

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

1 INTRODUCTION

1.1 Purpose of Statement

This Statement sets out the principles governing decisions about the investment of the assets of the Wessex Water Pension Scheme (*the Scheme*). This Statement is issued by the Trustees to comply with Section 35 of the Pensions Act 1995 (as amended by Section 244 of the Pensions Act 2004) (the “Pensions Act”).

1.2 Advice

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

1.3 Investment Powers

The investment powers of the Trustees are set out in the Scheme’s Trust Deed and Rules. This Statement is consistent with those powers. Neither this Statement nor the Trust Deed and Rules restrict the Trustees’ investment powers by requiring the consent of the Employer.

1.4 Governance of the Scheme

The ultimate power and obligation for deciding on the strategic investment policy lies solely with the Trustees. The main areas of investment responsibility include:

- Determination of strategic allocation;
- Determination of portfolio structure;
- Selection and appointment of external investment managers; and
- Ongoing monitoring and evaluation of the investment arrangements.

The Trustees have appointed Hymans Robertson LLP to provide strategic and implementation advice, and monitoring of the Scheme’s managers and overall performance.

1.5 Agreement to Statement

The Trustees consulted the Principal Employer, who has been nominated by the participating employers, to comment on the context of this Statement.

2 SCHEME OBJECTIVES AND COMPLIANCE WITH THE SCHEME SPECIFIC FUNDING REQUIREMENT

2.1 Scheme objective

The Trustees’ primary objective is to ensure that they can meet their obligations to the beneficiaries both in the short and long term. In addition, the Trustees have the objective of:

- Achieving a return on assets of 2% above the growth in liabilities over the long term

- Meeting any regulatory solvency requirements arising from the Scheme Specific Funding Requirement

2.2 Scheme Specific Funding Requirement

As at 30 September 2022 the funding level of the Scheme on the technical provisions basis was 94%. The next formal valuation is expected to be as at 30 September 2025.

2.3 Annual Funding Review

The financial position of the Scheme will be considered each year, and if it changes significantly, the suitability of the investment strategy will be reviewed.

3 CHOOSING INVESTMENTS

3.1 Process for choosing investments

The Trustees rely on professional fund managers for the day to day management of the majority of the Scheme's assets. However, the Trustees retain direct control over the strategic asset allocation, the choice of fund manager, manager mandates and the selection of the pooled funds in which the Scheme invests.

3.2 AVCs

The Trustees give members the opportunity to invest Additional Voluntary Contributions (AVCs) at the members' discretion.

The AVC payers were transferred to a Master Trust arrangement in July 2024.

3.3 Investments directly controlled by the Trustees

The Trustees' policy is to review any investments over which they retain direct control and to obtain written advice about them annually. When deciding whether or not to make any new investments the Trustees will obtain written advice.

The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this Statement. Hymans Robertson provides investment advice and will have the knowledge and experience required under Section 36(5) of the Pensions Act.

3.4 The Scheme's Investment Policy

The Trustees have set the long term investment policy with regard to the Scheme's liabilities and funding level. The Trustees invest in a range of assets in order to gain appropriate diversification and long-term growth above the expected growth of the liabilities.

The Scheme's overall strategic asset allocation is as follows:

Discretionary Portfolio	9.5%
Enhanced Yielding Debt	9.5%
Rebalancing Portfolio	55%
Investment Grade, Sovereign Debt & Leveraged Gilt Funds	55%
Notification Portfolio	35.5%
Equities	16.5%

Dynamic Asset Allocation Fund	10%
Secured Property	5%
Private Equity	4%

Further details of the investment strategy are shown in Appendix A.

3.5 Review of Investment Policy

The Trustees reviewed the expected return requirements associated with the Scheme's investment policy as part of the 2022 valuation and it is also considered when changes to the strategic asset allocations are proposed (such as derisking). The Trustees will monitor the effectiveness of this policy on a quarterly basis, though in the absence of any major demographic or benefit changes in the Scheme, the Trustees expect that this policy will remain stable for a number of years.

3.6 Delegation of fund manager

The Trustees have appointed fund managers, each of which is regulated by the Financial Conduct Authority (FCA), to implement their investment strategy. The Trustees have a signed agreement with each fund manager.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Scheme. Where such tailoring is not directly achievable, the Trustees will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustees to ensure that they are appropriate for the needs of the Scheme.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustees may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustees periodically review the fees paid to all of its managers against industry standards, and has used an independent third party to carry out the benchmarking.

The Trustees review the nature of Scheme investments on a regular basis, with particular reference to suitability and diversification. The Trustees seek and consider written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Scheme, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability. The Trustees recognise the long-term nature of its liability profile and appoints its managers to invest in such a way that generates long term sustainable returns. The Trustees 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 Scheme objective.

