

# Northumbrian Water Pension Scheme

Annual Report and Financial Statements

31 December 2023

Scheme Registration number 10021317

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## Section 1 – Trustee and its Advisers

### The Trustee

Northumbrian Water Pension Trustees Limited

#### Company-nominated directors

I Barnabas

M Wilkinson

R Somerville

Vidett Trustee Services Limited (formerly known as 20-20 Trustee Services Limited) (Chair represented by N L'Estrange until 30 June 2024; D Willsher from 1 July 2024))

#### Secretary to the Trustee

#### Member-nominated directors

F Aujoux

C Green

T Hobb (resigned 30 January 2023)

P Thornberry

J Pengelly

Northumbrian Water Limited, Northumbria House  
Abbey Road, Pity Me, Durham, DH1 5FJ

### Advisers

The advisers to the Trustee are set out below:

#### Actuary

Gavin Hamill FIA of Towers Watson Limited

#### Auditor

Deloitte LLP

#### Legal Adviser

Sacker & Partners LLP

#### Administrator

Hymans Robertson LLP

#### Investment Adviser

Towers Watson Limited

#### Investment Managers

BlackRock Investment Management (UK) Limited (to 28 June 2023)

Legal & General Investment Management (to 1 August 2023)

Prudential Pension Limited

State Street Global Advisors Limited (to 19 July 2023)

Towers Watson Investment Management (Ireland) Limited

Virtus Investment Partners LP (to 17 July 2023)

Cardano Risk Management Limited

KPMG LLP

National Westminster Bank plc

Barclays Bank plc

Ernst & Young LLP

Northumbrian Water Limited

Pensions Manager, Northumbrian Water Limited,  
Northumbria House, Abbey Road, Pity Me, Durham, DH1  
5FJ

Email: [yourpension@nwl.co.uk](mailto:yourpension@nwl.co.uk)

#### Fiduciary Manager

#### Tax Advisor

#### Bankers

#### Employer Covenant Assessor

#### Principal Employer

#### Address for Queries

## Section 2 – Trustee Report

The Trustee of the Northumbrian Water 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 December 2023. The purpose of the report is to describe how the Scheme and its investments have been managed during the year.

### Management of the Scheme

#### Constitution of the Scheme

The Scheme was set up as a defined benefit trust scheme which is administered in accordance with Trust Deed and Rules.

Members of the Scheme comprise current and former directors and employees of Northumbrian Water Limited (NWL), Northumbrian Water Group Limited and Vehicle Lease & Service Limited.

In accordance with the provisions of Schedule 36 of the Finance Act 2004, the Scheme became a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 with effect from 5 April 2006. The Trustee knows of no reason why this status may be prejudiced or withdrawn.

The Scheme closed to future accrual on 31 May 2022.

#### Rule Changes

There were no major Rule changes in the year ended 31 December 2023..

#### The Principal Employer

The Principal Employer is Northumbrian Water Limited, Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ (Registered No. 02366703) hereafter known as “The Company”. The Company is vested with certain powers and duties such as the appointment of the Trustee.

The Company and Vehicle Lease & Service Limited participated in the Scheme during the year.

#### Trustee

The powers of appointment and removal of the Trustee and the directors of the Trustee are vested in the Principal Employer. These can be found in Clause 13 of the Trust Deed and Rules and Article 6 of the Trustee’s Articles of Association.

The Trustee has its own selection process for appointing member-nominated directors. The selection criteria for member-nominated directors with effect from 22 October 2019 are:

- Two are selected by active members of the Scheme, who are employed by northern businesses;
- One is selected by active members of the Scheme, who is employed by southern businesses; and
- One is selected by pensioner members who has previously been an active member.

**Trustee Report (continued)****Trustee (continued)**

A more detailed explanation of the selection procedure can be obtained from the Secretary to the Trustee.

The Trustee directors are named on page 1 of the Annual Report and Financial Statements.

The Trustee holds the assets of the Scheme on behalf of the members, pensioners and other beneficiaries in a trust fund ("the Fund") which is separate from the employers' assets. Acting impartially in the overall best interests of members, pensioners and other beneficiaries, its role is to administer the Scheme and manage the investments of the Fund in accordance with the Trust Deed and Rules and the law applicable to pension schemes.

During the period under review, the full Trustee Board met on 5 (2022:4) occasions to discuss and agree matters associated with the management of the Scheme.

**The Trustee Board**

The Trustee Board is comprised of eight directors. Four directors, including the Chair, are appointed by the Principal Employer, and four directors are nominated and selected by members.

The law requires the Trustee to ensure that arrangements are in place, and implemented, that provide for at least one-third of directors to be member-nominated. These directors must be nominated by at least the deferred members working for the Company and the pensioner members and selected by some or all of the members.

Member-nominated directors are normally appointed for a term of four years and may seek re-elections at the end of that term. Employer appointed directors have no specified term of office.

Trustee arrangements for the nomination and selection of member-nominated directors were last reviewed in April 2024.

The terms of office for some of the member-nominated directors have, with their agreement, been extended to Summer 2024 while a review of the selection arrangements is being carried out following the closure to accrual in May 2022.

**Trustee Report (continued)****Sub-Committees**

The Trustee Board has formed various sub-committees to which it has delegated specific responsibilities. Each sub-committee has its own terms of reference and annual business plans. The sub-committees are:

- Funding and Investment Sub-Committee (FISC)
- Member Engagement, Governance and Administration Sub-Committee (MEGASC)

Both Sub-Committees are provided with sufficient resources to undertake their duties and may seek advice from advisers.

The Sub-Committees have met on the following dates:

<b>Trustee Board</b>	<b>FISC</b>	<b>MEGASC</b>
29/03/23	10/01/23	18/01/23
28/06/23	07/02/23	22/02/23
26/09/23	04/04/23	15/03/23
27/10/23	13/06/23	19/04/23
20/12/23	04/07/23	17/05/23
	03/10/23	13/06/23
	07/11/23	18/07/23
		22/08/23
		13/09/23
		25/10/23
		15/11/23

The Sub-Committee meetings are not minuted but their outcomes are reported at the following Trustee board meetings (which are minuted).

The following Trustee Directors are members of the sub-committees:

**FISC**

D Willsher  
C Green  
M Wilkinson  
I Barnabas

**MEGASC**

D Willsher  
C Green  
M Wilkinson  
P Thornberry  
F Aujoux

The Sub-Committees also appoint smaller working groups to manage specific projects when necessary.

## Trustee Report (continued)

### Governance

The following summarises the Trustee's approach to the governance of the Scheme during 2023. The Trustee is fully aware of its duties and powers, principally arising from trust law or derived from the Trust Deed and Rules of the Scheme which set out the Trustee's powers and the procedures that it must follow. Some of the powers may be discretionary, some require the Principal Employer's agreement, and some may only be used if the Principal Employer asks the Trustee to do so.

The Trustee is responsible for the assessment and management of the key issues and risks impacting the Scheme. The Trustee has a formal schedule of meetings where it takes all major decisions affecting the Scheme and sets the Scheme's funding and investment strategies.

The Trustee has established a governance framework which encourages all directors to bring to bear independent judgment when discharging their duties and responsibilities. Directors are aware of their right to ensure that any unresolved concerns they have about the running of the Scheme, or a proposed action which cannot be resolved, are recorded in the Board minutes.

Over 2023 the Trustee moved the Scheme's assets to be managed by Cardano Risk Management Limited, with investment strategy advice being the responsibility of the Scheme's strategic advisor, WTW.

### Information, Support and Advice

The Chair is responsible for ensuring that directors receive information on a regular basis to enable them to perform their duties properly, supported by the Secretary to the Trustee.

Board papers are generally distributed five working days in advance of scheduled Board meetings to enable directors to obtain a thorough understanding of the matters to be discussed and seek clarification if required. All directors have access to the advice and services of the Secretary to the Trustee.

Directors have access, normally through the Secretary to the Trustee, to independent professional advice at the Scheme's expense, where they deem it necessary to discharge their responsibilities as directors.

### Induction and Training

The law requires directors to have knowledge and understanding of the law relating to pensions as well as the principles relating to the funding of pension schemes and the investment of scheme assets. The law also requires directors to be familiar with certain key documents. New directors must acquire the appropriate knowledge and understanding within six months of being appointed.

The directors receive regular training on key issues from advisers at Board and sub-committee meetings and receive regular technical updates. All directors are required to complete the Pensions Regulator's e-learning programme within six months of appointment and complete new/revised modules as soon as possible after their release.

**Trustee Report (continued)****Conflicts of Interest**

The Trustee is aware of its responsibilities towards beneficiaries, the requirement to exercise independent judgment, and to be perceived as doing so. A conflict of interest may arise when a director is required to make a decision where he is obliged to act in the best interests of beneficiaries but at the same time may have a personal interest or a duty towards a different beneficiary.

The Pensions Regulator recommends that trustees have a policy for identifying, monitoring and managing conflicts of interest. In addition, directors have a duty under the Companies Act 2006 to avoid a situation in which they can have a conflict of interest with the Trustee's interests.

The Trustee has a conflicts of interest policy, and a register of interests, maintained by the Secretary to the Trustee, to help identify, monitor and manage conflicts of interest. The policy was last reviewed in November 2019. Directors also record conflicts of interest at each meeting which are not already captured on the register of interests.

**Review of Advisers**

The Trustee conducts an informal assessment of its key advisers and administrator each year.

Cardano Risk Management Limited was appointed as Fiduciary Manager with effect from 16 May 2023.



**Trustee Report (continued)****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 on page 23 shows that the net assets of the Scheme increased from £793,719k at 31 December 2022 to £891,885k at 31 December 2023. The increase in net assets is accounted for by:

	2023	2022
	£000	£000
Member related income	113,643	31,015
Member related payments	(50,108)	(55,538)
<b>Net additions/(withdrawals) withdrawals from dealings with members</b>	<b>63,535</b>	<b>(24,523)</b>
Net returns/(loss) on investments	34,631	(421,631)
<b>Net increase/(decrease) in fund</b>	<b>98,166</b>	<b>(446,154)</b>
Net assets at start of year	793,719	1,239,873
<b>Net assets at end of year</b>	<b>891,885</b>	<b>793,719</b>

**Pension Increases**

During the year ended 31 December 2023 pensions were increased as follows:

1. Pensions in excess of the guaranteed minimum pension were increased by:

- 2.5% - for CARE pension accrued from 1 January 2016.
- 5.0% - for non-CARE pensions in the Water Pension Section and Executive Section.
- 10.1% - for pre-2008 non-CARE pensions in the Mirror Image Section, Northumbrian Water Section and 80<sup>th</sup> Section.
- 5.0% - for post-2008 non-CARE pensions in the Mirror Image Section, Northumbrian Water Section and 80<sup>th</sup> Section.

2. Post-1988 guaranteed minimum pensions were increased by 3%.

3. Increases were applied from 1 April 2023 for all sections with the exception of the Mirror Image Section where increases were applied from 11 April.

4. The increase is to be prorated for pensioners whose pensions commenced part way through the year.

No discretionary increases were awarded by the Principal Employer or VLS.

Preserved benefits were increased in accordance with statutory requirements.

