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 16 December 2024, 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 and insurers 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.

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.

Just is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. The Trustee carried out extensive due diligence on Just, noting the regulatory environment in which the insurer must operate. The Trustee has also taken written advice from its professional advisers who have confirmed appropriate knowledge and experience to ensure that the Policy is suitable.

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

1. The expenses of running the Scheme that are 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. The manager is authorised under the Financial Services and Markets Act 2000 to undertake investment business.

On its remaining invested assets, the Trustee seeks and considers written advice from a person that is suitably qualified as evidenced by CF30 approval from the FCA. A summary of the Scheme's mandates, along with benchmarks and targets, is included in the appendix.

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 recognises a number of risks, including those described below, involved in the investment of the assets of the Scheme. The Trustee continues to monitor these risks and accept that some degree of risk is inevitable in the effective management of investments.

- Concentration – 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.
- Illiquidity – The Trustee ensures that a sufficient amount in the Trustee's bank account a sufficient cash balance is available to meet the required outgoings, and is measured by the level of cash flow required by the Scheme over a specified period.
- 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.

Realisation of investments

The bulk annuity insurance contract that the Trustee has entered into cannot be realised. The remainder of assets are held in cash, which can be realised on a daily basis.

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 Trustee has entered into a full-Scheme 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 Trustee has not made explicit allowance for the risks of climate change in setting its strategic asset allocation.

As part of the broader formal selection process and review criteria for the insurer, Just, including financial strength and market experience, the Trustee considered ESG matters and received the guidance from professional advisers in this area. The insurer's integration of ESG into their processes and use of independent assessment on ESG criteria were highlighted as positive features for consideration.

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

Given that the Scheme is entirely invested in an insurer buy-in contract, an illiquid fund in liquidation, and cash, monitoring opportunities for engagement and voting are extremely limited given the purchase of the Policy. The Trustee is mindful and accepting of this.

Monitoring

The Trustee will monitor the insurer service on a periodic basis, considering issues relating to their individual holdings, solvency metrics, and, where appropriate, ESG issues.

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

Trustee Director

Trustee Director

16/12/24

Date

16/12/24

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