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Electricity North West Group of the Electricity Supply Pension Scheme

November 2023 - Statement of Investment Principles

1. Purpose of this Statement

The Trustee of the Electricity North West Group of the Electricity Supply Pension Scheme ("the Group"), has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. This Statement sets out the principles governing the Trustee's decisions to invest the assets of the Group.

The Group's investment strategy is derived from the Trustee's investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

A separate document ("Summary of Investment Arrangements") detailing the specifics of the Group's investment arrangements is available upon request.

2. Governance

The Trustee of the Group makes all major strategic decisions including, but not limited to, the Group's asset allocation and the appointment and termination of investment managers. When making such decisions, and when appropriate, the Trustee take written advice. The Trustee's investment advisers, Isio Group Limited, are qualified by their ability in, and practical experience of, financial matters, and have the appropriate knowledge and experience. The investment advisers' remuneration will be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Group.

In preparing this Statement the Trustee has consulted the Sponsoring Company, Electricity North West Limited ("the Company"), to ascertain whether there are any material issues of which the Trustee should be aware of in agreeing the Group's investment arrangements. The Trustee has also taken the Myner's Principles into account before making decisions about the Group's investment arrangements.

The Trustee has also established a Joint Working Group ("the JWG") with the Company. The JWG's responsibilities include formulating and monitoring an approach to reduce risk depending on both improvements to the funding level over time and also the Group's membership profile, aiming to achieve a long-term funding target.

3. Investment Objectives

The Trustee invests the assets of the Group with the aim of ensuring that all members' current and future benefits can be paid.

3.1 Defined Benefit Section

The Group's ongoing (technical provisions) position is evaluated regularly through the formal triennial valuation process and annual funding updates. The immediate objective is for the Group to be fully funded on a technical provisions basis. It is on this basis that the Group's Schedule of Contributions is agreed.

The agreed long-term objective is for the Group to aim to be fully funded on a "long term funding target" basis defined as gilts + 0.5%. The aim on this basis is for the Group to have sufficient assets to maintain a low-risk investment strategy and still be able to pay out pensioner cash flows as they become due. Once achieved, the Group should have a relatively low reliance on the Company for ongoing financial support.

4. Investment Strategy - Defined Benefit Section

The Trustee takes a holistic approach to considering and managing risks when formulating the Group's investment strategy. Given that the bulk annuity transaction is fixed to cover a set amount of liabilities, the Trustee will consider the benchmark allocation for the residual assets only but will incorporate the bulk annuity when considering cashflow, interest rate and inflation hedging decisions.

The Group's investment strategy was derived following careful consideration of the factors set out in Appendix A. The considerations include the nature and duration of the Group's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Group, and also the strength of the Sponsoring Company's covenant. The Trustee considered the merits of a range of asset classes.

The Trustee recognises that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

The table below shows the Group's target investment strategy that aims to provide returns consistent with the long-term funding target objective outlined in section 3.1 and to achieve this with the lowest possible volatility. Excluding the bulk annuity transaction, the strategy aims to hedge approximately 90% of interest rate and inflation risk (on the Technical Provisions basis), which is primarily obtained through the LDI mandate with LGIM. The long lease property mandate also provides some liability hedging characteristics to supplement this.

Asset Class	Benchmark Allocation (excl. bulk annuity[1]) (%)
Distressed Debt[2]	0
Global Property[2]	0
Asset Backed Securities[3]	0
Absolute Return Bonds[4]	16
Infrastructure Equity	17
Direct Lending	17
Long Lease Property	10
LDI	40
Total	**100**

[1]The benchmark above excludes the bulk annuity Policy with Scottish Widows due to an inability to rebalance these holdings to a target weight.
[2]These asset classes are current mature illiquid holdings that will continue to distribute their remaining capital. However, they are not expected to remain as long-term holdings in the strategy and as such, are expected to roll out of the portfolio over time and have been allocated benchmark allocations of 0%.
[3]This mandate is not expected to be a long-term holding and therefore does not have a fixed benchmark allocation. This mandate may however be used for short-term deployment of cash ahead of wider cashflow requirements from time to time.
[4]The Group's Absolute Return Bond mandate is held alongside the Group's LDI mandate to provide the first tier of collateral to meet any leverage rebalancing calls and receive any capital distributions. This mandate's allocation is therefore expected to deviate with yield movements. See Appendix C for further details.

The continuing appropriateness of the current and target strategy in terms of investment risk and the Trustee's objectives will be considered on an ongoing basis and at least every three years in conjunction with the tri-annual actuarial valuation.

5. Investment Strategy - Defined Contribution Section

The Group's DC holdings have been transferred to the LifeSight Master Trust arrangement in October 2023, thereby relinquishing the Trustee from their fiduciary duty over the investment strategy of these holdings.

