Northern Ireland Water Limited Pension Scheme

Statement of Investment Principles – March 2024

1. Introduction

NIW Pension Trust Company Limited, the Trustee of the Northern Ireland Water Limited Pension Scheme (the "Scheme") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of current legislation, including the Pensions (Northern Ireland) Order 1995 as amended ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005 as amended. The Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited (the "Investment Consultant"). The Trustee in preparing this Statement has also consulted Northern Ireland Water Limited (the "Company") as the sponsor of the Scheme.

Overall investment policy falls into two parts; the strategic management of the assets, which is fundamentally the responsibility of the Trustee, and the day to day management of the assets, which is delegated to professional investment managers.

This Statement sets out the general principles underlying the investment policy. Details of how this policy has been implemented are set out in a separate Investment Policy Implementation Document ("IPID"), which should be read in conjunction with this Statement.

The strategic management of the assets is the responsibility of the Trustee acting on expert advice and is driven by its investment objectives. However, the oversight of this strategy and the investment managers is delegated by the Trustee to a sub group of the Trustee – the Investment Sub Committee. This Committee operates under an agreed Terms of Reference and make recommendations to the Trustee as required. The remaining elements of policy are part of the day to day management of the assets which is delegated to professional investment managers.

2. Investment Objectives

The Trustee's objective is to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustee has agreed a number of objectives to help guide it in its strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee's primary objectives are as follows:

- To ensure the Scheme can meet its obligations to beneficiaries.
- To strike an appropriate balance between risk and return when setting investment strategy.
- To consider carefully the risks involved in investing in different asset classes.

To ensure the primary objectives are met, the Trustee has agreed the following in relation to Past and Future Service liabilities:

- In order to mitigate funding level volatility in relation to accrued liabilities and to manage the costs of future accrual, the Trustee has notionally split the Past and Future Service liabilities and adopted different investment strategies for each. These are referred to as the Past and Future Service investment strategies and are outlined in section 4.

- Past Service is considered to be the benefits already accrued up to the date of the latest actuarial valuation (31 March 2023). A lower risk and return investment strategy has been adopted for these liabilities.

- Future Service liabilities are those accrued since the actuarial valuation. For the Future Service liabilities, the Trustee has adopted a higher risk investment strategy which focusses on growth orientated asset classes to assist in managing the cost of future service. The Trustee will periodically review and consider whether it is appropriate to move the built up “future service” assets to the Past Service investment strategy. As a minimum this review will coincide with each actuarial valuation and will be driven by the Scheme’s funding position.

3. Risk Management and Measurement

The Trustee considers a range of potentially financially material factors or risks when they are making decisions on the selection, retention and realisation of investments. The Trustee’s policy on the main factors relevant to the Scheme over its anticipated lifetime, and the risk management of them, is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme’s assets and its liabilities. The Trustee recognises that whilst increasing investment risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme’s accruing liabilities. It can also produce greater short-term volatility in the Scheme’s funding position. The Trustee has taken advice on the matter and given the funding position of the Scheme at the 31 March 2023 actuarial valuation, the risk of a subsequent shortfall in the funding level, and the potential size of that shortfall, the Trustee has adopted different investment strategies for its Past and Future Service liabilities. For the Past Service liabilities, the Trustee has adopted a lower risk and return strategy which will result in a smaller mismatch between the assets and liabilities. For the Future Service liabilities the Trustee has adopted a higher risk investment strategy which focusses on growth orientated asset classes. Periodically, the Trustee will seek to transfer the accrued Future Service to the past service. The Trustee has considered carefully the implications of adopting different levels of risk and considers the strength of the Principal Employer’s covenant to support those risk levels via periodic reviews.

- Risks arising from environmental, social and corporate governance (“ESG”) issues including climate change and stewardship. The Trustee believes that these risks present threats but also opportunities. See Section 6.5 for dedicated comments on these risks and the Trustee’s approach.

- Credit default risk. Arises through exposure to debt and credit instruments. The Trustee believes it has mitigated this risk by focusing primarily on investment grade credit and investing in a sufficiently diversified manner.

- Inflation risk. The liabilities of the Scheme are heavily inflation linked. Investing in assets that do not have the same degree of inflation sensitivity creates a mismatch. The Trustee includes in its Past Service investment strategy assets that provide an inflation linkage and inflation sensitivity. This includes holdings in equity funds that provide additional exposure to cash and UK index linked gilts. Other assets are expected to generate returns in line with or above inflation over the long term.

