

# Severn Trent Water Mirror Image Pension Scheme

## Statement of Investment Principles

Section	Page
1 Introduction	2
2 Statement of Funding Principles	4
3 Long-term policy	5
4 Investment management arrangements	9
5 Monitoring and implementation of investment policy	12
6 Risk management	14

Date last amended: July 2021

# 1 Introduction

## **Scheme details**

- 1.1 This document describes the principles governing decisions about investments made by the Trustee of the Severn Trent Water Mirror Image Pension Scheme (the Scheme).
- 1.2 The main objective of the Scheme is to provide relevant benefits (that is, broadly pensions, lump sums or similar benefits on retirement or death) for eligible employees and directors and for former employees and directors of the employing companies, each of which is a member of the Severn Trent Group. These benefits are calculated on a final salary basis and the Scheme Rules include a guarantee of pension increases in line with Orders made under the Pensions (Increase) Act. The liabilities of the Scheme are thus significantly influenced by the course of earnings and price inflation.
- 1.3 The Scheme is contracted-out of the State Second Pension. The Scheme is a registered pension scheme for the purposes of the Finance Act 2004.
- 1.4 Administration of the Scheme is vested in Severn Trent MIS Trustees Limited (the Scheme Trustee), which is responsible for the investment of the Scheme's assets.

## **Pensions Act**

- 1.5 Under the Pensions Act 1995 (as updated by the Pensions Act 2004), trustees are required to prepare a statement of the principles governing investment decisions. This document fulfils that requirement.
- 1.6 The Scheme Trustee has consulted Severn Trent Water Limited on the content of this document and will consult Severn Trent Water Limited on any changes to the document. However, the ultimate authority and responsibility for deciding the investment policy of the Scheme lies solely with the Scheme Trustee.
- 1.7 In drawing up this document, the Scheme Trustee has sought advice from the Scheme's Actuary and Investment Adviser. The Scheme Trustee will review this document at least once a year. A copy of this statement will be provided, as updated from time to time, to the Investment Managers, who will be required to follow the principles which it sets out.

## **Financial Services and Markets Act 2000**

- 1.8 In accordance with the Financial Services and Markets Act 2000, the Scheme Trustee will determine general investment policy, but will delegate day-to-day responsibility for selection of specific investments, and determining the proportion of the underlying funds that are invested in the various asset classes, to an appointed Investment Manager or Managers, which may include an insurance company or companies. The Investment Managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently. The Investment Managers have been provided with a copy of this document.

### **Responsibilities**

- 1.9 The Scheme Trustee is responsible for all of the investment decisions in respect of the Scheme including the responsibility for selecting and monitoring the Scheme's Investment Managers. The Scheme Trustee takes advice from the Scheme Actuary and the Investment Adviser.
- 1.10 Severn Trent Water Limited does not have the authority to place limits on the Scheme Trustee as to how it can invest the money.
- 1.11 The Scheme Trustee has set up an Investment Committee ("IC"). The responsibility of the Investment Committee is as follows:
- Develop the Scheme's long-term investment structures and strategies in line with the Trustee's Statement of Investment Principles ("SIP");
  - Monitor and periodically review the Trustee's investment objectives and strategy to ensure they remain appropriate;
  - Ensure that asset allocations, so far as reasonably practicable, remain in line with the Scheme's strategic long-term benchmark;
  - Monitor the appropriateness of the investment management structure and the performance and suitability of individual investment managers;
  - Monitor and periodically review the performance and continuing suitability of the Scheme's AVC providers;
  - Monitor the management of the Scheme's assets including recommending amendments to the Scheme's SIP and index benchmarks, as appropriate;
  - Periodically review the effectiveness of the Trustee's investment adviser;
  - Provide general support and assistance to the Trustee in relation to all investment related matters including advising on developments in relevant legislation and economic or financial trends;

- Encourage dialogue between the Trustee and the Principal Employer and their respective advisers;
- To recommend changes to the manager or mandate where the change relates to 10% or more of the Scheme's assets;
- To recommend changes in the benchmark of a mandate where the mandate in question represents 10% or more of the Scheme's assets;
- To implement changes to the manager or mandate where the manager/mandate is less than 10% of Scheme assets;
- To implement changes to the benchmark of a mandate where the mandate in question represents less than 10% of Scheme assets, or the change in mandate represents less than 10% of Scheme assets;
- To monitor capital markets and make recommendations to the Scheme Trustee for a change to the investment strategy.

The Scheme Trustee shall remain responsible for all other investment activity.

- 1.12 The Scheme Trustee also takes advice from the Scheme Actuary and Investment Adviser.

## 2 Statement of Funding Principles

### **Statement of Funding Principles**

- 2.1 The Pensions Act 2004 requires that the Scheme Trustee prepares a Statement of Funding Principles. The Scheme Trustee will prepare this document, after obtaining advice from the Scheme Actuary, in conjunction with each actuarial valuation.
- 2.2 The statement will cover the Scheme's statutory funding objective, the principles used in determining that objective, the policy for securing that it is met, and the process through which the Scheme Trustee and the Company reach agreement on the contents of the statement.

