

# Investment Implementation Policy Document

## Veolia UK Pension Plan

December 2022

### 1. Introduction

This document sets out the detailed day-to-day implementation of the investment policy of the Veolia UK Pension Plan (“the Plan”). It should be read in conjunction with the Plan’s Statement of Investment Principles (the “SIP”), which outlines the broader framework of the principles governing decisions about investment of the Plan’s assets.

This document will be amended as necessary by the Trustee to reflect any changes to the Plan’s investment arrangements.

### 2. Investment strategy

The Plan is comprised of four Divisions as follows:

1. Veolia Environmental Services Final Salary Division (“VES FS”)
2. Veolia ES Municipal Division (“VES MD”)
3. Veolia Water UK Ltd Final Salary Division (“VWUK”)
4. VWS Final Salary Division (“VWS FS”)

The strategy for VWUK is set out below:

<b>Asset Class</b>	<b>Allocation (%)</b>
Buy-in policy	100.0
<b>Total</b>	<b>100.0</b>

All other Divisions of the Plan are invested in a fiduciary management mandate with Schroder Investment Management Limited (“Schroders”). The mandate was appointed in December 2016 and is specified according to:

- A Flight Path de-risking strategy, with triggers to automatically move to a lower-risk Phase of the strategy when the funding level improves above a pre-agreed funding level.
- The following specifications at each Phase:
  - o A target allocation to Growth and Matching Portfolios
  - o A target Growth Portfolio Return
  - o A target level of Liability Coverage.

More information on the Flight Path framework for each Division is shown in Sections 2A, 2B and 2C overleaf.

## 2A Flight Path Framework

### Flight Path framework – VES FS

Phase	Proxy Funding Trigger Level	Target Allocation			Target Growth Portfolio Return <sup>2</sup>	Target Liability Coverage	Date Phase initially observed
		Growth Portfolio <sup>1</sup>	Matching Portfolio				
			LDI	B&M <sup>3</sup>			
Initial	Initial	72%	28%	-	SONIA + 2.8% p.a.	100%	N/A
1	>101%	<i>Schroders to notify Trustee</i>					23 Sep 2021
2	>102%	68%	32%	-	SONIA + 2.5% p.a.	93%	Instruction letter dated 14 Oct 2022
3	>104%	<i>Schroders to notify Trustee</i>					*
4	>105%	47%	33%	20%	SONIA + 2.4% p.a.	105%	*
5	>106%	<i>Schroders to notify Trustee</i>					*
6	>107%**	25%	35%	40%	SONIA + 2.4% p.a.	107%	*

1 Growth Portfolio Target Allocation includes the Illiquids specified in Part B of Schedule 2A

2 Target Growth Portfolio Return represents the target return excluding the Illiquids.

3 Schroder Matching Plus Buy and Maintain Credit Sterling Cashflow over 2032 Fund. **Initial allocation at the point of implementing each Phase; thereafter, the B&M allocation will not be rebalanced.**

\* Phase has not been observed at the time of drafting this Agreement.

\*\* Schroders will notify the Trustee and await instruction from the Trustee before implementing this Phase.

### Flight Path framework – VES MD

Phase	Proxy Funding Trigger Levels	Target Allocation			Target Growth Portfolio Return	Target Liability Coverage	Date Phase initially observed
		Growth Portfolio	Matching Portfolio				
			LDI	B&M <sup>1</sup>			
Initial	Initial	50%	30%	20%	SONIA + 2.8% p.a.	96%	N/A
1	>105%	<i>Schroders to notify Trustee</i>					*
2	>106%**	22%	38%	40%	SONIA + 2.6% p.a.	106%	*

1 Schroder Matching Plus Buy and Maintain Credit Sterling Cashflow over 2032 Fund. **Initial allocation at the point of implementing each Phase; thereafter, the B&M allocation will not be rebalanced.**

\* Phase has not been observed at the time of drafting this Agreement.

\*\* Schroders will notify the Trustee and await instruction from the Trustee before implementing this Phase.

## Flight Path framework – VWS FS

Phase	Proxy Funding Trigger Levels	Target Allocation			Target Growth Portfolio Return	Target Liability Coverage
		Growth Portfolio	Matching Portfolio			
			LDI	B&M <sup>1</sup>		
Initial	Initial	0%	30%	70%	N/A	100%

<sup>1</sup> Schroder Matching Plus Buy and Maintain Credit Sterling Cashflow over 2032 Fund.

