

Dear Member

Investment Changes Announcement

The Trustee is introducing a number of changes to the investment options available to members of the money purchase division, usually referred to as the defined contribution ("DC") section, of the Affinity Water Pension Plan ("the Plan"). These changes will take effect from March 2016. Action may be required from you by 9 February 2016. **Please read this letter carefully to understand how these changes will affect you and to help you decide what action to take next.**

In summary, we are replacing the current default Lifestyle Option with a new one and introducing two further lifestyle options, and we are broadening the range of self-select investment funds (including withdrawing some current options). The reasons for making the changes and details of the changes themselves are explained in the Appendix to this letter.

The great majority of DC members are invested in the default Lifestyle Option. If you are in this position and are happy to switch into the new default option (the *Income Drawdown Lifestyle*) you do not need to do anything – we will automatically transfer you to the new default.

Similarly, if you are a member who currently self-selects from the Plan's range of L&G investment funds and you are happy that your investments are switched to the equivalent new L&G funds you do not need to do anything.

If you think that you might like to change how your DC pension pot is invested, or if you are approaching retirement, please read through the attached information. We have included a decision flowchart and FAQs to help you understand the changes.

If you wish to make a change from your current investment strategy you must complete the Option Form enclosed and send it to our pension administrators (Hymans) by 9 February 2016.

If you have any questions, please get in touch with Hymans – contact details are included at the end of the Appendix. Please note that Hymans is not authorised to give investment advice to individuals.

Yours sincerely,

A handwritten signature in blue ink that reads "K. Austin".

Karen Austin
Chairman
Affinity Water Pension Trustees Limited

Affinity Water Pension Plan Money Purchase Division – Investment Changes Announcement

APPENDIX

Why make the changes?

The Trustee is responsible for monitoring the DC section investment arrangements and implementing changes to these arrangements, having taken appropriate advice. We have a duty to review the investment choices available to you, and monitor the performance and prospects of all available funds, as well as the skill of the individual managers. We have carried out the first such review following the establishment of the Plan having inherited the current arrangements from the Veolia Pension Scheme. Significantly, we have also considered the new pensions flexibilities that were introduced in April 2015 and the effect of other recent regulations. The changes being made include changes to the default DC investment strategy to make sure it's fit for purpose, and fulfil the Trustee's responsibilities to ensure that DC investments are appropriate and relevant to the Plan's membership profile.

Our decisions on the DC investment arrangements have been guided by our DC investment beliefs, which are underpinned by our objective to facilitate good retirement outcomes for members and help you achieve an appropriate replacement income when you retire.

We will retain Legal and General Assurance (Pensions Management) Limited ("L&G") as the provider of fund options for DC members, with administration of the investment of your contributions into those funds being carried out by Hymans Robertson LLP ("Hymans").

What is changing?

You will still be able to choose to self-select your investment or to choose a Lifestyle investment strategy under which investment allocation decisions are made on your behalf. However, as a result of the investment review, the Trustee has decided to change both the self-select range of investment funds and the existing Lifestyle investment option.

LIFESTYLE OPTIONS

A lifestyle investment will automatically change the funds you are invested in based on how close you are to retirement. We have introduced three lifestyle investment options to replace the existing Lifestyle option. These are designed to reflect how you ultimately expect to use your retirement savings:

- **Income drawdown lifestyle** – this option will be the default investment strategy for members who are currently in Lifestyle and who do not select their own investment option
- **Cash lifestyle**
- **Annuity purchase lifestyle**

If you choose to change from the current Lifestyle option your existing funds will be transferred to your chosen Lifestyle option during February-March 2016, and your contributions will be allocated to that option from March 2016.

The three lifestyle options will invest in the same way up until you are 5 years from retirement. If you are within 5 years of retirement and wish to invest in a lifestyle option, it is important to consider which one is most appropriate to you.

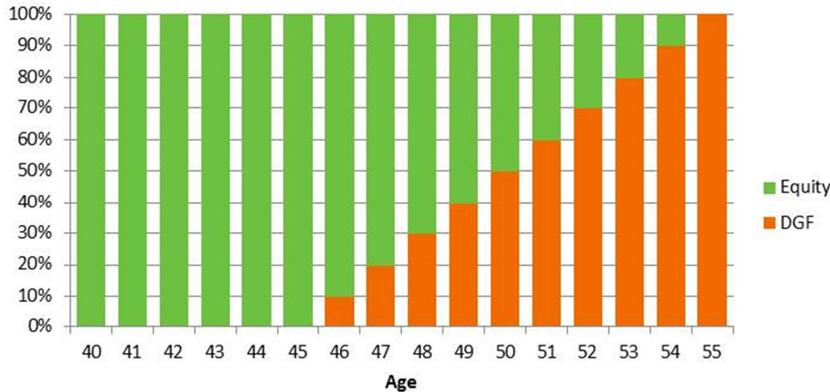
Your period of investment can be considered in three distinct phases: accumulation, pre-retirement and post-retirement.

