

South East Water Pension Scheme

Annual Report and Financial Statements

31 March 2021

Scheme Registration number 10183078

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Section 1 – Trustee and its Advisers

Trustee

Water Pension Trustee Limited was appointed as Trustee of the South East Water Pension Scheme ('SEWPS') in December 2016.

The Trustee Directors

Company appointed

J Stimpson (Chair)
 R Loh
 J Murphy (resigned 1 April 2020)
 O Martin (resigned 8 March 2021)
 M Hersey (appointed 8 March 2021)
 S Jenkins (appointed 1 April 2020)
 N A Morton

Member nominated

M Giel (appointed by the members of both SEWPS and MKGPS)
 D Chung (appointed by the members of both SEWPS and MKGPS)
 R J Allison (appointed by the members of both SEWPS and MKGPS)
 P Seeley (appointed by the members of both SEWPS and MKGPS)

Secretary to the Trustee:

Peter Carver FIA CERA, Hymans Robertson LLP

Advisers

The advisers to the Trustee are set out below:

Actuary	Shireen Anisuddin FIA CERA, Hymans Robertson LLP
Auditor	Mazars LLP
Legal Adviser	Squire Patton Boggs (UK) LLP
Administrator	Hymans Robertson LLP
Investment Consultant	Hymans Robertson LLP
Investment Managers	Barings Asset Management Ltd Invesco Perpetual Limited Just Group Plc Aegon Asset Management I.C. Ireland (Formerly Kames Capital) (until 2 June 2020) Legal and General Investment Management Limited M&G Investment Management Limited Schroders Investment Management (UK) Limited Insight Investment Management (Ireland) Limited (from June 2020) TwentyFour Asset Management LLP (from May 2020)
Bankers	Barclays Bank plc
AVC Provider	Aviva UK Limited

Principal Employer

South East Water Limited

Contact address

Ms Tracey Smith
Payroll and Pensions Manager
South East Water Limited
Rocfort Road
Snodland
Kent ME6 5AH

Section 2 – Trustee’s Report

The Trustee of the South East 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 March 2021. The purpose of the report is to describe how the Scheme and its investments have been managed during the year.

Management of the Scheme

Legal Status

The Scheme is governed by a Definitive Trust Deed and Rules dated 28 December 2016.

The Scheme is a defined benefit scheme and is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004.

Members of the Scheme were contracted out of the State Second Pension (S2P), prior to the closure of the Scheme to future benefits (see below). Prior to 6 April 2012 this was on a Money Purchase ('Protected Rights') basis. Following the Government's abolition of contracting out on a Money Purchase basis from 6 April 2012, the Scheme was amended to instead be contracted out on a Defined Benefit ('Reference Scheme Test') basis from 6 April 2012 onwards.

The scheme was closed from 1 April 2015. The closure means that active members will earn no further benefits from 31 March 2015. Any benefits built up in the Scheme prior to this date will be protected and all members will still receive them as expected. Future pension benefits will be provided through the Company's Defined Contribution scheme.

Trustee

The Trustee of the South East Water Pension Scheme is Water Pension Trustee Limited whose Directors are listed on page 1.

In accordance with the trust deed the Principal Employer has the power to appoint and remove Employer Nominated Trustee Directors.

In accordance with the Occupational Pension Scheme (Member-Nominated Trustees and Directors) Regulations 1996, four of the Trustee Directors are nominated by the members of the South East Water Pension Scheme and Mid Kent Group Pension Scheme to serve for a period of up to five years.

The Member-Nominated Trustee Directors may be removed before the end of their term only by agreement of all of the remaining Trustee Directors, although their appointment ceases if they cease to be members of the Scheme.

The Trustee met formally for regular Trustee meetings 4 times during the year. In addition, there were further meetings for other activities including additional meetings in respect of specific projects and a number of meetings of subcommittees. From December 2016, the Trustee of the South East Water Pension Scheme, Water Pension Trustee Limited, is also the Trustee of the Mid Kent Group Pension Scheme, so that all Trustee meetings and subcommittee meetings are joint meetings of the two Schemes.

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 shows that the net assets of the Scheme increased from £171,247,000 at 31 March 2020 to £178,735,000 at 31 March 2021. The increase in net assets is accounted for by:

	31 March 2021 £000	31 March 2020 £000
Contributions paid in by the Company	4,037	3,950
Benefits paid to members and payments in respect of leavers	(7,235)	(7,899)
Administrative expenses	(342)	(221)
Net withdrawals from dealings with members	(3,540)	(4,170)
Returns on investments	11,399	2,028
Investment manager expenses	(371)	(380)
Total (decrease)/increase in net assets for the year	7,488	(2,522)
Net assets at the start of the year	171,247	173,769
Net assets at the end of the year	178,735	171,247

Pension Increases

During the Scheme year, pension increases were applied in accordance with the Scheme Rules as follows:

- Effective date – 1 April 2020
- GMPs accrued pre 6 April 1988 = Nil% (increases in line with the annual rise in CPI are guaranteed by the State)
- GMPs accrued post 5 April 1988 = 1.7% (in accordance with the statutory revaluation orders)
- Non GMP benefits accrued pre 6 April 1997 = 1.7%
- Benefits accrued post 5 April 1997 = 1.7%

Transfer Values

All transfer values paid during the year were calculated and verified as required under Section 97 of the Pension Schemes Act 1993.

Transfer values paid represented the full value of members' guaranteed benefits. There were no transfers paid at less than the cash equivalent.

No allowance is made for any discretionary benefits when assessing transfer values.

Schedule of Contributions

Following the actuarial valuation on 31 March 2020, a Schedule of Contributions was agreed and certified by the Scheme Actuary on 18 June 2021. Future deficit contributions of £3,770,104 per annum and expense contributions of £302,750 per annum were effective from 1 July 2021 until 31 March 2025. These figures increase in line with RPI inflation each future year with effect from 1 April 2022.

The Schedule of Contributions is available on request from the Trustee.

Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, the Scheme has adopted a 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 at the valuation date (also known as the liabilities). This value is assessed using the assumptions agreed between the Trustee and the Employer as set out in the latest Statement of Funding Principles dated 18 June 2021, which is available on request.

The most recent signed actuarial valuation of the Scheme was carried out as at 31 March 2020. This showed that on that date:

The value of the Technical Provisions was:	£197.4 million
The value of the Scheme's assets was:	£171.2 million

Both these figures exclude the value of members' AVC funds. On this basis the Scheme had a funding deficit of £26.2 million at 31 March 2020 corresponding to a funding level of 87%.

A Recovery Plan was agreed between the Trustee and the Employer on 18 June 2021 to address the funding shortfall, details are set out later in this report.

