

# MWH TREATMENT PENSION PLAN

## STATEMENT OF INVESTMENT PRINCIPLES

### Introduction

This document sets out the principles governing decisions about the investment of the assets of the MWH Treatment Pension Plan (UK) (“the Plan”). The Trustees of the Plan (“the Trustees”) have prepared this statement to comply with section 35 of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 (S.I. 2005/3378) (“the Investment Regulations”).

This document will be reviewed at least every three years and without undue delay after any significant change in investment policy.

Before preparing this document, the Trustees have:

- Obtained and considered the advice of a person who is reasonably believed by the Trustees to be qualified by their ability and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of occupational pension schemes and
- Consulted the employer in relation to the Plan.

Under the requirements of the Investment Regulations, this Statement of Investment Principles is required to cover the following aspects in relation to this section of the Plan:

- the Trustees’ policy for compliance with the requirements of Section 36 of the Pensions Act 1995 (choosing investments),
- the reasons for this section of the Plan being wholly-insured (including information on the default investment strategy),
- financially material considerations, including environmental, social and governance aspects,
- non-financial factors, including members’ ethical views; and,
- voting rights, corporate governance and engagement principles.

### **The Trustees’ policy for compliance with the requirements of section 36 of the Pensions Act 1995 (choosing investments) is as follows:**

- (a) The Trustees have obtained and considered proper advice on the question of whether their investment in an insurance policy with Aegon is satisfactory having regard to the requirements of the Investment Regulations, so far as relating to the suitability and diversification of investments and to the principles contained in this statement.
- (b) The Trustees consider that there is currently no need, nor is it cost effective, for the scheme to be operated on a directly invested basis. Accordingly, investing only in an insurance policy is appropriate for the needs of the Trustees.
- (c) The Trustees have invested all of the assets in an insurance policy with Aegon that offers members access to a range of pooled funds, some of which are external to Aegon and the default investment is a target dated fund. The returns on a pooled fund are directly or indirectly related to a larger number of individual investments than would be possible or cost effective if direct investments were utilised. By using pooled funds, members are able to invest in a range of different asset classes in UK and overseas markets giving the ability to diversify their risks and investments in a cost-effective way.

**The reasons for this section of the Plan being wholly insured with Aegon are as follows:**

- (a) The financial strength of Aegon.
- (b) The security given by:
  - i. its regulation by the Financial Conduct Authority/Prudential Regulatory Authority and
  - ii. the Financial Services Compensation Scheme.
- (c) The professional management of Aegon's investment funds.
- (d) Aegon's pension administration and investment experience.
- (e) Aegon offers value for money by providing a package of investment and administration services.

The Trustees do not invest members' contributions directly in assets such as equities and bonds, instead they use a range of investment funds provided by Aegon. The Trustees review the range of funds available under this section on a regular basis (typically annually).

In respect of the default investment option under this section of the Plan, the key objectives are:

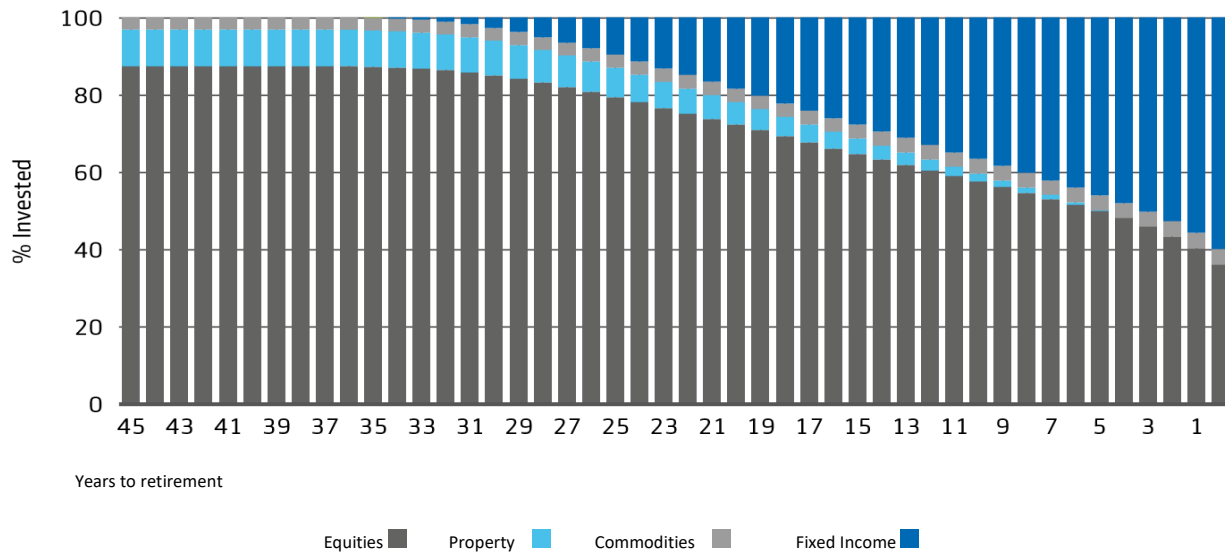
- Provide an element of protection against the effects of inflation by investing in growth assets where it is reasonable to do so based on the available investment time horizon as determined by the member's expected retirement age.
- Produce an 'at retirement' asset allocation that is suitable for the expected decumulation decision of a typical default investor.
- Reduce the risk that market movements in the years prior to a member's expected retirement age might lead to a substantial reduction in the benefits that could otherwise have been secured and/or the cash lump sum which could otherwise have been paid.

