Statement of Investment Principles for the Wessex Water Pension Scheme (Defined Contribution Section)

1 Introduction

This document is a compendium of the Statements of Investment Principles for the Wessex Water Pension Scheme (Defined Contribution Section) (the "Scheme"). The Scheme is a defined contribution (DC) pension arrangement and is a qualifying scheme for auto-enrolment purposes.

The law requires the Trustees to produce formal "Statement of Investment Principles" for the Scheme's default arrangement and its other investment options. These Statements set out what the Trustees aim to achieve with the investment options and their investment policies which guide how members' money is invested.

These Statements must cover a number of technical points in order to comply with legislation as well as meet the expectations of the Pensions Regulator and needs of the Scheme's Auditors, which we have as far as possible shown separately in "for the record" boxes.

The Trustees have obtained written advice on the content of this Statement from Hymans Robertson LLP ("Hymans"), the Scheme's DC Investment Consultant.

The Trustees will review this Statement at least every three years and without delay after any significant change in investment policy or demographic profile of the Scheme's membership. The Trustees will consult with the Principal Employer and take written advice when revising this Statement.

Statements of Investment Principles

The Trustees' Statements of Investment Principles contained in this document include the following:

1. Statement of the aims and objectives for the default arrangement*;
2. Statement of the aims and objectives for investment options outside the default arrangement*;
3. Statement of investment beliefs, risks and policies**.

The Statement of Investment Principles for the Scheme ** comprises items 1, 2 and 3.

The Statement of Investment Principles for the Scheme's default arrangement *** comprises items 1 and 3.

Appendices

A. Responsibilities;

B. Service providers;

C. Investment options;

D. Fees and Charges; and

E. Investment Beliefs

For the record

* In accordance with Regulation 2A(1)(a) and 2A(1)(c) of the Occupational Pension Schemes (Investment) Regulations 2005

** In accordance with Regulation 2A(1)(b) of the Occupational Pension Schemes (Investment) Regulations 2005

*** As required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015

The Trustees have taken proper written advice and consulted the Employer in the preparation of these Statements of Investment Principles.

2 Statement of investment beliefs, risks and policies

This Statement sets out the general investment beliefs and policies which guide the Trustees' decision making.

> **For the record**
> This Statement of investment beliefs, risks and policies should be read in conjunction with the Statements of the aims and objectives for both the default arrangement and the investment options outside the default arrangement. Collectively, these respectively form the Statements of Investment Principles for the Scheme and the default arrangement.

2.1 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 keep pace with inflation and do not produce adequate retirement benefits.

For members further from retirement, the default strategy and alternative lifestyle strategies invest in return-seeking assets during the growth phase, which are expected to produce returns well in excess of inflation over the longer term. These funds are also included in the self-select fund range.

Benefit conversion risk – The risk that market movements in the period just prior to a member's selected retirement date lead to an increase in the cost of turning members' fund values into retirement benefits.

For members planning to take cash at retirement, the Retirement Planner 15 Year Cash Lifestyle strategy (default arrangement) switches into a cash fund during the de-risking phase, providing a high degree of (but not complete) capital security.

For members planning to use income drawdown during their retirement, the Retirement Planner 15 Year Drawdown Lifestyle switches into funds during the de-risking phase that invest in a lower volatility portfolio of assets (than in the growth phase) which are broadly suitable for income drawdown.

For members planning to buy an annuity at retirement, the Retirement Planner 15 Year Annuity Lifestyle strategy de-risks into funds investing in longer-dated bonds, which may be expected to broadly follow movements in annuity rates caused by interest rate changes as retirement approaches.

The latter two strategies retain 25% in cash at the point of retirement as members are expected to access their maximum allowable tax free cash lump sum.

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

For members approaching retirement, the default strategy and alternative lifestyle strategies increasingly invest in funds which are expected to be subject to lower levels of 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 Trustees, in conjunction with their platform provider manage counterparty risk by investing in pooled funds that offer suitable counterparty protection.

Active management risk – The risk that an investment manager will not deliver investment returns in line with investment markets generally or other investment managers.

The Trustees recognise that an actively managed fund may not deliver performance in line with the fund's objectives. The Trustees regularly monitor fund performance in order to mitigate 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 Trustees and/or members.

The Trustees are satisfied that the pooled funds in which they invest usually have sufficient liquidity and may be realised quickly if required. Member communications will warn members where funds, such as those investing in property, may occasionally impose constraints on liquidity.

Inappropriate benchmarks for passive funds – different types of index funds have different characteristics. Some forms of passive investing may outperform others over the longer term (e.g. factor-based v market-cap based investing), but which may show increased risks (including timing) in the shorter-term.

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.

Managing investment risks

The Trustees believe 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 Trustees offer the default strategy and alternative lifestyle strategies, which automatically move members from higher risk investments to lower risk investments as they approach retirement. The Trustees believe that the investment strategies available are appropriate for managing these risks.

The Trustees have considered the impact of climate change on members' investments within the development or implementation of its default investment strategy. The Trustees have made the decision to switch to using an ESG focused fund within the "growth phase" of the default option (i.e. strategy when members are greater than 15 years from retirement). The fund includes a "climate tilt" which increases the fund's exposure to companies which are well positioned to perform well in a low-carbon environment. The Trustees expect the managers of the Scheme's other actively managed funds to take ESG and climate risks into account when selecting securities and, as stakeholders, engage with companies who may be affected.

The Trustees discuss the potential impact of climate risks with its DC Investment Consultant and managers on a periodic basis and will continue to monitor developments in this area.