The duration of each mandate is determined by the Trustees at the inception of each mandate. For open-ended investments, the Trustees generally engage managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustees expects the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For close-ended investments, the Trustees expect the term of the appointment to be the lifetime of the investment.

The Trustees monitor its managers performance against their respective benchmarks or targets on a quarterly basis over a long-term time horizon. Managers are expected to provide explanation for any significant deviations away from benchmark or target.

A summary of the Scheme's investment mandates and the respective benchmarks and targets is included in Appendix A.

3.7 Socially Responsible Investment and Corporate Governance

Sustainability and the evaluation of long-term risks

The Trustees believe that financially material factors should take precedence over non-financial factors but recognise that Environmental, Social and Governance (ESG) factors, including climate change, can have a material impact on the returns achieved from investments.

The Trustees have framed their strategic asset allocation to deliver a return which is expected to be sufficient to meet their long-term objectives. The Trustees regularly review both the expectations for investment return from their strategy and the level of uncertainty associated with this return. The expected risk/return profiles for different asset classes are based on appropriate economic and financial assumptions which apply at a broad market level and are considered to implicitly reflect all financially material factors. Given the inherent uncertainty, the Trustees have not made explicit allowance for the risks of climate change in setting their strategic benchmark. The Trustees believe this approach to be appropriate for determining the strategic allocation.

The Trustees recognise that market risk is not static and have decided that the allocation to Growth assets within the strategy should be actively managed. The Trustees believe that their investment managers have the ability to assess how long-term risks, including those which derive from ESG and climate change issues, could impact on the return from their investments. The Trustees also acknowledge that the price of an asset may serve to compensate for such risks and, providing such risks have been adequately evaluated by the manager, taking such risks may be acceptable.

The Trustees will evaluate an investment manager's approach to considering ESG factors within their investment process as part of their due diligence when appointing a new investment manager for the Scheme. Existing investment managers' capabilities will be monitored and managers will be questioned on these issues during periodic review meetings. The Trustees retain the power to terminate a manager's appointment if they do not believe that risks are being adequately managed.

Non-financial considerations

The Trustees do not currently have reason to believe that the membership as a whole have significant ethical concerns with regard to the Scheme's investments. The Trustees do not therefore reflect non-financial factors in their investment strategy.

Stewardship of assets

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.

The Trustees recognise that, as an asset owner, they have responsibility for framing their policy with regard to the exercise of rights attaching to investments. The Trustees also recognise that there are practical constraints which influence how such rights could be exercised.

The Trustees have chosen to invest primarily through pooled funds and accept that the managers' respective stewardship policies will apply to each of the funds in which they have invested. The Trustees will keep these policies under review as part of their ongoing engagement with the Scheme's managers.

Where appropriate, the Trustees will evaluate an investment manager's stewardship policy as part of their due diligence when appointing a new manager. The Trustees have delegated to Legal & General Investment Management ("LGIM") responsibility for exercising the rights attaching to the Scheme's investments within the global equity mandate.

Voting and engagement

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

The Trustees will review the stewardship activity undertaken by their investment managers periodically and in particular the Trustees' request that the managers provide regular reports indicating the overall level of voting activity and detailing instances where they have not voted in line with their stated policy.

Where appropriate, the Trustees will engage with and may seek further information from their managers on how portfolios may be affected by a particular issue.

The Trustees do not engage directly but actively encourages its investment managers to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. Where necessary, investment managers are expected to 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 their investment managers as part of its broader monitoring activity.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustee expects the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place. Managers are required to disclose any potential or actual conflict of interest to the Trustee.

Monitoring

The Trustees monitor managers' general voting activity or with respect to particular companies if it is deemed necessary. Any issues of concern will (or through its Investment Consultant) be raised with their manager for further explanation.

Where appropriate, the Trustees meet with all their investment managers on a periodic basis and provide an agenda for discussion, including issues relating to fund performance and, where relevant, ESG issues. Managers are challenged both directly by the Trustees and by their Investment Consultant on the impact of any significant issues including ESG matters that may affect the prospects for return from the portfolio.

3.8 Performance objectives

The Trustees have set each manager a performance objective relative to the defined benchmark of their respective mandates, which overall will align to deliver the broader Scheme investment strategy. The Trustees also monitor the performance of the Scheme's assets against the expected growth of the liabilities over the long term.

3.9 Expected return

The Trustees have designed the total portfolio to produce an expected return over the long-term above the expected growth of the liabilities.