In selecting the default fund the Trustees took account of their investment adviser's findings; in particular, the likelihood of a typical default fund investor wanting to access their benefits flexibly. This is a relatively recent change of approach, as prior to October 2018, the default strategy was based on an expectation of annuity purchase at retirement.

It is worth noting that members who were already invested in the previous default fund have been switched into a fund that continues to target annuity purchase at retirement. The new default fund that targets pension flexibilities at retirement is only being utilised as a default strategy for new entrants on and after 1<sup>st</sup> October 2018. The default fund is called Aegon Blackrock LifePath Flexi ("LifePath Flexi").

LifePath Flexi will glide (automatically change the investment mix) towards an asset allocation split of approximately 40% global equities and 60% fixed income by its target retirement date. When the relevant fund reaches its target date, members will be invested directly in an undated LifePath Flexi fund which will maintain the same 40%/60% asset allocation mix into retirement to support income drawdown. This option assumes members are comfortable to remain invested in retirement and that they are aware that this means their fund may fall in value.

The balance between the different asset classes during the 'LifePath Flexi' is shown on the following chart:



The Trustees expect the long-term return on any equities and property to exceed price inflation. The long-term returns on bonds and cash are expected to be lower than the returns on equities. Commodities are expected to provide returns that are broadly in line with inflation but they also provide a small element of diversification to the fund.

The Trustees will realise assets as required following member requests to commence the taking of benefits.

**Financially material considerations, including environmental, social and governance aspects**

The Trustees believe that the consideration of financially material Environmental, Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns.

| Examples of ESG factors |  |
|-------------------------|--|
| Environmental           | <ul style="list-style-type: none"> <li>• climate change</li> <li>• energy efficiency</li> <li>• waste and pollution</li> <li>• scarcity of water and other resources</li> </ul>  |
| Social                  | <ul style="list-style-type: none"> <li>• human rights</li> <li>• health &amp; safety at work</li> <li>• welfare and other working conditions</li> <li>• responsibility for the wider community in which a business operates</li> </ul> |
| Governance              | <ul style="list-style-type: none"> <li>• audit quality</li> <li>• board structure</li> <li>• remuneration policy</li> <li>• shareholder and other stakeholder rights</li> </ul>  |

The Trustees expect the investment managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustees (delegating to their Investment Consultant where appropriate) assess the ESG integration capability of the investment managers. All managers of funds available in the core range apply the UK Stewardship Code and are signed up to the UN Principles for Responsible Investment (UN PRI) which works to incorporate ESG factors into investment and ownership decisions.

### **Non-financial factors, including members' ethical views**

Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustee believes these should not drive investment decisions. The Trustees expect its investment managers, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a material reduction in the efficiency of the investment. Members' views are not sought on non-financial matters (including ESG, quality of life considerations and ethical views) in relation to the selection, retention and realisation of investments.

### **Voting rights, corporate governance, stewardship and engagement principles**

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

### **Policy relating to arrangements with investment managers**

The appointment is based on the investment manager's capability and therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class/fund type being selected. Investments are made into pooled investment vehicles and therefore the Trustee accepts that they cannot specify the risk profile and return targets of the manager, but the pooled funds are chosen with appropriate characteristics to ensure an appropriate range of investment options for members.

