



Statement of Investment Principles (SIP)

This is the Statement of Investment Principles (the “Statement”) made by Water Pension Trustee Limited, as Trustee (the “Trustee”) of the Mid Kent Group Pension Scheme (“the Scheme”) in accordance with the Pensions Act 1995 (as amended). The Statement, which was approved by the Trustee on 22 March 2023, is subject to periodic review at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustee has consulted with the employer to the Scheme, South East Water Limited, and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

The Scheme is a defined benefit scheme that closed to further accruals on 31 March 2015 and to new members on 13 May 2005.

The Trustee is supportive of the UK Stewardship Code, which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustee expects investment managers to comply with the code and to produce a statement of their commitment to the code.

Scheme objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Trustee’s overriding funding principles for the Scheme are to set the employer contribution at a level that is sufficient:

- to recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- to ensure that there are always sufficient assets of the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The value of liabilities is calculated on the basis agreed by the Trustee and the Scheme Actuary. The funding position is monitored regularly by the Trustee and formally reviewed at each triennial actuarial valuation, or more frequently, as required by the Pensions Act 2004.

Investment strategy


The Trustee has translated its objectives into a suitable strategic (asset allocation) benchmark for the Scheme. The strategic benchmark is consistent with the Trustee’s view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The investment strategy takes account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and deferred members), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustee’s view of the covenant of the principal employer.

Written advice is received as required from professional advisers.

Choosing investments

The Trustee has appointed one investment manager (plus Just Group plc who manage the buy-in policy) to manage the Scheme’s investments. The investment manager is authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Trustee, after taking appropriate advice, has given the investment manager specific guidelines including, but not limited to, asset allocation and geographic spread, on



how investment mandates are to be managed. The investment manager is allowed some flexibility of choice subject to their benchmarks and other guidelines and are expected to maintain diversified portfolios.

The Trustee invests in a pooled fund 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.

Remuneration is determined at the inception of each mandate based on commercial considerations and typically set as a percentage of assets under management. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustee 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 Trustee periodically reviews the fees paid to all of its manager against industry standards.

The Trustee reviews the nature of Scheme investments on a regular basis, with particular reference to suitability and diversification. When determining the appropriateness of the manager and mandate for the Scheme, particularly in relation to diversification, risk, expected return and liquidity, the Trustee seeks and considers written advice from a person that is suitably qualified as evidenced by CF30 approval from the FCA, for example. If, at any time, investment in a security or product not previously known to the Trustee is proposed, appropriate advice is sought and considered to ensure its suitability. The Trustee recognises the long-term nature of its liability profile and appoints its manager to invest in such a way that generates long term sustainable returns. 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 Scheme objective.

A summary of the Scheme's investment mandate, the benchmark and target is included in the appendix.

Kinds of investment to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including fixed interest and index linked bonds, and cash, either directly or through pooled funds. The Scheme may also invest in annuity contracts.

The Scheme may also make use of contracts of insurance, derivatives, and contracts for difference (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustee considers all these classes of investment to be suitable in the circumstances of the Scheme.

Annuity policy

In December 2022, the Trustee entered into an insurance policy with Just Retirement Ltd ("Just") that is expected to secure the benefits of all Scheme members.

In return for the payment of a premium, the Trustee holds an insurance policy with Just. Under the policy, Just makes monthly payments to the Scheme to cover benefit payments to members and covers the longevity risk of all members as well as the investment risks of the assets under the policy.

Following payment of the insurance premium, the Scheme's residual assets are held as reserves against:

- 1 The expenses of running the Scheme that is not covered by the insurance policy;
- 2 A cash balance for the Scheme's administrators to facilitate the timely payment of benefits alongside a general contingency reserve.

The remaining assets for meeting expenses and other contingencies are invested in a cash fund with a low risk profile. These are readily realisable assets that can be used to facilitate benefit and expense payments.

Balance between different kinds of investments

The Scheme's investment manager will hold a mix of investments that reflects their views relative to their respective benchmarks or return targets.

Risk

The Scheme is exposed to a number of risks that pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are:

Funding risks

- Financial mismatch – The risk that Scheme assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves, and other demographic factors change, increasing the cost of the Scheme benefits.
- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Scheme's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial, and demographic impacts.