2.2 Financially material considerations

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

Implementation

The Scheme uses standard pooled funds offered by fund managers through the platform provider. This gives access to a range of funds while keeping down costs to members, but means that the Trustees cannot adopt an approach to managing financially material considerations specific to the Scheme. The Trustees nevertheless seek to manage financially material considerations to protect long-term returns by:

- Choosing fund managers who have clearly articulated policies for managing financially material considerations including climate change;
- Considering the extent to which ESG issues including climate risk, where relevant, are integrated into the fund managers' investment processes and are satisfied that the fund managers follow an approach which takes account of financially material factors;
- For actively managed funds (where the fund manager decides where to invest), expect the fund managers to take financially material considerations into account when selecting which companies and markets to invest in;
- For passively managed funds, the Trustees recognise that the funds' objectives are to deliver returns in line with its benchmark (which may or may not take into account ESG factors), which the Trustees believe will deliver appropriate risk adjusted returns;
- For all funds, encourage fund managers to engage with companies in which the fund invests to encourage business strategies which should improve or protect the value of those investments; and
- Prefer fund managers who are signatories to the Financial Reporting Council's Stewardship Code in the UK and the United Nations supported Principles for Responsible Investment.

2.3 Expected returns on investments:

The expected returns on the principal asset classes and fund types within the Scheme 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 a lower level of shorter-term volatility than equities.

Multi-asset and Diversified Growth Funds – invest in a varying mix of asset classes with an objective of delivering a target level of positive returns relative to inflation over the longer-term, with a target level of shorter-term volatility lower than equities.

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 a lower level of shorter-term volatility than equities or property.

Long-dated Government Bonds (Gilts) and long-dated Corporate Bonds – values should move broadly in line with the financial factors influencing annuity rates.

Fixed Interest Government Bonds (Gilts) – should deliver a positive return relative to inflation over the longer-term which is lower than that of equities, property and corporate bonds, but with a lower level of shorter-term volatility than equities, property and corporate bonds.

Index-linked Government Bonds (Index-Linked Gilts) – should deliver a return in line with inflation over the longer-term, but with a lower level of shorter-term absolute volatility than equities, property and corporate bonds.

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;

The Trustees are satisfied that the return objectives are consistent with the aims of members.

2.4 Investment beliefs

The Scheme's investment beliefs are set out in Appendix E. These provide a set of overriding principles by which the Trustees make investment decisions. The beliefs adopted by the Trustees are high level, but their interpretation has a meaningful impact on the way the Scheme's investment strategy is devised and implemented.

2.5 Investments held

The Scheme invests through pooled 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;
- Exchange Traded Funds to gain access to less easily traded and illiquid asset classes; and
- Derivatives to facilitate changes in the fund's portfolio of assets or help mitigate investment risks or to enhance investment returns.

The funds used are provided through an insurance company based investment platform and so must comply with the FCA's "Permitted Links" rules, which place limits on the degree of leverage which a fund can use.

The default strategy and alternative lifestyle strategies use funds across asset classes and across the risk/reward spectrum. The self-select fund range offers members a choice of funds across asset classes and across the risk/reward spectrum.

The Trustees believe 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 Trustees consider that all of the stated asset classes are suitable investments for the Scheme, while the use of pooled funds enables a balance of investments to be held at a security level within each asset class or fund.

2.6 Realisation of investments:

Funds need to be sold to make payments of benefits and to undertake fund switches either in accordance with the lifestyle strategies or as requested by individual members. The Trustees normally expect the platform provider to be able to realise the Scheme's funds within a reasonable timescale. The Trustees recognise that the investment managers may at times need to impose retrictions 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.

2.7 Diversification

Given the size and nature of the Scheme, the Trustees invest on a pooled fund basis, which is undertaken through a platform provider. The investment managers are expected to maintain diversified portfolios. Subject to the Funds' benchmarks and guidelines, the investment managers are given full discretion over the choice of securities and, for multi-asset funds, of asset classes.

The Trustees are satisfied that the range of funds used by the Scheme provide adequate diversification within and across asset classes.

2.8 Member attitude to risk

The Trustees recognise that:

- Members have differing investment needs and that these needs 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 Trustees believe that a range of investment options should be offered to members.

The Trustees believe it is in the best interests of members to offer a default arrangement which manages the principal investment risks members face during their membership of the Scheme. The default arrangement is therefore a lifestyle strategy which the Trustees believe is broadly appropriate to the needs of a majority of the membership.

2.9 Member benefit choices at retirement

Members have a choice at retirement of:

- Taking cash at retirement;
- Taking Uncrystallised Funds Pension Lump Sums ("UFPLS");
- Using Flexible Access Income Drawdown ("FAD") during their retirement; or
- Buying an annuity at retirement or several years into their retirement.
- A combination of the above options

The Trustees have considered which of these flexibilities will be offered to members. Currently cash and UFPLS are provided within the Scheme, but members wanting to purchase an annuity or use FAD need to transfer their DC Pot to a suitable arrangement outside the Scheme.

The Trustees believe that members' choices of benefits at retirement will be strongly influenced by:

- The size of their DC Pot in the Scheme;
- The size of their deferred benefits from previous occupational pension schemes (especially defined benefit) and workplace group personal pension plans.
- Other sources of income including non-pension savings and partner's pension provision.

In practice, the Trustees can only reliably take the likely size of members' DC Pots in the Scheme into account in designing the investment strategy. The Trustees believe that a typical member, without significant sources of income outside the Scheme, could be expected to act mostly as follows:

- Small pots – would be taken as cash or UFPLS.
- Medium sized pots – would be taken as UFPLS or an annuity at retirement.
- Larger pots – would be taken partly as cash at retirement and the remainder by flexi-access drawdown during retirement (although some may use part of their DC Pot to buy an annuity at, or some years into, retirement).

The Trustees believe that it is in the best interests of members to have a default arrangement that targets the method by which the majority of members are expected to take retirement benefits

For the record

The Trustees obtain and consider proper advice from suitably experienced and qualified persons when choosing investments and preparing the Statement of Investment Principles.

Funds are chosen by the Trustees to give an expected level of return with an appropriate level of investment risk which meets the objectives of each investment option.

The funds used at each stage of the default option and the alternative lifestyle options are intended to deliver good member outcomes at retirement from an appropriate balance of investment growth relative to inflation and the then pertinent investment risks.

