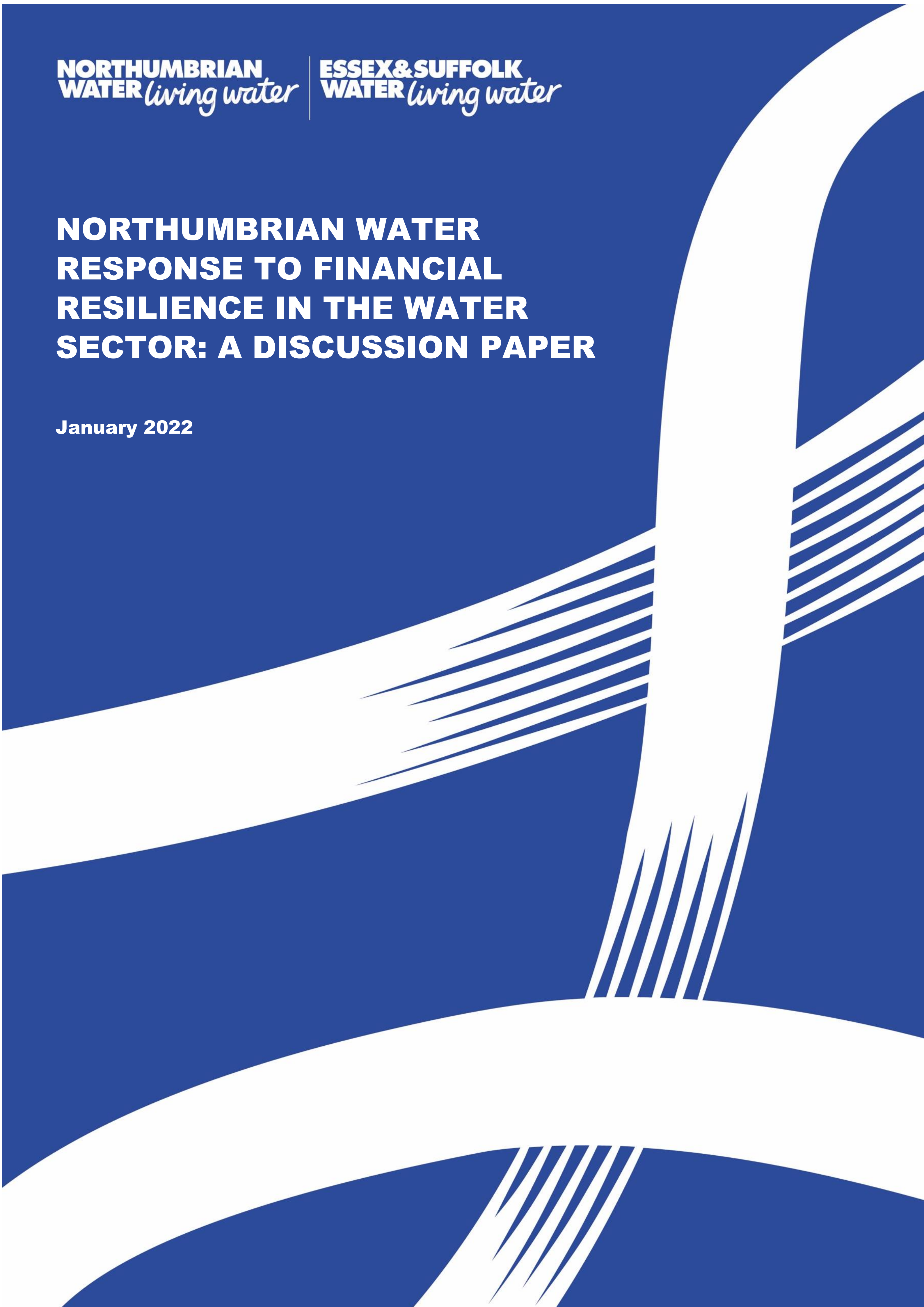


NORTHUMBRIAN WATER RESPONSE TO FINANCIAL RESILIENCE IN THE WATER SECTOR: A DISCUSSION PAPER

January 2022

NWL Response to Financial resilience in the water sector: a discussion paper

We agree with Ofwat that as providers of essential services, it is important for water companies to have adequate levels of financial resilience to meet the needs of customers. In this response we have addressed the general themes arising from Ofwat's discussion paper, as well as the specific questions posed. We look forward to continuing to engage with Ofwat on these issues, including through participation in the proposed roundtables.

