The Freshwater Group Staff Retirement Benefits Plan

Statement of Investment Principles – March 2024

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.

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 Pension Solutions Limited ("Capita"), are qualified by their ability in, and practical experience of, financial matters, and have the appropriate knowledge and experience to provide such advice. Capita 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. In practice the Trustee plans to achieve this by Buying-Out the Plan with an insurer in the medium term. This would involve purchasing a bulk annuity policy which matches the Plan's liabilities in full.

- To maintain a reasonable level of investment risk, which is supported by the Plan's time horizon and Employer covenant (which is the Employer's legal obligation and financial ability to support the Plan now and in the future);

- 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 funding position 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 monitors investment performance on an annual 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 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 Plan is relatively mature and so is cashflow negative i.e. benefit outgo vastly exceeds contribution income. To avoid being a forced seller of volatile assets at potentially depressed priced in order to meet benefit outgo, the Trustee has made an allocation to a cash-equivalent Sterling Liquidity Fund which is being drawn on.

- 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 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.

- Collateral management is crucial in respect of any leveraged investments. The Trustee has invested in the Schroders "standalone" operating model for leveraged Liability Driven Investments (LDI). This model utilises leveraged and unleveraged gilt funds within the LDI solution to help minimise leverage for any given level of hedging. Some cash-equivalents are held as part of the LDI solution to meet collateral calls. Where further capital is required to meet collateral calls, the portfolio is switched from unleveraged gilt funds to leveraged gilt funds in order to free up capital. The converse is true. In the unlikely event that collateral calls exceed the available capital within the LDI solution, collateral calls will be met from the Schroders Diversified Growth Fund.

- Environmental, Social and Governance (ESG) risks could have a material impact over the life of the Plan and the Trustee will look to manage these risks where proportionate to do so.

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 adopted the asset allocation detailed in the table below. The Trustee is going to further review its investment strategy in 2024.

Asset class	Initial target asset allocation (as at 15 September 2023) (%)
Active Equity	18.6
Passive Equity	20.5
Diversified Growth Funds (DGFs)	7.5
Total Growth Assets	**46.6**
Liability Driven Investment (LDI) and Cash-equivalents	53.4
Total Matching Assets	**53.4**
Total	**100.0**
Interest rate hedge ratio (% Low Dependency* liabilities)	90.0
Inflation hedge ratio (% Low Dependency* liabilities)	90.0

**Liability measure uses a discount rate of gilts+0.5% pa, market-consistent RPI inflation, CPI is assumed to be 1.0%/0.1% pa lower than RPI inflation pre/post 2030 and other assumptions are as per the 26 October 2022 Statement of Funding Principles.*

The Trustee plans to hold this asset allocation for the short to medium term to help generate investment returns to close any deficit on a Buy-out basis. Further de-risking out of Growth assets is expected in the short to medium term as part of preparing for a Buy-out.

From time-to-time, and at least annually, the Trustee will monitor the actual asset allocation and hedge ratios, and consider how cash flows will be invested or disinvested, and whether any rebalancing of the assets is required.

Further detail on the investment products utilised to fulfil the investment strategy 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% 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 based on advice from the Scheme Actuary.

Investment Mandates/Products

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

The Trustee monitors the performance of its Investment Products at least annually in the context of the agreed objectives for each mandate and its overall investment strategy. This monitoring is facilitated by reports produced by its Investment Managers.

Investment Manager Remuneration

The remuneration for the Investment Managers' services is in line with the overall investment strategy set out above. The Trustee's investment advisors have confirmed, as part of their initial product selection advice, that the Annual Management Charges levied by the investment managers are reasonable.

Investment Manager Philosophy and Engagement

Based on product selection advice from its investment advisors, the Trustee has selected products which have a clear investment objective, investment philosophy and investment parameters which align with the Trustee's investment strategy. One of the benefits of this is that it helps ensure that investment managers make decisions based on medium to long-term, financial and non-financial, performance of the business in which shares or corporate bonds are invested.

The Trustee has selected products which have a clear voting and engagement policy, which aligns with the Trustee's investment strategy and incentivises the asset manager to engage with the businesses in which shares or corporate bonds are invested. The Trustee reviews and monitors voting activity annually as part of the drafting of its Implementation Statement.

Investment Manager Portfolio Costs

The Trustee recognises that portfolio turnover is necessary in the successful management of the Plan's investments and that this results in costs of buying, selling, lending and borrowing investments. Based on product selection advice from its investment advisors, the Trustee has selected products which it understands to have a robust approach to portfolio management. Should the Trustee's regular monitoring of performance raise concerns then the Trustee will probe further. This may include requesting updated statistics from the investment manager regarding portfolio management costs and portfolio turnover (and reviewing the reasonableness of these).

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 views ESG issues as a long-term theme, whereas the Trustee plans to Buy-Out the Plan in the medium term, and so the Trustee takes a approach to ESG issues.

The Trustee believes that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. 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 managers' policies in all future selections and reviews and monitors voting activity annually as part of the drafting of its Implementation Statement.

The Trustee is keen that all its managers are signatories of the UN Principles of Responsible Investment, which is currently the case. The Trustee is also keen that its equity and DGF managers are signatories of the UK Stewardship Code. This is currently the case.

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.

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	Investment Product	Initial strategic asset allocation (as at 15 September 2023) (%)
Active Equity	Rothschild	New Court Equity Growth Fund	18.6
Passive Equity	BlackRock	Global Equity Index	20.5
Diversified Growth Fund (DGF)	Schroder	Diversified Growth	7.5
Total Growth Assets			**46.6**
Liability Driven Investment (LDI) and Cash-equivalents	Schroder	Matching Synthetic Gilt Fund Range, Matching Unleveraged Gilt Fund Range and Sterling Liquidity Plus	53.4
Total Matching Assets			53.4
Total			**100.00**