- The Trustee recognises the risk that the non-UK assets will fluctuate with the changes in exchange rate with Sterling. Given the low level of equity holdings the Trustee does not currently adopt a currency hedging policy, but will keep this under review. The Scheme’s diversified growth, corporate bond and secured finance holdings may also expose the Scheme to currency risk. In some cases these managers will hedge currency exposure to Sterling. However any currency hedging decisions are at the discretion of the investment managers. The Scheme’s investments in infrastructure and sustainable opportunities also result in currency risk as opportunities are invested in globally, and there is no currency hedging for these investments.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. The Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Scheme’s assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles. Further details are provided in Section 5.

- The Trustee recognises the risks of underperformance introduced by the use of active managers. As a result the Trustee invests in index tracking (also known as passive management) funds unless it believes the case for active management is strong. Currently passive management is adopted for equity and government gilt assets.

- The Trustee recognises that a number of the asset classes invested in by the Scheme are illiquid, albeit to differing degrees. These asset classes are: High-Lease-to-Value (“HLV”) Property, Secured Finance, Infrastructure and Sustainable Opportunities. The Trustee believes the degree of illiquidity risk is acceptable given the Scheme remains open to new members, Secured Finance and HLV Property are realisable (although with delay), and income or distributions are or could be paid from all of the illiquid investments. Infrastructure and Sustainable Opportunities are expected to be truly illiquid and with a life of between 10 and 15 years from the initial investment. The Trustee will keep the ongoing suitability of illiquid investments under review when seeking to meet its objectives.

- Arrangements are in place to monitor the Scheme’s investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee receives regular reports from the Investment Sub Committee.

- The safe custody of the Scheme’s assets is delegated to professional custodians (via the use of pooled vehicles).

The Trustee undertakes, approximately every three years, a detailed review of investment strategy based on qualitative and quantitative analysis of the risks. Section 6 outlines ways in which the Trustee and Investment Sub Committee monitor and manage investment manager risks.

Should there be a material change in the Scheme’s circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular, whether the current risk profile remains appropriate.

In light of the above potential risks, the Trustee receives advice from the Investment Consultant and Scheme Actuary in order to assist it in its duties.

4. Strategic Asset Allocation

The Trustee has determined, taking account of the liability profile of the Scheme, the financial strength of the Company, the funding position of the Scheme as at the 31 March 2023 actuarial valuation, and based on expert advice from Mercer, the target strategic asset allocations as set out in the tables below.

As outlined above the Trustee has adopted separate investment strategies for the Scheme's Past and Future Service liabilities. As at March 2024, c.£6m (2% of total assets) has been retained in each of the global equity and diversified growth funds for the accrued future service since the actuarial valuation. Periodically, the Scheme Actuary will assess the ability to transfer the accrued Future Service since the latest actuarial valuation to the Past Service investment strategy. The Scheme Actuary will provide advice to the Trustee on such a transfer.

Past Service Investment Strategy

The aim of this strategy is to predominantly invest in inflation linked or sensitive assets, or assets that will provide an income stream to meet accrued pension payments, such that funding level volatility of accrued benefits is reduced.

The Trustee believes that the target benchmark allocation is currently appropriate for controlling the risks identified in Section 3 and generating a long term expected return ahead of the discount rate within the actuarial valuation. Based on Mercer's ten year asset class assumptions as at 31 March 2023, the target investment strategy would be expected to deliver an arithmetic median return of around 5.4% p.a., although there are no guarantees this will be achieved and the expected return will change with market conditions.

The Trustee has notionally split the Scheme's assets for presentation purposes into a Main Portfolio and a Long Term Illiquid Portfolio. The Trustee has decided to invest in Infrastructure and Sustainable Opportunities. However, exposure to these asset classes is built up over a number of years to ensure diversification. Therefore, full implementation of the target strategy is expected to take 4-6 years, although the target allocations will be kept under review. The Infrastructure and Sustainable Opportunities exposure is within the Long Term Illiquid Portfolio. In lieu of a proportion of the assets in this portfolio, the Trustee invests in a "feeder fund" chain of a diversified growth fund, and a cash fund.

The Trustee also invests in "Equity Linked Inflation" funds whereby exposure is gained to certain equity markets, index linked gilts and cash.

The table below outlines the long term target investment strategy.

