

Northumbrian Water Pension Scheme

Annual Report and Financial Statements

31 December 2022

Scheme Registration number 10021317

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Section 1 – Trustee and its Advisers

The Trustee

Northumbrian Water Pension Trustees Limited

Company appointed Trustees

I Barnabas

M Wilkinson

R Somerville

20-20 Trustee Services Limited (Chair represented by N LeStrange)

Member nominated Trustees

F Aujoux

C Green

T Hobb (resigned 30 January 2023)

P Thornberry

Secretary to the Trustee

J Pengelly

Northumbrian Water Limited

Northumbria House

Abbey Road

Pity Me

Durham

DH1 5FJ

Advisers

The advisers to the Trustee are set out below:

Actuary

Gavin Hamill FIA of Towers Watson Limited

Auditor

Deloitte LLP

Legal Adviser

Sacker & Partners LLP

Administrator

Capita Pension Solutions Limited (until 5 December 2022)

Hymans Robertson LLP (from 6 December 2022)

Investment Adviser

Towers Watson Limited

Investment Managers

BlackRock Investment Management (UK) Limited

Legal & General Investment Management

Prudential Pension Limited

State Street Global Advisors Limited

Virtus Investment Partners LP

Towers Watson Investment Management (Ireland) Limited

Fiduciary Manager

Cardano (from 16 May 2023)

Tax Advisor

KPMG LLP

Bankers

National Westminster Bank plc

Barclays Bank plc (from 5 December 2022)

Employer Covenant Assessor

Ernst & Young LLP

Principal Employer

Northumbrian Water Limited

Address for Queries

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

Email: yourpension@nwl.co.uk

Section 2 – Trustee Report

The Trustee of the Northumbrian Water Pension Scheme is pleased to present its report together with the audited financial statements and actuarial statements of the Scheme for the year ended 31 December 2022. The purpose of the report is to describe how the Scheme and its investments have been managed during the year.

Management of the Scheme

Constitution of the Scheme

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

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

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

The Scheme closed to future accrual on 31 May 2022.

Rule Changes

There were two major Rule changes in the year ended 31 December 2022. The Scheme discontinued accrual of active member benefits from 31 May 2022 (implemented by a Deed of Alteration dated 30 May 2022) and a Level Pension Option was implemented by a Deed of Alteration dated 29 June 2022.

The Principal Employer

The Principal Employer is Northumbrian Water Limited, Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ (Registered No. 10021317) hereafter known as “The Company”. The Company is vested with certain powers and duties such as the appointment of the Trustee.

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

In the prior year accounts it was stated that Northumbrian Water Group Limited (NWGL) stands as guarantor to Northumbrian Water Limited (NWL) for all present and future obligations and liabilities. However, this statement is incorrect and NWGL does not guarantee present and future liabilities of NWL.

Trustee

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

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

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

Trustee Report (continued)

Trustee (continued)

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

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

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

During the period under review, the full Trustee Board met on 4 (2021:4) occasions to discuss and agree matters associated with the management of the Scheme.

The Trustee Board

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

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

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

As mentioned above, Trustee arrangements for the nomination and selection of member-nominated directors were last reviewed in September 2019.

The terms of office for some of the member-nominated directors have, with their agreement, been extended to 31 December 2023 while a review of the selection arrangements is being carried out following the closure to accrual in May 2022.

Sub-Committees

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

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

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

Conflict in Ukraine

The current uncertainty, and the associated sanctions against Russia and Russian individuals, has led to volatility in investment markets. How those events might develop, the scale of those developments and the wider impacts are hard to predict, though a period of heightened uncertainty seems inevitable. The amount of exposure to Russia is regarded as trivial to the Scheme. The Trustee has not identified any further material risks to the Scheme or employer covenant because of Russian Sanctions although the Trustee will continue to closely monitor the situation.

Trustee Report (continued)

Governance

The following summarises the Trustee's approach to the governance of the Scheme during 2022. The Trustee is fully aware of its duties and powers, principally arising from trust law or derived from the Trust Deed and Rules of the Scheme which set out the Trustee's powers and the procedures that it must follow. Some of the powers may be discretionary, some require the Principal Employer's agreement, and some may only be used if the Principal Employer asks the Trustee to do so.

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

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

Over 2022, the Trustee participated in a selection exercise to identify a fiduciary manager for the Scheme who will be responsible for implementation of the Scheme's investments and appointed Cardano on 16 May 2023. Over 2023 the Trustee is in the process of moving the Scheme's assets to be managed by Cardano, with investment strategy advice being the responsibility of the Scheme's strategic advisor, WTW.

Information, Support and Advice

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

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

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

Induction and Training

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

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

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

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

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

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

Review of Advisers

The Trustee conducts an informal assessment of its key advisers and administrator each year. The most recent informal review of advisers was conducted in July 2022. After due consideration, the Trustee decided to appoint a new Scheme Administrator, Hymans Robertson LLP, to carry out the day-to-day administration and payment of Scheme benefits with effect from 6 December 2022 and a new fiduciary investment manager, Cardano, to manage the assets of the Scheme with effect from 16 May 2023.

Trustee Report (continued)**Financial Development of the Scheme**

The financial statements have been prepared and audited in accordance with regulations made under Section 41(1) and (6) of the Pensions Act 1995.

The fund account on page 27 shows that the net assets of the Scheme decreased from £1,239,873k at 31 December 2021 to £793,719k at 31 December 2022. The decrease in net assets is accounted for by:

	2022	2021
	£000	£000
Member related income	31,015	35,530
Member related payments	(55,538)	(48,630)
Net withdrawals from dealings with members	(24,523)	(13,100)
Net (loss)/returns on investments	(421,631)	92,001
Net (decrease)/increase in fund	(446,154)	78,901
Net assets at start of year	1,239,873	1,160,972
Net assets at end of year	793,719	1,239,873

Pension Increases

During the year ended 31 December 2022 pensions were increased as follows:

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

- 2.5% - for CARE pension accrued from 1 January 2016.
- 5.0% - for non-CARE pensions in the Water Pension Section and Executive Section.
- 3.1% - for non-CARE pensions in the Mirror Image Section, Northumbrian Water Section and 80th Section.

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

3. Increases were applied from 1 April 2022 for all sections with the exception of the Mirror Image Section where increases were applied from 11 April.

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

No discretionary increases were awarded by the Principal Employer or other Employers.

Preserved benefits were increased in accordance with statutory requirements.

Trustee Report (continued)

Transfer Values

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

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

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

General Data Protection Regulation (GDPR)

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

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

Schedule of Contributions

As required by the Pensions Act 1995, the Trustee has agreed a Schedule of Contributions with the Principal Employer, certified by the Actuary. The Schedule of Contributions sets out the rates of employer and member contributions and also the dates by which the contributions will be paid to Scheme. The latest Schedule of Contributions was certified by the Actuary on 24 March 2021.

Additional Voluntary Contributions (AVC)

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

Actuarial Position

The latest actuarial valuation of the Scheme was carried out as at 31 December 2019.

The 2022 actuarial valuation is currently underway.

The statutory funding objective (that the Scheme has sufficient assets to meet the estimated current cost of providing members' past service benefits) was not met at the valuation date. The funding level was 83% and there was a funding shortfall of £225.2 million.

The Schedule of Contributions signed 24 March 2021 shows the contributions payable by the Employers which is set out as follows.

Contributions for New Benefits and Expenses

- £13.008 million p.a., payable monthly, with effect from 1 January 2020 and increasing annually in line with RPI, with the first such increase being applied from 1 January 2021 (and being based on the increase in the RPI over 12 months to the preceding September). This includes an allowance for expenses (see below).

Trustee Report (continued)**Contributions for New Benefits and Expenses (Continued)**

During any period when an active member participates in a pension salary sacrifice arrangement his or her employer will additionally pay:

- contributions equal to the contribution that the member would have paid had they not been participating in the arrangement, and
- the savings in the employer National Insurance contributions made by the employer compared to the National Insurance contributions that the employer would have paid to HM Revenue and Customs had the active member not been participating in a salary sacrifice arrangement.
- As the Scheme closed to future accrual on 31 May 2022, with the exception of the £2 million expense allowance (see later), these contributions ceased to be payable at that date.

Deficit Contributions

The 31 December 2019 actuarial valuation showed that the Scheme had a funding deficit relative to its statutory funding objective. Employers shall therefore pay the following deficit reduction contributions:

- £12.187 million p.a., payable monthly with effect from 1 January 2020 to 31 March 2020; plus
- £12.455 million p.a., payable monthly with effect from 1 April 2020 to 31 March 2021; plus
- £20.0 million p.a., payable monthly with effect from 1 April 2021 to 31 March 2022; plus
- £23.8 million p.a., payable monthly with effect from 1 April 2022 to 31 August 2027. These contributions will increase annually in line with RPI, with the first such increase being applied from 1 April 2023.

