STATEMENT OF INVESTMENT PRINCIPLES

Veolia UK Pension Plan - Defined Benefit

December 2022

1. Introduction

This statement sets out the principles governing decisions about the investment of the Defined Benefit assets of the Veolia UK Pension Plan ("the Plan"). Veolia UK Pension Trustees Limited ("the Trustee") has issued this statement to comply with the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.

This statement will be will be reviewed at least once every three years or after any significant change in investment policy.

Before preparing this statement, the Trustee has:

- obtained and considered the written advice of a person who is reasonably believed by the Trustee to have the appropriate knowledge and experience of financial matters and investment management; and
- consulted the employer in relation to the Plan.

This statement sets out the overriding principles governing how decisions about investments must be made. Further details of how the investment policy is implemented are set out in the Investment Implementation Policy Document ("IIPD"). The IIPD is not part of the SIP but can be obtained on request.

2. Investment objectives

The Plan is comprised of three Divisions as follows:

1. Veolia Environmental Services Final Salary Division ("VES FS")
2. Veolia ES Municipal Division ("VES MD")
3. VWS Final Salary Division ("VWS FS")

The Trustee's main objectives with regard to investment policy are as follows:

i. The overall objective is to ensure that there are sufficient assets to pay members' benefits as they fall due. The investment strategy is designed to provide a return which, when combined with the anticipated contributions to the Plan, has a reasonable probability of achieving this objective.
ii. Over the long term the Trustee's objective is for the Plan to be fully funded on a basis which would allow the Plan to be invested with little investment risk. To achieve this, the Trustee is prepared to take some risk in pursuit of excess investment returns above the liabilities in the medium term.
iii. Over the medium term, the objective is to meet the level of return specified in each Division's Deficit Recovery Plan whilst reducing the risk of requiring additional contributions arising from the funding requirement.

3. Policy on choosing investments

The Trustee's policy on choosing investments is as follows:

- The nature of the Plan's liabilities are considered in setting the Plan's strategic asset allocation. This includes consideration of interest rates, inflation, mortality and other financial and demographic factors.

- The Trustee's funding objectives are considered. To meet these objectives the Trustee has set an investment return target, and an allocation to Growth and Matching assets, which in its opinion is consistent with its funding objectives and risk appetite.

A number of assumptions for expected returns of certain asset classes and correlations between them are used. These assumptions affect the expected time to achieving the Trustee's funding goals and the estimated levels of risk in the investment strategy.

The asset allocation for each of the Divisions is split into *Matching Assets* and *Growth Assets*. *Matching Assets* comprise assets (including, but not limited to, credit, UK government bond and derivative exposures) which are held with the aim matching the interest rate and inflation exposures of the Plan's liabilities. *Growth Assets* comprise assets (including but not limited to, developed and emerging market equities, corporate bonds and alternative assets) that are held with the aim of outperforming the Plan's liabilities over the medium term.

4. Risk

The Trustee recognises a number of risks involved in the investment of the assets, including:

- Interest rate and inflation risk: the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates and expected future inflation rates. The Trustee receives information about the estimated level of interest rate and inflation risk in the strategy on a regular basis. Interest rate and inflation risks are managed using Liability Driven Investment techniques within the Matching Assets.

- Currency risk: the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. This risk is measured and actively managed on an ongoing basis by the Plan's fiduciary manager. The majority of the overseas currency exposure in the portfolio is hedged back to Sterling, unless there is expected to be a risk or return benefit to the Plan from leaving exposures to one or more overseas currencies unhedged.

- Credit risk: the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. This risk is measured and actively managed on an ongoing basis by the Plan's fiduciary manager. The fiduciary manager seeks to achieve a diversified exposure to a range of growth asset risks including credit risk so that no single risk in the portfolio dominates.

- Other price risk: the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). These are measured and managed on an ongoing basis by the Plan's fiduciary manager. The Plan's fiduciary manager seeks to achieve a diversified exposure to a range of growth asset risks so that no single risk in the portfolio dominates.

5. Realisation of investments

The majority of the Plan's assets are realisable at short notice. Therefore, the Trustee is satisfied that sufficient assets held will be readily realisable to provide cash to meet payments by the Plan.

In addition, the Trustee is satisfied that the spread of assets and the fiduciary manager's policies on investing in individual securities provide adequate diversification of investments.

6. Environmental, Social and Governance, and Responsible Investment Policy

The Trustee believes that markets do not necessarily fully incorporate Environmental, Social and Governance (ESG) or climate risk factors appropriately when determining the price of assets.

The Trustee believes that ESG related risks, including climate change risks, are an important component of investment risk. They should therefore be considered when selecting investment managers as they may be a source of better risk-adjusted returns. However ESG factors are only a subset of the wider considerations the Trustee will bear in mind when making investment decisions.

The Trustee believes that ongoing monitoring (which may lead to action in certain cases) is key to ensuring investment managers take account of ESG concerns. The Trustee works with its fiduciary manager and its investment advisors in order to monitor its managers.