Asset Class	Target Benchmark - % of Total Past Service Assets	Target Benchmark - % of Portfolio Assets
Main Portfolio	**84.50**	**100.00**
UK Equity Linked Inflation*	1.30	1.50
Overseas Equity Linked Inflation*	5.20	6.25
Diversified Growth	3.00	3.50
Secured Finance	14.00	16.50
Index Linked Gilts	40.00	47.50
Corporate Bonds	7.00	8.25
HLV Property	14.00	16.50
Long Term Illiquid Portfolio	**15.50**	**100.00**
Infrastructure	7.75	50.00
Sustainable Opportunities	7.75	50.00
Feeder Fund - Cash	0.00	-
Feeder Fund – Diversified Growth	0.00	-

**In addition to equities, these funds provide 75% of the Target Benchmark weight exposure to index linked gilts and 25% to Cash*

As the Infrastructure and Sustainable Opportunities exposure is being built up over a period of time the allocations to the two portfolios are expected to deviate from the target allocations. The Trustee and Investment Sub Committee review the Scheme's asset allocation against the target allocations and will consider whether rebalancing of the allocations may be required, taking advice from Mercer, and allowing for the limitations due to the allocations to illiquid investments.

Future Service Investment Strategy

The aim of this strategy is to capture the long-term growth above that of the liabilities expected from global equities and diversified growth fund, in order to manage the cost of future service and to, at a point in the future, allow for "Future Service" to be transferred to Past Service and invested in the lower risk strategy.

The Trustee believes that the target benchmark allocation is currently appropriate for controlling the risks identified in Section 3 and generating a long term expected return, ahead of the discount rate within the actuarial valuation. Based on Mercer's ten year asset class assumptions as at 31 March 2023, the target investment strategy would be expected to deliver an arithmetic median return of around 7.3% p.a., although there are no guarantees this will be achieved and the expected return will change with market conditions. In respect of equites, the Trustee invests in a mandate that applies an overlay considering climate change and environmental, social and corporate governance (ESG) issues. The table below outlines the target investment strategy.

Asset Class	Target Benchmark - % of Total Future Service Assets
Total	**100.00**
Global Equity	50.00
Diversified Growth	50.00

5. Diversification of Return/Risk

In addition to targeting an appropriate overall level of investment risk for each of the Past and Future Service investment strategies, the Trustee seeks to spread risks across a range of different sources. Where deemed risk is necessary, the Trustee aims to take on those risks for which it expects to be rewarded over time, in the form of excess returns above liability growth, and that are consistent with the objectives of the Past or Future Service investments as relevant. The Trustee believes that diversification limits the impact of any single risk.

Among the asset classes that the Trustee has considered for the Scheme's investments are:

UK index linked gilts – provide an exposure to UK inflation expectations. In addition, they have interest rate risk, which in a rising interest rate environment may more than offset any benefit from the inflation linkage. The Scheme's liability profile has a substantial amount of inflation linkage. Index-linked gilts are a suitable matching asset class for the Scheme's liabilities. Therefore, index linked gilts form the core of the Past Service investment strategy.

Investment Grade Corporate Bonds – provides an exposure to company issued bonds and therefore introduces credit risk. Credit risk reflects the possibility that the payments due under the bond might not be made by the borrower. Focus is on investment grade issuers but with scope to invest out with this area to a limited degree. In addition to credit risk, corporate bonds introduce interest rate risk. Where investments are made in non-Sterling issues, the associated currency risk may be hedged by the investment manager. The Trustee expects bonds with greater credit risk than government bonds will provide a higher return over the long term.

Secured Finance – introduces credit risk. Credit assessment within Secured Finance mandates is reliant on manager skill and often there is no credit rating agency to compare in-house analysis with. Investment will typically be in bonds rated as investment grade by the in-house analysts. Secured Finance funds will typically invest a high proportion of assets in less liquid and private market bonds, seeking to generate additional return from illiquidity and complexity premia. The Trustee expects these bonds to provide materially greater return than government bonds and publically traded corporate bonds.

