

Mid Kent Group Pension Scheme

Annual Report and Financial Statements

31 March 2022

Scheme Registration number 10233493

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Section 1 – Trustee and its Advisers

Trustee

Water Pension Trustee Limited was appointed as Trustee of the Mid Kent Group Pension Scheme ('MKGPS') in December 2016.

The Trustee Directors

Company appointed

J Stimpson (Chair)

R Loh

M Hersey

S Jenkins

N A Morton

Secretary to the Trustee

Member nominated

M Giel (appointed by the members of both SEWPS and MKGPS)

D Chung (appointed by the members of both SEWPS and MKGPS)

R J Allison (appointed by the members of both SEWPS and MKGPS)

P Seeley (appointed by the members of both SEWPS and MKGPS)

Peter Carver FIA CERA, Hymans Robertson LLP

Advisers

The advisers to the Trustee are set out below:

Actuary

Shireen Anisuddin FIA CERA, Hymans Robertson LLP

Auditor

Mazars LLP

Legal Adviser

Squire Patton Boggs (UK) LLP

Administrator

Hymans Robertson LLP

Investment Consultant

Hymans Robertson LLP

Investment Managers

Aegon Asset Management I.C.Ireland

Barings Asset Management Limited

Insight Investment Management (Ireland) Limited

Invesco Perpetual Limited

Just Group Plc

Legal and General Investment Management Limited

M&G Investment Management Limited

Bankers

Barclays Bank Plc

Life Assurance Company

Legal & General Assurance Society Limited

Principal Employer

South East Water Limited

Contact Address

Ms Tracey Smith

Reward Manager

South East Water Limited

Rocfort Road

Snodland

Kent ME6 5AH

Section 2 – Trustee's Report

The Trustee of the Mid Kent Group Pension Scheme is pleased to present its report together with the audited financial statements and actuarial statements of the Scheme for the year ended 31 March 2022. The purpose of the report is to describe how the Scheme and its investments have been managed during the year.

Management of the Scheme

Legal Status

The Scheme is governed by a Definitive Trust Deed and Rules dated 28 December 2016.

The Scheme is a defined benefit scheme and is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004.

Members of the Scheme were contracted-out of the State Second Pension (S2P), prior to the closure of the Scheme to future benefits (see below).

The Scheme was closed from 1 April 2015. The closure means that active members earn no further benefits from 31 March 2015. Any benefits built up in the Scheme prior to this date are protected and all members will still receive them as expected. Ongoing pension benefits are provided through the Company's Defined Contribution scheme.

Trustee

The Trustee of the Mid Kent Group Pension Scheme is Water Pension Trustee Limited whose Directors are listed on page 1.

In accordance with the trust deed the Principal Employer has the power to appoint and remove Company appointed Trustee Directors.

In accordance with the Occupational Pension Scheme (Member Nominated Trustees and Directors) Regulations 1996, four of the Trustee Directors are nominated by the members of the South East Water Pension Scheme and Mid Kent Group Pension Scheme to serve for a period of up to five years.

The Member Nominated Trustee Directors may be removed before the end of their term only by agreement of all of the remaining Trustee Directors, although their appointment ceases if they cease to be members of the Scheme.

The Trustee met formally for regular Trustee meetings 4 times during the year. In addition, there were further meetings for other activities including additional meetings in respect of specific projects and a number of meetings of subcommittees. From December 2016, the Trustee of the Mid Kent Group Pension Scheme, Water Pension Trustee Limited, is also the Trustee of the South East Water Pension Scheme, so that all Trustee meetings and subcommittee meetings are joint meetings of the two Schemes.

Financial Development of the Scheme

The financial statements have been prepared and audited in accordance with regulations made under Section 41(1) and (6) of the Pensions Act 1995.

The fund account shows that the net assets of the Scheme decreased from £126,611,000 at 31 March 2021 to £125,951,000 at 31 March 2022. The decrease in net assets is accounted for by:

| | 31 March 2022 £'000 | 31 March 2021 £'000 |
|---|------------------------|------------------------|
| Contributions paid in by the Company | 1,411 | 1,398 |
| Benefits paid to members and payments in respect of leavers | (4,567) | (5,072) |
| Administrative expenses | (306) | (261) |
| Net withdrawals from dealings with members | (3,462) | (3,935) |
| Net returns on investments | 3,054 | 6,449 |
| Investment manager expenses | (252) | (258) |
| Total (decrease)/increase in net assets for the year | (660) | 2,256 |
| Net assets at the start of the year | 126,611 | 124,355 |
| Net assets at the end of the year | 125,951 | 126,611 |

Pension Increases

During the Scheme year, pension increases were applied in accordance with the Scheme Rules as follows:

Effective date – 1 April 2021

Pensions in payment:

- GMPs accrued pre 6 April 1988 = Nil (increases in line with the annual rise in CPI are guaranteed by the State)
- GMPs accrued post 5 April 1988 = 0.5% (in accordance with the statutory revaluation orders)
- non GMP benefits accrued pre 6 April 1997 = 0.5% (this increase was granted at the discretion of the Trustee and Sponsoring Employer)
- benefits accrued post 5 April 1997 = 0.5% (this increase was granted at the discretion of the Trustee and Principal Employer)

Deferred pensions are increased in accordance with statutory requirements

Transfer Values

All transfer values paid during the year were calculated and verified as required under Section 97 of the Pension Schemes Act 1993.

Transfer values paid represented the full value of members' guaranteed benefits. There were no transfers paid at less than the cash equivalent.

No allowance is made for any discretionary benefits when assessing transfer values.

Schedule of Contributions

Following the actuarial valuation on 31 March 2020, a Schedule of Contributions was agreed and certified by the Scheme Actuary on 18 June 2021. Contributions of £1,142,455 per annum and expense contributions of £268,477 per annum were effective from 1 July 2021 until 31 March 2025. These figures increase in line with RPI inflation each future year with effect from 1 April 2022.

The Schedule of Contributions is available on request from the Trustee.

Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, the Scheme has adopted a Statutory Funding Objective which is to have sufficient and appropriate assets to cover its Technical Provisions. The Technical Provisions represent the present value of the benefits members are entitled to at the valuation date (also known as the liabilities). This value is assessed using the assumptions agreed between the Trustee and the Employer as set out in the latest Statement of Funding Principles dated 18 June 2021, which is available on request.

The most recent signed actuarial valuation of the Scheme was carried out as at 31 March 2020. This showed that on that date:

The value of the Technical Provisions was: £120.8 million

The value of the Scheme's assets was: £124.4 million

On this basis the Scheme had a funding surplus of £3.6 million at 31 March 2020 corresponding to a funding level of 103%.

