Chair's DC Governance Statement, covering 1 April 2021 to 31 March 2022

Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements, to help members achieve a good outcome from their pension savings. The Trustee of the Anglian Water Group Pension Scheme (the "Scheme") is required to produce a yearly statement (which is signed by the Chair of the Trustee) to describe how these governance requirements have been met in relation to:

- the investment options in which members can invest (this means the default arrangements and other funds members can select or have assets in);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a statement of the net returns for each default arrangement and each fund that members are able to select or were in the past able to select;
- a 'value for members' assessment; and
- trustee knowledge and understanding.

This Statement sets out how the Trustee has managed the DC benefits for the 12 months to 31 March 2022 in respect of the benefits administered under the Defined Contribution Section (the "DC Section") of the Scheme and Additional Voluntary Contributions (the "AVCs") paid on a DC basis. This Statement also sets out what the Trustee aims to do in the coming year.

This Statement contains a Summary and a Detailed Section, which expands on the Summary.

A copy of this Statement is posted online at https://www.awg.com/reports.

What's included in this Statement?

We've included information on the following areas in this Statement:

1. How we manage your Scheme – who the Trustee Directors are and what guides our decision making;
2. Investment options – what we have done to check the performance and suitability of the Scheme's investment options, especially those used by members who don't want to make an investment choice (known as the "default arrangement");
3. Cost and charges – what costs and charges you have paid in the last year and how these might impact the size of a typical member's savings in the Scheme over time;
4. Investment returns – what the return on investment was, after deduction of charges and transaction costs, on the funds available in the Scheme over the Scheme Year, including the default arrangements;
5. Value for Members – how the quality of the Scheme's services (including the investment returns on your savings) which you pay for compare to other pension schemes;
6. Administration – how well the Scheme has been administered including how promptly and accurately key transactions (such as the investment of your contributions) have been processed;
7. Trustee knowledge – what we as Directors of the Trustee Board have done to maintain our level of knowledge and obtain the professional advice we need to look after the Scheme for you; and
8. Work carried out over the Scheme Year – what key actions the Trustee took in the last year.

Summary

What were the highlights from the last 12 months?

This statement confirms that for the last year:

1. How we manage your Scheme

The Statement of Investment Principles (SIP), which sets out the Trustee's policies on how your contributions should be invested, was not changed during the Scheme Year. The last time the SIP was formally reviewed and updated was 10 February 2021.

The Trustee has, in its opinion, followed the policies in the Scheme's SIP during the Scheme Year. The Trustee's Implementation Statement describes how the Trustee has followed its policies set out in the SIP.

At 31 March 2022, the DC Section of the Scheme, including members with AVCs on a DC basis, had 66 members and was worth a total of £2.4m.

An extract from the Scheme's SIP, detailing the Trustee's objectives and policies in relation to the default arrangements, is contained in Annex A.

2. Investment options

No changes were made to the investment options available to members over the course of the Scheme Year. However, the Trustee considered options for the addition of a self-select equity fund that takes account of Environmental, Social, and Governance ("ESG") factors, and discussed the implications for members of the phasing out of the London Interbank Offered Rate (LIBOR) as a benchmark, which affected the Cash Fund (see "Detailed section" below for further details).

The Trustee reviews the investment options on a regular basis in line with the relevant regulations and proportionate to the circumstances of the Scheme. The next full review of the investment options will be carried out no later than December 2022.

3. Cost and charges

Members pay for the Scheme's investment services while Anglian Water ("the Company") pays for the Scheme's administration, communications, and governance services. We monitored the costs and charges going out of members' pension pots during the last year.

Two default funds are present in the Scheme: the L&G Multi-Asset Fund ("MAF") and the L&G Cash Fund. Unless they made an active selection, members were placed in either the MAF or the Cash Fund when the previous pension arrangements were moved to L&G during the 2020-2021 Scheme Year.

Members were placed in one of the two designated default funds based on whether they were more or less than 5 years from retirement respectively. Those more than 5 years from retirement were placed in the MAF and those less than 5 years to retirement were placed in the Cash Fund.

Under the arrangements provided by L&G, the charges paid by members remain constant, regardless of their proximity to retirement. This is because the strategy does not operate a lifestyle arrangement, whereby members' assets are switched between investment types according to the number of years remaining to retirement.

The charges paid by members invested in the MAF amount to 0.2% and those paid by members invested in the Cash Fund are 0.1% (or, put another way, £2.00 for every £1,000 invested in the MAF and £1.00 for every £1,000 invested in the Cash Fund).

4. Investment returns

For DC Chair's Statements published after 1 October 2021, the Trustee is required to report on the net returns achieved by the funds available in the Scheme, including its default arrangements. This means that the Trustee must report the return on investments after the deduction of charges and transaction costs. This is the first year in which the Trustee has done this and we have no concerns about the returns achieved on any of the funds available to members.

