Affinity Water Pension Plan DC Section Statement of Investment Principles

Introduction

Background

This Statement of Investment Principles sets out the principles governing investment decisions for the DC Section of the Affinity Water Pension Plan (the “Plan’).

The DC Section of the Plan is a defined contribution (DC) pension arrangement. It is a qualifying scheme for auto-enrolment purposes.

The investment options consist of three Lifestyle Options:

- Income Drawdown Lifestyle Option - which is the Default Option;
- Cash Lifestyle Option }
- Annuity Purchase Lifestyle Option } which together are the alternative Lifestyle Options

and

- a range of self-select funds.

The asset allocations of the Lifestyle Options change automatically depending on time until the member’s retirement date based on the Lifestyle Option and related outcome selected.

Statutory information

This Statement has been prepared in accordance with the requirements of sections 35, 36 and 56 of the Pensions Acts 1995 and 2004. The Trustee of the Plan has considered written advice from the Trustee‘s investment consultants and have consulted with the Principal Employer in producing this Statement.

The Trustee will review this Statement, in consultation with the investment consultants and the Principal Employer, at least every three years and without delay after any significant change in investment policy or demographic profile of the Plan’s membership.

Investment Considerations

Investment risks

Principal risks

The principal investment risks which most members face are:

Inflation risk – The risk that the investment returns over members’ working lives will not at least keep pace with inflation and do not produce adequate retirement benefits.

For members further from retirement, the Lifestyle Options invest in return-seeking assets during the accumulation phase, which are expected to produce returns in excess of inflation over the longer term. These assets are also included in the self-select fund range.

Benefit conversion risk – The risk that market movements in the period just prior to retirement lead to an increase in the cost of turning members’ fund values into retirement benefits.

For members planning to use income drawdown during their retirement, the Income Drawdown Lifestyle Option switches into a mixed allocation consisting of a cautious diversified growth fund, a corporate bond fund and a cash fund during the pre-retirement phase. The self-select range also offers funds investing in a cautiously managed/lower volatility portfolio of assets. These are broadly suitable for income drawdown.

For members planning to take cash at retirement, the Cash Lifestyle Option switches into a cash fund during the pre-retirement phase. The self-select range also offers a cash fund, which invests in cash deposits and other short-term interest bearing securities. These options provide a high degree of (but not complete) capital security.

For members planning to buy an annuity at retirement, the Annuity Purchase Lifestyle Option switches into bonds during the pre-retirement phase, and the self-select fund range offers funds investing in longer-dated bonds. These options may be expected to broadly follow movements in annuity rates caused by interest rate changes as retirement approaches.

Volatility/Market risk – The risk that adverse movements in investment market values in the period prior to retirement lead to a reduction in the anticipated level of benefits.

As members approach retirement, all Lifestyle Options increasingly invest in funds which are expected to be subject to lower volatility. These funds are also included in the self-select fund range.

Other investment risks

Other potentially material investment risks which members may face include:

Counterparty risk – The risk that counterparties holding derivative-based assets may default leading to a reduction in a fund's value.

The Trustee delegates the management of counterparty risk to their investment managers who select and monitor the counterparties used in the funds.

Active management risk – The risk that an investment manager will not deliver investment returns in line with its objectives.

The Trustee recognises that an actively managed fund may not deliver performance in line with the fund's objectives / agreed benchmarks. The Trustee regularly monitors fund performance in order to monitor this risk.

Liquidity risk – 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.

Environmental, Social and Governance (ESG) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including, but not limited to: policy change, physical impacts and the expected transition to a low-carbon economy.

Factor based investing – equity investments may show several factors (supported by academic research) that may be expected to deliver stronger returns over the longer-term, but which may show increased risks (including timing) in the shorter-term.

Legislative/Regulatory - Changes in government policy or taxation may have a long-term positive or negative impact on certain sectors of a country's economy or one country relative to its neighbours over the medium to longer-term. Changes in Regulations can also affect the operational costs, tax efficiency and security of one investment vehicle relative to other vehicles over the shorter-term.

The Trustee is satisfied that the funds available for members to invest have sufficient liquidity and may be realised quickly if required, under most circumstances. Member communications will warn members where funds, such as those investing in property, may occasionally impose constraints on liquidity.

Managing investment risks

The Trustee believes that taking investment risk is usually rewarded in the long term, while asset allocation (i.e. the choice between asset classes, such as equities and bonds) is the key tool for managing the balance between risk and return.

To help mitigate the principal investment risks, the Trustee offers the Lifestyle Options, which automatically move members from higher risk investments to lower risk investments as they approach retirement.

The Trustee believes that the investment options available are appropriate for managing these risks.