Between triennial actuarial valuations, trustees of defined benefit schemes with more than 100 members must commission an annual funding report called an "actuarial report". The actuarial report must have an effective date of no later than one year from the date of the previous actuarial valuation or actuarial report, and must be completed within one year of the report's effective date. An Actuarial report for the Scheme has been prepared as at 31 March 2021, the results of which are summarised below along with the results from the 31 March 2020 valuation.

| | Actuarial valuation as at 31 March 2020 | Actuarial Report as at 31 March 2021 |
|----------------------|---|--------------------------------------|
| Assets | 124.4 | 126.6 |
| Technical Provisions | 120.8 | 116.6 |
| Surplus/(deficit) | 3.6 | 10.0 |
| Funding level | 103% | 109% |

The results show that over the period 31 March 2020 to 31 March 2021 the Scheme funding position improved from a surplus of £3.6 million to a surplus of £10.0 million. Over this period the Technical Provisions have decreased in value, mainly due to benefits being paid out. The Scheme's assets have increased in value, primarily due to a strong return on assets and the deficit contributions paid by the Employer.

The next actuarial valuation of the Scheme is due as at 31 March 2023.

The method and the significant actuarial assumptions used to determine the Technical Provisions are as follows (further details of all assumptions adopted are set out in the Statement of Funding Principles dated 18 June 2021):

Method:

The actuarial method used in the calculation of the Technical Provisions is an accrued benefits funding method.

Significant assumptions:

Discount rate: In line with gilt yield curve + 0.8% p.a. until 31 March 2025; then + 0.5% p.a. thereafter.

Future Retail Prices Index (RPI) inflation: In line with a gilt market implied inflation curve.

Future Consumer Prices Index (CPI) inflation: Derived from the assumption for future RPI inflation, less an adjustment of 1.0% p.a. to 2030, then less 0.5% p.a. thereafter.

Pensionable salary increases: No allowance due to Scheme closure from 31 March 2015.

Pension increases (in excess of GMP):

- For category A members: CPI inflation capped at 5% p.a.
- For category B and C members: uncapped CPI inflation.

Revaluation prior to retirement:

- For category A members: in line with the greater of statutory revaluation and the relevant multiplier under the Pensions (Increase) Act 1971 for pension accrued before 1 July 2005, in line with RPI inflation capped at 5% p.a. for pension accrued between 1 July 2005 and 6 May 2010, and in line with RPI inflation capped at 2.5% p.a. for pension accrued after 6 May 2010.
- For category B members: in line with the greater of statutory revaluation and the relevant multiplier under the Pensions (Increase) Act 1971.

Mortality: Member specific Club Vita tables based on the Scheme's membership at the 2020 valuation. Future improvements in line with CMI 2019 core model with core smoothing parameter ($S_k=7.0$), addition to initial improvements ('A' parameter) of 0.5, and a long term rate of improvement of 1.5% p.a. tapering linearly to zero between the ages of 85 to 110.

Commutation: Members assumed to commute 80% of the maximum allowable pension under post-April 2006 HMRC limits on current Scheme terms.

Other assumptions: Appropriate allowance is made for early retirements, as set out in the Statement of Funding Principles dated 18 June 2021.

Guaranteed Minimum Pension ('GMP')

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The Trustee is aware that the issue will affect the Scheme and will be considering this at future meetings and decisions will be made as to the next steps. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. The impact on the Scheme is not expected to be material and has therefore not been recognised in the accounts.

In November 2020 a further judgement was passed down on the Lloyds Bank GMP equalisation case, requiring pension scheme trustees to investigate historic transfer payments since 17 May 1990 and check whether the payment would have been higher had the member's benefits been equalised for the effects of unequal male and female GMPs. In cases where payments would have been higher, trustees may have an obligation to make "top-up" payments. The Trustee will take advice on the matter as part of the larger project of implementing GMP equalisation, but the impact on the Scheme is not expected to be material and has therefore not been recognised in the accounts.

World events

At the time of approval of the financial statements, the impact of COVID-19 has lessened given the success of the vaccination program worldwide. Both short term and long term effects are unknown but, as for many schemes at this time, the Trustee continues to be vigilant of the potential for a significant and enduring impact on the Scheme. In addition to this, post year-end, the conflict between Ukraine and Russia is impacting global markets, following assessment of the Scheme's investment portfolio, no direct exposure to the conflict has been identified up to and including the date of signing.

The Trustee will continue to monitor the situation and the impact on the Scheme. The Trustee has concluded that there is no impact of COVID-19 or the Ukraine/Russia conflict on the going concern of the Scheme.

Pension increases

The Trustee and Employer agreed in April 2020, after taking actuarial advice, that the Index referred to in the Scheme rules which is used to calculate pension increases should be CPI going forward rather than RPI. This will mean the pension increases in the Scheme from 1 April 2021 onwards will be awarded in line with CPI, until such time as the Index is reviewed again. The Index is expected to be reviewed again at the triennial valuation in 2023. The funding impact of this change was taken into account in the 2020 formal valuation of the Scheme, and is allowed for in the funding position disclosed in the Report on Actuarial Liabilities above.

Scheme Membership

The reconciliation of the Scheme membership during the year ended 31 March 2022 is shown below:

| Pensioner Members (including spouses and dependants) | Number |
|--|------------|
| As at 1 April 2021 | 404 |
| Spouses pensions | 5 |
| Deaths | (14) |
| Retirements | 7 |
| Pensioner members as at 31 March 2022 | 402 |

| Deferred Pensioner Members | Number |
|---|------------|
| As at 1 April 2021 | 198 |
| Retirements | (7) |
| Transfers out | (1) |
| Deferred pensioner members as at 31 March 2022 | 190 |

Investment Policy

Investment manager

The Scheme's investments are handled by investment managers appointed by the Trustee. The investment strategy is agreed by the Trustee after taking appropriate advice. Subject to the investment strategy set by the Trustee, day to day management of the Scheme's portfolio, which includes full discretion over stock selection, is the responsibility of the investment managers. The investment managers are shown on page 1.

Investment Strategy

The current investment strategy has been designed to reduce the current risks to the future development of the Scheme's funding position through investment in assets that will generate cash that can be used to pay benefits as they fall due. In addition, the Scheme holds investments whose prices are designed to move in line with changes in the value placed on the Scheme's liability to pay benefits in the future.

The Scheme is approaching full funding on a buy-out basis and therefore the Trustee is preparing the Scheme for buy-out. The Scheme now operates a glide path investment strategy, with de-risking steps in place, to ensure that the Scheme can de-risk to a self-sufficient investment strategy which holds a portfolio of assets that is ready for buy-out.

As the funding level improved over the year, the Trustee has made the following actions:

- The Scheme fully disinvested from the Invesco Global target returns fund, the LGIM RAFI equity fund, and the Barings Global High Yield Credit Strategies fund, and partially disinvested from the M&G Alpha Opportunities fund and the Aegon Absolute Return Bond fund.
- The disinvestment proceeds have been invested in the Insight Global ABS fund, the LGIM LDI portfolio and the LGIM Investment Grade Corporate Bond >15 year Index Fund.
- Increased the Scheme's interest rate and inflation hedging to 95% of the Scheme's liabilities.