The investment platform uses a life insurance company based legal vehicle for its funds. The fund managers used by the platform use a variety of different legal vehicles for their funds. The funds may invest in quoted and unquoted securities traded in regulated UK and overseas markets:

Equities (company shares); Fixed interest and index-linked bonds issued by governments and companies; Cash and other short-term interest bearing deposits; Commercial and residential property; Infrastructure and commodities through collective investment vehicles; and Derivatives to facilitate changes in where funds are invested or to help control investment risks.

Funds provided through a life insurance company must comply with the Financial Conduct Authority ("FCA") "Permitted Links" rules, which place limits on the degree of leverage a fund can use. Fund managers using other fund vehicles subject to the European "UCITS IV" and the FCA's "Non-UCITS" regulations have to meet requirements on the security and concentrations of assets.

Subject to the funds' benchmarks and guidelines, the fund managers are given full discretion over the choice of securities and, for multi-asset funds, choice of asset classes. Fund managers are expected to maintain well-diversified and suitably liquid portfolios of investments.

The Trustees consider that these types of investments are suitable for the Scheme. The Trustees are satisfied that the funds used by the Scheme provide adequate diversification both within and across different asset classes.

3 Investment Objectives

3.1 Overall objectives

The Trustees' overall objective is to invest contributions in the best interests of members and their beneficiaries.

The Trustees believe that understanding the demographics and likely attitudes to risk/reward of the members are essential to developing and maintaining an appropriate investment strategy. It is also believed 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 / retirement income streams.

3.2 Default strategy

Reasons for default strategy

The Scheme has a default strategy because:

- It is believed that a significant proportion of the membership are either unengaged in or unable to decide where their DC Pot should be invested;
- A significant proportion of the membership are expected to have broadly similar investment needs;
- The Scheme is a qualifying scheme for auto-enrolment purposes and is required by Regulations to have a default strategy;
- The Trustees believe that the presence of an effective default strategy will help deliver good outcomes for members at and into retirement.

In choosing what is felt to be an appropriate default arrangement, the Trustees have taken into account a number of factors including: members' projected pot sizes at retirement, contribution levels and the likely return on investment after the deduction of charges payable on the funds used by the default arrangement. The most recent review showed that the majority of members retiring in the next few years are expected to have small DC pots at retirement (< £30k).

Based on this analysis, the Trustees believe that most members will want to take their retirement benefits as cash at retirement.

Following the most recent review, the Trustees have revised the investment structure of the default arrangement by switching the passive market cap equity fund within the "growth phase" (> 15 years to retirement) to a factor-based equity fund with an ESG overlay. This was implemented in April 2020.

A high level review of the default strategy is conducted by the Trustees annually, with a formal review every three years or following significant changes to governance requirements. The next formal review is due in 2021.

Objectives of the default arrangement

The main objective of the default arrangement is to help members achieve good outcomes at retirement, subject to a level of investment risk which is appropriate to the majority of members who do not make active investment choices.

The Trustees believe that a lifestyle strategy is an appropriate default arrangement. The principal objectives of the default investment strategy are:

- To manage the principal investment risks faced by an average member during their membership of the Scheme.
- To target the majority of members who, in the case of the Scheme, are expected to take 100% cash at their selected retirement date.
- To invest in funds which are expected over the long-term to deliver strong returns relative to inflation for members over 15 years from retirement.
- During the last 3 years before retirement, to increasingly invest in lower risk funds which are expected to help mitigate fluctuations in the sizes of both members' fund values and the benefits members are likely to take at retirement.

The default strategy invests in a factor-based global equity fund in the "growth" phase with the aim of achieving better long term risk-adjusted returns whilst continuing to grow members assets in real terms when they are many years from retirement. The Trustees believe that factor-based investing will generate higher long-term risk-adjusted returns than tracking a traditional market-capitalisation based index. The factor-based fund which will be used includes an ESG overlay which tilts the fund to companies that will perform better in a low-carbon economy.

The default investment strategy then begins to de-risk members' assets into a multi-asset fund from 15 years from a member's selected retirement date. Finally, three years from a member's selected retirement date, the strategy gradually de-risks into 100% cash. Full details of the default strategy are provided in Appendix C.

3.3 Investment options

In addition to the default investment strategy, the Trustees believe that the following investment options are appropriate to achieve the overall objectives of the Scheme:

Alternative lifestyle strategies

Alternative lifestyle strategies are offered for those members who do not want to take their benefits as 100% in cash at the point of retirement but wish to delegate the management of their investments (including the de-risking strategy).

The alternative lifestyle strategies are designed to invest at the point of retirement in assets which are most closely matched to members' requirements after retirement.

The annuity purchase lifestyle strategy invests in passively managed global equities in the "growth" phase and begins to de-risk gradually into a multi-asset fund 15 years from a member's selected retirement date. Finally, five years from retirement, the strategy de-risks to a final position of 75% in bonds and 25% cash.

The income drawdown strategy invests in passively managed global equities in the "growth" phase and begins to de-risk gradually into a multi-asset fund 15 years from a member's selected retirement date. Finally, three years from retirement, the strategy de-risks into corporate bonds and cash so that at the point of retirement a member's assets are invested 50% in the multi-asset fund, 25% in corporate bonds and 25% in cash.

Self-select funds

The self-select fund range is provided for members who want to take an active part in choosing where their DC savings are invested and complements the default strategy and the alternative lifestyle strategies. The self-select fund range covers a broad spectrum of investment risk levels and investment approaches, 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 C.

3.4 Inadvertent or temporary Default Arrangements

From time to time the platform provider or fund manager may suspend trading in a fund due to market conditions or decide to close a fund commercial or regulatory reasons. This would be outside the Trustees' control.

Should these circumstances occur, it may be necessary for the Trustees to redirect contributions to an investment option which differs from some members' original choice. The Trustees will ensure that any alternative investment option adopted in this manner is consistent with the charge cap for default arrangements.

For example, in the event that buying or selling units in a fund chosen by members is suspended for any reason, the Trustees may decide that it is in the members' best interests to temporarily redirect contributions to another investment option. Once such as suspension has been resolved, the Trustees will arrange for the re-investment of contributions into the investment option originally chosen by members.

