Statement of Investment Principles

for the

Dee Valley Group Plc Section of the Water Companies Pension Scheme

September 2020

1. Introduction

1.1. What is the purpose of this Statement of Investment Principles?

This Statement of Investment Principles ("SIP") sets out the policy of the Water Companies (Pension Fund) Trust Company (the "Trustee") on various matters governing decisions about the investments of the Dee Valley Group Plc Section (the "Section") of the Water Companies Pension Scheme (the "Scheme").

1.2. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Lane Clark & Peacock LLP ("LCP"), the Scheme's investment adviser, who the Trustee believe to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments, the need for diversification, given the circumstances of the Scheme and the principles contained in this SIP.

The Principal Employers of the sections comprising the Scheme (the "Employers") were consulted on the SIP. The current investment managers of the Scheme were given the opportunity to comment on a draft of the SIP and their comments have been incorporated into this final version. The managers are required to carry out their investment responsibilities in a manner consistent with this SIP.

1.3. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005 ("the Regulations").

The Scheme's assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Scheme's Definitive Trust Deed.

The SIP also reflects the Trustee's response to the Myners voluntary code of investment principles.

2. What are the Trustee's overall investment objectives?

The Trustee's objectives are that:

- the Scheme should be able to meet benefit payments as they fall due;
- the Scheme's funding position (ie the value of its assets relative to the assessed value of its liabilities) should remain at an appropriate level. The Trustee is aware that there are various measures of funding, and have given due weight to those considered most relevant to the Scheme; and
- the Scheme should continue to benefit from the long-term support of the Employers.

3. What risks do the Trustee consider and how are these measured and managed?

When deciding how to invest the Scheme's assets, the Trustee has considered a wide range of risks, including, but not limited to, those set out in Appendix A. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

4. Summary of the Scheme's investment strategy

4.1. How was the investment strategy determined?

The Trustee, with the help of its advisers and in consultation with the Employers, undertook a full review of the investment strategy in 2012 taking into account the objectives described in Section 2 above.

4.2. What is the investment strategy of the Section?

The Section's assets are split between:

- "return seeking" assets (eg equities and other diversified assets); and
- "risk reducing" assets (eg bonds).

When setting the split between return seeking assets and risk reducing assets, the Trustee has considered the strategic allocation and the linear de risking plan which have been assumed within the actuarial valuation as at 31 March 2017.

In practice, the Section's asset split may differ from the strategic allocation, due to decisions taken by the Trustee around the timing of any de-risking, which have been made having consulted with the Section's sponsoring employer and having taken investment advice.

As at 31 March 2019, the broad split was:

- 0% return seeking assets; and
- 100% risk-reducing assets.

The Trustee monitors the asset allocation from time to time and if any material deviations from the strategic allocation occur, the Trustee will consider with its advisers whether it is appropriate to rebalance the assets, taking into account factors such as market conditions and anticipated future cash flows.

Details of the investment portfolios available to the Section and the underlying investment managers are set out in a separate document entitled "Water Companies Pension Scheme, Investment manager arrangements". This document also details the default split between the return-seeking portfolios. However, the Section can request a different split between the return-seeking portfolios if desired.

4.3. What did the Trustee consider in setting the Scheme's investment strategy?

In setting the strategy, the Trustee considered:

- a wide range of asset classes;
- the risks and rewards of a number of possible asset allocation options;
- the suitability of each asset class within each strategy, both across asset classes and within asset classes; and
- the need for appropriate diversification between different asset classes.

5. Appointment of investment managers

5.1. How many investment managers are there?

Details of the investment managers, their benchmarks and investment guidelines are provided in a separate document entitled "Water Companies Pension Scheme, Investment manager arrangements".

5.2. What formal agreements are there with investment managers?

The Trustee has signed investment management agreements, insurance policies or application documents with the investment managers to manage the Scheme's assets, setting out the terms on which the assets are managed.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensures they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

5.3. What do the investment managers do?

The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

6. Other matters

6.1. What is the Trustee's policy on the realisation of investments?

The investment managers have discretion over the timing of realisation of investments of the Scheme and in considerations relating to the liquidity of investments. When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements.

6.2. What is the Trustee's policy on financially material and non-financial matters?

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice. The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages managers to improve their practices where appropriate.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

6.3. What is the Trustee's policy on stewardship?

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

However, where the Trustee holds assets in pooled funds, the Trustee has limited influence over managers' stewardship practices, but it encourages its managers to improve their practices where appropriate.