Asset allocation

The asset allocation of the Scheme at 31 March 2022 is summarised in the table below.

| | Asset Allocation at 31 March 2022 | | |
|-----------------------------------|-----------------------------------|-----------------|----------------|
| | Valuation £ | Total Fund % | Benchmark % |
| Higher Risk Absolute Return Bonds | 3,935,586 | 3.1 | 3 |
| Asset-Backed Securities | 12,842,610 | 10.2 | 10 |
| Lower Risk Absolute Return Bonds | 24,160,880 | 19.2 | 19 |
| Investment Grade Corporate Bonds | 21,794,019 | 17.3 | 18 |
| Gilts / LDI | 57,473,570 | 45.5 | 50 |
| Annuity buy in | 5,350,000 | 4.2 | |
| Cash | 574,004 | 0.5 | - |
| Total | 126,130,669 | 100.0 | 100 |

Notes: 1) Bid prices sourced from investment managers except for M&G, Aegon, and Insight which are single priced.

Investment Performance

The return (net of fees) on the Scheme's investments over various periods to 31 March 2022 is shown below together with the return on the benchmark adopted by the Trustee.

| Period Ended 31 March 2022 | Scheme | Benchmark |
|----------------------------|--------|-----------|
| 1 year | 3.0% | 4.1% |
| 3 years (p.a.) | 3.9% | 4.3% |

Pricing methods of managers

| Manager | Fund | Pricing point |
|--|---|---------------|
| Aegon Asset Management I.C.Ireland | Absolute Return Bond Fund | Daily |
| Legal & General Investment Management Limited | Equities and gilt/LDI index funds Sterling liquidity fund Investment Grade Corporate Bonds >15yr | Weekly |
| M&G Investment Management Limited | Alpha Opportunities Fund | Monthly |
| Insight Investment Management (Ireland) Limited | Insight Global Asset-Backed Securities Fund | Daily |

Statement of Investment Principles

The Trustee has prepared a Statement of Investment Principles (the "SIP"), which sets out the principles governing how investments are chosen. A copy of the Scheme's SIP can be found at www.mkgpensionscheme.co.uk

Custodial Arrangements

The custodian is responsible for the safe keeping, monitoring and reconciliation of documentation relating to the ownership of listed investments. Underlying investments are held in the name of the custodian's nominee companies, in line with common practice for pension scheme investments. The table below shows the custodial arrangements for each investment manager.

| Investment Manager | Custodian |
|---|--|
| Aegon Asset Management | Citibank Global Securities |
| Legal and General Investment Management Limited | Liquidity Funds: Northern Trust Global Services Limited; All other pooled funds: Citibank N.A |
| M&G Investment Management Limited | State Street Custodial Services (Ireland) Limited |
| Insight Investment Management (Ireland) Limited | Northern Trust Fiduciary Services (Ireland) Limited |

Employer Related Investments

There were no employer related investments during the year (2021: £nil).

Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with the UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS102) are the responsibility of the trustee. Pension scheme regulations require, and the trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement as to whether the financial statements have been prepared in accordance with the relevant reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the scheme will not be wound up.

The trustee is also responsible for making available certain other information about the scheme in the form of an annual report.

The trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the scheme and the dates on or before which such contributions are to be paid. The trustee is also responsible for keeping records in respect of contributions and for adopting risk-based processes to monitor whether contributions are made to the scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the trustees is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Further Information

Internal Dispute Resolution (IDR) Procedures

It is a requirement of the Pensions Act 1995 that the trustees of all occupational pension schemes must have Internal Dispute Resolution (IDR) procedures in place for dealing with any disputes between the Trustee and the scheme beneficiaries. A dispute resolution procedure has been agreed by the Trustee, details of which can be obtained by writing to the Secretary to the Trustee at the following address:

Secretary to the Trustee
Mid Kent Group Pension Scheme
Hymans Robertson LLP
One London Wall
London EC2Y 5EA
Email: midkent@hymans.co.uk

Contact for Further Information

Any enquiries or complaints about the Scheme, including requests from individuals about their benefits or for a copy of Scheme documentation, should be sent to the Secretary to the Trustee at the address above.

The Pensions Advisory Service and The Pensions Ombudsman

Members have the right to refer their complaint to The Pensions Ombudsman free of charge. The Pensions Ombudsman deals with complaints and disputes which concern the administration and/or management of occupational and personal pension schemes.

Contact with The Pensions Ombudsman about a complaint needs to be made within three years of when the events(s) the member is complaining about happened – or, if later, within three years of when they first knew about it (or ought to have known about it). There is discretion for those time limits to be extended.

The Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
London
E14 4PU
Tel: 0800 917 4487
Email: enquiries@pensions-ombudsman.org.uk
www.pensions-ombudsman.org.uk

Members can also submit a complaint form online:

www.pensions-ombudsman.org.uk/making-complaint

If members have any general requests for information or guidance concerning their pension arrangements contact:

Money and Pensions Service
Holburn Centre
120 Holburn
London
EC1N 2TD
Tel: 0115 965 9570
Email: contact@map.org.uk
Website: <https://www.moneyandpensionsservice.org.uk/>

The Pensions Regulator

The Pensions Regulator (TPR) has the objectives of protecting the benefits of members, promoting good administration and reducing the risk of claims on the Pension Protection Fund. TPR has the power to investigate schemes, to take action to prevent wrongdoing in or maladministration of pension schemes and to act against employers failing to abide by their pension obligations. TPR may be contacted at the following address:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW
www.thepensionsregulator.gov.uk

Pension Tracing Service

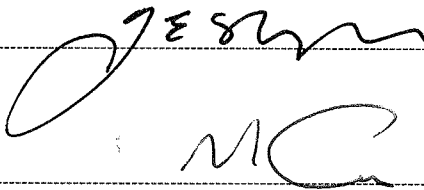
The Pension Schemes Registry has been replaced with the Pension Tracing Service and is now provided by the Department for Work and Pensions. Responsibility for compiling and maintaining the register of occupational pension schemes has been passed to The Pensions Regulator.

Contact details for the Pension Tracing Service are as follows:

Pension Tracing Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU
www.gov.uk/find-pension-contact-details

Approval of the Report by the Trustee

Signed for and on behalf of the Trustee of the Mid Kent Group Pension Scheme by:



Trustee Director



Trustee Director

12.10.2022

Date

Section 3 – Independent Auditor’s Report to the Trustee of the Mid Kent Group Pension Scheme

Opinion

We have audited the financial statements of the Mid Kent Group Pension Scheme (the ‘Scheme’) for the year ended 31 March 2022 which comprise the Fund Account, the Statement of Net Assets and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Scheme’s affairs as at 31 March 2022 and of the amount and disposition at that date of its assets and liabilities, other than those liabilities to pay pensions and benefits after the year end;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulations 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Trustee’s Report, other than the financial statements and our auditor’s report thereon. The Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities set out on page 9, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Scheme and its environment, we identified that the principal risk of non-compliance with the laws and regulations related to the non-receipt of contributions from the principal employer in accordance with the Schedule of Contributions, administration of the Scheme in accordance with Pensions Acts 1995 and 2004 and regulations made under them and Codes of Practice issued by the Pensions Regulator, and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the Scheme is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the Scheme which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as Pensions Act 1995.