The pooled funds into which assets are invested do not have performance based fees which could encourage the manager to make short term investment decisions to hit their profit targets. Based on the mandates currently held, the Trustees consider that the method of remunerating the investment manager is consistent with incentivising them to make decisions based on assessments of medium to long term financial and non-financial performance of an issuer of debt or equity. By encouraging a medium to long term view will in turn encourage the investment manager to engage with issuers of debt or equity in order to improve their performance in the medium to long-term. This is in line with the Trustee's investment policy.

## **Portfolio turnover costs and mandate duration**

Currently the Trustees do not separately monitor portfolio turnover costs for the pooled funds into which assets are invested. Portfolio turnover costs are however a component part of the overall costs that are monitored via the Trustee's assessment of transaction costs for each fund. These transaction costs are detailed within Appendix I to this Statement.

The Trustee is aware of the requirement to define and monitor targeted portfolio turnover and turnover range. Given that the assets are invested in a selection of pooled funds, many of which invest across a wide range of asset classes, the Trustee is working with their investment adviser to determine the most appropriate way to set turnover benchmarks and to obtain and monitor portfolio turnover activity and costs. Further information on these aspects will be included in future updates to this Statement.

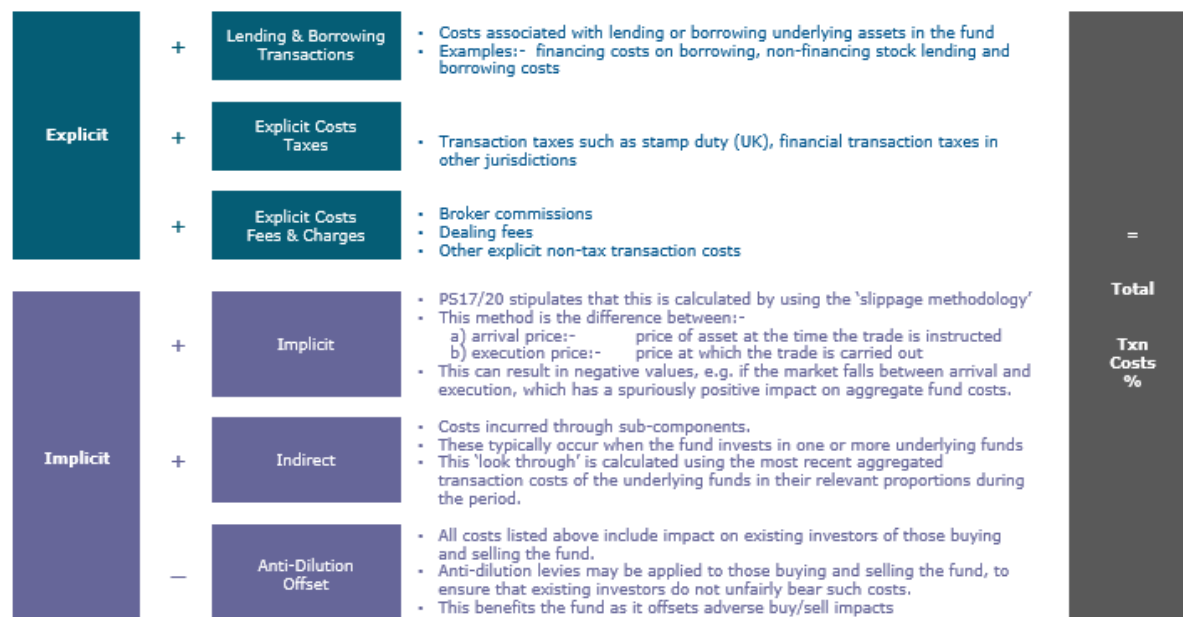
The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. The duration of a manager's appointment will depend on a number of considerations such as the overall range of funds being offered to members and the availability of suitable alternatives under the contract, as well as the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

**Issued by the Trustees of the MWH Treatment Pension Plan**

**24<sup>th</sup> August 2023**

## Transaction Costs

### Component parts of transaction costs



|                  |                            |
|------------------|----------------------------|
| Scheme Name      | MWH Treatment Pension Plan |
| Portfolio Ticker | DCMWHTREATMENT             |