## Trustee Report (continued)

### Transfer Values

Transfer values paid (CETVs) (“cash equivalents” within the meaning of Chapter 1 of Part 4ZA of the Pension Schemes Act 1993), and service credited given for transfers received, have been calculated in accordance with the Occupational Pension Scheme (Transfer Value) regulations 1996 (as amended), made under Section 97 of the Pension Scheme Act 1993.

The actuarial assumptions and methodology used for CETVs comply with the regulations published by the Department of Work and Pensions in 2008 as amended.

No discretionary benefits have been included in the calculation of transfer values.

### General Data Protection Regulation (GDPR)

GDPR is a regulation by the European Parliament intended to strengthen and unify data protection for all individuals within the EU. It also addresses the export of personal data outside of the EU. GDPR came into force from 25 May 2018 and the Trustee worked with its advisers to formulate its GDPR policy so that it was compliant.

From 1 January 2021, the UK GDPR came into effect which will run alongside the DPA 2018, and the EU GDPR to which all EU nations remain subject. This ensures that adequate provisions are in place for the safe processing of data in the UK and in the EU/EEA. The obligations under the UK GDPR are fundamentally the same as obligations under the EU GDPR and the Scheme continues to remain subject to UK Data Protection laws.

### Schedule of Contributions

As required by the Pensions Act 1995, the Trustee has agreed a Schedule of Contributions with the Principal Employer, certified by the Actuary. The Schedule of Contributions sets out the rates of employer and member contributions and also the dates by which the contributions will be paid to Scheme. The latest Schedule of Contributions was certified by the Actuary on 31 October 2023.

### Additional Voluntary Contributions (AVC)

Until 31 May 2019 members could pay AVCs to the Scheme on a money-purchase basis. Some historical AVC arrangements remained after that date until 31 May 2022 whereby a small number of members could continue to purchase additional pensionable service.

### Actuarial Position

The latest actuarial valuation of the Scheme was carried out as at 31 December 2022.

The actuarial valuation of the Scheme as at 31 December 2022 revealed a funding shortfall (technical provisions minus value of assets) of £181.5 million (2019: £225.2 million) which is 81.5% (2019: 82.6%).

### Trustee Report (continued)

#### Actuarial Position (continued)

In October 2023 the Trustee acquired an interest in a Pension Funding Partnership (PFP) arrangement. The principal asset of the PFP is a loan note which will provide payments of £7.5 million p.a. to the Scheme, payable monthly with effect from 1 November 2023 to 31 October 2038. These payments, which include an allowance of £1.5 million p.a. for expenses, will increase annually in line with the percentage increase in RPI, with the first such increase being applied from 1 January 2025. The percentage increase in RPI shall apply from each 1 January and it will be the percentage increase in RPI over the 12 months to the preceding September (14 months to the preceding September in the case of the first increase).

In determining the shortfall contributions and PFP payments that are due, allowance has also been made for future outperformance from the Scheme's assets.

The contributions are subject to review at the Scheme's next valuation, due no later than 31 December 2025, or sooner as the Trustee and Principal Employer may agree.

The payments from the PFP will be contingent on the funding position of the Scheme on the technical provisions basis as at each 31 December. The payments will be made if there is a technical provisions deficit as at the previous 31 December, but will cease for a twelve month period if there is a technical provisions surplus. The position will be assessed each year and the asset value that is used in determining if there is a deficit or surplus will exclude the value of any future PFP payments.

#### Period in which the statutory funding objective should be met

The funding shortfall is expected to be eliminated by 31 October 2038. This expectation is based on the following assumptions:

- The technical provisions will be calculated according to the method and assumptions set out in the statement of funding principles dated October 2023;
- A return on existing assets, new contributions and PFP payments that is 0.85% pa above the discount rate underlying the technical provisions until 31 December 2027, reducing linearly to 0.55% p.a. by 31 October 2038.

The Schedule of Contributions signed 31 December 2023 shows the contributions payable by the Employers which is set out as follows.

#### Deficit Contributions

The 31 December 2022 actuarial valuation showed that the Scheme had a funding deficit relative to its statutory funding objective. Employers shall therefore pay the following deficit reduction contributions

- £23.8 million pa, payable monthly with effect from 1 January 2023 to 31 March 2023; plus
- £27.1 million pa, payable monthly with effect from 1 April 2023 to 31 October 2023.

The Employers' contributions do not include an allowance for any additional strain on the Scheme arising from augmented early retirements or ill-health retirements, which are payable directly by the Employers in addition to the contributions shown in this schedule.

The Employers' may also pay such other amounts from time to time as decided by the Principal Employer on the advice of the Actuary as required from time to time under the Scheme's Trust Deed and Rules.

**Trustee Report (continued)****Actuarial Position (continued)****Employers' Contributions for Expenses, Levies and Fees**

Contributions of £2.0 million pa to cover expenses, payable monthly with effect from 1 January 2023 to 31 October 2023

These contributions are expected to cover the following:

- any levies that are payable to the Pension Protection Fund or The Pensions Regulator
- such pension scheme levies as are payable by the Employers or the Trustee under the terms of the Pension Schemes Act 1993 and the Pensions Act 2004
- any fees falling due to the Scheme administrator, investment manager or other professional advisors
- other expenses of the Trustee that are reasonably incurred in the course of it performing its duties as Trustee.

## Scheme Membership

The reconciliation of the Scheme membership during the year ended 31 December 2023 is shown below:

Pensioner Members (including spouses and dependants)	
<b>As at 1 January 2023</b>	<b>3,170</b>
Adjustments for late notifications	4
Deferred pensions into payment	125
Deaths/no longer eligible/suspension	(126)
New beneficiaries	48
<b>Pensioner Members as at 31 December 2023</b>	<b>3,221</b>

Deferred Pensioner Members	
<b>As at 1 January 2023</b>	<b>1,922</b>
Adjustments for late notifications	9
Pensions into payment	(125)
Transfers	(15)
Deaths	(1)
Full commutations	(1)
<b>Deferred Pensioner Members as at 31 December 2023</b>	<b>1,789</b>

Total Membership	
<b>Total Membership as at 1 January 2023</b>	<b>5,092</b>
<b>Total Membership as at 31 December 2023</b>	<b>5,010</b>

## Trustee Report (continued)

# Investment Policy

### Overview

The Trustee, with the assistance of its appointed investment adviser, determines the overall investment strategy for the Scheme and sets out the broad policy to be adopted by each of the appointed fund managers.

### Investment Managers

The Trustee, with the assistance of its appointed investment adviser, determines the overall investment strategy for the Scheme and sets out the broad policy to be adopted by each of the appointed fund managers.

During 2023, the Trustee appointed Cardano Risk Management Limited (Cardano) as Outsourced Chief Investment Officer (OCIO). Cardano are responsible for the design and implementation of the Scheme's strategic asset allocation, investment portfolio and risk management in line with the Scheme's return target and journey plan.

The day-to-day management of the Scheme's investments has been delegated by the Trustee to investment managers as agreed by Cardano in its role as OCIO.

The managers' duties include the consideration of social, environmental or ethical issues in the selection, retention and realisation of investments as well as voting and corporate governance in relation to the Scheme's assets. The Trustee has considered the voting activity undertaken by the Scheme's investment managers on behalf of the Scheme as part of preparing its Implementation Statement. Finally, the Trustee, in light of its sustainable investment beliefs and regulatory obligations, has also undertaken training on climate risks, and will begin reporting in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations from 2023 as per below.

### Task Force on Climate-Related Financial Disclosures (TCFD) Reporting

The TCFD has developed a framework to help public companies and other organisations disclose climate-related risks and opportunities. Similar requirements have been incorporated into the regulatory framework for pension schemes entitled "Climate Change and Reporting Regulations 2021" (applying to schemes with net assets over £1bn from 1 October 2022). This required the Trustee to put in place relevant climate governance and reporting processes and to produce a TCFD report. The Trustee's first TCFD report (which does not form part of this annual report) has been published on the Scheme's website:

<https://www.nwgpensions.co.uk/globalassets/pensions-pdfs/climate-related-financial-disclosure-report---year-ended-31-december-2022.pdf>

### Statement of Investment Principles (SIP)

In accordance with Section 35 of the Pensions Act 1995, the Trustee has prepared a SIP which includes the Trustee's policy relating to ethical investment and the exercise of the rights attaching to investments. Any member may request a copy. This Statement may change from time to time according to advice received from the investment managers or advisers, and any Scheme member can request a copy from the Secretary to the Trustee online at: <https://www.nwgpensions.co.uk/globalassets/pensions-pdfs/nwps-sip-july-2023---clean.pdf>

## Trustee Report (continued)

### Introduction

The Scheme has engaged Cardano to choose the managers in the Scheme's portfolio, who, in turn, have day to day responsibility for the management of the Scheme's assets in the manager funds. In addition, Cardano manages an overlay portfolio, the investment grade credit funds, the sustainable equity fund, and the Liability Driven Investments ("LDI") portfolio.

The Scheme holds cash in the Trustee bank account for the purpose of paying benefits and expenses.

### Asset Allocation

The allocation of assets held by the Scheme at 31 December 2023 was as follows:

Sub-portfolio	31 December 2023 Permitted range	31 December 2023 Assets (%)
Equity	0 – 30%	14.5
Invest Grade Credit	0 – 40%	14.6
Active Managers	0 – 20%	7.0
Overlay	0 – 20%	0.3
Alternative Credit	0 – 20%	3.8
Secure Income*	n/a	10.7
Property*	n/a	1.3
Diversifying Strategies*	n/a	5.7
LDI	30 – 70%	40.6
Cash	n/a	1.5
<b>Total</b>		<b>100.0</b>

\* Legacy funds

The 'Actual Scheme' breakdown only includes invested assets which form part of the Scheme's strategic asset allocation i.e. excludes the insurance policy of £44K and the PFP of £92,100K..

As part of this transition to the OCIO manager, investment manager arrangements were terminated (with the exception of managers where a redemption was not possible, the 'legacy funds'), and proceeds were invested in external manager funds and other investments by the OCIO manager. The Scheme's assets, with exception of the legacy funds, are held in a bespoke fund (the Cardano Solution Fund 29), in which the Scheme is the sole investor.

There is an investment management agreement in place with the OCIO manager, setting out the terms on which the assets are managed and the investment guidelines and restrictions under which the investment manager works.

**Trustee Report (continued)**

**Performance and Markets Update**

2023 has been a mixed year for global markets. The first quarter of 2023 was strong for most markets, although there was significant volatility. Equity and global bond markets delivered positive returns, despite the collapse of Silicon Valley Bank, which caused significant volatility in bank shares.

Going into Q2 2023, investors were pricing in a US recession and thought the Federal Reserve could soon be cutting rates. By the end of the quarter, inflation remained sticky, and major Central banks continued to increase interest rates over the quarter, signalling rates were going to be kept higher for longer. As a result, Equity markets delivered mixed returns, with the US returning +8.7%, Eurozone returning +4.3% and the UK falling slightly returning -0.3%. UK, US and German government bond yields rose over the quarter this led to a fall in global bond values.

After strong gains for shares in the first half of 2023, global equities and government bonds delivered negative return in the third quarter. There was uncertainty over the future path for economic growth as central banks tried to negotiate a “soft landing” for their economies. Equity markets continued to be mixed, however generally suffered. The US delivering a negative return of -3.3%, the Eurozone also struggled returning -4.8% and the UK outperformed returned +2.2%. Both the US Federal Reserve and the European Central Bank raised rates over the quarter. This fed into an increase in yields, and a fall in the value.