In addition, we evaluated the Trustee's and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the Trustee and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

This report is made solely to the Trustee as a body in accordance with Regulation 3 of The Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Trustee as a body for our audit work, for this report, or for the opinions we have formed.



Mazars LLP

Chartered Accountants and Statutory Auditor

The Pinnacle

160 Midsummer Boulevard

Milton Keynes

MK9 1FF

Date 12.10.2022

Section 4 – Financial Statements

Fund Account for year ended 31 March 2022

| | | 2022 | 2021 |
|--|------|-----------------------|-----------------------|
| | Note | £000 | £000 |
| CONTRIBUTIONS AND BENEFITS | | | |
| Contributions | 4 | | |
| Employer | | <u>1,411</u> | <u>1,398</u> |
| Benefits | 5 | (4,383) | (4,567) |
| Leavers | 6 | (184) | (505) |
| Administrative expenses | 7 | <u>(306)</u> | <u>(261)</u> |
| | | <u>(4,873)</u> | <u>(5,333)</u> |
| Net withdrawals from dealings with members | | (3,462) | (3,935) |
| RETURNS ON INVESTMENTS | | | |
| Investment income | 8 | 1,389 | 1,692 |
| Change in market value of investments | 10 | 1,665 | 4,757 |
| Investment management expenses | 11 | <u>(252)</u> | <u>(258)</u> |
| Net returns on investments | | <u>2,802</u> | <u>6,191</u> |
| Net (decrease)/increase in the Scheme during the year | | (660) | 2,256 |
| Balance of the Scheme at the start of the year | | 126,611 | 124,355 |
| Balance of the Scheme at the end of the year | | <u>125,951</u> | <u>126,611</u> |

The notes on pages 17 to 26 form part of these financial statements.

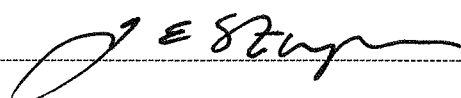
Statement of Net Assets (available for benefits) as at 31 March 2022

| | | 2022 | 2021 |
|--|-----------|-----------------------|-----------------------|
| | Note | £000 | £000 |
| Investment assets | 10 | | |
| Pooled investment vehicles | | 120,780 | 121,074 |
| Insurance policy | | 5,350 | 5,614 |
| Tax recoverable | | - | 4 |
| Cash and accrued income | | - | 26 |
| | | <u>126,130</u> | <u>126,718</u> |
| Current assets | 12 | 254 | 309 |
| Current liabilities | 13 | (433) | (416) |
| Net assets of the Scheme at the end of the year | | <u>125,951</u> | <u>126,611</u> |

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year.

The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on actuarial liabilities on pages 4 and 5 of these financial statements and should be read in conjunction therewith.

These financial statements were approved by the Trustee of the Mid Kent Group Pension Scheme and signed for and on their behalf by:



Trustee Director



Trustee Director



Date

The notes on pages 17 to 26 form part of these financial statements.

Section 5 – Notes to the Financial Statements

Notes to the financial statements for the year ended 31 March 2022

1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS 102) – The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland issued by the Financial Reporting Council (“FRS 102”) and the guidance set out in the Statement of Recommended Practice, “Financial Reports of Pension Schemes” (Revised November 2018) (“the SORP”).

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Scheme has adequate resources to realise its assets and meet pension payments in the normal course of affairs (continue to operate) for at least the next twelve months.

2 IDENTIFICATION OF FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address for enquiries to the scheme is

Secretary to the Trustee
Mid Kent Group Pension Scheme
Hymans Robertson LLP
One London Wall
London EC2Y 5EA
Email: midkent@hymans.co.uk

3 ACCOUNTING POLICIES

The principal accounting policies, which have been consistently applied during the year, are set out below.

3.1 Contributions

Deficit and expense contributions are accounted for in accordance with the terms of the Schedule of Contributions.

3.2 Benefits

Pensions payable in respect of the Scheme year are accounted for by reference to the period to which they relate. Refunds and lump sums are accounted for by reference to the later of the date of retirement or leaving the Scheme, or the date the option is exercised.

3.3 Transfers

Transfer values to other pension arrangements are accounted for when the liability for any pension benefits in respect of a transferring member passes from the Scheme.

3.4 Income

Interest on bank deposits is accounted for on an accruals basis. Income from investment vehicles is accounted for on an accruals basis

Notes to the financial statements for the year ended 31 March 2022 (continued)

3 ACCOUNTING POLICIES (continued)**3.5 Investments**

Quoted securities are valued at the bid market price at the close of business. The fair value of unit trusts and managed fund units is taken as the bid price at the accounting date as advised by the investment managers.

The Just Group Plc insurance policy is allocated to the provision of pensions for certain members of the Scheme. Income received from this policy is treated as investment income and the corresponding expenditure is included in Benefits within the pension payment account. The buy in policy remains an asset of the Scheme and is valued at the year-end using an "actuarial value" approach. This approach places a value on the policy based on the present value of the underlying pension cashflows. The valuation has been prepared by the Scheme Actuary on a technical provisions basis which is consistent with the valuation of the Scheme's liabilities.

The changes in investment market values are accounted for in the year in which they arise and include profits and losses on investments sold as well as unrealised gains and losses in the value of investments held at the year end.

Investments in overseas currencies are translated into sterling at the exchange rates ruling at the year end.

4 CONTRIBUTIONS

| | 2022 | 2021 |
|--------------------------------|--------------|-------|
| | £000 | £000 |
| Employer | | |
| Deficit funding | 1,143 | 1,132 |
| Contribution to cover expenses | 268 | 266 |
| | 1,411 | 1,398 |

Deficit funding contributions of £1,142,455 (2021: £1,132,000) and expense contributions of £268,477 (2021: £266,000) were received as per the Schedule of Contributions. Deficit funding contributions are payable to 31 March 2025.

5 BENEFITS

| | 2022 | 2021 |
|---|--------------|-------|
| | £000 | £000 |
| Pensions | 4,252 | 4,334 |
| Commutations and lump sum retirement benefits | 131 | 217 |
| Death benefits | - | 16 |
| | 4,383 | 4,567 |

Notes to the financial statements for the year ended 31 March 2022 (continued)

6 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | 2022 | 2021 |
|---------------------------------------|-------------|------|
| | £000 | £000 |
| Individual transfers to other schemes | 184 | 505 |

7 ADMINISTRATIVE EXPENSES

| | 2022 | 2021 |
|-----------------------------------|-------------|------|
| | £000 | £000 |
| Administration and actuarial | 216 | 196 |
| Audit fee | 13 | 18 |
| Legal and other professional fees | 71 | 41 |
| PPF levy | 6 | 6 |
| | 306 | 261 |

8 INVESTMENT INCOME

| | 2022 | 2021 |
|----------------------------|--------------|-------|
| | £000 | £000 |
| Pooled investment vehicles | 1,098 | 1,405 |
| Annuity Income | 290 | 287 |
| Sundry income | 1 | - |
| | 1,389 | 1,692 |

9 TAX

The Mid Kent Group Pension Scheme is a registered pension scheme for tax purposes under the Finance Act 2004. The Scheme is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate.

