ELECTRICITY SUPPLY PENSION SCHEME

Npower Group of the ESPS

Statement of Investment Principles – January 2024

INTRODUCTION

This Statement of Investment Principles has been prepared by the Group Trustees of the Npower Group of the Electricity Supply Pension Scheme (ESPS) ("the Group"). It sets out the principles that govern the Group Trustees' decisions about the investment of the Group's assets.

The Group is a Registered Pension Scheme for the purposes of the Finance Act 2004.

This Statement is designed to meet the requirements of Section 35 of the Pensions Act 1995 (as amended) and the Occupational Pension Scheme (Investment) Regulations 2005.

In preparing this Statement, the Group Trustees have obtained written advice from the Group's Investment Consultants. The Group Trustees believe that each of the Investment Consultants meets the requirement of Section 35(3) of the Pensions Act 1995. Where matters may affect the Group's funding policy, input has also been obtained from the Scheme Actuary. The Group Trustees will obtain similar advice whenever they review this Statement.

The Group Trustees have ultimate power and responsibility for the Group's investment arrangements. The Group Trustees seek to maintain a good working relationship with the Principal Employer, E.ON UK Plc and will discuss any proposed changes to this Statement with the Principal Employer. However, the Group Trustees' fiduciary obligations to Group members will take precedence over the Principal Employer's wishes, should these ever conflict.

The Group Trustees do not expect to revise this Statement frequently because it covers broad principles. The Group Trustees will review it at least once every three years, and without delay if there are relevant, material changes to the Group and/or the Principal Employer. These include, for example, changes in the Group's liabilities and finances, the covenant of the Principal Employer and the other participating employers, or the risk attitude of the Group Trustees

INVESTMENT OBJECTIVES

The current investment objective of the Npower Group, in respect of the DB section, is to hold a diversified portfolio of assets which aims to generate sufficient return to be 110% funded on a low risk, gilts+0.5% basis ahead of peak cashflow. The portfolio targets an interest rate and inflation hedge ratio of 90% of assets, implemented through a liability hedging mandate.

INVESTMENT GOVERNANCE

The Group Trustees have appointed a firm of professional consultants (the " **Investment Consultant**") to provide relevant advice to the Group Trustees. The Group Trustees also take advice as appropriate from the Scheme Actuary and other professional advisers.

The Group Trustees are responsible for the investment of the Group's assets. They delegate some aspects of the Group's investment arrangements to Investment Managers in order to manage the Group's affairs effectively.

The Group Trustees retain direct responsibility for setting investment objectives, establishing risk and return targets and setting the Group's investment manager structure. The Investment Managers are responsible for day-to-day management of the Group's assets in accordance with guidelines agreed with the Group Trustees. The Investment Managers have discretion to buy, sell or retain individual securities in accordance with these guidelines. The Investment Managers report to the Group Trustees regularly regarding their performance. The Group Trustees have appointed HSBC as its Performance Measurer independent of the Investment Managers to calculate returns for each Investment Manager's portfolio and for the assets in aggregate.

The Custodian is responsible for the safekeeping of the Group's assets, both individual securities and holdings in collective vehicles, and for performing the associated administrative duties such as trade settlement, dividend collection, corporate actions, tax reclamation and proxy voting. The Group Trustees will only invest in collective investment vehicles where they are satisfied that appropriate procedures are in place for selecting and monitoring the custodian(s) of the underlying assets.

GROUP SPECIFIC FUNDING

The Pensions Act 2004 requires that, with effect from the completion of the formal actuarial valuation, the Trustee will maintain a Statement of Funding Principles, stating the methods and assumptions used in calculating the amount required to make provision for the Group’s liabilities, and the manner and period in which any shortfall will be remedied. The Group Trustees will consult the Scheme Actuary, the Investment Consultant and the Company when deciding upon the appropriate response to any shortfall.

The Scheme Actuary performs a valuation of the Group at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree an appropriate funding strategy for the Group. Full details of the current funding strategy and contributions payable will be found in the Statement of Funding Principles and the Schedule of Contributions.

INVESTMENT RISK AND RETURN

The Group Trustees recognise that, with the development of modern financial instruments, it is possible to select investments that produce cash flows similar to the estimated liability cash flows (“matching assets”). However, in order to meet the long-term funding objective whilst having regard for the level of contributions required, the Group Trustees have agreed to take investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the Group's liabilities.

In addition to targeting an appropriate overall level of investment risk, the Group Trustees seek to spread risks across a range of different sources. The Group Trustees aim to take on those risks for which they expect to be rewarded over time, in the form of excess returns. The expected levels of return for each asset class are detailed in the Investment Policy Implementation Document (IPID). The Group Trustees further believe that diversification limits the impact of any single risk.

The Group Trustees monitor the risk and return characteristics of the Group on a quarterly basis and aim to keep the exposures within reasonable tolerance ranges. As a check on the validity of the risk and return assumptions they have made, the Group Trustees will monitor the actual volatility of the Group's funding level on a quarterly basis to check it is consistent with the agreed targeted level of risk. This monitoring also discloses whether the funding level has changed sufficiently to warrant a review of the risk and/or return targets.

The Group Trustees recognise a number of risks involved in the investment of the Group's assets:

Deficit risk:

- is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.

- is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

Manager risk:

- is measured by the expected deviation of the return relative to the benchmark set.

- is managed by limiting exposure to any one investment manager, by considering the appropriate amount of the Group's funds to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.