1 EXECUTIVE SUMMARY

1.1 Ofwat has not shown a link between financial resilience and service to customers

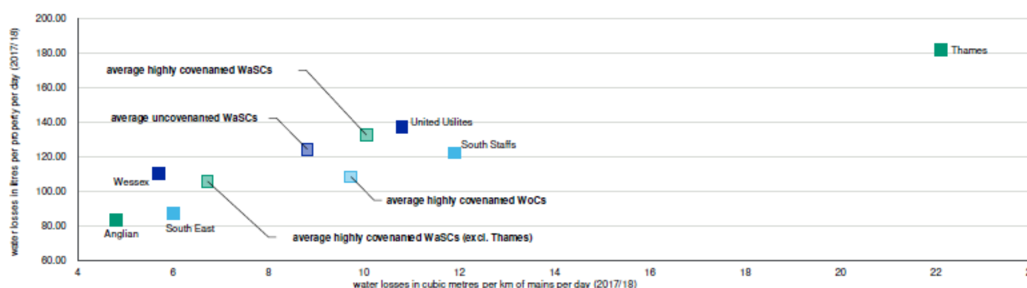
Starting from first principles, it is important to consider why Ofwat might be concerned with financial resilience. Ofwat's statutory duties are centered around maintaining services to customers - either directly or by ensuring the financeability of the companies. Financial resilience is principally a concern when it can be shown to impact on service delivery to customers. The focus in the paper is on financial resilience rather than performance, levels of investment and meeting customer service levels. It assumes a causal relationship that is not evidenced and could counter-intuitively disincentivize focusing on these areas.

The Wright & Mason report looks at the relationship between credit ratings and service delivery and concludes that the supporting evidence is weak.

The fact of the matter, however, is that there is still relatively little data on which to base an assessment of whether there is a robust relationship between measures of financial resilience and operational performance. [1]

The Ratings Agency Moody's agrees:

Highly leveraged companies have not underperformed peers. *While companies in highly covenanted structures have been accused of focusing on financial engineering rather than operational performance, some have been consistently among the strongest performers in the sector. Operational performance will be more important post 2020, with stronger incentives increasing the possibility of greater cash flow volatility.* [2]



Wright & Mason refer to the Oct 2018 Moody's note, Exhibit 6

[1] Wright & Mason, A report on financial resilience, gearing and price controls, para 4.17, https://www.ofwat.gov.uk/publication/mason-and-wright-a-report-on-financial-resilience-gearing-and-price-controls/

[2] Moody's Note - Covenanted financing structures help mitigate growing risks, Oct 2018

Even if Ofwat identified companies that had both high gearing and poor service performance, this is only a correlation, not necessarily confirmation of causation. Regulating gearing would not improve service performance if there was a different underlying driver, for example management performance. Anglian Water is a good counter example of a company with above average gearing of over 80% but sector leading customer service[3].

In PR19, Ofwat set out the widest area of customer service measures (ODIs) that the industry has ever had, with the largest scale of associated incentives. Customer service is better incentivised in regulatory terms than ever before, with in-period incentives for poorly performing companies to rapidly improve. A company with lower credit rating headroom will be strongly incentivized to quickly respond to ODI penalties, with any potential cash lock up clauses having little if any effect. If Ofwat is concerned about companies under financial distress failing to deliver for customers, then the response should be to increase the incentives for service delivery- this focuses on the outcome being sought rather than on one potential driver (i.e. gearing) that may or may not be contributing to any underperformance.

As an extreme example, if say a company was found to be underinvesting to meet its customer service levels, then shareholders would be benefiting *even if* the company didn't pay dividends – the cash saved stays in the company and belongs to shareholders. Again, what matters is whether companies maintain customer service levels. If they don't, then this is bad for customers even if the company isn't paying dividends. If they do, this is good for customers even if the company does pay dividends.