Notes to the financial statements for the year ended 31 March 2022 (continued)

10 INVESTMENT ASSETS**10.1 Investment Assets Reconciliation**

The movements in investments during the year were:

| | <i>Opening value</i> | <i>Purchase cost</i> | <i>Sales proceeds</i> | <i>Change in market value</i> | <i>Closing value</i> |
|----------------------------|--------------------------|--------------------------|---------------------------|---------------------------------------|--------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Pooled investment vehicles | 121,074 | 215,219 | (217,442) | 1,929 | 120,780 |
| Insurance policy | 5,614 | - | - | (264) | 5,350 |
| Total | 126,688 | 215,219 | (217,442) | 1,665 | 126,130 |
| Tax recoverable | 4 | | | | - |
| Cash and accrued income | 26 | | | | - |
| | 126,718 | | | | 126,130 |

The change in the market value of investments during the year comprises all increases and decreases in the fair value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

Insurance Policy

The Just Group Plc insurance policy is allocated to the provision of pensions for certain members of the Scheme. Income received from this policy is treated as investment income and the corresponding expenditure is included in Benefits within the pension payment account. The buy in policy remains an asset of the Scheme and is valued by the Scheme Actuary at the year-end using an "actuarial value" approach. This approach places a value on the policy based on the present value of the underlying pension cashflows. The valuation has been prepared by the Scheme actuary on a technical provisions basis which is consistent with the valuation of the Scheme's liabilities.

The Scheme also holds an annuity contract with Standard Life with an estimated value of £43,000 which pays part of the pensions of some of the Scheme's pensioner members. In particular, this covers some of the pensions of members who transferred into the Scheme from the Mid Kent Water Company Pension and Life Assurance Scheme, as the policy was previously held by the Trustee of that Scheme, and was transferred to the Trustee of the Scheme as part of the transfer. It has not been included within investments as it is not deemed material to the Scheme.

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

Notes to the financial statements for the year ended 31 March 2022 (continued)

10 INVESTMENT ASSETS (continued)**10.2 Pooled Investment Vehicles (PIV)**

| | 2022 | 2021 |
|----------------------------------|----------------|-------------|
| | £000 | £000 |
| Global Equity | - | 11,477 |
| Absolute Return | - | 5,928 |
| Absolute Return Bonds | 28,096 | 51,971 |
| Investment Grade Corporate Bonds | 21,794 | - |
| Multi-Asset Credit | - | 8,937 |
| Asset Backed Securities | 12,843 | 2,647 |
| Gilts - LDI Funds | 57,473 | 37,324 |
| Liquidity | 574 | 2,790 |
| | 120,780 | 121,074 |

10.3 Concentration Of Investments

The following investments account for more than 5% of the Scheme's net assets as at 31 March 2022:

| | 2022 | | 2021 | |
|--|---------------|------------------------|-------------|------------------------|
| | £000 | % of net assets | £000 | % of net assets |
| Aegon Absolute Return Bond Fund | 24,161 | 19.2 | 34,885 | 27.6 |
| Legal & General Investment Grade Corporate Bond – Over 15 Year – Index Fund | 21,794 | 17.3 | - | - |
| Insight Global ABS Fund | 12,843 | 10.2 | - | - |
| LGIM 2035 Index-Linked Gilt Fund | 11,028 | 8.8 | - | - |

Notes to the financial statements for the year ended 31 March 2022 (continued)

10 INVESTMENT ASSETS (continued)**10.4 Investments Fair Value Hierarchy**

The fair value of financial instruments has been determined using the following fair value hierarchy:

- Level 1 The unadjusted quoted price in an active market for identical assets that the entity can access at the assessment date.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset, either directly or indirectly;
- Level 3 Inputs which are unobservable (i.e. for which market data is unavailable for the asset or liability).

The Scheme's invested assets have been fair valued using the above hierarchy categories as follows:

| As at 31 March 2022 | Level | Level | Level | |
|----------------------------|--------------|--------------|--------------|--------------|
| | 1 | 2 | 3 | Total |
| | £000 | £000 | £000 | £000 |
| Pooled investment vehicles | - | 120,780 | - | 120,780 |
| Insurance policy | - | - | 5,350 | 5,350 |
| Tax recoverable | - | - | - | - |
| Cash and accrued income | - | - | - | - |
| | - | 120,780 | 5,350 | 126,130 |

| As at 31 March 2021 | Level | Level | Level | |
|----------------------------|--------------|--------------|--------------|--------------|
| | 1 | 2 | 3 | Total |
| | £000 | £000 | £000 | £000 |
| Pooled investment vehicles | 17,655 | 103,419 | - | 121,074 |
| Insurance policy | - | - | 5,614 | 5,614 |
| Tax recoverable | 4 | - | - | 4 |
| Cash and accrued income | 26 | - | - | 26 |
| | 17,685 | 103,419 | 5,614 | 126,718 |

Notes to the financial statements for the year ended 31 March 2022 (continued)

10 INVESTMENT ASSETS (continued)**10.5 Investment Risks**

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). These changes may be caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to these risks via the investments held to implement the Scheme's investment strategy. The Trustee determines the investment strategy after taking advice from the investment adviser. The Trustee manages investment risks, including credit risk and market risk, considering the Scheme's investment objectives and the investment strategy and the advice of their investment advisers.

The Scheme invests in sterling denominated pooled investment vehicles (PIVs). The Scheme therefore has direct credit risk to the PIV and indirect credit and market risks arising from the underlying investments of the PIVs. The Trustee selects the PIVs based on the investment mandates and monitor the PIV at the fund level. The investment managers are responsible for managing the underlying credit and market risks within the PIVs.

The Scheme's investment strategy has been disclosed within the Trustee's report.

Further information on the Trustee's approach to risk management is set out below.

Direct Credit risk

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager.

All the pooled investment vehicles are unrated. Cash is held within financial institutions which are at least investment grade credit rated. Insurance policies are held with Just Group Plc. The Scheme has direct credit risk with Just Group Plc arising from these contracts.

