STATEMENT OF INVESTMENT PRINCIPLES – AUGUST 2020
VEOLIA UK PENSION PLAN – DEFINED CONTRIBUTION

1. Introduction

This Statement of Investment Principles ("SIP") has been prepared by Veolia UK Pension Trustees Limited, (the "Trustee") for the Defined Contribution Division and Additional Voluntary Contributions ("AVCs") of the Veolia UK Pension Plan (the "Plan"), to comply with the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004;
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and
- Subsequent legislation.

The Trustee has consulted a suitably qualified person by obtaining advice from Lane Clark & Peacock, the Plan's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification given the circumstances of the Plan and the principles contained in this SIP. The Trustee, in preparing this SIP, has also consulted the Principal Employers, in particular on the Trustee's objectives.

Overall investment policy falls into two parts: the strategic management of the assets, which is the responsibility of the Trustee, and the day-to-day management of the assets which is the responsibility of the underlying fund managers.

In order to facilitate effective decision making, the Trustee delegates certain investment matters to the Investment & Funding Committee of Veolia UK Pension Trustees Limited (the "IFC"). The form of delegations is set out in a "Schedule of Delegations". The role of the IFC is to make strategic recommendations to the Trustee and also to monitor and review the Plan's investment arrangements.

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

This SIP sets out the general principles underlying the investment policy. Details of how this policy has been implemented are set out in the Investment Implementation Policy Documents ("IIPD") for the Defined Contribution Division. The IIPD does not form part of the SIP but can be obtained on request.

The Defined Benefit section's SIP can be found under separate cover.

2. Investment Objectives and Strategy

2.1. Investment Objectives

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

2.2. Risk

The Trustee has considered risk from a number of perspectives. These are:

i. The risk that a low investment return over the members' working lives might provide an inadequate level of benefits at retirement;

ii. The risk that relative market movements in the years just prior to retirement might lead to a substantial reduction in level of benefits which would otherwise be provided;

iii. The risk that the chosen investment manager might underperform the benchmark return against which the manager is assessed.

Credit Risk: The Trustee notes that the Plan is exposed to credit risk, which 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. The Plan invests in pooled investment vehicles. Therefore the Plan is directly exposed to credit risk arising from these pooled investment vehicles and is indirectly exposed to credit risks arising on the underlying investments held by these pooled investment vehicles.

Market Risk: The Plan is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of 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.

  Indirect currency risk arises from the exposure to the underlying investments in overseas markets within some of the pooled vehicles

- *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.

  Indirect interest rate risk arises from the exposure to the underlying investments in bonds and fixed income instruments within some of the pooled vehicles.

- *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.

  Other price risk arises principally in relation to the Plan's exposure to return seeking assets (such as equities, corporate bonds and diversified growth funds) through underlying investments in pooled investment vehicles, which make up the the Default Investment Option. The Default Lifestyle option helps to mitigate some other price risk as members approach retirement by moving out of growth assets and into more defensive assets.

2.3. Investment Strategy

The Trustee has made available a range of funds for members. The Trustee considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate.

The default investment strategy is the Default Lifestyle. Under this strategy members' assets are initially invested 100% in the Veolia Long Term Growth Fund (25% Diversified Growth Funds, 37.5% Global Equities, 37.5% Multi-Factor Equities). From 10 years before a member's anticipated retirement date (the Plan's Normal Retirement Date is a member's 65th birthday, but a member can select a Target Retirement Date of any date falling between their 55th and 75th birthdays), the member's holdings are gradually switched into the Veolia Balanced Growth Fund (60% Diversified Growth Funds, 5% Global Equities, 5% Multi-Factor Equities, 30% Corporate Bonds), until they are fully invested in this fund 5 years before their anticipated retirement date. From this time, the member's holdings are then gradually switched into the Veolia Approaching Retirement Fund (60% Diversified Growth Funds, 15% Corporate Bonds, 25% Cash). At the point of retirement, a member will be invested 100% in the Veolia Approaching Retirement Fund.

The Default Lifestyle has been designed as a 'catch-all' approach, broadly suitable for all members, however they may wish to take their benefits at retirement.

For members wishing to take decisions about the investment of their accumulated pension fund, a range of risk-profiled blended funds and individual asset class funds are offered. Further details of which are set out in Schedule A of the Plan's IIPD.

The Trustee, having taken investment advice, believes that the decision to offer members the investment options described in Schedule A of the Plan's IIPD are appropriate to meet the Trustee's objective as set out in Sections 2.1 and 2.2.

2.4. Default Investment Option

The Default Lifestyle is the default investment option for the Plan. Typically, a proportion of members will actively choose the default investment option because they feel it is most appropriate for them. However, the vast majority of members do not make an active investment decision and are automatically invested in the default investment option.

The aims of the default investment option, and the ways in which the Trustee seeks to achieve these aims, are detailed below:

- To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk.