DRAFT

### 3 Long-term policy

#### Objectives

3.1 The long-term objectives of the Scheme Trustee are:

- a. to maintain a portfolio of assets of appropriate liquidity which will generate sufficient income and capital growth to meet, together with contributions, the cost of benefits which the Scheme provides, as set out in the Trust Deed and Rules.
- b. to maximise the likelihood that benefits will be paid to members as they fall due, both over the long-term and on a shorter-term basis
- c. to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the objective shown under 3.1.b above.

Within the context of these objectives, since March 2018 the Scheme Trustee has been focused on the specific objective of a low risk investment strategy commensurate with full or partial settlement of the Scheme's liabilities. As of July 2021, the Trustee have entered into a buy-in contract with an insurer whereby the insurer pays a stream of income to the Trustee to exactly match the insured liabilities.

#### Policy

3.2 Having regard to:

- the Scheme's financial position, including its projected cashflow requirements
- the profile of its membership
- the nature of its liabilities
- the covenant of the Company
- the results of consultation with the Company

The Scheme Trustee's policy is to seek to achieve the objectives through investing in a suitable mixture of real and monetary assets. A mixture across asset classes should provide the level of returns required by the Scheme to meet its liabilities at an acceptable level of risk for the Scheme Trustee and an acceptable level of risk and cost to the Company.

- 3.3 In consultation with the Company, the Scheme has set a target asset allocation as set out below.

The Trustee has entered into a buy-in contract with Just Group plc ('Just'). The policy has not been structured with expected return in mind, but instead aims to match the Scheme's benefit obligations.

Asset Class	Weighting (%)	Benchmark Index
Insurer buy-in contract	100.0	n/a

#### **Additional Voluntary Contributions (AVCs)**

- 3.4 One member of the Scheme has AVC's invested in a "legacy" fund with Equitable Life Assurance Society. As the Scheme is closed no further contributions can be made.

## 4 Investment management arrangements

### **Investment management structure**

- 4.1 The Scheme Trustee has appointed each of its investment managers to deliver a specific benchmark which overall will align to deliver the broader Scheme investment strategy and long-term investment objectives. The Scheme Trustee ensures that all manager engagements have clearly defined benchmarks, objectives and management parameters.
- 4.2 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 Trustee will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Scheme.

### **Realisation of assets**

- 4.3 The policy of the Scheme Trustee is that the realisation of individual holdings, whether to meet cashflow requirements or to reinvest the proceeds elsewhere, should be entirely at the discretion of each Investment Manager.

### **Fees**

- 4.4 Fees are currently paid to the Scheme's Actuary and Investment Adviser on a fixed, time/cost or project basis.

### **Monitoring**

- 4.5 The Scheme Trustee will monitor the insurer service.

### **Social, environmental and ethical issues, including climate change**

#### **Responsible Investment**

- 4.6 The Scheme Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process.
- 4.7 The Trustee has entered into a buy-in contract with Just. The policy has not been structured with expected return in mind, but instead aims to match the Scheme's benefit obligations. Given the nature of the contract, the Scheme Trustee has not made explicit allowance for climate change in framing the strategic asset allocation.

### **Stewardship & Engagement**

- 4.8 Given that the Scheme is entirely invested in an insurer buy-in contract, stewardship and voting are not considered relevant to the Scheme's circumstances.

### **Suitability**



- 4.9 The Scheme Trustee has taken advice from the Scheme's Actuarial Adviser who has confirmed appropriate knowledge and experience of the management of and investment of trust schemes, to ensure that insurer buy-in contract is suitable.

DRAFT

## 5 Monitoring and implementation of investment policy

5.1 The Scheme Trustee has delegated responsibility for monitoring and implementation of the investment policy to the IC. The IC meets on a regular basis with the Investment Managers to review and discuss the operation of each Investment Manager's portfolio, including past and future policy decisions. The IC will thus monitor the competence with which the Investment Managers are carrying out the responsibilities delegated to them and their compliance with the Investment Management Agreements which are consistent with this statement.

5.2 The appointment of the Investment Managers will be reviewed by the Scheme Trustee from time to time, based on the results of the monitoring of performance and process.

### **Criteria for selection**

5.3 The Scheme Trustee has identified the criteria by reference to which the Investment Managers should be selected (or dismissed). These include:

- a. Past performance
- b. Quality of the investment process
- c. Role suitability
  - Level of fees
  - Reputation of the Investment Manager
  - Familiarity with such mandates
- d. Service
  - Reporting
  - Administration
- e. Team proposed
  - The quality of the individual investment managers working for the Scheme.

## 6 Risk management

- 6.1 The Scheme Trustee recognises a number of risks, including those described below, involved in the investment of the assets of the Scheme. Their policy for dealing with those risks is described below:

### **Investment risk**

- The principal risk facing the Scheme is that Just may default on its obligations under the buy-in contract. To mitigate this, the Trustee has obtained and carefully considered professional advice regarding the financial strength of Just and the insurance regulatory regime, and concluded that this risk was acceptably low.

### **Concentration risk**

- The Trustee recognises that a decision to invest in a buy-in contract with a single provider represents a concentration of risk and has addressed this through scrutiny of the provider.

### **Liquidity risk**

- is managed by the Scheme Trustee who ensures that within the Scheme Trustee's bank account, sufficient cash balances are available to meet monthly outgoings
- is measured by the level of cashflow required by the Scheme over a specified period.

- 6.2 The IC continues to monitor these risks.

- 6.3 The Scheme Trustee accepts that some degree of risk is inevitable in the effective management of investments.