Expected returns on investments

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

Equities – should achieve a strong positive return relative to inflation over the longer-term, but tend to be the most volatile asset class over the shorter-term;

Property – should achieve a positive return relative to inflation over the longer-term which is lower than that for equities, but with less volatility than equities;

Corporate Bonds – should achieve a positive return relative to inflation over the longer-term which is lower than that for equities and property, but with less volatility than equities or property;

Cash – should deliver a positive return which may not always keep pace with inflation, while normally providing a minimal level of volatility and high 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 over the longer-term, with less volatility than equities.

Investments held

The Plan invests through insured investment vehicles considered appropriate for tax-exempt approved occupational pension schemes.

These funds may invest in: quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, commercial and residential property; infrastructure and commodities through collective investment vehicles; and Exchange Traded Funds and derivatives to facilitate changes in the fund's portfolio of assets or to help mitigate investment risks or to enhance investment returns.

The funds used are accessed through an insurance company-based investment platform and so must comply with regulations on what they are permitted to invest in how much they can borrow.

The Lifestyle Options use funds across asset classes with different expected risks and rewards. The self-select fund range offers members a choice of funds across asset classes with different expected risks and rewards.

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.

The Trustee considers that all of the stated asset classes are suitable investments for the Plan, while the use of pooled funds facilitates diversification within each asset class.

Realisation of investments

Funds need to be sold to make payments of benefits and to undertake fund switches either in accordance with the Lifestyle investment strategies or as requested by individual members. The Trustee normally expects the investment managers to be able to realise the Plan's funds within a reasonable timescale. The Trustee recognises that the investment managers may at times need to impose restrictions on the timing of purchases and sales of funds (most notably investing in property) in some market conditions to protect the interests of all investors in a fund.

Diversification

Given the size and nature of the Plan, the Trustee invests on a pooled fund basis undertaken through a platform provider. The investment managers of the funds are expected to maintain diversified portfolios. Subject to regulations and the funds' benchmarks and guidelines, the investment managers have discretion over the choice of securities and, for multi-asset funds, over the allocation to permitted asset classes.

The Trustee is satisfied that the range of funds used by the Plan provides adequate diversification within and across asset classes.

Member attitude to risk

The Trustee recognises that:

- Members have differing investment needs and that these needs are likely to change during the course of their working lives; and
- Attitudes to investment risks and the need for investment returns will vary from member to member and will also vary for each member over time, in particular as they approach retirement.

As a result, the Trustee believes that a range of investment options should be offered to members.

The Trustee believes it is in the best interests of members to offer a Default Option which manages the principal investment risks members face during their membership of the Plan. The Trustee therefore believes a lifestyle strategy is the most appropriate choice for the Default Option.

Member benefit choices at retirement

Members have a choice at retirement of:

- Taking cash at retirement;
- Buying an annuity at retirement or several years into their retirement;

- Using Flexible Access Income Drawdown (“FAD”) during their retirement; or
- Taking Uncrystallised Funds Pension Lump Sums (“UFPLS”) for several years into retirement.

The Plan can provide cash and annuity purchase at retirement. Members wishing to use FAD, UFPLS and/or buy an annuity at a later date need to transfer their accumulated invested contributions (their “DC pot”) to an arrangement outside the Plan.

Investment Objectives

Overall objectives

The Trustee’s overall objective is to facilitate good retirement outcomes for members and help members achieve "benefit adequacy" i.e. an appropriate replacement income.

The Trustee believes that understanding the demographics and likely attitudes to risk/reward of the members are essential to developing and maintaining an appropriate investment strategy. The Trustee also believes that members typically seek to optimise the value of their retirement benefits from a given level of contributions, while aiming to protect the value of those benefits in the years approaching retirement against market falls and fluctuations in the costs of turning fund values into retirement benefits/income streams.

Default Option

Reasons for Default Option

The Plan has a Default Option because:

- The Trustee believes that a significant proportion of the membership look to the Trustee to decide where their DC pot should be invested;
- A significant proportion of the membership are expected to have broadly similar investment needs;
- The Plan is a qualifying scheme for auto-enrolment purposes and is required by Regulations to have a Default Option;
- The Trustee believes that the presence of an effective Default Option will help deliver good outcomes for members at and into retirement.

In choosing the Default Option, the Trustee has taken into account a number of factors including: members’ projected pot sizes at retirement, contribution levels, the level of replacement income that members are likely to require, and the likely return on investment after the deduction of charges payable on the funds used by the Default Option. This analysis (which was last carried during 2014 and 2015) showed that only a small number of members are expected to retire in the next few years, and that looking further into the future, the majority of members are expected to have relatively modest DC pots at retirement.

Based on this analysis and broader market trends, the Trustee believes most members are likely to utilise some form of benefit flexibility at retirement, by taking a significant proportion of their benefits as cash at retirement and then drawing an income in retirement.