Accumulation Phase

Initially during the accumulation phase (ie the earlier years of your membership of the Plan up to age 45), we believe that it is appropriate for members to invest in a high expected return, low cost asset class such as a passive global equity fund ("equity" ie shares). However, a diversified growth fund ("DGF") will be introduced

in the later stages of the accumulation phase (from age 45) when you may have built up a more sizable pension pot as this will provide some protection of that pot through diversification across different asset classes with the aim of reducing overall investment volatility.

How you will be invested and how this will change over time during the accumulation phase is illustrated in the following chart:



Pre-retirement Phase

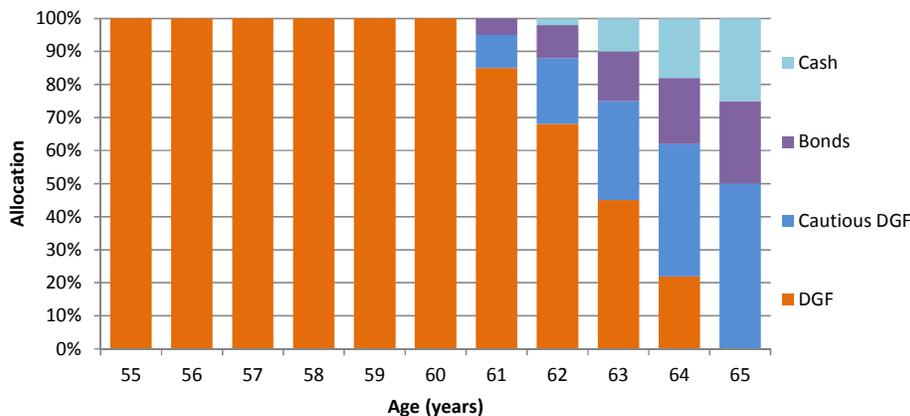
During the pre-retirement phase (covering the 5 year period prior to your target retirement) your fund allocation will diverge according to the lifestyle option that you choose. The three options are explained below.

Option 1 – Income Drawdown Lifestyle

This new default investment replaces the existing default option.

The Income Drawdown Lifestyle is designed for members who, when they retire, do not want to take their whole pension pot as cash or buy an annuity, but wish to remain invested and flexibly take benefits in retirement. The strategy continues to seek investment returns at the point of retirement, but with less risk than during the accumulation phase.

In the last 5 years to your retirement age your investments will be gradually switched into a mix of a cautious DGF, bonds and cash so that when you retire your pension fund will be invested 50% in cautious DGF, 25% in bonds and 25% in cash as illustrated below.

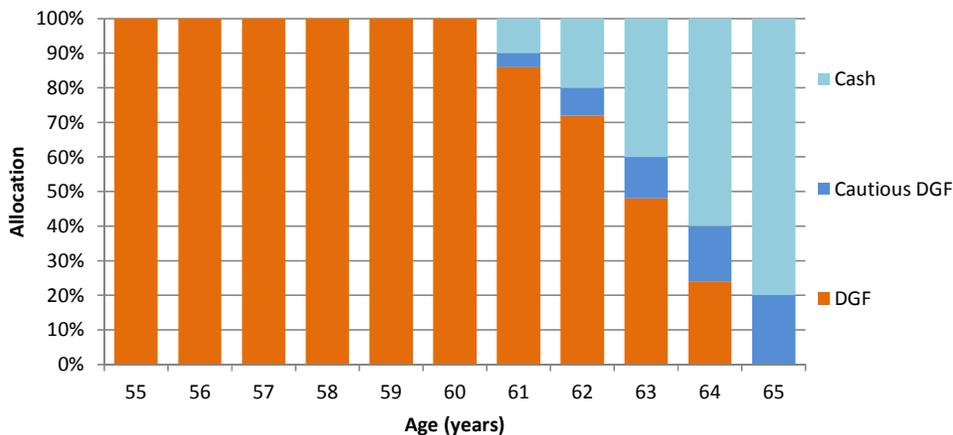


If you are currently invested in the default Lifestyle option, as the majority of members are, your pension pot will be automatically switched into Income Drawdown Lifestyle, unless you choose to self-select your investment or choose one of the alternative Lifestyle options below. **If you are happy with this switch you do not need to do anything.** Please note that your future contributions will also be invested in the Income Drawdown Lifestyle, unless you choose one of the other options.

