

Registered numbers:
National Nuclear Laboratories Section: 19002035
Cavendish Nuclear Section: 19002036
Atkins Section: 19002037
Site Licence Company Section: 19002038

ELECTRICITY SUPPLY PENSION SCHEME

**MAGNOX ELECTRIC GROUP
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Contents

	Page
Message from the Chairman of Group Trustees	1
Report of the Group Trustees	
Introduction	2
Group Management	2
Administration Report	7
Investment Report	9
Changes in Scheme Provisions	14
Dispute Resolution Procedure	15
Contributions	
Independent Auditors' Statement about Contributions to the Group Trustees	16
Summary of Contributions Payable	17
Certifications of Schedules of Contributions	
Site Licence Company Section	19
Cavendish Nuclear Section	20
Atkins Section	21
National Nuclear Laboratories Section	22
Report on Actuarial Liabilities	23
Financial Statements	
Independent Auditors' Report to the Group Trustees	26
Fund Account	29
Statement of Net Assets Available for Benefits	30
Notes to the Financial Statements	31
Appendices	
Analysis of Membership Statistics by Section	58
Glossary of Terms	60
Advisers and Service Providers	63
Names and Addresses of External Bodies	65
Address for Enquiries	67
Annual Engagement Policy Implementation Statement	68

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Message from the Chairman of Group Trustees**

Message from the Chairman of Group Trustees

I am pleased to present the Magnox Electric Group's Annual Report and Financial Statements for the year ended 31 March 2021.

The year to 31 March 2021 proved to be very challenging with the effects of the Covid-19 pandemic lasting longer than we could have envisaged when we completed last year's Annual Report and Financial Statements. I am very pleased to report that all Sections of the Group stood up well to the challenges presented. The Group Trustees' main focus was to ensure that benefits continued to be paid on time and to maintain the security of the Group, and our administrators, RPMI, adapted quickly to the requirements of homeworking ensuring that pensions were maintained and that the annual increases were correctly applied at an early stage of the pandemic.

It also is very pleasing for me to report that the prudent approach to funding, which we have employed for several years, continued to stand up well to the challenges and in all four Sections of the Group we remain in a strong position to meet payments to beneficiaries.

The investment strategies of the Group continued to be resilient to the volatility experienced in global financial markets throughout the pandemic and have contributed to stability in the funding levels of each Section.

Our advisers all continued to provide good support and adapted quickly to working remotely.

The Group Trustees continued to meet throughout the year with the use of video conferencing and increased the frequency of meetings, particularly in the early stages of the pandemic. We are grateful to all of our advisers and the administrators for their support throughout what has been another testing time.

The Group Administrator, Rachel Hewlett, retired in June 2021 and has subsequently been replaced by Kelly Capdeville. I, together with my fellow Group Trustees, welcome Kelly to the Group and we would like to record our sincere thanks for Rachel's significant contribution and wish her a happy retirement.

Susan Jee
Chairman

Date: 20 September 2021

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees**

Report of the Group Trustees

Introduction

This Annual Report and Financial Statements is produced by the Group Trustees for the members of the Magnox Electric Group of the Electricity Supply Pension Scheme (the 'Group'). The Group is part of an industry-wide pension scheme in which the Participating Employers are companies formed upon the privatisation of the electricity industry in 1990 or their successors. The Electricity Supply Pension Scheme (the 'Scheme') has 26 separate actuarially independent sections (known as Groups) in respect of the companies participating in the Scheme as Principal Employers, and each Group has its own assets to fund the benefits of its members. Information relating to the Scheme as a whole can be found in the Scheme Annual Report and Financial Statements.

The Scheme is established under irrevocable trusts and its provisions are set out in the Clauses and Rules contained in the Scheme document. Membership of the Group has been closed to new employees since 31 August 2007 when alternative arrangements were put in place.

The Scheme is a registered pension scheme under the Finance Act 2004 and was primarily contracted out of the State Second Pension.

The Principal Employer is Magnox Limited. Atkins Ltd, National Nuclear Ltd, Cavendish Nuclear Ltd, Sellafield Limited and INS Ltd are also participating employers. The Group Annual Report and Financial Statements include information on the defined benefit arrangements of the Group as well as aggregate information on additional voluntary contributions (AVC Investments) made by individual members of the Group.

The Group Financial Statements starting on page 26 have been prepared and audited so as to comply with Regulations made under Sections 41(1) and (6) of the Pensions Act 1995.

Group Management

The Group is administered by a body of Trustees known as Group Trustees. The Group Trustee structure of the Magnox Electric Group provides for a total of eleven Group Trustees, five appointed by Magnox Limited and six who represent members.

In the event of an issue being put to a vote at a meeting, each Appointed Group Trustee, with the exception of the Chairman, has one and a half votes and each member representative Group Trustee has one vote. In the event of an equality of votes the Chairman has the discretion to exercise her only vote, which is a casting vote, to resolve the issue concerned. In the year under review there were no occasions on which the Chairman used this casting vote.

Member representative appointments are now made through a selection process, as described under the appointment and removal section.

The Group Trustees' duties and responsibilities are carried out by a trust company, limited by guarantee, called Magnox Electric Group Pension Trustee Co Ltd (the "Group Trustee").

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees**

The Directors of Magnox Electric Group Pension Trustee Co Ltd have the same functions as individual Group Trustees. The rules for their appointment, selection and tenure of office are documented in the Articles of Association and are exactly the same as individual Group Trustees, as are their responsibilities under the provisions of the Group and pensions legislation. For simplicity the term 'Group Trustees' has been used in this Report as shorthand for the more accurate term 'Directors of Magnox Electric Group Pension Trustee Co Ltd'.

There is also a central Scheme Trustee, Electricity Pensions Trustee Limited (EPTL). EPTL is a trust corporation with a Board of Directors.

Group Trustees

APPOINTED TRUSTEE DIRECTORS

Susan Jee Chairman of the Group Trustees ⁵

Andrew Clare Chairman of the Investment Sub-committee (Independent Trustee) ¹

Gordon Frisby (Finance Director Magnox Ltd)

Martin Veasey (Independent Trustee) ¹

John Vickerman (HR Director Magnox Ltd)

MEMBER REPRESENTATIVE TRUSTEE DIRECTORS

Paul Bridgeman (Retired employee) ^{1,4}

Ceri Davies (Current employee, Oldbury Technical Centre) ^{2,3}

Nick Gore (Retired employee) ^{1,4}

Fergus Hall (Retired employee) ^{2,4}

Martin Turner (Retired employee) ⁴

Chris Wells (Current employee, Dungeness) ^{2,3}

Note:

1. Member of the Investment Committee at 31 March 2021

2. Member of the Governance & Audit Sub-committee at 31 March 2021

3. Active member of the Group

4. In receipt of pension from the Group

5. Non-Executive Director Magnox Limited

Most trustee directors are members of the death benefit distribution committee as this provides flexibility for meetings to be arranged at short notice with sufficient directors present to enable death benefits to be paid promptly.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees**

Appointment and Removal of Group Trustees

The five Appointed Group Trustees are appointed by, and can be removed by, Magnox Limited. The six member representative Group Trustees have been appointed by a selection panel. In addition to changes that take place at a selection process, a member representative Group Trustee ceases to be a Group Trustee if he/she resigns, ceases to be a contributing member or pensioner of the Group, or is removed from office by a majority of the other Elected Group Trustees. A casual vacancy for a member representative Group Trustee can be filled by a person nominated by the remaining member representative Group Trustees. Member representative Group Trustees normally serve for a term of six years.

Once having taken up office all Group Trustees - both member representative and Appointed - act on behalf of and are accountable to all members of the Group.

Meetings of the Group Trustees during the Year

During the year the Group Trustees met eleven times, holding shorter but more frequent meetings than usual. At their regular meetings the Group Trustees dealt with all matters relating to the management of the Group members' benefits, funding, governance matters and the investment of the Group's assets. They also received periodic reports and presentations from their committees, working groups and advisers. In addition Group Trustees maintained and monitored their Risks and Business Plan and received training.

Trustee Sub-committees

In addition to the meetings of the Group Trustees, certain matters were subject to detailed consideration in Trustee Committees. During the year there were two Trustee Committees in operation.

The Investment Sub-committee is the main interface with investment managers allowing its members to maintain an in-depth knowledge and understanding of them and the Group's investments. Its main aim is to ensure sufficient time is available for investment matters to be properly addressed. The Sub-committee reports comprehensively to the Group Trustees on the performance of the Group's investments and any other matters it has reviewed or considered. The Sub-committee members are set out on page 3. In addition the Principal Employer (Magnox Limited) may nominate not more than two individuals to be non-voting members of the Sub-committee. Group Trustees who are not members of the Sub-committee routinely attend meetings of the Sub-committee as and when they are able to do so. The Investment Sub-committee met ten times during the year, again holding shorter but more frequent meetings than usual.

There is a Governance and Audit Sub-committee which advises the Group Trustees on agreed aspects of the Group's governance and controls to provide assurance of effective stewardship. The Sub-committee provides comprehensive reports to the Sub-committee and the meetings are open for any Group Trustee who is not a member of the Sub-committee to attend. This Sub-committee met four times during the year and held weekly calls at the start of the pandemic to monitor developments.

Communication with members was maintained by means of Pensions Update newsletters and via the website. As a result of the Covid-19 pandemic it was not possible to hold a Group Annual Meeting in 2020.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees**

Statement of Group Trustees' Responsibilities

Group Trustees' Responsibilities in Respect of the Financial Statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Group Trustees. Pension scheme regulations require, and the Group Trustees are responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Group during the Group year and of the amount and disposition at the end of the Group year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Group year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the Group Trustees are responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Group will continue as a going concern.

The Group Trustees are also responsible for making available certain other information about the Group in the form of an annual report.

The Group Trustees have a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Group Trustees' Responsibilities in Respect of Contributions

The Group Trustees are responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the Group by or on behalf of employers and the active members of the Group and the dates on or before which such contributions are to be paid.

The Group Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Group and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the Group in accordance with the schedule of contributions.

Where breaches of the schedule occur, the Group Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees**

Additional Group Trustees' Responsibilities

The structure of the Scheme means that certain matters are dealt with by Group Trustees and certain matters are dealt with by the Scheme Trustee. The main additional responsibilities of the Group Trustees are:

- to determine an investment strategy for Group assets;
- to ensure appropriate management of the Group assets;
- to arrange for regular actuarial valuations of the Group to be carried out in accordance with the funding principles agreed with the Employers;
- to prepare and agree with the Employers a Statement of Funding Principles which includes the actuarial assumptions used to assess the Group's liabilities;
- to agree a recovery plan with the Employers for making good any shortfall in assets against liabilities identified in periodic actuarial valuations; and
- to make available to members annual funding updates on the financial position of the Group.

In carrying out their work the Group Trustees must always act impartially and in the best interests of all the members of the Magnox Group.

To assist them in their work the Group Trustees have appointed a team of professional advisers whose advice is taken into account when necessary. The advisers include lawyers, actuaries, administrators, investment consultants and investment managers. Their names are set out on pages 63 and 64. The Trustee Directors are assisted in the management of the Group by the pensions team from Magnox Limited including the Group Administrator, Kelly Capdeville.

Under a revised constitution introduced in January 2012, each Group within ESPS currently appoints two individuals to be Councillors on the Council which, amongst other matters, is responsible for the appointment of the Board of EPTL the Scheme Trustee. As at 31 March 2021 Fergus Hall was the councillor chosen by the member representative Trustee Directors and Rachel Hewlett was the councillor chosen by our Principal Employer (until her retirement from the Magnox Limited on 30 June 2021). There were no Magnox Electric Group councillors represented on the Board of EPTL.

The main responsibilities of EPTL are:

- to ensure the safe custody and administrative control of assets;
- to produce the Scheme Report & Financial Statements on an annual basis; and
- to ensure proper investment management of Group assets invested in the Unitised Fund.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees

Review of the Operation of the Electricity Supply Pension Scheme ("ESPS")

- The Board continued to monitor risks through its Risk Register which is considered at each main meeting. The risks considered included COVID-19 implications and the effect on the suppliers of services.
- Work on the consolidation of the Scheme Document was approved.
- A new contract with the custodian, The Bank of New York Mellon, was negotiated and signed.
- The new ESPS website went live on 28 September 2020 (www.espspensions.co.uk)
- An updated EPTL Statement of Investment Principles ("SIP") was approved and published on the ESPS website.
- The Carillion situation continued to be monitored.
- The 2020 Scheme AGM took place on 23 November 2020 and the 2021 Scheme AGM will take place on 22 November 2021.
- The appointment of a new independent chair, Melanie Cusack, took place replacing Joanna Matthews.

Administration report

Membership statistics for the year ended 31 March 2021

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
At 1 April 2020	1,184	5,580	1,386	1,161	9,311
Adjustments	-	1	-	-	1
As at 1 April 2020 (revised)	1,184	5,581	1,386	1,161	9,312
Increases					
Contributors/pensioners/dependants/deferred pensioners	-	106	105	38	249
Sub Total	-	106	105	38	249
Reductions					
Contributors / deferred pensioners retiring	(46)	-	-	(60)	(106)
Deaths	(1)	(178)	(81)	-	(260)
Leavers with deferred pensions	(38)	-	-	-	(38)
Leavers with refunds of contributions/transfers to other schemes/cessation of child allowances	-	-	(1)	(22)	(23)
Sub Total	(85)	(178)	(82)	(82)	(427)
At 31 March 2021	1,099	5,509	1,409	1,117	9,134

The membership statistics for each section are included in appendix 1.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees**

Pensions increases

The Rules of the Scheme applicable to the Group provide for all pensions in payment, children's allowances and deferred pensions to be increased on an annual basis on 1 April each year in accordance with the rise in the Retail Prices Index (RPI) in the 12 months ended on the preceding 30 September. If the RPI increase is greater than 5% the Company has the discretion to limit the pension increase to a lower figure subject to a minimum of 5%.