Ofwat also suggests that, under financial distress, companies will cut back on investment, with a consequential impact on customer service. We note, for example, that Southern Water spent its 2015-20 Totex FD in full, despite the financial pressures set out in the case study.[4] We also note that, despite this apparent concern, Ofwat has separately inconsistently proposed not to 'aim up' on the cost of equity because it does not consider that this risk is material.

1.2 The discussion paper fails to demonstrate that customers are put at risk through any perceived weak financial resilience

The paper refers to three *'companies with weaker levels of financial resilience'*[5], yet no company has defaulted and only Southern is actually at the lowest investment grade.

Even the case study of Southern as set out in the paper showed that the regulatory regime worked as intended – when there was financial distress, Southern stopped paying dividends, there was an equity injection and new ownership.

We agree with the CMA observation that, even had Southern failed, customers would have been properly protected through existing licence protections:

The existing regulatory licence protections also mean that customers are less likely to bear these costs. As noted in paragraph 9.1167, the licence conditions requiring the ring-fencing of the regulated operations mean that the impact of Group problems are not likely to fall on customers or taxpayers. Special administration should allow water services to continue to be supplied to customers.
Also, in terms of continuing operations, we note that the operation of water businesses in a regulated environment carries many attractions for investors; demand is stable, revenues are set in a regulated

[3] 20-21 Service performance & financial resilience reports
[4] Ofwat 2020 Financial Monitoring Report – SDR Analysis data
[5] SES, SOU, YKS, p6, 2021 Monitoring Financial Resilience Report

process, and a return is assured on the substantial regulated capital base. This indicates that it is likely that new equity investors could be readily found for a failed business. ***These factors do not indicate that customers are likely to bear disproportionately the costs of financial failure.***[6]

Since privatisation, the water industry financial model has successfully endured the financial difficulties at Welsh Water (Hyder), the Enron/Wessex corporate failure, the 2008 credit crunch, the Covid 19 pandemic and multiple severe operational events relating to weather events (e.g. Beast from the East 2018).

In all these cases, the financial regulation of the industry worked as intended, shareholders absorbed the impacts either on a temporary basis until true up adjustments were made or more permanently. In some cases, there was a change of ownership. Customers did not bear any financial risks and services and bills were unaffected.

In their PR19 Final Determination, the CMA agree: *We recognise that the quantification of risks is difficult but we have not seen evidence suggesting that material harm to customers is likely should further default events occur in the water sector.*[7]

1.3 The licence proposals refer to but do not deliver greater transparency, which is better delivered through the Regulatory Accounting Guidelines

The paper states that *'We do not regulate the level of dividends and so we have not specified the terms on which dividends should be paid, nor have we sought to place controls or caps on dividends. Decisions about the declaration and payment of dividends are the responsibility of the board of each company. It is important, therefore, that company boards are held to account for their decisions, and it is vital that there is a full and transparent explanation as to why dividends are justified. The need for transparency to engender trust and accountability is incorporated into our BLTG principles.'*[8]

In contrast to this, the proposal to change the cash lock up credit rating threshold is clearly not related to requiring more transparency (as nothing more would be revealed through it), but rather to extending the regulatory control of dividends.

To date, all requirements for further financial transparency have been incorporated into the Annual Performance Report (APR), via the Regulatory Accounting Guidelines (RAGs). This is the appropriate place for transparency requirements, and we note for example, that Ofwat has included additional data requirements on financial derivatives into the Annual Performance Report, which companies have responded to.

1.4 Extending the licence text to cover service delivery is also a form of regulatory dividend control

Extending the licence text to *'clarify that dividends take account of service delivery'* is also a form of regulatory dividend control as it sets legal conditions on paying dividends that were not previously in place.

The requirement for companies to explain their dividend policies is properly set out in RAG3 and includes referring to service to customers. To take this flexible guidance and make it into a legal regulatory requirement brings Ofwat (the Regulator monitoring licence compliance) into the role of

[6] 2021 CMA Final Determination para 9.1210
[7] 2021 CMA Final Determination para 9.1209 and footnote 3110
[8] Paper pages 21-22

deciding whether a dividend declared at a time of even partial service failures is in breach of licence conditions.

To put this in context – no water company meets all its performance commitments (over 40 in NWL's case) in any given year. An annual legal debate over whether this constitutes 'service failure' and thus requires an adjustment to dividends would be extremely time consuming and unproductive for all parties and could have unprecedented implications in particular for listed companies.