5. Value for Members

Each year we look at the costs and charges you pay and see how they compare with similar pension schemes. The Value for Money (VfM) assessment covers member borne charges (ie the investment management and transaction costs). However for completeness, we also included other relevant areas, including administration services and scheme governance, where the employer bears the costs. Overall, we found that the Scheme provided good value for members over the last year.

6. Administration

The scheme administration is continually monitored by the Trustee Board. Capita failed to achieve the agreed service standards in the 12 months to 31 March 2022. The Trustee agreed a performance target of 95% with Capita and over the course of the Scheme Year, performance was 88.4% (Q2 2021), 81.2% (Q3 2021), 82.5% (Q4 2021), and 92.5% (Q1 2022).

As a result of Capita's inconsistent performance over several years, the Trustee commenced a review of administration services in March 2021, which included an overview of the administration market and engagement of a third party consultant to review Capita's admin practices. The review resulted in a full tender exercise that was completed in February 2022. The Trustee has agreed to transition administration from Capita to a new administration provider. This process is expected to take place in Q1 2023.

7. Trustee knowledge

It's important that we as Trustee Directors keep our knowledge of pension and investment matters up to date and have access to sound professional advice.

There were no new Trustee Directors appointed over the Scheme Year. When new Trustee Directors are appointed, an introductory training session is held with the internal pensions team and scheme advisers to cover the role and duties of trustees as well as an introduction to the Scheme from a legal, actuarial, and investment perspective.

Overall, the Trustee believes that they have the right skills and expertise together with access to good quality professional advice so that they can run your Scheme properly.

8. Work carried out over the Scheme Year

During the last year the Trustee:

- Regularly assessed fund fees, suitability and performance with input from the Scheme's DC investment adviser;

- Set objectives for their investment consultants following an industry wide order from the Competition and Markets Authority;

- Communicated the results of the Value for Members Assessment and arranged for the publication of the Chair's Statement in a publicly searchable location on the internet (a note of this location was included in the annual benefit statements); and

- Considered and approved the addition of an ESG equity fund to the existing fund range.

In the next 12 months; the Trustee will:

- Continue to review funds and monitor performance regularly;

- Communicate a summary of the results of the Value for Members Assessment in the Chair's Statement to inform members, which will be posted online;

- Update the SIP to reflect further regulatory requirements, as appropriate, and any further changes to the Scheme.

The rest of this Statement goes into more detail; please read on if you want to find out more about how we have managed your Scheme in the last year.

Detailed section

1. How we manage your Scheme

The Anglian Water Group Pension Trustee Limited ("the Trustee") is the sole trustee of the Scheme (since its appointment on 4 March 2020). The "Trustee Directors" are directors of the Trustee and manage the Scheme on your behalf.

As at 31 March 2022, the Trustee Directors of the Scheme were:

- Charles Mowat
- Darren Stevens
- Eric Stobart
- Philip Trussell
- Eric Woodcock
- Wayne Young
- Clear Pen Solutions Ltd (represented by Stephen Yandle)

During the Scheme Year, Darren Stevens resigned on 3 September 2021 and was re-appointed on 10 January 2022.

The Trustee, with the help of its investment advisers, reviews the Statement of Investment Principles (the "SIP"), which sets out the Trustee's investment policies, at least every three years. Over the course of the Scheme Year, no SIP review took place.

The Trustee is required to publish an Implementation Statement on an annual basis setting out how the Trustee complied with the policies set out in its SIP. During the Scheme Year, the Trustee published its second Implementation Statement for the Scheme Year ending 31 March 2021. Its next Implementation Statement, covering the year to 31 March 2022, will be published by the Trustee as part of its Report and Accounts in 2022.

Over the year to 31 March 2022, the number of members decreased from 79 to 66 and the total value of members' pension pots remained broadly the same at c.£2.4m.

2. Investment options

The Default arrangement

The Trustee is responsible for the governance of the default arrangements which includes setting and monitoring. The default arrangement is designed for members of the DC Section who do not choose an investment option.

During the Scheme Year, the Trustee made no changes to the default arrangements. L&G continues to provide the investment management arrangements for the Scheme, and the Trustee remains satisfied that the default arrangements and investment options remain suitable. It is our intention that the investment options are reviewed on a regular basis as needed in line with the relevant regulations and proportionate to the circumstances of the Scheme. It is intended that the next full review will take place by December 2022 or immediately following any significant changes in investment policy or the Scheme's member profile.

In addition to triennial strategy reviews we also review the performance of the default arrangement against its objectives on a quarterly basis. This review includes performance analysis to check that the risk and return levels meet expectations. Our reviews over the Scheme Year concluded that the default arrangements were performing broadly as expected and consistently with the the aims and objectives as stated in the SIP.

During the Scheme Year, use of the London Interbank Offered Rate (LIBOR) as a benchmark was phased out across the market and replaced by the Sterling Overnight Index Average (SONIA). This affected the Cash Fund, as its benchmark was updated as a result of the change. The Trustee discussed this change and agreed that the overall management of the funds will not be impacted.