**Initial allocation at the point of implementing each Phase; thereafter, the B&M allocation will not be rebalanced.**

### 2B Growth Portfolios

For VES FSD and VES MD, the Growth Portfolios are managed by Schroders in a discretionary multi-asset portfolio with the following permitted asset classes:

#### Growth Portfolios – Permitted Asset Classes

Asset Class	Asset Class Category
Equities	Equities
Fixed income – Government Bonds	Government Bonds
Fixed income – Inflation linked Bonds	Government Bonds
Fixed income – Investment Grade Credit	Credit
Fixed income – High Yield Debt	Alternatives
Fixed income – Emerging Market Debt – USD denominated	Alternatives
Fixed income – Emerging Market Debt – local currency	Alternatives
Leveraged Loans	Alternatives
Convertible Bonds	Alternatives
Insurance-Linked Securities	Alternatives
Commodities	Alternatives
Infrastructure	Alternatives
Property	Alternatives
Hedge Funds	Alternatives
Alternative Risk Premia	Alternatives

Alternative Credit	Alternatives
Cash and cash funds	Cash

Schroders has discretion to alter the asset allocation within the Growth Portfolios within the following ranges:

## Central Portfolio Weights and Permitted Ranges

Asset Class Category	SONIA + 2.8% Central Weight	SONIA + 2.6% Central Weight	SONIA + 2.5% Central Weight	SONIA + 2.4% Central Weight	Permitted Range
Equities	27%	24%	22%	21%	+/- 10%
Government Bonds	20%	23%	25%	27%	+/- 10%
Credit	30%	30%	30%	30%	+/- 10%
Alternatives	18%	17%	17%	16%	+/- 5%
Cash	5%	6%	6%	6%	+ 15% / Min 0%

The table above excludes the VES FSD allocation to Illiquid Assets.

Additionally, VES FSD has an allocation to the following Illiquid Assets:

- DAWM – Pan-European Infrastructure Fund**  
 This Fund aims to achieve relatively stable, income-orientated returns by investing predominantly in established private companies and assets active in the European Infrastructure sector. The Fund will target an Internal Rate of Return of 10% per annum, net of fees, with prospects to deliver 6% to 8% per annum income.
- Patrizia – TransEuropean Property Partnership V Fund**  
 The Fund targets a leveraged internal rate of return of 10% p.a., net of Partnership fees, operating and transaction costs and local taxes (but before performance fees and investor level taxes). It also targets a weighted annualised distribution yield of 5.5% p.a.
- Schroders – Multi-Private Credit Fund**  
 The Fund provides access to a diversified set of core private credit asset classes in a single co-mingled fund structure. The Fund will target an Internal Rate of Return of 7-8% p.a. net of fees. Assets committed to this Fund but not yet drawn down are held in the Schroders Securitised Credit Fund.

## 2C Matching Assets

Schroders manages each Matching Portfolio with the aim of providing a degree of liability matching in respect of certain estimated future cashflow liabilities of the relevant Division, by seeking to reduce the impact of the risk of interest rate and implied inflation movements affecting the Present Value of a proportion of the Liability Proxy.

The Present Value of the Liability Proxy is calculated using the following discount rates:

### VES FSD Discount rate

Liability discounting	Reference	Gilt Curve	Margin	+0.85%
Liability inflating	Reference	Gilt Breakeven Approach	Margin	+0.00%

### VES MD Discount rate

Liability discounting	Reference	Gilt Curve	Margin	+0.545%
Liability inflating	Reference	Gilt Breakeven Approach	Margin	+0.00%

### VWS FS Discount rate

Liability discounting	Reference	Gilt Curve	Margin	+0.50%
Liability inflating	Reference	Gilt Breakeven Approach	Margin	+0.0%

### 3. Investment Management Fees

Schroders is employed as fiduciary manager to the Trustee. Schroders receives a fee for its fiduciary management services as follows:

- Fiduciary Management fee – an annual fee calculated at the rate of:  
0.155% on the first £300 million  
0.125% on the next £150 million  
0.075% thereafter  
  
of the value of the total assets of the Veolia Energy Pension Scheme, VES FSD, VES MD and VWS FS;
- Matching Portfolio fee – a fee calculated at the rate of 0.045% of the value of the Target Liability Coverage per annum.
- Growth Portfolios and Buy & Maintain credit funds fees are charged directly within the underlying funds, which includes both Schroders and third-party funds managed by Schroders and funds managed by third parties. The fiduciary manager provides the Trustee with a summary of underlying component fees on a periodic basis.