The Trustee will monitor members’ benefit choices at retirement to build empirical evidence of trends within the Plan membership. The Trustee will also monitor wider market trends and may carry out further analysis of the kind performed in 2014 and 2015. The Default Option may be amended to encompass any meaningful evidence and results of analysis to ensure it remains appropriate.

Objectives of the Default Option

The main objective of the Default Option is to facilitate good member outcomes at retirement, subject to a level of investment risk which is appropriate to the majority of members who do not make an alternative investment choice.

The Trustee believes that a lifestyle strategy is an appropriate default option. The principal objectives of the Default Option are:

- To manage the principal investment risks faced by an average member during their membership of the Plan;
- In the absence of member segregation and in the absence of evidence or information about how the members will take their benefits at retirement, to provide an appropriate investment strategy, in terms of diversification and volatility, for people with modest retirement pots who have not made a clear decision about how they will take their benefits.

Full details of the Default Option are provided in Appendix 3.

Investment options

In addition to the Default Option, the Trustee believes that the following investment options are appropriate to achieve the overall objectives of the Plan:

Alternative Lifestyle Options

Alternative Lifestyle Options are offered for those members who believe that the target retirement benefits of the Default Option are not appropriate to their needs, but otherwise do not want to take an active part in selecting where contributions are invested.

The alternative Lifestyle Options manage the principal risks faced by members during their membership, but offer a choice of targeting the taking of their retirement benefits as cash at retirement/UFPLS for a few years into retirement or as an annuity at retirement.

Self-select funds

The self-select fund range is provided for members who want to take an active part in choosing where their DC pot is invested and complements the Lifestyle Options. The self-select funds provide a range of asset classes and investment approaches with different levels of expected risk and reward, so that members can tailor the investment of their DC pot more closely to their personal needs and attitude to risk – although it cannot be expected to cover all the investment needs of all members.

Full details of the investment options are provided in Appendix 3.

Governance

Trustee's powers

The Trustee will always act in the best interests of the members and will assess the suitability of different types of investments to meet the needs of members.

Responsibilities

The parties principally responsible for the investment governance and operation of the Plan are:

Employers – who pay over the contributions, provide membership data. The Principal Employer is consulted on the preparation of this document.

Trustee – who runs the Plan in accordance with its Rules and chooses the providers and funds

Platform Provider – provides access to a range of funds.

Investment Manager – undertakes the day-to-day investment management of the underlying funds' assets.

Pension Administrator – administers and maintains records of members' DC pots and calculates benefits.

Custodians – are appointed by the investment managers and look after the underlying assets of the funds.

Investment Consultant – advises the Trustee on the Plan's investments and preparation of this statement.

Members – should choose the investment option(s) in which contributions are invested.

The Trustee does not give advice to individual members on their fund selections. Members are encouraged to take independent financial advice when making their individual investment choices.

In preparing this Statement, the Trustee has taken into account current guidance from the Pensions Regulator.

Having taken advice from the Plan's Investment Consultant, the Trustee is satisfied that the selected Investment Manager has sufficient experience and expertise to carry out its role. The Trustee has delegated all day-to-day investment management decisions to the Investment Manager, who is authorised under the Financial Services & Markets Act 2000.

The responsibilities are described in greater detail in Appendix 1.

Conflicts of interest

The Trustee maintains a register of interests of each of the Trustee Directors and their Advisers. This register is reviewed at each Trustee meeting to ensure that any potential conflicts between stakeholders are identified in a timely manner and dealt with appropriately.

Communication

The Trustee communicates regularly with all stakeholders. This includes the following:

- Consulting the Principal Employer on the content of this Statement;
- Producing the Annual Report and Accounts which includes the Chair's statement;
- Completing an annual return to the Pensions Regulator;
- Meeting periodically with the Platform Provider, Investment Consultant, Investment Manager and the Pension Administrator;
- Providing a range of literature and other forms of communications, including but not limited to the website www.affinitywaterpensions.co.uk, to inform members and assist them in making their investment decisions. In addition, members have access to factsheets for each fund.

Service providers

Details of the current service providers to the Plan are set out in Appendix 2 to this Statement.

Fees

Details of the current fees for the Plan's service providers and funds are set out in Appendix 4 to this Statement.

Monitoring

Investment performance

The Trustee regularly reviews the performance of each fund in which the Plan invests against its stated performance objective. The Trustee receives an investment performance monitoring report on a quarterly basis.

Lifestyle Options

The Trustee monitors the suitability of the objectives for each Lifestyle Option and the performance (after the deduction of charges) of the Lifestyle Options against these objectives at least every three years and without delay after any significant change in: (i) investment policy; or (ii) the demographic profile of the membership.

Charges

The charges borne by members for each of the investment options are monitored by the Trustee annually to ensure that they represent "value for money" relative to the needs of the membership.

The Plan is a qualifying scheme for auto-enrolment purposes. The Trustee monitors the compliance of the Default Option with the charge cap introduced by the Pensions Act 2014.

