

Statement of Investment Principles

For the Anglian Water Group Pension Scheme

Effective from: 15 September 2023



1. Introduction

This Statement of Investment Principles (“SIP”) has been produced by Anglian Water Group Trustee Limited as Trustee of the Anglian Water Group Pension Scheme (the “Scheme”).

This SIP sets out the principles which govern investment decisions taken by us and 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 Scheme is a Registered Pension Scheme for the purpose of the Finance Act 2004.

The Scheme has historically provided Defined Benefit (“DB”) arrangements to members, as well as Defined Contribution (“DC”) and Additional Voluntary Contribution (“AVC”) options to certain subsets of members. However, the DC and AVC arrangements were transferred out of the Scheme in March 2023. Therefore, the Scheme now comprises DB arrangements only. There are two DB sub-sections: the Main Section and the Hartlepool Section. This SIP covers both sub-sections. Unless otherwise stated, policies set out in this SIP apply to both sub-sections.

This SIP replaces the previous SIP dated 10 February 2021.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator’s guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Scheme’s investments, but which are not required to be included in the SIP.

We have also produced a Trustee Statement on Governance of Climate Change Risks and Opportunities (the “Climate Governance Statement”), and the Anglian Water Group Pension Trustee Limited’s Policy on Sustainable Investing (the “SI Policy”) which sets out further details on our approach to climate governance and sustainable investing.

2. Investment objectives

The Trustee, advised by its investment adviser, Actuary and the Strategic Pensions Group (“SPG”), implements 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 us in implementing this strategy.

The primary objective for the Scheme is to ensure that the benefit payments are met as they fall due.

To support this primary objective, we have agreed a funding target for the Scheme, to achieve full funding on the Technical Provisions basis by 2026. This date, and the discount basis to use within the Technical Provisions, is agreed between us and the principal employer from time to time. This informs the return the assets need to deliver (the required return) to achieve this funding target.

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

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

We also review these objectives from time to time to ensure that they remain achievable and appropriate.

The SPG is a forum comprising of members from both the principal employer and the Trustee. Its role is to assist in the identification of the Scheme’s asset and liability management strategy and in making recommendations for consideration and, where appropriate, implementation by us. This includes such areas as strategic asset allocation, interest rate management strategy, de-risking and hedging.

3. Investment strategy

The current investment strategy has been designed following detailed strategy work by us and our advisers. The principal employer was consulted regarding the strategy and the SPG provided input to help inform discussions and our decision making.

The strategy considers the Scheme’s liabilities and the principal employer’s financial strength. Following the closure of the Scheme to new joiners in 2002 and to future accrual in 2018, the liabilities are expected to mature at a steady rate.

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. We have also retained a portfolio of "return-seeking" assets which seeks to achieve returns over and above Scheme liabilities, whilst managing downside risk, to help close the funding shortfall.

For the Main Section, the asset allocation is structured so that it is expected to meet the required rate of return to achieve full funding by the target date. We have a long-term target of transitioning the allocation to be fully matching when the funding target is met.

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

We review the asset strategy periodically, with input from our advisers, to ensure that the allocation and, in particular, the split between return seeking and matching assets remain appropriate given the Scheme's funding position. There is no formal rebalancing policy for the Scheme's assets. If the required return falls sufficiently, we will consider whether to increase the allocation to matching assets.

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

We have a leverage management plan in place which sets out the assets directly available to support the Scheme's Liability Driven Investment ("LDI") arrangements. We review the plan periodically and will consider whether additional assets are needed to support the LDI arrangements as necessary.

For the Hartlepool Section, we have purchased a buy-in (bulk annuity) contract that is intended to cover the liabilities of all members. We will consider how to manage any excess assets in addition to the buy-in contract, having taken investment advice noting that any residual amounts are expected to be nominal (under £1m).

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated

with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes.

We take an integrated approach when assessing risk and reviewing the investment strategy. In particular we take account of the employer covenant, contributions, funding targets, liability profile (including interest rate and inflation sensitivities and the extent to which they are hedged) and the level of expected return and risk now and as the strategy evolves.

The primary ways that we manage investment risk is via diversification, ensuring that we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments. Further details of specific risks (for example equity risk, credit risk and currency risk) and how we measure and manage those risks is set out in the SIP addendum.

In setting the strategy for the Scheme it is our policy to consider:

- our investment objectives, including the required return required to meet these;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant; and
- the need for appropriate diversification between different asset classes to manage investment risk and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate.

We also consider other factors that we believe to be financially material over time horizons relevant to the funding of the Scheme's benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

In setting our investment strategy, we have also considered our investment beliefs such as hedging unrewarded risks where possible and our beliefs with respect to ESG issues (which are set out in our SI Policy).