Option 2 – Cash Lifestyle

The Cash Lifestyle is designed for members who are likely to take their pension pot in one lump sum, or in a small number of lump sums, when they retire. The strategy aims to preserve the cash value of their fund as they near retirement, rather than achieve further growth. **You need to select this option if this is your preferred choice.**

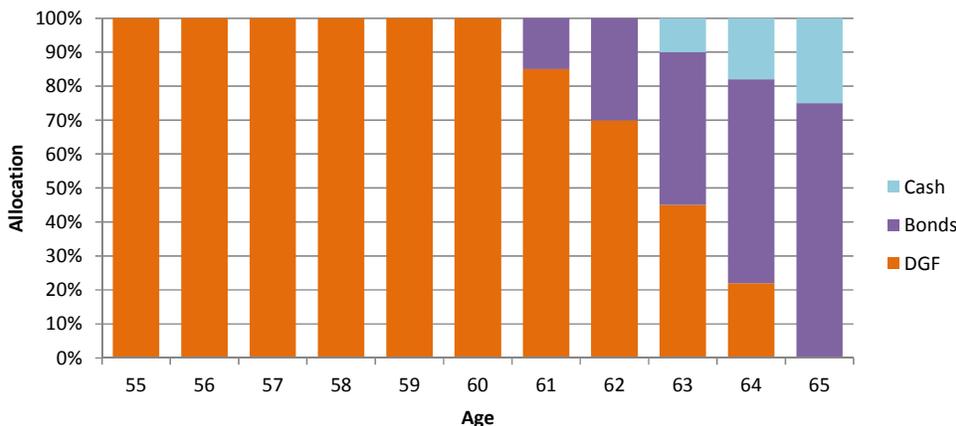
In the last 5 years to your retirement age your investments will be gradually switched into a cautious DGF and cash so that when you retire your pension fund will be invested 20% in cautious DGF and 80% in cash as illustrated below.



Option 3 – Annuity Purchase Lifestyle

The Annuity Purchase Lifestyle is designed for members who want to buy an annuity at retirement that gives certainty of the amount of pension income and of continued payment until death (and certainty of the amount of pension for a spouse). The strategy aims to maintain their annuity purchasing power as they near retirement. **You need to select this option if this is your preferred choice.**

In the last 5 years to your retirement age your investments will be gradually switched into bonds and cash so that when you retire your pension fund will be invested 75% in bonds and 25% in cash as illustrated below.



Post-retirement Phase

At retirement members will leave the Plan to obtain their chosen benefits. Members can choose to take their pension pot as cash or a series of cash sums, purchase an annuity, or continue to invest their pension pot in an appropriate 'drawdown' product from which they flexibly receive income. Currently a free service provided by Origen is available to members who wish to secure an annuity. Origen can also provide advice and additional services for a fee.

Important note about Lifestyle strategies

Please note that all Lifestyle strategies will automatically be geared towards your normal retirement age of 65, unless you have specified otherwise. If you do not intend to retire at age 65 you should change your target retirement age by contacting Hymans (details of how to do so are at the end of this letter). However, please note that a change to your target retirement age can, depending on your age, result in a significant change to your investment strategy.

SELF-SELECT OPTION

You are not restricted to the lifestyle options and are free to make your own choices from a selection of funds. Currently you can invest your contributions in any of ten different L&G funds. The Trustee has decided to widen the range of funds on offer, whilst streamlining those currently available to remove any 'overlap'. The options available in the new fund range, which are designed to provide a wide range of choice to satisfy the investment needs of members, are outlined in the table below.

Asset Class	Fund
Equity	L&G World Equity Index Fund
	L&G UK Equity Index Fund
Diversified growth	L&G Dynamic Diversified Fund
	L&G Retirement Income Multi Asset Fund
	L&G Pre-Retirement Fund
Bonds	L&G AAA-AA-A Corporate Bond All Stocks Index Fund
Cash	L&G Cash Fund
Property	L&G Managed Property Fund

If you have previously selected your own funds, unless you choose otherwise, your existing investments will be automatically switched into the closest equivalent fund(s) in the new fund range – **you do not need to do anything**. For details of how your funds will be switched, please see page 8.