1.5 Without evidence-based justification, Ofwat is proposing a change to the regulatory contract, a reversal of the position it has held since privatisation

In the PR19 Final Determination Risk & Reward Appendix Ofwat stated: *'We do not set a minimum credit rating that companies should target; it is a company's responsibility to set a target that is appropriate to its investment needs and the risks that it faces in order to maintain financial resilience.'*[9]

We do not see why Ofwat is now proposing to change this position by prescribing a credit rating higher than the current lowest level of investment grade in the licence.

In conclusion, there is no justification for the licence changes as proposed. Ofwat has failed to set out how the changes relate to their duties to customers and has proposed changes that would result in de facto dividend regulation, a material change in the regulatory contract.

This would have a chilling effect on equity investment and deaden company responses to incentives, with consequential impacts on costs and customer bills. Before privatisation in 1990, smaller water only companies were privately owned but with dividend controls. This gave them no incentive to become more efficient and they were thus released from these controls at privatisation of the whole industry in 1990, delivering the large-scale productivity gains seen in the industry in the 1990s, followed by the large customer bill reductions in PR99.

It is possible that Ofwat intervention in this area could damage investment by introducing risk. For example, the Gearing Output Sharing Mechanism (GOSM) caused Moody's to increase its AICR requirements to reflect increased uncertainty, making an increase in the cost of capital more likely.[10]

1.6 NWL response to the Ofwat Risk & Reward paper

We note that the Ofwat risk & reward paper is considering changes that could lower the cost of capital (by reversing many of the CMA PR19 decisions) and reducing the notional gearing level. We will respond to the detail of that paper separately.

We note, however, in the context of this response that lowering the cost of capital to the point where financial resilience is under pressure would be counter to the aims of this paper. Reducing the notional gearing level as a 'signal' for companies to reduce gearing would be unnecessary for the reasons set out in this paper.

2 DETAILED RESPONSE

2.1 Do you agree that it is not appropriate for providers of essential infrastructure to operate at, or be at risk of falling to, the lowest investment grade credit rating?

[9] PR19 FD: Risk & Return Appendix, p79
[10] CMA FD: para 10.128

We agree that operating at the lowest investment grade rating provides less headroom for a company to withstand financial shocks compared to higher rating levels. Companies with this grading should have mitigation plans in place to avoid any further deterioration in financial resilience, which they will be motivated to do for a variety of reasons including to avoid any licence breach.

This is different from Ofwat's reference to 'at risk of falling to' which could have perverse consequences by extending what is perceived as financial distress to financially stable companies. A company with a BBB/Baa2 rating may start to overly focus on maintaining that credit rating rather than delivering customer service. It is unhelpful to efficient investment in the industry to suggest that companies with credit ratings above the lowest investment grade credit rating are at risk of financial distress. It is important to stress that the credit rating experts, i.e. Standard & Poor's, Fitch and Moody's, all deem BBB- (and equivalent) to be "investment grade" – and that Ofwat's attempt to create a new definition of investment grade appears to be trying to solve for a problem that does not exist.

We have included an Annex of the FTSE 100 companies with credit ratings of BBB/Baa2 or below. It comprises 35 companies representing over 20% of the market's capitalisation. 26 of these companies paid dividends in 2020. It includes infrastructure plc investors such as BT Group, National Grid and Severn Trent, all classed as BBB/Baa2 or lower.

It is worth noting, as per the Southern Water case study, that the regulatory system worked. Southern Water did not lose their investment grade credit rating and there has been an equity injection to improve the financial resilience of the company. Whilst there could be improvements in the formalisation of discussions between companies and Ofwat at times of ratings downgrades, it is clear that the current licence conditions were sufficient to protect customers and ensure the correct resilience steps were taken.

We do not agree that the same level of concern should be extended to companies 'at risk of falling to the lowest investment grade credit rating'. This seems to us to be unnecessary and disproportionate, particularly as companies with BBB/Baa2 ratings can raise finance at low cost and still have a full rating notch of headroom in the case of a financial shock.