The final quarter of 2023 was strong across the board. Despite a challenging start in October, markets turned a corner and gained in November and December primarily due to news that inflation had slowed. This reinforced market expectations that the Federal Reserve Board (“Fed”), Bank of England (“BoE”) and European Central Bank (“ECB”) have finished their rate hiking cycle and will move towards rate cuts in 2024. Government bond yields fell sharply given the perceived shift in monetary policy direction – from a ‘higher-for-longer’ narrative to prospective rate cuts. As a result, both equity and bond markets rallied.

During the second half of 2023, the Scheme’s assets were transitioned to a newly agreed strategic asset allocation and investments recommended by Cardano.

The performance start date for the OCIO arrangement was 1 October 2023. In the 4<sup>th</sup> quarter of 2023, the Scheme overall achieved a return of 11.7%, compared to the liability benchmark return of 9.8% (in this context, the “Scheme” refers to the invested assets with the OCIO manager).

The final quarter of 2023 was strong across most major asset classes which benefited the Scheme’s performance. Whilst in October, global markets struggled given a rise in government bond yields, markets turned a corner in November and December following news that inflation had slowed.

The longer term performance of the portfolio to the end of December 2023 is below.

	<b>Scheme</b>	<b>Benchmark</b>
<b>1yr</b>	3.5%	2.2%
<b>3yr</b>	-9.8%	-12.4%
<b>5yr</b>	-1.4%	-4.1%

## Trustee Report (continued)

### Environmental, Social and Ethical (ESG) Considerations

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers (within certain guidelines and restrictions). The Trustee's policy is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the active investment managers.

Whilst it is the Trustee's preference that all companies should be run in a socially responsible way, they take the view that their primary responsibility is to act in the best financial interests of the members. The Trustee does not currently take non-financial factors into account.

The Trustee recognises that financially material environmental, social and governance considerations (including climate change) (ESG Factors) can impact the risks and opportunities associated with the Scheme's assets over the relevant time horizon for the Trustee. The Trustee has also developed a set of sustainable investment beliefs in reflection that it deems these matters to be important to how the Scheme is managed.

The Trustee's assets are held in a range of pooled investment products as well as bespoke LDI and overlay portfolios. In choosing the investment managers to manage the assets, ESG considerations were taken into account. The Trustee monitors the stewardship activities of these managers in recognition that an asset manager's voting and engagement practices have the ability to drive better long-term outcomes for portfolio companies and ultimately the Scheme's members. The Trustee reports on manager stewardship activities through the implementation statement.

Where the Trustee does expect ESG Factors to be reflected in portfolios, the Trustee monitors this and how well its managers are integrating ESG through its annual sustainable investments review. The last review was carried out in September 2022, whereby the Trustee evaluated any change in the manager's approach, whether the strategy was aligned with the Trustee's sustainable investment beliefs and also the carbon metrics of the Scheme's portfolio.

The Trustee has a specific belief on climate change as a financial risk to the Scheme and from 2023 will begin reporting on the carbon emissions of the Scheme's portfolio as well as other metrics, as part of DWP climate regulation. The Trustee has undertaken training in this area and has developed an action plan for complying with the regulations.

### Exercise of Voting Rights

The Trustee recognises that when investing in pooled funds, they have no rights attaching to the underlying investments. The Trustee's policy is that the exercising of rights (including voting rights) attaching to investments will be the responsibility of the pooled fund Investment Manager. However, where appropriate, the Trustee will retain responsibility for the rights attaching to pooled fund units, which are exercised by the Trustee in the best financial interests of the Scheme. The Trustee expects managers to report regularly on votes cast and other relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings.



## Trustee Report (continued)

### Custodial Arrangements

#### Cardano Solution Fund 29 (CSF 29)

All investments in CSF 29 are registered in the pooled fund's name. The Scheme is the sole investor in this fund. The custodian for the fund is State Street Custodial Services (Ireland) Limited.

#### Prudential Pensions Limited (Property)

All the assets within the funds that Prudential Pensions Ltd (PPL) operates are owned by PPL, an insurance company, and are registered to that name. A sister company M&G Investment Management Limited (MAGIM), undertakes the investment management of the assets of the insurance company and this function is regulated by an investment management agreement between the two companies.

#### Willis Towers Watson Investment Management

BNY Mellon Trust Company (Ireland) Limited DAC acts as custodian for the Diversifying Strategies Fund. Northern Trust Fiduciary Services (Ireland) Limited acts as custodian for the Secure Income Fund.

### Employer Related Investments

The Occupational Pension Schemes (Investment) Regulations 2005 (as amended) do not permit employer-related investments to exceed 5% of the current market value of the Scheme's resources at any time.

"Employer-related investments" include investments in Northumbrian Water Group Limited, its subsidiaries and associated companies.

The Scheme has no direct employer-related investments. It holds indirect holdings via pooled funds. The Scheme has no control over the underlying investments.

### Valuation of Annuity Policies

The Scheme currently holds annuity policies with Prudential. The insurance policies held with Prudential are in respect of Southend Waterworks (1957) Pension Scheme and The Southend Waterworks Company Pension & Life Assurance Scheme.

## Trustee Report (continued)

# Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102), 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 that 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 the Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial 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 preparing 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 them 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 for the maintenance and integrity of the corporate and financial information included on the Scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Trustee Responsibilities in Respect of Contributions

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 by or on behalf of the employer 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 received in respect of the Scheme 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 of Contributions occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

## Trustee Report (continued)

# 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 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 address on page 1 of this report.

### 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 on page 1 of this report.

### The Money and Pensions Service (MaPS)

This service is available at any time to assist members and beneficiaries with pensions questions and issues they have been unable to resolve with the Trustee of the Scheme. MaPS has launched MoneyHelper, which brings together the Money Advice Service, The Pensions Advisory Service and Pension Wise to create a single place to get help with money and pension choices. MoneyHelper is impartial, backed by the government and free to use.

The Money and Pensions Service  
Holborn Centre  
120 Holborn  
London  
EC1N 2TD  
Tel: 0800 011 3797  
[www.moneyhelper.org.uk](http://www.moneyhelper.org.uk)

### The Pensions Ombudsman

Members have the right to refer a 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 event(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](mailto:enquiries@pensions-ombudsman.org.uk)  
[www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

Members can also submit a complaint form online:  
[www.pensions-ombudsman.org.uk/making-complaint](http://www.pensions-ombudsman.org.uk/making-complaint)

**Trustee Report (continued)**

**The Pensions Regulator (TPR)**

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  
Telecom House  
125 - 135 Preston Road  
Brighton  
BN1 6AF

[www.thepensionsregulator.gov.uk](http://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 services are as follows:

The Pension Service  
Post Handling Site A  
Wolverhampton  
WV98 1AF

[www.gov.uk/find-pension-contact-details](http://www.gov.uk/find-pension-contact-details)

**Approval of the Report by the Trustee**

The Report on Actuarial Liabilities on pages 45 to 46 and Implementation Statement on pages 47 to 65 included in this annual report and financial statements forms part of the Trustee report.

Signed for and on behalf of the Trustee of the Northumbrian Water Pension Scheme by:



Duncan Willsher

Director



Chris Green

Director

30-Jul-2024 | 14:48 BST

Date

## Section 3 – Independent Auditor’s Report

### Report on the audit of the financial statements of the Northumbrian Water Pension Scheme

#### Opinion

In our opinion the financial statements of Northumbrian Water Pension Scheme (the ‘Scheme’):

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2023 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”; 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, made under the Pensions Act 1995.

We have audited the financial statements which comprise:

- the fund account;
- the statement of net assets (available for benefits); and
- the related notes 1 to 21.

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

#### 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 Financial Reporting Council’s (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.

## Independent Auditor's Report (continued)

### Other information

The other information comprises the information included in the annual 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 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 Trustee

As explained more fully in the Trustee's responsibilities statement, 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 liquidate the Scheme or to cease operations, 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 these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Extent to which the audit was considered capable of detecting irregularities, including fraud

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

We considered the nature of the Scheme's industry and its control environment, and reviewed the Scheme's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities, including those that are specific to the Scheme's business sector.

**Independent Auditor's Report (continued)****Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)**

We obtained an understanding of the legal and regulatory framework that the Scheme operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and the Occupational and Personal Pension Schemes (Disclosures of Information) Regulations 2013; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Scheme's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the misappropriation of investment assets due to the significant size of investment transactions and balances. In response our procedures to respond to the risk identified included the following:

- obtaining an understanding of relevant controls over the existence of investment holdings and transactions;
- agreeing investment holdings to independent third party confirmations; and
- agreeing investment and cash reconciliations to independent evidence and bank statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing correspondence with the Pensions Regulator.

**Independent Auditor's Report (continued)****Use of our report**

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement 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 Scheme's 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's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

*Deloitte LLP*

**Deloitte LLP**

Statutory Auditor

Reading

Date: 30-Jul-2024 | 15:46 BST



## Section 4 – Financial Statements

### Fund Account for year ended 31 December 2023

	<b>Note</b>	<b>Total 2023 £000</b>	<b>Total 2022 £000</b>
<b>CONTRIBUTIONS AND BENEFITS</b>			
Contributions – employer	4	113,478	29,865
- employee	4	-	1,148
		<b>113,478</b>	<b>31,013</b>
Other Income	5	165	2
		<b>113,643</b>	<b>31,015</b>
Benefits paid or payable	6	(43,164)	(39,810)
Payments to and on account of leavers	7	(4,225)	(13,703)
Administrative expenses	8	(2,719)	(2,025)
		<b>(50,108)</b>	<b>(55,538)</b>
<b>Net additions/(withdrawals) from dealings with members</b>		<b>63,535</b>	<b>(24,523)</b>
<b>RETURNS ON INVESTMENTS</b>			
Investment income	10	4,837	6,521
Change in market value of investments	12	29,936	(427,321)
Investment management expenses	11	(142)	(831)
<b>Net returns/(loss) on investments</b>		<b>34,631</b>	<b>(421,631)</b>
<b>Net increase/(decrease) in the fund during the year</b>		<b>98,166</b>	<b>(446,154)</b>
<b>Net assets of the fund at the start of the year</b>		<b>793,719</b>	1,239,873
<b>Net assets of the fund at the end of the year</b>		<b>891,885</b>	<b>793,719</b>

The notes on pages 25 to 41 form part of these financial statements.

**Financial Statements (continued)**  
**Statement of Net Assets (available for benefits) as at 31 December 2023**

	<i>Note</i>	<b>2023</b> £000	2022 £000
<b>Investment assets</b>	12		
Pooled investment vehicles		<b>800,871</b>	794,217
Insurance policies		<b>44</b>	43
Pension Funding Partnership		<b>92,100</b>	-
Cash deposits		-	1
Other investment balances		-	2,018
<b>Total net investments</b>		<b>893,015</b>	796,279
<b>Current assets</b>	14	<b>4,373</b>	5,027
<b>Current liabilities</b>	15	<b>(5,503)</b>	(7,587)
<b>Net assets of the Scheme at the end of the year</b>		<b>891,885</b>	793,719

The notes on pages 25 to 41 form part of these financial statements.