The pensions increase applied from 1 April 2021 was 1.1% in line with the RPI increase for the 12 months to 30 September 2019 and was therefore non-discretionary. A proportionate increase was applied to pensions which came into payment between 2 April 2020 and 1 March 2021.

Pension increases over the previous five years were:

1 April 2020	2.4%
1 April 2019	3.3%
1 April 2018	3.9%
1 April 2017	2.0%
1 April 2016	0.8%

Transfers from the Group

Deferred pensioners can transfer the cash equivalent of their deferred benefits to a new employer's approved pension arrangement.

New regulations were brought into force on 1 October 2008, the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008, replacing the old actuary certified process with a trustee-driven regime. The effect of this was to reduce the actuary's role to an advisory one and the Group Trustees became responsible for calculating and verifying transfer values.

The transfer value payable in such circumstances is to be calculated and verified by either:

- calculating the cash equivalent of the deferred benefits on a best estimate basis; or
- an alternative method in accordance with Regulation 7E of the 2008 Regulations.

The Finance Act 2004 introduced new rights for members who leave the Group with between 3 months and two years of qualifying service. These individuals can choose between a refund of contributions and a cash transfer sum (which is calculated in the same manner as a cash equivalent transfer value but without the underlying minimum guarantee which applies to deferred pensioners as set out in the second bullet point above).

Cash equivalents paid during the year with respect to transfers have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and full allowance is included for and in respect of increases to pensions and dependant's benefits. No allowance is made in respect of other discretionary benefits.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees**

Investment Report

Investment Arrangements

The investment strategies set by the Group Trustees for each Section are based on advice received from Aon Solutions UK Limited and each Section takes into account the current and anticipated future pension liability profile and the strength of the employer's covenant.

The Group Trustees are responsible for making suitable arrangements for the investment of the assets of each Section and for monitoring the investment performance of those assets and do so with the support of their advisers, Aon Solutions UK Limited.

Investment reports are received at quarterly intervals and fund manager representatives attend meetings of the Group Trustees as required to discuss the results of their management of assets against the agreed targets.

The names of those who manage each Section's investments can be found on page 64.

See Note 9 to the financial statements for details of the allocation of each Section's assets as at 31 March 2021.

Statement of Investment Principles

The Group Trustees have produced a Statement of Investment Principles ("SIP") for each Section in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended in 2004) and the Occupational Pension Schemes (Investment) Regulations 2005 (as amended in 2018 & 2019). In preparing the SIPs the Group Trustees took professional advice from Aon Solutions UK Limited and consulted with the relevant sponsoring company of each Section. New regulations, which came into force with effect from 1 October 2020, changed the way in which trustees of pension schemes must document in their SIP how they govern the management of their arrangements with their investment managers, in particular concerning stewardship matters and cost transparency. During the year, and following advice from their investment advisor, the Group Trustees reviewed and updated its SIP in advance of October 2020 to ensure that it is compliant with these new regulations. In accordance with the Disclosure Regulations Schedule 3, 30(d)(iv) Investment Regulations 2(3)(d), from 1 October 2020 the Group Trustees have set out in their SIP for each Section their policies in relation to the following matters:

- (a) how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Group Trustees' policies mentioned in sub paragraph b;
- (b) how that arrangement incentivises the asset manager to make decisions based on assessments about medium-to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long term;
- (c) how the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Group Trustees' policies mentioned in sub paragraph b of the Investment Regulations;
- (d) how the Group Trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range; and
- (e) the duration of the arrangement with the asset manager.

The Group Trustees' Annual Engagement Policy Implementation Statement, which sets out, amongst other things, further voting and engagement information undertaken by the Group's investment managers for the year ended 31 March 2021, is set out on pages 68 to 80, and forms part of the Group Trustees' Report.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees**

The SIP for each Section covers the Group Trustees' policy on the following matters:

- a) ensuring compliance with the current investment requirements;
- b) the types of investment and the balance between different types of investment;
- c) the level of risk associated with different investment classes;
- d) expected return of investments;
- e) the extent to which investments can be easily realised;
- f) environmental, social and corporate governance issues;
- g) how investment arrangements incentivise the asset managers to align their strategy with the Group Trustee's policies;
- h) how costs are monitored within the portfolio, including consideration to portfolio turnover costs; and
- i) additional voluntary contributions.

The Group Trustees are not aware of, and have not been informed by the fund managers of, any departures from the SIP during the year.

A copy of the SIP for each Section can be found on the Group's website (<https://my-magnox-pension.com/library/scheme-rules>) or alternatively obtained from the Group Administrator and whose address appears on page 63.

Socially Responsible Investment and Corporate Governance

The Group Trustees have delegated Socially Responsible Investment ("SRI") and corporate governance to their appointed fund managers. Where appropriate, the appointed fund managers have regard to each company's approach to social, environmental and ethical issues in assessing the long term financial merits of investing in that company. Furthermore, they may use their influence on behalf of shareholders to seek improvements in such areas if they consider the company does not comply with good practice. The Group Trustees are satisfied with the fund managers' approach to SRI and corporate governance.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees**

Strategic changes over the year to 31 March 2021

SLC Section

The Group Trustees reviewed the investment strategy following the results from the 2019 actuarial valuation, and concluded that the strategy focussed on liability driven investment ("LDI"), credit and inflation-linked assets remained appropriate. The Group Trustees appointed Chorus (bank capital relief manager) and Robeco (buy and maintain corporate bonds manager) over the financial year to take advantage of attractive risk adjusted returns in both asset classes and further diversify existing holdings. The investments were funded by a full disinvestment of the Schroders diversified growth mandate (c.£117m) and partial redemptions from Ruffer diversified growth (£130m) and BMO LDI (£85m). The remainder of the Ruffer mandate was used to meet cashflow requirements.

Commitments to long lease property (CBRE), property debt (Invesco REFF, formerly GAM II), direct lending (Arcmont & Hayfin) and bank capital relief (Chorus) are expected to be largely drawn within the next 12 months (based on the current pipeline of opportunities).

A new cashflow benchmark was implemented in Q4 2020 based on the data and assumptions from the 2019 actuarial valuation, with the BMO LDI portfolio targeting a Long Term liability hedge of 85% on interest rates and inflation on a Gilts + 0.5% basis. BMO takes into consideration the buy and maintain credit portfolio managed by Robeco when managing to the Section's target hedge levels.

Cavendish Nuclear Section

A new cashflow benchmark was implemented in Q4 2020 based on the data and assumptions from the 2019 actuarial valuation, with the BMO LDI portfolio targeting a hedge of 90% on interest rates and inflation on a Gilts + 0% basis (previously offering 100% protection on a Gilts + 0.5% basis).

The Group Trustees are in the process of reviewing the investment strategy.

Atkins Section

The Group Trustees disinvested c.£616k from the BMO Sterling Liquidity Fund to cover the final balancing premium payable to Canada Life following a data cleanse exercise. The annuity with Canada Life insures a large portion of the Section's liabilities and is held as an asset of the Section. It is viewed by the Group Trustees as an illiquid matching investment which reduces both the financial and demographic risk within the Section. The valuation of the annuity with Canada Life in the table is set to match the Technical Provisions valuation of the pensioner members covered by the policy.

A new cashflow benchmark was implemented in Q4 2020 based on the data and assumptions from the 2019 actuarial valuation, with the BMO LDI portfolio targeting a hedge of 100% of the non-insured liability's sensitivity (on a Gilts + 0% basis) to changes in gilt yields and inflation expectations.

NNL Section

The Group Trustees made no changes to the investment strategy over the year.

BMO rebalanced the LDI portfolio in Q3 2020 using cash from the Sterling Liquidity Fund to adjust the split between levered and unlevered funds.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees

Investment Performance

A summary of the performance of each Section against its benchmark over the last one year and three years is given in the table below.

Section	1 year to 31 March 2021		3 years (annualised) to 31 March 2021	
	Return (%)	Benchmark (%)	Return (%)	Benchmark (%)
SLC	3.7	3.1	4.7	4.0
Cavendish Nuclear	5.5	4.6	4.4	4.7
Atkins	1.3	1.6	3.4	3.5
NNL	13.8	4.4	5.9	5.5

Source: Aon Solutions UK Limited. Based on manager valuation statements available within 20 business days of quarter end.

Although the outbreak of Covid-19, declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, had a major impact on global financial markets, the investment strategies of the Group have been resilient to the extreme levels of volatility experienced and have largely protected the funding levels of each Section.

SLC Section

The SLC Section generated a return of 3.7% over the one-year-period to 31 March 2021. The Section return outperformed the benchmark return for the same period. The Section's investment managers posted a range of results in terms of performance relative to their respective benchmarks over the year.

Absolute and relative performance over the year was driven by multi-asset manager Ruffer, credit manager Insight, and inflation opportunities manager M&G.

Cavendish Nuclear Section

The Cavendish Nuclear Section outperformed its benchmark over the one-year period to 31 March 2021. The outperformance was largely attributable to diversified growth fund manager Schroders and absolute return bonds manager PIMCO.

Atkins Section

The Atkins Section's performance was broadly in line with benchmark over the one-year and three-year periods to 31 March 2021. The Section has run a passive strategy over the last year and therefore was expected to perform in line with its benchmark.

NNL Section

The NNL Section outperformed its benchmark over the one-year and three-year periods to 31 March 2021. The outperformance was largely attributable to the multi-asset managers Schroder and Ruffer.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees**

Employer Related Investments

The Investment Regulations limits employer related investments by occupational pension schemes. These investments include shares, loan stocks, debentures and other securities issued by the employers participating in the scheme and their associated companies, together with loans made to the employers, and any properties or land owned by the scheme and occupied by the employers.

The Group's assets had no exposure (2020: 0.004% of the Schroders fund's assets) to the employers participating in the Group and their associated companies as at 31 March 2021. The proportion of Group assets in employer-related investments therefore does not exceed 5% of the market value of the Group assets as at 31 March 2021, and these investments therefore comply with legislative requirements.

AVC Investments

During the year a number of members made additional voluntary contributions (AVC investments) via insurance companies to obtain further benefits, on a money purchase basis, within the overall limits set by HM Revenue & Customs. The Group Trustees hold these assets invested separately from the main fund in the form of insurance policies. Each member receives an annual statement at the year-end confirming the amount held in his/her account and the movements in the year.

The Group Trustees are currently reviewing the Group's AVC provider.

Custody

The assets of the Group are subject to the overall custody and administrative control of EPTL and are held by the Scheme-wide custodian appointed by EPTL to safeguard the assets.

BNY Mellon is the custodian in relation to securities. Where certificates are available in relation to such securities, they are held by BNY Mellon and identified as investments of the Scheme. Where certificates are not available, but records are held in computer-based systems, the relevant accounts record the Scheme's ownership.

The Group Trustees are responsible for instructing BNY Mellon on the day to day management of the assets of their Group.

For Group-specific funds, money at call and on short notice is placed in accordance with the provisions of Investment Management Agreements negotiated between Group Trustees and Group-specific fund managers. Additionally, limits are in place to minimise exposure to any one bank. In each case the Scheme is identified as the lender.

All cash is held in a bank account in the name of the Scheme, or in a fund manager's institutional cash fund, commonly called a cash pool. This type of investment allows cash to be invested across a broad range of institutions, thereby reducing risk and exposure.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees**

Changes in Scheme Provisions

Scheme wide amendments by the Scheme Co-ordinator, Electricity Pensions Limited (EPL) may amend the provisions of the Scheme with the unanimous consent of all the participating Principal Employers. During the year ended 31 March 2021 there were no Scheme-wide amendments made.

Changes to the Group

There were no changes made to the rules during the year.

Guaranteed Minimum Pension ("GMP") Equalisation

The Group has undertaken a process of assessing the overall impact of the October 2018 ruling regarding GMP Equalisation and based on an initial assessment by the actuary, an estimate of 0.2% of liabilities on a technical provisions basis has been determined for the full liability. The Group Trustees have not included a liability in respect of these matters in these Financial Statements. They will be accounted for in the year they are determined.

On 20 November 2020, the High Court handed down a further judgment on the GMP equalisation case in relation to the Lloyds Banking group pension schemes. This follows from the original judgement in October 2018. This latest judgment confirms that defined benefit schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Group has historical transfers which may be subject to adjustment as a result of this second ruling. The Group Trustees will be considering this at a future meeting and decisions will be made as to the next steps. Any adjustments necessary will be recognised in the Financial Statements in future years. At the date of signing these Financial Statements, it is not possible to estimate the value of any such adjustments at this time.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Report of the Group Trustees**

Dispute Resolution Procedure

Pension legislation requires pension schemes to have procedures for the trustees to resolve disputes arising from the running of the scheme.

The Dispute Resolution Procedure for the Group is a one-stage process. A complaint from a member (including a pensioner, dependant, and deferred member) or prospective member must be addressed to the Group Trustees at the Pensions Department, Oldbury Technical Centre, Oldbury Naite, South Gloucestershire, BS35 1RQ, stating your full name and the details of your complaint. In normal circumstances your complaint will be acknowledged within one week and you will receive a written reply within four months. In practice the Group Trustees will review your complaint at its next meeting.

You will be notified of the Group Trustees' decision usually within fifteen days of the meeting.

This procedure has been introduced to comply with legislative requirements and does not preclude any member from raising any queries regarding the Group informally at any time.

The Report of the Group Trustees, as well as the Report on Actuarial Liabilities on pages 23 to 25, were approved by the Group Trustees and signed on their behalf on 20 September 2021:

Group Trustee



Group Trustee



Independent auditors' statement about contributions to the Group Trustee of Magnox Electric Group of the Electricity Supply Pension Scheme

Statement about contributions

Opinion

In our opinion, the contributions required by the schedules of contributions for the Group year ended 31 March 2021 as reported in Magnox Electric Group of the Electricity Supply Pension Scheme's summary of contributions have, in all material respects, been paid in accordance with the schedules of contributions certified by the Group actuary on the dates detailed on pages 19 to 22..