Between triennial actuarial valuations, trustees of defined benefit schemes with more than 100 members must commission an annual funding report called an "actuarial report". The actuarial report must have an effective date of no later than one year from the date of the previous actuarial valuation or actuarial report, and must be completed within one year of the report's effective date. An Actuarial report for the Scheme as at 31 March 2021 will be prepared before 31 March 2022. The next triennial valuation of the Scheme is due as at 31 March 2023.

The method and the significant actuarial assumptions used to determine the Technical Provisions are as follows (further details of all assumptions adopted are set out in the Statement of Funding Principles dated 18 June 2021):

Method:

The actuarial method to be used in the calculation of the Technical Provisions is the 'Projected Unit' method.

Significant assumptions:

Discount rate: In line with gilt yield curve + 0.8% p.a. until 31 March 2025; then + 0.5% p.a. thereafter.

Future Retail Prices Index (RPI) inflation: In line with a gilt market implied inflation curve.

Future Consumer Prices Index (CPI) inflation: Derived from the assumption for future RPI inflation, less an adjustment of 1.0% p.a. to 2030, then less 0.5% p.a. thereafter.

Pensionable salary increases: No allowance due to Scheme closure from 31 March 2015.

Pension increases (in excess of GMP): CPI price inflation adjusted to allow for an annual floor of 0% p.a.

Revaluation prior to retirement: In line with the greater of statutory revaluation and the relevant multiplier under the Pensions (Increase) Act 1971.

Mortality: Member specific Club Vita tables based on the Scheme's membership at the 2020 valuation. Future improvements in line with CMI 2019 core model with core smoothing parameter ($Sk=7.0$), addition to initial

improvements ('A' parameter) of 0.5, and a long term rate of improvement of 1.5% p.a tapering linearly to zero between the ages of 85 to 110.

Commutation: Members assumed to commute 80% of the maximum allowable pension under post-April 2006 HMRC limits on current Scheme terms.

Other assumptions: Appropriate allowance is made for early retirements, as set out in the Statement of Funding Principles dated 18 June 2021.

Guaranteed Minimum Pension ('GMP')

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The Trustee is aware that the issue will affect the Scheme and will be considering this at future meetings and decisions will be made as to the next steps. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. The impact on the Scheme is not expected to be material and has therefore not been recognised in the accounts.

In November 2020 a further judgement was passed down on the Lloyds Bank GMP equalisation case, requiring pension scheme trustees to investigate historic transfer payments since 17 May 1990 and check whether the payment would have been higher had the member's benefits been equalised for the effects of unequal male and female GMPs. In cases where payments would have been higher, trustees may have an obligation to make "top-up" payments. The Trustee will take advice on the matter as part of the larger project of implementing GMP equalisation, but the impact on the Scheme is not expected to be material and has therefore not been recognised in the accounts.

Covid-19

The Covid-19 worldwide outbreak caused extreme volatility in financial markets in early 2020 and had the potential to materially affect the strength of the employer covenant; the funding level of the Scheme and various operational aspects of running the Scheme. The Trustee reviewed the impact carefully, seeking advice from its advisers as required to mitigate the impact on the Scheme. The Trustee continues to monitor the impact of the pandemic on the Scheme's funding position and any impact on the likelihood of achieving its objectives. This was explicitly considered as part of the 31 March 2020 valuation process.

Brexit

The Trustee has considered the impact of the withdrawal of the United Kingdom from the European Union (Brexit) on 31 January 2021. There continues to be uncertainty on the full terms of Brexit and it's likely that the full impact will not be understood for some time. It is therefore difficult to evaluate the full potential implications for the sponsoring employer and the wider economy, however the Trustee has noted that as a UK utility company, the sponsoring employer's exposure is likely to be limited relative to many other businesses. The Trustee continues to monitor events and their potential impact on the Scheme, however at this stage Brexit is not expected to have a significant impact on the sponsoring employer or the Scheme.

Scheme Membership

The reconciliation of the Scheme membership during the year ended 31 March 2021 is shown below:

Pensioner Members (including spouses and dependants)	Number
As at 31 March 2020	702
Prior period adjustments	(2)
Restated as at 31st March 2020	700
Retirements	15
Deaths	(31)
Spouses pensions	13
Pensioner members as at 31 March 2021	697

Deferred Pensioner Members	Number
As at 31 March 2020	368
Retirements	(15)
Deferred pensioner members as at 31 March 2021	353

Investment Policy

Investment manager

The Scheme's investments are handled by investment managers appointed by the Trustee. The investment strategy is agreed by the Trustee after taking appropriate advice. Subject to the investment strategy set by the Trustee, day to day management of the Scheme's portfolio, which includes full discretion over stock selection, is the responsibility of the investment managers.

The investment managers are shown on page 1.

Investment strategy

The current investment strategy has been designed to reduce the current risks to the future development of the Scheme's funding position through investment in assets that will generate cash that can be used to pay benefits as they fall due. In addition, the Trustee holds investments whose prices are designed to move in line with changes in the value placed on the Scheme's liability to pay benefits in the future.

The Trustee made the following changes to the Scheme's investment strategy over the year:

- Fully disinvest the Scheme's holdings in Aegon, transferring the proceeds equally to Insight, TwentyFour and M&G Asset Backed Securities funds; and
- Increase the Scheme's interest rates and inflation hedge ratios to 80% and 72.5%, respectively.

Due to movements resulting from the pandemic and the subsequent rebound in financial markets, the Trustee made the following rebalancing actions:

- Topped up allocations to Barings High Yield Credit Strategies Fund and M&G Alpha Opportunities Fund using excess liquidity; and
- Crystallised the strong returns seen in the LGIM RAFI fund, rebalancing the fund towards its benchmark weight, investing the proceeds in the Insight Global ABS fund.

As of 31 March 2021, the Scheme hedge ratios were 80% and 72.5% for interest rate and inflation hedging, respectively. The Trustee increased the Scheme's inflation hedge ratio to 80% following year-end.

Asset allocation

The asset allocation of the Scheme at 31 March 2021 is summarised in the table below.

	Asset Allocation at 31 March 2021		
	Valuation £	Total Fund %	Benchmark %
Global Equity	15,683,000	8.8%	7.5%
Absolute Return	16,661,000	9.3%	10.0%
Higher Risk Absolute Return Bonds	26,329,000	14.7%	12.5%
Multi-Asset Credit	14,325,000	8.0%	7.5%
Asset Backed Securities	45,461,000	25.4%	62.5%
Gilts / LDI	47,547,000	26.5%	
Annuity buy in	6,960,000	3.9%	
Private Equity	183,000	0.1%	0.0%
Cash	5,600,000	3.3%	0.0%
Total	178,749,000	100.0%	100.0%

Investment Performance

The return (net of fees) on the Scheme's investments over various periods to 31 March 2021 is shown below together with the return on the benchmark adopted by the Trustee.