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 takes into account such obligations, is dealt with in the Actuary’s certificate in Section 8 and in the Report on Actuarial Liabilities in Section 9 of these financial statements and should be read in conjunction therewith.

Signed for and on behalf of the Trustee of the Northumbrian Water Pension Scheme by:



Duncan Willsher

Director



Chris Green

Director

30-Jul-2024 | 14:48 BST

Date

## Section 5 – Notes to the Financial Statements

### Notes to the financial statements for the year ended 31 December 2023

#### 1 BASIS OF PREPARATION

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

#### 2 IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is Northumbrian Water Pension Trustees Limited, Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ.

#### 3 ACCOUNTING POLICIES

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

##### 3.1 Contributions

Employer contributions are accounted for on an accruals basis at the rates agreed between the Trustee and the employer based on the recommendations of the Actuary and the Schedule of Contributions.

Employer special or additional contributions are accounted for in accordance with the employment contracts and flexible benefit arrangements under which they are being paid.

Employer deficit funding and Augmentation contributions are accounted for on an accruals basis and in line with the agreement between the Employer and Trustee.

##### 3.2 Benefits paid or payable

Benefits are accounted for on the later of the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken, and the date of retiring or leaving. If there is no member choice, on the date of retiring, leaving or notification of death. Pensions in payment are accounted for in the period to which they relate.

##### 3.3 Payments to and on account of leavers

Individual transfers in or out are accounted for when paid or received which is normally when member liability is accepted or discharged which is normally when the transfer amount is paid or received.

##### 3.4 Administrative and investment management expenses

Administrative and investment management expenses are accounted for on an accruals basis net of irrecoverable VAT.

**Notes to the financial statements for the year ended 31 December 2023 (continued)****3 ACCOUNTING POLICIES (continued)****3.5 Investment Income**

Income from pooled investment vehicles which distribute income is accounted for on an accruals basis on the date stock is declared ex dividend. Investment income from M&G is paid to the Trustee bank account.

Income from cash deposits is also accounted for on an accruals basis.

Receipts from annuity policies are accounted for as investment income on an accruals basis.

Receipts from the PFP are accounted for as investment income on an accruals basis.

**3.6 Other Income**

Other income has been accounted for on a cash received basis, except for the settlement interest which has been accrued.

**3.7 Investments**

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

Investments are included at fair value as described below.

Pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager;

The investment in the insurance policies is stated at its current value as advised by the insurance company. These policies are valued every year on a surrender value basis.

The Trustee's interest as a Limited Partner in the Scottish Limited Partnership (PFP) is valued at the discounted net present value of future contractual partnership distribution rights. The valuation and discount rate applied were determined by an independent adviser taking into account the specific risks associated with the distribution stream and, in particular, the legal structure and marketability of the asset and the risk of non-payment.

**3.8 Presentation Currency**

The Scheme's functional and presentation currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end.

Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

**Notes to the financial statements for the year ended 31 December 2023 (continued)****4 CONTRIBUTIONS**

	<b>Total 2023</b>	Total 2022
	<b>£000</b>	£000
<b>Employer:</b>		
Normal	-	5,765
Employer salary sacrifice contributions	-	157
Deficit contributions	<b>21,777</b>	22,850
Special contributions	<b>89,400</b>	-
Employer's expense contributions	<b>1,667</b>	1,000
Other contributions	<b>425</b>	-
Augmentation contributions	<b>209</b>	93
	<b>113,478</b>	29,865
<b>Employee:</b>		
Normal	-	1,148
	<b>113,478</b>	31,013

Under the latest Schedule of Contributions dated 31 October 2023, the following deficit contributions were payable to the Scheme for 2023:

- £23.8 million p.a., payable monthly with effect from 1 January 2023 to 31 March 2023; plus
- £27.1 million p.a., payable monthly with effect from 1 April 2023 to 31 October 2023.

Additional contributions of £2.0 million p.a. were payable monthly with effect from 1 January 2023 to 31 October 2023 to cover fees and levies.

A special contribution was received for the initial purchase of the Pension Funding Partnership (PFP) (see note 12.4).

The previous Schedule of Contributions dated 24 March 2021, required deficit contributions to the value of £22.8 million p.a. which were payable to the Scheme for 2022, with additional contributions of £1 million p.a.

**Notes to the financial statements for the year ended 31 December 2023 (continued)****5 OTHER INCOME**

	<b>Total 2023</b>	Total 2022
	<b>£000</b>	£000
Transfer calculation fees	3	2
Settlement interest	162	-
	<u>165</u>	<u>2</u>

**6 BENEFITS PAID OR PAYABLE**

	<b>Total 2023</b>	Total 2022
	<b>£000</b>	£000
Pensions	36,616	34,722
Commutations and lump sum retirement benefits	8,237	4,877
Lump sum death benefits	11	79
GMP Equalisation provision release*	(1,700)	-
Taxation where lifetime or annual allowance exceeded	-	132
	<u>43,164</u>	<u>39,810</u>

\*An accrual for GMP Equalisation has been released following a revised estimate

**7 PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

	<b>Total 2023</b>	Total 2022
	<b>£000</b>	£000
Pension Sharing on divorce	290	-
Individual transfers to other schemes	3,935	13,703
	<u>4,225</u>	<u>13,703</u>

**Notes to the financial statements for the year ended 31 December 2023 (continued)****8 ADMINISTRATIVE EXPENSES**

	<b>Total 2023</b>	Total 2022
	<b>£000</b>	£000
Administration and processing	490	346
Actuarial fees	663	419
Audit Fee	24	19
Investment consultancy fees	170	163
Legal and other professional fees	845	490
PPF Levy	333	450
Other fees and expenses	194	138
	<u>2,719</u>	<u>2,025</u>

The other fees and expenditure comprises: Trustee fees and expenses of £146,966 (2022: £106,932) and other fees of £47,368 (2022: £30,609). All other administrative expenditure is met by the Employers.

**9 TAX**

The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

**10 INVESTMENT INCOME**

	<b>Total 2023</b>	Total 2022
	<b>£000</b>	£000
Interest on cash deposits	233	4
Income from pooled investment vehicles	2,684	6,380
Annuities received	29	18
Other investment income	641	119
Pension Funding Partnership Interest	1,250	-
	<u>4,837</u>	<u>6,521</u>

**Notes to the financial statements for the year ended 31 December 2023 (continued)****11 INVESTMENT MANAGEMENT EXPENSES**

	<b>Total 2023</b>	Total 2022
	<b>£000</b>	£000
Administration, management and custody	<b>203</b>	959
Investment management fee rebates	<b>(61)</b>	(128)
	<b>142</b>	831

**12 INVESTMENTS****12.1 INVESTMENT RECONCILIATION**

	<i>Opening value</i>	<i>Purchase cost</i>	<i>Sales proceeds</i>	<i>Change in market value</i>	<i>Closing value</i>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Pooled investment vehicles	794,217	887,433	(908,014)	27,235	<b>800,871</b>
Pension Funding Partnership	-	89,400		2,700	<b>92,100</b>
Insurance policies	43	-		1	<b>44</b>
	794,260	976,833	(908,014)	29,936	<b>893,015</b>
Cash deposits	1				-
Other investment balances	2,018				-
Total net investments	796,279				<b>893,015</b>

Other investment balances represented accrued investment income at the year-end.

The pooled investment vehicles are held under policies in the name of the Trustee. The companies managing the pooled investment vehicles are registered in the UK.

Within the Pooled investment vehicles transactions above, there are switches totalling £280,282,242 (2022: £981,699,664). The switches are a result of movements within the Legal and General LDI Fund.

**Transaction Costs**

The Trustee monitors transaction costs on a regular basis, and this is a factor considered in both the selection and retentions of the Scheme's investment managers. In addition to this, the Markets in Financial Instruments Directive regulations require the production of a transparent breakdown of all fees and costs attributable to the Scheme's investment management and advisory services incurred during a given year, and this is provided annually by the Scheme's investment advisor.

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investment within pooled investment vehicles and charges made within those vehicles.



**Notes to the financial statements for the year ended 31 December 2023 (continued)**

**12 INVESTMENTS (continued)**

**12.2 POOLED INVESTMENT VEHICLES (PIV)**

The holdings of PIVs are analysed below.

	<b>2023</b>	2022
	<b>£000</b>	£000
Equity funds	-	166,834
Bonds	<b>83,986</b>	513,593
Property funds	<b>10,452</b>	14,131
Diversifying strategies	<b>46,113</b>	99,659
Common Contractual Fund	<b>660,320</b>	-
	<b>800,871</b>	794,217

Cardano is the sole investor in the Common Contractual Fund. The assets underlying this PIV are:

	<b>2023</b>	2022
	<b>£000</b>	£000
Equity	<b>149,602</b>	-
Credit	<b>30,904</b>	-
Multi-Strategy	<b>14,808</b>	-
Macro Orientated	<b>10,599</b>	-
Cash	<b>11,255</b>	-
Cashflow	<b>117,421</b>	-
LDI	<b>325,731</b>	-
	<b>660,320</b>	-

The assets can be further analysed:

	<b>2023</b>	2022
	<b>£000</b>	£000
Bond Funds	<b>148,324</b>	-
Diversifying Strategies	<b>22,948</b>	-
Equity Funds	<b>149,871</b>	-
Money Market	<b>3,583</b>	-
Derivatives	<b>26,113</b>	-
Bonds	<b>280,330</b>	-
Cash deposits	<b>29,151</b>	-
	<b>660,320</b>	-

**Notes to the financial statements for the year ended 31 December 2023 (continued)**

**12 INVESTMENTS (continued)**

**12.3 INSURANCE POLICIES**

Insurance policies are held to cover pensions in payment in respect of certain members. These policies are specifically allocated to the provision of benefits for those members. These policies provide for the level of benefits payable on retirement (excluding pension increases). The Scheme meets the cost of providing pension increases for those members. Accordingly, the acquisition costs of such policies were treated in the Fund Account for the year in which they arose as the cost of discharging the obligations of the Scheme to the relevant members at the time of purchase.

The Trustee has three insurance policies with Prudential Assurance Company Limited. These are paid up policies for which no further premiums are payable. The total of their values are as follows:

	<b>2023</b>	2022
	<b>£000</b>	£000
Prudential Assurance Company Limited	<b>44</b>	43

A substantial amount of rectification work has been undertaken in terms of the Prudential insurance policies. In particular the Trustee commissioned a detailed tracing exercise to identify the number of individuals with unclaimed benefits who have been confirmed as deceased. Further work is continuing to establish whether there will be any payment to the Scheme from Prudential in relation to deceased members.

**12.4 PENSION FUNDING PARTNERSHIP**

The Pension Funding Partnership (PFP) is the Scheme’s interest in a Scottish Limited Partnership (SLP) which is funded via a 15 year loan note issued by Northumbrian Water Limited. Its fair value represents the present value of amounts due to the Scheme until 31 October 2038.

The Scheme receives a regular monthly income under the Partnership agreement. This is currently £625,000 per month (£7.5 million a year) and it will be increased each year in line with RPI. The payments will continue until 31 October 2038 although they can cease if the Scheme’s assets (excluding the value of the PFP) exceed its liabilities on a Technical Provisions basis.