Liquidity risk:

- is measured by the level of cashflow required by the Group over a specified period and the amount of collateral that is available to support the Group's derivative-based exposures.

- is managed by the Group's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and by the investment manager who assesses the need for additional collateral to support the derivative-based exposures and through holding assets of appropriate liquidity.

Currency risk:

- is measured by the level of exposure to non-Sterling denominated assets.

- is managed by the implementation of a currency hedging programme (carried out by some of the Group's investment managers) which reduces the impact of exchange rate movements on the Group's asset value.

Interest rate and inflation risk:

- is measured by comparing the likely movement in the Group's liabilities and assets due to movements in inflation and interest rates.

- is managed by holding a portfolio of matching assets (physical bonds and derivatives) that enable the Group's assets to better match a proportion of the movements in the value of the liabilities due to inflation and interest rates.

Political risk:

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention or sanctions.

- is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.

Sponsor risk:

- is measured by receiving regular financial updates from the Principal Employer and periodic independent covenant assessments.

- is managed through an agreed contribution and funding schedule.

INVESTMENT MANAGER

The Group uses a number of different managers and mandates to implement its investment policies. The Group Trustees ensure that the portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Group Trustees will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question.

To maintain alignment the managers are provided with a copy of this Statement and the Group Trustees will monitor the extent to which they give effect to the policies set out in it. Should the Group Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Group Trustees' policies, the Group Trustees will engage with the manager further to encourage alignment.

For most of the Group's investments, the Group Trustees expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity where applicable to drive improved performance over these periods. When assessing a manager's performance, the focus is on longer-term outcomes, and the Group Trustees would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

Investment managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services agreed prior to investment. The Group Trustees will also utilise their scale to negotiate competitive fee rates with investment managers on an ongoing basis.

The scope of services will include consideration of long-term factors and engagement where applicable. In some cases, additional fees may be paid to managers based on investment performance exceeding pre-agreed targets.

The Group Trustees, with the help of their Investment Consultant, monitor the level of transaction costs across the Group incurred by each Investment Manager through the receipt of MiFID II compliant cost reporting. There is no broad targeted portfolio turnover (how frequently assets within a fund are bought and sold by Investment Managers) which the Group Trustees adhere to. The Group Trustees, with the help of their Investment Consultant, will monitor that the level of portfolio turnover remains appropriate in the context of the Investment Managers' strategy and the Group's investment strategy.

SOCIALLY RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE

The Group Trustees take account of all financially material risks and opportunities in consultation with their advisers. All risks and opportunities are considered for materiality and impact within an integrated risk management framework, which takes account of the Group's investment and funding time horizon. In considering responsible investment, the Group Trustees feel it is important to focus on both their investments and the nature and time horizon of the Sponsor's business. The Group considers responsible investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) risks, which the Group Trustees take to include climate change, in the context of this broader risk management framework. The Group defines sustainable investing and responsible investing to have the same meaning in this case. The Group Trustees rely on their investment adviser to take into account the Group's beliefs in the advice that they provide, regardless of whether these beliefs align with their own. These beliefs reflect the Group Trustee's collective responsibility to deliver member benefit security and will be reviewed regularly. The Group Trustees' approach can be summarised as follows:

- When making investment decisions, the Group Trustees believe in taking a long-term outlook focusing on good governance and stewardship.
- The Group Trustees believe that understanding how an investment manager takes into account responsible investment factors is a relevant consideration when selecting investments. They rely on their advisers' process in all aspects of investment advice (particularly when selecting managers) and investment industry engagement, and regularly monitor and engage with their advisers to ensure this happens appropriately. The Group Trustees rely on the transparency of the WTW research process when selecting investments. The Group Trustees understand that this process reviews how managers integrate ESG risks into their investing decision making, their engagement with ESG, the diversity of the manager's team, how transparent the manager is, and their alignment with other investment managers researched, along with reviewing the specific manager's voting policies and documented policies.
- The Group Trustees consider that responsible investment considerations are important, and probably as good a source of return as any other driver and should therefore be considered in a balanced risk/return framework when making investment decisions.
- The Group Trustee's policy is that day-to-day decisions relating to the investment of the Group's assets are left to the discretion of its investment managers. This includes consideration of all financially materially factors and other relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings
- Understanding how an investment allows for ESG risks is relevant, but exclusion investing (banning investments in certain industries/countries) and impact investing (making investments using pension scheme money with the primary aim of creating a measurable social benefit) will not explicitly form a part of the Group Trustees' investment strategy. The Group Trustees are however aware that this may feature to some extent in some managers' portfolios. The Group Trustees monitor reporting from their managers and advisers to ensure these possible approaches are assessed and taken account of on an ongoing basis.
- When the risk and return characteristics of potential investments are suitable, the Group Trustees may consider which of the possible investments will provide the greatest long-term societal benefit.
- The Group Trustees do not intend to use pension scheme money to implement any kind of moral/ethical/lobbyist agenda.
- The Group Trustees recognise the collaborative initiatives undertaken on their behalf by their managers and advisers.
- The Group Trustees have decided not to take into account the views of members and beneficiaries of the Group in the selection, retention and realisation of investments.

Additional Voluntary Contributions (AVCs)

The Group holds a small number of DB AVCs with Scottish Widows, Clerical Medical and Prudential which are reviewed every six months. As the Group no longer holds any DC members or investments, following the transfer of these to a master trust, the structure of the Group now relates solely to Defined Benefits, as opposed to its previous hybrid structure.