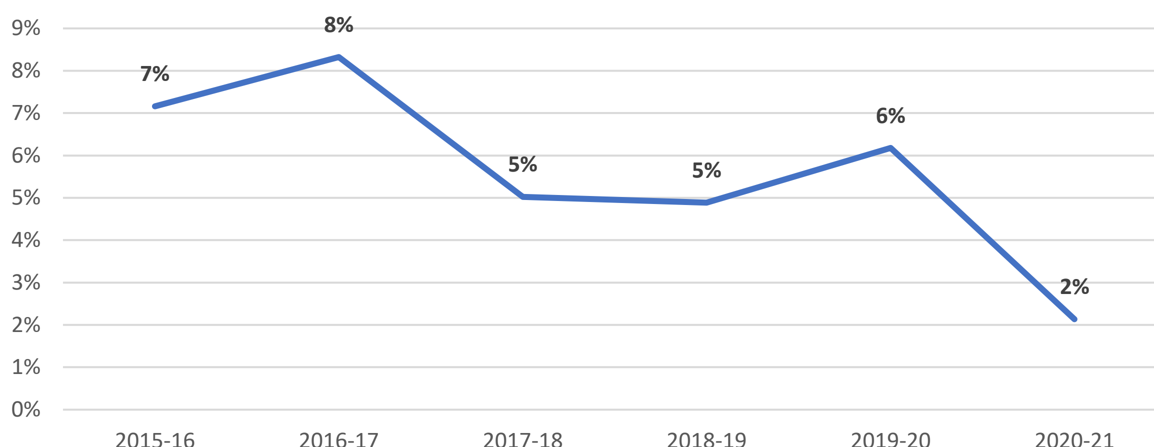
2.2 Do you agree with the notion that a company should be taking actions to improve its credit rating well before it is downgraded to the lowest investment grade credit rating?

We do not agree with the notion as stated. Whether or not a company should be taking actions "well before" will be dependent on their own specific circumstances – there is no "one size fits all" approach to considering what is appropriate in such circumstances. Some of Ofwat's proposals seem to be designed to add a 'buffer to the buffer', effectively re-defining what is classed as an investment grade rating.

As we have stated in 2.1, companies with the lowest credit grading should have mitigation plans in place to avoid any further deterioration in financial resilience, which they will be motivated to do for a variety of reasons, including to avoid any licence breach.

For example, we can see the WaSC dividend yields reduce sharply in 20-21 as companies responded to the financial pressures relating to the PR19 Determination. Companies do this voluntarily, motivated by the licence clauses already in place.

Figure 1: WaSC average dividend yield 2015-21



Source: APR data

2.3 We welcome views on our option not to define limits on capital or financing structures at this time and whether it might be necessary to define limits for companies where financial resilience does not improve.

We are not surprised by the option to "*not define limits on capital or financing structures*", as it remains consistent with our understanding of Ofwat's clearly defined duties as currently codified in law. As the paper notes, '*Such an approach could end up shifting the decision risk to the regulator instead of the company, when it is the company and its management that is better positioned to manage its own risks.'*

A gearing cap or financial structure imposition would be retrospective and would damage investor confidence. This has been recognised by Ofwat in its many previous statements that these decisions are best left with companies.[11] A change in that approach would impose a single model on the whole industry, based upon arbitrary parameters, leaving no space for innovation in capital financing.

The paper refers to *'In its decision of the PR19 redeterminations, the CMA panel suggested that one possible approach to address financial resilience concerns was to introduce licence modifications that could be defined to directly limit gearing.'*

This is a partial extract from para 9.1224, which then goes on to say:
'While we cannot rule out that Ofwat may need to intervene at some time in the sector to reinforce its financial resilience and that this may or may not involve some constraint on gearing, neither Ofwat nor any other party has presented us with sufficient evidence that an intervention on gearing is required within this price control in respect of the four Disputing Companies.'[12]

We agree with the CMA's conclusion. We also consider that its conclusions would apply equally to consideration of this issue on a sector-wide basis.