6. Investment Management Arrangements

The Trustee has appointed several investment managers to manage the assets of the Group as listed in the IID/Statement. The investment managers are regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- the exercise of rights (including voting rights) attaching to the investments;
- undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Group's investments and that they are carrying out their work competently. The Trustee takes investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

The Trustee regularly reviews the continuing suitability of the Group's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time. However, any such adjustments would be done taking into account the risk measures detailed in Appendix A.

Each of the appointed managers has a specific performance objective (to be achieved within acceptable risk tolerances). Performance of the managers is monitored in detail by the Trustee on a quarterly basis and the managers meet the Trustee to report on their performance at least once every three years.

Details of the appointed managers can be found in a separate document produced by the Trustee, the IID as referenced earlier, which is available to members upon request.
In the event of a change in investment manager(s), the Trustee will seek appropriate advice to facilitate the required asset transfer.

The Bank of New York Mellon has been appointed as the Group's custodian by the Trustee of the Electricity Supply Pension Scheme, to operate alongside the investment managers the Group has in place. The custodian provides safekeeping for the assets and performs all associated administrative duties such as the collection of dividends.

7. Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Group's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement

Performance, Strategy and Risk	The Trustee receives a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee Board Meeting. The Group's investment managers are invited in person, from time to time, to present to the Trustee on their performance, strategy and risk exposures.	There are significant changes made to the investment strategy. The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations. Underperformance vs. the performance objective over the period that this objective applies.
Environmental, Social, Corporate Governance factors and the exercising of rights	The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues. The Trustee receives information from their investment advisers on the investment managers' approaches to engagement. The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters (including the Scheme's stewardship priorities) at least annually.	The manager has not acted in accordance with their stated ESG, climate and/or stewardship policies and frameworks. The manager's policies are not in line with the Trustee's policies in this area.

8. Leverage and Collateral Management - Defined Benefit Section

The Trustee will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Group's liability hedging portfolios.

The Trustee has a stated collateral management framework. The Trustee has agreed a process for meeting collateral calls should these be made by the Group's LDI investment manager. The Trustee will review and stress test this framework on a regular basis.

Further details on this can be found in Appendix C.

9. Additional Assets

Under the terms of the trust deed the Trustee is responsible for the Defined Contribution and Defined Benefit sections of the Group, including the investment of Additional Voluntary Contributions ("AVCs") paid by members. Both the Group's Defined Contribution and Defined Benefit section members hold AVCs with external providers. The Group Trustee does not influence the investment strategy of the third party AVC providers. The Trustee reviews the investment performance of the chosen providers on a regular basis and takes advice as to the providers' continued suitability.

10. Employer-Related Investments

The policy of the Trustee is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Groups (Investment) Regulations 2005 except where the Group invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Group's total asset value. The Trustee will monitor this on an ongoing basis to ensure compliance.

11. Direct Investments

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

No direct investment in the following entities is permitted, nor any direct investments in the transferrable securities issued by those entities (ENW Finance plc, ENW Capital Finance plc, NWEN plc, NWEN Finance plc and infrastructure funds managed by any of Equitix, Kansai Electric Power Co. Inc., Mitsubishi UFJ Lease & Finance Co. Limited, Daiwa Energy & Infrastructure Co. Limited and CNIC).

It is recognised that an index tracking manager may invest in these stocks indirectly to the size of these stocks within the index and that the Trustee is unable to influence the size of the investment. Similarly, it is recognised that the Group's other managers may invest in these prohibited stocks where the Group is investing in a pooled fund.

12. Additional Control Framework

The Trustee has adopted the following framework in structuring the Group's investments taking into account the risk measures detailed in Appendix A:

- Derivatives may only be used with the prior consent of the Trustee, except as otherwise specified in the investment review documents sent to the Trustee ahead of any new investment made by the Group detailing the specifics of the Group's investment arrangements.
- The Group's investment managers may only invest in securities that do not have a readily realisable value with prior Trustee consent.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure) the Trustee will ensure that the assets of the Group are predominantly invested on regulated

markets.

- Direct borrowing is not permitted except as to cover short term liquidity requirements.

13. Socially Responsible Investment and Corporate Governance

The Group is a large institutional investor, investing on behalf of its members as beneficiaries. As part of its fiduciary duty, the Trustee recognises the need for the Group to be a long-term responsible stakeholder. The Group's ESG beliefs have been agreed and are set out in a separate document: Environmental, Social and Governance Policy.

14. Compliance

The Trustee monitors compliance with this Statement annually and obtains written confirmation from the investment managers that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Groups (Investment) Regulations 2005.

15. Review of this Statement

The Trustee will review this Statement annually and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments. In addition, the Trustee will obtain written confirmation from the investment managers that they have complied with its requirements.