The increase in RPI shall apply from each 1 April and it will be the increase in RPI over the 12 months to the preceding November.

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

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

Employers' Contributions for Expenses, Levies and Fees

The Employers' contributions that are set out earlier in respect of new benefits and expenses include £2 million p.a. in respect of the expense element. This covers the expected costs of:

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

Trustee Report (continued)

Scheme Membership

The reconciliation of the Scheme membership during the year ended 31 December 2022 is shown below:

Active Members	
As at 1 January 2022	991
Adjustments for late leaver/pensioner notifications	(44)
Retirements/full commutations	(40)
Deferred pensions	(895)
Transfers	(12)
Active Members as at 31 December 2022	-

The Scheme closed to future accrual on 31 May 2022.

Pensioner Members (including spouses and dependants)	
As at 1 January 2022	3,143
Adjustments for late notifications	71
Adjustments to deferred	(1)
Immediate retirements	39
Deferred pensions into payment	46
Deaths/no longer eligible/suspension	(128)
Pensioner Members as at 31 December 2022	3,170

Deferred Pensioner Members	
As at 1 January 2022	1,079
Adjustment due to late notification	19
Leavers in the year	895
Pensions into payment/full commutations	(46)
Transfers	(19)
Deaths	(3)
Full commutations	(3)
Deferred Pensioner Members as at 31 December 2022	1,922

Total Membership	
Total Membership as at 1 January 2022	5,213
Total Membership as at 31 December 2022	5,093

Trustee Report (continued)

Investment Policy

Overview

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

Investment Managers

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

The day-to-day management of the Scheme's investments has been delegated by the Trustee to investment managers, BlackRock Investment Management (UK) Limited, Legal and General Investment Management, Prudential Pensions Limited, State Street Global Advisors Limited, Virtus Investment Partners LP, Towers Watson Investment Management (Ireland) Limited.

Narrative on the investment managers' performance for managers who held assets for at least twelve months appears on pages 11 to 15.

The managers' duties include the consideration of social, environmental or ethical issues in the selection, retention and realisation of investments as well as voting and corporate governance in relation to the Scheme's assets. The Trustee has reviewed what each manager does in this area as part of a Sustainable Investment review undertaken in September 2022. It also has considered the voting activity undertaken by the Scheme's investment managers on behalf of the Scheme as part of preparing its Implementation Statement. Finally, the Trustee, in light of its sustainable investment beliefs and regulatory obligations, has also undertaken training on climate risks, and will begin reporting in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations from 2023.

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

The TCFD has developed a framework to help public companies and other organisations disclose climate-related risks and opportunities. Similar requirements have been incorporated into the regulatory framework for pension schemes entitled "Climate Change and Reporting Regulations 2021" (applying to schemes with net assets over £1bn from 1 October 2022). This required the Trustee to put in place relevant climate governance and reporting processes and to produce a TCFD report. The Trustee's first TCFD report has been published on the Scheme's website: www.nwgpensions.co.uk/northumbrian-water-pension-scheme/documents/

Statement of Investment Principles (SIP)

In accordance with Section 35 of the Pensions Act 1995, the Trustee has prepared a SIP which includes the Trustee's policy relating to ethical investment and the exercise of the rights attaching to investments. Any member may request a copy. This Statement may change from time to time according to advice received from the investment managers or advisers, and any Scheme member can request a copy from the Secretary to the Trustee online at: www.nwgpensions.co.uk/northumbrian-water-pension-scheme/documents/

Departures from the SIP

Due to de-risking activity over the last year, the winding up of the M&G Property Fund and the impacts of the September/October gilts crisis, the Scheme's Strategic Asset Allocation at year end is no longer consistent with the benchmark weights set out in the SIP dated September 2020. The Trustee recognises that the target asset allocation will vary over time and updates the benchmark in the SIP as part of its periodic reviews. The Trustee is updating the SIP in 2023 to account for these changes and to account for the recently appointed fiduciary manager of the Scheme.

Trustee Report (continued)

Introduction

The Scheme has engaged 6 investment managers as of 31 December 2022 (2021: 6) who have day to day responsibility for the management of the Scheme's assets. Each manager has been set a performance benchmark and objective as shown in the table below.

The Scheme holds cash in the Trustee bank account for the purpose of paying benefits and expenses. In order to eliminate part of the currency effect on overseas equities, the Trustee invested in hedged currency share classes for the diversifying strategies, listed infrastructure and a portion of the emerging market debt strategies.

Performance

Each manager has been set a performance benchmark and objective as follows:

Proportion (%) 31 December 2022	Fund Manager	Type of Assets	Performance Benchmark	Performance Objective
4.6%	State Street Global Advisors Ltd	Bonds	BoAML £ Non-Gilts 15+ Years	To track the performance of the benchmark
18.0%	BlackRock Investment Management (UK) Limited	Developed Market Equities	FTSE All World Developed Index	To track the performance of the benchmark
2.9%	BlackRock Institutional Trust Company N.A	Emerging Market Equities	MSCI Emerging Markets GBP weighted ex-Korea	To track the performance of the benchmark
1.8%	M&G (Prudential Pensions Limited)	Property	IPD All Balanced Pooled Property Funds Index	+0.5% p.a.* in excess of benchmark
0.0%	Legal and General Investment Management	Equity (Infrastructure)	MGF Core Infrastructure Hedged Index	To track the performance of the benchmark
45.2%	Legal and General Investment Management	LDI	Bespoke	-
2.7%	Virtus Investment Partners LP	Emerging Market Debt	Composite	+2.0 to +3.0% p.a. in excess of benchmark (net of fees)
12.5%	Willis Towers Watson Investment Management	Diversifying Strategies	GBP 3-month LIBOR	+3.0 to +4.0% p.a. in excess of benchmark (net of fees)
11.9%	Willis Towers Watson Investment Management	Secure Income	FTSE Actuaries Over 15-year UK Index Linked Gilts	+2-3% p.a. in excess of benchmark (net of fees)
0.4%	Trustee Bank Account**	Cash	-	-

* Outperformance assessed over rolling 3-year periods.

** Includes cash held in the Trustee Bank Account. As at 31 December 2022, £918 (2021: £905) was held in cash at BlackRock.

Trustee Report (continued)**Asset Allocation**

The allocation of assets held by the Scheme at 31 December 2022 was as follows:

Mandate / Index	31 December 2022 Benchmark (%)	31 December 2022 Assets (%)
World Equities	20.0%	20.9%
Property	0.0%	1.8%
Listed Infrastructure	5.0%	0.0%
Emerging Market Debt	3.0%	2.7%
Diversifying Strategies	12.0%	12.5%
Total Return Seeking	40.0%	37.9%
LDI (including cash)	45.0%	45.6%
Secure Income Assets	10.0%	11.9%
Corporate Bonds	5.0%	4.6%
Total Liability Matching	60.0%	62.1%

The 'Actual Scheme' breakdown only includes invested assets which form part of the Scheme's strategic asset allocation i.e. excludes the insurance policy.

The Scheme's actual proportions will differ from those of the benchmark as a result of market movements, the tactical asset allocation positions taken by the Scheme's active managers, and also from the performance of the managers relative to their benchmarks.

Over 2022, the Trustee agreed to de-risk the Scheme by 5% by redeeming from its equity allocation and invested the proceeds into its LDI portfolio. In addition, the Trustee agreed to fully redeem from the Scheme's Listed Infrastructure portfolio and invest the proceeds into LDI to support the Scheme's hedging objectives and increased collateral buffers. The Trustee is revisiting the construction of the portfolio over 2023 alongside its strategic advisor and recently appointed fiduciary manager. As part of this it will revisit its strategic allocation to listed infrastructure. Finally, the Scheme's UK property mandate continues to distribute liquidation proceeds following the Trustee's decision to redeem from the mandate in late 2021. The Trustee has agreed a process where it will monitor the Trustee bank account, alongside the Scheme's investment advisor, with the view to transferring proceeds into the Scheme's LDI portfolio in the short term in the event that funds within the Trustee bank account become sufficiently large.

There is a management agreement in place for each investment manager, setting out the terms on which the assets are managed and the investment brief, guidelines and restrictions under which the investment manager works.

Trustee Report (continued)**Asset Allocation (continued)**

Over 2023 the Trustee is in the process of moving to a fiduciary manager arrangement with the Scheme's assets being managed by Cardano. As a result, the Scheme's asset allocation is subject to change and the Scheme's manager arrangements as at year end 2022, with the exception of the Towers Watson Investment Management Secure Income Fund, are expected to be terminated over the course of 2023 due to a change in the Trustee's investment policy.

