The Freshwater Group Staff Retirement Benefits Plan

Statement of Investment Principles – September 2020

Introduction

The Trustee of the Freshwater Group Staff Retirement Benefits Plan (the "Plan") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. In preparing this Statement the Trustee has consulted the Freshwater Group of Companies (the "Employer") on the Trustee's investment principles.

This statement only covers the investment principles in respect of the Defined Benefit section of the Plan. At the time of writing the Defined Contribution section of the Plan was in the process of being wound up, with the underlying assets/liabilities being transferred to a MasterTrust arrangement.

Governance

The Trustee makes all major strategic decisions including, but not limited to, the Plan's asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives; and
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed.

When making such decisions, and when appropriate, the Trustee takes advice. The Trustee's investment consultants, Capita Employee Solutions, are qualified by their ability in, and practical experience of, financial matters, and have the appropriate knowledge and experience to provide such advice. Capita Employee Solutions is authorised under the Financial Services and Markets Act 2000 to provide regulated investment advice to the Trustee.

Investment Objectives

The Trustee is required to invest the Plan's assets in the best interests of members, and its main objectives with regard to investment policy are:

- To achieve, over the long term, a return on the Plan's assets which is sufficient (in conjunction with the Plan's existing assets, and contributions) to pay all members' benefits in full;

- To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due; and

- To consider the interests of the Employer in relation to the size and volatility of the Employer's contribution requirements.

The Trustee understands, following discussions with the Employer, that the Employer is willing to accept a degree of volatility in the triennial actuarial valuation outcomes in order to aim to reduce the long-term cost of providing the Plan's benefits.

Risk Management and Measurement

The Trustee is aware of, and pays close attention to, a range of risks inherent in investing the assets of the Plan and monitor investment performance on a quarterly basis. The Trustee believes that the investment strategy provides for adequate diversification, both within and across different asset classes. The Trustee further believes that the current investment strategy is appropriate given the Plan's liability profile. The Trustee's policy on risk management is as follows:

- The primary investment risk faced by the Plan arises as a result of a mismatch between the Plan's assets and its liabilities. The Trustee's principal focus in setting investment strategy is therefore providing returns as well as taking into account the nature and duration of the Plan's liabilities.

- The Trustee recognises that whilst increasing risk can potentially increase long-term returns, it can also increase the short-term volatility of the Plan's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation strategy in place results in an adequately diversified portfolio. Due to the size of the Plan's assets and recognising the need to diversify, investment exposure is obtained mainly via pooled vehicles.

- The documents governing the managers' appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan.

- The Trustee recognises that, where appropriate, the use of active management involves a risk that the assets do not achieve the expected return. However, it believes this risk can be outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is greater than others.

- The safe custody of the Plan's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Plan's circumstances, the Trustee will review whether the current risk profile remains appropriate.

Investment Strategy

Given its investment objectives the Trustee has agreed to the asset allocation detailed in the table below. The Trustee believes that the investment risk arising from the investment strategy is consistent with the overall investment objectives.

Asset class	Strategic asset allocation (%)
Active Equity	30.0
Passive Equity	30.0
Diversified Growth Funds (DGFs)	20.0
Total Growth Assets	**80.0**
Liability Driven Investment (LDI)	20.0
Total Matching Assets	**20.0**
Total	**100.0**

The Trustee will monitor the actual asset allocation and consider how cash flows will be invested or disinvested, and whether any rebalancing of the assets is required from time-to-time.

Further detail on the investment funds can be found in the Appendix.

Expected Return

The Trustee expects the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustee expects the Plan's assets to generate a return, over the long term, of circa 2.6% per annum, net of expenses, above a portfolio of long-dated UK Government bonds – which are considered to change in value in a similar way to the Plan's liability value. This return is a "best estimate" of future returns that has been arrived at given the Plan's current strategic asset allocation and in the light of advice from the investment consultant.

The Trustee recognises that, over the short term, actual performance may deviate significantly from this long-term expectation. This "best estimate" will also generally be higher than the assumption used for funding purposes for the actuarial valuation of the Plan's liabilities on the on-going technical provisions basis. For funding purposes, a prudent estimate of returns is used, as agreed by the Trustee on the basis of advice from the Scheme Actuary.

Investment Mandates

The Trustee has selected Rothschild & Co Wealth Management UK ("Rothschild"), BlackRock Investment Management (UK) Ltd ("BlackRock") and Schroder Investment Management Limited ('Schroders') as the appointed investment managers ('the Investment Managers') to manage the assets of the Plan. The Investment Managers are regulated under the Financial Services and Markets Act 2000. The Trustee has rolling contracts with its Investment Managers.

