG) factors, affect risk and returns over the medium to long term but will have varying important for different types of assets invested by the DC Section. As such these considerations take precedence in fulfilling the Trustees' primary objectives for the DC Section and translate to the development, selection, retention, realisation and monitoring of the investment options.

The Trustees will give due consideration to ESG risks when making investment decisions.

The Trustees incorporate financially material considerations through the investment managers, so far as possible. The Trustees expect its investment managers will take all financially material factors into account where relevant.

In passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal discretion to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the market and believe this approach is in line with the basis on which their current strategy has been set.

In active mandates, the Trustees recognise that the manager has freedom to exercise discretion as to the choice of assets held. The Trustees expect the manager to take into account all financially material factors in the selection of assets within their portfolios and to be able to demonstrate their approach when challenged.

Non-financially material factors are the views of members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the DC Section. The Trustees have not sought to consider non-financially material factors in developing the current strategy.

Members have the ability to invest their accumulated funds in an 'ethical' investment option, where the selection, retention and realisation of investments are made with particular regard to ESG issues.

Climate Risk

The Trustees have signed up to the A4S taskforce, a working group committed to supporting the implementation the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The Trustees are committed to furthering their understanding of climate risk within the investments and to consider climate risk when making investment decisions.

2.5.2 Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

The Trustees have adopted a policy of delegating voting decisions on stocks to their investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The investment manager is expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where appropriate, the Trustees will engage with and seek further information from their investment manager on how portfolios may be affected by a particular issue.

When selecting investment managers, the Trustees' investment adviser assesses the ability of each investment manager in engaging with underlying
companies in order to promote the long-term success of the investments. When selecting, monitoring and de-selecting asset managers, engagement is factored into the decision-making process to the appropriate level for the specific asset class in question.

The Trustees do not engage directly, but believe it is sometimes appropriate for its investment manager to engage with key stakeholders, which may including corporate management, regulators and governance bodies, relating to their investments to improve corporate behaviour, performance and mitigate financial risks. The Trustees will review engagement activities undertaken by its investment manager where appropriate as part of its broader monitoring activity.

2.6 Implementation

An Investment Adviser will advise the Trustees in relation to the DC Section. They operate under an agreement to provide a service which ensures the Trustees are fully briefed to take decisions themselves and to monitor those they delegate. The Investment Adviser is paid on the basis of a pre-agreed fee which includes all services needed on a regular basis to support the requirements of the DC Section. Some one-off projects fall outside the scope of services and the fees for these are agreed separately. This structure has been chosen to ensure that cost-effective, independent advice is received.

Trustees	**Trustee Committees:**
• Set structures and processes for carrying out their role • Select and monitor planned asset allocation • Appoint Working Groups as and when required, who are authorised to take actions by the Trustees • Select direct investments (see below) • Consider recommendations from the Strategic Pensions Group (SPG) • Agree Terms of Reference for the SPG	**Audit Committee** Compliance functions that the Trustee Board are legally required to complete. Other committees as required from time to time as agreed by the Trustees.
Investment Adviser • Advise on all aspects of investment strategy, including selection and implementation with appropriate fund managers, and on interaction between Scheme assets and liabilities. • Advise on this statement SIP • Provide required training	**Fund Managers** • Operate within the terms of this statement and their written contracts • Select individual investments with regard to their suitability and diversification

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments.** These include vehicles available for members' contributions in the defined contribution section and members' AVCs in both sections.

The Trustees' policy is to review their direct investments and to obtain written advice about them at regular intervals. When deciding whether or not to make any new direct investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager(s).

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The Regulations require all investments to be considered by the Trustees (or to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities

POLICIES THAT APPLY TO BOTH THE DEFINED BENEFIT AND DEFINED CONTRIBUTION SECTIONS:

3. General Investment Policy

For both sections it is the Trustees' policy to take investment advice and consider:

- A full range of asset classes, including alternative asset classes;
- The risks and rewards of a range of alternative asset allocation strategies;
- The suitability of each asset class in the defined benefit section asset allocation strategy;
- The suitability of each asset class for investment in the defined contribution section;
- The suitability of the possible styles of investment management for members of the defined contribution section; and
- The need for appropriate diversification both across asset classes and within asset classes and cashflow matching within the defined benefit section.

The Trustees have delegated all day-to-day decisions about the investments that fall within each mandate to the relevant fund manager through a written contract. When choosing investments, the Trustees and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). The manager's duties also include:

- Taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments.
- Voting and corporate governance in relation to the Scheme's assets.

The Trustees receive and review copies of the managers' policies on exercising voting rights. They have also put a Socially Responsible Fund option in place for the Defined Contribution members.

4. Governance

The Trustees of the Scheme are responsible for the investment of the Scheme assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision making structure:

- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustees' investment advisers have the knowledge and experience required under the Pensions Act 1995.

The Trustees expect the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

Fund managers are remunerated on either an ad valorem basis, or a performance related basis. The level of remuneration paid to fund managers is reviewed periodically by the Trustees against market rates to ensure the fund managers' interests are aligned with those of the Scheme.

5. Investment Advisers

An Investment Adviser has been selected to advise the Trustees and SPG in respect of the defined benefit section and a separate Adviser for the defined contribution section. They operate under an agreement to provide a full service designed to ensure that the Trustees are fully briefed both to take the decisions they take themselves and to monitor those they delegate. Fees for defined contribution advice are mainly on a fixed basis.

6. Reviewing this Statement

The Trustees will review this SIP at least every three years and as soon as possible after any significant change in investment policy. The Trustees will take investment advice and consult with the Principal Employer on behalf of all participating employers over any changes to the SIP.

This Statement of Investment Principles is produced to meet the requirements of the Pensions Act 1995 and 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary code of conduct for Institutional Investment in the UK. The Trustees also comply with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

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Trustees	Trustee

Version	Effective from
1.0	6 April 1997
2.0	23 November 1998
3.0	18 August 1999
4.0	30 May 2000
5.0	26 March 2002
6.0	1 April 2002
7.0	5 June 2002
8.0	26 February 2003
9.0	26 March 2003
10.0	3 June 2003
11.0	1 September 2004
12.0	1 April 2006
13.0	1 May 2007
14.0	19 December 2007
15.0	24 September 2008
16.0	26 May 2011
17.0	10 June 2014
18.0	6 June 2016
19.0	8 October 2018
20.0	13 June 2019
21.0	10 September 2019