The current licence requirement for an investment grade credit rating ensures that the assessment of financial resilience lies with third party ratings agency experts who can take a multitude of company specific factors into account when making their assessment. We do not believe a regulator would want to put themselves into that position, nor do we believe Ofwat holds the requisite expertise to match

[11] e.g. Putting the sector in balance: position statement on PR19 business plans, page 4
[12] See 2021 CMA Final Determination para 9.1224

the credit rating capabilities of the three leading agencies. Any regulatory use of crude metrics such as gearing would be a poor proxy for what is a complex and highly-specialised assessment.

We have attached an extract of the Moody's assessment scorecard[13]. It shows that the financial metrics that Ofwat refers to in the Monitoring Financial Resilience Reports only make up 40% of the assessment, indeed, gearing is only 10%.

The remaining 60% of the assessment requires specific expertise in the detailed, bespoke discussions with the companies of the kind that Ofwat cannot and should not duplicate.

Figure 2: Moody's assessment scorecard

EXHIBIT 1

Scorecard for Regulated Water Utilities

Rating Factors	Factor Weighting	Sub-Factors	Sub-Factor Weighting
BUSINESS PROFILE	50%	Stability and Predictability of Regulatory Environment	15%
		Asset Ownership Model	5%
		Cost and Investment Recovery (Sufficiency & Timeliness)	15%
		Revenue Risk	5%
		Scale and Complexity of Capital Programme & Asset Condition Risk	10%
FINANCIAL POLICY	10%	Financial Policy	10%
LEVERAGE AND COVERAGE	40%	Adjusted Interest Coverage OR FFO Interest Coverage	12.5%
		Net Debt / Regulated Asset Base OR Debt/Capitalisation	10%
		FFO / Net Debt	12.5%
		RCF / Net Debt	5%
Total	100%	Total	100%
UPLIFT FOR STRUCTURAL CONSIDERATIONS		Up to 3 notches	

For that reason, we believe that the assessment of financial resilience should be led by the rating agencies, with Ofwat monitoring and responding to the results. It is reasonable for Ofwat to require communication from companies should there be ratings downgrades to BBB-/Baa3.

We thus do not support any imposition of gearing caps or particular financial structures.

Cash Lock Up

We welcome views on the potential approaches set out for discussion, which comprise:

2.4 amending the existing trigger level for the cash lock-up conditions to a higher credit rating and the potential for the trigger to be linked to measures of service performance.

We firmly oppose any notion to increase the credit rating for a cash lock up trigger. Such a move would constitute Ofwat markedly overstepping its duties as regulator and would instead be putting itself in the shoes of "Board decision maker" through indirectly exercising control over dividend payments by setting them to zero at the relevant investment grade rating levels. Such a move would substantially

[13] Moodys rating methodology June 2018

undermine investor confidence in the UK regulated utilities sector and would be unprecedented from a listed company perspective.

2.5 a requirement for companies to prepare and potentially publish resilience plans where a rating falls to or below a defined level.

We agree that if a company reaches BBB-/Baa3 that this could be a trigger for it to a submit a resilience report.

As we have stated in 2.1, companies with the lowest credit grading should have mitigation plans in place to avoid any further deterioration in financial resilience, which they will be motivated to do for a variety of reasons including to avoid any licence breach.

2.6 a requirement for additional board assurance statements when dividends or other distributions are declared or made, and credit ratings are below the targets stated for the notional capital structure at a price review.

The current NWL licence clause Condition P sets out the dividend requirements:

Dividend policy
P29 The Appointee shall declare or pay dividends only in accordance with a dividend policy which has been approved by the Board of Appointee and which complies with the following principles:
P29.1 the dividends declared or paid will not impair the ability of the Appointee to finance the Appointed Business; and
P29.2 under a system of incentive regulation dividends would be expected to reward efficiency and the management of economic risk.

We believe that this requirement for board assurance, which is explicitly linked to dividend policies which must be established in accordance with RAG3, is sufficient to ensure dividends are adjusted at times of financial distress and that the interests of customers are adequately protected. It allows boards to consider all the financial factors in place, including credit rating, operational performance and future plans.

The PR19 notional targets set by companies were generally BBB+/Baa1. These are for a company with a notional level of gearing of 60%. In the PR19 FD, Ofwat stated *'We do not specify an appropriate credit rating for the notional capital structure'*[14]. These ratings are not part of the Final Determination obligations or performance commitments and should not be implied to be so by including them as de facto targets.