We have examined Magnox Electric Group of the Electricity Supply Pension Scheme's summary of contributions for the Group year ended 31 March 2021 which is set out on the following page.

Basis for opinion

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Group under the schedules of contributions, and the timing of those payments.

Responsibilities for the statement about contributions

Responsibilities of the Group Trustee in respect of contributions

As explained more fully in the statement of Group Trustee's responsibilities, the Group Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Group by employers in accordance with relevant requirements.

Auditors' responsibilities in respect of the statement about contributions

It is our responsibility to provide a statement about contributions and to report our opinion to you.

Use of this report

This report, including the opinion, has been prepared for and only for the Group Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
21 September 2021

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Contributions

Summary of contributions payable to the Magnox Electric Group of the Electricity Supply Pension Scheme

During the year ended 31 March 2021, the contributions required by the schedules of contributions were as follows:

Site Licence Company Section

	Employer £ million	Employee £ million	Total £ million
Required by the schedules of contributions			
Normal*	22.1	-	22.1
Total (as reported on by the Group auditors)	22.1	-	22.1
Other contributions payable			
Augmentations (Early retirements)	2.5	-	2.5
Supplementary pensions funding	1.1	-	1.1
Other	0.8	-	0.8
AVCs	1.2	0.1	1.3
Total (as per Fund Account)	27.7	0.1	27.8

*Under salary sacrifice arrangements, £3.3m of contributions were met by the Employer rather than the Employees and are included in the £22.1m above.

Cavendish Nuclear Section

	Employer £ million	Employee £ million	Total £ million
Required by the schedule of contributions			
Normal*	1.5	-	1.5
Total (as reported on by the Group auditors)	1.5	-	1.5
Other contributions payable			
Augmentations (Early retirements)	0.4	-	0.4
Supplementary pensions funding	0.1	-	0.1
Other	0.1	-	0.1
AVCs	-	0.1	0.1
Total (as per Fund Account)	2.1	0.1	2.2

*Under salary sacrifice arrangements, £0.1m of contributions were met by the Employer rather than the Employees and are included in the £1.5m above.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Contributions**

Atkins Section

	Employer £ million	Employee £ million	Total £ million
Required by the schedule of contributions			
Normal	0.1	-	0.1
Total (as per Fund Account)	0.1	-	0.1

National Nuclear Laboratory Section

	Employer £ million	Employee £ million	Total £ million
Required by the schedule of contributions			
Normal	0.1	-	0.1
Deficit	0.2	-	0.2
Total (as per Fund Account)	0.3	-	0.3

Summary of Schedules of Contributions in force during the year ended 31 March 2021:

Section	Date of certification of Schedule(s)
Site Licence Company	30 June 2017 and 10 June 2020
Cavendish Nuclear	31 March 2020
Atkins	13 March 2020
National Nuclear Laboratory	7 February 2020

20 September 2021

Approved by the Group Trustees and signed on their behalf on

Group Trustee



Group Trustee



Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Contributions

Certification of schedule of contributions

Name of scheme: **Magnox Electric Group of the Electricity Supply Pension Scheme SLC Section**

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that—

The statutory funding objective could have been expected on 31 March 2019 to be met by the end of the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 10 June 2020.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Section's liabilities by the purchase of annuities, if the Section were to be wound up.

Signature	Chris Vaughan-Williams	Date	10 June 2020
Name	Chris Vaughan-Williams	Qualification	Fellow of the Institute and Faculty of Actuaries
Address	1 Redcliff Street Bristol BS1 6NP	Name of employer	Aon Hewitt Limited

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Contributions**

Certification of schedule of contributions

Name of scheme: Magnox Electric Group of the Electricity Supply Pension Scheme
Cavendish Nuclear Section

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that—

The statutory funding objective could have been expected on 31 March 2019 to be met by the end of the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 31 March 2020.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Section's liabilities by the purchase of annuities, if the Section were to be wound up.

Signature	<i>Chris Vaughan-Williams</i>	Date	31 March 2020
Name	Chris Vaughan-Williams	Qualification	Fellow of the Institute and Faculty of Actuaries
Address	1 Redcliff Street Bristol BS1 6NP	Name of employer	Aon Hewitt Limited

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Contributions**

Certification of schedule of contributions

Name of scheme: Magnox Electric Group of the Electricity Supply Pension Scheme
Atkins Section

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that—

The statutory funding objective could have been expected on 31 March 2019 to be met by the end of the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 13 March 2020.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Section's liabilities by the purchase of annuities, if the Section were to be wound up.

Signature	<i>Chris Vaughan-Williams</i>	Date	13 March 2020
Name	Chris Vaughan-Williams	Qualification	Fellow of the Institute and Faculty of Actuaries
Address	1 Redcliff Street Bristol BS1 6NP	Name of employer	Aon Hewitt Limited

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Contributions**

Certification of schedule of contributions

Name of scheme: Magnox Electric Group of the Electricity Supply Pension Scheme
National Nuclear Laboratories Section

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that—

The statutory funding objective could have been expected on 31 March 2019 to be met by the end of the period specified in the recovery plan dated 7 February 2020.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 7 February 2020.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Section's liabilities by the purchase of annuities, if the Section were to be wound up.

Signature	<i>Chris Vaughan-Williams</i>	Date	7 February 2020
Name	Chris Vaughan-Williams	Qualification	Fellow of the Institute and Faculty of Actuaries
Address	1 Redcliff Street Bristol BS1 6NP	Name of employer	Aon Hewitt Limited

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Contributions

Report on Actuarial Liabilities

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), the Financial Statements do not include liabilities in respect of promised retirement benefits.

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed every three years using assumptions agreed between the Group Trustees and the Employer and set out in each Section's Statement of Funding Principles, a copy of which is available to Group members on request.

The most recent triennial actuarial valuations of the SLC, Cavendish Nuclear, Atkins and NNL Sections of the Group were carried out as at 31 March 2019, and the results are set out in the table below:

31 March 2019	SLC	Cavendish Nuclear	Atkins	NNL
Value of technical provisions	£3,186.7m	£74.9m	£67.0m	£11.4m
Value of assets available to meet technical provisions	£3,223.5m	£76.4m	£71.8m	£10.7m
As a percentage of technical provisions – the funding level	101%	102%	107%	94%

An approximate update was performed as at 31 March 2020 for each Section and the resulting estimated funding level on each Section's technical provisions measure is set out in the table below:

31 March 2020	SLC	Cavendish Nuclear	Atkins	NNL
Approximate funding level (technical provisions)	101%	96%	109%	92%

The next formal funding updates will be produced as at 31 March 2021. These results will be communicated to members when the Pensions Updates are issued later in 2021.

The value of the technical provisions is based on Pensionable Service to the valuation date and assumptions about various factors that will influence each Section in the future, such as levels of investment returns and pay increases, when members will retire and how long members will live. The method and significant actuarial assumptions used in these calculations are as follows:

Method

The actuarial method used in the calculation of the technical provisions for each Section is the Projected Unit Method.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Contributions

Significant actuarial assumptions

Discount rate	<p><u>SLC</u> Pre and post-retirement: gilt yield curve at the valuation date plus a risk premium of 1.2% per annum.</p> <p><u>Cavendish Nuclear</u> Pre and post-retirement: the gilt yield curve at the valuation date plus a risk premium of 0.5% per annum.</p> <p><u>Atkins</u> Pre and post-retirement: the gilt yield curve at the valuation date.</p> <p><u>NNL</u> Pre-retirement: the gilt yield curve at the valuation date plus a risk premium of 1.75% per annum. Post-retirement: the gilt yield curve at the valuation date plus a risk premium of 0.5% per annum.</p>
Future retail price inflation	Term dependent rates derived from the difference between the yields on fixed interest and index-linked gilt curves at the valuation date.
Future consumer price inflation	<p>Derived by deducting 1.1% per annum from the assumption for future retail price inflation.</p> <p>The difference between the long-term assumption for RPI and CPI inflation may vary over time to reflect changing views of long-term structural differences between the calculation of RPI and CPI inflation at the date subsequent calculations are carried out.</p>
Pension increases	Derived from the term dependent rates for future retail price and consumer price inflation allowing for the caps and floors on pension increases according to the provisions in the Group's Rules.
Pay increases	<p><u>SLC</u> Pay increases in line with term dependent rates for future retail price inflation with an allowance for promotional increases.</p> <p><u>Cavendish Nuclear</u> Pay increases of 0.5% per annum above the term dependent rates for future consumer price inflation with an allowance for promotional increases.</p> <p><u>Atkins</u> Pay increases in line with the term dependent rates for future retail price inflation.</p> <p><u>NNL</u> Pay increases in line with term dependent rates for future retail price inflation with an allowance for promotional increases.</p>

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Contributions

Post-retirement mortality assumption – base table	<p><u>SLC</u> SAPS S2P All lives tables with 95% scaling factor for non-pensioner members and 90% for pensioner members.</p> <p><u>Cavendish Nuclear</u> SAPS S2P Light tables with 100% scaling factor for all members.</p> <p><u>Atkins</u> SAPS S2P Light tables with 95% scaling factor for all members.</p> <p><u>NNL</u> SAPS S2P Light tables with 100% scaling factor for all members.</p>
Post-retirement mortality assumption – future improvements	CMI 2018 extended model with initial addition to mortality improvements (A) of 0.5%, period smoothing parameter (S_k) of 7.0 and a long-term improvement rate of 1.5% p.a.

Recovery plans

Recovery plan arrangements are in place for the NNL Section where a funding deficit was declared at the last actuarial valuation. These arrangements were formalised in a Schedule of Contributions, which the Group Actuary certified. Copies of the certificates can be found on pages 19 to 22 of this annual report.

Next actuarial valuation

The next triennial valuation for each Section will be performed as at 31 March 2022. The Group Trustees expect to agree revised recovery plans (where applicable) within the statutory timescale by 30 June 2023.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements**

Independent auditors' report to the Group Trustee of Magnox Electric Group of the Electricity Supply Pension Scheme

Report on the audit of the financial statements

Opinion

In our opinion, Magnox Electric Group of the Electricity Supply Pension Scheme's financial statements:

- show a true and fair view of the financial transactions of the Group during the year ended 31 March 2021, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

We have audited the financial statements, included in the Annual Report and Financial Statements, which comprise: the Statement of Net Assets Available for Benefits as at 31 March 2021; the Fund Account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Group Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Group Trustee with respect to going concern are described in the relevant sections of this report.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements**

Reporting on other information

The other information comprises all the information in the Annual Report and Financial Statements other than the financial statements, our auditors' report thereon and our auditors' statement about contributions. The Group Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the Group Trustee for the financial statements

As explained more fully in the statement of Group Trustee's responsibilities, the Group Trustee is responsible for ensuring that the financial statements are prepared in accordance with the applicable framework and for being satisfied that they show a true and fair view. The Group Trustee is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the financial statements, the Group Trustee is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group Trustee either intends to wind up the Group, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and its environment, we identified that the principal risks of non-compliance with laws and regulations related to the administration of the Group in accordance with the Pensions Acts 1995 and 2004 and regulations made under them, and codes of practice issued by the Pensions Regulator; and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered the direct impact of these laws and regulations on the financial statements. We evaluated incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of override of controls, by the Group Trustee and those responsible for, or involved in, the preparation of the underlying accounting records and financial statements, and determined that the principal risks were related to posting inappropriate journals to conceal misappropriation of assets and inappropriate adjustments of asset valuations. Audit procedures performed included:

- Testing of journals where we identified particular risk criteria.
- Obtaining independent confirmations of material investment valuations and cash balances at the year end.
- Reviewing estimates and judgements made in the preparation of the financial statements.
- Reviewing meeting minutes, any correspondence with the Pensions Regulator, contracts and agreements, and holding discussions with the Group Trustee to identify significant or unusual transactions and known or suspected instances of fraud or non-compliance with laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements**

detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Group Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
21 September 2021

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

Fund Account for the year to 31 March 2021

	Note	SLC Section 2021 £ million	CN Section 2021 £ million	Atkins Section 2021 £ million	NNL Section 2021 £ million	Total 2021 £ million	Total 2020 £ million
Additions from dealings with members							
Employer contributions	5	27.7	2.1	0.1	0.3	30.2	36.8
Employee contributions	5	0.1	0.1	-	-	0.2	0.2
Total contributions		27.8	2.2	0.1	0.3	30.4	37.0
Withdrawals from dealings with members							
Benefits paid or payable	6	(119.4)	(1.6)	(1.2)	(0.2)	(122.4)	(124.6)
Payments to and on account of leavers	7	(14.0)	-	(0.7)	-	(14.7)	(27.0)
		(133.4)	(1.6)	(1.9)	(0.2)	(137.1)	(151.6)
Net (withdrawals) / additions from dealings with members		(105.6)	0.6	(1.8)	0.1	(106.7)	(114.6)
Returns on investments							
Investment income	8	42.6	0.7	1.4	-	44.7	38.7
Change in market value of investments	9	88.7	3.6	(1.1)	1.6	92.8	100.8
Investment management expenses	10	(1.1)	-	-	-	(1.1)	(2.1)
Taxes on investment income	11	0.9	-	-	-	0.9	0.6
Net returns on investments		131.1	4.3	0.3	1.6	137.3	138.0
Net increase / (decrease) in the fund		25.5	4.9	(1.5)	1.7	30.6	23.4
Opening net assets		3,263.3	78.1	70.4	10.7	3,422.5	3,399.1
Closing net assets		3,288.8	83.0	68.9	12.4	3,453.1	3,422.5

The accompanying notes on pages 31 to 57 form an integral part of these financial statements.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

Statement of Net Assets Available for Benefits as at 31 March 2021

	Note	SLC Section 2021 £ million	CN Section 2021 £ million	Atkins Section 2021 £ million	NNL Section 2021 £ million	Total 2021 £ million	Total 2020 £ million
Investment assets							
Equities	9	-	-	-	1.2	1.2	30.3
Bonds	9	182.1	-	-	1.2	183.3	65.2
Property loan assets	9	160.5	-	-	-	160.5	142.4
Pooled investment vehicles	12	2,893.7	81.5	26.8	9.4	3,011.4	3,115.4
Derivatives	13	9.3	-	-	-	9.3	-
Insurance policies	14	-	-	41.6	-	41.6	42.2
AVC investments	15	13.0	0.8	0.4	0.1	14.3	14.6
Cash	16	32.1	-	-	0.3	32.4	4.0
Other investment balances	16	3.2	-	-	-	3.2	1.9
		<u>3,293.9</u>	<u>82.3</u>	<u>68.8</u>	<u>12.2</u>	<u>3,457.2</u>	<u>3,416.0</u>
Investment liabilities							
Derivatives	13	(7.8)	-	-	-	(7.8)	(2.7)
Other investment balances	16	(0.2)	-	-	-	(0.2)	(0.4)
		<u>(8.0)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8.0)</u>	<u>(3.1)</u>
Total net investments		<u>3,285.9</u>	<u>82.3</u>	<u>68.8</u>	<u>12.2</u>	<u>3,449.2</u>	<u>3,412.9</u>
Current assets	21	4.2	0.8	0.1	0.2	5.3	11.2
Current liabilities	22	(1.3)	(0.1)	-	-	(1.4)	(1.6)
Total net assets available for benefits		<u>3,288.8</u>	<u>83.0</u>	<u>68.9</u>	<u>12.4</u>	<u>3,453.1</u>	<u>3,422.5</u>

The financial statements summarise the transactions of the Group and deal with the net assets at the disposal of the Group Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Group year. The actuarial position of the Group, which takes into account such obligations, is dealt with in the Report on Actuarial Liabilities included within this Annual Report on pages 23 to 25, and these financial statements should be read in conjunction with this report.