The Trustee also considered options for the addition of an ESG equity fund during the Scheme Year. 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.

3. Costs and charges

We are required to set out the ongoing charges incurred by members over the period covered by this Statement, which are annual fund management charges plus additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds.

We are also required to disclose transaction cost figures over the period covered by this Statement. In the context of this Statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds, but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The charges and transaction costs have been supplied by L&G, the Scheme's investment manager during the Scheme Year. When preparing this section of the Statement, we have taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated it is possible for figures to be negative.

Default arrangement

The Scheme offers two default options with L&G:

- The L&G Multi Asset Fund; and
- The L&G Cash Fund.

There are no automatic switches between funds, as it is not a lifestyle arrangement, and, therefore, the transaction costs stated in the tables below are those of the underlying funds, the L&G Multi Asset Fund and L&G Cash Fund. Those members who were five or more years to retirement at the time of the transition to L&G had their assets transferred to the L&G Multi-Asset Fund. Those members nearer retirement were transitioned into the L&G Cash Fund.

For the period covered by this Statement for which members have been invested in the current arrangement, annualised charges and transaction costs are set out in the following table.

Default charges and transaction costs

Default Option	TER	Transaction costs
Multi Asset Fund	0.20%	0.01%
Cash Fund	0.10%	0.02%

Self-select options

In addition to the default arrangements, members also have the option to invest in several other self-select funds.

The level of charges for each self-select fund (including the default arrangements) and the transaction costs over the period covered by this Statement are set out in the following table. The funds used as Defaults are shown in **bold**.

Self-select fund charges and transaction costs

Fund name	TER	Transaction costs
L&G Ethical UK Equity Fund	0.20%	0.04%
L&G World (ex-UK) Equity Index Fund	0.12%	0.00%
L&G UK Equity Index Fund[1]	0.10%	-
L&G All World Equity Index Fund	0.12%	0.00%
L&G Multi-Asset Fund	**0.20%**	**0.01%**
L&G Dynamic Diversified Fund[1]	0.51%	-
L&G Managed Property Fund	0.72%	-0.25%
L&G AAA-AA-A Corporate Bond – All Stocks Index Fund[1]	0.10%	-
L&G Over 15 Year Gilts Index Fund[1]	0.08%	-
L&G Over 5 Year Index-Linked Gilts Fund[1]	0.08%	-
L&G Cash	**0.10%**	**0.02%**
L&G Treasury Bills Fund[1]	0.10%	-

[1]There were no assets invested in these funds during the Scheme Year so there are no transaction costs for the period.

Illustration of charges and transaction costs

The following table sets out an illustration of the cumulative impact of charges and transaction costs on the projection of an example member's pension savings. In preparing this illustration, we had regard to the relevant statutory guidance.

- The “before costs” figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The “after costs” figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the year to 31 March 2022, subject to a floor of zero (so the illustration does not assume a negative cost over the long-term). We have used the average annualised transaction costs over the past two years as this is the longest period over which figures were available, and should be more indicative of longer-term costs compared to only using figures over the Scheme Year.
- The illustration is shown for the default funds (both the Multi Asset and Cash funds), since these are the arrangements in which most members are invested, as well as two funds from the Scheme’s self-select fund range. The two self-select funds shown in the illustration are:
  - the fund with lowest annual member borne costs – L&G All World Equity Index Fund
  - the fund with highest annual member borne costs – this is the L&G Managed Property Fund

Projected pension pot in today's money

	L&G Multi-Asset Fund		L&G Cash Fund		L&G Managed Property Fund		L&G All World Equity Index Fund	
Years invested	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£25,000	£25,000	£24,300	£24,300	£25,200	£25,000	£25,500	£25,400
3	£25,300	£25,100	£23,300	£23,200	£25,800	£25,300	£26,600	£26,500
5	£25,500	£25,200	£22,200	£22,100	£26,500	£25,600	£27,800	£27,700
10	£26,200	£25,500	£19,800	£19,600	£28,200	£26,300	£31,100	£30,700
15	£26,800	£25,900	£17,700	£17,400	£30,000	£27,000	£34,800	£34,200
20	£27,500	£26,200	£15,800	£15,400	£31,900	£27,700	£38,900	£38,000
25	£28,200	£26,500	£14,100	£13,700	£34,000	£28,400	£43,400	£42,200
30	£28,900	£26,900	£12,600	£12,200	£36,100	£29,200	£48,500	£46,900
35	£29,600	£27,200	£11,200	£10,800	£38,500	£30,000	£54,300	£52,100
40	£30,400	£27,600	£10,000	£9,600	£40,900	£30,800	£60,600	£57,900

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today’s terms, and do not need to be reduced further for the effect of future inflation.
- The starting pot size used is £24,900. This is the approximate average pot size across all members as at 31 March 2022.
- The projection is for 40 years, being the approximate duration that the youngest scheme member has until they reach the scheme’s Normal Pension Age.
- The projected annual returns used are as follows:
  - Default Multi Asset – L&G Multi Asset Fund: 0.5% above inflation
  - Default Cash – L&G Cash Fund: 2.25% below inflation
  - L&G Managed Property Fund: 1.25% above inflation
  - L&G All World Equity Index Fund: 2.25% above inflation
- No allowance for active management outperformance has been made.