Managers' Performance

The Scheme overall achieved a return of -36.0% for the year to 31 December 2022, compared to the benchmark return of -34.6% (in this context, the "Scheme" refers to the invested assets with the fund managers). Total Scheme return figures have been estimated using composites of the Scheme's underlying managers.

The performance of the Scheme has suffered as a result of increases in government bond yields and corporate bond spreads over the second half of 2022. As a result, the Scheme's corporate bond and LDI mandates have declined in value and this negative performance has impacted overall Scheme returns.

Because the Trustee has adopted a liability-driven investment policy the Scheme's funding level has not been significantly impacted by the fall in asset values, as the Scheme's liabilities have also fallen. The next actuarial valuation of the Scheme, as at 31 December 2022, is currently in progress and will determine the funding level at that date. This valuation is expected to show that the funding level has improved significantly since 31 December 2019 (see page 7).

A summary of the Scheme's performance for periods to 31 December 2022 is shown below:

	1 year (%)	3 years (%)	5 years (%)
Scheme	(36.0%)	(8.1%)	(3.1%)
Benchmark	(34.6%)	(9.8%)	(4.5%)

BlackRock Investment Management (UK) Limited portfolio value at 31 December 2022: £143.8m (2021: £274.7m)

The Aquila Life World (ex UK) Fund invests in shares of companies worldwide (Europe, Japan, Israel, Pacific Rim, US and Canadian markets) according to the market capitalisation weights of the FTSE All-World Developed (ex UK) Index.

The Aquila Life World (ex UK) (currency hedged) Fund invests in shares of companies worldwide (Europe, Japan, Israel, Pacific Rim, US and Canadian markets) according to the market capitalisation weights of the FTSE AllWorld Developed (ex UK) index with currency exposures hedged to GBP.

The UK passive equity fund invests in UK companies according to the market capitalisation weights of the FTSE All-Share index.

BlackRock Institutional Trust Company N.A portfolio value at 31 December 2022: £23.0m (2021: £41.4m)

The Emerging Markets passive equity fund aims to match the return of the MSCI Emerging Markets ex-Korea GDP Weighted Index Net Dividends. This is a passive product with USD as the base currency which aims to achieve similar returns to the underlying index.

Trustee Report (continued)**Managers' Performance (continued)**

Over twelve months to 31 December 2022 the funds achieved returns as presented below:

	Fund return (%)	Benchmark Return (%)	Benchmark
BlackRock Emerging Markets equity	(6.4%)	(6.0%)	MSCI Emerging Markets ex-Korea GBP Weighted Index Net Dividends
BlackRock UK Equity	0.3%	0.3%	FTSE All-Share Index
BlackRock World ex UK Equity	(8.0%)	(7.9%)	FTSE All-World Developed ex UK Index
BlackRock Hedged World ex UK equity	(17.2%)	(16.7%)	FTSE All-World Developed ex UK Index (GBP hedged)

Legal and General Investment Management (Listed Infrastructure) portfolio value at 31 December 2022: £0.0m (2021: £70.5m)

The LGIM Fund is structured as an insurance contract with a life company. The Fund aims to provide diversified exposure to global listed infrastructure markets and to produce a return broadly comparable to the MFG Core Infrastructure Hedged Index.

Please note the Scheme redeemed from its Listed Infrastructure holding in early October 2022.

Legal and General Investment Management (Liability Driven Investments) portfolio value at 31 December 2022: £360.3m (2021: £524.5m)

Over the year the Scheme's LDI portfolio returned -67.1%. As at 31 December 2022, the strategy aims to track 75% of the movements in the Scheme's liabilities driven by interest rate changes and 70% of the movements driven by inflation. Please note the Trustee agreed to increase its interest hedge ratio to 75% of liabilities over 2022 to be more consistent with the long term direction of the Scheme's portfolio.

Prudential Pensions Limited (Property) portfolio value at 31 December 2022: £14.1m (2021: £45.9m)

The portfolio is fully invested in the M&G Pooled Pensions Property Fund which is in liquidation.

The investment objective is to exceed the benchmark of the IPD All Balanced pooled Funds Index by 0.5% p.a. assessed over rolling 3-year periods.

The M&G Property Fund outperformed its benchmark over the year by 12.7% with a return of 3.2%.

State Street Global Advisors Ltd Corporate Bonds portfolio value at 31 December 2022: £36.7m (2021: £55.1m)

The Scheme benchmarks its corporate bond mandate against the BoAML £ Non-Gilts 15+ Years Index.

The fund performed in-line with its benchmark over the 12 months to 31 December 2022, returning -33.4%.

Trustee Report (continued)**Managers' Performance (continued)****Virtus Investment Partners LP (Emerging Market Debt) portfolio value at 31 December 2022: £21.8m (2021: £24.1m)**

The fund aims to generate a total return (i.e. capital appreciation) through investing in emerging market debt. The fund has a composite benchmark, split 50% local currency sovereign debt, 40% hard currency sovereign debt and 10% corporate bonds.

The fund return was -9.9% in 2022 against a benchmark of -9.5%.

Willis Towers Watson Investment Management Diversifying Strategies portfolio value at 31 December 2022: £99.7m (2021: £101.7m)

The Fund underperformed the benchmark (GBP SONIA) by returning -2.0% compared to 1.4%.

Willis Towers Watson Investment Management Secure Income portfolio value at 31 December 2022: £94.9m (2021: £98.0m)

The secure income portfolio aims to generate a return in excess of FTSE Actuaries Over-15-year UK Index-Linked Gilts.

The fund returned 2.3% against a benchmark of -46.9% over the 12 month period. The fund is benchmarked against an index-linked gilts benchmark, and it could be expected to see short-term deviations from the benchmark as a result.

Please note, the performance of the Secure Income portfolio above is lagged by one quarter, consistent with how it is calculated in the performance composite for the total Scheme performance.

Trustee Report (continued)

Markets Update

The 12 months to 31 December 2022 saw significant economic impacts due to both global and domestic influences which the Trustee has carefully monitored and, where appropriate, revised the Scheme's investment strategy to try and mitigate the risk to the Scheme's funding position.

In particular, the cost of living crisis, attributable in part to the Russia/Ukraine conflict, has seen inflation figures remain elevated around the globe with UK RPI being reported at 13.4% over the period. A proportion of the Scheme's liabilities are inflation-linked and so the Scheme holds an LDI portfolio consisting of fixed government bonds, index-linked government bonds and derivatives which aims to hedge 75% of the Scheme's exposure to changes in interest rates and 70% of the Scheme's exposure to changes in inflation expectations. Moreover, the Scheme holds other assets with direct inflation linkage through its investment in the TWIM Secure Income Fund, and indirect inflation linkage through other holdings, including equities. These investments have helped reduce inflation risk on the Scheme's assets relative to the liabilities.

In September and October 2022, the UK government bond market experienced significant volatility following the then Chancellor's 'mini-budget'. The already increasing gilt yields rapidly spiked, reducing the value of the Scheme's assets and liabilities, and significantly diminishing the available collateral within the pooled LDI funds the Scheme uses to achieve its target interest rate and inflation hedging. In order to replenish the LDI collateral pool to avoid a forced reduction in the Scheme's hedging exposures, the Trustee agreed to realise some of its most liquid return-seeking assets. This included a full-redemption of the Scheme's listed infrastructure holding managed by LGIM, and agreed to invest some of the equity proceeds as part of a de-risking exercise into the LDI portfolio. The actions undertaken meant that the Scheme's hedge ratios were not reduced involuntarily and the Scheme's funding level remained relatively robust after the yields had normalised. Based on estimates from WTW's ALS tracking software, the Scheme's funding level fell by approximately 0.5% on the Gilts + 0.5% liability measure between 1 September 2022 and 1 November 2022.

Whilst the Trustee already monitors liquidity and reviews the liquidity of the Scheme at least quarterly, it now explicitly accounts for the availability of liquidity and level of collateral headroom within the LDI portfolio within its risk monitoring.

Environmental, Social and Ethical (ESG) Considerations

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

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

The Trustee recognises that financially material environmental, social and governance considerations (including climate change) ("ESG Factors") can impact the risks and opportunities associated with the Scheme's assets over the relevant time horizon for the Trustee. The Trustee has also developed a set of sustainable investment beliefs over 2022 in reflection that it deems these matters to be important to how the Scheme is managed.