The Trustee commissions WTW to perform a valuation for the statutory financial statements purposes of its interest in the SLP. The valuation, which uses fair value principles, is based on the present value of expected annual receipts under the agreement, using a full yield curve approach. It uses a stochastic, risk neutral, model to project forward the Scheme assets and liabilities through to 2038 in order to place a present value on the future expected income stream.

**Notes to the financial statements for the year ended 31 December 2023 (continued)**

**12 INVESTMENTS (continued)**

**12.4 PENSION FUNDING PARTNERSHIP (continued)**

The key assumptions used in the fair value of the Scheme’s interest in the SLP at 31 December 2023 are:

<b>Scheme funding level:</b>	85%
<b>Key Technical Provisions:</b>	Discount rate of gilts plus 0.25% p.a.
<b>Deficit Repair Payments:</b>	None
<b>Risk Premium in excess of gilts:</b>	1.49% p.a.
<b>Investment Strategy:</b>	Target of gilts plus 1.5% pa until 31 December 2027 reducing to gilts plus 1% p.a. by 31 October 2038

The Trustee has obtained legal advice which confirms that this investment does not constitute an Employer related investment.

**12.5 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 or liabilities which the entity can access at the assessment dates.
Level 2	Inputs other than quoted prices included within Level 1 which are observable (i.e. developed for the asset or liability, 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 investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

<b>As at 31 December 2023</b>	Level 1 £000	Level 2 £000	Level 3 £000	<b>Total £000</b>
Pooled investment vehicles	-	706,433	94,438	<b>800,871</b>
Insurance policies	-	-	44	<b>44</b>
Pension Funding Partnership	-	-	92,100	<b>92,100</b>
	-	706,433	186,582	<b>893,015</b>

As at 31 December 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Pooled investment vehicles	-	685,235	108,982	794,217
Insurance policies	-	-	43	43
Cash deposits	1	-	-	1
Other investment balances	2,018	-	-	2,018
	2,019	685,235	109,025	796,279

## Notes to the financial statements for the year ended 31 December 2023 (continued)

### 12 INVESTMENTS (continued)

#### 12.6 CONCENTRATION OF INVESTMENTS

No single investment, other than the following pooled investment vehicles, represents more than 5% of the total value of the overall assets of the Scheme.

	2023	2022
	%	%
Common Contractual Fund	74.0	-
Pension Funding Partnership	10.3	-
WTW Secure Income Fund	9.4	12.0
WTW Diversifying Strategy	5.2	12.6
BlackRock Aquila Life Currency Hedged World Fund	-	11.5
BlackRock Aquila Life Currency World Equity Fund	-	5.5

### 13 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), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives.

These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

**Notes to the financial statements for the year ended 31 December 2023 (continued)**

**13 INVESTMENT RISKS (continued)**

The following table summarises the extent to which the various classes of investments are affected by financial risks:

		<u>Market Risk</u>			2023	2022
	Credit Risk	Currency	Rate	Other price	£000	£000
Pooled investment vehicles:					467,568	794,217
Direct	■	■	■	■		
Indirect	■	■	■	■		
Bonds	■	□	■	□	280,330	
Derivatives	■	■	■	■	26,113	
Cash deposits and other net investment assets	■	□	■	□	29,151	2,019
<b>Total investments</b>					<b>803,162</b>	<b>796,236</b>

In the above table, the risk noted affects the asset class [■] significantly, [▣] partially or [□] hardly/not at all.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

Insurance policies were valued as £44K (2022: £43K) as at 31 December 2023.

Please note that all AVCs have been transferred out of the Scheme.

**Investment Strategy**

The investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the trust deed and rules as they fall due.

The Trustee sets the investment strategy taking into account considerations such as the strength of the employer covenant, the long term liabilities and the funding agreed with the Employer. The investment strategy is set out in its Statement of Investment Principles (SIP).

The current asset allocation strategy is to hold:

a. 68.7% in liability matching assets, consisting of a target allocation of 41.1% in Liability Driven Investment (LDI), 12.8% in Secure Income Assets (SIAs) and 14.8% in Investment Grade Credit Funds. The Scheme's bespoke LDI mandate comprises of UK Government Bonds (Gilts), Index-Linked Gilts and derivatives aimed at achieving exposure to Government Bonds. The purpose of these assets is to hedge against the impact of interest rate and inflation movements on long term liability values. The Scheme's allocation to LDI hedges 100% of the interest rate and 100% of the inflation risk.

b. 31.3% in return seeking investments comprising UK and overseas equities, active specialist external managers, alternative credit and diversifying strategies.

**Notes to the financial statements for the year ended 31 December 2023 (continued)****13 INVESTMENT RISKS (continued)****Credit Risk**

The Scheme is subject to credit risk because the Scheme directly invests in bonds and has cash balances. The Scheme also invests in pooled investment vehicles and a PFP arrangement, and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and the PFP. The Scheme is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

**Investments exposed to credit risk:**

	<b>2023</b>	2022
	<b>£000</b>	£000
<b>Pooled investment vehicles</b>	<b>467,568</b>	794,217
Bond funds (direct and indirect risk)	238,185	418,742
Other funds (direct risk and indirect risk)	229,383	375,475
<b>Insurance policies</b>	<b>44</b>	43
<b>Pension Funding Partnership (PFP)</b>	<b>92,100</b>	-
	<b>559,712</b>	794,260

The Scheme's holdings in pooled investment vehicles are unrated. 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.

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles. At the year end the total value of underlying investments subject to credit risk was £238,184K (2022: £418,700K) as advised by the pooled managers. This risk is mitigated by the pooled managers investing in at least investment grade credit rated investments or by diversifying the underlying investments.

Derivatives may be used within some of the Scheme's pooled fund holdings, but these are not held directly by the Scheme. The credit risk arising from these underlying derivatives is managed by the fund managers through diversification of counterparties and minimum credit ratings of counterparties.

Cash is held within financial institutions which are at least investment grade credit rated. The information about exposures to and mitigation of credit risk above applied at both the current and previous year end.

**Notes to the financial statements for the year ended 31 December 2023 (continued)****13 INVESTMENT RISKS (continued)****Credit Risk (continued)**

A summary of pooled investment vehicles by type of arrangement is as follows:

	<b>2023</b>	2022
	<b>£000</b>	£000
Unit Linked Insurance Contracts	<b>10,452</b>	554,888
Authorised Unit Trusts	-	23,030
Open ended investment companies	<b>126,238</b>	121,449
Société d'Investissement à Capital Variable (SICAV)	<b>6,034</b>	-
Irish Collective Asset Management Vehicle (ICAV)	<b>4,297</b>	-
Other (Sub fund of a common contractual fund)	<b>320,547</b>	94,850
	<b><u>467,568</u></b>	<u>794,217</u>

As a result of a decline in the Scheme's corporate bond and LDI holdings in particular over the year, the Scheme has seen a material decline in its asset valuation and specifically, the market value of its holdings held in Unit Linked Insurance Contract funds.

**Notes to the financial statements for the year ended 31 December 2023 (continued)**

**13 INVESTMENT RISKS (continued)**

**Currency Risk**

The Scheme is subject to currency risk because some of the Scheme’s investments are held in overseas markets via pooled investment vehicles.

The Scheme’s total net unhedged exposure by major currency at the year end was as follows:

	2023	2022
	Total exposure	Total exposure
<b>Currency</b>	£000	£000
Pounds sterling (GBP)*	784,027	715,570
Euro (EUR)	2,130	5,438
US Dollars (USD)	14,511	33,929
Japanese Yen (JPY)	-	3,689
Other Currencies	2,494	39,064
<b>Total</b>	<b>803,162</b>	<b>797,690</b>
Unhedged foreign currency exposure	<b>2.4%</b>	<b>10.3%</b>

\* includes Trustee bank account and cash balances at the Scheme custodian

**Interest Rate Risk**

The Scheme is subject to interest rate risk because some of the Scheme’s investments are held in bonds, interest rate swaps, inflation swaps and bond total return swaps, held in the Cardano Solution Fund 29 (as part of the LDI strategy), the Secure Income Fund and Investment Grade Credit Funds, as well as cash and the PFP which are all affected by changes in interest rates. Similarly, the Scheme’s liabilities are sensitive to movements in interest rates (if interest rates fall, the value of the Scheme’s liabilities will increase). Under the LDI strategy, if interest rates fall, the value of LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will actuarial liabilities because of an increase in the discount rate. At the year end the liability matching assets represented 55.2% (2022: 45.2%) of the total investment portfolio.

The Scheme’s LDI investments are used to manage the Scheme’s total level of interest rate risk, and the allocation to the LDI portfolio is monitored against its benchmark to ensure this does not fall below acceptable levels.



**Notes to the financial statements for the year ended 31 December 2023 (continued)****13 INVESTMENT RISKS (continued)****Other Price Risk**

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes equities and other assets held in pooled vehicles. The Scheme has set a target asset allocation of 33.5% of investments being held in return seeking investments, as well as 10% held in Secure Income Assets (which have both return-seeking and liability matching characteristics). At the year end the return seeking assets (plus secure income assets) represented 44.8% (2022: 49.8%) of the total investment portfolio.

The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets. The Scheme's actual asset allocation is monitored against the strategic asset allocation (the weighting of investment to each asset class which has been agreed as the desired level for the Scheme) in order to ensure this does not drift over time, and the portfolio remains appropriately diversified to mitigate other price risk. The Scheme's progress versus its journey plan is also monitored, along with the VaR95 of the portfolio (the minimum value which would be lost by the Scheme in a one-in-twenty market event), and the distribution of this risk broken down into equity risk, interest rate risk etc.

**14 CURRENT ASSETS**

	<b>Total 2023</b>	Total 2022
	<b>£000</b>	£000
Cash	<b>2,294</b>	3,473
Augmentations due	<b>302</b>	93
VAT Recoverable	<b>2</b>	-
Prepaid pensioner payroll	<b>1,483</b>	1,323
Prepaid PPF Levy	<b>56</b>	138
Other debtors	<b>236</b>	-
	<b>4,373</b>	5,027

Within cash is an amount of £nil (2022: £153K) which relates to the final Trustee reserve received from Fidelity after the group transfer of all DC members to the Employer's new master trust arrangement.

Augmentations due relate to Augmentations for ill health and severance for a number of members

**Notes to the financial statements for the year ended 31 December 2023 (continued)****15 CURRENT LIABILITIES**

	<b>Total 2023</b>	Total 2022
	<b>£000</b>	£000
Amounts due to employers	<b>809</b>	1,231
GMP Equalisation	<b>3,800</b>	5,500
Benefits payable	<b>360</b>	419
PAYE – Due to HMRC	<b>534</b>	437
	<b>5,503</b>	7,587

The amount due to employers relates to fees and expenses paid by the Principal Employer and then recharged to the Scheme in the normal course of the year.

The Trustee has obtained an estimate of the backdated benefits and related interest which relate to equalisation of Scheme benefits in respect of unequal GMP's of £3,800K (2022: £5,500K). This estimate is based on the Trustee's view of the most likely equalisation methodology to be adopted and has not been paid. This has been recognised as an accrual and therefore remains a current liability in the Scheme's statutory financial statements for the year ended 31 December 2023.

The benefits payable relate to lump sums payable to members after the year end.