Details of the current charges are set out in Appendix 4 to this Statement.

Transaction costs

The Trustee monitors the funds' transaction costs to ensure that they are reasonable and represent "value for money" to members.

Investment process

The Trustee monitors the processes whereby contributions in respect of members are invested and money is disinvested to pay benefits.

Chair's statement

The Chair's statement included in the Annual Report and Accounts confirms the results of the monitoring during the preceding year.

Responsible Investment

Consideration of financially material factors in investment arrangements

The Trustee expects the Investment Managers to have the financial interests of the members as the first priority when choosing investments

The Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process and should be actively reflected in decision making.

Strategic considerations

The strategic benchmark for the Plan, has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors including ESG factors and risks of climate change.

Given the inherent uncertainty, the Trustee has not made explicit allowance for the risks of climate change in setting their strategic benchmark.

Structural considerations

Given the discretion afforded to the active Investment Managers, the Trustee expects that their Investment Managers will take account of all financially material factors including the potential impact of ESG factors in the implementation of their mandate.

Selecting investment managers

Within active mandates, the Trustee has delegated responsibility for the consideration of stock specific issues to their individual Investment Managers.

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 freedom 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 benchmark.

Where an investment manager incorporates ESG factors into the running of a fund, the Trustee would expect this to improve levels of risk control and would not expect any detrimental impact on financial outcomes.

The Trustee expects active managers to consider ESG risks when making decisions to buy, retain or sell investments. Active and passive managers are expected to actively engage with stakeholders to manager ESG risks.

At this time, the Trustee believes that ESG risk controls can be effectively achieved through active engagement by the Investment Manager rather than through the divestment or exclusion of particular investments. This view will be kept under review.

At this time, the Trustee will keep under review the possible ways specialist ESG managers or mandates can be implemented within the Plan’s default strategy or self-select funds.

Consideration of non-financially material factors in investment arrangements

The Trustee has not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

The Trustee believes members will have a wide variety of views on non-financial factors relating to the Plan’s investments and hence it will not be feasible to cater specifically for all these views through the Plan’s investment arrangements.

The Trustee will consider adding pooled funds which are managed to a set of predetermined ethical guidelines, acknowledging that this a pragmatic way of offering an ethical option but that it is unlikely to account of all individual member’s views.

Stewardship

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

Members’ financial interests

The Trustee expects that the investment platform provider and fund managers will have the members’ financial interests as their first priority when choosing investments.

Conflicts of interest – platform provider

When appointing platform providers and choosing investment managers' funds on the provider's platform, the Trustee will seek to establish that the platform provider and each investment manager has an appropriate conflicts of interest policy in place.

When given notice the Trustee will consider the impact of any conflicts of interest arising in the management of the funds used by the Plan.

The Trustee will consider any conflicts of interest arising in the management of the funds used by the Plan and has ensured that the platform provider and each investment manager has an appropriate conflicts of interest policy in place.

Voting and engagement

The Trustee has adopted a policy of delegating voting decisions on stocks to their Investment Managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The Investment Managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustee will review the voting policies of their Investment Managers and determined that these policies are appropriate.

The Trustee does not engage directly but expects its Investment Managers to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks.

The Trustee believes that passive managers can have significant influence on investee companies where the manager has meaningful scale of investment in equity markets. The Trustee acknowledges that passive managers lack the ability to divest stocks from index tracking funds as an ultimate deterrent, but that other actions such as voting against the board or supporting shareholder resolutions at general meetings can be powerful tools.

Monitoring

The Trustee will monitor Investment Managers ESG related decisions and voting activity and may periodically review managers voting patterns. To facilitate this, the Trustee will request that Investment Managers provide reports containing evidence of the implementation of their policies on ESG risk management and voting.

The Trustee aims to engage with all their Investment Managers on a periodic basis. The Trustee provides their managers with an agenda for discussion, including, where appropriate, ESG issues.

Policy on Investment Manager and Fund Arrangements

Structure of the investment arrangements

The Plan invests contributions for members through the provider's investment platform. Contributions buy units in the provider's funds. The provider in turn backs the value of its funds by buying units in funds from a selection of fund managers where investments are pooled with other investors. This enables the Plan to invest in a range of funds giving a good spread of investments in a cost-effective manner.

The Plan's asset, and the Trustee's contract with the provider, is the policy of insurance issued by the provider. As a result, the Trustee does not have any contractual arrangement with the investment managers or title to the underlying funds' assets.

Delegation of investment decisions

The investment of contributions through the provider's investment platform means that the Trustee has delegated day to day investment decisions including the management of financially material considerations to the provider, who has in turn delegated these investment decisions to the investment managers.

Selection of funds

The Trustee will invest in funds on the provider's platform which in turn invest in the investment managers' pooled funds. The objectives of the funds and the policies of the investment managers will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Plan. The Trustee considers written advice from a suitably qualified person when determining the appropriateness of each investment manager and fund for the Plan, particularly in relation to diversification, risk, expected return and liquidity.