Trustee Report (continued)**Environmental, Social and Ethical (ESG) Considerations (continued)**

The Trustee's assets are held in a range of pooled investment products and in certain circumstances such as the Scheme's passive index tracking portfolios, it may not be appropriate for managers of pooled funds to directly take account of social, environmental or ethical considerations in the construction of its passive index tracking portfolios. The Trustee does however monitor the stewardship activities of these managers in recognition that an asset manager's voting and engagement practices have the ability to drive better long term outcomes for portfolio companies and ultimately the Scheme's members. The Trustee reports on manager stewardship activities through the implementation statement.

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

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

Exercise of Voting Rights

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

Custodial Arrangements**BlackRock Investment Management (UK) Limited**

The Aquila funds are unitised insurance policies issued by BlackRock Life Limited ("BLL"), which is a UK authorised and regulated insurance company.

BlackRock Institutional Trust Company N.A

The custodian to the BlackRock Emerging Markets ex-Korea Equity Index Fund is JP Morgan and the custodian to the developed market equities fund is the Bank of New York Mellon (International) Limited. The Emerging Markets ex-Korea Equity Index Fund is a Collective Investment Trust.

Legal & General Investment Management (LGIM) – Listed Infrastructure

The fund is structured as an insurance contract with Legal & General Assurance (Pensions Management) Limited. The custodian is currently Citibank for all PMC invested assets and the Liquidity fund assets are held with Northern Trust.

Trustee Report (continued)**Custodial Arrangements (continued)****Legal & General Investment Management (LGIM) – LDI portfolio**

The Scheme has been invested in a liability matching portfolio with LGIM since April 2017. The structure of the fund is to invest in pooled fixed and index-linked gilts with the aim of matching the inflation and interest rate sensitivity of the Scheme's liabilities. The fund is structured as an insurance contract with Legal and General Assurance (Pensions Management) Limited.

Prudential Pensions Limited (Property)

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

State Street Global Advisors Limited

The Managed Pension Funds Limited (MPF) is State Street Global Advisors' flagship UK-domiciled pooled fund vehicle for pension fund investors. MPF is a limited liability insurance company of which State Street Corporation is the sole shareholder. Investors in MPF become policyholders of Managed Pension Funds Limited, which assigns investment management, marketing and client relationship functions to State Street Global Advisors Limited. Custody and fund pricing services are provided to MPF by State Street Bank GmbH.

Virtus Investment Partners LP

The Stone Harbor Emerging Markets Debt Blend Portfolio (the Fund) is a sub-fund of the Stone Harbor Global Funds Plc, an investment company with variable capital incorporated with limited liability in Ireland and established as an umbrella fund with segregated liability between Funds. The depositary of the fund is State Street Custodial Service (Ireland) Limited.

Willis Towers Watson Investment Management

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

Employer Related Investments

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

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

The Scheme has no direct employer-related investments. It holds indirect holdings via the BlackRock developed market equities and SsgA corporate bond fund, however this exposure amounts to less than 1% of the total Scheme assets. As these are invested through pooled funds, the Scheme has no control over the underlying investments.

Trustee Report (continued)**Valuation of Annuity Policies**

The Scheme currently holds annuity policies with Prudential. The insurance policies held with Prudential are in respect of Southend Waterworks (1957) Pension Scheme and The Southend Waterworks Company Pension & Life Assurance Scheme. Historically the policies were previously included in the Statement of Net Assets at nil value as permitted by the Audited Accounts Regulations and the previous SORP. Under FRS 102, annuity policies are reported at the value of the related obligation to pay future benefits funded by the annuity policy. Following this change in regulation and valuing the annuity policy, it would mean a percentage of net assets of less than 0.1% - on this basis, the Trustee has considered the value of the annuity but are satisfied that it isn't material to the financial statements.

Remuneration Bases of the Investment Managers**BlackRock**

The fees for investment within the Emerging Markets fund is 0.25% p.a.

The fees for the Aquila Life World Ex UK Equity Index Fund and Aquila Life UK Equity Index Fund are 0.06% p.a.

The fee for the Aquila Life Currency Hedged World ex-UK Equity Fund is 0.09% p.a.

Legal & General Investment Management

The fee for the Legal and General Investment Management Listed Infrastructure Equity MFG Fund is 0.25% p.a. The fee for the leveraged LDI fund are 0.1% p.a., unleveraged funds charges 0.03% p.a. The Sterling Liquidity Fund charges a fee of 0.1% p.a. The Scheme also engages in an enhanced LDI management service with LGIM, for which it pays 0.03% p.a. on the first £150m and 0.025% p.a. thereafter (subject to a minimum fee of £40,000).

Prudential Pensions Limited

Investment management fees are calculated on the net asset value of the Fund at each valuation day and reflected in the unit price. For the Prudential Property fund, this ongoing investment charge is 0.35% p.a. This is reflective of a discount of 0.2% p.a. which is paid to the Scheme in the form of a rebate.

State Street Global Advisors Limited

For the Scheme's corporate bond allocation, a flat fee of 0.065% p.a. is payable.

Virtus Investment Partners

Stone Harbor operates a management fee of 0.60% p.a. on the first US \$100m and 0.55% p.a. thereafter.

Willis Towers Watson Investment Management Limited

Fees for investment within the Diversifying Strategies Fund are 0.4% p.a. for the first \$50 million invested, 0.3% p.a. for the next \$50 million, 0.25% p.a. for the next \$100m invested and 0.05% p.a. for the investments above \$200 million.

Fees for investment within the Secure Income Fund are 0.25% p.a. on the first £50m; 0.2% p.a. on the next £50m; and 0.15% p.a. thereafter. This includes a 5bps discount for being an investor to meet the first close of the fund.

Trustee Report (continued)

Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102), are the responsibility of the Trustee. Pension Scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparing of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible for the maintenance and integrity of the corporate and financial information included on the Scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Trustee Responsibilities in Respect of Contributions

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of 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 received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule of Contributions occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Trustee Report (continued)

Further Information

Internal Dispute Resolution (IDR) Procedures

It is a requirement of the Pensions Act 1995 that the trustees of all occupational pension schemes must have IDR procedures in place for dealing with any disputes between the Trustee and the scheme beneficiaries. A dispute resolution procedure has been agreed by the Trustee, details of which can be obtained by writing to the Secretary to the Trustee at the address on page 1 of this report.

Contact for Further Information

Any enquiries or complaints about the Scheme, including requests from individuals about their benefits or for a copy of Scheme documentation, should be sent to the Secretary to the Trustee at the address on page 1 of this report.

The Money and Pensions Advisory Service (MaPS)

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

The Money and Pensions Service
Holborn Centre
120 Holborn
London
EC1N 2TD
Tel: 0800 011 3797
www.moneyhelper.org.uk

The Pensions Ombudsman

Members have the right to refer a complaint to The Pensions Ombudsman free of charge. The Pensions Ombudsman deals with complaints and disputes which concern the administration and/or management of occupational and personal pension schemes.

Contact with The Pensions Ombudsman about a complaint needs to be made within three years of when the event(s) the member is complaining about happened – or, if later, within three years of when they first knew about it (or ought to have known about it). There is discretion for those time limits to be extended.

The Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
London
E14 4PU
Tel: 0800 917 4487
Email: enquiries@pensions-ombudsman.org.uk
www.pensions-ombudsman.org.uk

Members can also submit a complaint form online:
www.pensions-ombudsman.org.uk/making-complaint

Trustee Report (continued)
The Pensions Regulator (TPR)

TPR has the objectives of protecting the benefits of members, promoting good administration and reducing the risk of claims on the Pension Protection Fund. TPR has the power to investigate schemes, to take action to prevent wrongdoing in or maladministration of pension schemes and to act against employers failing to abide by their pension obligations. TPR may be contacted at the following address:

The Pensions Regulator
Telecom House
125-135 Preston Road
Brighton
BN1 6AF
www.thepensionsregulator.gov.uk

Pension Tracing Service

The Pension Schemes Registry has been replaced with the Pension Tracing Service and is now provided by the Department for Work and Pensions. Responsibility for compiling and maintaining the register of occupational pension schemes has been passed to The Pensions Regulator.

Contact details for the services are as follows:

Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU
www.gov.uk/find-pension-contact-details

Approval of the Report by the Trustee

The Report on Actuarial Liabilities on pages 47 to 48 and Implementation Statement on pages 49 to 57 included in this annual report and financial statements forms part of the Trustee report.