- **Environmental (including climate change) factors** include biodiversity, climate change, energy efficiency, pollution, waste management and water scarcity, and other issues which affect the long term sustainability of returns. These may take the form of rising physical losses from extreme weather in the short term, the medium-term impacts from the implementation of climate change policy, and the longer-term impacts if global temperature rises are not limited. The Trustee believes that environmental factors are a key investment consideration because they affect the ability of investors to generate future investment returns. For example, environmental degradation may generate returns in the short term but represents a longer term risk.

- **Social factors** include community relations, diversity and inclusion, human rights, labour standards, product safety, and other issues which are likely to affect the wellbeing of stakeholders, and by extension public perception of a company. Organisations today must recognise that they operate under a social licence, and that relationships with stakeholders should reflect these obligations. The Trustee believes that social factors are a key investment consideration because companies who engage in poor social practices risk significant reputational damage which can harm returns.

- **Governance factors** include involvement in bribery and corruption, business ethics, compliance, executive remuneration, lobbying, succession planning, and other issues affecting a company's management. The Trustee believes that governance factors are a key investment consideration because companies with poor corporate governance are likely to represent a risk to performance. Poor corporate governance may lead to action taken by regulatory bodies, reputational damage and reduced profitability.

The Trustee has considered how ESG and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Plan and its members.

The Trustee believes that consideration of ESG risks is a financially material component of our investment framework. The Trustee endeavours to monitor how our investment managers take ESG issues into account in practice on a regular basis.

The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and reviews how its managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

Non-financial matters relate to the ethical views of members and beneficiaries that are not concerned with the Trustee's overriding fiduciary duty to provide good financial outcomes for the members. The Trustee understands members may hold non-financial beliefs but, given the varied and personal nature of these beliefs, it does not currently consider there to be a commonly held view that should be part of the Trustee's investment policy. The Trustee will review this from time to time.

7. Stewardship

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

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, taking into account the long-term financial interests of the beneficiaries.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council.

The Trustee has set six stewardship priorities (or engagement themes) and encourages its investment managers to vote and engage on all of them. The Trustee also encourages its investment managers to take account of its order of priority for these engagement themes as follows.

Engagement theme	Engagement rationale / objective
1st Climate	Companies urgently need to transform economy to avoid the most catastrophic effects of climate change on people and the planet, and adapt to future temperature rises.
=2nd Corporate Governance	Strong governance policies and practices ensure that businesses act in the best interest of shareholders and other key stakeholders in order to drive long term sustainable value creation.
=2nd Natural Capital and Biodiversity	Natural capital and biodiversity loss could mean businesses, banks and investors face increased insurance risks, higher costs of capital and a loss of investment opportunities. Furthermore, regulatory and policy pressures could have direct revenue impacts.
4th Human Capital Management	People in an organisation are a significant source of competitive advantage. Effective human capital management is essential to drive innovation and long term value creation.
5th Human Rights	Businesses involved in human rights controversies could face higher operational and financial risks, and could suffer damages to their reputation. Respect for human rights is also an important foundation in building resilient supply chains and forging business stability.
6th Inclusion and Diversity	Diversity across multiple dimensions brings a valuable range of outlooks and opinions, and when paired with an inclusive culture, can lead to higher quality work, better decision making and problem solving, and greater team satisfaction.

The Trustee oversees its managers' voting and engagement activities to ensure compliance with these policies and processes. Reporting on the managers' voting and engagement activities is included in their regular reporting.

The Trustee prepares an Implementation Statement (commencing from 31 December 2020 accounts) along with its Report and Accounts which describes its voting and engagement policies and its voting behaviour.

8. Arrangements with investment managers

The Trustee's policies are described in sections 3 to 7 of this statement. The Trustee incentivises its fiduciary manager to align with these policies by overseeing the fiduciary manager's execution of its mandate in accordance with these policies. Should the Trustee believe that the fiduciary manager is not aligned with these policies, it will consider making changes to the fiduciary manager's mandate as necessary.

The Trustee does not have any fee arrangements in place with its investment managers that incentivise them to deviate from the Trustee's policies.

The Trustee reviews the annual portfolio turnover and the associated costs incurred by its investment managers against their targeted portfolio turnover. Targeted portfolio turnover is defined as expected turnover based on recent historical experience.

9. Additional Voluntary Contributions ("AVCs")

The Trustee's objective for AVCs is to enable members to provide adequately for themselves in retirement via appropriate investment of their accumulated savings under the Plan.

Members' AVCs are invested in a range of funds with Equitable Life, Phoenix Life, Aviva, F&C, and the Prudential. These arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and the investment profile of the funds remains consistent with the Trustee's objectives and needs of the members.

Signed for and on behalf of the Trustee:

Phil Chattle (Jan 27, 2023 08:54 GMT) .... Phil Chattle .... Jan 27, 2023 ....

Signature Name (Print) Date

FRANK OLDHAM (Jan 27, 2023 12:42 GMT) .... FRANK OLDHAM .... Jan 27, 2023 ....

Signature Name (Print) Date

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