**16 RELATED PARTY TRANSACTIONS**

Northumbrian Water Limited is the Scheme's Principal Employer and as such a related party of the Scheme.

There were four Trustee Directors who contributed to the Scheme in the prior year. Contributions for the Trustee Directors were paid in accordance with the Scheme Rules.

One Trustee Director is in receipt of a pension from the Scheme.

**17 EMPLOYER RELATED INVESTMENTS**

Towers Watson Investment Management (TWIM) Diversifying Strategies Fund (DSF) noted that many of the underlying managers the Fund invests in do not hold direct positions in individual securities. TWIM Secured Income Fund (SIF) acknowledged that underlying holdings are predominately made up of real estate, infrastructure and debt investments in the UK, and were confident there would be insignificant exposure to employer related investments.

Other than noted above and the outstanding contributions due to the Scheme at the year end 31 December 2023, the Scheme has no other direct employer related investments.

**Notes to the financial statements for the year ended 31 December 2023 (continued)****18 SUBSEQUENT EVENTS**

There were no subsequent events as at 31 December 2023 (2022: £nil).

**19 GMP EQUALISATION**

In October 2018, the High Court ruled that pension schemes are required to equalise benefits between men and women for the effect of Guaranteed Minimum Pensions (GMP) which were accrued on or after 17 May 1990.

The High Court has since determined that trustees owed a duty to a transferring member to make a transfer payment which reflected the members' right to equalised benefits. Where the initial transfer payment was inadequate on this basis the Trustee is under an obligation to make a top-up payment to the receiving scheme on behalf of the transferred member.

The Trustee of the Scheme is aware that the issue will affect the Scheme and is receiving Actuarial and Legal advice in order to implement the judgment. Under the ruling on 26 October 2018 schemes are required to (1) make backdated benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts and (2) correct future benefit payments. The Trustee has obtained an estimate of £3,800K (2022: £5,500K) in respect of the expected cost of making both of these adjustments. This estimate is based on the Trustee's view of the most likely equalisation methodology to be adopted. This was recognised as a liability in the Scheme's statutory financial statements since the year ended 31 December 2020 and remains a liability as at 31 December 2023. No estimate has yet been provided for the potential cost of having to equalise past transfer payments.

**20 CONTINGENT LIABILITY**

The Trustee, alongside its legal advisors, has identified some areas where the way in which the Scheme is to be administered is unclear. The Trustee is currently at an early stage in a process of seeking to clarify the position, and as at the date of signing, it is not possible to say whether the conclusion of those investigations will result in a further liability for the Scheme as the Principal Employer of the Scheme, Northumbrian Water Limited, would ultimately fund any further liabilities.

As at the date of signing, whilst it is possible that the issues being investigated might result in a cash outflow for the Scheme, both the likelihood of there being an issue and the potential amount of any further liabilities and/or cash outflow cannot currently be reliably estimated as the outcome of the clarification process is uncertain at present, therefore it is impractical to disclose an estimate of its financial effect or the timing at which the investigation will conclude.

**21 VIRGIN MEDIA CASE**

The Virgin Media Ltd v NTL Pension Trustees II decision, handed down by the High Court on 16 June 2023, considered the implications of section 37 of the Pension Schemes Act 1993. As matters stand, the case has the potential to have a significant impact on the pensions industry. The Trustee will keep this issue under review. It is not possible at present to estimate the potential impact, if any, on the Scheme.

## Section 6 – Independent Auditors' Statement about Contributions

We have examined the Summary of Contributions to the Northumbrian Water Pension Scheme for the Scheme year ended 31 December 2023. This can be found on page 43.

### Opinion

In our opinion contributions for the Scheme year ended 31 December 2023 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid from 1 January 2023 to 31 October 2023 at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 24 March 2021 and subsequently at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 31 October 2023.

### Scope of work on the 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 Schedules 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 Schedules of Contributions.

### Respective responsibilities of Trustee and Auditors

As explained more fully in the statement of Trustee Responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary, revising a Schedule of Contributions that is prepared, maintained and from time to time revised and for monitoring whether contributions are made to the Scheme and by the Employer in accordance with the Schedules of Contributions.

It is our responsibility to provide a statement about Contributions paid under the Schedules of Contributions and to report our opinion to you.

### Use of our report

This statement is made solely to the Trustee, as a body, in accordance with Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts, and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our 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 statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body for our work, for this statement, or for the opinion we have formed.

*Deloitte LLP*

**Deloitte LLP**  
Statutory Auditors  
Reading  
United Kingdom

Date: 30-Jul-2024 | 15:46 BST

## Section 7 – Summary of Contributions

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer contributions payable to the Scheme under the Schedules of Contributions certified by the Actuary on 24 March 2021 and 31 October 2023 in respect of the Scheme year ended 31 December 2023. The Scheme auditor reports on these contributions payable under the Schedules in the Auditors’ Statement about Contributions.

### Summary of Contributions payable under the Schedule in respect of the Scheme year ended 31 December 2023

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

	Employer
	£000
<b>Required by the Schedules of Contributions</b>	
Deficit contributions	21,777
Employer’s expense contributions	1,667
Other contributions	425
Augmentation contributions	209
<b>Total amount required by the Schedules of Contributions</b>	<b>24,078</b>
<b>Other contributions payable</b>	
Special contributions	89,400
<b>Total (as per Fund Account)</b>	<b>113,478</b>

Signed for and on behalf of the Trustee of the Northumbrian Water Pension Scheme by:



Duncan Willsher

Director



Chris Green

Director

30-Jul-2024 | 14:48 BST

Date

## Section 8 – Actuarial Statement & Certificate

### **Actuary's certification of the schedule of contributions**

**Name of the pension scheme:** Northumbrian Water Pension Scheme

### **Adequacy of contributions**

I hereby certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2022 to be met by the end of the period specified in the recovery plan dated 31 October 2023.

### **Adherence to statement of funding principles**

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 31 October 2023.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to wind up.

DocuSigned by:  
*Gavin Hamill*  
E531803E840E40F

**Gavin Hamill**  
**Fellow of the Institute and Faculty of Actuaries**

**Date:** 31 October 2023

**Towers Watson Limited (a WTW Company)**  
**5 Wellington Place**  
**Wellington Street**  
**Leeds**  
**LS1 4AP**

## Section 9 – Report on Actuarial Liabilities (Forming part of the Trustee Report)

Under Section 222 of the Pensions Act 2004, every scheme is subject to the 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 based on pensionable service to the valuation date, assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 December 2022. This showed that on that date:

<b>The value of the technical provisions was:</b>	£980.7 million
<b>The value of the assets at that date was:</b>	£799.2 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles dated 24 March 2021):

### Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

### Significant Actuarial Assumptions

Financial assumptions	31 December 2022	31 December 2019
Discount rate (pre retirement)	<b>Gilts + 0.25% pa</b>	Gilts + 1.6% pa
Discount rate (post retirement)	<b>Gilts + 0.25% pa</b>	Gilts + 0.7% pa
RPI inflation	<b>Breakeven RPI curve</b>	Breakeven RPI curve
CPI inflation	<b>RPI curve – 1% pa to 2030, RPI curve thereafter</b>	RPI curve – 1% pa to 2030, RPI curve thereafter
Pension increases in payment:		
- RPI (min 0%, max 5%)	<b>RPI inflation - hard cap</b>	RPI inflation
- CPI (min 0%)	<b>CPI inflation - hard cap</b>	CPI inflation plus 0.2%
- CPI (min 0%, max 5%)	<b>CPI inflation - hard cap</b>	CPI inflation
- CPI (min 0%, max 3%)	<b>CPI inflation - hard cap</b>	Black Scholes model used
- CPI (min 0%, max 2.5%)	<b>CPI inflation - hard cap</b>	Black Scholes model used
Deferred pension revaluation <sup>1</sup> :		
- Pre 1 January 2008 (RPI max 5%)	<b>RPI inflation - hard cap</b>	RPI inflation
- Pre 31 December 2015 (CPI max 5%)	<b>CPI inflation</b>	CPI inflation
- CARE (CPI max 2.5%)	<b>CPI inflation</b>	CPI inflation

## Report on Actuarial Liabilities (continued)

Demographic assumptions	31 December 2022	31 December 2019
Mortality base tables	99% of the SAPS S3 tables	99% of the SAPS S3 tables
Future improvements in longevity	CMI 2022 core projection model with a long term improvement rate of 1.5% pa, default smoothing parameter of 7.0 and initial addition of 0.25% pa	CMI 2019 core projection model with a long term improvement rate of 1.5% pa, default smoothing parameter of 7.0 and initial addition of 0.25% pa
Allowance for commutation	90% (WPS) and 80% (NW) of the maximum tax free cash is taken. For NW members this includes their Scheme lump sum	90% (WPS) and 80% (NW) of the maximum tax free cash is taken. For NW members this includes their Scheme lump sum
Proportion married (or with an adult dependant)	80% (males) and 65% (females) at retirement or earlier death	80% (males) and 65% (females) at retirement or earlier death
Expenses	2% of liabilities	Nil



## Section 10 – Implementation Statement (Forming part of the Trustee Report)

31 December 2023

# Northumbrian Water Pension Scheme

## Implementation Statement



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## Introduction

This implementation statement (“Statement”) is produced alongside the Trustee Report and Accounts and is required by pensions regulations<sup>1</sup>. Northumbrian Water Pension Scheme Trustees Limited (the “Trustee”, “we” or “our”) has prepared this Statement to provide stakeholders with a transparent and accurate review of how it has acted in line with the stewardship and engagement policies set out in the Statement of Investment Principles (the “SIP”) for the Northumbrian Water Pension Scheme (the “Scheme”) during the accounting year.

This Statement includes details of:

- Compliance against the stewardship and voting policies;
- Any changes made to the stewardship and voting policies (“Stewardship Policy”) during the year; and
- Specifically, how the Scheme’s investment managers voted and engaged on our behalf

This Statement has been prepared by the Trustee to cover the period 1 January 2023 to 31 December 2023.

The statement is publicly available at <http://www.nwgpensions.co.uk/northumbrian-water-pension-scheme/documents/>.

## Executive summary

The day-to-day management of the Scheme’s assets is delegated to Cardano Risk Management Limited (the Outsourced Chief Investment Officer - the “OCIO”). In advance of the appointment, the Trustee took steps to ensure that the management of the Scheme’s assets and the OCIO’s policies were aligned with the Trustee’s own policies. The Trustee continues to monitor the OCIO, as part of their regular interactions with them.

We monitor the voting and engagement activity of the Scheme’s investment managers, and, through our OCIO, challenge their decisions.

The Trustee focuses its efforts on those investment managers where voting and engagement is material. The policies of those investment managers are summarised in this Statement, along with examples of the type of activity which took place during the period covered by this Statement. Some of the investment managers use investment approaches where stewardship is less likely to be relevant or significant. The Trustee is comfortable that our OCIO has an appropriate approach to assess the stewardship and voting policies for all investment managers, and we receive a summary of their assessments periodically.

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<sup>1</sup> The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended)



## 1. Stewardship and Socially Responsible Investments

### 1.1. What is Stewardship?

“Stewardship” is the responsible allocation, management, and oversight of capital to create long-term value for our members, which should also lead to sustainable benefits for the economy, the environment and society. In practice, stewardship is affected through exercising the right to vote on any shares which are owned by the Scheme and engaging with the management of any companies or properties where an investment has been made.