In all such circumstances, the Trustees and/or platform provider will notify members of the issue and steps being taken to resolve it. Where necessary, these will be described in the separate investment implementation document.

For the record

The Trustees' approach to investment governance complies with the provisions of the Scheme's Trust Deed and Rules as well as legislative requirements.

The Scheme's investment governance is also intended to meet the expectations set out in the Pensions Regulator's 2016 Code of Practice 13.

4 Governance

4.1 Trustees' Powers

The Trustees 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.

The Trustees have established a DC sub-committee to consider investment and other decisions for the DC section. The DC sub-committee is formed by the Trustees and makes recommendations to the Trustee board. Currently the DC Committee has no delegated powers of decision making.

4.2 Responsibilities

The key responsibilities in connection with the governance of the Scheme are:

The Employer is responsible for paying the contributions and for providing support to the Trustees to help govern the Scheme.

The Trustees are responsible for the appointment, monitoring and dismissal of the investment platform provider and investment managers. Having taken advice from the Scheme's DC Investment Consultant, the Trustees are satisfied that the appointed platform provider has sufficient experience and expertise to carry out their role.

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

The funds are accessed through an investment platform provider. The **Platform Provider** is responsible for investing contributions with the selected fund managers while ensuring that the funds are priced correctly, maintaining sufficient liquidity and meeting regulatory requirements. The fund managers are responsible for the day-to-day investment management of the funds' assets.

The Custodians are appointed by the investment managers and are responsible for the safekeeping of the assets of the funds and processing the settlement of transactions.

The role of the **DC Investment Consultant** is to give advice to the Trustees on the development of a clear investment strategy for the Scheme including the default investment strategy, alternative strategies and the self-select fund range. The DC Investment Consultant provides general advice in respect of the Scheme's investment activities, including the construction of an overall investment management structure and fund offering that meets the objectives of the Trustees. It also provides views on the investment managers used by the Scheme and assists the Trustees in the selection and appointment of appropriate investment managers when necessary.

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

In preparing this Statement, the Trustees have taken into account current guidance from the Pensions Regulator.

The responsibilities are described in greater detail in Appendix A.

4.3 Conflicts of interest

The Trustees maintain a register of interests of each of the Trustees 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.

In the event of a conflict of interests, the Trustees will need to ensure that contributions for the default option are invested in the sole interests of members and beneficiaries.

4.4 Communication

The Trustees communicate regularly with all stakeholders to ensure that they are aware of the Trustees' responsibilities in relation to investment. This includes the following:

- Consulting the Principal Employer on the content of this Statement;
- Providing communications to Scheme members;
- Producing the Annual Report and Accounts which includes the Chair's statement;
- Completing an annual return to the Pensions Regulator;
- Meeting regularly with the investment platform provider, DC Investment Consultant, investment managers and the administrator;
- Providing a range of literature to assist members in making their investment decisions. In addition, members should be provided access to factsheets for each fund showing the latest asset allocation and past performance.

4.5 Service Providers

Details of the current service providers and investment managers to the Scheme are set out in Appendix B to this Statement.

4.6 Security of assets

The funds are provided through a policy of insurance issued to the Trustees 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 reassurance agreements/unit purchase agreements/segregated investment mandates. 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.

4.7 Fees

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

Monitoring

4.8 Investment Performance

The Trustees regularly review the performance and ongoing suitability of each fund in which the Scheme invests against a series of metrics on a quarterly basis over a long-term time horizon including:

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

The platform provider or investment managers are expected to provide explanations for any significant divergence from a fund's objectives. A material deviation from performance and risk targets or approach to portfolio management is likely to result in the fund being formally reviewed.. To aid ongoing monitoring, the Trustees receive an independent investment performance monitoring report from its Investment Consultant on a quarterly basis.

4.9 Default arrangement

The Trustees monitor the suitability of the objectives for the default strategy and the performance (after the deduction of charges) of this strategy 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.

4.10 Alternative lifestyle strategies

The Trustees monitor the suitability of the objectives for the alternative lifestyle strategies and the performance (after the deduction of charges) of these strategies 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.

4.11 Charges

The charges for the investment options borne by members (expressed in terms of each fund's "Total Expense Ratio") are monitored by the Trustees on a regular basis to ensure that they represent "value for money" relative to the needs of the membership.

The Scheme is a qualifying scheme for auto-enrolment purposes. The Trustees monitor the compliance of the default strategy with the charge cap introduced by the Pensions Act 2014, which applies from September 2013.

The default strategy's compliance with the charge cap is monitored on a regular basis on the prospective basis.

Information on the charges levied on funds is provided in the platform provider's quarterly administration reports.

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

4.12 Transaction costs

The Trustees monitor the Funds' transaction costs to ensure that they are reasonable and represent value for money to members.

4.13 Investment process

The Trustees periodically monitor the processes whereby contributions in respect of members are invested in and money is disinvested from the investment options to pay benefits.

4.14 Chair's statement

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

5 Stewardship

5.1 Members' financial interests

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

The Trustees' stewardship activities are to be focused on the default arrangement which accounts for the majority of the DC assets.

5.2 Responsible Investment

The Scheme uses standard funds offered by investment platform providers and fund managers. The platform provider and investment managers may take social, environmental or ethical considerations into account only when these factors do not conflict with the financial interests of members. It is the Trustees' belief that companies with a strong Environmental, Social and Governance ("ESG") policy are expected to outperform those with weaker or no ESG policy, over the longer term and regularly explore whether this belief should be reflected specifically within the Scheme's investment strategy.

The Trustees periodically review the investment managers' ESG policies but do not ordinarily seek to screen or intervene in the managers' decisions.

5.3 Non-financial factors

The Trustees recognise that there may be a few members who have strong personal views or religious convictions that influence where they believe their savings should, or should not, be invested.