Period Ended 31 March 2021	Scheme	Benchmark
1 year (%)	3.2	3.1
3 years (% p.a.)	4.2	5.6

Pricing methods of managers

Manager	Fund	Pricing point
Baring Asset Management Limited	Global High Yield Credit Fund	Daily
Invesco Perpetual Limited	Global Targeted Returns Fund	Daily
Legal & General Investment Management Limited	Equities and gilt/LDI index funds	Weekly
	Sterling Liquidity Fund	Daily
M&G Investment Management Limited	Alpha Opportunities Fund	Fund is priced monthly, at month end
	Credit Opportunities Fund IV	Monthly
TwentyFour Asset Management	Monument Bond Fund	Daily
Insight Investment Management (Ireland) Limited	Insight Global Asset-Backed Securities Fund	Daily
Schroders Investment Management (UK) Limited	Schroder Private Equity Fund	Biannually

Statement of Investment Principles

The Trustee has prepared a Statement of Investment Principles (the "SIP"), which sets out the principles governing how investments are chosen. A copy of the Scheme's SIP can be found at www.sewpensionscheme.co.uk.

Custodial Arrangements

The custodian is responsible for the safe keeping, monitoring and reconciliation of documentation relating to the ownership of listed investments. Underlying investments are held in the name of the custodian's nominee companies, in line with common practice for pension scheme investments. The table below shows the custodial arrangements for each investment manager.

Investment Manager	Custodian
Barings Asset Management Ltd	State Street Custodial Services (Ireland) Limited
Invesco Perpetual Limited	BNY Mellon
Legal and General Investment Management Limited	Northern Trust Global Services Limited
M&G Investment Management Limited	State Street Custodial Services (Ireland) Limited
TwentyFour Asset Management	The Northern Trust Company, London Branch
Insight Investment Management (Ireland) Limited	Northern Trust Fiduciary Services (Ireland) Limited
Schroders Investment Management (UK) Limited	Schroders Investment Management (UK) Limited

Employer Related Investments

There were no employer related investments during the year (2020: £nil).

Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with the UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS102) are the responsibility of the trustees. Pension scheme regulations require, and the Trustees 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 the scheme 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 Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement as to whether the financial statements have been prepared in accordance with the relevant 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 preparation 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 it 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 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 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 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 occur, the trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

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 Internal Dispute Resolution (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 following address:

Secretary to the Trustee
South East Water Pension Scheme
Hymans Robertson LLP
One London Wall
London
EC2Y 5EA
Email: southeastwater@hymans.co.uk .

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 above address.

The Pensions Advisory Service and The Pensions Ombudsman

Members have the right to refer their 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 events(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
www.pensions-ombudsman.org.uk

Members can also submit a complaint form online:

www.pensions-ombudsman.org.uk/our-service/make-a-complaint/

If members have any general requests for information or guidance concerning their pension arrangements contact:

Money and Pensions Service
Holburn Centre
120 Holburn
London
EC1N 2TD
Tel: 0115 965 9570
Email: contact@map.org.uk
Website: <https://www.moneyandpensionservice.org.uk/>

The Pensions Regulator

The Pensions Regulator (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
Napier House
Trafalgar Place
Brighton
BN1 4DW

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 Pension Tracing Service are as follows:

Pension Tracing Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU

www.gov.uk/find-pension-contact-details

Approval of the Report by the Trustee

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


Joanne Stimpson (Sep 6, 2021 13:23 GMT+1)

Trustee Director


David Chung (Sep 6, 2021 13:43 GMT+1)

Trustee Director

Sep 6, 2021

Date

Section 3 – Independent Auditor’s Report

Opinion

We have audited the financial statements of South East Water Pension Scheme for the year ended 31 March 2021 which comprise the Fund Account, the Statement of Net Assets and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the scheme’s affairs as at 31 March 2021 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; 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.

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 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 entity’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.

Other information

The other information comprises the information included in the Trustee’s 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, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 there is a material misstatement in the financial statements or a material misstatement of the other information. 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 the Trustee

As explained more fully in the Trustee's Responsibilities Statement set out on page 11, 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 the financial statements.

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. Based on our understanding of South East Water Pension Scheme, we identified that the principal risks of non-compliance with laws and regulations related to the Non-receipt of contributions from the principal employer in accordance with the Schedule of Contributions, UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements, such as the Pensions Act 1995.

We evaluated the trustee's and management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- Discussing with the trustee and management their policies and procedures regarding compliance with laws and regulations;
- Communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the trustee and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit 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.


Mazars LLP (Sep 14, 2021 12:34 GMT+1)

Mazars LLP

Chartered Accountants and Statutory Auditor
The Pinnacle
160 Midsummer Boulevard
Milton Keynes
MK9 1FF

Date Sep 14, 2021

Section 4 – Financial Statements

Fund Account for year ended 31 March 2021

	<i>Note</i>	2021 £000	2020 £000
CONTRIBUTIONS AND BENEFITS			
Contributions			
Employer	4	4,037	3,950
		4,037	3,950
Benefits	5	(6,762)	(7,451)
Leavers	6	(473)	(448)
Administrative expenses	7	(342)	(221)
		(7,577)	(8,120)
Net withdrawals from dealings with members		(3,540)	(4,170)
RETURNS ON INVESTMENTS			
Investment income	8	2,036	2,301
Change in market value of investments	10	9,363	(273)
Investment management expenses	11	(371)	(380)
Net returns on investments		11,028	1,648
Net increase/(decrease) in the Scheme during the year		7,488	(2,522)
Balance of the Scheme at the start of the year		171,247	173,769
Balance of the Scheme at the end of the year		178,735	171,247

The notes on pages 19 to 27 form part of these financial statements.

Statement of Net Assets (available for benefits) as at 31 March 2021

		2021	2020
	Note	£000	£000
Investment assets	10		
Pooled investment vehicles		171,789	154,997
Insurance policy		6,960	7,343
AVC		27	27
Investment cash		36	8,034
		178,812	170,401
Current assets	12	618	1,504
Current liabilities	13	(695)	(658)
Net assets of the Scheme at the end of the year		178,735	171,247

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 does take account of such obligations, is dealt with in the Report on actuarial liabilities on pages 5 and 6 of these financial statements and should be read in conjunction therewith.

These financial statements were approved by the Trustee of the South East Water Pension Scheme and signed for and on their behalf by:


Joanne Stimpson (Sep 6, 2021 13:23 GMT+1)

Trustee Director


David Chung (Sep 6, 2021 13:43 GMT+1)

Trustee Director

Sep 6, 2021

Date

The notes on pages 19 to 27 form part of these financial statements.

Section 5 – Notes to the Financial Statements

Notes to the financial statements for the year ended 31 March 2021

1. BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis and in accordance with the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS 102) – The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland issued by the Financial Reporting Council (“FRS 102”) and the guidance set out in the Statement of Recommended Practice, “Financial Reports of Pension Schemes” (Revised June 2018) (“the SORP”).