5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We delegate the day-to-day management of Scheme assets to a number of investment managers, and, in respect of the Hartlepool Section, a bulk annuity provider. The investment managers are carefully selected to manage each of the underlying mandates following guidance and written advice from the investment adviser.

We have signed agreements with the investment managers and a custodian setting out the terms on which the portfolios are to be managed.

Depending on the nature of the investments, the Scheme's assets are invested either via pooled or segregated investment vehicles.

For segregated arrangements, the terms of the long-term relationship between us and the fund managers is set out in separate Investment Management Agreements (IMAs). These document our expectations of the managers; alongside the investment guidelines the managers are required to operate under.

The investment guidelines are based on the policies set out in this SIP, the Climate Governance Statement and the SI Policy. These documents are shared with the relevant fund managers following any relevant changes, and the investment guidelines are updated (as required) as a result, ensuring the managers always invest in line with our policies.

For pooled arrangements, the Scheme's investments are managed according to standardised fund terms, which are reviewed by the Scheme's investment and legal advisers at the point of investment to ensure that they are aligned with the Scheme's long-term investment strategy and market best practice. These terms are also reviewed following any material changes notified by the manager.

We assess the managers' performance regularly against a benchmark appropriate to each manager, taking into account the level of risk taken by each manager.

We have adopted a policy of delegating voting decisions on stocks to the 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.

When relevant, we require the investment managers to invest with a medium-to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. For some asset classes, we do not expect the respective asset managers to make decisions based on maximising long-term

performance. These may include investments that provide risk reduction through diversification, or through hedging, which is consistent with the investment strategy.

We appoint investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium- to longer-term timeframe, generally subject to a minimum of three years.

We would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to such factors as a significant change in the business structure or that of the investment team. This would be done after due consideration and the receipt of appropriate advice from our investment adviser. To assist us in assessing performance the investment adviser provides relevant reporting on at least a quarterly basis. As part of this process, we have delegated the detailed monitoring of the Scheme's investment managers to our investment adviser.

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

We review fees on a regular basis to ensure they are in line with market practices, notably where we expect the manager to take active ownership. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates and will review this from time to time to ensure the costs incurred are within reasonable expectations.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We have appointed a custodian for the Main Section (as the assets of the Hartlepool Section are held in either the bulk annuity contract or in pooled funds, we have determined that a custodian is not required for these assets). The custodian provides safekeeping for all the segregated assets and performs related administrative duties, such as the collection of interest and dividend payments and dealing with corporate actions.

We do not intentionally invest in Employer Related Investments (“ERI”) as set out in the Pensions Act 2004 and in the Occupational Pension Scheme (Investment) Regulations 2005.

6. Realisation of investments

We instruct disinvestments as required for benefit payments and other outgoings. Our preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid. In general, our policy is to use cash flows to transition the Scheme's assets towards the long-term matching asset allocation, subject to considering the required return needed to achieve the funding target. We also receive income from some of the portfolios where appropriate.

7. Financially material considerations and non-financial matters

We aim to invest the Scheme's assets responsibly in delivering our objective to pay the right benefit to each person at the right time and consider sustainability factors such as the Environment (including Climate Change), Social impacts and Governance (“ESG”) factors as financially material risks to the Scheme. We consider how ESG considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Scheme and its members.

We influence the Scheme's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect all of our investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and periodically review how the managers are taking account of these issues in practice.

We have limited influence over managers' investment practices where assets are held in pooled funds, but we encourage our managers to improve their ESG practices within the parameters of their funds.

We do not consider any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments.

We maintain separate documents setting out in further detail our policies on climate change and sustainable investment.

Our ambition is to align the Scheme's assets with net zero greenhouse gas emissions by 2040, excluding UK government bonds (as these are a critical component in managing the Schemes' interest rate and inflation risks).

We expect our investment managers to take account of climate-related risks as a financially material consideration and in support of developing our net zero portfolio. With the active involvement of our investment advisor, we will engage with the investment managers to encourage and support them in achieving these objectives.

8. Voting and engagement

We recognise our responsibilities as owners of capital and believe that good stewardship practices, including voting and engagement, protect and enhance the long-term value of investments.

We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors.

We do not monitor or engage directly with issuers or other holders of debt or equity but do engage with current and prospective investment managers on matters including ESG and stewardship. When selecting investment managers, our investment advisers assess the ability of each investment manager's approach to stewardship which is factored into the decision-making process.

We expect all our investment managers across different asset classes to undertake stewardship activities in line with our stewardship policy (as set out in the SI Policy document). Where an investment manager is an equity owner we expect it to exercise voting rights and, where required and possible, submit shareholder resolutions to promote and protect the long-term sustainability of portfolio companies.

We expect the managers to communicate their policies on stewardship to us from time to time, and provide us with reporting on the results of their engagement and voting activities regularly and at least once a year.

We seek to appoint managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council, and from time to time we review how these are implemented in practice.