4. Investment returns

This section shows the annual return, after the deduction of member borne charges and transaction costs, for all investment options that members can select or could select during the Scheme Year, and in which assets relating to members were invested during the Scheme Year.

The table below shows the net returns for all funds that were available in the Scheme during the Scheme Year. Given the nature of the default arrangements (ie. not a lifestyle strategy), returns do not vary with age. Returns for the default funds, the L&G Multi-Asset Fund and the L&G Cash Fund are highlighted in **bold**.

Fund net returns over 1 year to the Scheme Year end

Fund name	1 year (%)
L&G Multi-Asset Fund	**4.0**
L&G Cash Fund	**0.0**
L&G World (ex-UK) Equity Index Fund	14.6
L&G All World Equity Index Fund	12.5
L&G Managed Property Fund	22.0
L&G Ethical UK Equity Index Fund	12.9
L&G AAA-AA-A Corporate Bond –All Stocks Index Fund	-5.3

Fund name	1 year (%)
L&G Dynamic Diversified Fund	4.0
L&G Over 15 Year Gilts Index Fund	-7.3
L&G Over 5 Year Index-Linked Gilts Index Fund	4.8
L&G Treasury Bills Fund	-0.1
L&G UK Equity Index Fund	13.1

5. Value for members

Most of the services provided to the Scheme, including employer administration, Scheme administration and communications and Trustee advice are paid for by the Trustee. This means that members bear the cost of investment management services only.

In accordance with regulation 25(1)(b) of the Administration Regulations, the Trustee has assessed the extent to which the charges and transaction costs set out above represent good value for members. The Trustee is aware that there is no legal definition of 'good value' and so the process of assessing good value for members is a subjective one. The Trustee has received advice on how to assess good value from its advisers and has considered regulatory guidance. The Trustee also notes that the best value is not automatically achieved by obtaining the lowest charges.

The Trustee has assessed the extent to which these charges and costs represent good value for members by benchmarking the charges and transaction costs of the funds available against other schemes of a similar size, and reviewing the performance of the Scheme's investment options against their respective benchmarks and in the context of their investment objectives. The review did not identify any significant actions in relation to the investment arrangements and it was found that the TERs set out above compare well against similar schemes.

6. Administration

Capita was the Trustee's appointed Scheme administrator and L&G was the Trustee's appointed DC investment managers during the year.

The Trustee has a specific duty to ensure that core financial transactions relating to DC benefits are processed promptly and accurately. Set out below is an explanation of the processes which the Trustee has had in place over the year to ensure that core financial transactions were processed promptly and accurately.

The Trustee monitored core financial transactions (as defined in the relevant regulations) occurring during the year including in particular:

- Switches between investment options; and
- Payments of benefits (including retirements and outward transfers of funds).

The Trustee has a service level agreement in place with the Scheme's administrator, which covers the accuracy and timeliness of all core financial transactions such as:

- Switching investment options;
- Providing quotations of benefits to members who are retiring or leaving the Scheme;
- Payments of benefits;
- Producing annual benefit statements; and
- Responding to ad hoc enquiries from members.

The main service standards are:

- Provision of retirement pack and quotation of benefits within 5 working days;
- Payments of benefits are made within 2 working days;
- Provision of transfer value quotation within 5 working days;
- Payment of transfer value within 5 working days;
- Response to members enquiries within 5 working days;
- Provision of statements upon request within 5 working days; and
- Processing of investment switches within 3 days

The Scheme's administrator aims to ensure that 95% of all these processes are completed within these service levels. Capita did not achieve the agreed service standards in any quarter during the Scheme Year to 31 March 2022.

The Trustee understands that the administrator monitors its performance against these service levels by:

- Running daily reports to establish that the agreed service levels were being met;
- Further training is undertaken and additional resource applied to improve performance where necessary;
- Monitoring daily transactions;
- Monitoring daily workflow items;
- Regular internal audits of administration procedures;
- Reviewing the level, causes and resolution of complaints; and
- Maintaining compliance with: ISO 9001, ISO 14001, ISO 20000, ISO 22301 and ISO 27001.

The Trustee monitored core financial transactions and administration service levels during the year by:

- Receiving quarterly reports from the administrator on the processing of financial transactions and other administration processes against the agreed service levels;
- Considering the reasons for and resolution of any breaches of service standards;
- Reviewing the competitiveness and standards of the Scheme's administrator against other scheme administrators;
- Receiving reports from the Scheme's Auditor, who independently tests sample transactions for accuracy and timeliness; and
- Considering member feedback received, including any complaints.