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 on the provider's platform. While the Trustees will endeavour as far as possible to select a platform provider and funds on that provider's platform which are consistent with the Plan's investment objectives and the Trustee's investment beliefs, this needs to be balanced against the wider benefits of access to the other funds on the platform and the other services from the platform provider as well as taking into consideration the costs of change to the Plan and its members.

The Trustee's will engage with the platform provider 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 provider and consistent with the charge cap for the default arrangement. The Trustee expects the provider to encourage the investment managers to adopt appropriate practices for responsible investment and shareholder engagement.

The Trustee will periodically review the choice of platform provider, at which time the suitability of the provider's fund range and effectiveness of its governance of the investment managers on its platform will be key criteria.

Manager incentives

Remuneration for each fund is determined prior to initial investment. It is based on commercial considerations and typically set on an ad valorem basis.

The complete basis of remuneration of the investment managers by the platform provider may be subject to commercial confidentiality, however, the Trustee will seek transparency of all costs and charges borne by members.

When selecting funds, the Trustees will ask their investment advisor to consider the investment managers' fees and appropriateness of each fund's investment guidelines. Ongoing assessment is carried out in the following ways:

- In accordance with the 2015 Regulations, the Trustee conducts an annual Value for Members assessment and will include peer comparison.
- In accordance with guidance from the Pensions Regulator, the Trustee will periodically review the Plan's choice of provider to ensure their charges and services remain competitive.
- On a quarterly basis, the Trustee monitors the investment managers' long-term (at least 3 year) performance against appropriate benchmarks or targets. Return of their funds' respective benchmarks or performance targets;
- The platform provider or investment managers are expected to provide explanations for any significant divergence from a fund's objectives.
- The Trustee also undertakes a review at least every three years of the overall appropriateness of the investment options for the members.

If fund fees are not deemed to be providing good value, or if there is a material deviation from performance and risk targets or approach to portfolio management, the fund will be subject to review. This will involve engaging with the provider and may ultimately lead to changing investment managers or changing the provider.

The Trustee believes that these steps are the most effective way of incentivising the provider to deliver Value for Members, of which investment management charges and investment performance are key considerations.

Portfolio turnover

The Trustee does not expect investment managers 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.

When selecting 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 platform provider or investment managers on the platform to report on at least an annual basis on the underlying assets held within fund with details of turnover over the Plan's reporting year. The Trustee will challenge the provider or managers if the level of turnover seems out of line with expectations.

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 Plan 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 the long-term, although all funds are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

Security of assets

The funds are provided through a policy of insurance issued to the Trustee by the platform provider. As a result, the value of the funds may be affected in the event of the provider getting into financial difficulties.

The underlying funds used by the provider's platform are accessed through unit purchase agreements. In the event of a fund manager getting into financial difficulties, the values in these underlying funds will depend upon the nature of the contract with the platform provider and the fund vehicles used by the fund managers' funds.

This Statement of Investment Principles was completed on 22 September 2020. It will be next reviewed no later than 2023.

Signed on behalf of the Trustee of the Affinity Water Pension Plan

Name: Michael Calabrese

Name: Hetal Kotecha

Date: 22 September 2020

Appendix 1 Responsibilities

The responsibilities outlined in section 4 are as follows.

Trustee

The Trustee's primary investment responsibilities include:

- Operating the Plan in accordance with its Trust Deed and Rules.
- Ensuring that the investment options are suitable for the Plan's membership profile.
- Preparation of the Statement of Investment Principles and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Principal Employer and the investment consultants.
- Appointing investment consultants and other advisors as necessary for the good stewardship of the Plan.
- Appointing the platform provider and selecting the investment managers who invest the Plan's assets.
- Assessing the performance, charges and processes of the Platform Provider and Investment Managers by means of regular, but not less than annual, reviews of investment performance and other information, with the Investment Consultant.
- Monitoring compliance of the investment arrangements with this Statement on a regular basis.
- Preparing an annual Chair's statement for inclusion in the Annual Report and Accounts.

Employers

The Employers are responsible for determining the level of contributions, and paying the employer and employee contributions to the administrator, for providing membership data and for providing support to the Trustee to help govern the Plan.

Investment Consultant

The role of the Investment Consultant is to give advice to the Trustee on the development of a clear investment strategy for the Plan including the default option, lifestyle strategies and self-select fund range.

The Investment Consultant's main responsibilities include:

- Assisting the Trustee in the preparation and annual review of this Statement in consultation with the Principal Employer.
- Providing the Trustee with quarterly reports including commentary on any changes to the investment managers' investment approach and a review of the investment performance of each fund.
- Undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustee.
- Advising the Trustee on the selection and review of performance of the Plan's investment managers.