Notes to the financial statements for the year ended 31 March 2022 (continued)

10 INVESTMENT ASSETS (continued)

10.5 Investment Risks (Continued)

Indirect credit and market risks

The table below summarises which PIVs have significant exposure to indirect credit and market risks.

| 2022 | | | | |
|---|-------------|-----------------------|--------------------|------------------|
| | Credit risk | Foreign exchange risk | Interest rate risk | Other price risk |
| Aegon Absolute Return Bond Fund | ✓ | ✓ | ✓ | ✓ |
| Insight Global ABS Fund | ✓ | ✓ | ✓ | - |
| Legal & General Investment Grade Corporate Bond – Over 15 Year – Index Fund | ✓ | - | ✓ | ✓ |
| Legal & General Investment Management LDI | ✓ | - | ✓ | ✓ |
| Legal & General Investment Management Sterling Liquidity Fund | ✓ | - | ✓ | - |
| M&G Alpha Opportunities Fund | ✓ | ✓ | ✓ | ✓ |
| 2021 | | | | |
| | Credit risk | Foreign exchange risk | Interest rate risk | Other price risk |

| | | | | |
|---|---|---|---|---|
| Aegon Absolute Return Bond Fund | ✓ | ✓ | ✓ | ✓ |
| Barings Global High Yield Credit Strategies Fund | ✓ | ✓ | ✓ | - |
| Invesco Global Targeted Returns Fund | ✓ | ✓ | ✓ | ✓ |
| Legal & General Investment Grade Corporate Bond – Over 15 Year – Index Fund | ✓ | - | ✓ | ✓ |
| Legal & General Investment Management LDI | ✓ | - | ✓ | ✓ |
| Legal & General Investment Management Sterling Liquidity Fund | ✓ | - | ✓ | - |
| Legal & General RAFI Fundamental Global Reduced Carbon Pathway 3.5% Index | - | ✓ | - | ✓ |
| M&G Alpha Opportunities Fund | ✓ | ✓ | ✓ | ✓ |

11. INVESTMENT MANAGEMENT EXPENSES

| | 2022 | 2021 |
|--|------|------|
| | £000 | £000 |
| Administration, management and custody | 252 | 258 |

Notes to the financial statements for the year ended 31 March 2022 (continued)

12. CURRENT ASSETS

| | 2022 | 2021 |
|--------------------------|-------------|------|
| | £000 | £000 |
| Contributions receivable | | |
| - Employer | | |
| Deficit contributions | 95 | 94 |
| Expense contributions | 23 | 22 |
| Cash balances | 136 | 193 |
| | 254 | 309 |

Contributions were paid in line with the Schedule of Contributions.

13. CURRENT LIABILITIES

| | 2022 | 2021 |
|------------------|-------------|------|
| | £000 | £000 |
| Unpaid benefits | 349 | 371 |
| Accrued expenses | 84 | 45 |
| | 433 | 416 |

14. RELATED PARTY TRANSACTIONS

Certain Trustee Directors in office during the financial year were members of the Scheme. The pension payments for the pensioner Trustee Directors are paid in accordance with the Scheme rules.

15. EMPLOYER RELATED INVESTMENTS

There were no employer related investments at 31 March 2022 (2021: none) or at any time during the year.

Notes to the financial statements for the year ended 31 March 2022 (continued)

16. GUARANTEED MINIMUM PENSION ('GMP')

As noted in the Trustee's Report on page 5, on 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The Trustee is aware that the issue will affect the Scheme and will be considering this at future meetings and decisions will be made as to the next steps. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. The impact on the Scheme is not expected to be material and has therefore not been recognised in the accounts.

In November 2020 a further judgement was passed down on the Lloyds Bank GMP equalisation case, requiring pension scheme trustees to investigate historic transfer payments since 17 May 1990 and check whether the payment would have been higher had the member's benefits been equalised for the effects of unequal male and female GMPs. In cases where payments would have been higher, trustees may have an obligation to make "top-up" payments. The Trustee will take advice on the matter as part of the larger project of implementing GMP equalisation, but the impact on the Scheme is not expected to be material and has therefore not been recognised in the accounts.

Section 6 – Independent Auditor's Statement about Contributions

Independent Auditor's Statement about Contributions to the Trustee of the Mid Kent Group Pension Scheme

We have examined the summary of contributions of the Mid Kent Group Pension Scheme payable in respect of the Scheme year ended 31 March 2022 to which this statement is attached.

In our opinion the contributions for the scheme year ended 31 March 2022 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects been paid at least in accordance with the schedules of contributions certified by the scheme actuary on 23 March 2018 and on 18 June 2021.

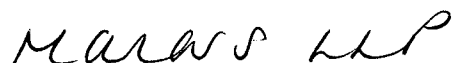
Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the schedule of contributions.

Respective responsibilities of trustee and auditor

As explained more fully in the statement of trustee's responsibilities, the scheme's trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the scheme by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a Statement about Contributions paid under the schedule of contributions and to report our opinion to you.



Mazars LLP
Chartered Accountants and Statutory Auditor
The Pinnacle
160 Midsummer Boulevard
Milton Keynes
MK9 1FF

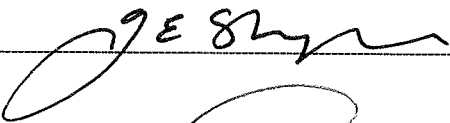
Date 12.10.2022

Summary of Contributions payable in the year


During the year, the contributions payable to the Scheme were as follows:

| | Employer £000 |
|--|--------------------------|
| Required by the schedule of contributions | |
| Deficit funding | 1,143 |
| Contributions to cover expenses | 268 |
| Total (as per Fund Account) | 1,411 |

Signed for and on behalf of the Trustee of the Mid Kent Group Pension Scheme by:



Trustee Director

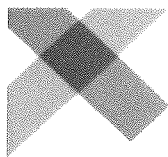


Trustee Director

12.10.2022

Date

Section 7 – Actuarial Certificate



Mid Kent Group Pension Scheme | Water Pension Trustee Ltd

Schedule of Contributions – Actuarial Certificate

Scheme: Mid Kent Group Pension Scheme

Adequacy of contributions

In my opinion, the contributions shown in this schedule are such that the statutory funding objective can be expected to continue to be met for the period for which the schedule is to be in force.

Consistency with statement of funding principles

In my opinion, this schedule of contributions is consistent with the statement of funding principles dated 18 June 2021.

Please note that the adequacy of contributions statement in this certificate relates to the Scheme's statutory funding objective. For the avoidance of doubt this certificate does not mean that the contributions shown in this schedule would be enough to secure the scheme's full liabilities with annuities if the Scheme were to wind up.

Signature

DocuSigned by:

D3135AEC8698467

Date

18 June 2021

Name

Shireen Anisuddin

Qualification

Fellow of the Institute and Faculty of Actuaries

Name of Employer

Hymans Robertson LLP

Address

One London Wall
London
EC2Y 5EA

This certificate is provided to meet the requirements of regulation 10(6) of The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

Section 8 – Implementation Statement

Mid Kent Group Pension Scheme - Implementation Statement

Statement of Compliance with the Mid Kent Group Pension Scheme's Stewardship Policy for the year ending 31 March 2022

Introduction

This is the Trustee's statement prepared in accordance with the requirements of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended). This statement sets out how the Trustee has complied with the Scheme's Stewardship Policy during the period from 1 April 2021 to 31 March 2022.