The scheme administration is continually monitored by the Trustee Board. Over the year to 31 March 2022 (and in previous scheme years), the service has not been consistent.

As a consquence, the Trustee commenced a review of administration services in March 2021, which included an overview of the administration market and engagement of a third party consultant to review Capita's admin practices. The review resulted in a full tender exercise that was completed in February 2022. The Trustee has agreed to transition administration from Capita to a new administration provider. This process is expected to take place in Q1 2023.

Notwithstanding that the Scheme's administrator did not achieve its target SLAs, the Trustee is satisfied that the core financial transactions relating to the Scheme were processed accurately over the 12 months to 31 March 2022.

7. Trustee knowledge and understanding

The Scheme's Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Section 247 and 248 of the Pensions Act 2004 requires that each Trustee Director must:

- be conversant with the Trust Deed and Rules of the Scheme, the Scheme's Statement of Investment Principles and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally; and
- have, to the degree that is appropriate for the purposes of enabling the individual to properly exercise his or her functions as a Trustee Director, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment the assets of occupational pension schemes.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law, which have been met by all Trustee Directors. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustee's current practices to maintain and develop their level of knowledge and understanding of matters relating to the Scheme are:

- ongoing training to ensure that Trustee Directors maintain a working knowledge of:

- the Scheme's Trust Deed and Rules;

- the Scheme's SIP as well as the investment concepts and principles relevant to the Scheme;

- contract documents in relation to administration of the Scheme; and

- the law and legislation relating to pension schemes and trusts.

- an induction process for newly appointed Trustee Directors, who:

    - have a one-to-one meeting with the Anglian Water Group pension team for an overview of the Scheme;

    - are asked to complete the Pensions Regulator's "Trustee Toolkit" within 12 months of becoming a Trustee Director;

    - are provided with details of relevant upcoming external seminars; and

    - receive scheme specific trustee training from the Scheme's advisers.

Trustee Directors are expected to check regularly for new modules on the Pension Regulator's "Trustee Toolkit". The Trustee Directors also receive quarterly "hot topics" from their adviser covering technical and legislative / regulatory changes affecting defined contribution (and additional voluntary contribution) schemes in general. The Trustee Board includes professional trustees who receive additional individual training and Trustee Directors are encouraged to undertake further study and attend training seminars outside of the Trustee Board.

The effectiveness of these practices and the training received are reviewed annually and the Trustee Directors carry out an annual assessment to confirm and identify any gaps in their knowledge and skills. The Trustee applied these practices, and the further activities described below, throughout the Scheme Year ending 31 March 2022.

Further, the Trustee works with their advisers to consider training requirements to identify any knowledge gaps. The Trustee's investment advisers raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers typically deliver training on such matters at Trustee meetings if they are material. The advisers also provide regular updates in respect of regulatory and statutory changes both at a general and scheme specific level.

All the Trustee Directors have access (via a secure, online depository) to copies of and maintain familiarity with the current governing documentation for the Scheme, including the Trust Deed & Rules (together with any amendments) and the SIP. The Trustee refers to the Trust Deed and Rules as part of deciding to make any changes to the Scheme and the SIP is formally reviewed at least every three years and as part of making any change to the Scheme's investments.

All the Trustee Directors have completed the Pensions Regulator's Trustee Toolkit (the Trustee Toolkit is a free online learning programme from The Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustees meet the minimum level of knowledge and understanding required by law). A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date.

The Trustee Director's training needs, where identified, are incorporated into the annual training plan. The Trustee Board also carries out an annual review of its Business Plan, which identifies training needs and sets out the actions to be taken and helps monitor progress.

The Trustee Directors test their familiarity with the Scheme's documentation, pensions law / regulations by:

- ensuring any new documentation or regulation is noted at one of the Trustee's regular Board meetings; and

- receiving regular updates from the Scheme's advisers and attending additional seminars / webinars on key subjects.

The Trustee has appointed suitably qualified and experienced actuaries, legal advisers, investment advisers, and benefit consultants to provide advice on the operation of the Scheme in accordance with its Trust Deed and Rules, legislation, and regulatory guidance.

Trustee advisers attended quarterly Trustee Board meetings, as required, and any additional ad hoc meetings necessary during the Scheme Year, and provided written advice to the Trustee where appropriate. The Trustee reviews the effectiveness of its advisers annually on a desktop basis and also periodically reviews its advisers in more detail, if necessary, including the terms on which advisers are appointed.

The Trustee is satisfied that during the last year they have:

- taken effective steps to maintain and develop their knowledge and understanding; and
- ensured they received suitable advice.

The Trustee Directors are satisfied that the combination of their knowledge and understanding together with access to suitable advice (both in writing and whilst attending meetings) received from the appointed professional advisers enabled them to exercise their duties during period covered by this Statement.