The fees for the current components of the Growth Portfolio and Buy & Maintain credit funds are as follows:

#### Growth Portfolio and Buy & Maintain credit component fees – VES FSD, VES MD and VWS FS

Asset Class Category	Fund	Fee (p.a.)
Equities	Schroder Risk Controlled Global Equity	0.16%
Government Bonds	Schroder Global Sovereign Bond	0.07%
Credit	Schroder Global Corporate Bond	0.10%
Alternatives*	Schroder Diversified Completion Fund	0.00%
Cash	Schroder Sterling Liquidity Plus	0.04%
Buy & Maintain credit	Schroder Matching Plus Buy and Maintain Credit Sterling Cashflow over 2032 Fund	0.09%

\*Schroders has waived the annual management charge of this fund. The fees for the underlying managers in the Fund are estimated as 0.74% p.a. as at 31 December 2021 (these will vary over time as the components inside the Fund change).

## Illiquids fees – VES FSD

Fund/ strategy	Fee
DAWM - Pan-European Infrastructure Fund	<p>Annual management fee 1.125% of assets p.a. plus a performance fee:</p> <ul style="list-style-type: none"> <li>15% of the performance between 8% p.a. and 10% p.a..</li> <li>20% of the performance over 10% p.a.</li> </ul> <p>After 30 June 2020:</p> <ul style="list-style-type: none"> <li>• DAWM will not charge an annual management fee and will instead charge an administration fee of €200,000 p.a. across the whole fund (capped, taken from distributions) to cover GP operating expenses</li> <li>• The performance fee will be based on a starting value from 31 December 2018 (i.e. a raised High Water Mark).</li> </ul>
Patrizia - TransEuropean Property Partnership V Fund	<p>Quarterly “priority profit share” equal to the greater of:</p> <ul style="list-style-type: none"> <li>• 0.375% per quarter (ex. VAT) of the aggregated amount of drawdown Total Commitments (less any drawdown Total Commitments that have been repaid to the Limited Partners) at the end of that quarter; or</li> <li>• £250,000 (ex. VAT) pro-rated by Total Commitments.</li> </ul> <p>Establishment costs payable of up to a maximum of 0.2% of Total Commitments.</p> <p>Plus a performance fee:</p> <ul style="list-style-type: none"> <li>• 20% of returns above an internal rate of return (“IRR”) of 8% p.a.</li> <li>• payable if the Fund achieves a net IRR of 9% p.a.</li> </ul> <p>Patrizia will rebate 0.09% p.a. of management fees (subject to the minimum fees noted being met) when the TEPV has drawn c. €66.7m of its commitments across all clients until the total NAV falls below c. €33.3m across all clients.</p>
Schroders Multi-Private Credit Fund	<p>An overall Management Fee of 0.25% p.a. calculated annually and payable quarterly in advance, plus fees from the underlying funds*.</p> <ul style="list-style-type: none"> <li>• During the initial Investment Period, the Management Fee shall be charged on Committed Capital.</li> <li>• Thereafter, the Management Fee shall apply to the Net Asset Value.</li> </ul> <p>The overall management fee is not charged on underlying Schroders funds.</p>
Schroders Securitised Credit Fund	<p>Annual management fee of 0.20% p.a. of the value of the Fund’s investment, charged quarterly in arrears via invoice.</p>

\* The fees for the underlying managers in the Fund are estimated as 0.64% p.a. of the Net Asset Value of the Plan’s holding in the Fund as at 31 December 2021 (these will vary over time as the components inside the Fund change).

#### **4. Investment Advice and Performance Measurer**

##### **Investment Advice**

The fiduciary manager provides advice and assistance to the Trustee including, but not limited to, the following:

- i. Assistance to the Trustee in formulating investment objectives
- ii. Provision of Pensions Act Advice on the investment strategy
- iii. Reporting on the asset and liability performance and risks for the Plan
- iv. Assistance with the preparation and maintenance of the SIP and this document
- v. Assistance with the preparation of the Implementation Statement
- vi. Other services as set out in the Schroders Fiduciary Management IMA

Schroders' fees for the above services are included in the "fiduciary fee" detailed in the Investment Management Fees section.