### 1.2. What are our Socially Responsible Investments principles?

The below outlines the Trustee’s Socially Responsible Investments principles (“our principles”):

*“The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers (within certain guidelines and restrictions). The Trustee’s policy is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the active investment managers.*

*Whilst it is the Trustee’s preference that all companies should be run in a socially responsible way, they take the view that their primary responsibility is to act in the best financial interests of the members. The Trustee does not solely take non-financial factors into account.*

*The Trustee recognises that financially material environmental, social and governance considerations (including climate change) (“ESG Factors”) can impact the risks and opportunities associated with the Scheme’s assets over the relevant time horizon for the Trustee. The Trustee considers itself to be a long-term investor.*

*The Trustee’s assets are held in a range of pooled investment products. The Trustee recognises that it may not be appropriate for managers of pooled funds to directly take account of social, environmental or ethical considerations in the construction of its passive index tracking portfolios through exclusions. The Trustee aims to address the risks and opportunities associated with ESG Factors by using managers who themselves have appropriate practices in relation to ESG Factors in terms of the selection, retention and realisation of investments. It is the Trustee’s policy to give discretion to these managers to pursue a policy of engagement with its investee companies.*

*With the assistance of the Trustee’s investment consultants, ESG Factors are therefore taken into account where appropriate both in the selection and the ongoing monitoring of the Scheme’s managers. Where an Investment Manager’s processes with regard to ESG considerations are deemed insufficient by the Scheme’s investment consultant, and the Investment Manager does not take steps to improve their approach, the Investment Manager’s position in the portfolio may be reviewed. Through the Trustee’s Finance and Investment Sub-Committee, the Trustee reviews managers policies on ESG Factors periodically. The Trustee recognises that when investing in pooled funds, they have no rights attaching to the underlying investments. The Trustee’s policy is that the exercising of rights (including voting rights) attaching to investments will be the responsibility of the pooled fund Investment Manager. However, where appropriate, the Trustee will retain responsibility for the rights attaching to pooled fund units, which are exercised by the Trustee in the best financial interests of the Scheme. The Trustee expects managers to report regularly on votes cast and other relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings.”*

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In terms of implementing the above, we considered investment managers' compliance, in accordance with the latest Stewardship Code.

## Engagement

The OCIO is responsible on an ongoing basis for engaging with the Scheme's investment managers. For managers where it is expected to have a meaningful impact, the OCIO monitors voting records and the level of engagement with underlying investments.

The Trustee is in the process of selecting stewardship priorities for manager engagement in order to improve alignment against our policies and beliefs as well as enhance disclosure. The priorities considered are:

- **Climate Crisis** (with a focus on climate change and net zero greenhouse gas emissions)
- **Environmental Impact** (with a focus on biodiversity, deforestation and water)
- **Human Rights** (with a focus on living wages, gender equality and health & nutrition)

These priorities are linked to the UN Sustainable Development Goals with an international endeavour in mind and aim to improve sustainability within the portfolio and have a direct real-world impact to our members' current and future landscape.

On behalf of the Trustee, the OCIO has recently written to the Scheme's investment managers reaffirming and expanding on the Trustee's policy and expectations which align with our stewardship priorities. The Trustee expects the investment managers to incorporate these themes into their future voting practices and the OCIO will monitor future manager disclosures to ensure alignment against our priorities.

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## 1.3. How have we implemented our Socially Responsible Investments principles?

### Fund structuring

The Trustee does not hold any investments directly. All of the shares, bonds and other assets that we own are held through pooled vehicles that are managed by investment managers appointed by our OCIO. The reason we do this is:

- It provides a broader range of investment opportunities than would be possible if we were to own the assets directly, particularly given our size;
- This can improve the overall diversification of our investments and help manage risk;
- Fixed costs are shared amongst other investors, thereby reducing our overall costs; and
- It simplifies the implementation process as existing funds can be used with standard terms and agreements, reducing overall governance burden both on the Trustee and the Sponsor.

Where investments are made in pooled funds the OCIO follows the voting and engagement policies of the investment managers of the pooled funds. However, the Trustee remains responsible for ensuring that the investment managers and our OCIO act consistently with our principles.

### External engagements

The Trustee assesses that the OCIO has been aligned with our principles throughout the year. The OCIO has been a signatory to the UN Principles for Responsible Investment since 2011 and they are a signatory to the UK Stewardship Code 2020.

In addition, the OCIO is a member of a range of sustainable investment organisations, these are noted below.



### Engagement beliefs

The development of engagement beliefs is an important responsibility for the Trustee. We have delegated the day-to-day implementation of our beliefs to the OCIO, having concluded that the OCIO’s core beliefs are consistent with our own. The beliefs driving the OCIO’s approach to engagement are as follows.

#### Quality over quantity

- The OCIO is interested in a few meaningful quality engagements, with strong reporting (rather than, being interested in the quantity of votes). They want managers to prioritise the highest sustainability impacts in their portfolios

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## Long-term

- The OCIO encourages underlying managers to form long-term relationships with companies. Successful stewardship can take many months, maybe even years

## Real world impact

- The OCIO is interested in engagement on topics that contribute to positive real-world sustainability impact (such as, reduction in absolute carbon emissions)

## Transparency

- Some engagement, perhaps even most engagement, may not be successful. The OCIO is realistic, and they prefer transparency from managers

## Collaboration

- Engagement is more efficient when managers collaborate – not just for the managers, but for the companies too (who will field fewer, but higher conviction, engagements from their investors). The OCIO encourages underlying managers to participate in collaborative initiatives, such as Climate Action 100+

## Innovation

- The OCIO welcomes innovation, for example, third-party tools to assess a company's conviction on sustainability topics

## Integrated

- The OCIO is interested in how (if at all) stewardship contributes to the investment thesis and whether managers link their stewardship to other engagement activity (for example, policy engagement)

## Manager selection and monitoring

When selecting investment managers, the OCIO scrutinises the stewardship, voting and engagement policies. Activities of investment managers are assessed before the initial investment to ensure they align with our Socially Responsible Investments principles. The OCIO monitors our investment managers on an ongoing basis; ensuring their activities align with our principles and engaging with our investment managers to help them improve their stewardship approach.

The OCIO closely monitors investment managers who do not meet our stewardship standards and actively works with them to improve their policies, processes, and reporting.

The Trustee monitors voting and engagement activity of our investment managers and challenges their activity through the OCIO. We categorise our managers according to how material voting and engagement is in their mandate. The Trustee focuses its efforts on any managers where voting and engagement is material.

## Compliance statement

To the best of our knowledge, the Trustee has adhered to the Socially Responsible Investments principles within the SIP over the Scheme Year.



## 2. Voting Activity

The Shareholder Rights Directive (SRD II) and the UK Stewardship Code 2020 both emphasise the importance of institutional investors and asset managers engaging with the companies in which they invest. They stress the importance of exercising shareholder voting rights effectively. Voting only applies to equities held by the Scheme and given the use of pooled funds, there is limited scope for the Trustee to directly influence voting. Voting is carried out by the investment managers on behalf of the Trustee.

### 2.1. How did our managers vote?

The tables below provide a summary of the voting activity undertaken by our managers during the year.

Note: the managers included denote those where voting and engagement are seen as material aspects of their investment process, rather than necessarily those investments we have the largest exposure to. In addition, not all managers in this category will always have voting opportunities in any given year. Although all investment managers that the Scheme invests with, directly or indirectly, are subject to the Scheme's engagement policy and monitored accordingly, some managers are not subject to engagement / stewardship disclosure obligations.

Over the Scheme Year, the investment managers held by the Scheme have changed following the transition to the new OCIO and subsequent revision of the investment strategy. The below voting activity only includes relevant managers (in line with above note) held by the Scheme as at 31 December 2023. Voting statistics also cover the full Scheme Year.

#### BlackRock Global Event Partners Fund

	Manager response
<b>Number of meetings the manager was eligible to vote at over the year</b>	150
<b>Number of resolutions the manager was eligible to vote on over the year</b>	1227
<b>% of eligible resolutions the manager voted on</b>	99%
<b>% of votes with management</b>	88%
<b>% of votes against management</b>	12%
<b>% of resolutions the manager abstained from</b>	0%
<b>% of resolutions linked to Climate Crisis</b>	1%
<b>% of resolutions linked to Environmental Impact</b>	1%
<b>% of resolutions linked to Human Rights</b>	1%





**Cardano Global Sustainable Equity Fund**

	Manager response
Number of meetings the manager was eligible to vote at over the year	833
Number of resolutions the manager was eligible to vote on over the year	9146
% of eligible resolutions the manager voted on	99%
% of votes with management	85%
% of votes against management	15%
% of resolutions the manager abstained from	0%
% of resolutions linked to Climate Crisis	0%
% of resolutions linked to Environmental Impact	0%
% of resolutions linked to Human Rights	0%

**Dorsal Capital Partners Fund**

	Manager response
Number of meetings the manager was eligible to vote at over the year	22
Number of resolutions the manager was eligible to vote on over the year	345
% of eligible resolutions the manager voted on	100%
% of votes with management	90%
% of votes against management	0%
% of resolutions the manager abstained from	10%
% of resolutions linked to Climate Crisis	1%
% of resolutions linked to Environmental Impact	1%
% of resolutions linked to Human Rights	3%

**Egerton Capital Equity Fund**

	Manager response
Number of meetings the manager was eligible to vote at over the year	28
Number of resolutions the manager was eligible to vote on over the year	493
% of eligible resolutions the manager voted on	92%
% of votes with management	96%
% of votes against management	2%



% of resolutions the manager abstained from	1%
% of resolutions linked to Climate Crisis	1%
% of resolutions linked to Environmental Impact	1%
% of resolutions linked to Human Rights	3%

May not sum due to rounding

### Kadensa Capital Fund

	Manager response
Number of meetings the manager was eligible to vote at over the year	92
Number of resolutions the manager was eligible to vote on over the year	1604
% of eligible resolutions the manager voted on	100%
% of votes with management	85%
% of votes against management	15%
% of resolutions the manager abstained from	0%
% of resolutions linked to Climate Crisis	0%
% of resolutions linked to Environmental Impact	0%
% of resolutions linked to Human Rights	1%

### Polar Capital Biotechnology Fund

	Manager response
Number of meetings the manager was eligible to vote at over the year	62
Number of resolutions the manager was eligible to vote on over the year	634
% of eligible resolutions the manager voted on	95%
% of votes with management	88%
% of votes against management	12%
% of resolutions the manager abstained from	0%
% of resolutions linked to Climate Crisis	0%
% of resolutions linked to Environmental Impact	0%
% of resolutions linked to Human Rights	0%

### Ruffer Sicav Ruffer Total Return International



	Manager response
Number of meetings the manager was eligible to vote at over the year	72
Number of resolutions the manager was eligible to vote on over the year	1085
% of eligible resolutions the manager voted on	100%
% of votes with management	97%
% of votes against management	3%
% of resolutions the manager abstained from	0%
% of resolutions linked to Climate Crisis	2%
% of resolutions linked to Environmental Impact	2%
% of resolutions linked to Human Rights	3%

Sunriver Fund Ltd

	Manager response
Number of meetings the manager was eligible to vote at over the year	17
Number of resolutions the manager was eligible to vote on over the year	157
% of eligible resolutions the manager voted on	82%
% of votes with management	91%
% of votes against management	4%
% of resolutions the manager abstained from	5%
% of resolutions linked to Climate Crisis	0%
% of resolutions linked to Environmental Impact	0%
% of resolutions linked to Human Rights	0%

## 2.2. Use of proxy voting services

Proxy voting services are specialist firms that provide an outsourced voting service. Some investment managers choose to use these services (rather than vote themselves). The reasons for using proxy voting services could include:

- The investment manager lacks the resource to research each vote and submit votes
- The investment manager wants to follow a recognised code of practice and the proxy voting service is an easy way to implement this

Using a proxy voting service does not necessarily mean that voting is done poorly. In fact, many professional proxy voting services are able to devote significant resource to researching AGM motions and are able to



follow best practice guides like the Financial Reporting Council's (FRC) Stewardship Code.