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Plan has adequate resources to realise its assets and meet pension payments in the normal course of affairs (continue to operate) for at least the next twelve months. In reaching this conclusion, the Trustee considered the impact of the COVID-19 outbreak and has taken into account plausible downside assumptions of the Sponsoring Employer to gain comfort that it will continue to make contributions as they fall due. This assessment, together with income and capital growth from its assets, gives the Trustee confidence to prepare the financial statements on a going concern basis.

2. IDENTIFICATION OF FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address for enquiries to the scheme is

Secretary to the Trustee
South East Water Pension Scheme
Hymans Robertson LLP
One London Wall
London
EC2Y 5EA
Email: southeastwater@hymans.co.uk

3. ACCOUNTING POLICIES

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

3.1 Contributions

Deficit and expenses contributions are accounted for in accordance with the terms of the Schedule of Contributions.

3.2 Additional voluntary contributions (AVCs)

AVCs are accounted for on an accruals basis, in the same way as other contributions, and the resulting investments are included in the net assets statement.

3.3 Benefits

Pensions payable in respect of the Scheme year are accounted for by reference to the period to which they relate. Refunds and lump sums are accounted for by reference to the later of the date of retirement or leaving the Scheme, or the date the option is exercised

3.4 Transfers

Transfer values to other pension arrangements are accounted for when the liability for any pension benefits in respect of a transferring member passes from the Scheme.

Notes to the financial statements for the year ended 31 March 2021 (continued)

3. ACCOUNTING POLICIES (Continued)**3.5 Income**

Interest on bank deposits is accounted for on an accruals basis. Income from investment vehicles is accounted for on an accruals basis.

3.6 Investments

Quoted securities are valued at the bid market price at the close of business. The fair value of unit trusts and managed fund units is taken as the bid price at the accounting date as advised by the investment managers.

The Just Group Plc insurance policy is allocated to the provision of pensions for certain members of the Scheme. Income received from this policy is treated as investment income and the corresponding expenditure is included in Benefits within the pension payment account. The buy in policy remains an asset of the Scheme and is valued at the year-end using an "actuarial value" approach. This approach places a value on the policy based on the present value of the underlying pension cashflows. The valuation has been prepared by the Scheme Actuary on a technical provisions basis which is consistent with the valuation of the Scheme's liabilities.

The changes in investment market values are accounted for in the year in which they arise and include profits and losses on investments sold as well as unrealised gains and losses in the value of investments held at the year end.

Investments in overseas currencies are translated into sterling at the exchange rates ruling at the year end.

4. CONTRIBUTIONS

	2021	2020
	£000	£000
Employer		
Deficit funding	3,737	3,656
Contributions to cover expenses	300	294
	4,037	3,950

Deficit funding contributions of £3,737,000 (2020: £3,656,000) and expense contributions of £300,000 (2020: £294,000) were received as per the Schedule of Contributions. Deficit funding contributions are payable to 31 March 2025

Notes to the financial statements for the year ended 31 March 2021 (continued)

5. BENEFITS

	2021	2020
	£000	£000
Pensions	6,448	6,424
Commutations and lump sum retirement benefits	314	983
Death benefits	-	44
	6,762	7,451

6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2021	2020
	£000	£000
Individual transfers to other schemes	473	448

7. ADMINISTRATIVE EXPENSES

	2021	2020
	£000	£000
Administration and actuarial	269	192
Audit Fee	18	11
Legal and other professional fees	36	7
PPF Levy	19	11
	342	221

8. INVESTMENT INCOME

	2021	2020
	£000	£000
Pooled investment vehicles	1,742	2,010
Annuity income	294	290
Interest on cash deposits	-	1
	2,036	2,301

9. TAX

The South East Water Pension Scheme is a registered pension scheme for tax purposes under the Finance Act 2004. The Scheme is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate.

Notes to the financial statements for the year ended 31 March 2021 (continued)

10. INVESTMENT ASSETS

10.1 Investment Assets Reconciliation

The movements in investments during the year were:

	<i>Opening value</i>	<i>Purchase cost</i>	<i>Sales proceeds</i>	<i>Change in market value</i>	<i>Closing value</i>
	£000	£000	£000	£000	£000
Pooled investment vehicles	154,997	90,794	(83,748)	9,746	171,789
Insurance policy	7,343	-	-	(383)	6,960
AVC investments	27	-	-	-	27
Total	162,367	90,794	(83,748)	9,363	178,776
Investment cash	8,034				36
	170,401				178,812

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

Insurance policy

The Just Group Plc insurance policy is allocated to the provision of pensions for certain members of the Scheme. Income received from this policy is treated as investment income and the corresponding expenditure is included in Benefits within the pension payment account. The buy in policy remains an asset of the Scheme and is valued by the Scheme Actuary at the year-end using an “actuarial value” approach. This approach places a value on the policy based on the present value of the underlying pension cashflows. The valuation has been prepared by the Scheme Actuary on a technical provisions basis which is consistent with the valuation of the Scheme’s liabilities.

All fund managers operating the pooled investment vehicles are registered in the United Kingdom

Notes to the financial statements for the year ended 31 March 2021 (continued)

10. INVESTMENT ASSETS (Continued)**10.2 Pooled Investment Vehicles (PIV)**

	2021	2020
	£000	£000
Global Equity	15,683	12,767
Absolute Return	16,661	16,923
Multi-Asset Credit	14,325	10,297
Asset Backed Securities	45,461	-
Absolute Return Bonds	26,329	63,685
Gilts - LDI Funds	47,547	50,221
Liquidity Funds	5,600	913
Private Equity	183	191
	171,789	154,997

10.3 AVC Investments

The Trustees hold assets invested separately from the main fund in the form of a managed fund/insurance policy. These secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement made up to 31 March confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are shown above:

	2021	2020
	£000	£000
Aviva	27	27

10.4 Concentration of Investments

The following investments account for more than 5% of the Scheme's net assets as at 31 March 2021:

	2021		2020	
	£000	% of net assets	£000	% of net assets
M&G Alpha Opportunities Fund	26,329	14.7	20,637	12.0
Invesco Perpetual Global Targeted Returns Fund	16,661	9.3	16,923	9.9
Legal & General FTSE RAFI AW 3000 Equity Index	15,683	8.8	12,767	7.4
TwentyFour AM Monument Bond Fund	15,459	8.7	-	-
M&G Credit Opportunities Fund IV	15,021	8.4	-	-
IIFIG Global ABS Fund Cls B GBP Income	14,981	8.4	-	-
Barings Global High Yield Credit Fund	14,325	8.0	10,297	6.0
Kames Capital Absolute Return Bond Fund Cls B	-	-	43,048	25.1

Notes to the financial statements for the year ended 31 March 2021 (continued)

10. INVESTMENT ASSETS (Continued)

10.5 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 that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset, 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 invested assets have been fair valued using the above hierarchy categories as follows:

As at 31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Pooled investment vehicles	22,262	149,345	182	171,789
Insurance policy	-	-	6,960	6,960
AVC investments	-	27	-	27
Investment cash	36	-	-	36
	22,298	149,372	7,142	178,812

As at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Pooled investment vehicles	12,767	142,039	191	154,997
Insurance policy	-	-	7,343	7,343
AVC investments	-	27	-	27
Tax recoverable	8,034	-	-	8,034
	20,801	142,066	7,534	170,401

Notes to the financial statements for the year ended 31 March 2021 (continued)

10. INVESTMENT ASSETS (Continued)

10.6 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). These changes may be caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to these risks via the investments held to implement the Scheme's investment strategy. The Trustee determines their investment strategy after taking advice from the investment adviser. The Trustee manages investment risks, including credit risk and market risk, considering the Scheme's investment objectives and the investment strategy and the advice of their investment advisers.