Please note that your contributions will be invested in the closest equivalent fund(s) from March 2016 unless you choose otherwise.

Implementing the changes

Blackout Period 9 February – 9 March 2016

Hymans need time to implement the changes and to amend their systems to allow for the new funds. Therefore there will be a short period during which members cannot switch their funds. A blackout will be in place from 9am on 9 February 2016 until 9am on 9 March 2016. Members will be able to view their fund holdings via pensionsWEB while the asset transition is in progress but will not be able to make any changes to their investments.

Investment Switching after 9 March 2016

Currently you can make one switch to your fund selection per calendar year free of charge, with further switches incurring a £64 administration charge on each occasion. The Trustee has agreed with Hymans that from 9 March 2016 you will be able to switch funds via the online pensionsWEB switch module, no more than once a month, without incurring switching charges. You can already change your investment strategy using the pensionsWEB functionality, but we will switch this off during the blackout period. When it is switched back on, you may select the new options and funds. You should note that pensionsWEB assumes that members will make future investment choices in a consistent manner. Therefore, if you would like to adopt a different strategy for past and future contributions, you will need to contact Hymans.

Trading costs

There is a potential one-off cost to implement the new strategy, associated with switching funds, which members will bear. This is a trading cost incurred due to the selling and buying of units in the investment funds during the switch. The cost will vary by members depending on the switches needed to move to the new funds. We anticipate that costs will be in the region of 0.5% of each member's pension pot (ie 50p for every £100). Annual fund management costs under the new lifestyle strategies will be 0% to 0.2% pa higher than the existing lifestyle strategy reflecting the introduction of diversified growth funds as you progress towards retirement (details by fund are set out at the end of this Appendix). Overall the annual charges are within the statutory cap of 0.75% pa.

In making the changes, the Trustee has weighed up these costs against the substantial long term benefits of providing more appropriate lifestyle options, the use of diversified growth funds to control volatility, and a wider yet more streamlined choice of funds for self-select.

Making your choices – what to do next

If you are currently in the Lifestyle option and wish to invest into the default fund, *Income Drawdown Lifestyle* (option 1), **you do not need to do anything.**

If you wish to invest in an alternative lifestyle strategy, either *Cash Lifestyle* (option 2) or *Annuity Purchase Lifestyle* (option 3), **you need to select the appropriate option on the attached form.**

If you self-select your fund(s) and wish to switch these into the equivalent new funds, **you do not need to do anything** – your existing investments and future contributions will be automatically switched into the closest equivalent fund(s) in the new fund range.

If you self-select your fund(s) and wish to switch to an alternative strategy using the new funds, **you need to select the new fund(s)** (or a lifestyle option) **on the attached form.**

Please note that you will not be invested in any of the new self-select funds or lifestyle strategies prior to the transition, as they will not be available until 9 March 2016.

You can always change your investment choices in the future. If you wish to switch funds before the automatic switching process takes place, you need to do so before 9 February 2016 as that is when the blackout starts. You should review your investments online after the changes.

Wherever your pension contributions are currently invested, **you should review your investment and retirement decisions.** Remember that the two key factors that determine the level of your retirement income are the amount you save (your contributions) and the investment return you receive on your savings. Next year we will introduce 'Guided Outcomes' to help you assess what your target retirement income might be and show you whether you're on track. Also from next year, you will be able to change the amount you contribute into the Plan twice a year: in January and July.

If you are in doubt about what to do next, we recommend that you obtain independent financial advice. If you do not have a financial adviser you can find one at www.unbiased.co.uk/ or go to www.moneyadvice.service.org.uk.

If you have any questions, please get in touch with Hymans who will be happy to help:

Tel: 020 7082 6182

Email: affinity@hymans.co.uk

Letter: Affinity Water Team, Hymans Robertson LLP, 1 London Wall, London EC2 5EA

pensionsWEB: www.affinitywaterpensions.co.uk

Please note that Hymans is not authorised to give investment advice to individuals.

Details of DC section investment funds from March 2016

LIFESTYLE OPTIONS

We will use:

- the Affinity Water World Equity Fund (“AWWEF”) for the early accumulation phase
- the Affinity Water Diversified Growth Fund (“AWDGF”) for the later stages of the accumulation phase for all three lifestyle strategies.