This Implementation Statement is in respect of the Scheme's SIP that was in place as of 31 March 2021. In order to reflect new regulatory requirements, the SIP was reviewed and signed by the Chair during the last Scheme year on 15 November 2021.

Stewardship policy

The Trustee's Stewardship (voting and engagement) Policy sets out how the Trustee will behave as an active owner of the Scheme's assets which includes the Trustee approach to;

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustee monitors and engages with its investment managers and any other stakeholders.

The Stewardship Policy is reviewed on an annual basis in line with the Scheme's Statement of Investment Principles (SIP) review which was last completed on 15 November 2021.

You can review the Scheme Stewardship Policy which can be found within the Scheme's Statement of Investment Principles, at www.sewpensionscheme.co.uk.

The Trustee has delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustee believes it is important that its investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues which affect a company's financial performance.

The Trustee's own engagement activity is focused on its dialogue with its investment managers which is undertaken in conjunction with their investment advisers. The Trustee meets regularly with its managers and the Trustee considers managers' exercise of their stewardship both during these meetings and through reporting provided by their investment adviser.

The Trustee also monitors its compliance with its Stewardship Policy on a regular basis and is satisfied that they have complied with the Scheme's Stewardship Policy over the last year.

Voting activity

The Trustee periodically reviews the fund managers approaches to stewardship including voting and engagement policies. Responsibility for investment decisions has been delegated to the investment managers. Where managers are responsible for investing in a 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 Trustee seeks to ensure that its managers are exercising voting rights and, where appropriate, to monitor managers' voting patterns. The Trustee also monitors investment managers voting on particular companies or issues that affect more than one company.

At Scheme year-end, The Trustee had no exposure to equities. The Trustee divested from the Legal & General RAFI Fundamental Global Reduced Carbon Pathway 3.5% Index Fund (divestment on 17 December 2021) and the Invesco Global Targeted Returns Fund (divestment on 6 August 2021) during the 12 month period to March 2022. Therefore, voting and engagement data have been included for the period covering 1 April 2021 to 6 August 2021 for the Invesco Global Targeted Returns Fund. LGIM were not able to provide data for period to divestment; therefore the voting and engagement data included in this paper include data covering the entire Scheme year.

Table 1: Legal & General voting data

| Legal & General RAFI Fundamental Global Reduced Carbon Pathway 3.5% Index Fund | |
|--|--|
| Proportion of Scheme assets as of 31 March 2022 | - |
| Did the manager employ the house voting policy in managing the fund? | Yes |
| Was use made of any proxy voting service during the year? | Yes – Institutional Shareholder Services (ISS) |
| No. of holdings in the fund at year-end | 2,370 |
| No. of meetings eligible to vote at during the year | 3,695 |
| No. of resolutions eligible to vote on during the year | 43,863 |
| % of resolutions voted | 99.7% |
| % of resolutions voted with management | 80.6% |
| % of resolutions voted against management | 18.6% |
| % of resolutions abstained | 0.8% |
| % of meetings with at least one vote against management | 72.1% |

Source: Legal & General Investment Management

Table 2: Invesco voting data

| Invesco Global Targeted Returns Fund | |
|--|-----------|
| Proportion of Scheme assets as of 31 March 2022 | - |
| Did the manager employ the house voting policy in managing the fund? | Yes |
| Was use made of any proxy voting service during the period? | Yes - ISS |
| No. of equity holdings in the fund as of end-month of disinvestment | 409 |
| No. of meetings eligible to vote at during the period | 253 |
| No. of resolutions eligible to vote on during the period | 4,155 |
| % of resolutions voted | 98.3% |
| % of resolutions voted with management | 91.6% |
| % of resolutions voted against management | 8.2% |
| % of resolutions abstained | 0.2% |
| % of meetings with at least one vote against management | 46.6% |

**The voting data covers the period 1 April 2021 to 6 August 2021 i.e., the date of disinvestment. Source: Invesco*

Significant votes

The Trustee has asked its managers to report on the most significant votes cast within the portfolios they manage on behalf of the Trustee. Managers were asked to explain the reasons why votes were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote. Based on the information provided by the managers, the most significant votes undertaken on behalf of the Trustee are outlined in tables 3 and 4 below.

Table 3: Legal & General significant votes

| Date | Company | Subject (theme and summary) | Manager's vote | Why considered significant |
|---------------|-----------------------|---|---|--|
| 27 April 2021 | Wells Fargo & Company | Resolution 7: Report on Racial Equity Audit | LGIM voted for the resolution (management recommendation: against). | LGIM views diversity as a financially material issue for their clients, with implications for the assets LGIM manage on their behalf. |
| 30 April 2021 | AT&T | Resolution 3 - Advisory Vote to Ratify Named Executive Officers' Compensation | LGIM voted against the resolution. | LGIM considers this vote to be significant as a majority of investors (51.7%) voted against the advisory resolution, sending a strong signal to management that its remuneration policy needs revision. The resolution did not meet LGIM's expectations of fair and balanced remuneration. |

| Date | Company | Subject (theme and summary) | Manager's vote | Why considered significant |
|--------------|--------------------------------------|--|--|--|
| 13 May 2021 | Intel Corporation | Resolution 5: Report on Global Median Gender/Racial Pay Gap | LGIM voted for the resolution (management recommendation: against). | LGIM views gender diversity as a financially material issue for their clients, with implications for the assets LGIM manage on their behalf. |
| 26 May 2021 | ExxonMobil | 1.1 Elect Director Gregory J. Goff 1.2 Elect Director Kaisa Hietala 1.3 Elect Director Alexander A. Karsner 1.4 Elect Director Anders Runevad 1.9 Management Nominee Kenneth C Frazier 1.12 Management Nominee Darren W. Woods 4 Require Independent Board Chair | LGIM supported resolutions 1.1 to 1.4; opposed resolutions 1.9 and 1.12; and supported resolution 4. | LGIM consider this vote to be significant as they took the rare step of publicly pre-declaring it before the shareholder meeting as part of their escalation strategy. In 2020, LGIM announced their opposition to the re-election of the company's chair/CEO. |
| 29 June 2021 | Mitsubishi UFJ Financial Group, Inc. | Resolution 3: Amend Articles to Disclose Plan Outlining Company's Business Strategy to Align Investments with Goals of Paris Agreement | LGIM voted for the resolution | LGIM views climate change as a financially material issue for their clients, with implications for the assets LGIM manage on their behalf. This was also a high-profile proposal in Japan, where climate-related shareholder proposals are still rare. |

| Date | Company | Subject (theme and summary) | Manager's vote | Why considered significant |
|------------------|-----------------------|--|------------------------------------|--|
| 22 July 2021 | Volkswagen AG | Resolution 3.1 to 4.21 - Approve Discharge of Management Board and Supervisory Board members | LGIM voted against the resolution. | LGIM considered this vote significant as a vote against the discharge of responsibility of both the management and supervisory boards is a rare step in LGIM's escalation policy. LGIM remain concerned regarding the handling of the diesel emissions scandal of 2015 by the management and supervisory boards and the overall governance structure of the company. |
| 30 November 2021 | Microsoft Corporation | Elect Director Satya Nadella | LGIM voted against the resolution. | LGIM considers this vote significant as it is a vote linked to an LGIM engagement campaign, in line with their Investment Stewardship team's five-year ESG priority engagement themes. LGIM expects companies to separate the roles of Chair and CEO. |