However, the Trustees note that a large majority of members have not made active investment choices and so the Trustees believe that most members are unlikely to have strong views on where their savings are invested. The Trustees have therefore decided that, at this stage, they will not formally seek members views on non-financial factors relating to the Scheme's investments but will seek anecdotal feedback from the Pensions Team through their regular contact with members. On this basis, the Trustees will take into account what, in their reasonable opinion, members' views of non-financial factors are likely to be.

The Trustees offer an ethical investment option for those members who wish to reflect ethical considerations in the investment of their contributions.

The Trustees note that non-financial factors can affect various investment risks which are borne by members and may under-perform other funds with broader-based investment approaches.

Investment managers are otherwise only expected to take non-financial factors into account when these do not conflict with the financial interests of members and the Scheme's investment objectives.

5.4 Voting and Engagement

The Trustees believe that engagement with the companies in which the Scheme invests through pooled investment funds, including the proactive use of shareholder voting rights, can improve the longer-term returns on the Scheme's investments.

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 managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

The Trustees will periodically review the voting and engagement policies of the fund managers as well as the approach to governance of the investment platform provider to determine that these policies are appropriate.

Where appropriate, the Trustees will engage with and may seek further information from the investment platform provider and / or fund managers on how portfolios may be affected by a particular issue.

While the Trustees are not in a position to engage directly, the Trustees believe it is appropriate for the fund managers directly or through the platform provider to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustees will request, where appropriate and practicable, that the platform provider or investment managers notify the Trustees of any issue on which it may be beneficial for the Trustees to undertake further engagement. The Trustees will review engagement activity undertaken by the fund managers as part of its broader monitoring activity.

The Trustees expect the investment platform provider 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. The Trustees will consider the platform provider’s practices on the oversight of and engagement with the investment managers when reviewing the appointment of the platform provider.

5.5 Monitoring

The Trustees expect the platform provider to monitor adherence of their investment managers to stated voting and engagement policies, engage with managers where concerns are identified and to report on these issues. The Trustees will receive reports from the investment platform provider on the fund managers’ voting activity on a periodic basis.

The Trustees review the fund managers’ voting activity at least annually in conjunction with their investment adviser and use this information as a basis for discussion with the investment platform provider and fund managers. Where the Trustees deem it appropriate, any issues of concern will be raised with the manager for further explanation. Managers are challenged both directly by the Trustees and by their DC Investment Consultant on the impact of any significant issues including ESG matters that may affect the prospects for return from the portfolio.

5.6 Manager Incentives

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

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

In accordance with the 2015 Regulations, the Trustees conduct an annual Value for Members assessment and will take action should the provider be found to be giving poor value. In addition, in accordance with guidance from the Pensions Regulator, the Trustees will periodically review the Scheme's choice of provider to ensure their charges and services remain competitive. The Trustees believe 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.

5.7 Portfolio turnover

The Trustees do 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.

For passively managed funds the turnover of holdings is driven by changes in the index a fund seeks to track and hence is outside the control of the investment manager.

When selecting actively managed funds, the Trustees will consider, with the help of their DC Investment Consultant, 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 Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees 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 any transactions and turnover costs incurred over the Scheme's reporting year.

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

5.8 Portfolio duration

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

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

6 Review of Statement

This Statement of Investment Principles was completed in September 2020. It will be next reviewed no later than 2023, or if there has been significant change to the investment policy or characteristics of the membership.

Signed on behalf of the Trustees of the Scheme:

Name	Signature	Date

Name	Signature	Date

Appendix A – Responsibilities

Trustees

The Trustees' primary investment responsibilities include:

- Operating the Scheme in accordance with its Trust Deed and Rules.
- Ensuring that the investment options are suitable for the Scheme'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.
- Appointing the DC Investment Consultant and other advisors as necessary for the good stewardship of the Scheme.
- Appointing the platform provider who invest the Scheme's assets.
- Assessing the performance, charges and processes of the platform provider and underlying investment managers by means of regular, but not less than annual, reviews of investment performance and other information, supported by the DC 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.

DC Investment Consultant

The DC Investment Consultant's main responsibilities include:

- Assisting the Trustees in the preparation and annual review of this Statement in consultation with the Principal Employer.
- Providing the Trustees with quarterly reports including commentary on any changes to funds' investment approach and a review of the investment performance.
- Undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustees.
- Advising the Trustees on the selection and review of performance of the Scheme's investment managers.
- Providing training or education on any investment related matter as and when the Trustees see fit.

Platform Provider/Investment Managers

All day-to-day investment management decisions have been delegated to the platform provider and Investment Managers authorised under the Financial Services & Markets Act 2000.

The platform provider's/investment managers' main responsibilities include:

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

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

Custodian

The custody arrangements are those operated by the investment managers for all clients investing in their funds. The custodians are responsible for ensuring the security of the Funds' underlying assets and recording sales and purchases of the Funds' underlying assets.

Appendix B – Service providers

The Trustees have appointed the following service providers:

DC Investment Consultant

The DC Investment Consultant is Hymans Robertson LLP.

Platform Provider

The investment platform through which the investment options are operated is provided by Legal & General Assurance Society ('LGAS').

Investment Managers

The Scheme's investment managers (accessed through the investment platform) are:

- Legal & General Investment Management ("L&G")
- Newton Investment Management Limited
- Stewart Investors (part of First State Investments)