| Fund  | total transaction costs expressed as Basis Points (BPS) – i.e. 10 BPS would equate to an extra 0.10% per annum charge | Transaction Costs For Lending And Borrowing Transactions | Explicit costs - taxes | explicit costs - fees and charges | implicit costs | indirect costs | anti-dilution offset |
|---|---|--|------------------------|-----------------------------------|----------------|----------------|----------------------|
| Aegon BlackRock World (ex-UK) Equity Index (BLK)    | -0.40   | 0.55   | 0.39                   | 0.43                              | -0.07          | 0.91           | 2.61                 |
| Aegon BlackRock LifePath Retirement 2028-2030 (BLK) | -3.92   | 0.83   | 0.00                   | 0.00                              | -4.90          | 1.55           | 1.39                 |
| Aegon BlackRock LifePath Retirement 2037-2039 (BLK) | -3.92   | 0.83   | 0.00                   | 0.00                              | -4.90          | 1.55           | 1.39                 |
| Aegon BlackRock LifePath Retirement 2031-2033 (BLK) | -3.92   | 0.83   | 0.00                   | 0.00                              | -4.90          | 1.55           | 1.39                 |
| Aegon BlackRock UK Equity Index (BLK)               | 7.46  | 4.24   | 7.50                   | 0.62                              | 5.13           | 2.89           | 12.93                |
| Aegon BlackRock LifePath Retirement 2034-2036 (BLK) | -3.92   | 0.83   | 0.00                   | 0.00                              | -4.90          | 1.55           | 1.39                 |
| Aegon BlackRock LifePath Retirement 2022-2024 (BLK) | -0.03   | 0.48   | 0.00                   | 0.00                              | 0.00           | 0.89           | 1.40                 |
| Aegon BlackRock LifePath Retirement 2040-2042 (BLK) | -3.92   | 0.83   | 0.00                   | 0.00                              | -4.90          | 1.55           | 1.39                 |
| Aegon BlackRock LifePath Retirement 2025-2027 (BLK) | 7.50  | 0.75   | 0.00                   | 0.00                              | 0.00           | 7.44           | 0.68                 |
| Aegon BlackRock LifePath Retirement 2043-2045 (BLK) | -3.92   | 0.83   | 0.00                   | 0.00                              | -4.90          | 1.55           | 1.39                 |
| Aegon BlackRock LifePath Retirement 2046-2048 (BLK) | -3.92   | 0.83   | 0.00                   | 0.00                              | -4.90          | 1.55           | 1.39                 |
| Aegon BlackRock US Equity Index (BLK)               | -1.47   | 0.06   | 0.02                   | 0.16                              | 0.62           | 0.39           | 2.72                 |
| Aegon BlackRock LifePath Retirement 2019-2021 (BLK) | 0.44  | 0.32   | 0.00                   | 0.00                              | 0.00           | 1.88           | 1.75                 |
| Aegon BlackRock Cash (BLK)                          | 1.77  | 0.00   | 0.00                   | 0.00                              | 0.00           | 1.77           | 0.00                 |
| Aegon BlackRock Pacific Rim Equity Index (BLK)      | 0.16  | 2.07   | 0.00                   | 0.00                              | 0.00           | 1.27           | 3.17                 |
| Aegon LGIM Ethical UK Equity Index (BLK)            | 1.29  | 0.45   | 0.20                   | 0.16                              | 0.43           | -0.01          | -0.06                |
| Aegon BlackRock LifePath Retirement 2049-2051 (BLK) | -3.92   | 0.83   | 0.00                   | 0.00                              | -4.90          | 1.55           | 1.39                 |
| Aegon BlackRock European Equity Index (BLK)         | 1.02  | 1.98   | 0.92                   | 0.46                              | 0.58           | 0.42           | 3.34                 |