3.10 New investments

Within the categories of investment permitted by the Trustees, the fund managers can purchase any new investments as long as they do not breach the provisions of the respective fund management agreement. The Investment Consultant will bring to the Trustees' attention any new category of investment which in their judgement has become suitable for the Scheme before investing in that category.

3.11 Realisation of investments

The Investment Consultant will bring to the Trustees' attention any category of investment held by the Scheme which in their judgement has become unsuitable for the Scheme. The fund managers are not expected to bring to the Trustees' attention individual investments realised on purely investment grounds as part of the day-to-day management of the Scheme's assets.

The Trustees have delegated responsibility to Russell Investments to realise and invest assets in order to manage the Scheme's assets in line with the rebalancing ranges and instructions defined in Appendix A.

3.12 Portfolio Turnover

The Trustees have an expectation of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustees' knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period.

The Trustees will challenge its managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

3.13 Custody

The Trustees regard the safekeeping of the Scheme's assets as being of paramount importance. Northern Trust has been appointed to ensure safekeeping and efficient servicing of the Scheme's assets.

4. DIVERSIFICATION AND RISK CONTROLS

The following measures have been implemented to reduce the risks associated with making investments.

4.1 Risks

The Trustees will consider explicitly the risks inherent in both the assets and the liabilities, including (but not limited to) inflation and interest rate risk, equity and other capital market risks, currency risks, active management risks and ESG risks. The Trustees will consider how to manage each of these major categories of

risk and will seek to strategically hedge those risks that have no expected reward, where it is cost-effective to do so.

4.2 Risk versus the liabilities

In terms of magnitude, the Trustees consider that asset-liability mismatch risk is one of the most important measures to control. Therefore, following an actuarial valuation, the Trustees review and monitor the impact of asset allocation on expected future funding levels and the variability in outcomes using value at risk-based analysis. The Trustees also consider the Scheme's net exposures to interest rate and inflation risk.

4.3 Number and type of managers

The process of risk management continues through to implementation. The decision whether to pursue active management is taken on an asset class by asset class basis, with regard to the potential reward within that asset class for taking on active risk.

The pooled leveraged gilt funds which are held within the Rebalancing Portfolio are managed on a passive basis while the corporate bonds are managed actively. Excluding the passively managed listed equities, the Discretionary and Notification Portfolios are managed on an active basis.

Furthermore, the Trustees recognise that no single manager can be best of class in all areas, and so they have decided to employ Russell Investments as a multi manager for the enhanced yield mandate. As such, Russell outsources the day-to-day management of the Scheme's assets covered by their mandate to a broad range of high quality, external fund managers.

4.4 Manager restrictions

The Trustees' agreement with fund managers contain a series of restrictions on the way the portfolio is managed which may be amended from time to time. The purpose of the restrictions is to limit the risks from each individual investment and prevent unsuitable investment activity. The fund managers will comply with these restrictions. Frequent monitoring of portfolio characteristics such as excess returns and tracking error also aids in the ongoing risk management for the plan.

4.5 Manager controls

Powers of investment delegated to the fund managers must be exercised with a view to giving effect to the principles contained in this Statement so far as reasonably practicable. The fund managers will also ensure that suitable internal operating procedures are in place to control individuals making investments for the Scheme.

5. OTHER

5.1 Fees

External fund manager fees are determined as a percentage of assets.

Hymans Robertson's investment consulting fees are based upon a retainer fee for all services.

From time to time the Scheme Actuary may be asked to give advice related to the investments to the Fund. These services are charged on a time-cost and materials basis.

5.2 Professional advice

The Trustees review from time to time the services provided by their advisers and other service providers as necessary to ensure that the services provided remain applicable to the Scheme and of satisfactory coverage and quality.

5.3 Frequency of review

In accordance with legislation (Occupational Pension Plan (Investment) Regulations 2005 (the “OPS IRegs 05”), the Trustees will review this Statement at least every three years, and without delay after any significant changes in investment policy.

The Trustees have a policy to review the content of this Statement annually or sooner if there is a significant change in policy on any of the areas covered by this Statement. The Trustees will consult with the Principal Employer and take written advice when revising this Statement.

5.4 Performance measurement information

The Trustees use the Investment Consultant to provide performance measurement and monitoring of the performance of the managers against the objective set on a regular basis.

Signed on behalf of the Trustees

Signature
Name
Position
Effective Date

APPENDIX A – Investment Strategy Implementation

The Scheme's current managers are as follows:

Insight Investment has been appointed as the fund manager of the Rebalancing Portfolio. The Rebalancing Portfolio includes passively managed pooled leveraged gilt funds and actively managed corporate bonds (accessed via pooled funds). These assets are designed to match certain duration and inflation characteristics of the Scheme's liabilities.