8. Work carried out over the Scheme Year

During the last year the Trustee undertook the following (over and above "business as usual") to improve value for members:

- Regularly assessed fund fees, suitability and performance with input from the Scheme's DC investment adviser;
- Set objectives for their investment consultants following an industry wide order from the Competition and Markets Authority;
- Communicated the results of the Value for Members Assessment and arranged for the publication of the Chair's Statement in a publicly searchable location on the internet (a note of this location was included in the annual benefit statements); and
- Considered and approved the addition of an ESG equity fund to the existing fund range.

The Trustee believes that this work will help you get the best out of our Scheme.

Stephen Yandle **Date: 14 October 2022**

Signed by the Chair of Trustees of the Anglian Water Group Pension Scheme

Annex A: Statement of Investment Principles

The following extract has been taken from the Anglian Water Group Pension Scheme Statement of Investment Principles, effective from February 2021.

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 Defined Benefit Additional Voluntary Contributions (DB AVCs) and DC top-up benefits. These holdings are invested in either one of the default strategies or other funds available 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:

1. The return on a member's accumulated fund over the period to their selected date of retirement;
2. The cost of turning the accumulated fund into a pension benefit (i.e. cash income drawdown or annuity purchase) at retirement.

It is the Trustee's policy to take investment advice and consider:

1. A full range of asset classes, including alternative options;
2. The risks and rewards of a range of alternative asset allocation strategies;
3. The suitability of each asset class for investment in the DC Section;
4. The suitability of the possible styles of investment management for members of the DC Section; and
5. The need for appropriate diversification both across asset classes and within asset classes.

INVESTMENT OBJECTIVE

The Trustee's 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 Trustee's investment objective is implemented using a range of active and passive investment options.

The default strategies used within the DC Section are defined and reviewed by the Trustee in conjunction with their investment adviser.

The Trustee carried out a detailed review of the DC Section's default strategies and self-select fund range following the bulk transfer of the majority of the accrued pots to the Legal & General (L&G) Master Trust in 2019, and implemented changes with a view to delivering better outcomes for members and their beneficiaries at retirement.

The Trustee believed it was in the best interests of members to operate a default option which placed members in one of two funds based on the number of years to retirement when the transfer from Phoenix Corporate Investment Services to L&G took place. Absent of an active selection, members were either transitioned to the L&G Multi-Asset Fund (MAF) or the L&G Cash Fund depending on whether they were more or less than 5 years from retirement respectively.

As no lifestyling is included, the new fund selection will remain unchanged unless a member initiates a change. This is designed to be appropriate to meet the needs of a majority of the membership, given the nature of the benefits are mainly DB AVCs.

Members who choose not to go into one of the default options can invest on a "self-select" basis (the funds available within the default options are also available in the self-select fund range).

In designing the default strategy, the Trustee considered a number of factors including (but not limited to) the nature of the benefits, members' pot sizes, risk and return profile of the investments within the default strategy and the DC charge cap. The use of single funds (i.e. without lifestyling) was considered appropriate given the reduced scheme size and the nature of the benefits (i.e. AVCs would likely be taken as cash at retirement). The Trustee continues to keep the default and self-select investment strategies under review in light of changes to the membership profile.

OBJECTIVES OF THE DEFAULT OPTION

The main objective of the default option is to provide good member outcomes at retirement at 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 default options are:

1. To manage the principal investment risks faced by an average member during their membership of the Scheme.

2. To target the majority of members who are expected to withdraw their pots as cash at retirement.

3. To invest in low risk or cash 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 default options. 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.

RISK MEASUREMENT AND MANAGEMENT

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

The Trustee considers the following sources of risk:

- Risk of not meeting the reasonable expectations of members, taking into account their contributions to date. The Trustee considers 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 cash withdrawal 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 the investment manager (L&G) not meeting its objectives ("manager risk"). This risk is considered by the Trustee and its adviser both upon the initial appointment of the investment manager and on an ongoing basis thereafter. The Trustee's investment adviser researches the investment manager and reports the findings back to the Trustee on a quarterly basis, or more often if there are significant developments. The Trustee monitors 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 adviser to mitigate this risk.

- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has 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 manager, which the Trustee monitors on a regular basis as part of its governance process.

- The risk that funds which invest in more illiquid assets will not be able to accept investments or disinvestments requested by the Trustee and/or members ("liquidity risk"). The Trustee is satisfied that the pooled funds in which the DC Section is invested usually have sufficient liquidity and may be realised quickly if required.

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal strategy review. The Trustee's 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 undertaken. In addition, the Trustee measures 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 investment manager that may impact its ability to meet the performance targets.

EXPECTED RETURN ON INVESTMENTS

The Trustee believes 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.

- 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.

- 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 (but not total degree) 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 Trustee believes 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, although one of the default funds – MAF – is expected to be relatively static in terms of its asset allocation.