Custodians

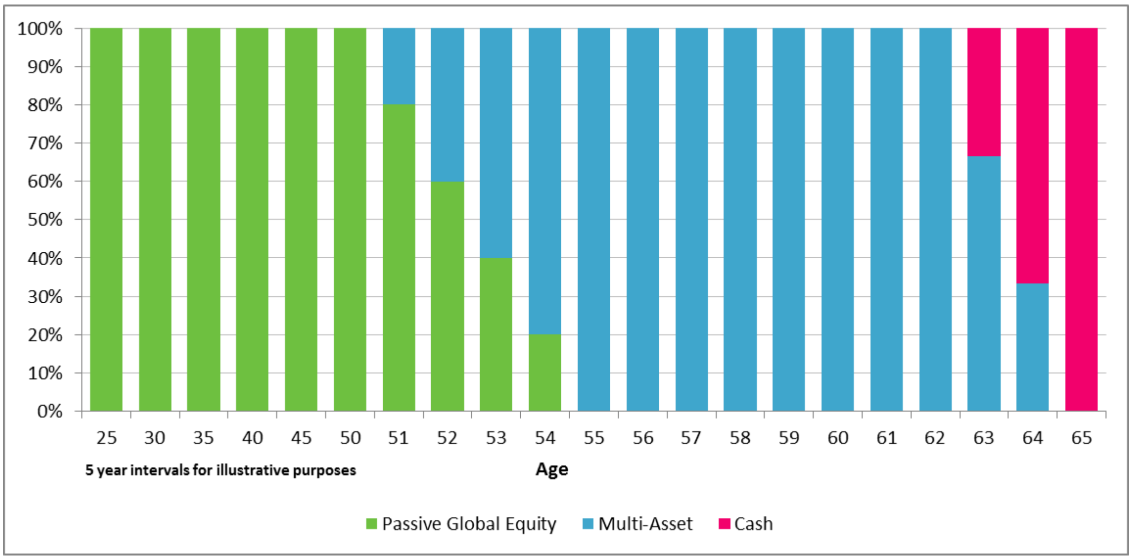
The Funds' custodians are appointed by the investment managers.

Appendix C – Investment options

Default arrangement

Retirement Planner 15 Year Cash Lifestyle

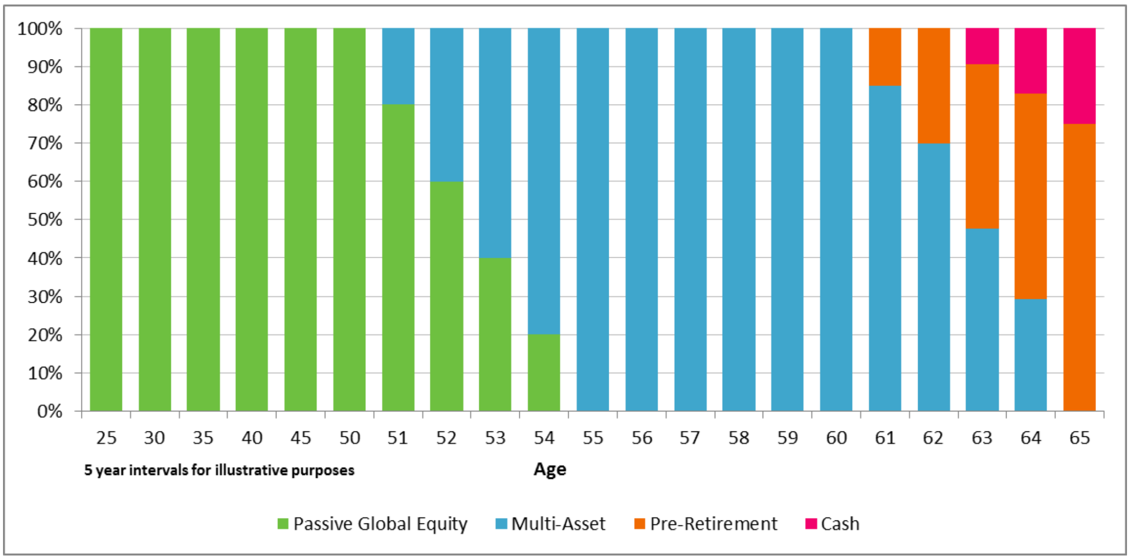
This strategy builds up to a 100% allocation in cash in the immediate run-up to retirement. Currently the strategy invests in passively managed global equities in the "growth" phase and begins to de-risk into a multi-asset fund 15 years from a member's selected retirement date. Finally, three years from retirement, the strategy de-risks into cash.



Alternative lifestyle strategies

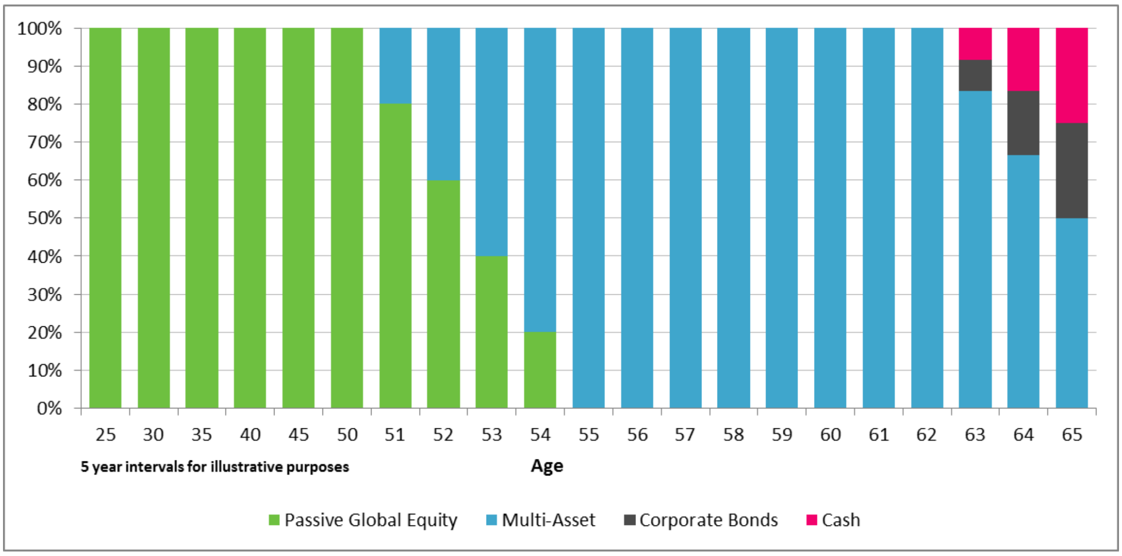
Retirement Planner 15 Year Annuity Lifestyle

This strategy invests in passively managed global equities in the "growth" phase and begins to de-risk into a multi-asset fund 15 years from a member's selected retirement date. Finally, five years from retirement, the strategy de-risks into a pre-retirement fund (a mixture of government and corporate bonds) and cash.