20 September 2021

The financial statements on pages 29 to 57 were approved by the Group Trustees on _____.

Signed on behalf of the Group Trustees:

Group Trustee



Group Trustee



**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements**

Notes to the financial statements

1. Basis of preparation

The individual financial statements of Magnox Electric Group of the Electricity Supply Pension Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (Revised June 2018) ("the SORP").

2. Identification of the financial statements

The Magnox Electric Group of the Electricity Supply Pension Scheme is established as a trust under English law. The Electricity Supply Pension Scheme is a registered pension scheme under Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by the Employers are normally eligible for tax relief and income and capital gains earned by the Group are generally tax exempt. The address for enquiries to the Group relating to specific benefit entitlements is RPMI Limited, 2 Rye Hill Office Park, Birmingham Road, Coventry, CV5 9AB. The address of the Scheme's principal office is C/O Capita – ESPS Team, Highdown House, Yeoman Way, Worthing West Sussex BN99 3HH.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

3. Comparative disclosures for the Fund Account and Statement of Net Assets Available for Benefits

Fund Account for the year to 31 March 2020

	Note	SLC Section 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	Total 2020 £ million
Additions from dealings with members						
Employer contributions	5	34.9	1.4	0.1	0.4	36.8
Employee contributions	5	0.2	-	-	-	0.2
		<u>35.1</u>	<u>1.4</u>	<u>0.1</u>	<u>0.4</u>	<u>37.0</u>
Withdrawals from dealings with members						
Benefits paid or payable	6	(121.9)	(1.0)	(1.1)	(0.6)	(124.6)
Payments to and on account of leavers	7	(22.9)	-	(4.1)	-	(27.0)
		<u>(144.8)</u>	<u>(1.0)</u>	<u>(5.2)</u>	<u>(0.6)</u>	<u>(151.6)</u>
Net (withdrawals) / additions from dealings with members		<u>(109.7)</u>	<u>0.4</u>	<u>(5.1)</u>	<u>(0.2)</u>	<u>(114.6)</u>
Returns on investments						
Investment income	8	36.6	0.8	1.3	-	38.7
Change in market value of investments	9	98.8	(0.1)	2.0	0.1	100.8
Investment management expenses	10	(2.0)	(0.1)	-	-	(2.1)
Taxes on investment income	11	0.6	-	-	-	0.6
Net returns on investments		<u>134.0</u>	<u>0.6</u>	<u>3.3</u>	<u>0.1</u>	<u>138.0</u>
Net increase / (decrease) in the fund		<u>24.3</u>	<u>1.0</u>	<u>(1.8)</u>	<u>(0.1)</u>	<u>23.4</u>
Opening net assets		<u>3,239.0</u>	<u>77.1</u>	<u>72.2</u>	<u>10.8</u>	<u>3,399.1</u>
Closing net assets		<u><u>3,263.3</u></u>	<u><u>78.1</u></u>	<u><u>70.4</u></u>	<u><u>10.7</u></u>	<u><u>3,422.5</u></u>

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

Statement of Net Assets Available for Benefits as at 31 March 2020

	Note	SLC Section 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	Total 2020 £ million
Investment assets						
Equities	9	29.7	-	-	0.6	30.3
Bonds	9	63.9	-	-	1.3	65.2
Property loan assets	9	142.4	-	-	-	142.4
Pooled investment vehicles	12	3,001.8	77.3	27.7	8.6	3,115.4
Derivatives	13	-	-	-	-	-
Insurance policies	14	-	-	42.2	-	42.2
AVC investments	15	13.4	0.7	0.4	0.1	14.6
Cash	16	3.8	-	-	0.2	4.0
Other investment balances	16	1.9	-	-	-	1.9
		<u>3,256.9</u>	<u>78.0</u>	<u>70.3</u>	<u>10.8</u>	<u>3,416.0</u>
Investment liabilities						
Derivatives	13	(2.6)	-	-	(0.1)	(2.7)
Other investment balances	16	(0.3)	(0.1)	-	-	(0.4)
		<u>(2.9)</u>	<u>(0.1)</u>	<u>-</u>	<u>(0.1)</u>	<u>(3.1)</u>
Total net investments		<u>3,254.0</u>	<u>77.9</u>	<u>70.3</u>	<u>10.7</u>	<u>3,412.9</u>
Current assets	21	10.9	0.2	0.1	-	11.2
Current liabilities	22	(1.6)	-	-	-	(1.6)
Total net assets available for benefits		<u>3,263.3</u>	<u>78.1</u>	<u>70.4</u>	<u>10.7</u>	<u>3,422.5</u>

4. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Annual Report and Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Currency

The Group's functional currency and presentational currency is pounds sterling (GBP).

Assets and liabilities in foreign currency are expressed in sterling at the rates of exchange ruling at the year end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction.

Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

Contributions

Normal and additional voluntary contributions, both from employees and employers, are generally accounted for on an accruals basis in the payroll period to which they relate. In the case of employee contributions this is when they are deducted from pay.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements**

Employers' augmentation contributions, Rule 29 and Supplementary contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of such agreement, when received.

Employers' deficit funding contributions are accounted for on the due dates set out in the Schedules of Contributions, or on receipt if earlier, with the agreement of the Employer and Group Trustees.

Transfers to and from the Group

Transfer values represent the capital sums either receivable in respect of members from other pension plans of previous employers or payable to the pension plans of new employers for members who have left the Group. They are accounted for on an accruals basis on the date the trustees of the receiving plan accept the liability. In the case of individual transfers, this is normally when payment of the transfer value is made.

Benefits and payments to and on account of leavers

Pensions in payment are accounted for in the period to which they relate.

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later date of retirement and the date the option is exercised.

Other benefits are accounted for on an accruals basis on the date of retirement or death as appropriate. Refunds are accounted for when the Group Trustees are notified of the members' decision to leave the Group.

Where the Group Trustees agree or are required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Group, any tax liability due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within Benefits.

Investment income and expenditure

Income from equities, and any pooled investment vehicles which distribute income, is accounted for on an accruals basis on the date stocks are quoted ex-dividend, or in the case of unquoted instruments, when the dividend is declared.

Income from bonds is accounted for on an accruals basis and includes income bought and sold on purchases and sales of bonds. Other interest on cash and short term deposits and income from other investments are accounted for on an accruals basis.

Investment income includes withholding taxes. Withholding taxes is accrued on the same basis as investment income. Where withholding tax is not recoverable, this is shown as a separate expense.

Income arising from annuity policies is included in investment income on an accruals basis.

The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements**

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Group such as fees, commissions, stamp duty and other fees. Other investment management expenses are accounted for on an accruals basis and shown separately within investment returns.

Valuation and classification of investments

Investment assets and liabilities are included in the Financial Statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price or most recent transaction price is used.

Where quoted and other unit prices are not available, the Group Trustees adopt valuation techniques appropriate to the class of investment. Details of the valuation techniques and principal assumptions are given in the Notes to the Financial Statements where used.

The methods of determining fair value for the principal classes of investments are:

- Equities, bonds and certain pooled investment vehicles, which are traded on an active market, are included at the quoted price, which is normally the bid price;
- Unitised pooled investment vehicles, which are not traded on an active market, but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the last price provided by the manager at or before the year end;
- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Group Trustees. Where the value of the pooled investment vehicle is primarily driven by fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustments are made;
- Forward foreign exchange contracts (FFX) are valued at the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- Annuity (insurance) policies are valued by the Group Actuary at the amount of the related obligation, determined using the most recent Group funding valuation assumptions updated for market conditions at the reporting date.

Accrued interest is excluded from the market value of bonds, but is included in investment income receivable.

Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting judgements

The Group Trustees have not had to make any critical judgements in applying the accounting policies.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements**

Key accounting estimates and assumptions

The Group Trustees make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. For the Group, the Group Trustees believe the only estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are related to the valuation of the Group's investments and, in particular, those classified in Level 3 of the fair-value hierarchy on pages 48 and 49.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

5. Contributions

	SLC Section 2021 £ million	CN Section 2021 £ million	Atkins Section 2021 £ million	NNL Section 2021 £ million	Total 2021 £ million
Employers:					
- Normal ¹	22.1	1.5	0.1	0.1	23.8
- Deficit funding ²	-	-	-	0.2	0.2
- Augmentations (Contractual early retirements)	2.5	0.4	-	-	2.9
- Supplementary pensions funding ³	1.1	0.1	-	-	1.2
- Other					
- Rule 29	0.8	0.1	-	-	0.9
- Salary sacrifice AVC	1.2	-	-	-	1.2
Employees:					
- AVCs	0.1	0.1	-	-	0.2
	<u>27.8</u>	<u>2.2</u>	<u>0.1</u>	<u>0.3</u>	<u>30.4</u>

	SLC Section 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	Total 2020 £ million
Employers:					
- Normal ¹	23.9	1.4	0.1	0.2	25.6
- Deficit funding ²	-	-	-	0.2	0.2
- Augmentations (Contractual early retirements)	6.9	-	-	-	6.9
- Supplementary pensions funding ³	1.7	-	-	-	1.7
- Other					
- Rule 29	1.3	-	-	-	1.3
- Salary sacrifice AVC	1.1	-	-	-	1.1
Employees:					
- AVCs	0.2	-	-	-	0.2
	<u>35.1</u>	<u>1.4</u>	<u>0.1</u>	<u>0.4</u>	<u>37.0</u>

¹ Included within Normal Employers are contributions that were met by the employer rather than the employees under the salary sacrifice arrangement. The salary sacrifice contributions for the SLC Section were £3.3 million (2020: £3.6 million), and for the Cavendish Nuclear Section £0.1 million (2020: £0.2 million).

² Deficit funding contributions are being paid for the NNL Section as a result of the funding deficit declared in the Actuarial Valuation under the terms of the agreement between the Employer and the Group Actuary. £200,000 was received in the years to 31 March 2021 and 31 March 2020 and this amount will continue to be paid by each 31 March to 31 March 2022, with £150,000 due by 31 March 2023.

³ Supplementary pensions funding represents Employer contributions payable to meet contractual additional benefits on early retirement including Rule 32 payments (grant of special terms).

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

6. Benefits paid or payable

	SLC Section 2021 £ million	CN Section 2021 £ million	Atkins Section 2021 £ million	NNL Section 2021 £ million	Total 2021 £ million
Pensions	110.5	0.9	1.0	0.2	112.6
Lump sum retirement benefits and commutations	7.3	0.7	0.2	-	8.2
Purchase of annuities on retirement (AVCs)	1.2	-	-	-	1.2
Lump sum death benefits (in service)	0.2	-	-	-	0.2
Taxation where lifetime or annual allowance exceeded	0.2	-	-	-	0.2
	<u>119.4</u>	<u>1.6</u>	<u>1.2</u>	<u>0.2</u>	<u>122.4</u>

	SLC Section 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	Total 2020 £ million
Pensions	108.9	0.8	1.0	0.2	110.9
Lump sum retirement benefits and commutations	11.2	0.2	-	0.3	11.7
Purchase of annuities on retirement (AVCs)	1.6	-	0.1	-	1.7
Lump sum death benefits (in service)	0.2	-	-	-	0.2
Taxation where lifetime or annual allowance exceeded	-	-	-	0.1	0.1
	<u>121.9</u>	<u>1.0</u>	<u>1.1</u>	<u>0.6</u>	<u>124.6</u>

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Group in exchange for the Group settling their tax liability.