6.4. What are the responsibilities of the various parties in connection with the Scheme's investments?

Appendix B contains brief details of the respective responsibilities of the Trustee, the investment managers, and the Actuary and investment consultant. Appendix B also contains a description of the basis of remuneration of the investment adviser and the investment managers.

6.5. Does the Trustee make any investment selection decisions of their own?

Before making any investment selection decision of its own, it is the Trustee's policy to obtain written advice. The written advice considers the suitability of the investment, the need for diversification and the principles contained in this SIP. It is also the Trustee's policy to review its own investment selection decisions on a regular basis, based on written advice.

7. Review

The Trustee will, from time to time, review the appropriateness of this SIP with the help of their advisers, and will amend the SIP as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

For and on behalf of
The Trustee of the Water Companies Pension Scheme
for the Dee Valley Group Plc Section

Date 18 September 2020

The Trustee's policy towards risk, risk measurement and risk management

The Trustee considers that there are a number of different types of investment risk that need to be considered. These include, but are not limited to:

A.1. Strategic risk

Strategic risk is a risk that the Scheme's assets and liabilities perform differently in different financial and economic conditions. The risk has been taken into account in the Trustee's investment strategy review and actuarial valuation and will be monitored by the Trustee on a regular basis.

The Trustee will review the Scheme's investment strategy at least every three years in light of the various risks faced by the Scheme.

A.2. Inadequate long-term returns

The Trustee needs to ensure that over the long term the Scheme has adequate resources to meet its liabilities. A part of this is to ensure that the Scheme obtains an adequate return in excess of price and wage inflation. The Trustee believes that, in the long term, this is most likely to be achieved by a combination of investments in equities and bonds.

A.3. Investment manager risk

Investment manager risk is the risk that the investment manager fails to meet its investment objectives. Prior to appointing each investment manager, the Trustee undertook an appropriate selection exercise. The Trustee monitors the investment managers on a regular basis.

A.4. Risk from lack of diversification

Risk from lack of diversification is the risk that failure of a particular investment, or general poor performance of a given investment type, could have a material adverse impact on the Trustee's ability to meet their investment objectives.

The Trustee believes that the Scheme's assets should be adequately diversified between different asset classes and within each asset class. Such diversification is implicit in the investment mandate given to the investment managers. The Trustee seeks to achieve diversification by investing in a range of pooled funds.

The Trustee regularly monitors the assets held in the Scheme to ensure that an appropriate level of diversification is maintained.

A.5. Liquidity/marketability risk

Liquidity/marketability risk is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due. The Trustee is aware of the Scheme's cash flow requirements and believes that the risk is managed appropriately via measures described by Section 6.

A.6. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially significant, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

A.7. Sponsor risk

Sponsor risk is the risk, for whatever reason, that the sponsoring Employer is unable or unwilling to support the Scheme as anticipated. The Trustee has taken into account the strength of the Employers' covenant in setting the Scheme's investment strategy.

A.8. Other risks

The Trustee recognises that there are other non-investment risks faced by the Scheme. Examples include mortality risk (the risk that members live, on average, longer than expected) and sponsor risk.

Some of the above risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. In the investment strategy reviews of the Scheme, the Trustee considers how these risks, in particular the investment risks, impact the Scheme's short and medium term funding position.

Responsibilities and fees

Appendix B

B.1. Responsibilities and investment decision-making structure

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon them, and their view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service.

B.1.1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- reviewing the investment policy following the results of each valuation, and / or after any review of investment strategy (eg any asset liability modelling exercise);
- appointing (and, when necessary, dismissing) the investment managers, custodians, the actuary and investment consultants;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the Employers when reviewing the SIP.

B.1.2. Investment managers

In broad terms, the investment managers will be responsible for:

- managing their respective portfolios, within the guidelines agreed with the Trustee;
- providing the Trustee with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

B.1.3. Actuary and investment consultant

In broad terms, the actuary and investment consultant will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;

- advising on the selection, and review, of the investment managers and custodian; and
- participating with the Trustee in reviews of this SIP.

B.2. Fee structures

The Trustee recognises that the provision of investment management, dealing and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's actuarial and investment advisers, under which charges are calculated on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.