Equities – equities, whether public or private, represent an ownership stake in a company. The value of this stake is determined by the buyer and seller of the stake and there is no certain value to this investment (unlike the payments under a bond, subject to credit and currency risk). A periodic payment, in the form of a dividend, might be made to an equity holder, although the timing and amount of this is uncertain. The uncertainty of the return from equities relative to the liabilities is captured in the form of the equity mismatch risk. The equity mismatch risk may be broken down into the credit risk of the underlying company, and the volatility risk associated with the stability of the price of the equity as well as currency risk for equities denominated in currencies other than Sterling among other risks. A small allocation to equities has been retained in the Past Service investment strategy as the mandate also provides exposure to index linked gilts. However, given the higher return and risk nature of equities, they form a key component of the Future Service investment strategy.

The Trustee anticipates that over the long term, equities will provide attractive returns, but notes that volatility is an important consideration, and understands that equities are a volatile asset.

The Trustee has also made an allocation to assets typically termed "alternatives".

- Diversified Growth - seeks to provide exposure to a range of return sources which are dynamically managed by the manager. The performance of the strategy will be heavily dependent on active manager skill. A small allocation to diversified growth has been retained in the Past Service investment strategy as a diversifier, although this will be kept under review. Diversified Growth forms a key component of the Future Service investment strategy given its long term aim of equity-like returns. The Trustee acknowledges that the strategy does not seek to achieve a positive return each quarter, and in strongly rising equity markets is likely to lag such markets.

- Infrastructure - investing in companies related to the physical assets and their associated services that are essential for the functioning of a modern society. Areas of investment will typically include telecommunications, social infrastructure, transport and utilities. Due to the underlying nature of the investments the return stream is expected to have an element of inflation sensitivity. Returns are expected to be driven by market allocation, active management from selection and cash yield from more mature assets in the cash generation phase of the assets' lifetime. Returns reflect compensation for illiquidity, complexity, private transactions, and development risk. Reliant on manager skill to identify and structure attractive opportunities and individual infrastructure projects are exposed to the following risks: construction, operational, supply and demand, interest rate, refinancing, regulatory, environmental, political and taxation risks, social risks (*e.g.* opposition from pressure groups).

- Sustainable Opportunities - investing in companies that are expected to benefit from the global shift towards a lower carbon economy and the need to address resource scarcity issues. Areas/themes of investment will typically include alternative energy, energy efficiency, water infrastructure and technologies, pollution control, waste management, environmental support services, sustainable resource management. Asset classes invested in to gain exposure to these themes include private equity/venture capital, infrastructure, agriculture and timber. Returns and risks are similar to those for infrastructure.

- HLV Property is expected to focus on income generation rather than capital appreciation, investing in a diverse range of properties that, in addition to an element of property market return, typically offer long leases, high tenant quality and secure, long term, predictable cash flows, often inflation linked. As a result of the long term nature of cash flows and the way such assets are valued, capital values can at times be impacted by bond markets.

6. Management of the Assets

6.1 Appointment of Investment Managers and Alignment with Investment Strategy

The Trustee delegates the day to day management of the assets to a number of investment managers. Details of the appointed managers can be found in the IPID. Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class and mandate being selected for. Since the Trustee invests in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy. Within Infrastructure and Sustainable Opportunities the managers are incentivised in part through remuneration (via performance related fees).

In order to assist the Trustee in the appointment of managers they look to their investment consultant for a forward looking assessment of a manager's ability to meet its investment objectives over the designated timeframe. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Investment Sub Committee and Trustee and are used in decisions around selection, retention and realisation of manager appointments.

The Investment Sub Committee and Trustee will also consider the investment consultant's assessment of how each investment manager embeds environmental, social and governance factors into its investment process. See section 6.5 for more detail.

6.2 Monitoring of Investment Managers

If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

The Investment Sub Committee and Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. The Investment Sub Committee review the absolute performance, relative performance against a suitable index used as a benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Investment Sub Committee and Trustee's focus is on long term performance, and are not looking to change the investment arrangements on a frequent basis, but will look to discuss a manager's ongoing suitability for the Scheme if there are short term performance concerns.

The Investment Sub Committee meet with the investment managers approximately once a year to discuss performance, asset allocation and outlook. Where applicable they will also consider the manager's internal controls documents, Stewardship Code statement, voting record, responsible investment policy and net zero commitments.

6.3 Manager Turnover

For the investment in liquid funds or semi liquid funds (i.e. all asset classes except infrastructure and sustainable opportunities) there is no set duration for the manager appointments. Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then it will look to review and if necessary replace the manager. Whilst the input of the investment consultant's forward looking view will be considered it does not drive decision making. A change may also be made due to a strategy change.