7. Payments to and on account of leavers

	SLC Section 2021 £ million	CN Section 2021 £ million	Atkins Section 2021 £ million	NNL Section 2021 £ million	Total 2021 £ million
Transfer values paid to other pension schemes:					
- Individual transfers	13.3	-	0.7	-	14.0
- Individual transfers - AVCs	0.6	-	-	-	0.6
Intra-scheme transfers					
- Individual transfers	0.1	-	-	-	0.1
	<u>14.0</u>	<u>-</u>	<u>0.7</u>	<u>-</u>	<u>14.7</u>

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

	SLC Section 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	Total 2020 £ million
Transfer values paid to other pension schemes:					
- Individual transfers	22.0	-	4.1	-	26.1
- Individual transfers - AVCs	0.9	-	-	-	0.9
Intra-scheme transfers					
- Individual transfers	-	-	-	-	-
	<u>22.9</u>	<u>-</u>	<u>4.1</u>	<u>-</u>	<u>27.0</u>

8. Investment income

	SLC Section 2021 £ million	CN Section 2021 £ million	Atkins Section 2021 £ million	NNL Section 2021 £ million	Total 2021 £ million
Dividends from equities	0.4	-	-	-	0.4
Income from bonds	3.1	-	-	-	3.1
Income from property loan assets	5.5	-	-	-	5.5
Income from pooled investment vehicles	33.6	0.7	0.4	-	34.7
Income from insurance policies	-	-	1.0	-	1.0
Interest on cash deposits	-	-	-	-	-
Other	0.1	-	-	-	0.1
Net interest on swaps	(0.1)	-	-	-	(0.1)
	<u>42.6</u>	<u>0.7</u>	<u>1.4</u>	<u>-</u>	<u>44.7</u>

	SLC Section 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	Total 2020 £ million
Dividends from equities	2.4	-	-	-	2.4
Income from bonds	0.6	-	-	-	0.6
Income from property loan assets	5.0	-	-	-	5.0
Income from pooled investment vehicles	28.5	0.8	0.5	-	29.8
Income from insurance policies	-	-	0.8	-	0.8
Interest on cash deposits	0.1	-	-	-	0.1
Other	-	-	-	-	-
Net interest on swaps	-	-	-	-	-
	<u>36.6</u>	<u>0.8</u>	<u>1.3</u>	<u>-</u>	<u>38.7</u>

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

9. Reconciliation of net investments

Investment movements – SLC Section

	Value at 01.04.2020 £ million	Purchases at cost and derivative payments £ million	Sales proceeds and derivative receipts £ million	Change in market Value £ million	Value at 31.03.2021 £ million
Equities	29.7	21.9	(58.2)	6.6	-
Bonds	63.9	204.1	(76.5)	(9.4)	182.1
Property loan assets	142.4	41.8	(21.9)	(1.8)	160.5
Pooled investment vehicles	3,001.8	610.4	(800.9)	82.4	2,893.7
Derivatives – net	(2.6)	4.3	(9.4)	9.2	1.5
AVC investments	13.4	1.3	(1.8)	0.1	13.0
	<u>3,248.6</u>	<u>883.8</u>	<u>(968.7)</u>	<u>87.1</u>	<u>3,250.8</u>
Cash deposits	3.8				32.1
Other investment balances	1.6				3.0
Net investment assets	<u>3,254.0</u>				<u>3,285.9</u>

Change in market value – SLC Section

	2021 £ million	2020 £ million
Change in market value shown above	87.1	97.1
Exchange gains	1.6	1.7
Change in market value per fund account	<u>88.7</u>	<u>98.8</u>

Derivative investments include instruments often with a short duration that are traded regularly, principally forward currency exchange contracts. As a result the purchases and sales figures are large because they reflect the turnover of such transactions during the course of the year.

Investment transaction costs

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the reconciliation above. Direct transaction costs incurred are analysed as follows:

	Pooled investment vehicles £ million	Equities £ million	2021 £ million	2020 £ million
Fees	-	0.1	0.1	0.1
Commissions	-	-	-	-
Taxes	-	-	-	-
2021 total	<u>-</u>	<u>0.1</u>	<u>0.1</u>	
2020 total	<u>-</u>	<u>0.1</u>		<u>0.1</u>

In addition to the direct transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Group Trustees to quantify such indirect transaction costs.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

The funds in which the Group invests have different trading dates and some have notice periods which would have prevented the Group from realising these assets at the year-end date. Where the Group invests in limited partnerships it is not possible to 'trade' the holdings during the lifetime of the fund. However, the Group Trustees may transfer the interest to another party with the approval of the general partner. The transfer would typically be arranged via a competitive auction process with the interest being transferred to the investor(s) with the highest bid. Although there have been precedent competitive auctions for infrastructure assets where a sale price close to or even above the current valuation has been achieved, there is no guarantee that the Group will be able transfer its limited partner interests or achieve an attractive sale price at auction.

Investment movements – Cavendish Nuclear Section

	Value at 01.04.2020 £ million	Purchases at cost £ million	Sales proceeds £ million	Change in market value £ million	Value at 31.03.2021 £ million
Pooled investment vehicles	77.3	14.2	(13.6)	3.6	81.5
AVC investments	0.7	0.1	-	-	0.8
	<u>78.0</u>	<u>14.3</u>	<u>(13.6)</u>	<u>3.6</u>	<u>82.3</u>
Other investment balances	(0.1)				-
Net investment assets	<u>77.9</u>				<u>82.3</u>

Transaction costs incurred during the year amounted to £nil (2020: £nil). Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Group Trustees to quantify such indirect transaction costs.

Investment movements – Atkins Section

	Value at 01.04.2020 £ million	Purchases at cost and derivative payments £ million	Sales proceeds and derivative receipts £ million	Change in market value £ million	Value at 31.03.2021 £ million
Pooled investment vehicles	27.7	2.1	(3.1)	0.1	26.8
Insurance policies	42.2	0.6	-	(1.2)	41.6
AVC investments	0.4	-	-	-	0.4
Net investment assets	<u>70.3</u>	<u>2.7</u>	<u>(3.1)</u>	<u>(1.1)</u>	<u>68.8</u>

Transaction costs incurred during the year amounted to £nil (2020: £nil). Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Group Trustees to quantify such indirect transaction costs.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

Investment movements – NNL Section

	Value at 01.04.2020 £ million	Purchases at cost and derivative payments £ million	Sales proceeds and derivative receipts £ million	Change in market value £ million	Value at 31.03.2021 £ million
Equities	0.6	0.9	(0.6)	0.3	1.2
Bonds	1.3	0.4	(0.5)	-	1.2
Pooled investment vehicles	8.6	2.9	(3.2)	1.1	9.4
Derivatives – net	(0.1)	0.1	(0.1)	0.1	-
AVC investments	0.1	-	-	-	0.1
	<u>10.5</u>	<u>4.3</u>	<u>(4.4)</u>	<u>1.5</u>	<u>11.9</u>
Cash deposits	0.2				0.3
Net investment assets	<u>10.7</u>				<u>12.2</u>

Change in market value – NNL Section

	2021 £ million	2020 £ million
Change in market value shown above	1.5	0.1
Exchange gains	0.1	-
Change in market value per fund account	<u>1.6</u>	<u>0.1</u>

Transaction costs incurred during the year amounted to £nil (2020: £nil). Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Group Trustees to quantify such indirect transaction costs.

10. Investment management expenses

Investment management expenses for Group-specific funds, performance measurement services and investment-related fees of Group advisers, are the responsibility of the Group Trustees. The Scheme Trustee negotiates the custody fees which apply to all portfolios. Investment management and custody fees for Group-specific funds are shown below.

	SLC Section 2021 £ million	CN Section 2021 £ million	Atkins Section 2021 £ million	NNL Section 2021 £ million	Total 2021 £ million
Administration and management fees	0.3	-	-	-	0.3
Other advisory fees	0.8	-	-	-	0.8
	<u>1.1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1.1</u>

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

	<i>SLC</i>	<i>CN</i>	<i>Atkins</i>	<i>NNL</i>	
	<i>Section</i>	<i>Section</i>	<i>Section</i>	<i>Section</i>	<i>Total</i>
	<i>2020</i>	<i>2020</i>	<i>2020</i>	<i>2020</i>	<i>2020</i>
	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>
Administration and management fees	1.1	0.1	-	-	1.2
Other advisory fees	0.9	-	-	-	0.9
	<u>2.0</u>	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>2.1</u>

11. Taxation

The ESPS is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

12. Pooled investment vehicles

The **SLC Section's** investment in pooled investment vehicles at the year-end comprised:

	2021	2020
	£ million	£ million
Equities	-	14.6
Bonds	624.4	544.8
Property	324.6	225.0
Hedge funds	7.6	9.9
Diversified growth funds	-	102.7
Private equity	88.7	76.7
Infrastructure funds	304.1	312.1
Liability Driven Investments	1,324.2	1,413.3
Cash and other liquid assets	220.1	302.7
	<u>2,893.7</u>	<u>3,001.8</u>

At 31 March 2021 and 31 March 2020 the Section held a bespoke Liability Driven Investment (LDI) portfolio. The portfolio has been included above in pooled investment vehicles and is specifically tailored for the Section's individual requirements and there are no other investors.

The LDI portfolio has the following investments:

	2021	2020
	£ million	£ million
Bonds	1,522.4	1,494.5
Swaps – net	(34.7)	(36.3)
Repurchase agreements	(332.3)	(198.2)
Cash and other liquid assets	168.8	153.3
	<u>1,324.2</u>	<u>1,413.3</u>

No direct transaction costs (2020: £nil) were incurred during the year on the sole investor arrangement.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

The **Cavendish Nuclear Section's** investment in pooled investment vehicles at the year-end comprised:

	2021	2020
	£ million	£ million
Equities	9.5	8.2
Bonds	7.9	7.3
Diversified growth funds	8.7	7.1
Liability Driven Investments	54.7	53.9
Cash and other liquid assets	0.7	0.8
	<u>81.5</u>	<u>77.3</u>

The **Atkins Section's** investment in pooled investment vehicles at the year-end comprised:

	2021	2020
	£ million	£ million
Liability Driven Investments	<u>26.8</u>	<u>27.7</u>

The **NNL Section's** investment in pooled investment vehicles at the year-end comprised:

	2021	2020
	£ million	£ million
Equities	0.9	0.8
Diversified growth funds	3.7	3.0
Liability Driven Investments	4.2	4.1
Cash and other liquid assets	0.6	0.7
	<u>9.4</u>	<u>8.6</u>

13. Derivatives

Objectives and Policies

The Group Trustees have authorised the use of derivative financial instruments by their investment managers as part of their investment strategy as follows:

For the **SLC Section**, outstanding derivative financial instruments at 31 March 2021 and 31 March 2020 are summarised as follows:

	2021	2021	2021	2020	2020	2020
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£ million	£ million	£ million	£ million	£ million	£ million
Over-the-counter contracts						
Forward foreign currency	0.1	(0.7)	(0.6)	-	(2.6)	(2.6)
Swaps	9.2	(7.1)	2.1	-	-	-
	<u>9.3</u>	<u>(7.8)</u>	<u>1.5</u>	<u>-</u>	<u>(2.6)</u>	<u>(2.6)</u>

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

Further analysis of the holdings at 31 March 2021 and 31 March 2020 is as follows:

Forward foreign currency contracts – SLC Section

Type of contract	Currency	Currency Bought £ million	Currency Sold £ million	2021 Assets £ million	2021 Liabilities £ million
OTC traded – less than 1 month	GBP	26.6	EUR (26.5)	0.1	-
OTC traded – less than 1 month	GBP	82.7	USD (83.4)	-	(0.7)
		<u>109.3</u>	<u>(109.9)</u>	<u>0.1</u>	<u>(0.7)</u>

Forward foreign currency contracts – SLC Section

Type of contract	Currency	Currency Bought £ million	Currency Sold £ million	2020 Assets £ million	2020 Liabilities £ million
OTC traded – 1 to 3 months	USD	2.0	GBP (2.0)	-	-
OTC traded – 1 to 3 months	GBP	50.4	USD (53.0)	-	(2.6)
		<u>52.4</u>	<u>(55.0)</u>	<u>-</u>	<u>(2.6)</u>

Swaps – SLC Section

Type of contract	Duration Years	Nominal amount £million	2021 Assets £ million	2021 Liabilities £ million
Interest Rate Swap	1-5 years	55.1	0.4	(0.4)
Interest Rate Swap	6-15 years	146.4	4.4	(3.8)
Interest Rate Swap	>15 years	51.5	4.4	(2.9)
			<u>9.2</u>	<u>(7.1)</u>

Collateral of £1.0 million (2020: £nil) is pledged for the unrealised gain on swaps and is included in the Section's assets.

For the **NNL Section**, outstanding derivative financial instruments at 31 March 2021 and 31 March 2020 are summarised as follows:

	2021 Assets £ million	2021 Liabilities £ million	2021 Total £ million	2020 Assets £ million	2020 Liabilities £ million	2020 Total £ million
Over-the-counter contracts						
Forward foreign currency	-	-	-	-	(0.1)	(0.1)

Further analysis of the holdings at 31 March 2021 and 31 March 2020 is as follows:

Forward foreign currency contracts – NNL Section

Type of contract	Currency	Currency Bought £ million	Currency Sold £ million	2021 Assets £ million	2021 Liabilities £ million
OTC traded – 1 to 3 months	GBP	0.2	JPY (0.2)	-	-
OTC traded – 1 to 3 months	USD	0.1	GBP (0.1)	-	-
OTC traded – 1 to 3 months	GBP	1.0	USD (1.0)	-	-
		<u>1.3</u>	<u>(1.3)</u>	<u>-</u>	<u>-</u>

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

Forward foreign currency contracts – NNL Section

Type of contract	Currency	Currency Bought £ million	Currency	Currency Sold £ million	2020 Assets £ million	2020 Liabilities £ million
OTC traded – 1 to 3 months	USD	0.1	GBP	(0.1)	-	-
OTC traded – 1 to 3 months	GBP	1.1	USD	(1.2)	-	(0.1)
		<u>1.2</u>		<u>(1.3)</u>	<u>-</u>	<u>(0.1)</u>

14. Insurance Policies – annuities

The Group Trustees hold an insurance policy with Canada Life in relation to specified beneficiaries of the Atkins Section. This policy is an asset of the Group Trustees and not a policy assigned for the benefit of the individuals it relates to, and is included within the Statement of Net Assets Available for Benefits at £41.6 million (2020: £42.2 million).

The significant actuarial assumptions underlying the current valuation calculation are in line with those set out in the Report on Actuarial Liabilities on pages 23 to 25 based on market conditions as at 31 March 2021.