- Providing training or education on any investment related matter as and when the Trustee sees fit.

Platform Provider

The funds are accessed through an investment Platform Provider. The Platform Provider is responsible for investing contributions with the fund managers selected by the Trustee while ensuring that the funds are priced correctly, maintain sufficient liquidity and meet regulatory requirements.

The Platform Provider's main responsibilities include:

- Ensuring that investment of the Plan's assets is in compliance with prevailing legislation and within the constraints detailed in this Statement.
- Attending meetings with the Trustee as and when required.
- Informing the Trustee of any changes in the internal performance objective and guidelines of any pooled fund used by the Plan as and when they occur.

Investment Manager

The Investment Manager is responsible for the day-to-day investment management of the underlying funds' assets including:

- Exercising voting rights on shareholdings in accordance with their general policy.
- Following its general policy on socially responsible investment.

Custodians

Custodians are appointed by the Investment Manager. The custodians are responsible for ensuring the security of the funds' underlying assets and recording sales and purchases of the funds' underlying assets.

Administration

The Pension Administrator is responsible for passing contributions to the Platform Provider and ensuring that members are allocated the correct number of units in the funds. It is also responsible for operating the lifestyle strategies and general administration, including record-keeping, providing members with annual benefit statements and paying benefits when they become due.

The Pensions Administrator's main investment-related responsibilities include:

- The prompt investment and reconciliation of contributions.
- Administering switches between funds as required.
- Operating the Lifestyle Options.
- Maintaining records of the members' investments.
- Realising investments to pay benefits.

Members

Members are expected to be responsible for choosing the level of contributions they make and the investment options in which contributions are invested, consistent with their tolerance of risk, likely benefit choice at retirement and their level of understanding and ability to take investment decisions.

Appendix 2 – Service providers

The Trustee has appointed the following service providers:

Investment Consultant

The Investment Consultant is Hymans Robertson LLP.

Platform Provider

The investment platform through which the investment options are operated is provided by Legal & General Assurance (Pensions Management) Limited.

Investment Manager

The Investment Manager accessed through the investment platform is Legal & General Investment Management.

Custodians

The funds' custodians are appointed by the Investment Manager.

Administration

The administration of the Plan is carried out by Hymans Robertson LLP.

Appendix 3 – Investment options

The Trustee offers three Lifestyle Options that are designed to cater for the investment needs of most members and take into account the new retirement benefit options available since the 2014 Budget. The investment strategies under these Lifestyle Options are designed to target the form of retirement benefits that members may choose: income drawdown, cash or annuity purchase. Members are automatically placed in the Income Drawdown Lifestyle Option (the Default Option) if they do not elect to make a decision on how their contributions should be invested.

The Lifestyle Options have been made available specifically for members who do not wish to take an active role in how their contributions are invested. The asset allocation of the Lifestyle Options changes systematically over time in a way that is deemed to be consistent with an appropriate amount of risk for that stage in a member's working career.

Members can select their own target retirement age for the Lifestyle Options. If members do not select their own target retirement age the option defaults to age 65.

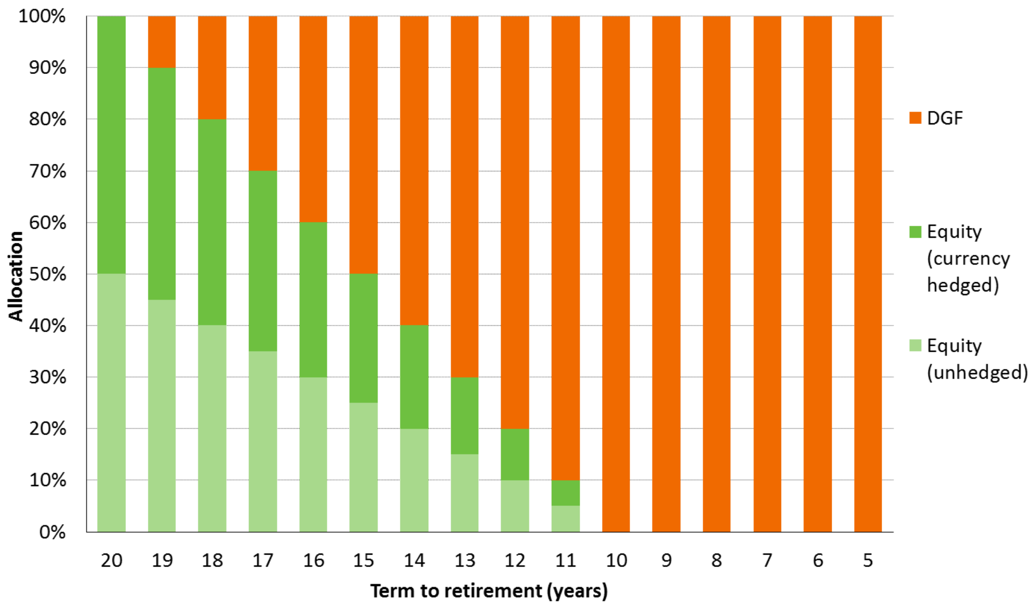
The investment strategy for the Lifestyle Options can be split into two phases:

- Accumulation phase – more than 5 years to target retirement date
- Pre-retirement phase – less than 5 years to target retirement date

Accumulation phase

The aim during the accumulation phase is to maximise the value of the member's investment in real terms and is identical for all the Lifestyle Options. During the early part of this phase, up to 20 years before the member's retirement, the Lifestyle Options are fully allocated to passive global equities with 50% of the overseas currency exposure hedged back to Sterling. Volatility of return is likely to be high during this part of the pre-retirement phase. From 20 years before target retirement, members' DC pots are expected to have grown to a size such that the value at risk is material and therefore to control the level of volatility of the DC pot value, assets will be gradually switched into a diversified growth fund such that, at 10 years before retirement, the member will be fully invested in this fund.

Chart: Portfolio allocation by years to retirement for a member in any of the Lifestyle Options



Pre-retirement phase

The pre-retirement phase prepares the member's investment for retirement. The primary objective of this phase is to manage risks and help mitigate fluctuations in the size of the member's DC pot value relative to the benefit the member is likely to take at retirement. From 5 years before retirement, the investments are gradually switched from a diversified growth fund to lower risk funds which help manage the risks associated with converting a member's accumulated savings into the target retirement benefit.

The investment strategy for the three Lifestyle Options diverge during the pre-retirement phase when the member's DC pot is gradually transferred into funds that broadly match their target retirement benefit.

Income Drawdown Lifestyle Option

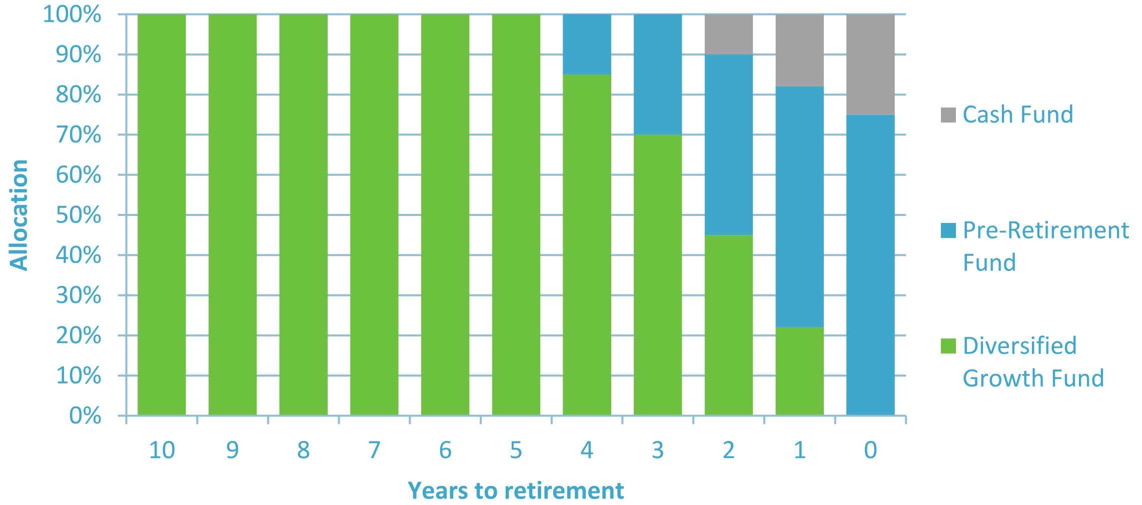
The Income Drawdown Lifestyle Option targets an asset allocation of 50% cautious diversified growth, 25% corporate bonds and 25% cash at the target retirement date.

Chart: Portfolio allocation by years to retirement for a member in the Income Drawdown Lifestyle Option

Annuity Purchase Lifestyle Option

The Annuity Purchase Lifestyle Option targets an asset allocation of 75% pre-retirement bonds and 25% cash.

Chart: Portfolio allocation by years to retirement for a member in the Annuity Purchase Lifestyle Option



Cash Lifestyle Option

The Cash Lifestyle Option targets an asset allocation of 20% cautious diversified growth and 80% cash at the target retirement date.