The Trustee monitors the performance of its Investment Managers on a regular basis. This monitoring is facilitated by reports produced by its Investment Managers.

The Trustee has set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

Investment Manager Remuneration

The Trustee monitors the remuneration and incentives, that are paid to its Investment Managers..

As part of the monitoring that the Trustee carries out on a regular basis, it looks to ensure that this policy is in line with its investment strategy.

Investment Manager Philosophy and Engagement

The Trustee monitors the Investment Managers' process for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond mainly accountancy measures. The Trustee considers if the Investment Managers are incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments being made. The Trustee is conscious of whether the Investment Managers are incentivised by the agreement with the Trustee to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

Investment Manager Portfolio Costs

The Trustee will monitor costs of buying, selling, lending and borrowing investments and it will look to monitor the costs breakdown annually, as long as the investment managers provide these costs using the Cost Transparency Initiative template. The Trustee will also ensure that, where appropriate, its Investment Managers monitor the frequency of transactions and portfolio turnover. If there are any targets then the Trustee will monitor compliance with these targets.

Environmental, Social and Governance ("ESG") Considerations

The Trustee believes that its main duty, reflected in its investment objectives, is to protect the financial interests of the Plan's members. The Trustee believes that ESG considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of its investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustee forms a view of the length of time that it considers is needed for the funding of future benefits by the investments of the Plan. The Trustee recognises that this is a DB scheme closed to future accrual with an ageing membership. Nevertheless, the Trustee believes that an appropriate time horizon for the Plan could still be over 10 years, which gives plenty of scope for ESG considerations to be have an impact on the Plan's finances.

The Trustee has elected to invest in pooled funds and it is difficult to, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which it invests (especially where assets are managed passively). However, the Trustee will consider the manager policies in all future selections and will deepen its understanding of its existing managers' policies by reviewing these from time to time. The Trustee will also seek to understand what other options might be available at its managers and in the wider market. In cases where the Trustee is dissatisfied with a managers' approach it will take this into account when reviewing them. The Trustee is also keen that all its managers are signatories of the UN Principles of Responsible Investment, which is currently the case.

The Trustee believes that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustee is keen that its managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. The Trustee will monitor the voting being carried out by Investment Managers and custodians on its behalf. The Trustee will do this by receiving reports from its Investment Managers which should include details of any significant votes cast and proxy services that have been used.

The Trustee is also keen that its equity and DGF managers are signatories of the UK Stewardship Code. This is currently the case.

The Trustee is aware that ESG and stewardship considerations involve an ongoing process of education for Trustee Directors, and engagement with its investment managers. To that end the Trustee will dedicate time to the discussion of this topic and intends to review and renew its approach periodically with the help of its investment consultants, where required. However, the Trustee meet formally relatively infrequently and, at the time of writing, are part way through the implementation of a new investment strategy – therefore the Trustee is unlikely to change their investment strategy for ESG reasons in the short term.

The Trustee will look to ensure that the Plan's Investment Managers have effective ESG policies (including the application of voting rights) in place.

Non-financial matters, including members' views, are currently not taken into account.

Compliance with Myners' Principles

The Trustee believes that it complies with the spirit of the Myners' Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustee believes this to be justified.

Employer-Related Investments

The Trustee's policy is not to hold any direct Employer -related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

Fee Structures

The Investment Managers are paid a management fee on the basis of assets under management. The investment consultant is paid on a fixed fee or time-cost basis - as agreed between the Trustee and Capita.

Review of this Statement

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed on behalf of the Trustee of the Freshwater Group Staff Retirement Benefits Plan by B S E Freshwater

Appendix – Summary of Investment Mandates

The Trustee has appointed the Investment Managers to manage the Plan's assets. The Investment Managers are regulated under the Financial Services and Markets Act 2000. Their mandates are set out below:

Asset class	Investment Manager	Fund	Strategic Asset Allocation(%)
Active Equity	Rothschild	New Court Equity Growth Fund	30.0
Passive Equity	BlackRock	Global Equity Index	30.0
Diversified Growth Fund (DGF)	Schroder	Intermediated Diversified Growth	20.0
Total Growth Assets			**80.0**
Liability Driven Investment (LDI)	Schroder	Matching Synthetic Gilt Fund Range	20.0
Total Matching Assets			**20.0**
Total			**100.00**