Source: Legal & General Investment Management

Table 4: Invesco significant votes

| Date | Company | Subject (theme and summary) | Manager's vote | Why considered significant |
|--------------|-------------------------|--|---|--|
| 6 April 2021 | Wolters Kluwer NV | Authorize Board to exclude pre-emptive rights from share issuances | Voted for the authorisation and in line with management recommendation. | Invesco have over 1% ownership and it included a key ESG proposal. Invesco consider this proposal in line with commonly used safeguards regarding volume and duration. |
| 6 April 2021 | Woodside Petroleum Ltd. | Approve the amendments to the company's constitution proposed by market forces | Voted against the amendments, in line with management recommendations. | Invesco have over 1% ownership and it included a key ESG proposal. Invesco considers the current engagement process provides valuable feedback to the company on its strategies and outlook. |

| Date | Company | Subject (theme and summary) | Manager's vote | Why considered significant |
|---------------|-----------------------------|--|---|---|
| 26 April 2021 | QBE Insurance Group Limited | Approve exposure reduction targets | Voted against the approval, in line with management recommendations. | Invesco have over 1% ownership and it included a key ESG proposal. Invesco states that the company currently provides disclosure and actions taken to limit exposure to greenhouse gas emissions. |
| 26 April 2021 | Barclays Plc | Approve market forces requisitioned resolution | Voted against the approval, in line with management recommendations. | Invesco have over 1% ownership and it included a key ESG proposal. Invesco considers that continued commitment to evolving its climate strategy over time is recognised as a sufficient and appropriate response to the matters raised in the resolution at this time. |
| 10 May 2021 | Legal & General Plc | Authorise Issue of Equity without Pre-emptive Rights in Connection with the Issue of Contingent Convertible Securities | Voted for the authorisation and in line with management recommendation. | Invesco have over 1% ownership and it included a key ESG proposal. Invesco stated the main reason for support are such authorities are common proposals at UK banks and are intended to apply in extreme circumstances only; and the conversion into ordinary shares would require the CET1 ratio to fall well beyond the Company's current position and minimum regulatory requirements. |

Source: Invesco

Engagement activity

The Trustee holds meetings with its investment managers on a regular basis where stewardship issues are discussed in further detail. Over the last 12 months, the Trustee has met with 2 of their 4 existing managers. The Trustee has discussed the following issues over the course of the year. The Trustee, on behalf of South East Water Pension Scheme, met with Barings on 7 February 2022. Since the Scheme's divestment occurred in December 2021, this meeting has not been included in Table 5.

Table 5: Trustee's engagement activity with investment managers over the year to 31 March 2022

| Date | Fund manager | Subject discussed | Outcome |
|------------------|--------------|--|---|
| 10 May 2021 | LGIM | <ul style="list-style-type: none"> • LGIM's market outlook and asset class views • Prospect of negative interest rates • LGIM's Responsible Investment and ESG policy • LGIM's Diversity & Inclusion policies | LGIM were asked to provide the factsheets for their ESG-tilted fund offerings once available. The ISC were unimpressed with LGIM's response on diversity and inclusion, and therefore pressed the manager on further details following the meeting. |
| 15 November 2021 | M&G | <ul style="list-style-type: none"> • Update on fixed income business • Diversity and Inclusion targets • Fund performance, attribution and outlook • Impact of interest rates on credit mandate • M&G's ESG due diligence process | The ISC were satisfied with M&G's presentation and noted their positive progress on ESG and Diversity & Inclusion. The ISC were comforted that M&G had shown evidence of sticking to their investment philosophy throughout periods of volatility. |

Summary of manager engagement activity

The following table summarises the key engagement activity for the 12-month period ending 31 March 2022 unless stated otherwise. Where fund specific data is not available, data on a firmwide level has been used.

Table 6: Summary of management activity

| Manager: Fund | Number of engagements | Topic engaged on |
|--|---|--|
| Barings: Global Higher Yield Credit Strategies Fund | No voting rights. 679 engagements with issuers within its fixed income investments for the 12 month period to 31 March 2022. | Emissions/Environmental Impact, Strategy & Approach, Transparency, Consumer/Society, Energy, Board, Labour, Product Lifecycle/Supply Chain, Natural Capital, Legal, Communities. |
| Legal & General RAFI Fundamental Global Reduced Carbon Pathway 3.5% Index Fund* and Investment Grade Corporate Bond >15 Year Index Fund. | In addition to the voting activity, there were 451 engagements with 284 companies. | Climate change, remuneration, climate impact pledge, board composition, public health. |

| Manager: Fund | Number of engagements | Topic engaged on |
|---------------------------------------|---|--|
| Insight: Global ABS Fund | No voting rights for the Fund. 50 engagements over the Scheme year; 861 at a firmwide level. | Climate change, natural resource use/impact, pollution, conduct, culture and ethics, human and labour rights, human capital management, inequality, board effectiveness, remuneration, shareholder rights, risk management |
| Aegon: Absolute Return Bonds Fund | No voting rights for the Fund. 21 engagements with issuers within the fund for the year to 31 December 2021. | Climate change (net zero commitment), anti-corruption, ESG disclosures, governance, social. |
| M&G: Alpha Opportunities Fund | No voting rights. 22 engagements across 20 issuers within the fund for the 12 month period to 31 March 2022. | Carbon targets, climate change, corporate governance, data disclosure, natural resource use/impact, pollution and waste, financial reporting, supply chain issues |
| Invesco: Global Targeted Return Fund* | 253 eligible meetings to vote at 4,155 eligible resolutions to vote on (voted 98.3%) over the period to disinvestment. | Climate change; natural resource use/impact; pollution and waste; human and labour rights; inequality; public health; board effectiveness; leadership; remuneration; shareholder rights; capital allocation; financial performance; risk management. |

**Please note that the LGIM were not able to provide voting data for the period to disinvestment, therefore the LGIM RAFI Fundamental Global Reduced Carbon Pathway 3.5% Index Fund voting figures shown cover the entire Scheme year. Invesco engagement figures are shown for the period to disinvestment, 6 August 2021. Source: Investment managers*

Review of policies

The Trustee has committed to reviewing the managers' RI policies on an annual basis. This last review was undertaken by the Trustee on 9 August 2021. The review considered managers broader approach to responsible investment issues in addition to considering any change in approach by the manager over the year. The Trustee also considered changes to their managers voting policies.

The Trustee and its advisors remain satisfied that the responsible investment policies of the managers and, where appropriate, the voting policies remain suitable for the Scheme. The next review of RI policies is scheduled to take place in August 2022.