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

DocuSigned by:

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Director

DocuSigned by:

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Director

27-Jul-2023 | 14:08 BST

Date

Section 3 – Independent Auditor's Report

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

Opinion

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

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2022 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

We have audited the financial statements which comprise:

- the fund account;
- the statement of net assets; and
- the related notes 1 to 18.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Trustee

As explained more fully in the Trustee's responsibilities statement, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the Scheme or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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

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

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

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

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

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

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

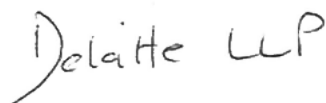
In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether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

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

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

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

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in dark ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.**Deloitte LLP**

Statutory Auditor

Birmingham

Date: 27 July 2023

Section 4 – Financial Statements

Fund Account for year ended 31 December 2022

		Total 2022	Total 2021
	Note	£000	£000
CONTRIBUTIONS AND BENEFITS			
Contributions – employer	4	29,865	32,628
- employee	4	1,148	2,902
		31,013	35,530
Other Income		2	-
		31,015	35,530
Benefits paid or payable	5	(39,810)	(37,066)
Payments to and on account of leavers	6	(13,703)	(9,695)
Administrative expenses	7	(2,025)	(1,869)
		(55,538)	(48,630)
Net withdrawals from dealings with members		(24,523)	(13,100)
RETURNS ON INVESTMENTS			
Investment income	9	6,521	5,132
Change in market value of investments	11	(427,321)	87,820
Investment management expenses	10	(831)	(951)
Net (loss)/returns on investments		(421,631)	92,001
Net (decrease)/increase in the fund during the year		(446,154)	78,901
Net assets of the fund at the start of the year		1,239,873	1,160,972
Net assets of the fund at the end of the year		793,719	1,239,873

The notes on pages 29 to 43 form part of these financial statements.

Financial Statements (continued)
Statement of Net Assets (available for benefits) as at 31 December 2022

		2022	2021
	Note	£000	£000
Investment assets	11		
Pooled investment vehicles		794,217	1,235,910
Insurance policies		43	42
Cash deposits		1	-
Other investment balances		2,018	-
Total net investments		796,279	1,235,952
Current assets	13	5,027	10,949
Current liabilities	14	(7,587)	(7,028)
Net assets of the Scheme at the end of the year		793,719	1,239,873

The notes on pages 29 to 43 form part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations, is dealt with in the Report on Actuarial Liabilities in Section 9 and in the Actuary’s certificates in Section 8 of these financial statements and should be read in conjunction therewith.

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

DocuSigned by:

Mark Wilkinson

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Director

DocuSigned by:

Christopher

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Director

27-Jul-2023 | 14:08 BST

Date

Section 5 – Notes to the Financial Statements

Notes to the financial statements for the year ended 31 December 2022

1 BASIS OF PREPARATION

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

2 IDENTIFICATION OF THE FINANCIAL STATEMENTS

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

3 ACCOUNTING POLICIES

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

3.1 Contributions

Employers’ and members’ contributions, including salary sacrifice and AVCs, are accounted for on an accruals basis at the rates agreed between the Trustee and the employers based on the recommendations of the Actuary and the Schedule of Contributions.

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

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

3.2 Benefits paid or payable

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

3.3 Payments to and on account of leavers

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

3.4 Administrative and investment management expenses

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

Notes to the financial statements for the year ended 31 December 2022 (continued)**3 ACCOUNTING POLICIES (continued)****3.5 Investment Income**

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

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

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

3.6 Other Income

Other income has been accounted for on a cash received basis.

3.7 Investments

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

Investments are included at fair value as described below.

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

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

The market values of these assurance policies have been taken as the surrender values of the policies at the period end, as advised by the underwriter.

Annuity policies were previously included in the Statement of Net Assets at nil value as permitted by the Audited Accounts Regulations and the previous SORP. Under FRS 102 annuity policies are reported at the value of the related obligation to pay future benefits funded by the annuity policy. Following this change in regulation and valuing the annuity policy, it would mean a percentage of net assets of only 0.1%, - on this basis, the Trustee has considered the value of the annuity but are satisfied that it isn't material and have therefore excluded it from the financial statements.

3.8 Presentation Currency

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

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

Notes to the financial statements for the year ended 31 December 2022 (continued)**4 CONTRIBUTIONS**

	Total 2022	Total 2021
	£000	£000
Employer:		
Normal	5,765	13,224
Employer salary sacrifice contributions	157	350
Deficit contributions	22,850	18,114
Special contributions	-	940
Additional contributions	1,000	-
Augmentation contributions	93	-
	29,865	32,628
Employee:		
Normal	1,148	2,902
	31,013	35,530

Under the latest Schedule of Contributions dated 24 March 2021, deficit contributions to the value of £22,850k p.a. were payable to the Scheme for 2022. Deficit contributions to the value of £26,299k p.a. are payable to the Scheme until 2027.

The Special contributions relating to 2021 were received on the 5 April 2022, and these relate to contributions from the company to cover the redundancy and ill health retirement undertaken that year.

5 BENEFITS PAID OR PAYABLE

	Total 2022	Total 2021
	£000	£000
Pensions	34,722	33,891
Commutations and lump sum retirement benefits	4,877	3,109
Lump sum death benefits	79	46
Taxation where lifetime or annual allowance exceeded	132	20
	39,810	37,066

Notes to the financial statements for the year ended 31 December 2022 (continued)**6 PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

	Total 2022	Total 2021
	£000	£000
Pension Sharing on divorce	-	237
Individual transfers to other schemes	13,703	9,458
	13,703	9,695

7 ADMINISTRATIVE EXPENSES

	Total 2022	Total 2021
	£000	£000
Administration and processing	346	363
Actuarial fees	419	298
Audit Fee	19	29
Investment consultancy fees	163	147
Legal and other professional fees	490	208
PPF Levy	450	715
Other fees and expenses	138	109
	2,025	1,869

The other fees and expenditure comprises: Trustee fees and expenses of £106,932 (2021: £109,375) and other fees of £30,609 (2021: £171). All other administrative expenditure is met by the Employers.

Notes to the financial statements for the year ended 31 December 2022 (continued)**8 TAX**

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

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

9 INVESTMENT INCOME

	Total 2022	Total 2021
	£000	£000
Interest on cash deposits	4	3
Income from pooled investment vehicles	6,380	5,101
Annuities received	18	28
Other investment income	119	-
	6,521	5,132

10 INVESTMENT MANAGEMENT EXPENSES

	Total 2022	Total 2021
	£000	£000
Administration, management and custody	959	951
Investment management fee rebates	(128)	-
	831	951

Notes to the financial statements for the year ended 31 December 2022 (continued)**11 INVESTMENTS****11.1 INVESTMENT RECONCILIATION**

	<i>Opening value</i>	<i>Purchase cost</i>	<i>Sales proceeds</i>	<i>Change in market value</i>	<i>Closing value</i>
	£000	£000	£000	£000	£000
Pooled investment vehicles	1,235,910	1,277,248	(1,291,619)	(427,322)	794,217
Insurance policies	42	-	-	1	43
	<u>1,235,952</u>	<u>1,277,248</u>	<u>(1,291,619)</u>	<u>(427,321)</u>	<u>794,260</u>
Cash deposits	-				1
Other investment balances	-				<u>2,018</u>
Total net investments	<u>1,235,952</u>				<u>796,279</u>

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

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

Within the Pooled investment vehicles transactions above, there are switches totalling £981,699,664 (2021 £322,631,298). The switches are a result of movements within the Legal and General LDI Fund and Blackrock.

Transaction Costs

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

During 2020 the Trustee approached Caceis (an Investor Services Company) to review underlying costs of investments for the Scheme. Caceis concluded that total investment management and transaction costs of £7,353,163 (67 bps) were incurred in the year to 31 December 2020 and of £6,250,491 (54 bps) to 31 December 2021 (2019: £8,751,724 (79 bps)).

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

Notes to the financial statements for the year ended 31 December 2022 (continued)**11 INVESTMENTS (continued)****11.2 POOLED INVESTMENT VEHICLES (PIV)**

The holdings of PIVs are analysed below. Please note some of the holdings have been recategorised for 2021 and 2022.

	2022	2021
	£000	£000
Equity funds	166,834	386,587
Bonds	513,593	701,806
Property funds	14,131	45,857
Diversifying strategies	99,659	101,660
	794,217	1,235,910

11.3 INSURANCE POLICIES

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

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

	2022	2021
	£000	£000
Prudential Assurance Company Limited	43	42

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

Notes to the financial statements for the year ended 31 December 2022 (continued)**11 INVESTMENTS (continued)****11.4 INVESTMENTS FAIR VALUE HIERARCHY**

The fair value of financial instruments has been determined using the following fair value hierarchy:

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the assessment dates.
Level 2	Inputs other than quoted prices included within Level 1 which are observable (i.e. developed for the asset or liability, either directly or indirectly).
Level 3	Inputs which are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

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

As at 31 December 2021	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Pooled investment vehicles	-	1,092,014	143,896	1,235,910
Insurance policies	-	-	42	42
	-	1,092,014	143,938	1,235,952

11.5 CONCENTRATION OF INVESTMENTS

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

	2022	2021
	%	%
WTW Diversifying Strategy	12.6	8.2
WTW Secure Income Fund	12.0	7.9
BlackRock Aquila Life Currency Hedged World Fund	11.5	13.9
BlackRock Aquila Life Currency World Equity Fund	5.5	7.1
Legal and General Equity Fund	-	5.7

Notes to the financial statements for the year ended 31 December 2022 (continued)

12 INVESTMENT RISK

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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

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

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

					2022	2021
	Credit Risk	Market Risk Currency	Rate	Other price	£000	£000
Pooled investment vehicles:					794,217	1,235,910
Direct	■	■	■	■		
Indirect	■	■	■	■		
Cash deposits and other net investment assets	■	□	■	□	2,019	1
Total investments					796,236	1,235,911

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

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

Insurance policies were valued as £43,177 (2021: £42,022) as at 31 December 2022.