15. AVC investments

The number of AVC accounts (including "frozen" accounts) for the **SLC Section** as at 31 March 2021 was 376 (2020: 409). In some cases members may have two or more accounts.

The aggregate values of AVC investments held in pooled investment vehicles are as follows:

	2021 £ million	2020 £ million
Utmost Life and Pensions Limited	0.2	0.1
Prudential Assurance Society	<u>12.8</u>	<u>13.3</u>
	<u>13.0</u>	<u>13.4</u>

The number of AVC accounts (including "frozen" accounts) for the **Cavendish Nuclear Section** as at 31 March 2021 was 13 (2020: 13). In some cases members may have two or more accounts.

The aggregate values of AVC investments held in pooled investment vehicles are as follows:

	2021 £ million	2020 £ million
Prudential Assurance Society	<u>0.8</u>	<u>0.7</u>

The number of AVC accounts (including "frozen" accounts) for the **Atkins Section** as at 31 March 2021 was 2 (2020: 3). In some cases members may have two or more accounts.

The aggregate values of AVC investments held in pooled investment vehicles are as follows:

	2021 £ million	2020 £ million
Prudential Assurance Society	<u>0.4</u>	<u>0.4</u>

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

The number of AVC accounts (including "frozen" accounts) for the **NNL Section** as at 31 March 2021 was 2 (2020: 2). In some cases members may have two or more accounts.

The aggregate values of AVC investments held in pooled investment vehicles are as follows:

	2021	2020
	£ million	£ million
Prudential Assurance Society	0.1	0.1

16. Cash and other investment balances

	SLC	CN	Atkins	NNL	Total
	Section	Section	Section	Section	2021
	2021	2021	2021	2021	2021
	£ million	£ million	£ million	£ million	£ million
Cash – sterling	32.2	-	-	0.3	32.5
Cash – foreign currency	(0.1)	-	-	-	(0.1)
Accrued interest and dividends	2.5	-	-	-	2.5
Recoverable income tax	-	-	-	-	-
Rebates receivable	-	-	-	-	-
Amounts receivable from sale of investments	0.7	-	-	-	0.7
Other creditors	(0.2)	-	-	-	(0.2)
	35.1	-	-	0.3	35.4

	SLC	CN	Atkins	NNL	Total
	Section	Section	Section	Section	2020
	2020	2020	2020	2020	2020
	£ million	£ million	£ million	£ million	£ million
Cash – sterling	3.8	-	-	0.2	4.0
Cash – foreign currency	-	-	-	-	-
Accrued interest and dividends	0.3	-	-	-	0.3
Recoverable income tax	0.3	-	-	-	0.3
Rebates receivable	0.1	-	-	-	0.1
Amounts receivable from sale of investments	1.2	-	-	-	1.2
Other creditors	(0.3)	(0.1)	-	-	(0.4)
	5.4	(0.1)	-	0.2	5.5

17. Fair value of investments

The fair value of investments has been determined using the following hierarchy:

- Level 1: Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date.
- Level 2: Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly.
- Level 3: Inputs are unobservable.

Where multiple inputs are involved in determining the fair value of an instrument, the categorisation is based on the lowest level input (i.e. highest number) that is significant.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

Pooled investment vehicles which are traded regularly are generally included in level 2. Where the absence of regular trading or the unsuitability of recent transaction prices as a proxy for fair values applies, valuation techniques are adopted and the vehicles are included in level 3 as appropriate.

The value of other pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Group Trustees after taking advice from their advisers. Where the value of the pooled investment vehicle is primarily driven by fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustments are made. No such adjustments have been made to the valuations at 31 March 2021 or 31 March 2020.

The **SLC Section's** investment assets and liabilities have been included at fair value within the categories as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2021 Total £ million
Investment assets				
Equities	-	-	-	-
Bonds	-	182.1	-	182.1
Property loan assets	-	-	160.5	160.5
Pooled investment vehicles	-	2,126.2	767.5	2,893.7
Derivatives	-	9.3	-	9.3
AVC investments	-	13.0	-	13.0
Cash	25.8	6.3	-	32.1
Other investment balances	3.2	-	-	3.2
Investment liabilities				
Derivatives	-	(7.8)	-	(7.8)
Other investment balances	(0.2)	-	-	(0.2)
	28.8	2,329.1	928.0	3,285.9

Analysis for the prior year end is as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2020 Total £ million
Investment assets				
Equities	29.7	-	-	29.7
Bonds	63.9	-	-	63.9
Property loan assets	-	-	142.4	142.4
Pooled investment vehicles	-	2,378.1	623.7	3,001.8
Derivatives	-	-	-	-
AVC investments	-	13.4	-	13.4
Cash	0.7	3.1	-	3.8
Other investment balances	1.9	-	-	1.9
Investment liabilities				
Derivatives	-	(2.6)	-	(2.6)
Other investment balances	(0.3)	-	-	(0.3)
	95.9	2,392.0	766.1	3,254.0

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

The **Cavendish Nuclear Section's** investment assets and liabilities have been included at fair value within the categories as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2021 Total £ million
Investment assets				
Pooled investment vehicles	-	81.5	-	81.5
AVC investments	-	0.8	-	0.8
Investment liabilities				
Other investment balances	-	-	-	-
	-	82.3	-	82.3

Analysis for the prior year end is as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2020 Total £ million
Investment assets				
Pooled investment vehicles	-	77.3	-	77.3
AVC investments	-	0.7	-	0.7
Investment liabilities				
Other investment balances	(0.1)	-	-	(0.1)
	(0.1)	78.0	-	77.9

The **Atkins Section's** investment assets and liabilities have been included at fair value within the categories as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2021 Total £ million
Investment assets				
Pooled investment vehicles	-	26.8	-	26.8
Insurance policies	-	-	41.6	41.6
AVC investments	-	0.4	-	0.4
	-	27.2	41.6	68.8

Analysis for the prior year end is as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2020 Total £ million
Investment assets				
Pooled investment vehicles	-	27.7	-	27.7
Insurance policies	-	-	42.2	42.2
AVC investments	-	0.4	-	0.4
	-	28.1	42.2	70.3

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

The **NNL Section's** investment assets and liabilities have been included at fair value within the categories as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2021 Total £ million
Investment assets				
Equities	1.2	-	-	1.2
Bonds	1.2	-	-	1.2
Pooled investment vehicles	-	9.4	-	9.4
AVC investments	-	0.1	-	0.1
Cash	-	0.3	-	0.3
Investment liabilities				
Derivatives	-	-	-	-
	2.4	9.8	-	12.2

Analysis for the prior year end is as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2020 Total £ million
Investment assets				
Equities	0.6	-	-	0.6
Bonds	1.3	-	-	1.3
Pooled investment vehicles	-	8.6	-	8.6
AVC investments	-	0.1	-	0.1
Cash	-	0.2	-	0.2
Investment liabilities				
Derivatives	-	(0.1)	-	(0.1)
	1.9	8.8	-	10.7

18. Investment risks

Financial Reporting Standards (FRS) 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

- Credit risk: this 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.
- Market risk: this is the risk that the fair value of future cashflows of a financial investment will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk as follows:
 - Currency risk: this is risk that fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates;
 - 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; and
 - 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.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

The Group Trustees determine the investment strategy of each Section after taking advice from a professional investment adviser. The Group has exposure to these risks because of the investments it makes in following the investment strategies set out in this note. The Group Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which take into account each of the Sections' strategic investment objectives. The investment objectives and risk limits of each Section are implemented through the investment agreements in place with the investment managers and monitored by the Group Trustees by regular reviews of the investment portfolio.

Further information on the Group Trustees' approach to risk management, credit and market risk is later in this section of the Financial Statements. This section of the Financial Statements does not include the AVC investments as these are not considered significant to the overall investments of the Group, or the insurance policies.

The following table summarises the extent to which the Group's various classes of investments are affected by financial risk (based on 31 March 2021 asset position):

	Credit risk	Market risk			2021 £million	2020 £million
		Currency	Interest rate	Other price		
Equities	○	○	○	●	1.2	30.3
Bonds	●	○	●	○	183.3	65.2
Pooled investment vehicles	●	○	●	●	3,011.4	3,115.4
Property loan assets	●	○	○	●	160.5	142.4
Other investment types	●	○	●	○	36.9	2.8
Total					3,393.3	3,356.1

In the above table, the risk noted affects the asset class [●] significantly, [○] partially or [○] hardly/not at all.

Investment Strategies

The Group Trustees aim to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due.

The Group Trustees set Section specific investment strategies taking into account considerations such as the strength of the Employer covenant, the long-term liabilities and the funding agreed with the Employer. The investment strategy of each Section is set out in a Statement of Investment Principles (SIP).

A broad summary of the investment strategy of each Section as at 31 March 2021 is below:

SLC Section

The strategy aims to protect against certain levels of risk and still provide additional returns to reduce the overall cost of pension provision. The target hedge ratios are 85% of liability interest rate risk and 85% of liability inflation risk (on a gilts +0.5% basis). The Section holds sufficient investments that move in line with the long-term liabilities to maintain the target hedge ratios. These investments include buy & maintain corporate bonds as well as LDI comprising: UK government bonds, interest rate swaps, inflation swaps, repurchase agreements and cash, the purpose of which is to hedge against the impact interest rates and inflation have on the movement of the liabilities.

The remainder of the assets are invested to provide an expected return above the liabilities over the long term. As at 31 March 2021 the return seeking assets accounted for 54% (2020: 53%) of the overall portfolio.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

Cavendish Nuclear Section

The strategy aims to protect against certain levels of risk and still provide additional returns to reduce the overall cost of pension provision. The target hedge ratios are 90% of liability interest rate risk and 90% of liability inflation risk (on a gilts +0% basis). The Section holds sufficient investments that move in line with the long-term liabilities to maintain these target hedge ratios. The investments are referred to as LDI and comprise UK government, repurchase agreements and cash, the purpose of which is to hedge against the impact interest rates and inflation have on the movement of the liabilities.

The remainder of the assets are invested to provide an expected return above the liabilities over the long term. As at 31 March 2021 the return seeking assets accounted for 32% (2020: 29%) of the overall portfolio.

Atkins Section

The assets are entirely held in investments that move in line with the long-term liabilities of the Section. The annuity with Canada Life provides a perfect match to the liabilities of the members it insures and the liabilities of the non-insured members are matched using LDI via UK government bonds, repurchase agreements and cash. The purpose of the LDI investments is to hedge against the impact interest rates and inflation have on the movement of the non-insured liabilities. The target hedge ratios are 100% of non-insured liability interest rate risk and 100% of non-insured liability inflation risk (on a gilts +0% basis).

National Nuclear Laboratory Section

The strategy aims to protect against certain levels of risk and still provide additional returns to reduce the overall cost of pension provision. The Section holds sufficient investments that move in line with the long-term liabilities to minimise the impact interest rates and inflation have on the Technical Provisions funding level. The investments are referred to as LDI and comprise UK government bonds, repurchase agreements and cash.

The remainder of the assets are invested to provide an expected return above the liabilities over the long term. As at 31 March 2021 the return seeking assets accounted for 64% (2020: 60%) of the overall portfolio.

Credit Risk

The Group is subject to credit risk because the Group directly invests in bonds and has cash balances. The Group also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the pooled investment vehicles. The Group is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles.

Credit risk arising on bonds held directly is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. The Group's mandate with Ruffer enables sub-investment grade bonds to be held. The Group Trustees consider financial instruments or counterparties to be of investment grade if they are rated BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

Credit risk arising from derivatives depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Group is subject to risk of failure of the counterparty. This risk is mitigated by the arrangements both the Group and its counterparties have in place where collateral is posted to reduce the impact of any counterparty defaulting on their obligations under the derivative contracts held. The Group's LDI manager, BMO, has an explicit mandate outlining the permitted instruments and maximum exposure to any single counterparty. Furthermore, BMO only trade with counterparties that have been approved by its Counterparty Credit Committee.

Cash is held within financial institutions which are at least investment grade credit rated.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of the investments amongst a number of pooled arrangements. The Group Trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the operating environment of the pooled manager. A summary of pooled investment vehicles by type of arrangement is as follows:

Type of arrangement	2021 £ million	2020 £ million
Authorised unit trusts	12.4	112.7
Open-ended investment companies	734.0	760.4
Shares of limited liability partnerships	504.4	345.7
Other*	1,760.6	1,896.6
Total	3,011.4	3,115.4

*The managers holding funds classed as others are listed below along with the type of arrangement:

- M&G – Irish Common Contractual Fund
- BMO - Luxembourg domiciled mutual investment umbrella fund
- Insight – Umbrella Irish collective asset-management vehicle
- Ruffer – Protection Strategies: Luxembourg domiciled specialised investment fund in corporate form (SICAV-FIS); Illiquid Multi Strategies: closed-ended investment company

Indirect credit risk arises in relation to underlying investments held in pooled investment vehicles such as credit, derivatives and repos. The Group Trustees mainly invest in government and investment grade credit but the Group's mandates with Insight, PIMCO, Barings, DRC, GAM, GreenOak, Longbow, Arcmont, Hayfin and Chorus enable sub-investment grade or unrated exposure. These risks are mitigated by the Group through having explicit mandates with investment managers and investing across a diverse range of managers, asset classes, regions and sectors.

Currency Risk

The Group is subject to currency risk because some of the Group's investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure).

The Group Trustees consider currency risk as part of the overall determination of the investment strategy, therefore no further mitigation is deemed necessary.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

Interest Rate Risk

The Group is subject to interest rate risk because some of the Group's investments are held in bonds (some of which funded through repurchase agreements) and interest rate swaps (either as segregated investments or through pooled investment vehicles), and cash. The Group Trustees have set specific target benchmarks for each Section in relation to the total investment in bonds and interest rate swaps in order to mitigate the interest rate risk relative to the liabilities. For each Section the target benchmark is defined as part of its LDI investment strategy in terms of the amount of liability interest rate and inflation risk being hedged.