Retirement Planner 15 Year Drawdown Lifestyle

This strategy invests in passively managed global equities in the “growth” phase and begins to de-risk into a multi-asset fund 15 years from a member’s selected retirement date. Finally, three years from retirement, the strategy de-risks into corporate bonds and cash.



Members can select their own target retirement age for the default strategies and alternative lifestyle strategies, failing which the target age of the strategy defaults to age 65.

Funds used in default strategy and alternative lifestyle strategies

Asset Class	Fund name	Objective	Benchmark
Equities	L&G Future World Fund	To provide long term growth with lower risk than the market as a whole by investing in companies which are less carbon-intensive or earn green revenues.	FTSE All-World ex CW Climate Balanced Factor Index
Multi-Asset	L&G Multi-Asset Fund	To provide long-term investment growth through exposure to a diversified range of asset classes.	LIBOR+3.5% p.a.
Bonds	L&G Pre-Retirement Fund	To invest in assets that reflect the investments underlying a typical non-inflation linked pension annuity product.	Composite benchmark aimed at tracking annuity prices
Bonds	AAA-AA-A Corporate Bond – Over 15 Year Index Fund	To track the sterling total returns of the iBoxx £ Non-Gilts (ex-BBB) Over 15 Year Index (including re-invested income) to within +/- 0.50% per annum for two years in three	iBoxx £ Non-Gilts (ex-BBB) Over 15 Year Index
Cash	L&G Cash Fund	To provide capital protection with growth at short-term interest rates. The fund invests in the short-term money markets such as bank deposits and Treasury Bills.	7 Day LIBID

Self-select Fund Range

All members have been offered a choice of self-select investment funds from the range offered by Legal & General. Having considered the advice of the DC Investment Consultant, the Trustees have selected a range of funds from equity, property, bond and money market asset classes as well as absolute return and multi-asset funds. These funds may be considered broadly suitable for the majority of members.

Asset Class	Fund name	Objective	Benchmark
Equities	L&G Future World Fund	To provide long term growth with lower risk than the market as a whole by investing in companies which are less carbon-intensive or earn green revenues.	FTSE All-World ex CW Climate Balanced Factor Index
Equities	L&G Global Equity Market Weights 30:70 GBP Currency Hedged Fund	To capture the total returns of the UK and overseas equity markets while maintaining a fixed 30/70 weighting between the UK and the overseas assets. A total of 75% of the overseas assets (excluding emerging markets) will be currency hedged to sterling.	L&G Global Equity (30:70) 75% Hedged
Equities	L&G Global Equity Fixed Weight 50:50 Index Fund	To capture the sterling total returns of the UK and overseas equity markets, with fixed asset allocation between the UK (50%) and overseas (50%).	50% FTSE All-Share/17.5% FTSE AW North America/17.5% FTSE AW Developed Europe (ex UK)/8.75% FTSE Japan/6.25% FTSE AW Developed Asia Pacific (ex Japan)
Equities	L&G World (ex UK) Equity Index Fund	To track the sterling total returns of the FTSE World (excluding UK) Index to within +/- 0.50% per annum for two years in three.	FTSE AW – All World (ex UK)
Equities	L&G UK Equity Index Fund	To track the total returns of the FTSE All-Share Index to within +/- 0.50% per annum for two years in three.	FTSE All-Share
Equities	L&G North American Equity Index Fund	To track the sterling total returns of the FTSE World North America Index to within +/- 0.50% per annum for two years in three.	FTSE AW North America
Equities	L&G World Emerging Markets Equity Index Fund	To track the performance of the FTSE Emerging Index to within +/-1.5% p.a. for two years out of three.	FTSE Emerging Markets
Equities	L&G Newton Global Higher Income	To achieve increasing distributions on a calendar year basis with long-term capital	FTSE World

Asset Class	Fund name	Objective	Benchmark
	Fund	growth.	
Equities	L&G Ethical UK Equity Index Fund	To track the sterling total returns of the FTSE4Good UK Equity Index to within +/- 0.5% per annum for two years in three.	FTSE4Good
Equities	L&G Stewart Investors Asia Pacific Leaders Fund	To achieve long-term capital growth. The fund invests in large and mid-capitalisation equities in the Asia Pacific region (excluding Japan, including Australasia).	MSCI All Countries Asia Pacific Ex Japan
Multi-Asset	L&G Multi Asset Fund	To provide long-term investment growth through exposure to a diversified range of asset classes.	LIBOR+3.5% p.a.
Multi-Asset	L&G Diversified Fund	To provide long-term investment growth through exposure to a diversified range of asset classes.	LIBOR+4% p.a.
Bonds	L&G Index-Linked Gilt Fund	To get the best return from a portfolio of mainly index linked securities issued predominantly by the UK Government.	FTSE UK Index-linked Gilt All Maturities
Bonds	L&G AAA Fixed Interest All Stocks Fund	To produce a total return in line with the performance of the FTSE A Government (All Stocks) Index and capture the yield spread over gilts of AAA-AA-rated fixed interest securities.	FTSE A Government (All Stocks)
Bonds	L&G AAA-AA-A Corporate Bond – Over 15 Year Index Fund	To track the sterling total returns of the iBoxx £ Non-Gilts (ex-BBB) Over 15 Year Index (including re-invested income) to within +/- 0.50% per annum for two years in three	iBoxx £ Non-Gilts (ex-BBB) Over 15 Year Index
Bonds	L&G Pre-Retirement Fund	To invest in assets that reflect the investments underlying a typical non-inflation linked pension annuity product.	Composite benchmark aimed at tracking annuity prices
Property	L&G Property Fund	To get the best return from a portfolio of first class freehold and leasehold interests in commercial and industrial property.	IPD UK All Property
Cash	L&G Cash Fund	To provide capital protection with growth at short-term interest rates. The fund invests in the short-term money markets such as bank deposits and Treasury Bills.	7 Day LIBID

All the funds used by the default strategy, alternative lifestyle strategies and self-select funds are provided through an investment platform operated by LGAS.