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

Notes to the financial statements for the year ended 31 December 2022 (continued)**12 INVESTMENT RISKS (continued)****Investment Strategy**

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

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

The current asset allocation strategy is to hold:

- a. 60% in liability matching assets, consisting of a target allocation of 45% in Liability Driven Investment (LDI), 10% in Secure Income Assets (SIAs) and 5% in Corporate Bonds. The Scheme's LDI mandate comprises of UK Government Bonds (Gilts) and Index-Linked Gilts. The purpose of these assets is to hedge against the impact of interest rate and inflation movements on long term liability values. The Scheme's allocation to LDI hedges 75% of the interest rate and 70% of the inflation risk.
- b. 40% in return seeking investments comprising UK and overseas equities, emerging market debt and diversifying strategies.

Credit Risk

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

Investments exposed to credit risk:

	2022	2021
	£000	£000
Pooled investment vehicles	794,217	1,235,910
Bond funds (direct and indirect risk)	418,742	603,800
Other funds (direct risk and indirect risk)	375,475	632,110
Insurance policies	43	42
	794,260	1,235,952

Notes to the financial statements for the year ended 31 December 2022 (continued)**12 INVESTMENT RISKS (continued)****Credit Risk (continued)**

The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager.

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles. At the year end the total value of underlying investments subject to credit risk was £418.7m (2021: £603.8m) as advised by the pooled managers. This risk is mitigated by the pooled managers investing in at least investment grade credit rated investments or by diversifying the underlying investments.

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

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

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

	2022	2021
	£000	£000
Unit Linked Insurance Contracts	554,888	970,670
Authorised Unit Trusts	23,030	41,391
Open ended investment companies	121,449	125,810
Other (Sub fund of a common contractual fund)	94,850	98,039
	794,217	1,235,910

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

Notes to the financial statements for the year ended 31 December 2022 (continued)**12 INVESTMENT RISK (continued)****Currency Risk**

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

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

	2022	2021
	Total exposure	Total exposure
Currency	£000	£000
Pounds sterling (GBP)*	715,570	1,095,590
Euro (EUR)	5,438	11,200
US Dollars (USD)	33,929	69,000
Japanese Yen (JPY)	3,689	6,610
Other Currencies	39,064	62,600
Total	797,690	1,245,000
Unhedged foreign currency exposure	10.3%	12.1%

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

Interest Rate Risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds through pooled vehicles, and cash which are all affected by changes in interest rates. Similarly, the Scheme's liabilities are sensitive to movements in interest rates (if interest rates fall, the value of the Scheme's liabilities will increase. The Trustee has set a benchmark for total investments in bonds of 35% of that total investment portfolio as part of their LDI investment strategy. Under this strategy, if interest rates fall, the value of LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will actuarial liabilities because of an increase in the discount rate. At the year end the LDI portfolio represented 45.2% (2021: 42.1%) of the total investment portfolio.

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

Notes to the financial statements for the year ended 31 December 2022 (continued)**12 INVESTMENT RISKS (continued)****Other Price Risk**

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes equities and other assets held in pooled vehicles. The Scheme has set a target asset allocation of 40% of investments being held in return seeking investments, as well as 10% held in Secure Income Assets (which have both return-seeking and liability matching characteristics). At the year end the return seeking assets (plus secure income assets) represented 49.8% (2021: 52.7%) of the total investment portfolio.

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

13 CURRENT ASSETS

	Total 2022	Total 2021
	£000	£000
Cash	3,473	9,090
Employers' contributions due	-	3
Augmentations due	93	-
Special contributions due	-	940
Prepaid pensioner payroll	1,323	837
Prepaid PPF Levy	138	-
Lump sum due back to Scheme	-	61
Invoices owing	-	18
	5,027	10,949

Within cash is an amount of £153,790 (2021: £153,790) which relates to the final Trustee reserve received from Fidelity after the group transfer of all DC members to the Employer's new master trust arrangement.

Amounts due from employers include employers' contributions of £nil (2021: £2,970).

Special Contributions relate to Augmentations paid during 2022 for ill health and severance for a number of members.

Notes to the financial statements for the year ended 31 December 2022 (continued)**14 CURRENT LIABILITIES**

	Total 2022	Total 2021
	£000	£000
Amounts due to employers	1,231	1,018
GMP Equalisation	5,500	5,500
Benefits payable	419	108
PAYE – Due to HMRC	437	402
	7,587	7,028

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

The Trustee has obtained an estimate of the backdated benefits and related interest which relate to equalisation of Scheme benefits in respect of unequal GMP's of £5,500,000. This estimate is based on the Trustee's view of the most likely equalisation methodology to be adopted and has not been paid. This has been recognised as an accrual and therefore remains a current liability in the Scheme financial statements for the year ended 31 December 2022.

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

15 RELATED PARTY TRANSACTIONS

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

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

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

16 EMPLOYER RELATED INVESTMENTS

It was noted that during the year, within the SsgA Sterling Corporate Bond Fund, there were employer related investments totalling 0.36% (2021: 0.27%). This represents c0.02% (2021 c0.01%) of the total net assets of the Scheme as at the year end.

Within the BlackRock equity funds, there were very insignificant employer related investments totalling less than 0.01% (2021: 0.01%) of the net assets of the Scheme.

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

Other than noted above and the outstanding contributions due to the Scheme at the year end 31 December 2022, the Scheme has no other direct employer related investments.

Notes to the financial statements for the year ended 31 December 2022 (continued)**17 SUBSEQUENT EVENTS**

A new fiduciary investment manager, Cardano, was appointed on 16 May 2023 and assets commenced transition from the investment portfolio on 8 June 2023.

In the opinion of the Trustee, there were no other subsequent events as at 31 December 2022 (2021: £nil)

18 GMP EQUALISATION

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

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

The Trustee of the Scheme is aware that the issue will affect the Scheme and is receiving Actuarial and Legal advice in order to implement the judgment. Under the ruling on 26 October 2018 schemes are required to (1) make backdated benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts and (2) correct future benefit payments. The Trustee has obtained an estimate of £5,500,000 in respect of the expected cost of making both of these adjustments. This estimate is based on the Trustee's view of the most likely equalisation methodology to be adopted. This was recognised as a liability in the Scheme's financial statements since the year ended 31 December 2020 and remains a liability as at 31 December 2022. No estimate has yet been provided for the potential cost of having to equalise past transfer payments.

Section 6 – Independent Auditors' Statement about Contributions

We have examined the Summary of Contributions to the Northumbrian Water Pension Scheme for the Scheme year ended 31 December 2022. This can be found on page 45.

Opinion

In our opinion contributions for the Scheme year ended 31 December 2022 as reported in the Summary of Contributions and which are payable under the Schedule of Contributions have in all material respects been paid from 1 January 2022 to 31 December 2022 at least in accordance with the Schedule of Contributions certified by the Actuary on 24 March 2021.

Scope of work on the statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached Summary of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

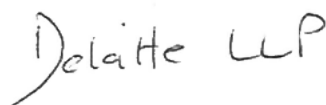
Respective responsibilities of Trustee and Auditors

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

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

Use of our report

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



Deloitte LLP
Statutory Auditors
Birmingham
United Kingdom

Date: 27 July 2023

Section 7 – Summary of Contributions

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and employee contributions payable to the Scheme under the Schedule of Contributions certified by the Actuary on 24 March 2021 in respect of the Scheme year ended 31 December 2022. The Scheme auditor reports on these contributions payable under the Schedule in the Auditors' Statement about Contributions.

Summary of Contributions payable under the Schedule in respect of the Scheme year ended 31 December 2022

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

	Employer	Employee
	£000	£000
Required by the Schedule of Contributions		
Normal	5,765	1,148
Salary sacrifice contributions	157	-
Deficit contributions	22,850	-
	28,772	1,148
Total		
Other contributions payable		
Additional contributions	1,000	-
Augmentation contributions	93	-
Total (as per Fund Account)	29,865	1,148

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

DocuSigned by:



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Director

DocuSigned by:



8FE032AEB5234C2...