Under an LDI strategy, if gilt yields fall, the value of the LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if gilt yields rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

The LDI assets as at 31 March 2021 targeted the same exposure to interest rates as:

- SLC Section: 85% of the liabilities (measured on a gilts +0.5% p.a. basis)
- Cavendish Nuclear Section: 90% of the liabilities (measured on a gilts +0% p.a. basis)
- Atkins Section: 100% of the liabilities (measured on a gilts +0% p.a. basis)
- For the NNL Section, it is not appropriate or proportionate to set up a precise target hedge given the size of the membership and the corresponding value of the assets. A broad hedge has been implemented to minimise the impact interest rates and inflation have on the Technical Provisions funding level, while still allowing the desired level of return to be targeted.

Other Price Risk

Other price risk arises principally in relation to supply and demand in the market place and risks specific to each particular asset class (such as changes in level of inflation for LDI). The Group Trustees manage this exposure to overall price risk for each Section by constructing a diverse portfolio of investments across various markets. The Group has target asset allocations for each Section in accordance with the investment strategies outlined earlier in the report.

19. Concentration of investments

Investments exceeding 5% of the value of the **SLC Section's** net assets as at 31 March 2021 or 31 March 2020 are detailed below:

Investment	2021		2020	
	£ million	%	£ million	%
BMO LDI Private Sub Fund	1,324.2	40.3	1,413.3	43.3
M&G Inflation Opportunities III Fund	247.1	7.5	238.4	7.3
PIMCO Global Diversified Income Fund	232.6	7.1	211.8	6.5
Barings Global Loan Fund	178.5	5.4	152.8	4.7

Note: Percentages calculated using full values rather than rounded amounts

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

Investments exceeding 5% of the value of the **Cavendish Nuclear Section's** net assets as at 31 March 2021 or 31 March 2020 are detailed below:

Investment	2021		2020	
	£ million	%	£ million	%
BMO Regular Profile Unleveraged Real Gilt Fund	28.6	34.5	30.7	39.3
BMO Regular Profile Leveraged Real Gilt Fund	16.6	20.0	10.8	13.8
CF Lindsell Train UK Equity	9.4	11.4	8.2	10.5
Schroder Life Diversified Growth Fund	8.7	10.5	7.1	9.0
PIMCO Global Libor Plus Fund	7.9	9.5	7.3	9.4
BMO Regular Profile Unleveraged Nominal Gilt Fund	6.7	8.1	5.7	7.3
BMO Sterling Liquidity Fund	-	-	4.2	5.4

Note: Percentages calculated using full values rather than rounded amounts

Investments exceeding 5% of the value of the **Atkins Section's** net assets as at 31 March 2021 or 31 March 2020 are detailed below:

Investment	2021		2020	
	£ million	%	£ million	%
Canada Life Insurance policy	41.6	60.4	42.2	59.9
BMO Regular Profile Unleveraged Real Gilt Fund	22.6	32.9	23.7	33.6

Note: Percentages calculated using full values rather than rounded amounts

Investments exceeding 5% of the value of the **NNL Section's** net assets as at 31 March 2021 or 31 March 2020 are detailed below:

Investment	2021		2020	
	£ million	%	£ million	%
Schroder Life Diversified Growth Fund	3.7	29.7	3.0	27.9
BMO Regular Profile Leveraged Real Gilt Fund	2.9	18.4	2.3	21.3
BMO Regular Profile Unleveraged Real Gilt Fund	1.0	8.3	-	-
BMO Short Profile Leveraged Real Gilt Fund	0.7	6.0	0.7	6.7
BMO Sterling Liquidity Fund	-	-	0.9	8.4

Note: Percentages calculated using full values rather than rounded amounts

20. Employer related investments

The Investment Regulations limits employer related investments by occupational pension schemes. These investments include shares, loan stocks, debentures and other securities issued by the employers participating in the scheme and their associated companies, together with loans made to the employers, and any properties or land owned by the scheme and occupied by the employers.

The Group's assets had no exposure (2020: 0.004% of the Schroders fund's assets) to the employers participating in the Group and their associated companies as at 31 March 2021. The proportion of Group assets in employer-related investments therefore does not exceed 5% of the market value of the Group assets as at 31 March 2021, and these investments therefore comply with legislative requirements.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements

21. Current assets

	SLC Section 2021 £ million	CN Section 2021 £ million	Atkins Section 2021 £ million	NNL Section 2021 £ million	Total 2021 £ million
Contributions due in respect of:					
Employers	1.9	0.6	-	-	2.5
Cash balances	2.3	0.2	0.1	0.2	2.8
	<u>4.2</u>	<u>0.8</u>	<u>0.1</u>	<u>0.2</u>	<u>5.3</u>

	SLC Section 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	Total 2020 £ million
Contributions due in respect of:					
Employers	4.1	-	-	-	4.1
Cash balances	6.8	0.2	0.1	-	7.1
	<u>10.9</u>	<u>0.2</u>	<u>0.1</u>	<u>-</u>	<u>11.2</u>

All contributions due to the Group at 31 March 2021 and 31 March 2020 relate to March 2021 and March 2020 respectively and were subsequently paid in full to the Group in accordance with the Schedule of Contributions.

22. Current liabilities

	SLC Section 2021 £ million	CN Section 2021 £ million	Atkins Section 2021 £ million	NNL Section 2021 £ million	Total 2021 £ million
Benefits payable	<u>(1.3)</u>	<u>(0.1)</u>	<u>-</u>	<u>-</u>	<u>(1.4)</u>

	SLC Section 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	Total 2020 £ million
Benefits payable	<u>(1.6)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1.6)</u>

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Financial Statements**

23. Related party transactions

Related party transactions and balances comprise:

Key management personnel

Contributions and contributions receivable in respect of two of the Group Trustees and pensions paid in respect of four of the Group Trustees.

Fees of £112,274 (2020: £105,452) were paid to certain Group Trustees in the year by the Employers.

Employer and other related parties

All administrative expenses of the Group incurred during the years to 31 March 2021 and 31 March 2020, and not directly related to the management of the investment portfolios, were paid by the Employers.

24. Contingencies and commitments

The Group has £510 million (2020: £560 million) of funds committed to seven (2020: seven) investment managers - GAM International Management Limited (formerly Renshaw Bay LLP), GreenOak Real Estate Advisors LLP, DRC Capital LLP, Invesco Asset Management, BlueBay Asset Management LLP, Hayfin Capital Management LLP and Chorus Capital Management Ltd. As at 31 March 2021, approximately £181.3 million (2020: £290.7 million) is yet to be drawn down and represents a capital commitment at that date.

The Group has undertaken a process of assessing the overall impact of the October 2018 ruling regarding GMP Equalisation and based on an initial assessment by the actuary, an estimate of 0.2% of liabilities on a technical provisions basis has been determined for the full liability. The Group Trustees have not included a liability in respect of these matters in these Financial Statements. They will be accounted for in the year they are determined.

On 20 November 2020, the High Court handed down a further judgment on the GMP equalisation case in relation to the Lloyds Banking group pension schemes. This follows from the original judgement in October 2018. This latest judgment confirms that defined benefit schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Group has historical transfers which may be subject to adjustment as a result of this second ruling. The Group Trustees will be considering this at a future meeting and decisions will be made as to the next steps. Any adjustments necessary will be recognised in the Financial Statements in future years. At the date of signing these Financial Statements, it is not possible to estimate the value of any such adjustments at this time.

In the opinion of the Group Trustees, other than the matters detailed above, the Group had no contingent liabilities or contractual commitments entered into which are not provided for in these Financial Statements.

25. Subsequent events

There were no subsequent events requiring disclosure in the financial statements.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices

Appendix 1 – Analysis of Membership Statistics by Section

Site Licence Company Section

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
At 1 April 2020	1,124	5,514	1,384	1,104	9,126
Adjustments	-	1	-	-	1
As at 1 April 2020 (revised)	1,124	5,515	1,384	1,104	9,127
Increases					
Contributors/pensioners/dependants/deferred pensioners	-	101	105	37	243
Pensions sharing orders and new EPB pensioners in payment	-	-	-	-	-
Sub Total	-	101	105	37	243
Reductions					
Contributors / deferred pensioners retiring	(42)	-	-	(59)	(101)
Deaths	(1)	(178)	(81)	-	(260)
Leavers with deferred pensions	(37)	-	-	-	(37)
Leavers with refunds of contributions/transfers to other schemes/cessation of child allowances	-	-	(1)	(21)	(22)
Sub Total	(80)	(178)	(82)	(80)	(420)
At 31 March 2021	1,044	5,438	1,407	1,061	8,950

Cavendish Nuclear Section

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
At 1 April 2020	54	35	1	39	129
Increases					
Contributors/pensioners/dependants/deferred pensioners	-	4	-	1	5
Sub Total	-	4	-	1	5
Reductions					
Contributors / deferred pensioners retiring	(4)	-	-	-	(4)
Leavers with deferred pensions	(1)	-	-	-	(1)
Sub Total	(5)	-	-	-	(5)
At 31 March 2021	49	39	1	40	129

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices

Atkins Section

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
At 1 April 2020	2	25	-	16	43
Increases					
Contributors/pensioners/dependants/deferred pensioners	-	1	-	-	1
Sub Total	-	1	-	-	1
Reductions					
Contributors / deferred pensioners retiring	-	-	-	(1)	(1)
Leavers with refunds of contributions/transfers to other schemes/cessation of child allowances	-	-	-	(1)	(1)
Sub Total	-	-	-	(2)	(2)
At 31 March 2021	2	26	-	14	42

National Nuclear Laboratories Section

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
At 1 April 2020	4	6	1	2	13
At 31 March 2021	4	6	1	2	13

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices

Appendix 2 – Glossary of Terms

Listed below are brief explanations of terms used within the Report & Financial Statements that may not be familiar to all members.

Pension glossary	
Bulk transfers	The transfer of a number of members from one occupational pension scheme to another or from one Group of the ESPS to another. Generally this will occur if there has been a merger, sale or purchase of a business and the new Employer wishes to amalgamate pension arrangements.
Commutation	The exchange of expected pension benefits for a cash lump sum.
Deficit repair payments	A single payment or a series of payments made by the Employer in order to make good the actuarial shortfall caused by projected pension liabilities being in excess of assets.
Discontinuance funding ratio	This shows the Actuary's estimate of the proportion which the value of the Group's assets represent of the costs of buying out the accrued benefits with an insurance company.
Money Purchase basis	The calculation of an individual member's benefits by reference to the value of the contributions paid into a pension scheme in respect of that member.
Rule 32 Payment	The payment of special contributions (whether in relation to benefits, contributions or otherwise) by the [Principal] Employer, without limitation, in respect of Back Service Credits and/or Added Years to or in respect of one or more individuals (excluding Enhanced Protection Members).
State Second Pension	Additional pension benefits purchased through National Insurance Contributions to enhance the Basic State Pension by those people not "Contracted Out" through membership of a private or company pension scheme. This was formerly known as the State Earnings Related Pension Scheme (SERPS) and was re-named from 6 April 2002.
State Graduated Pension Scheme	The State Graduated Pension Scheme which commenced on 3 April 1961 and terminated on 5 April 1975 being replaced by SERPS.
Supplementary pensions funding	Contributions made by Employers or members to provide additional or "top-up" pension benefits.
Transfer Values received	Transfers of monies from another pension scheme, so that a member can augment their pension benefits from the ESPS.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices

Investment glossary	
Derivative	<p>A derivative is a financial contract between two parties whose value is derived from an underlying asset's price or an index based on asset prices. Underlying assets are typically equities, bonds, interest rates, exchange rates and stock market indices. The main types of derivatives used by pension schemes are:</p> <ul style="list-style-type: none"> - futures contracts - forward foreign exchange contracts - options - swaps <p>A derivative can be exchange traded or traded over the counter ("OTC").</p>
Exchange traded	<p>An exchange traded security is purchased or sold through a registered exchange (e.g. a stock exchange) which provides trading facilities.</p>
Forward foreign currency contract (FFX)	<p>A forward foreign exchange contract is an over the counter transaction whereby two parties agree to exchange two different currencies at an agreed rate of exchange on a specific date in the future.</p>
Futures Contract	<p>A contract which legally binds two parties to complete a sale or purchase of an asset at a specified future date and at a price which is fixed at the time the contract is agreed.</p>
Initial Margin	<p>Before entering into a futures contract, a deposit is required which is referred to as the initial margin. This deposit may be in the form of cash or other assets, such as securities. The margin is required to protect parties against possible losses arising from the futures contract.</p>
IPD	<p>Investment Property Databank is an independent organisation that collates and publishes information about performance of the commercial property sector. The IPD provides a benchmark against which the performance of property assets can be monitored.</p>
LIBID	<p>London Inter-Bank Bid Rate. This is the rate of interest at which banks are willing to pay to borrow from each other for a specified period – normally one day. The rate fluctuates dependent on the supply and demand of funds.</p>
Managed Funds	<p>A managed fund is an investment contract which offers participation in one or more funds operated on similar lines to unit trusts. The range of managed funds available includes gilts, index-linked securities, equities, cash deposits, property and mixed funds. Typically managed funds relate only to a unitised fund under a policy of assurance from a life assurance company.</p>
Options	<p>An option is a contract which give the purchaser the right, but not the obligation, to buy (call option) or sell (put option) a standard specified nominal amount of an asset at a specific date or range of dates in the future at a specified price. Options may be exchange traded or OTC.</p>

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices

Over the counter (OTC)	An over the counter (OTC) security is traded between two individual counterparties rather than on an exchange. There is no standardisation of contract specifications so the size of the contract, the settlement date and price are all negotiable.
Pooled investment vehicles	A fund in which several investors participate. The assets are not held directly in the name of individual clients but form part of a "pool". Unit trusts are a common example of a pooled investment vehicle. Investors hold units in the pooled fund. The value of individual units is determined by the value of the underlying assets of the fund.
Segregated Funds	In the ESPS, investment portfolios which are specific to a particular Group and may be comprised of individual securities or take the form of a pooled investment vehicle.
Stock lending	The temporary transfer of securities by a lender to a borrower, with an agreement that the borrower will return equivalent securities to the lender either on a pre-agreed future date or on demand. In return the lender receives a fee for making the securities available to the borrower.
Swaps	A swap is an OTC transaction whereby the parties to the contract agree to exchange cash flows according to the terms agreed at the outset of the swap. The amount of the cash flows is generally determined by reference to an underlying asset, index, instrument or notional amount.
Unitised Fund	The Unitised Fund is a pooled investment vehicle that is only available to Groups within the ESPS and comprises three Sectors: UK Property, UK Forestry and Cash.
Variation Margin	Amounts payable under futures contracts - to ensure that deposits/(margins) are maintained at contractually agreed levels as the value of the underlying asset changes.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices**

Appendix 3 – Advisers and Service Providers

Group Actuary

Chris Vaughan-Williams FIA
of Aon Solutions UK Limited

Carries out valuations and other funding updates of the Group as required by the Scheme Rules and Statute, provides all tables and factors for the application of Scheme Rules and options, and advises on all matters relating to pension funding.