Signed on behalf of Electricity North West (ESPS) Pensions Trustees Limited, as Trustee of the Electricity North West Group of the Electricity Supply Pension Scheme

Signed: ______________________________

Name: ______________________________

Date: ______________________________

Appendix A – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated with this framework and how they are managed are stated below:

Risks	Definition	Policy
Investment	The risk that the Group's position deteriorates due to the assets underperforming.	Selecting an investment objective that is achievable and is consistent with the Group's funding basis and the sponsoring company's covenant strength. Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Group assets available to cover ongoing and future liability cashflows.	Funding risk is considered as part of the investment strategy review and the actuarial valuation. The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Group.	When developing the Group's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Group is exposed to is at an appropriate level for the

The Group is exposed to a number of underlying risks relating to the Group's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Group assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge approximately 90% of the interest rate and inflation risks inherent in the Group's liabilities (on the Technical Provisions basis, excluding the bulk annuity transaction).
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values). Collateral for LDI purposes will be sourced by LGIM using cash within the segregated mandate in place. The Group's LGIM Absolute Return Bond Fund holdings form part of a collateral waterfall structure that can be used in relation to releveraging and deleveraging events.

Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Group for the risk of default.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Group's investments.	The Trustee has implemented its own ESG Policy which it uses in the selection and monitoring of its investment managers. ESG is taken into account as part of Isio's standard due diligence and ongoing research and as such is a consideration in the selection and retention of the Group's investment managers. The Trustee monitors the managers on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Group's investments.	Hedge currency risk to an appropriate level as determined by the Trustee with advice from their investment advisor. The Trustee aims to invest in Sterling share classes where possible to eliminate direct currency risk in underlying holdings, except where active currency positions are held.
Non-financial	Any factor that is not expected to have a financial impact on the Group's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

Appendix B

The Trustee has the following policies in relation to the investment management arrangements for the Group:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	Where the Group is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective. Where the Trustee has a bespoke or segregated arrangement with the investment managers, thereby allowing the investment managers to align their strategy with the Trustee's policies. This is reviewed on an ongoing basis. The Group's mandates for Global Real Estate Secondaries, Distressed Debt and Direct Lending are subject to a performance related fee.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	The Trustee reviews the investment managers' performances relative to medium and long-term objectives as documented in the investment management agreements. The Trustee monitors the investment managers' engagements and voting activities regularly as part of their ESG monitoring process.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	The Trustee reviews the performance of all of the Group's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. The Trustee evaluates performance over the time period stated in the investment managers' performance objectives. Investment manager fees are monitored on an on-going basis to make sure the correct amounts have been charged.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Group's arrangements with the investment managers.	The duration of the arrangements is considered in the context of the type of fund the Group invests in. For closed ended funds or funds with a lock in period, the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and Group's liquidity requirements. For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
How the investment managers are incentivised to vote on the Trustee's behalf.	The Trustee has acknowledged responsibility for the voting policies that are implemented by the Group's investment managers on their behalf. The Trustee monitors the investment managers' engagements and voting activities regularly as part of their ESG monitoring process to engage with investment managers on alignment.
How the Trustee will engage with investment managers, direct assets and others about 'relevant matters'.	The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Group's investment managers on their behalf. The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.

Appendix C – Collateral management policy

The Trustee has a defined collateral rebalancing framework in place with LGIM in regard to the Group's LDI mandate. In the event of capital calls, LGIM have permission to automatically source capital as required from the Group's other LGIM fund as outlined below.

The Trustee will review their collateral management policy no less frequently than annually, or as soon as possible in the event of significant market movements.

Trigger	Action	Responsibility
When LDI fund collateral falls below the predefined trigger level of 0.9x the optimal level.	Capital call is issued, funds are automatically sourced from the below collateral waterfall as required to restore the collateral buffer to 1.05x the optimal 350 bps headroom target.	LGIM are responsible for monitoring LDI fund collateral levels, communicating capital call requirements to Isio/the Trustee and sourcing the required funds.
All collateral funds are exhausted	Consider sourcing capital from other liquid mandates and/or reducing hedging exposure.	Isio to monitor collateral levels in the collateral fund and advise accordingly when manual top ups may be required.

The latest collateral waterfall is set out below. Assets held with the same manager as the LDI mandate are shown in bold, reflecting the lower governance burden on the Trustee.

Order	Manager	Fund	Dealing frequency	Notice period	Settlement period
1	LGIM	Absolute Return Bond Fund	Daily	6pm T - 1	T + 2
2	BNY Mellon	Group Cash Fund*	Daily	5pm T - 2	T + 1

**This fund is not part of the Group's collateral framework with LGIM but can be used as an extra source of capital for manual top ups as required.*

The Group also has an upper trigger mechanism in place with LGIM which outlines the collateral levels at which capital will be distributed. This states that when the LDI fund collateral rises above the redefined trigger level of 1.2x the optimal level, capital will automatically be distributed to the Absolute Return Bond Fund to restore the 1.05x optimal collateral position.