Gradual switching from the AWWEF to the AWDGF begins 20 years from retirement such that, at 10 years from retirement, members are fully invested in the AWDGF.

Option 1 – Income Drawdown Lifestyle

NB This is the default option for current lifestyle members if you take no further action

We will use:

- the Affinity Water Diversified Income Fund (“AWDIF”)
- the Affinity Water Corporate Bond Fund (“AWCBF”)
- the Affinity Water Cash Fund (“AWCF”)

during the pre-retirement phase of the Income Drawdown lifestyle option.

Five years from retirement your allocation to the AWDGF will gradually be switched to the AWDIF, AWCBF and AWCF. Allocation at the target date of retirement will be 50% AWDIF, 25% AWCBF and 25% AWCF.

Option 2 – Cash Lifestyle

NB If you want to select this option, use the form enclosed

We will use:

- the AWCF
- the AWDIF

during the pre-retirement phase of the Cash lifestyle option.

Five years from retirement your allocation to the AWDGF will gradually be switched to the AWCF and AWDIF. Allocation at the target date of retirement will be 80% AWCF and 20% AWDIF.

Option 3 – Annuity Purchase Lifestyle

NB If you want to select this option, use the form enclosed

We will use:

- the Affinity Water Pre-Retirement Fund (“AWPRF”)
- the AWCF

during the pre-retirement phase of the Annuity Purchase lifestyle option.

Five years from retirement your allocation to the AWDGF will gradually be switched to the AWPRF and AWCF. Allocation at the target date of retirement will be 75% AWPRF and 25% AWCF.

The following table sets out the annual investment charges of the new lifestyle fund options. As the blend of funds changes over time, we have set out the range of fees payable:

Fund	Min AMC* %pa	Max AMC* %pa	Min TER** %pa	Max TER** %pa
Income Drawdown Lifestyle Fund	0.20	0.50	0.20	0.51
Cash Lifestyle Fund	0.17	0.50	0.17	0.51
Annuity Purchase Lifestyle Fund	0.15	0.50	0.15	0.51

* AMC = Annual Management Charge

** TER = Total Expense Ratio. This comprises the AMC plus any additional costs of running the fund.

Details of DC section investment funds from March 2016 continued

SELF-SELECT FUNDS

If you have previously selected your own funds, your existing investments will be automatically switched into the closest equivalent fund(s) in the new streamlined fund range – **you do not need to do anything**. The table below shows which funds you'll be invested in from 9 March 2016.

Current fund	New fund
L&G Global Equity (70:30) Index Fund	L&G World Equity Index Fund <i>replaces all previous ex UK equity funds</i>
L&G Europe ex UK Equity Index Fund	
L&G North America Equity Index Fund	
L&G Japan Equity Index Fund	
L&G Asia Pacific (ex Japan) Equity Index Fund	
L&G UK Equity Index Fund	L&G UK Equity Index Fund <i>no change</i>
L&G Pre-Retirement Fund	L&G Pre-Retirement Fund <i>no change</i>
L&G AAA-AA-A Corporate Bond All Stocks Index Fund	L&G AAA-AA-A Corporate Bond All Stocks Index Fund <i>no change</i>
L&G Cash Fund	L&G Cash Fund <i>no change</i>
L&G Over 5 Year Index Linked Gilts Index Fund	L&G Pre-Retirement Fund <i>no change</i>
	L&G Dynamic Diversified Fund <i>new</i>
	L&G Retirement Income Multi Asset Fund <i>new</i>
	L&G Managed Property Fund <i>new</i>

If you wish to make a different choice to that set out in the table above, please use the enclosed form.

Factsheets for all the new funds are available on [pensionsWEB](#).

The following table sets out the annual investment charges of the new self-select fund options:

Fund	AMC* %pa	TER** %pa
L&G World Equity Index Fund	0.20	0.20
L&G UK Equity Index Fund	0.10	0.10
L&G Dynamic Diversified Fund	0.50	0.51
L&G Retirement Income Multi Asset Fund	0.35	0.36
L&G Pre-Retirement Fund	0.15	0.15
L&G AAA-AA-A Corporate Bond All Stocks Index Fund	0.15	0.15
L&G Cash Fund	0.125	0.125
L&G Managed Property Fund	0.70	0.70

* AMC = Annual Management Charge

** TER = Total Expense Ratio. This comprises the AMC plus any additional costs of running the fund.