

Statement of Investment Principles

This is the Statement of Investment Principles made by “the Trustee” (Kelda Group Pension Trustees Limited) of the Kelda Group Pension Plan (“the Plan”) in accordance with the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005. It is subject to review by the Trustee at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustee has consulted with the Principal Employer to the Plan (Kelda Group Limited) and has taken written advice from the Investment Practice of Hymans Robertson LLP.

Details concerning the broad governance of the Plan and the nature of the mandates for investment management and other service providers are contained in the Plan’s Myners Adherence document which should be read in conjunction with this Statement of Investment Principles.

The Trustee reviews the performance of Plan investments on a regular basis.

Defined Contribution Section

There are two separate defined contribution Sections which the Trustee oversees, the 'Career Choices' and 'KWS (Wales)' Sections.

The Trustee has appointed Legal & General plc and Friends Life (formerly Winterthur Life UK Limited and now part of Aviva) to provide the funds in which the assets of the Career Choices and KWS Wales Defined Contribution Sections are respectively invested.

Members' contributions are, in the absence of instructions to the contrary, invested according to an 'automatic' life-styling matrix, whereby investment is made in equity based ('long term') funds when members are younger and are gradually switched to fixed interest and cash ('short term') funds as members approach retirement. Alternatively, members may determine, themselves, and from a range of equity, bond and 'mixed' funds, how to invest their contributions.

The Trustee has agreed the asset allocation benchmark, performance benchmark and the various controls adopted by each fund in which members can invest. These reflect the Trustee's views on the appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk. It is intended that the range of funds will be reviewed on a regular basis.

The Trustee monitors investments on a regular basis. Advice is received as required from professional advisers. In addition, the Trustee reviews the performance of Plan investments on a regular basis.

The Trustee reviews the Plans' investment strategies, fund choices offered to members and the investment manager arrangements from time to time taking advice as required.

Primary Objective

The primary objective of the Defined Contribution Sections of the Plan is as follows:-

To provide, on a defined contribution basis, benefits for members on their retirement or benefits for their dependents on death before retirement.

Choosing Investments: Career Choices Section

The funds offered to Members of the Career Choices Section are managed by Legal & General plc and comprise:

- a consensus (multi-asset) fund;
- a global equity fund;
- a government bond fund;
- a cash fund.

Investment is made on a pooled basis, which the Trustee believes is appropriate given the size and nature of the Plan. In addition, investment is made on a passive (index tracking) basis, whereby the investment manager seeks to match, rather than exceed, the performance of each fund's benchmark index. For each fund, the investment manager invests in individual stocks in such a way as to replicate, as closely as possible, the composition of that fund's benchmark index. In adopting this approach, the manager ensures a suitably diversified portfolio. The Trustee is satisfied that the assets held in each fund are suitable in relation to the needs of members.

Choosing Investments: KWS (Wales) Section

Members of the KWS (Wales) Section are offered a range of funds under the Friends Life (formerly Winterthur Life, now part of Aviva) investment platform. The funds currently offered to members comprise:

- BlackRock Global Equity 60/40 Fund (Passive)
- BlackRock Over 5 Years Index-Linked Gilt Fund (Passive)
- BlackRock Deposit Fund (Passive)
- BlackRock Over 15 years Gilt Fund (Passive)
- BlackRock Ascent Global Equity 60/40 Fund (Active)

Investment is made on a pooled basis, which the Trustee believes is appropriate given the size and nature of the Plan. The majority of funds available to KWS (Wales) Section members are managed on a passive (index tracking) basis, whereby the investment manager seeks to match, rather than exceed, the performance of each fund's benchmark index. For the single Fund which is managed on an active basis, the Trustee monitors the performance of the fund regularly. The Trustee is satisfied that the assets held in each fund are suitable in relation to the needs of members.

Kinds of investment to be held

Depending on the nature of each fund, the investment manager may invest in UK and overseas investments including equities, fixed and index linked bonds and cash. Within each fund, the proportions held at any time in each asset class or geographic region will reflect the manager's views relative to the benchmark for that fund.

Balance between different kinds of investments

Each fund has a defined benchmark or objective and the Trustee is satisfied that the benchmark or objective, taken in combination with other fund choices available, is appropriate for different categories of members.

Risk

The major component of risk is strategic risk which arises from the asset allocation of the individual member's portfolio.

Expected return on investments

The Trustee is satisfied that the objectives of the equity funds would be expected to allow them to achieve an attractive real return over the long term. The objective for the equity funds is that they should be expected to achieve an attractive real return over the long term during which contributions are invested. The objective of the cash and bond funds is to reduce the expected volatility of fund values as members approach retirement.

The cash and bond funds are also expected to provide a level of capital security for the payment of the tax-free lump sum on retirement and to broadly match the volatility in the cost of purchasing an annuity arising from changes in long-term interest rates.

Members have a choice of funds across several asset classes which enables the tailoring of their investments in the light of members' likely choices offered by the "Pension Freedoms" at retirement introduced by the Government in 2015.

Realisation of investments

The majority of assets held within the pooled funds are held in stocks, which are quoted on major stock markets and may be realised quickly if required.

Consideration of financially material factors in investment arrangements

The Trustee recognise that the consideration of financially material considerations, including ESG factors and climate risk, are relevant to the development, selection and monitoring of the Plan's investment options.

Consideration of non-financially material factors in investment arrangements

The Trustee recognise that some members will have strong personal views or religious convictions that influence where they believe their savings should, or should not, be invested.

However, given the nature of the Plan, the Trustee has not considered any non-financially material factors in the development, selection and monitoring of the Plan's investment options.

Additional Voluntary Contributions (AVCs)

The Trustee gives members the opportunity to pay additional voluntary contributions into the same range of funds offered by the manager in which normal contributions of the member and sponsoring employer are invested.

Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment platform and fund managers and the monitoring of compliance with agreed policies.

Members' financial interests

The Trustees expect that the investment platform provider and fund managers will have the members' financial interests as their first priority when choosing investments.

Voting and engagement

The Scheme invests via an investment platform provider, who in turn invest in funds which are pooled with other investors to keep costs down and ensure adequate diversification. As a result, the Trustees have adopted a policy of delegating voting decisions on stocks to the underlying fund managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The fund managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustee has reviewed the voting and engagement policies of the fund managers as well as the approach to governance of the investment platform provider and determined that these policies are appropriate. Where appropriate, the Trustees will engage with and may seek further information from the investment platform provider and fund managers on how portfolios may be affected by a particular issue.

The Trustees expect the investment platform provider(s) to adopt similar practices with regards to the inclusion and ongoing oversight of fund managers on their platform. The Trustees also expect the platform provider to be able to evidence their own governance practices on request.

Monitoring

The investment platform provider reports to the Trustee on the fund managers voting activity on a periodic basis. The Trustee will monitor voting activity and may periodically review managers voting patterns.



Signed For and on Behalf of the Trustee of the Kelda Group Pension Plan

[Signature]

Trustee

MICHAEL POOLERS

Name

18/9/19.

Date

[Signature]

Trustee

A. CLARK

Name

18/09/19

Date