Chart: Portfolio allocation by years to retirement for a member in the Cash Lifestyle Option

Funds used in the Lifestyle Options

Asset Class	White-labelled fund name (underlying funds)	Objective	Performance Benchmark or Target
Equity	Affinity Water World Equity Fund (L&G World Equity Index Fund)	Track the performance of the benchmark (less withholding tax if applicable) to within +/-0.5% p.a. for two years out of three	FTSE World Index
Equity	Affinity Water World Currency Hedged Equity Fund (L&G World Equity Index Fund – GBP Currency Hedged)	Track the performance of the benchmark (less withholding tax if applicable) to within +/-0.5% p.a. for two years out of three	FTSE World Index - GBP Hedged
DGF	Affinity Water Diversified Growth Fund (L&G Dynamic Diversified Fund)	Provide long-term investment growth through dynamic exposure to a diversified range of asset classes	Bank of England base rate +4.5% p.a.
DGF	Affinity Water Diversified Income Fund (L&G Retirement Income Multi Asset Fund)	Provide long-term investment growth and a degree of capital value stability up to and during retirement, and to facilitate the drawdown of retirement income	Bank of England Base Rate +3.5% p.a.
Corporate bonds	Affinity Water Corporate Bond Fund (L&G AAA-AA-A Corporate Bond All Stocks Index Fund)	Track the performance of the benchmark to within +/-0.5% p.a. for two years out of three	Markit iBoxx £ Non-Gilts (ex-BBB) Index
Pre-retirement bonds	Affinity Water Pre-Retirement Fund (L&G Pre-Retirement Fund)	Provide diversified exposure to assets that reflect the investments underlying a typical traditional level annuity product.	Composite of gilts and corporate bond funds.
Cash	Affinity Water Cash Fund (L&G Cash Fund)	Match the median return of similar funds as measured by the CAPS Pooled Pension Fund Index without incurring excessive risk	7 Day LIBID

Self-select Fund Range

Members are offered a choice of self-select investment funds across a range of asset classes and investment styles. This includes the underlying funds used in the Lifestyle Options, with the exception of the L&G World Equity Index Fund – GBP Currency Hedged, in addition to the following funds:

Asset Class	Fund name	Objective	Benchmark
Equity	L&G UK Equity Index Fund	Track the performance of the FTSE All-Share Index to within +/-0.25% p.a. for two years out of three.	FTSE All-Share Index
Property	L&G Managed Property Fund	Outperform the AREF/IPD UK Quarterly All Balanced Property Funds Index over three and five year periods.	AREF/IPD UK Quarterly All Balanced Property Funds Index

All the funds used by the lifestyle strategies and self-select funds are provided through an investment platform operated by Legal & General Assurance (Pensions Management) Limited.

Members cannot invest concurrently in self-select funds and a lifestyle strategy or more than one lifestyle strategy.

If a member, who is invested in one of the Lifestyle Options, decides to change their target retirement age, their investment strategy will be amended in line with the new retirement date.

Appendix 4 – Fees and Charges

Investment Consultant

The Plan's Investment Consultant is paid on a mixed fixed fee and time cost basis. The Trustee believes that this approach ensures that all advice is impartial and independent. These costs are met by the Principal Employer.

Investment Management

The Investment Manager applies the following charges for investing in the funds selected by the Trustee:

Default option

Fund	Annual Management Charge (AMC) %	Additional Expenses* %	Total Charge** %
L&G World Equity	0.200	-	0.200
L&G World Equity - Hedged	0.223	-	0.223
L&G Dynamic Diversified Fund	0.500	-	0.500
L&G Retirement Income Multi Asset Fund	0.350	-	0.350
L&G AAA-AA-A Corporate Bond All	0.150	-	0.150
L&G Pre-Retirement Fund	0.150	-	0.150
L&G Cash Fund	0.125	-	0.125

Source: L&G

The Trustee monitors the total charges of the funds used in the default option at quarterly reference points. The total charges borne by members in the default option over a rolling 12 month period comply with the charge cap.

Self-select fund range

Fund	Annual Management Charge (AMC) %	Additional Expenses*% %	Total Charge** %
L&G UK Equity Index Fund	0.100	-	0.100
L&G Managed Property Fund	0.700	0.020	0.720

Source: L&G

* Additional expenses are all the other operating costs and expenses (OCEs) within the fund, including the known fixed cost of operating the funds (fund administration, custody and professional fees), but exclude transaction costs. These costs can vary from fund to fund and from time to time, but are accurate as at 31 March 2020.

** The Total Charge is also known as a fund's "Total Expense Ratio" (TER) and is the sum of a fund's AMC and OCE. It excludes transaction costs on the fund's underlying assets.

The charges for investment management are borne by the members.

The custodian costs for holding the funds' assets are included in the funds' OCE, while the custodians' costs for buying and selling the funds' underlying assets are included in the funds' transaction costs.

The funds' total charges and transaction costs are monitored by the Trustee. The results of this monitoring are set out in the annual Chair's statement which is included in the Trustee's annual report and accounts.

Administration

The Pension Administrator is paid on a fixed fee basis.

Administration costs are met by the Principal Employer.

Platform Provider

The Platform Provider charges a fee of £1,000 p.a.

The Platform Provider costs are met by the Principal Employer.