The Scheme invests in sterling denominated pooled investment vehicles (PIVs). The Scheme therefore has direct credit risk to the PIV and indirect credit and market risks arising from the underlying investments of the PIVs. The Trustee selects the PIVs based on their investment mandates and monitor the PIV at the fund level. The investment managers are responsible for managing the underlying credit and market risks within the PIVs.

The Scheme's investment strategy has been disclosed within the Trustee's report.

Further information on the Trustee's approach to risk management is set out below. This does not include AVC investments, as these are not considered significant in relation to the overall investments of the Scheme.

Direct Credit risk

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.

All the pooled investment vehicles are unrated. Cash is held within financial institutions which are at least investment grade credit rated. Insurance policies are held with Just Group Plc. The Scheme has direct credit risk with Just Group Plc arising from these contracts.

Notes to the financial statements for the year ended 31 March 2021

10. INVESTMENT ASSETS (Continued)

10.6 Investment Risks (Continued)

Indirect credit and market risks

The table below summarises which PIVs have significant exposure to indirect credit and market risks.

2021 and 2020	Credit risk	Foreign exchange risk	Interest rate risk	Other price risk
Aegon Absolute Return Bond Fund	✓	✓	✓	✓
Barings Global High Yield Credit Strategies Fund	✓	✓	✓	-
Invesco Global Targeted Returns Fund	✓	✓	✓	✓
Legal & General Investment Management LDI	✓	-	✓	✓
Legal & General Investment Management Sterling Liquidity Fund	✓	-	✓	-
Legal & General Investment Management FTSE RAFI AW 3000 Equity Index Fund	-	✓	-	✓
M&G Alpha Opportunities Fund	✓	✓	✓	✓
M&G Credit Opportunities Fund	✓	✓	✓	-
Insight Investment Global ABS Fund	✓	✓	✓	-
TwentyFour AM Monument Bond Fund	✓	✓	✓	-
Schroder Private Equity Fund of Funds	-	✓	-	✓

11. INVESTMENT MANAGEMENT EXPENSES

	2021	2020
	£000	£000
Administration, management and custody	371	380

12. CURRENT ASSETS

	2021	2020
	£000	£000
Contributions receivable		
- Employer		
Deficit Contributions	311	305
Expense Contributions	25	24
Cash balances	282	1,175
	618	1,504

Contributions were paid in line with the Schedule of Contributions.

Notes to the financial statements for the year ended 31 March 2021 (continued)

13. CURRENT LIABILITIES

	2021	2020
	£000	£000
Unpaid benefits	554	532
Accrued expenses	141	126
	695	658

14. RELATED PARTY TRANSACTIONS

Certain Trustee Directors in office during the financial year were members of the Scheme. The pension payments for the pensioner Trustee Directors are paid in accordance with the Scheme rules.

15. EMPLOYER RELATED INVESTMENTS

There were no employer related investments at 31 March 2021 (2020: none) or at any time during the year.

16. GUARANTEED MINIMUM PENSION ('GMP')

As noted in the Trustee's Report on page 6, on 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The Trustee is aware that the issue will affect the Scheme and will be considering this at future meetings and decisions will be made as to the next steps. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. The impact on the Scheme is not expected to be material and has therefore not been recognised in the accounts.

In November 2020 a further judgement was passed down on the Lloyds Bank GMP equalisation case, requiring pension scheme trustees to investigate historic transfer payments since 17 May 1990 and check whether the payment would have been higher had the member's benefits been equalised for the effects of unequal male and female GMPs. In cases where payments would have been higher, trustees may have an obligation to make "top-up" payments. The Trustee will take advice on the matter as part of the larger project of implementing GMP equalisation, but the impact on the Scheme is not expected to be material and has therefore not been recognised in the accounts.

Section 6 – Independent Auditor’s Statement about Contributions

Independent Auditor’s Statement about Contributions to the Trustee of the South East Water Pension Scheme

We have examined the summary of contributions of the South East Water Pension Scheme payable in respect of the Scheme year ended 31 March 2021 to which this statement is attached.

In our opinion the contributions for the Scheme year ended 31 March 2021 as reported in the Summary of Contributions to which this statement is attached and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the scheme actuary on 23 March 2018.

Scope of work on 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 schedule 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 schedule of contributions.

Respective responsibilities of trustee and auditor

As explained more fully in the statement of trustee’s responsibilities, the scheme’s trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the scheme by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a Statement about Contributions paid under the schedule of contributions and to report our opinion to you.

Mazars LLP
Mazars LLP (Sep 14, 2021 12:34 GMT+1)

Mazars LLP
Chartered Accountants and Statutory Auditor
The Pinnacle
160 Midsummer Boulevard
Milton Keynes
MK9 1FF
Date Sep 14, 2021

Summary of Contributions payable in the year

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

	Employer £000
Required by the schedule of contributions	
Deficit funding	3,737
Contributions to cover expenses	300
Total (as per Fund Account)	4,037

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


Joanne Stimpson (Sep 6, 2021 13:23 GMT+1)

Trustee Director


David Chung (Sep 6, 2021 13:43 GMT+1)

Trustee Director

Sep 6, 2021

Date

Section 7 – Actuarial Certificate



South East Water Pension Scheme | [Water Pension Trustee Ltd](#)

Schedule of Contributions – Actuarial Certificate

Scheme: South East Water Pension Scheme


Adequacy of contributions

In my opinion, the contributions shown in this schedule are such that the statutory funding objective on 31 March 2020 can be expected to be met by the end of the period specified in the recovery plan dated 18 June 2021.

Consistency with statement of funding principles

In my opinion, this schedule of contributions is consistent with the statement of funding principles dated 18 June 2021.

Please note that the adequacy of contributions statement in this certificate relates to the Scheme's statutory funding objective. For the avoidance of doubt this certificate does not mean that the contributions shown in this schedule would be enough to secure the scheme's full liabilities with annuities if the Scheme were to wind up.