We recognise that by having a suitable Social Responsible Policy in place and using our OCIO to monitor voting activity, investment managers can create more engagement over time; particularly smaller, more boutique managers with less in-house expertise and resource.

The table below outlines the use of proxy voting services by the Scheme's investment managers where voting is deemed to be of material importance.

Manager	Use of proxy voting service
<b>BlackRock</b>	ISS
<b>Cardano Global Sustainable Equity Fund</b>	Glass Lewis and they apply the Cardano bespoke policy.
<b>Dorsal</b>	n/a – proxy voting services not used
<b>Egerton</b>	Utilise Broadridge ProxyEdge to cast votes
<b>Kadensa</b>	Appointed proxy adviser
<b>Ruffer</b>	ISS
<b>Sunriver</b>	ISS
<b>Wellington</b>	Glass Lewis and ISS



### 2.3 Examples of significant votes

When collating voting statistics for our managers, we also asked our managers to provide examples of significant votes cast. The tables below outline a sample of responses received.

#### Blackrock Global Event Partners Fund

Company Name	Date of Vote	Summary of the resolution	How the manager voted	Rationale / Outcome	Relevant engagement themes
Coty	21/09/2023	Executive compensation & board composition	For	Rationale: Compensation necessary to retain strong talent. Voted against key management proposals prior year; improved alignment of incentive structure (duration/metrics/etc.) to shareholder value creation and significant / positive business transformation in fundamentals  Outcome: For	Human Rights

#### Cardano Global Sustainable Equity Fund

Company Name	Date of Vote	Summary of the resolution	How the manager voted	Rationale / Outcome	Relevant engagement themes
National Australia Bank (NAB)	15/12/2023	Resolution asking NAB to require oil and gas customers to have a climate transition plan by 1 October 2025 for new lending and renewables. Key points include new lending restrictions, aligning deadlines with industry peers, and assessing plans for Paris Agreement goals.	For	Rationale: the vote was in support of the resolution as the manager believes that the requested disclosure can help bring clarity to the company's new requirements around customer climate transition plans, and the associated risks and opportunities  Outcome: Resolution not put to vote at the meeting as a prerequisite was that	Climate Change

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				another first shareholder resolution was adopted by the meeting	
Procter & Gamble (P&G)	10/10/2023	Resolution on director nomination	Against	Rationale: The vote was against the re-election due to P&G's insufficient commitment to deforestation-free supply chains	Environmental Impact
				Outcome: For	
Al Rajhi Bank	08/11/2023	Resolution on board elections	Against	Rationale: The vote was against elections as the board is entirely made up of male directors and the manager views a diverse board as key	Human Rights
				Outcome: All board candidates were male and board remains 100% male	

## Kadensa

Company Name	Date of Vote	Summary of the resolution	How the manager voted	Rationale / Outcome	Relevant engagement themes
Oracle Corporation	15/11/2023	Company to start reporting on the median and adjusted gender / racial pay gaps	For	Rationale: Kadensa took advice from their Proxy Voting advisor and voted in favour of the proposed resolution	Human Rights
				Outcome: Against	
Microsoft Corporation	07/12/2023	Company to start reporting on risks of operating in countries with significant human rights concerns	For	Rationale: Kadensa took advice from their Proxy Voting advisor and voted in favour of the proposed resolution	Human Rights
				Outcome: Against	

## Polar



Company Name	Date of Vote	Summary of the resolution	How the manager voted	Rationale / Outcome	Relevant engagement themes
Regeneron Pharmaceuticals	06/06/2023	Vote to review drug pricing or distribution	Against	<p>Rationale: The manager believes the company is operating within the established legal framework of patent law to protect the exclusive rights to its intellectual property.</p> <p>Outcome: For (Vote against proposal)</p>	-
Chinook Therapeutics, Inc	06/06/2023	Amend Omnibus Stock Plan	Against	<p>Rationale: The vote was against the proposal due to various factors including the fact that the plan contains an evergreen feature (overriding factor)</p>	-

### 3. Engagement Activity

Engagement is considered to be purposeful dialogue with a specific and targeted objective to achieve positive change in the interests of beneficiaries, thereby a key action required for delivering good stewardship. The OCIO is passionate about active engagement, as opposed to disinvestment or exclusions practices, in order create positive real-world change. Through engagement, asset managers can build relationships with the companies in which they invest, helping to steward companies on a range of topics, including sustainability.

The tables overleaf provide examples of engagement activity of the Scheme’s investment managers where engagement should be a material activity in the management of the assets.

#### Barings

Key points	Engagement activity
<p><b>Engagement Theme:</b> Climate Change</p> <p><b>Industry:</b> Banks</p> <p><b>Outcome:</b></p> <ul style="list-style-type: none"> <li>Positive responses from banks in completing the questionnaire and engaging in follow-up dialogue</li> </ul>	<p>Engaged with senior management of emerging markets banks, including in Slovenia and South Africa, based on their response to the climate risk questionnaire. This has included conversations related to reporting their financed emissions disclosure and setting up credible SBTi (Science Based Targets initiative) vetted targets for reduction in the carbon footprint disclosed.</p> <p>Going forward, Barings will work with the EMIA (Emerging Markets Investors Alliance) Financial Sector Working Group to increase scope of banks engaged, to encourage improved data collection on carbon footprint, as well as evidence of building climate risk analysis into its new loan underwriting in order to pursue engagement objectives. Barings will also continue to engage with banks on an individual basis (outside of the EMIA platform).</p>



Cardano Global Sustainable Equity Fund

Key points	Engagement activity
<p><b>Engagement Theme:</b> Living Wages</p> <p><b>Industry:</b> Retail</p> <p><b>Outcome:</b></p> <ul style="list-style-type: none"> <li>During engagement discussions, Sainsbury's announced a rise in its hourly rates for London based employees and all direct employees were receiving, at a minimum, the real living wage rates for year</li> </ul>	<p>Cardano co-filed a resolution to encourage Sainsbury's to pay their employees a real living wage. The resolution was co-filed with the ShareAction Good Work Coalition, which engages companies to push for better working practices.</p> <p>There is a strong business case to say that companies with strong labour rights, policies and practices, including the provision of a real living wage have a competitive advantage to attract and keep skilled employees.</p> <p>The resolution gathered 17% of shareholder support at the AGM and the announcement to pay all direct Sainsbury's employees a real live wage meant a pay rise for around 19,000 workers.</p>

Cardano Cashflow Credit

Key points	Engagement activity
<p><b>Engagement Theme(s):</b> Environmental</p> <p><b>Industry:</b> Banking</p> <p><b>Outcome:</b></p> <ul style="list-style-type: none"> <li>Business has published a comprehensive update of its oil and gas policy for the first time since 2020</li> </ul>	<p>Key objectives of the Barclays engagement are (1) stop directly financing new oil and gas fields, (2) exclude financing for all pureplay oil and gas companies given their limited ability to transition and (3) introduce a requirement for its clients to provide a 1.5°C aligned climate transition plan.</p> <p>To achieve the objectives Cardano, together with 26 other institutional investors, wrote to the bank requesting it to stop directly financing new oil and gas fields by the end of 2023. Since the bank had neither responded to the letter nor acted on the group's key asks at the end of October 2023, the engagement group including Cardano decided to further escalate by co-filing a shareholder resolution. Barclays then showed willingness to discuss the resolution's key asks with the engagement group. This included two meetings and additional communication by e-mail.</p> <p>Following this constructive engagement process, Barclays updated its oil and gas policy. The new policy contains several positive developments, including a commitment to stop financing new oil and gas projects directly, to restrict financing for 'pureplay' upstream companies and to expect its energy clients to produce climate transition plans by January 2025. The bank has now met the first engagement objective and has made progress on the other two key asks. Given the progress and constructive dialogue, the group agreed to withdraw the resolution. Barclays also publicly committed to continue the engagement in 2024, stating on its website that the policy changes were informed by engagement with stakeholders, including shareholders, clients, climate experts and civil society groups, including ShareAction, confirming the group's influence and effectiveness of the engagement.</p> <ol style="list-style-type: none"> <li>The engagement will continue this year as Barclays' new energy policy still enables the company to retain significant discretion over its continued support of oil &amp; gas expansion activities that are incompatible with 1.5°C scenarios. The engagement group will therefore urge the bank to take further steps and will consider escalating again if it does not make sufficient progress this year.</li> </ol>



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## Egerton

Key points	Engagement activity
<p><b>Engagement Theme:</b> Human Rights, Climate Change</p> <p><b>Industry:</b> Railways</p> <p><b>Outcome:</b></p> <ul style="list-style-type: none"> <li>The changes being implemented by the company have resulted in improved ratings from each of the major sustainability rating firms</li> </ul>	<p>Egerton frequently engages with a holding company on topics across governance and sustainability as it believes improvements in these areas have the ability to drive shareholder value as well as bring about benefits to various stakeholders.</p> <p>In addition to discussing board structure and diversity initiatives, Egerton has continued to support and push for sustainability goals, including voting with a shareholder proposal for the company's board of directors to produce a greenhouse gas emission levels reduction plan, and to report annually on the progress made towards such plan.</p> <p>Other environmental initiatives Egerton continues to support are the build out of solar farms to reduce its carbon emissions, and a longer-term project to design and develop North America's first hydrogen-powered freight locomotive.</p>

## Kadensa

Key points	Engagement activity
<p><b>Engagement Theme:</b> Climate Crisis</p> <p><b>Industry:</b> Manufacturing</p> <p><b>Outcome:</b></p> <ul style="list-style-type: none"> <li>The company has engaged with ESG rating agencies to seek to improve upon their low ESG Rating</li> </ul>	<p>Following on from a low ESG rating, Kadensa have engaged with the senior management of an underlying company to assess the management's plan and commitment to address their low rating and track progress.</p> <p>The underlying company had received a low ESG rating despite efforts to integrate ESG within their business. Over recent years, management had focussed on increasing ESG integration through initiatives at product level (launched EV and hybrid options), factory level (renewable energy installation), and staff level (encouraging employees to commute more sustainably)</p> <p>Through repeated meetings, Kadensa have confirmed with the company that they will connect with relevant ESG rating agencies to communicate their ESG efforts and understand the rating agencies' best practices.</p> <p>Most recently the company have confirmed that they have invited the ESG ratings agencies to visit their factory to learn about their ESG initiatives in the hope to improve their rating.</p>



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