We do not believe a company with a BBB/Baa2 rating should need to provide additional board assurance statements beyond those already provided. A BBB/Baa2 may be a targeted rating for the Board, with no requirement to change. It thus does not need an action plan or other such statements.

2.7 a requirement for companies to maintain two investment grade issuer credit ratings.

We have two investment grade issuer credit ratings and we view this as good practice. We do not however see this as an area where there is a need for further regulatory intervention, given that we are doing this already.

[14] PR19 FD: Risk & Return Appendix, p79

2.8 a requirement for companies to formally notify us of any changes to credit ratings (including changes in rating and/or outlook, new ratings assigned or planned rating withdrawals).

We support a requirement for companies to promptly notify Ofwat of any downgrade in credit rating to BBB- or equivalent.

2.9 removing dispensations from the requirement to maintain an investment grade credit rating.

We believe it is up to companies to determine their policies in this area.

2.10 the need to align the licence to our broader expectations for dividend policy.

We do not believe any licence amendments are required in relation to dividend payments. The requirement for an appropriate level of explanation is already included in the RAG3 guidance and hence the APR. As the paper notes, these policies are already subject to monitoring and oversight by Ofwat and to the extent that any companies' policies fall short of Ofwat's expectations, the published reports will clearly place significant pressure on those companies to address any such shortcomings.

The licence is a contractual, legal document and is not an appropriate place to repeat the more detailed Regulatory Accounting Guidelines requirements.

As currently proposed, a licence condition that explicitly links the payment of dividends to service/performance would introduce legal uncertainty over whether a dividend could be declared in circumstances where companies had not met all their service performance targets (for example, no company met all their PR19 performance commitments in 2020-21). This could result in companies effectively requiring prior approval of dividends from Ofwat before declaring them, to avoid breach of licence. This would be a radical altering of the regulatory regime and would be contrary to Ofwat's clear policy position that it does not specify the terms on which dividends should be paid. It could also have significant ramifications from a listed company perspective, whereby any dividend payments could potentially come down to Ofwat's own subjective view on what service delivery thresholds have or have not been met.

2.11 enhancing the transparent reporting of the use of swaps and how this could be best achieved.

We support the transparent reporting of swaps, albeit while preserving each company's ability to manage their swap positions without any market participants having such level of detail that would allow them to take advantage of such disclosures (e.g. during any swap restructuring exercise). We believe this is best dealt with through the Regulatory Accounting Guidelines, which are easily updated[15] and adaptable as understanding increases. There is no need to amend the licence to make this happen.

Swaps are complex and company specific instruments. We do not believe that simply adding financial derivatives to gearing is a useful or reliable metric.[16] Ofwat's interest should be in reviewing the overall debt strategies emerging from companies, in the interest of assessing the cost of debt under various debt strategies.

[15] Table 4I, Financial Derivatives was added to the APR Tables in 2016
[16] 2021 Monitoring Financial Resilience Report p14

It is more relevant to rely on the rating agencies' assessments who consider the specific company derivatives on a case-by-case basis as one part of their overall company specific credit rating. If a rating agency considers that the company swaps do not add to risk or debt, we do not believe that Ofwat should over-rule this with different analysis nor do we believe that Ofwat has the requisite technical skills to do so on a fully accurate and comparable basis.

2.12 whether disclosure requirements should be set for companies to increase the reporting of holding company debt levels (for example to state holding company gearing levels) in their Annual Performance Reports.

Ofwat does not regulate holding or group companies and the Annual Performance Reports are for the Appointed business only. The licence Condition M (provision of information to Ofwat) refers to the Appointee. To protect customers, as Ofwat notes, *Regulated companies are required to transact with associates and non-appointed businesses on an arm's length basis.*

We do not support the reporting of holding company debt levels in the APR. Holding company debt can be secured on more assets than just the Regulatory Capital Value (RCV), so a Group RCV gearing metric can be misleading to stakeholders.

The Annual Performance Reports are focussed on the Regulated business only and to introduce holding company data would confuse stakeholders. Holding company gearing information is presented in Regulatory Accounts and Group Accounts for stakeholders. Requiring such disclosure would be an overreach of Ofwat's clearly defined duties as currently codified in law.