Signature	
Date	18 June 2021
Name	Shireen Anisuddin
Qualification	Fellow of the Institute and Faculty of Actuaries
Name of Employer	Hymans Robertson LLP
Address	One London Wall London EC2Y 5EA

This certificate is provided to meet the requirements of regulation 10(6) of The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

Section 8 – Implementation Statement

South East Water Pension Scheme - Implementation Statement for 2019 DB Regulations

- **Statement of Compliance with the South East Water Pension Scheme’s Stewardship Policy for the year ending 31 March 2021**

Introduction

- This is the Trustee’s statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustee has complied with the Scheme’s Stewardship Policy during the period from 1 April 2020 to 31 March 2021.
- This Implementation Statement is in respect of the Scheme’s SIP that was in place as at 31 March 2021. In order to reflect new regulatory requirements, the SIP was reviewed and signed by the Chair during the last Scheme year on 30 September 2020.

Stewardship policy

- The Trustee Stewardship (voting and engagement) Policy sets out how the Trustee will behave as an active owner of the Scheme’s assets which includes the Trustee’s approach to;
 - the exercise of voting rights attached to assets; and
 - undertaking engagement activity, including how the Trustee monitors and engages with its investment managers and any other stakeholders.
- The Scheme’s Stewardship Policy is reviewed on an annual basis in line with the Scheme’s Statement of Investment Principles (SIP) review which was last completed on 30 September 2020.
- You can review the Scheme Stewardship Policy which can be found within the Scheme’s Statement of Investment Principles, at <http://www.sewpensionscheme.co.uk/>.
- The Trustee has delegated voting and engagement activity in respect of the underlying assets to the Scheme’s investment managers. The Trustee believes it is important that its investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues which affect a company’s financial performance.
- The Trustee’s own engagement activity is focused on its dialogue with its investment managers which is undertaken in conjunction with their investment advisers. The Trustee meets regularly with its managers and the Trustee considers managers’ exercise of their stewardship both during these meetings and through reporting provided by their investment adviser.
- The Trustee also monitors its compliance with its Stewardship Policy on a regular basis and is satisfied that they have complied with the Scheme’s Stewardship Policy over the last year.

Voting activity

- The Trustee seeks to ensure that its managers are exercising voting rights and where appropriate, to monitor managers’ voting patterns. The Trustee also monitors investment managers voting on particular companies or issues that affect more than one company.

- The Trustee has investment in equity assets through two different mandates, Legal & General FTSE RAFI All World 3000 Equity Index Fund and the Invesco Global Targeted Returns Fund. The investment managers have reported on how votes were cast in each of these mandates as set out in the tables 1 and 2 below.

Table 1: Legal & General voting data

• Legal & General FTSE RAFI All World 3000 Equity Index	•
• Proportion of Scheme assets as at 31 March 2021	• 8.8%
• Did the manager employ the house voting policy in managing the fund?	• Yes
• Was use made of any proxy voting service during the year?	• Yes – Institutional Shareholder Services (ISS)
• No. of holdings in the fund at year end	• 3,060
• No. of meetings eligible to vote at during the year	• 4,160
• No. of resolutions eligible to vote on during the year	• 49,156
• % of resolutions voted	• 99.8%
• % of resolutions voted with management	• 81.5%
• % of resolutions voted against management	• 18.1%
• % of resolutions abstained	• 0.4%
• % of meetings with at least one vote against management	• 6.0%

Table 2: Invesco voting data

• Invesco Global Targeted Returns Fund	•
• Proportion of Scheme assets as at 31 March 2020	• 9.3%
• Did the manager employ the house voting policy in managing the fund?	• Yes
• Was use made of any proxy voting service during the year?	• Yes - ISS
• No. of holdings in the fund at year end	• 313
• No. of meetings eligible to vote at during the year	• 365
• No. of resolutions eligible to vote on during the year	• 5332
• % of resolutions voted	• 98.4%
• % of resolutions voted with management	• 94.5%
• % of resolutions voted against management	• 5.6%
• % of resolutions abstained	• 0.5%
• % of meetings with at least one vote against management	• 33.1%

Significant votes

- The Trustee has asked its managers to report on the most significant votes cast within the portfolios they manage on behalf of the Trustee. Managers were asked to explain the reasons why votes were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote. From the managers reports, the Trustee has requested the managers' significant voting data and they are outlined in tables 3 and 4 below.

Table 3: Legal & General significant votes

• Date	• Company	• Subject (theme and summary)	• Manager's vote and rationale	• Why considered significant
<ul style="list-style-type: none"> 16 September 2020 	<ul style="list-style-type: none"> Olympus Corporation 	<ul style="list-style-type: none"> Elect male director at the company's annual shareholder meeting 	<ul style="list-style-type: none"> Manager voted against. Japanese companies in general have trailed behind European and US companies, as well as companies in other countries, in ensuring more women are appointed to their boards. The lack of women is also a concern below board level. LGIM have promoted and supported an increase of women on boards, at the executive level and below. On a global level LGIM consider that every board should have at least one female director. In February 2020 LGIM sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that they expect to see at least one woman on the board. One of the companies targeted was Olympus Corporation. LGIM opposed the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, in order to signal that the company needed to take action on this issue. 	<ul style="list-style-type: none"> This vote is deemed significant as LGIM considers it imperative that the boards of Japanese companies increase their diversity.

<ul style="list-style-type: none"> 23 October 2020 	<ul style="list-style-type: none"> Qantas Airways Limited 	<ul style="list-style-type: none"> Approve participation of CEO in the Long-Term Incentive Plan 	<ul style="list-style-type: none"> Manager voted against. The COVID crisis has had an impact on the Australian airline company's financials. The company raised significant capital to be able to execute its recovery plan. It also cancelled dividends, terminated employees and accepted government assistance. The circumstances triggered extra scrutiny from LGIM as they wanted to ensure the impact of the COVID crisis on the company's stakeholders was appropriately reflected in the executive pay package. LGIM's Investment Stewardship team engaged with the Head of Investor Relations of the company to express their concerns and understand the company's views. The voting decision ultimately sat with the Investment Stewardship team. 	<ul style="list-style-type: none"> It highlights the challenges of factoring in the impact of the COVID situation into the executive remuneration package.
<ul style="list-style-type: none"> 22 November 2020 	<ul style="list-style-type: none"> Whitehaven Coal 	<p>1</p> <p>Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.</p>	<ul style="list-style-type: none"> Manager voted for. The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation. LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets. 	<ul style="list-style-type: none"> The vote received media scrutiny and is emblematic of a growing wave of 'green' shareholder activism.