The Trustee measures and manages financial mismatch in two ways. As indicated above, the Trustee has set a strategic asset allocation benchmark for the Scheme. The Trustee assesses risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. The Trustee also assesses risk relative to liabilities by monitoring the delivery of returns relative to liabilities.

The Trustee keeps mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations and the Trustee may enter into insurance contracts (bulk annuities or longevity swaps) to reduce these demographic risks.

The Trustee has entered into a bulk annuity insurance contract in respect of the Scheme's liabilities to help manage and reduce these risks. In return for the payment of a premium, the Trustee holds an annuity policy with an insurer. Under the policy, the insurer makes monthly payments to the Scheme and carries the risk of longevity for, the deferred and pensioner members, as well as the investment risks for this proportion of the Scheme's assets.

All pensioner and deferred members continue to be members of the Scheme and the Trustee continues to have ultimate responsibility for the payment of benefits to their members.

Asset risks

- Concentration – The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity – The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Scheme's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Manager underperformance – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

- 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. A list of example ESG factors that the Trustee considers is provided in the appendix.
- 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.

The Trustee has identified and acknowledged the risks inherent in its agreed investment strategy but believes that the asset allocation policy in place is suitable given the stated investment objectives.

The Trustee does not expect the manager to take excess short-term risk and will regularly monitor the manager's performance against the benchmark and objective set on a short, medium, and long terms basis.

The Trustee's approach to the consideration of ESG risks and climate risk is set out in further detail below.

Other provider risk

- Transition risk – The risk of incurring unexpected costs in relation to the transition of assets among managers.
- Custody risk – The risk of loss of Scheme assets or a loss of economic rights to Scheme assets, when held in custody or when being traded.
- Credit default – The possibility of default of a counterparty in meeting its obligations.

The Trustee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Scheme or has delegated such monitoring and management of risk to the appointed investment manager as appropriate (e.g., custody risk in relation to pooled funds). When carrying out significant transitions, the Trustee seeks professional advice.

Expected return on investments

The investment strategy aims to achieve a return on Scheme assets, which taken in conjunction with contributions is sufficient over time to match growth in the Scheme's pension liabilities.

Realisation of investments

The bulk annuity insurance contract that the Trustee has entered into cannot be realised

Consideration of financially material factors in investment arrangements

The Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process.

Strategic considerations

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

Given the inherent uncertainty, the Trustee has not made explicit allowance for the risks of climate change in setting its strategic benchmark. The Trustee periodically discusses climate change with its investment adviser/investment managers to consider the potential implications for the Scheme's investments.



Structural considerations

Given the discretion afforded to the investment managers, the Trustee expects that its investment manager will take account of all financially material factors including the potential impact of ESG factors in the implementation of their mandate.

Consideration of non-financially material factors in investment arrangements

Given the objectives of the Scheme, the Trustee has not considered any non-financially material factors in the development and implementation of its investment strategy.

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

Stewardship

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

Voting and engagement

The Trustee does not engage directly but actively encourages its investment manager 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. The Trustee will review engagement activity undertaken by their investment manager as part of its broader monitoring activity.

The Trustee separately considers any conflicts of interest arising in the management of the Scheme and its investments and has ensured that the manager has an appropriate conflicts of interest policy in place.

Monitoring

The Trustee aims to meet with its investment manager on a periodic basis. The Trustee provides its managers with an agenda for discussion, including issues relating to individual holdings and, where appropriate, ESG issues. The manager is challenged both directly by the Trustee and by its investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.



Signed For and on Behalf of the Trustee of the Mid Kent Group Pension Scheme.

Trustee Director

Trustee Director

Date

Date

Appendix:

Manager benchmarks and performance targets

Manager / Mandate	Benchmark Description	Performance Target
LGIM Sterling Liquidity Fund	SONIA	Outperform benchmark

ESG Factors

The following table provides examples of some ESG factors that the Trustee has considered. This list is not exhaustive and is just included to give an idea of the factors that the Trustee considers:

Environmental	Social	Governance
Climate Change	Customer satisfaction	Board Structure
Resource scarcity	Community relations	Accounting & Audit
Water stress	Working conditions	Executive remuneration
Biodiversity	Diversity	Bribery & corruption
Pollution	Health & Safety	Shareholder rights
Energy efficiency	Employee wellbeing	Transparency
Waste management	Data protection	Political contributions