TYPES OF FUNDS USED

The Scheme has a direct contract with the investment manager, which enables the Scheme to invest in a range of funds giving a good spread of investments in a cost-effective manner. The Trustee keeps the security of assets under review and takes advice should there be a significant change from the position as it is currently understood.

The Trustee makes available pooled funds through the investment manager. The Trustee has delegated the day-to-day investment decisions including the management of financially material considerations (see next section) to the investment manager. The Trustee expects the investment manager 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.

The Trustee expects that the investment manager 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 Trustee recognises 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.

The Trustee's choice of funds, and hence choice of approaches to aspects such as responsible investment and shareholder engagement, are constrained by the choice of funds available with the investment manager. While the Trustee will endeavour as far as possible to select an investment manager aligned with the Scheme's investment objectives and the Trustee's investment beliefs, this needs to be balanced against the wider benefits of access to the other funds and services from the investment manager as well as taking into consideration the costs of change to the Scheme and its members.

The Trustee will seek to engage with the investment manager to obtain funds which meet the Trustee's investment beliefs, and are expected to improve outcomes for members, but this is subject to being commercially viable for the investment manager and consistent with the charge cap for the default arrangement. The Trustee will seek to engage with the investment manager and expect them to adopt appropriate practices for responsible investment and shareholder engagement.

The Trustee will periodically review the Scheme's choice of investment manager, at which time the governance of the investment manager will be key criteria.

Overall the Trustee believes 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.

INVESTMENT MANAGERS

The direct contract with the investment manager means that the Trustee has delegated day to day investment decisions including the management of financially material considerations to the investment manager.

MANAGER INCENTIVES

The investment manager is remunerated on an ad valorem basis. The level of remuneration paid to the investment manager was reviewed at appointment and will be monitored periodically by the Trustee against market rates (in the annual value for money assessments) to ensure the investment manager's interests are aligned with those of the Scheme.

The basis of remuneration of the investment manager may be subject to commercial confidentiality, however, the Trustee will seek transparency of all costs and charges borne by members. Nevertheless, the Trustee expects that it will be in the interests of the investment manager to produce growth in asset values in line with the funds' investment objectives. For passively managed funds this should be within an acceptable margin of the index the fund tracks. For actively managed funds the investment return should be commensurate with the level of investment risk implied by the fund's objectives.

When selecting funds, the Trustee will ask their investment adviser to consider the investment manager's remuneration strategies and appropriateness of each fund's investment guidelines to ensure that there is no inducement or scope to take an undue level of risk and that the investment manager will act in line with the interests of the Scheme's members.

In accordance with the 2015 Regulations, the Trustee conducts an annual value for members assessment and will take action should the investment manager be found to be giving poor value. In addition, in accordance with guidance from the Pensions Regulator, the Trustee will periodically review the Scheme's choice of investment manager to ensure their charges and services remain competitive. The Trustee believes that these steps are the most effective way of incentivising the investment manager to deliver value for members, of which investment management charges and investment performance are key considerations.

The Trustee monitors the investment manager against a series of metrics on a quarterly basis over a long-term time horizon (generally subject to a minimum of 3 years) including:

- Performance of their funds' respective benchmarks;
- Relative tracking error where appropriate;
- The exercise of stewardship responsibilities (including engagement with issuers); and
- The management of risks.

The investment manager is expected to provide explanations for any significant divergence from a fund's objectives. A material deviation from performance and risk targets or approach to portfolio management is likely to result in the fund being formally reviewed.

PORTFOLIO TURNOVER

The Trustee does not expect the investment manager to take excessive short-term risk and will monitor the investment manager's performance against the benchmarks and objectives on a short, medium and long terms basis.

For passively managed funds the turnover of holdings is driven by changes in the index a fund seeks to track and hence is outside the control of the investment manager except where a fund's total assets under management are relatively small where the investment manager does not fully replicate the index or where a fund invests in less liquid stocks.

When selecting actively managed funds, the Trustee will consider, with the help of their investment adviser, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee will ask the investment manager to report on at least an annual basis on the underlying assets held within fund with details of any transactions and turnover costs incurred over the Scheme's reporting year. The Trustee reviews the asset portfolio transaction costs and managers' portfolio turnover ranges, where the data is disclosed and available to ensure that the costs incurred were within reasonable expectations.

Where a fund has significantly under or outperformed its benchmark, the Trustee will seek to ascertain where necessary whether higher or lower than normal turnover has been a contributory factor. The Trustee will challenge the investment manager if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

PORTFOLIO DURATION

The Trustee recognises the long-term nature of defined contribution pension investments and chooses funds which are expected to deliver sustainable returns over the Scheme members' investment horizon. The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the objectives for the related investment option.

The Trustee expects that each fund will be used for at least three years, this being the period over which performance of the fund can be appropriately evaluated and the costs of change amortised, although all funds are subject to ongoing review against various financial and nonfinancial metrics in addition to their continued appropriateness within the investment strategy.