<ul style="list-style-type: none"> • 17 March 2021 	<ul style="list-style-type: none"> • Samsung Electronics 	<ul style="list-style-type: none"> • 1 – Elect Park Byung-gook as Outside Director • 2 – Elect Kim Jeong as Outside Director • 3 – Elect Kim Sun-uk as Outside Director to Serve as an Audit Committee Member 	<ul style="list-style-type: none"> • Manager voted against all three resolutions. In January 2021, Lee Jae-yong, the vice chairman of Samsung Electronics, was sentenced to two years and six months in prison for bribery, embezzlement and concealment of criminal proceeds. Lee Jae-yong was first sentenced to five years in prison in August 2017 for using the company's funds to bribe the impeached former President. While Lee was released from prison, he was not acquitted of the charges. LGIM engaged with the company ahead of the vote. However, they were not satisfied with the company's response that ties have been severed. LGIM are concerned that Lee Jae-yong continues to make strategic company decisions from prison. Additionally, they were not satisfied with the independence of the company board. LGIM voted against the resolutions as the outside directors, who should provide independent oversight, have collectively failed to remove criminally convicted directors from the board. The inaction is indicative of a material failure of governance and oversight at the company. 	<ul style="list-style-type: none"> • This was a high-profile vote, which has such a degree of controversy that there is high client and/or public scrutiny and the sanction vote was a result of a direct or collaborative engagement.
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Table 4: Invesco significant votes

• Date	• Company	• Subject (theme and summary)	• Manager's vote and rationale	• Why considered significant
• 21 April 2020	• Citigroup	• Report on lobbying payments and policy	• Voted against the resolution, in line with management recommendations. A vote against this resolution is warranted, as the company is disclosing adequate information for shareholders to be able to assess its engagement in the political process and its management of related risks.	• Invesco have over 1% ownership and it included key ESG proposal
• 8 May 2020	• AMP	• Ratify past issuance of shares to existing and new institutional investors	• Voted for the resolution, in line with management recommendations. A vote for the ratification of the past issuance of shares is warranted. The issuance was put towards the immediate implementation of the company's new strategy and to provide balance sheet strength to complete the sale of AMP Life.	• Invesco have over 1% ownership and it included key ESG proposal
• 18 May 2020 •	• Allied Minds Plc	• Authorize board to exclude pre-emptive rights from share issuances	• Voted for the resolution, in line with management recommendations. A vote for this proposal is warranted because it is in line with commonly used safeguards regarding volume and duration.	• Invesco have over 1% ownership and it included key ESG proposal
• 22 May 2020	• EasyJet	• Remove Johan Lundgren as Director	• Voted against the resolution, in line with management recommendations. A vote against these resolutions is warranted as the dissident has not provided sufficient evidence that removing four key directors will leave the board and the company better positioned to deal with the current crisis.	• Invesco have over 1% ownership and it included key ESG proposal

<ul style="list-style-type: none"> 7 September 2020 	<ul style="list-style-type: none"> International Consolidated Airlines Group SA 	<ul style="list-style-type: none"> Approve share capital increase 	<ul style="list-style-type: none"> Voted in line with management recommendations. Based on engagement with the company on this capital increase, they are supportive. 	<ul style="list-style-type: none"> Invesco have over 1% ownership and it included key ESG proposal
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Engagement activity

The Trustee hold meetings with their investment managers on a regular basis where stewardship issues are discussed in further detail. Over the last 12 months, the Trustee has met with 3 of their 7 managers (including Just). The Trustee has discussed the following issues over the course of the year.

Date	Fund manager	Subject discussed	Outcome
<ul style="list-style-type: none"> 11 May 2020 	<ul style="list-style-type: none"> M&G 	<ul style="list-style-type: none"> M&G response to PwC review of employee behaviour, following misconduct earlier in the year Business and team update Fund performance and actions taken during and since the pandemic Portfolio breakdown ESG update, including information on engagement 	<ul style="list-style-type: none"> The ISC were satisfied with the manager's performance through the pandemic period. M&G were asked to provide their detailed ESG engagement statistics following the meeting.
<ul style="list-style-type: none"> 10 August 2020 	<ul style="list-style-type: none"> Just 	<ul style="list-style-type: none"> Team update Market update and insurer pricing Just's solvency and capital position throughout the pandemic Regulatory updates ESG policies 	<ul style="list-style-type: none"> The ISC was content that Just's solvency position had remained healthy throughout the pandemic. Just were asked to provide their ESG framework. The ISC instructed Hymans to include Just in the annual review of the managers' RI policies
<ul style="list-style-type: none"> 8 February 2021 	<ul style="list-style-type: none"> Barings 	<ul style="list-style-type: none"> Updates on business unit and strategies Fund performance and characteristics, including 	<ul style="list-style-type: none"> The ISC was satisfied with the rebound in performance following the pandemic period and happy that

		<p>individual holding performance</p> <ul style="list-style-type: none"> • Asset class allocation progression over time • Possible impact of negative interest rates • ESG factors influence on investment process • Carbon reporting 	<p>they had improved their UNPRI rating to A+.</p> <ul style="list-style-type: none"> •
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Summary of manager engagement activity

- The following table summarises the key engagement activity for the 12-month period ending 31 March 2021. Where fund specific data is not available, data on a firmwide level has been used.

• Manager: Fund	• Number of engagements	• Topic engaged on
• Barings: Global Higher Yield Credit Strategies	<ul style="list-style-type: none"> No voting rights. 420 firmwide engagements, with more than 240 distinct issuers/companies globally 	<ul style="list-style-type: none"> Cybersecurity, Financial reporting, Diversity, Corporate strategy, Anti-bribery and corruption
• Legal & General: FTSE RAFI AW 3000 Equity Index	<ul style="list-style-type: none"> 49,156 eligible resolutions to vote on (voted 99.78%) 	<ul style="list-style-type: none"> ESG disclosures, Remuneration, Climate Change, Board composition, Strategy
• Insight: Global ABS	<ul style="list-style-type: none"> No voting rights for the Fund. 1,210 engagements over 2020. 	<ul style="list-style-type: none"> Broad ESG matters (90% of engagements in 2020 included some reference to ESG), industry and regulatory issues, climate change, environmental issues, governance, social issues, business policies, strategy.
• TwentyFour: Monument Bond	<ul style="list-style-type: none"> 139 engagements with the originators and servicers of the loan pools within the Monument Bond Fund. At a firmwide level number of engagements were 453. No voting rights. 	<ul style="list-style-type: none"> Environmental issues, social issues, governance issues, regular company updates
• M&G: Alpha Opportunities and Credit Opportunities IV	<ul style="list-style-type: none"> No voting rights. 14 ESG specific engagements within the Alpha Opportunities Fund. 72 engagements across all ABS funds 	<ul style="list-style-type: none"> Accounting practices, sustainability, ESG disclosure and transparency, COVID-19, remuneration, discussing scope 1-3 emissions targets
• Invesco: Global Targeted Return	<ul style="list-style-type: none"> 365 eligible meetings to vote at 5332 eligible resolutions to vote on (voted 98.4%) 	<ul style="list-style-type: none"> Environmental and social issues, remuneration and corporate structure issues.