For investments in closed-ended funds - infrastructure and sustainable opportunities - the Scheme is expected to be invested in a manager's fund for the lifetime of the fund. At the time of appointment, the investment managers provided an indication of the expected investment duration of their funds and have the discretion to extend the lifetime of the fund in line with the Investment Management Agreement.

The Trustee is aware that the semi liquid and closed ended funds could be sold but a discount to the valuation will likely be required by any purchaser.

6.4 Portfolio Turnover Costs

The Investment Sub Committee and Trustee do not currently monitor portfolio turnover costs but will look to cover this going forward with investment managers when they present at the Investment Sub Committee meetings. The Investment Sub Committee will engage with a manager if portfolio turnover is higher than expected. The Investment Sub Committee assesses investment performance net of the impact of the costs of trading, expenses and management fees.

6.5 Responsible Investment and Corporate Governance (Voting and Engagement)

The Trustee has a Responsible Investment Policy that sets out how the Scheme manages sustainability risks and opportunities, including ESG factors. The Trustee believes that ESG issues have a financially material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration. As a result, within the Future Service investment strategy, the equity allocation is invested in a global equity mandate which focuses on managing ESG risks, and includes a decarbonisation pathway which aims to align the fund to be net zero by 2050. In addition, the Past Service investment strategy includes a Sustainable Opportunities mandate, which focuses on investing in companies that target solutions in sustainability themes.

Where relevant to the manager's mandate, the Trustee has given them full discretion in evaluating ESG factors, including climate change considerations. In addition, they have delegated to the investment managers engagement with companies, and exercising voting rights and stewardship obligations attached to the investments, including considering climate change impacts. At each Investment Sub Committee meeting, where applicable the Committee receives from the investment manager details of their stewardship policies, their published Stewardship Code report and details of their voting and engagement activities. Investment managers will provide examples of their engagements with companies when presenting to the Investment Sub Committee, providing an opportunity for the Committee to question them on their activity.

The Trustee has discussed voting and engagement in the context of ESG and considers climate change to be their priority. Whilst they do not seek to influence the manager's voting and engagement decisions, the Investment Sub Committee will discuss, as appropriate, with each manager their approach to climate change with the companies they invest in. Details of the investment managers' engagement activity is outlined within the annual Engagement Policy Implementation Statement published by the Trustee. This also includes details of the votes the Trustee considers "significant votes" made by the managers. The Trustee currently considers significant votes:

- To relate to companies that represent at least 1% of the fund in question as at the date of the vote (a greater proportionate holding is likely to have a greater impact on the fund's performance over time); or

- To be linked to the stewardship priority of climate change; or

- Where the investment manager has indicated the vote was of particular significance to them.

The main voting rights are attached to the LGIM and Ruffer investments – see the IPID for more detail of their specific mandates. Further information on their voting and engagement activity, noting some information may not be directly relevant to the Scheme's investments, can be found at: https://www.lgim.com/uk/en/capabilities/investment-stewardship/active-ownership/ and https://www.ruffer.co.uk/en/About/Responsible-investing

The Investment Sub Committee and Trustee consider, amongst other factors, how ESG, climate change and stewardship is integrated within investment processes in appointing, monitoring and withdrawing from investment managers. Monitoring is undertaken on a regular basis and this makes use of the investment consultant's ESG ratings. This is documented at least annually.

Member views are not taken into account in the selection, retention and realisation of investments, but members have a variety of methods by which they can make views known to the Trustee. This position is reviewed periodically.

7. Realisation of Investments

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

The Trustee has a cashflow policy. Contributions will, unless agreed otherwise, be invested equally across the two mandates held within the Future Service investment strategy.

Where appropriate, all mandates within the Past Service investment strategy will be held in income/distributing share classes to assist in meeting cashflow payments. Should disinvestments be required, the cashflow policy will outline where assets should be redeemed to raise cash.

The Trustee and Investment Sub Committee review the Scheme's asset allocation within the Past and Future Service strategies against their benchmarks and will consider the need for rebalancing or changes to the cashflow policy.

8. Compliance with this Statement

The Trustee will monitor compliance with this Statement regularly, and in any event will review this Statement at least once every three years and without delay after any significant change in investment policy. The Statement will also be reviewed in response to any material changes to any aspects of the Scheme and its liabilities, finances and attitude to risk of the Trustee and the Company which they judge to have a bearing on the stated investment policy. Any such review will be based on written expert investment advice and will be in consultation with the Trustee and the Company.