Legal & General Investment Management Limited ("LGIM") has been appointed to manage the Scheme's passively managed pooled listed equity investments. The objective of the equity funds is to track the performance of their respective benchmark indices.

Russell Investments has been appointed as fund manager for the Discretionary Portfolio which invest across a diversified range of specialist external fixed income fund managers, selected by Russell. Their objective is to achieve a return (gross of fees) in excess of the composite benchmark over a rolling three-year period, with the first period commencing on 9 June 2025. This will be used as a short-term performance measurement and attribution assessment tool.

Pantheon Ventures has been appointed to manage the Trustees' private equity investments. Pantheon operates a number of pooled funds which invest across a diversified range of private equity funds, selected by Pantheon.

M&G have been appointed to manage a long-term lease property investment on behalf of the Trustees. M&G invest primarily in UK commercial real estate, with the objective to deliver a secure long-term income stream.

Pictet have been appointed to manage a dynamic asset allocation mandate on behalf of the Trustees to incorporate a greater element of dynamic or tactical asset allocation into the Scheme's asset implementation framework. The investment is in the Pictet Dynamic Asset Allocation Fund.

Implementation of the overall investment strategy and the asset allocation of each Portfolio is shown in the tables below, along with agreed ranges for rebalancing which Russell monitors.

ASSET CLASS	TOTAL SCHEME TARGET ALLOCATION %	RUSSELL'S TARGET ALLOCATION %	RUSSELL'S REBALANCING BOUNDS %
Discretionary Portfolio	9.5	15.5	See below
Rebalancing Portfolio	55	25	
Corporate credit (Insight Credit Sub-portfolio)	15	25	22 - 28
Gilts/Leveraged gilt funds (Insight Hedge Sub-portfolio)	40	N/A	N/A
Notification Portfolio	35.5	59.5	
Equity (LGIM)	16.5	27.5	24.5 – 30.5
Property secured income (M&G)	5	8	5 - 11
Private equity (Pantheon)	4	7	4 - 10
Dynamic Asset Allocation (Pictet)	10	17	14 - 20
TOTAL	100	100	

The Trustees have appointed Russell Investments to maintain the actual asset allocation of the Discretionary Portfolio and the Rebalancing Portfolio with the exception of the Insight Hedge Portfolio. As a result, the table above shows the separate target allocation which Russell monitors (i.e. excluding the Insight Hedge Sub-Portfolio) and the corresponding rebalancing bounds. The Insight Hedge Sub-Portfolio has been excluded from Russell's rebalancing remit to avoid disrupting the Scheme hedging assets which aim to hedge 90% of the Scheme's interest rate/inflation sensitivity as measured on the latest Technical Provisions basis. The Trustees set a target allocation of 40% for this Hedge Sub-portfolio, but due to market movements the actual allocation may differ from this amount.

The table below shows the specific target allocation and rebalancing ranges within the Discretionary Portfolio.

The asset allocation of the Notification Portfolio will be monitored by Russell Investments and periodically reported to the Trustees. Where any rebalancing action is required within the Notification Portfolio, the Trustees will liaise with their Investment Consultant. Due to the relative illiquidity of Private Equity and Long lease property, as well as the preferential fee rate offered by Pictet, these allocations are not rebalanced automatically.

Discretionary Portfolio Allocation and Target Ranges

ASSET CLASS	TARGET ALLOCATION %	BENCHMARKS (90% HEDGED TO GBP AT PORTFOLIO LEVEL)	TARGET RANGE %	CONSTRAINTS
Diversified Fixed Income	100	Fixed Income Composite Benchmark ¹	80 - 100	
<i>Government Bonds</i>				-
<i>Corporate Bonds</i>				-
<i>High Yield Bonds</i>				Maximum 30% of the total DAA portfolio
<i>Emerging Market Debt (Hard)</i>				Maximum 30% of the total DAA portfolio to EMD Hard and Local Currency combined
<i>Emerging Market Debt (Local)</i>				Maximum 20% of the total DAA portfolio
<i>Bank Loans</i>				Maximum 30% of the total DAA portfolio
<i>Asset Backed Securities</i>				
Real Assets	0		-	
<i>Listed Real Estate</i>				
<i>Listed Infrastructure</i>				
<i>Commodities</i>				
Cash	0	SONIA	0 - 20	
TOTAL	100	Composite		

¹ Fixed Income Composite Benchmark comprises of 50% Bloomberg Global Aggregate GBP Hedged Index, 50% Bloomberg Global Aggregate Credit GBP Hedged Index.