Review of policies

- The Trustee has committed to reviewing the managers' RI policies on an annual basis. This last review was undertaken by the Trustee on 10 August 2020. The review considered managers broader approach to responsible investment issues in addition to considering any change in approach by the manager over the year. The Trustee also considered changes to their managers voting policies.

- The Trustee and its advisors remain satisfied that the responsible investment policies of the managers and, where appropriate, the voting policies remain suitable for the Scheme. The next review of RI policies is scheduled to take place in August 2021.

Table 1: Legal & General voting data

Legal & General FTSE RAFI All World 3000 Equity Index	
Proportion of Scheme assets as at 31 March 2021	8.8%
Did the manager employ the house voting policy in managing the fund?	Yes
Was use made of any proxy voting service during the year?	Yes – Institutional Shareholder Services (ISS)
No. of holdings in the fund at year end	3,060
No. of meetings eligible to vote at during the year	4,160
No. of resolutions eligible to vote on during the year	49,156
% of resolutions voted	99.8%
% of resolutions voted with management	81.5%
% of resolutions voted against management	18.1%
% of resolutions abstained	0.4%
% of meetings with at least one vote against management	6.0%

Table 2: Invesco voting data

Invesco Global Targeted Returns Fund	
Proportion of Scheme assets as at 31 March 2020	9.3%
Did the manager employ the house voting policy in managing the fund?	Yes
Was use made of any proxy voting service during the year?	Yes - ISS
No. of holdings in the fund at year end	313
No. of meetings eligible to vote at during the year	365
No. of resolutions eligible to vote on during the year	5332
% of resolutions voted	98.4%
% of resolutions voted with management	94.5%
% of resolutions voted against management	5.6%
% of resolutions abstained	0.5%
% of meetings with at least one vote against management	33.1%

Significant votes

The Trustee has asked its managers to report on the most significant votes cast within the portfolios they manage on behalf of the Trustee. Managers were asked to explain the reasons why votes were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote. From the managers reports, the Trustee has requested the managers' significant voting data and they are outlined in tables 3 and 4 below.

Table 3: Legal & General significant votes

Date	Company	Subject (theme and summary)	Manager's vote and rationale	Why considered significant
16 September 2020	Olympus Corporation	Elect male director at the company's annual shareholder meeting	Manager voted against. Japanese companies in general have trailed behind European and US companies, as well as companies in other countries, in ensuring more women are appointed to their boards. The lack of women is also a concern below board level. LGIM have promoted and supported an increase of women on boards, at the executive level and below. On a global level LGIM consider that every board should have at least one female director. In February 2020 LGIM sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that they expect to see at least one woman on the board. One of the companies targeted was Olympus Corporation. LGIM opposed the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, in order to signal that the company needed to take action on this issue.	This vote is deemed significant as LGIM considers it imperative that the boards of Japanese companies increase their diversity.

23 October 2020	Qantas Airways Limited	Approve participation of CEO in the Long-Term Incentive Plan	<p>Manager voted against.</p> <p>The COVID crisis has had an impact on the Australian airline company's financials. The company raised significant capital to be able to execute its recovery plan. It also cancelled dividends, terminated employees and accepted government assistance. The circumstances triggered extra scrutiny from LGIM as they wanted to ensure the impact of the COVID crisis on the company's stakeholders was appropriately reflected in the executive pay package. LGIM's Investment Stewardship team engaged with the Head of Investor Relations of the company to express their concerns and understand the company's views. The voting decision ultimately sat with the Investment Stewardship team.</p>	It highlights the challenges of factoring in the impact of the COVID situation into the executive remuneration package.
22 November 2020	Whitehaven Coal	2 Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.	<p>Manager voted for. The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation. LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.</p>	The vote received media scrutiny and is emblematic of a growing wave of 'green' shareholder activism.

17 March 2021	Samsung Electronics	<p>1 – Elect Park Byung-gook as Outside Director</p> <p>2 – Elect Kim Jeong as Outside Director</p> <p>3 – Elect Kim Sun-uk as Outside Director to Serve as an Audit Committee Member</p>	<p>Manager voted against all three resolutions. In January 2021, Lee Jae-yong, the vice chairman of Samsung Electronics, was sentenced to two years and six months in prison for bribery, embezzlement and concealment of criminal proceeds. Lee Jae-yong was first sentenced to five years in prison in August 2017 for using the company's funds to bribe the impeached former President. While Lee was released from prison, he was not acquitted of the charges. LGIM engaged with the company ahead of the vote. However, they were not satisfied with the company's response that ties have been severed. LGIM are concerned that Lee Jae-yong continues to make strategic company decisions from prison. Additionally, they were not satisfied with the independence of the company board. LGIM voted against the resolutions as the outside directors, who should provide independent oversight, have collectively failed to remove criminally convicted directors from the board. The inaction is indicative of a material failure of governance and oversight at the company.</p>	<p>This was a high-profile vote, which has such a degree of controversy that there is high client and/or public scrutiny and the sanction vote was a result of a direct or collaborative engagement.</p>
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Table 4: Invesco significant votes

Date	Company	Subject (theme and summary)	Manager's vote and rationale	Why considered significant
21 April 2020	Citigroup	Report on lobbying payments and policy	Voted against the resolution, in line with management recommendations. A vote against this resolution is warranted, as the company is disclosing adequate information for shareholders to be able to assess its engagement in the political process and its management of related risks.	Invesco have over 1% ownership and it included key ESG proposal
8 May 2020	AMP	Ratify past issuance of shares to existing and new institutional investors	Voted for the resolution, in line with management recommendations. A vote for the ratification of the past issuance of shares is warranted. The issuance was put towards the immediate implementation of the company's new strategy and to provide balance sheet strength to complete the sale of AMP Life.	Invesco have over 1% ownership and it included key ESG proposal
18 May 2020	Allied Minds Plc	Authorize board to exclude pre-emptive rights from share issuances	Voted for the resolution, in line with management recommendations. A vote for this proposal is warranted because it is in line with commonly used safeguards regarding volume and duration.	Invesco have over 1% ownership and it included key ESG proposal
22 May 2020	EasyJet	Remove Johan Lundgren as Director	Voted against the resolution, in line with management recommendations. A vote against these resolutions is warranted as the dissident has not provided sufficient evidence that removing four key directors will leave the board and the company better positioned to deal with the current crisis.	Invesco have over 1% ownership and it included key ESG proposal

7 September 2020	International Consolidated Airlines Group SA	Approve share capital increase	Voted in line with management recommendations. Based on engagement with the company on this capital increase, they are supportive.	Invesco have over 1% ownership and it included key ESG proposal
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Engagement activity

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