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

Appendix D – Fees and Charges

DC Investment Consultant

The Scheme's DC Investment Consultant is paid for on a time-spent or (where appropriate) a fixed fee basis. The Trustees believe that this approach ensures that all advice is impartial and independent.

Investment Management

The platform provider applies the following charges for investing in the funds selected by the Trustees:

Default strategy

Fund	Total Charge
L&G Future World Fund	0.49%
L&G Multi-Asset Fund	0.38%
L&G Cash Fund	0.35%

Source: LGAS

The charges above reflect a standard scheme charge of 0.25% p.a. applied to cover literature and administration services which the Trustees have negotiated with the platform provider.

The Trustees monitor the total charges of the funds used in the default strategy at three-monthly 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	Total Charge *
L&G Future World Fund	0.49%
L&G Global Equity Market Weights 30:70 GBP Currency Hedged Fund	0.39%
L&G Global Equity Market Weights 50:50 GBP Currency Hedged Fund	0.35%
L&G World (ex UK) Equity Index Fund	0.37%
L&G UK Equity Index Fund	0.35%
L&G North American Equity Index Fund	0.37%
L&G World Emerging Markets Equity Index Fund	0.70%
Newton Global Higher Income Fund	1.09%
L&G Ethical UK Equity Index Fund	0.45%
Stewart Investors Asia Pacific Leaders Fund	1.16%
L&G Multi Asset Fund	0.38%
L&G Diversified Fund	0.52%
L&G Index-Linked Gilt Fund	0.35%
L&G AAA Fixed Interest All Stocks Fund	0.37%
L&G AAA-AA-A Corporate Bond – Over 15 Year Index Fund (15 Year Drawdown Lifestyle)	0.37%

L&G Pre-Retirement Fund	0.37%
L&G Property Fund	0.96%
L&G Cash Fund	0.35%

Source: LGAS

* The Total Charge is also known as a fund's "Total Expense Ratio* (TER) and is the sum of a fund's Annual Management Charge (including a 0.25% p.a. scheme charge) and other operating costs and expenses. It excludes transaction costs on the fund's underlying assets.

The charges for the investment options are borne solely by the members.

The charges for the investment options include the costs of routine administration of the Scheme.

The funds' total charges and transaction costs (explicit and implicit) are monitored by the Trustees. The results of this monitoring are set out in the annual Chair's statement which is included in the Trustees' Annual Report and Accounts.

Appendix E – Investment Beliefs

Area of focus	Belief
Member focus	Understanding member characteristics, circumstances and attitudes is essential to developing and maintaining an appropriate investment strategy. Members should be able to understand the options available to them and monitor progress of their investments against a defined target. Members should have the option to manage their own investments but should also have available strategies that manage risk and return for them.
Time period	Long term investing is considered as at least 15 years.
Risk and return balance	Members far from retirement are able to accept volatility in their investments with the expectation of achieving returns well in excess of inflation over the long term. Members moving closer to retirement are less able to accept significant (downside) volatility in their investments. It is therefore important to reduce the chances of pot sizes falling significantly as retirement approaches by reducing the volatility of investments. Foreign currency exposure may be a source of return but largely it is a risk that members do not wish to take unless self-selected.
Diversification	Diversification reduces the overall variability of a member's asset returns. This includes diversification across asset classes, markets, managers and investment styles. Where appropriate, risk should be diversified across a range of funds/asset classes.
Fees	The impact of fees is important. Therefore, all investment performance should be measured net of fees against an agreed benchmark. However, lower cost does not necessarily always mean better outcomes will be achieved.
Benchmarks and targets	All funds should have clear and relevant benchmarks (including blended funds) as well as performance targets. Poor short term performance is not, alone, a reason to remove or replace a manager
Investment style	There is a role for both active and passive management. The Trustees recognise the use of passive management for capturing market returns cheaply, with active management only used where: a) the Trustees have high conviction that the manager can add value after fees (if a suitable passive solution exists); or b) an investable index is not available or is unsuitable.
Responsible investment	Companies with a strong Environmental, Social and Governance ("ESG") policy are expected to outperform those with weaker or no ESG policy, over the longer term. Responsible investment is delegated to the Scheme's investment managers. The Trustees expect the managers of both actively and passively managed funds to engage with companies and use their voting powers. Active managers are expected

	to consider ESG factors when selecting securities so long as these actions do not conflict with the financial interests of members and the Scheme's investment objectives. The Trustees review the Scheme's investment managers' ESG policies but do not ordinarily seek to screen or intervene in the managers' decisions.
Default and lifestyle strategies	The Scheme should provide members with default investment strategies that meet the majority of members' requirements. The Trustees should provide members with a range of lifestyle strategies to help them de-risk automatically in accordance with how they are expected to access their retirement saving via either; a) income drawdown; b) annuity purchase; or c) full cash withdrawal. Members' decisions on how they will take their retirement benefits is expected (at least for the time being) to be based largely on pot sizes. Small pots are expected to be taken fully as cash. Larger pots are expected to be split between tax free cash and income drawdown. The Trustees do not believe that the majority of members will buy an annuity at the point of retirement but acknowledge that some members may still take this option and so offers a strategy suitable for those members. Within all strategies, the Trustees believe that most members will take their maximum allowable tax free cash at the point of retirement. For the foreseeable future, the Trustees expect members to take all of their pension pot as cash at retirement.
Self-select	The Trustees should support members who wish to select their own investments by providing a suitable range of funds. Having too many fund options may result in members not being able to make appropriate decisions. Ethical and religious views should be considered when providing a range of funds for members to invest in. The ongoing governance requirements should be taken into account when reviewing the range of self-select funds.
Monitoring and development	Performance should be monitored on a regular basis and triggers set for the formal review (and potential removal) of managers.