  The default investment option's growth phase invests in equities and other growth-seeking assets (through an absolute return/diversified growth fund). These investments are expected to provide returns above inflation of around 4%, over the long term, with some downside protection.

- To provide a strategy that reduces investment risk for members as they approach retirement.

  As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a strategy that seeks to reduce investment risk as the member approaches retirement, whilst still delivering reasonable expected growth, is appropriate.

  These aims are achieved via automated lifestyle switches over the 10 and 5 year periods to a member's target retirement date. From 10 years to the member's target retirement date the holdings in equities are gradually reduced and assets are switched into diversified growth funds and corporate bonds. From 5 years to the member's target retirement date the exposure to diversified growth funds and corporate bonds is broadly maintained whilst some assets are switched into cash.

- To provide exposure, at retirement, to assets that are broadly appropriate for all members, regardless of how they wish to take their benefits at retirement.

  At the member's target retirement date, member's assets will be invested in a range of different asset classes that, combined, aim to maintain a reasonable level of growth but with reduced volatility.

The Trustees' policies in relation to the default option are detailed below:

- The default investment option manages investment risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default investment option, the Trustee has explicitly considered the trade-off between risk and expected returns.

- Assets in the default investment option are invested in the best interests of members, taking into account the profile of members. In particular, the Trustee considered the make-up of the Plan's membership when deciding on the default investment option.

Based on this understanding of the membership, a default option that targets a 'catch-all' outcome at retirement is considered appropriate.

- Members are supported by clear communications regarding the aims of the default option and the access to alternative investment approaches. If members wish to, they can opt to choose their own investment strategy on joining but also at any other future date.

- Assets in the default investment option are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by various Investment Managers. The selection, retention and realisation of assets within the pooled funds are delegated to the respective Investment Managers in line with the mandates of the funds. Likewise, the Investment Managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

- Within the default investment option, units across the underlying pooled funds are bought and sold according to the table below:

Time to retirement (years)	Veolia Long Term Growth Fund (%)	Veolia Balanced Growth Fund (%)	Veolia Approaching Retirement Fund (%)
10	100.0	0.0	0.0
9	80.0	20.0	0.0
8	60.0	40.0	0.0
7	40.0	60.0	0.0
6	20.0	80.0	0.0
5	0.0	100.0	0.0
4	0.0	80.0	20.0
3	0.0	60.0	40.0
2	0.0	40.0	60.0
1	0.0	20.0	80.0
0	0.0	0.0	100.0

Taking into account the demographics of the Plan's membership and the Trustees' views of how the membership will behave at retirement, the Trustee believes that the current default option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Plan's demographic, if sooner.

2.5. 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 Zurich, 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.

3. Day-to-day Management of the Assets

The Trustee accesses the range of investment options via an investment platform. This investment platform is accessed through a long-term insurance contract between the Trustee and the platform provider. The Trustee does not have any direct contractual relationships with the underlying investment managers of the pooled funds accessed through the platform. The Trustee has signed agreements with the platform provider setting out in detail the terms on which the portfolios are to be managed.

Details of the specific investment funds used within the DC and AVC arrangements can be found in the IPID for the Plan. The investment managers' primary role is the day-to-day investment management of the Plan's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee and investment managers, to whom discretion has been delegated, exercise their powers giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

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

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well as the role it plays in helping the Plan meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Plan's investment mandates.
The Trustee prepares an Implementation Statement along with its Report and Accounts (commencing from 31 December 2020 accounts) which describes its voting and engagement policies and its voting behaviour.

4. 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 will work with its investment advisors in order to monitor its investment 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.

5. 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 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, as provided to the Trustee from time to time, 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, and from time to time the Trustee reviews how these are implemented in practice.

6. Realisation of assets

The Investment Managers have responsibility for the realisation and trading of the underlying assets. The day-to-day activities which the Investment Managers carry out for the Trustee are governed by the arrangements between the Investment Managers and the platform provider. All funds available are daily priced and trade daily.

7. Compliance with this SIP

The Trustee will monitor compliance with this SIP annually. In particular it will seek to obtain written confirmation from the investment managers that they have complied with this SIP as supplied to them and the Trustee undertakes to advise the investment managers promptly, and in writing, of any material change to this SIP.

8. Review of this SIP

The Trustee will review this SIP no less frequently than every three years. Any such review will be based on written, expert investment advice and will be in consultation with the Principal Employer and, where appropriate, the employer.

In addition, the Trustee will review this SIP in response to any material changes to any aspects of the Plan, including its liabilities, finances, the demographic profile of its membership and the attitude to risk of the Trustee, which it judges to have a bearing on the stated Investment Policy.

Approved: Robert Charles Hunt
Robert Charles Hunt (Sep 29, 2020 15:57 GMT+1) ………………………………………….. Date: Sep 29, 2020 …………………………....
Trustee

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Christophe Bellynck (Sep 29, 2020 16:23 GMT+1) ………………………………………….. Date: Sep 29, 2020 …………………………....
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