2.13 the option to improve the transparency of pension deficit reporting.

We report our defined benefit pension asset/liability in the statutory accounts in accordance with IAS19 – Employee Benefits. It is correct that this valuation differs from a full actuarial valuation, from which the schedule of contributions is determined. However, there are also extensive disclosure requirements in IAS19 and we disclose in our pensions note narrative (note 24 in our Annual Report & Financial Statements for the year ended 31 March 2021): the outcome of the most recent actuarial valuation; details of cash flows in the schedule of contributions and the deficit recovery objective.

We support the transparent reporting of pension deficits in the Annual Performance Report, provided it is proportionate and consistent with existing IAS19 disclosure requirements. This could be achieved through amendments to the Regulatory Accounting Guidelines and do not require a Licence amendment.

2.14 the expectation that PR24 business plans should include a board assured assessment of financial resilience.

We support a repeat of the approach taken in PR19. The stress testing should cover both actual and notional structures to ensure that the framework supports resilience, not just in theory, but in practice.

2.15 how the incentives framework around capital structure should evolve at PR24 taking account of the other views set out in this paper and the scope to which companies should provide voluntary sharing arrangements at PR24.

We do not believe that there should be incentives for specific capital structures. This would require Ofwat to decide on what an optimal structure is, which is an area Ofwat has rightly preferred to remain

neutral on. As Ofwat says in PR19, '*Choice of actual capital structure and financing is a matter for companies and their shareholders*'[17].

Voluntary sharing arrangements should remain as voluntary. Customers should not be asked to pay an incentive for companies to choose a particular capital structure or for voluntary sharing arrangements.

Northumbrian Water
January 2022

[17] Page 217, 'Delivering Water 2020: Consulting on our methodology for the 2019 price review', Ofwat, July 2017

Annex – FTSE 100 Companies with Credit Rating of BBB/Baa2 or lower in 2020

Name of Company	Sector	Issuer Credit Rating	Dividend Yield
Anglo American PLC	Materials	Baa2	2.3
Ashtead Group PLC	Industrials	BBB-	1.2
B&M European Value Retail SA	Consumer Discretionary	Ba2	1.9
BAE Systems PLC	Industrials	Baa2	4.7
Berkeley Group Holdings PLC	Consumer Discretionary	BBB-	4.4
British Land Company PLC	Real Estate	BBB-	5.0
BT Group PLC	Communication Services	BBB	11.6
Burberry Group PLC	Consumer Discretionary	Baa2	0.0
DS Smith PLC	Materials	BBB-	1.1
Entain PLC	Consumer Discretionary	BB	0.0
Ferguson PLC	Industrials	Baa2	1.7
Fresnillo PLC	Materials	BBB-	1.0
Hikma Pharmaceuticals PLC	Health Care	BBB-	1.5
International Consolidated Airlines Group SA	Industrials	Ba2	5.4
Imperial Brands PLC	Consumer Staples	BBB	9.0
Informa PLC	Communication Services	BBB-	0.0
InterContinental Hotels Group PLC	Consumer Discretionary	BBB	0.0
Intermediate Capital Group PLC	Financials	BBB	3.1
Kingfisher PLC	Consumer Discretionary	BBB	0.0
Wm Morrison Supermarkets PLC	Consumer Staples	Baa2	3.9
National Grid PLC	Utilities	BBB-	5.7
Natwest Group PLC	Financials	BBB (high)	0.0
Next PLC	Consumer Discretionary	BB	0.0
Pearson PLC	Communication Services	Baa3	2.9
Pershing Square Holdings Ltd	NULL	BBB	1.1
Prudential PLC	Financials	BBB	1.9
Rentokil Initial PLC	Industrials	BBB	0.0
Rolls-Royce Holdings PLC	Industrials	BBB-	0.0
Severn Trent PLC	Utilities	Baa2	4.4
Smith & Nephew PLC	Health Care	Baa2	2.0
Smiths Group PLC	Industrials	Baa2	2.3
Smurfit Kappa Group PLC	Materials	BBB-	2.8
Tesco PLC	Consumer Staples	BBB	4.2
Vodafone Group PLC	Communication Services	BBB	6.8
WPP PLC	Communication Services	Baa2	1.3