RESPONSIBLE INVESTMENT

FINANCIALLY AND NON-FINANCIALLY MATERIAL CONSIDERATIONS

The Trustee recognises that financially material considerations, including Environmental, Social and Governance factors, affect risk and returns over the medium to long term but will have varying importance for different types of assets invested by the DC Section. As such these considerations take precedence in fulfilling the Trustee's primary objectives for the DC Section and translate to the development, selection, retention, realisation and monitoring of the investment options.

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

The Trustee incorporates financially material considerations through the investment manager, so far as possible. The Trustee expects its investment manager will take all financially material factors into account where relevant.

In passive mandates, the Trustee recognises 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 Trustee accepts 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 Trustee recognises that the manager has freedom to exercise discretion as to the choice of assets held. The Trustee expects 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 Trustee has 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 Trustee has signed up to the A4S taskforce, a working group committed to supporting the implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The Trustee is committed to furthering their understanding of climate risk within the Scheme's investments and to consider climate risk when making investment decisions.

STEWARDSHIP

The Scheme offers members the default arrangement and a choice of self-select funds. The Trustee's stewardship activities are to be focused on the default arrangement which is used by the largest number of members and accounts for the majority of the DC assets. The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment manager and the monitoring of compliance with agreed policies.

The Trustee has adopted a policy of delegating voting decisions on stocks to their investment manager 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 Trustee will engage with and seek further information from their investment manager on how portfolios may be affected by a particular issue.

Whereas the Trustee chooses managers that align with its beliefs on stewardship, there are instances where the Trustee have less direct influence over the manager's policies on the exercise of investment rights. For example, where Scheme's assets are held in pooled funds, due to the collective nature of these investments.

The Trustee expects its investment manager to practice good stewardship.

When selecting investment managers, the Trustee's investment adviser assesses the ability of the investment manager in engaging with underlying companies in order to promote the longterm success of the investments.

While the Trustee is not in a position to engage directly, the Trustee believes it is sometimes appropriate for the investment manager to engage with key stakeholders directly, which may include corporate management, regulators and governance bodies, relating to their investments to improve corporate behaviour, performance and to mitigate financial risks.

The Trustee will request, where appropriate and practicable, that the investment manager notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement. The Trustee seeks to review engagement activities undertaken by its investment manager where appropriate, as part of its broader monitoring activity.

MONITORING

The Trustee will monitor the investment manager on their stated voting and engagement policies, and engage with the manager where concerns are identified and to report on these issues. The Trustee will request reports on the investment manager's voting activity on a periodic basis and the Trustee will monitor this voting activity on a periodic basis. The Trustee will also periodically review the investment manager's voting patterns and may also monitor voting on particular companies or issues affecting more than one company.

The Trustee reviews the investment manager's voting activity at least annually in conjunction with their investment adviser and uses this information as a basis for discussion with the investment managers. Where the Trustee deems it appropriate, any issues of concern will be raised with the manager for further explanation.

The Trustee requires the investment manager to “comply or explain” their position in adherence to the Stewardship Code, produced by the Financial Reporting Council, to the investment adviser and for the investment adviser to encourage them to address areas of weakness or noncompliance. The adviser reports their findings to the Trustee as and when required and the Trustee takes into account the advice of the investment adviser when appointing new investment managers. The Trustee will engage with the investment manager if, in the opinion of the Trustee with advice from the investment adviser, their ESG integration and stewardship activity is believed to fall below market standards.

If the Trustee becomes aware, after taking advice from its investment adviser, that the investment manager did not take account of market standard factors, (including but not limited to, performance, strategy, capital structure, management of actual or potential conflict of interests, risks and ESG) in deciding on the selection, retention and realisation of the Scheme’s investments, the Trustee, taking advice from the investment adviser and other appointed advisers where necessary, will engage with the investment manager by requesting, in writing, written explanations from the investment manager.

The Trustee aims to meet with the investment manager on an annual basis. The manager is challenged both directly by the Trustee and by their investment adviser on the impact of any significant issues including shareholder voting record, conflicts of interests and, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

CONFLICTS OF INTEREST

When appointing the investment manager and choosing funds, the Trustee will seek to establish that the investment manager has an appropriate conflicts of interest policy in place. This includes any provisions to disclose any potential or actual conflict of interest in writing to the Trustee.

When given notice the Trustee will consider the impact of any conflicts of interest arising in the management of the funds used by the Scheme. Responsibility for investment decisions has been delegated to the investment manager which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where investing in new issuance, the Trustee expects the investment manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustee will consider any conflicts of interest arising in the management of the funds used by the Scheme and will ensure that the investment manager has an appropriate conflicts of interest policy in place. The investment manager is required to disclose any potential or actual conflict of interest in writing to the Trustee.

IMPLEMENTATION

An investment adviser will advise the Trustee in relation to the DC Section. They operate under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions itself and to monitor those it delegates.

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.