Director

27-Jul-2023 | 14:08 BST

Date

Section 8 – Actuarial Statement & Certificate

Actuarial Certification of the Schedule of Contributions

Actuary's certification of the schedule of contributions

Name of the pension scheme: Northumbrian Water Pension Scheme

Adequacy of contributions

I hereby certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated 24 March 2021.

Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 24 March 2021.

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



Gavin Hamill
Fellow of the Institute and Faculty of Actuaries

Date: 24 March 2021

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

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

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 December 2019. This showed that on that date:

The value of the technical provisions was:	£1,291.9 million
The value of the assets at that date was:	£1,066.7 million

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

Method

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

Significant Actuarial Assumptions

Discount interest rate: Dependent on term and assumed to be the yield on UK fixed interest government bonds plus the following adjustments:

Pre retirement: 1.6% p.a.

Post retirement: 0.7% p.a.

RPI inflation: Dependent on term as calculated by the difference between yields on UK fixed and index-linked government bonds.

CPI inflation: Assumed to be 1.0% p.a. below RPI until 2030, but in line with RPI thereafter.

Final salary revaluation in service: In line with RPI price inflation subject to a maximum of 2.5% p.a., adjusted to take account of any maximum or minimum increase that may apply.

Care revaluation in service: In line with RPI price inflation subject to a maximum of 2.5% p.a., adjusted to take account of any maximum or minimum increase that may apply.

Inflation linked deferred revaluation: In line with relevant price inflation.

Mortality: Base table 99% of the SAPS “S3” tables for both males and females, projected from 2013 in line with the CMI 2019 core projection model with long term trend for improvements of 1.5% p.a., the default smoothing parameter of 7.0 and an initial addition of 0.25% p.a.

Proportion married: 80% of males members and 65% of females members to have a dependent or spouse at retirement or on earlier death.

Age difference: Husbands are assumed to be 3 years older than their wives.

Report on Actuarial Liabilities (continued)

Retirement patterns: Benefits earned from 1 January 2008 are assumed to be payable from age 65.

For benefits earned before 1 January 2008, active members are assumed to retire at age 62 on average whilst deferred members are assumed to retire at age 60.5 average. The reduction for early retirement, if any, is calculated relative to the earliest age at which the benefits can be drawn unreduced and without consent under the Rule of 85.

Commutation: Members who do not accrue cash as a right are assumed to commute on average 90% of the HMRC maximum lump sum. Members who accrued cash as a right are assumed to commute 80% of the HMRC maximum lump sum in total, inclusive of the Scheme lump sum.

Withdrawal: Allowance is made for staff leaving service before retirement age based on Scheme experience.

Ill-health retirements: No explicit allowance is made for ill-health retirements before normal pension age.

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

Statement of Compliance with the Stewardship Policy of Northumbrian Water Pension Scheme for the year ending 31 December 2022.

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Section 1: Introduction

This document is the Annual Implementation Statement (the “Statement”) prepared by the Trustee of the Northumbrian Water Pension Scheme (the “Scheme”) covering the “Scheme Year” from 1 January 2022 to 31 December 2022 in relation to the Statement of Investment Principles (SIP).

The purpose of the implementation statement is to:

- set out the extent to which, in the opinion of the Trustee, the engagement policies set out in the Scheme’s SIP required under section 35 of the Pensions Act 1995 has been followed during the year
- describe the voting behaviour by, or on behalf of, the Trustee over the year.

The SIP in place over the Scheme year is dated September 2020 which is referenced within this statement.

A copy of this implementation statement is made available on the following website:

www.nwgpensions.co.uk/northumbrian-water-pension-scheme/documents/

Implementation Statement (continued)**Section 2: Adherence to the SIP**

In this section, the Trustee has commented on each of the policy areas set out within the SIP and how it has implemented the principles within each one.

Policies on engagement

The Trustee takes the below considerations into account when selecting and monitoring the performance of investment managers.

Policy area	Approach and actions taken over the Scheme Year
<p>Section 4.3</p> <p>Delegate the responsibility for selection of specific investments to appointed investment managers and delegate the extent to which Environmental, Social and Governance (ESG) factors are considered by the investment managers</p>	<p>Selection of specific investments remains delegated to the Scheme's investment managers and the Trustee reviews the performance of the managers against appropriate benchmarks on a quarterly basis.</p> <p>Selection and accountability for ESG factors within the Scheme's investments remains delegated to the Scheme's investment managers.</p> <p>The Trustee undertook a Sustainable Investment review in September 2022 as part of its monitoring of whether the Scheme's managers are appropriately accounting for ESG risks and opportunities. No immediate action was deemed to be required following this review; however, the Trustee reviewed whether the Scheme's managers were on track to meet the minimum standards with respect to sustainable investing that the Scheme's investment consultant had set. In addition it reviewed its exposure to climate risks as part of preparing to report in line with the DWP's climate regulations.</p> <p>The Trustee was in the process of appointing a fiduciary manager as of year end 2022. As part of appointing a fiduciary manager, the Trustee will monitor the portfolio's investments with respect to ESG.</p>
<p>Section 4.4</p> <p>The Trustee does not take non-financial matters into account</p>	<p>Over the Scheme Year, the Trustee has not considered any non-financial matters in relation to the Scheme's investments.</p>

Implementation Statement (continued)

Policy area	Approach and actions taken over the Scheme Year
<p>Section 4.6</p> <p>The Trustee invests with managers who have appropriate practices in place in relation to ESG factors in terms of selection, retention and realisation of investments</p> <p>The Trustee's policy is to give discretion to the investment managers to pursue an engagement policy with investee companies</p>	<p>Where appropriate, the Trustee has chosen to invest in strategies that have explicit consideration to ESG factors, for example the Scheme's investment in Secure Income Assets. Under this strategy the Scheme has invested to provide funding for renewable energy, social infrastructure and social housing as well as other areas where there are ESG risks and opportunities. Investment manager ESG practices are also reviewed as part of the Scheme's Investment Consultants' view of a manager's skill, which is reported back to the Trustee on a quarterly basis where applicable.</p> <p>Over the Scheme Year, engagement with investee companies remains left to the discretion of the investment managers. The Trustee considers whether the Scheme's investment managers are undertaking sufficient engagement efforts through the Scheme's Investment Consultant, who liaises with the Scheme's investment managers on how they can adhere to best practice and improve their stewardship activities as part of their ongoing relationship with these managers.</p>
<p>Section 4.7</p> <p>The Trustee reviews its managers policies on ESG factors periodically</p> <p>The Trustee delegates the exercising of voting rights to the Scheme's investment managers</p> <p>The Trustee expects its managers to report regularly on votes cast and other relevant matters</p>	<p>In September 2022 the Trustee undertook a Sustainable Investment review of the Scheme's assets, with explicit consideration to how ESG factors are integrated into the Scheme's investments and the Scheme's investment consultant's view of the manager's stewardship activities.</p> <p>As part of this review, the Trustee considered whether the managers' approaches warranted a review of the manager or strategy; however it was agreed that no further review of a manager based on their approach to sustainability was required. The Trustee noted that the Scheme's managers would likely be changing as a result of finalising the fiduciary management process.</p> <p>Over the Scheme Year the Trustee has not directly voted on any of its investments.</p> <p>The Trustee monitors the voting activity of its managers through its Investment Consultant, as managers' stewardship capabilities feed directly into the Investment Consultant's skill rating of the strategy, which the Trustee reviews quarterly. Over the Scheme Year, the Trustee also asks its managers, for which voting rights are attached to underlying securities, to report on their voting activity as part of the preparation of the Scheme's Implementation Statement.</p>

Implementation Statement (continued)

Policy area	Approach and actions taken over the Scheme Year
<p>Section 5.6</p> <p>The Trustee assesses performance and review appointments of their investment managers</p>	<p>The Trustee has implemented suitable benchmarks for each of the Scheme's investment managers with which to monitor their performance against on a quarterly basis. This performance is then discussed by the Trustee with its Investment Consultant and a decision is formed on whether the Trustee should review a manager's performance.</p>
<p>Section 5.10</p> <p>The Trustee will ensure the investment objectives and guidelines of the Scheme's pooled vehicle investments are consistent with the Trustee's policies</p>	<p>The Trustee as part of its quarterly monitoring, considers and reviews each of the investment objectives of the Scheme's fund ranges to ensure that the funds are performing in line with their stated objectives.</p>
<p>Section 5.12</p> <p>The Trustee will engage with the manager to encourage alignment in the event a fund's objectives, guidelines or approach to sustainable investment are misaligned with the Trustee's policies</p>	<p>As well as undertaking monitoring by reviewing valuation and performance reports produced by the Scheme's Investment Consultant to determine whether a fund's objectives are sufficiently aligned with the Trustee's policies, the Trustee has undertaken a Sustainable Investment review over the Scheme Year.</p> <p>As part of this, the Trustee reviews its investment managers' sustainable investment practices to understand whether the managers' and their strategic approaches to sustainability are aligned with the Trustee's policy. Further detail on how the Trustee monitors sustainability within the Scheme's assets is set out below.</p> <p>Over the Scheme Year, the Trustee did not find any circumstances of misalignment to warrant further engagement with any of the Scheme's investment managers.</p>