|   |        |       |      |       |       |        |       |
|---|--------|-------|------|-------|-------|--------|-------|
| Aegon BlackRock Over 15 Year Gilt Index (BLK)         | -2.05  | 0.00  | 0.00 | 0.00  | 0.43  | 0.62   | 3.10  |
| Aegon BlackRock LifePath Retirement 2052-2054 (BLK)   | -3.92  | 0.83  | 0.00 | 0.00  | -4.90 | 1.55   | 1.39  |
| Aegon Property (BLK)                                  | 12.14  | 1.72  | 4.30 | 10.04 | 5.52  | 1.69   | 14.12 |
| Aegon BlackRock LifePath Retirement 2055-2057 (BLK)   | -14.96 | 0.83  | 0.00 | 0.00  | 0.00  | -14.60 | 1.19  |
| Aegon BlackRock Corporate Bond All-Stocks Index (BLK) | 1.94   | 0.04  | 0.00 | 0.00  | 2.16  | 0.04   | 0.31  |
| Aegon BlackRock Japanese Equity Index (BLK)           | 7.84   | 0.26  | 0.00 | 0.96  | 13.40 | 2.57   | 9.36  |
| Aegon BlackRock LifePath Retirement 2016-2018 (BLK)   | -4.33  | 0.00  | 0.00 | 0.00  | 0.00  | 1.02   | 5.36  |
| Aegon BlackRock LifePath Flexi 2037-2039 (BLK)        | -3.92  | 0.83  | 0.00 | 0.00  | -4.90 | 1.55   | 1.39  |
| Aegon BlackRock LifePath Flexi 2022-2024 (BLK)        | 2.33   | 0.87  | 0.00 | 0.00  | 3.60  | 2.46   | 4.61  |
| Aegon BlackRock LifePath Flexi 2019-2021 (BLK)        | 1.12   | 0.94  | 0.00 | 0.01  | 3.30  | 2.60   | 5.73  |
| Aegon HSBC Islamic Global Equity Index (BLK)          | 6.10   | 0.00  | 2.08 | 1.07  | 2.95  | 0.00   | 0.00  |
| Aegon BlackRock LifePath Flexi 2028-2030 (BLK)        | -3.92  | 0.83  | 0.00 | 0.00  | -4.90 | 1.55   | 1.39  |
| Aegon BlackRock LifePath Retirement 2058-2060 (BLK)   | -28.61 | 0.83  | 0.00 | 0.00  | 0.00  | -27.86 | 1.58  |
| Aegon BlackRock LifePath Flexi 2034-2036 (BLK)        | -3.92  | 0.83  | 0.00 | 0.00  | -4.90 | 1.55   | 1.39  |
| Aegon BlackRock LifePath Flexi 2040-2042 (BLK)        | -3.92  | 0.83  | 0.00 | 0.00  | -4.90 | 1.55   | 1.39  |
| Aegon BlackRock LifePath Flexi 2031-2033 (BLK)        | -3.92  | 0.83  | 0.00 | 0.00  | -4.90 | 1.55   | 1.39  |
| Aegon BlackRock LifePath Flexi 2025-2027 (BLK)        | 2.38   | 0.81  | 0.00 | 0.00  | 3.85  | 2.78   | 5.06  |
| Aegon BlackRock LifePath Retirement 2061-2063 (BLK)   | -14.63 | 0.83  | 0.00 | 0.00  | 0.00  | -13.25 | 2.21  |
| Aegon BlackRock LifePath Capital 2022-2024 (BLK)      | 4.81   | 0.54  | 0.00 | 0.00  | 0.00  | 4.78   | 0.50  |
| Aegon BlackRock LifePath Flexi 2049-2051 (BLK)        | -3.92  | 0.83  | 0.00 | 0.00  | -4.90 | 1.55   | 1.39  |
| Aegon BlackRock LifePath Flexi 2058-2060 (BLK)        | -28.61 | 0.83  | 0.00 | 0.00  | 0.00  | -27.86 | 1.58  |
| Aegon BlackRock LifePath Flexi 2052-2054 (BLK)        | -3.92  | 0.83  | 0.00 | 0.00  | -4.90 | 1.55   | 1.39  |
| Aegon BlackRock LifePath Flexi 2046-2048 (BLK)        | -3.92  | 0.83  | 0.00 | 0.00  | -4.90 | 1.55   | 1.39  |
| Aegon BlackRock LifePath Flexi 2055-2057 (BLK)        | -14.96 | 0.83  | 0.00 | 0.00  | 0.00  | -14.60 | 1.19  |
| Aegon BlackRock LifePath Retirement 2064-2066 (BLK)   | -23.28 | 0.83  | 0.00 | 0.00  | 0.00  | -21.43 | 2.68  |
| Aegon BlackRock LifePath Flexi 2043-2045 (BLK)        | -3.92  | 0.83  | 0.00 | 0.00  | -4.90 | 1.55   | 1.39  |
| Aegon BlackRock LifePath Flexi 2061-2063 (BLK)        | -14.63 | 0.83  | 0.00 | 0.00  | 0.00  | -13.25 | 2.21  |
| Aegon BlackRock LifePath Capital 2025-2027 (BLK)      | -2.83  | 0.76  | 0.00 | 0.00  | 0.00  | -2.92  | 0.66  |
| Aegon BlackRock LifePath Capital 2019-2021 (BLK)      | -3.08  | -0.62 | 0.00 | 0.00  | 0.00  | -2.15  | 0.31  |
| Aegon BlackRock LifePath Capital 2031-2033 (BLK)      | -3.92  | 0.83  | 0.00 | 0.00  | -4.90 | 1.55   | 1.39  |