Implementation Statement (continued)

Policy area	Approach and actions taken over the Scheme Year
<p>Sections 5.13 & 5.14</p> <p>Appoint investment managers with an expectation of a long-term partnership, in order to encourage active ownership of the Scheme's assets</p>	<p>When reviewing the performance of the Scheme's investment managers on a quarterly basis, the Trustee reviews performance over 3 and 5 years as well as on a shorter-term basis to ensure it focuses on long term outcomes. The Trustee also considers the active ownership of the Scheme's assets by reviewing their investment managers as part of the Scheme's Sustainable Investment review.</p> <p>The Trustee has not considered there to be any factors that warrant the termination of any of the Scheme's investment managers over the Scheme Year. The Trustee in 2023 is in the process of transitioning the Scheme's assets to a fiduciary manager which will mean some of the Scheme's asset manager line up will change, however this is to bring the Scheme's governance arrangements more closely aligned with the Trustee's objectives for the Scheme as opposed to specific concerns over the Scheme's existing manager line up.</p>
<p>Section 5.16</p> <p>Review the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover</p>	<p>The Trustee monitors the costs associated with its investment managers managing the Scheme's assets as part of its quarterly performance monitoring. In addition the Trustee receives annual costs and charges reports for their investments which set out costs including those in relation to transactions costs and ancilliary costs for example, that the Scheme has incurred in relation to the Scheme's investments. Over the Scheme Year the Trustee has deemed the costs and charges incurred to be representative of the nature of the assets to which the Scheme invests and has deemed no action is required in relation to this matter.</p> <p>Regarding turnover, the Trustee has considered and reviewed the turnover associated with the Scheme's managers relative to expectations. The Trustee is comfortable that the level of turnover for the Scheme's funds is broadly in line with expectation or where this is not the case, is satisfied that it understands the rationale behind why certain levels of reported turnover are not in line with expectation.</p>

Implementation Statement (continued)

Policy area	Approach and actions taken over the Scheme Year
<p>Section 5.19</p> <p>The Trustee will provide its investment managers with a copy of the latest SIP and monitor the extent to which they give effect to the investment principles set out in it</p>	<p>The Trustee has previously shared a copy of the latest SIP with each of the Scheme's investment managers and their responses are summarised below.</p> <p>With respect to the Scheme's investments managed by M&G, Stone Harbor and Towers Watson Investment Management (TWIM), these managers have outlined they do not believe there to be wording within the Scheme's SIP that suggests the Trustee's investment principles are materially misaligned with how the Scheme's funds are managed. The Scheme's remaining investment managers have noted the SIP but have declined to comment on the Trustee's policies. The Trustee, as part of its monitoring of the Scheme's assets, considers whether the strategies employed are aligned with the Scheme's objectives on a regular basis alongside the Scheme's investment consultant.</p>

Section 3: Voting and engagement

The Trustee has delegated the day-to-day ESG integration and stewardship activities (including voting and engagement) to the Scheme's investment managers. However, to monitor how the Scheme's investment managers integrate ESG and undertake stewardship activities on the Trustee's behalf, the Trustee undertakes an Annual Sustainable Investment review via analysis provided from its Investment Consultant.

Overall, following the review carried out in 2022, the Trustee remained comfortable with the investment managers approach to ESG integration and noted no cause for concern.

As part of monitoring the stewardship of the Scheme's investments, the table below sets out some of the voting activities of the Scheme's investment managers. This includes any votes cast on the Trustee's behalf, detail on the Scheme's investment managers' use of proxy voting and examples of votes cast that they deem to be significant. Some of the Scheme's underlying investment strategies, such as fixed income for example (where these holdings do not have voting rights attached) or property for example (where voting is not applicable as the strategy will bring with it a high level of ownership and control), have been excluded from the table below.

Where voting activity below may not be consistent with the Trustee's objectives, the Trustee will consider engaging with the Scheme's managers to confirm that the approach taken by the manager on the Trustee's behalf was reasonable in the circumstances.

Implementation Statement (continued)

The table below reflects the voting data as provided by the Scheme's investment managers.

Manager and strategy	Voting activity, most significant votes cast and use of proxy voting
<p>BlackRock Pooled Equity</p> <p>Aquila Life World (Ex UK) Equity Index Fund (GBP hedged and unhedged versions)</p>	<p>Voting activity</p> <p>Number of votes cast: 24,287</p> <p>Percentage of eligible votes cast: 91.7%</p> <p>Percentage of votes with management: 85%</p> <p>Percentage of votes against management: 6.4%</p> <p>Percentage of votes abstained from: <1%</p> <p>Significant votes</p> <p>Company: Monster Beverage</p> <p>Resolution: Shareholder Proposal Regarding a Report on the Company's Plans to Reduce Greenhouse Gas (GHG) Emissions</p> <p>BlackRock's vote: For the resolution (against the Board)</p> <p>Rationale: BlackRock's Investment Stewardship (BIS) team believed that it was in the best long-term financial interests of BlackRock's clients to support the item. Current disclosures do not provide sufficient detail on plans to reduce Scope 1 and 2 GHG emissions to align the company's business model with likely pathways to a lower carbon economy. BIS will continue to monitor Monster Beverage's progress relating to sustainability disclosures and provide its feedback through engagements with the company's management</p> <p>Use of proxy voting</p> <p>BlackRock subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis (applies to all of the Scheme's funds managed by BlackRock)</p>

Implementation Statement (continued)

Manager and strategy	Voting activity, most significant votes cast and use of proxy voting
<p>BlackRock Pooled Equity</p> <p>Aquila Life UK Equity Index Fund</p>	<p>Voting activity</p> <p>Number of votes cast: 14,175</p> <p>Percentage of eligible votes cast: 96.1%</p> <p>Percentage of votes with management: 91.3%</p> <p>Percentage of votes against management: 4.9%</p> <p>Percentage of votes abstained from: <2%</p> <p>Significant votes</p> <p>Company: Ocado Group PLC</p> <p>Resolution: Approve Remuneration Report, elect three directors & approve to amend Value Creation Plan (VCP)</p> <p>BlackRock's vote: Against the resolution (against the Board)</p> <p>Rationale: BIS has had longstanding concerns about the assessment of management's performance solely by reference to shareholder returns, which can be subject to numerous factors outside of management's control. BIS therefore determined not to support the approval of the extension of the VCP, and also not to support the approval of the renewed Remuneration Policy of which it formed a significant part. BIS voted against the re-election of members of the Remuneration Committee to reflect its concerns about remuneration practices at the company. BlackRock continue to engage with this company</p>

Implementation Statement (continued)

Manager and strategy	Voting activity, most significant votes cast and use of proxy voting
BlackRock Pooled Equity Emerging Market Equity Index Fund	<p>Voting activity</p> <p>Number of votes cast: 24,101</p> <p>Percentage of eligible votes cast: 99.2%</p> <p>Percentage of votes with management: 87.2%</p> <p>Percentage of votes against management: 12.1%</p> <p>Percentage of votes abstained from: 3.5%</p> <p>Significant votes</p> <p>Company: China Tower Corporation Limited</p> <p>Resolution: Re-elect two directors</p> <p>BlackRock’s vote: BlackRock voted against proposed by management.</p> <p>Rationale: BIS voted against the re-election of the two incumbent directors on China Tower’s Nomination Committee, whom it believes should be held accountable for the lack of gender diversity among proposed candidates. While the board will need to appoint a female director before the end of the transition period in 2024 to comply with HKEX’s Listing Rules, BIS are of the view that Nomination Committee members should take a more proactive approach toward achieving a minimal level of gender diversity and ensuring the diversity of perspective and thought in the board room at the start of the three-year term, rather than waiting to later in the term to appoint a female director just to comply with the regulatory requirement. BlackRock continue to engage with the company on its board diversity.</p>

Section 4: Summary and conclusions

The Trustee considers that the engagement policies within the SIP were adhered to over the Scheme Year.