Independent Group Auditor

PricewaterhouseCoopers LLP

Reports on the audit of the Group Financial Statements.

Scheme Custodian

The Bank of New York Mellon

Maintains safe custody of the Scheme's assets.

Investment Adviser

Ruth Williams
of Aon Solutions UK Limited

Advises the Group Trustees on all investment matters including the Statement of Investment Principles.

Legal Adviser

Eleanor Daplyn
of Sacker and Partners LLP

Advises on legislative requirements and application of the provisions of the Group in particular circumstances.

Performance Measurer

Ruth Williams
of Aon Solutions UK Limited

Provides the Group Trustees with a measurement service for their investments relative to the strategic benchmark and on the performance of the investment managers.

Benefits Administration and Accounting

RPMI
2 Rye Hill Office Park
Birmingham Road
Allesley
Coventry
CV5 9AB

Tel: 02476 472582

Group Administrator

Rachel Hewlett (until 30 June 2021)

Kelly Capdeville (from July 2021)

Head of Pensions
Magnox Ltd
Oldbury Technical Centre
Oldbury Naite
South Gloucestershire
BS35 1RQ

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices

Group Appointed Fund Managers

Barings Global Investment Funds plc (formerly Babson Capital) ("Barings")
BlackRock Investment Management (UK) Limited ("BlackRock")
Arcmont Asset Management Ltd (formerly BlueBay Asset Management LLP) ("Arcmont")
BMO Global Asset Management (formerly F&C Investment Management) ("BMO")
CBRE Global Investors (UK) Limited ("CBRE")
Chorus Capital Management Ltd (from October 2020) ("Chorus")
DRC Capital LLP ("DRC")
GAM International Management Limited (formerly Renshaw Bay LLP) ("GAM")
GreenOak Real Estate Advisors LLP ("GreenOak")
Hayfin Capital Management LLP ("Hayfin")
Industry Funds Management ("IFM")
Infrared Capital Partners
Innisfree Ltd
Insight Investment Management Limited ("Insight")
Invesco Asset Management ("Invesco REFF")
JP Morgan Asset Management Ltd
Legal & General Investment Management Limited ("L&G")
Lindsell Train Ltd
Longbow Real Estate Capital LLP ("Longbow")
M&G Asset Management ("M&G")
PIMCO Europe Ltd ("PIMCO")
Robeco Institutional Asset Management B.V. (from October 2020) ("Robeco")
Ruffer LLP ("Ruffer")
Schroder Investment Management Limited (to September 2020) ("Schroders")

Additional Voluntary Contributions (AVCs) Providers

Phoenix Life Assurance Limited
Utmost Life and Pensions Limited
The Prudential Assurance Company Limited

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices**

Appendix 4 – Names and Addresses of External Bodies

The Pensions Advisory Service

The Pensions Advisory Service is now part of the Money and Pensions Service. It is available at any time to help members and beneficiaries with pensions questions and any difficulties they may have encountered and which they have failed to resolve with the trustees or administrators of schemes.

The Pensions Advisory Service can be contacted at 120 Holborn, London EC1N 2TD.

Telephone: 0800 011 3797

Website for online contact: www.pensionsadvisoryservice.org.uk

Pensions Ombudsman

The Pensions Ombudsman can investigate and determine any complaint or dispute of fact or law involving occupational pension schemes. The Pensions Ombudsman may be contacted either while a complaint is being reviewed under the dispute resolution procedure or if the complainant is not satisfied with the response received from the Group Trustees under the second stage of the procedure.

The Pensions Ombudsman can be contacted at 10 South Colonnade, Canary Wharf, E14 4PU.

Telephone: 0800 917 4487

E-mail: helpline@pensions-ombudsman.org.uk (early resolution)

E-mail: enquiries@pensions-ombudsman.org.uk

The Pensions Regulator

The Pensions Regulator has statutory objectives to protect members' benefits, to reduce risk of calls on the Pension Protection fund (PPF), to promote good administration, to maximise employers' compliance with their new duties in relation to automatic enrolment and to minimise any adverse impact on sustainable growth of an employer when exercising its functions under the Scheme Funding Legislation.

The Pensions Regulator can be contacted at Napier House, Trafalgar Place, Brighton, BN1 4DW.

Telephone: 0345 600 0760

E-mail: customersupport@tpr.gov.uk

Website: www.thepensionsregulator.gov.uk

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices**

The Department for Work and Pensions (DWP) Pension Tracing Service

The purpose of the DWP's Pension Tracing Service is to provide a tracing service for ex-members of schemes and their dependants with pension entitlements who have lost touch with earlier employers and their schemes. The ESPS is registered with the DWP under Scheme reference number 10200656.

The Pension Tracing Service can be contacted at The Pension Service 9, Mail Handling Site A, Wolverhampton, WV98 1LU

Telephone: 0800 731 0193

From outside the UK: +44 (0)191 215 4491

Website: www.gov.uk/find-pension-contact-details

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices**

Appendix 5 – Address for Enquiries

Further information about the Group and enquiries relating to specific benefit entitlements should be addressed to:

RPMI Limited
2 Rye Hill Office Park
Birmingham Road
Allesley
Coventry
CV5 9AB

Telephone: 02476 472 582
E-mail: enquiries@rpmi.co.uk

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices**

Appendix 6 – Engagement Policy Implementation Statement

Magnox Electric Group of the Electricity Supply Pension Scheme

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations amongst other things require that the Group Trustee produces an annual implementation statement which:

- Explains how and the extent to which it has followed its engagement policy, which is outlined in the Statement of investment principles ("SIP") of the various Sections; and
- Describes the voting behaviour by, or on behalf of the Group Trustee (including the most significant votes cast) during the scheme year and states any use of the services of a proxy voter during that year.

The Engagement Policy Implementation Statement ("EPIS") has been prepared by the Group Trustee and covers the year 1 April 2020 to 31 March 2021. Although the Group Trustee has a separate SIP for each Section to reflect the different investment strategies, the policies in relation to engagement and voting remain consistent across the Sections. The EPIS is therefore written at the Group level.

Summary

The Group Trustee is satisfied that its investment managers are exercising their respective voting and engagement duties to a satisfactory level and that the Group's stewardship policy is being appropriately implemented on its behalf. The Group Trustee will continue to use its influence to drive positive behaviour and change among the investment managers that it has invested with and other third parties that the Group Trustee relies on such as its investment adviser. The Group Trustee will monitor, assess and ultimately hold them to account to ensure that the assets of the Group are appropriately invested.

Preparing the EPIS – Data

The Group Trustee has prepared the EPIS using information provided by its investment adviser and investment managers. Its investment adviser and investment managers have given permission for the contents to be made publicly available.

The Group Trustee has concentrated on summarising the stewardship activities of material holdings where there is meaningful scope for engagement. This excludes the Group's LDI holdings with BMO (c41% of total Group assets) as the Group Trustee deems the scope for engagement with the UK government/Debt Management Office to be very limited.

Scheme Stewardship Policy Summary

The following bullet points summarise the Group's Stewardship Policy in force over the majority of the reporting year to 31 March 2021. The full SIP can be found at www.my-magnox-pension.com.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices**

- The Group Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside.
- The Group Trustee expects the investment managers to use their influence as major institutional investors to engage with underlying investee companies to promote good corporate governance, accountability, and positive change.
- The Group Trustee regularly reviews the ongoing suitability of the investment managers and takes advice from its investment adviser regarding any changes.
- The Group Trustee expects the appointed investment managers to provide transparency on engagement and voting activity.
- From time to time, the Group Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, an investment manager or another holder of debt or equity, and other stakeholders, the capital structure, and management of actual or potential conflicts of interest.

Scheme stewardship activity over the year

Training

Over the year the Group Trustee had responsible investment training sessions with its appointed investment advisor ("Investment Advisor"). These provided the Group Trustee with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of Environmental, Social and Governance ("ESG") factors in investment decision making.

Responsible Investment Survey

In April 2020 the members of the Group Trustee completed a responsible investment survey to help form its collective beliefs. These beliefs then subsequently informed the Group's Stewardship Policy.

Updating the Stewardship Policy

The Group Trustee has been proactive to ensure its Stewardship policy has remained up to date with recent regulatory requirements and also reflects its views and beliefs.

In line with regulatory requirements to expand the SIPs for policies such as costs transparency and incentivising managers, the Group Trustee also reviewed and expanded the Stewardship policy in 2020. The updated wording in the SIPs illustrates how the Group Trustee recognises the importance of its role as a steward of capital, as well as indicating how the Group Trustee would review the suitability of the Scheme's investment managers and other considerations relating to voting and methods to achieve its Stewardship policy.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with monitoring reports being provided to the Group Trustee by its Investment Advisor. The Group Trustee expects its Investment Advisor to proactively highlight any areas of concern and provide clear advice where action is required – this includes, but is not limited to, matters in relation to responsible investment.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices

The Group Trustee regularly invites its managers to provide updates at its meetings. These updates will include, among other things, information on performance, stewardship and ESG factors. The Group Trustee also plans to have an in-depth ESG-focussed meeting with each of its managers in 2021/2022.

Climate risk management / TCFD / carbon reporting

The Group Trustee is currently working through the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). The TCFD establishes a set of eleven clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change. The increased transparency encouraged through the TCFD recommendations is intended to lead to decision-useful information and therefore better informed decision-making on climate-related financial risks. The Group Trustee is currently working to disclose ahead of the regulatory deadline for a pension scheme of the Group's size (which is within 7 months of 31 March 2023).

Voting and Engagement activity – Equity and multi-asset funds

Over the year the Group was invested in a number of equity and multi-asset funds.

The section below sets out the voting and engagement activity of the managers with which the Group has material investment holdings. The Group Trustee has adopted the managers' definitions of a "significant" vote which are determined in accordance with their own policies.

Lindsell Train Limited UK Equity Fund (0.3% of Group and a total of 23 share holdings as at 31 March 2021)

Voting

The primary voting policy of Lindsell Train Limited ("LTL") is to protect or enhance the economic value of its investments on behalf of its clients. LTL votes on behalf of its clients in accordance with its own Proxy Voting Guidelines which govern how to vote. These guidelines are approved collectively by the Portfolio Managers and they are reviewed semi-annually. Portfolio Managers maintain final decision-making responsibilities for all votes based on the detailed knowledge of the companies in which LTL invests.

Proxy voting decisions are the result of careful judgement to ensure the best possible outcome to generate long-term shareholder value. The Portfolio Manager will vote against any agenda that threatens this position, in particular concerns over inappropriate management remuneration or incentives, changes in capital structure and mergers or acquisitions which are seen as detrimental to the investment held.

LTL appointed third party proxy voting service provider Glass Lewis in Q1 2020 to aid the administration of proxy voting and provide additional support in this area.

Over the period, LTL failed to vote in 6.0% of resolutions due to the custodian failing to deliver the votes on time and administrative errors. LTL has since reviewed and updated its procedures to ensure that all future votes are actioned.

Over the year to 31 March 2021	
Number of resolutions eligible to vote on	417
% resolutions voted on for which the fund was eligible	94.0%
% that were voted against management	0.0%
% that were abstained from	0.3%

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices**

An example of a significant vote over the period was with an abstain vote in relation to the company Mondelez on executive compensation. LTL pays careful consideration to the compensation policies of the companies in which it invests. In assessing these compensation policies, LTL focuses more on how incentives are structured rather than the actual quantum of compensation. In other words, LTL can be comfortable with large rewards provided that the incentives are aligned with shareholders' interests and its principles. In the case for Mondelez LTL did not believe that the company's compensation policy was aligned with the long-term best interests of the shareholders. LTL engaged with the company's compensation committee before the vote to signal its intentions to abstain. The outcome of the vote was the resolution was approved.

The Group Trustee has noted Lindsell Train has voted in line with management on all but one resolution and has followed up for more detail given the lack of evidence of independent action.

Engagement

Given the concentrated nature of LTL's portfolios and the fact that it builds up large, long-term, stakes in the businesses in which it invests, LTL is able to prioritise all engagement activity and considers them all to be significant.

LTL has provided a number of fund specific engagement examples. Drawing on one of these examples, LTL engaged with Burberry about its supply chain controls following the poor labour practices of another clothing manufacturer coming to light. The Chairman explained that the poor business practices uncovered are largely confined to fast fashion, which relies on selling large volumes of product with thin margins. This is not the case at Burberry. Nonetheless, Burberry has a robust supplier vetting programme and a tightly controlled supply chain to protect brand health. For Burberry, the key risk in the supply chain is subcontractors as it's harder to maintain oversight of them. Burberry are alert to the risks of complacency and have a framework in place to protect the business from reputation damage. The Chairman drew LTL's attention to Burberry's evolving statement of purpose, which aims to build on their assessment and response to such risks.

LTL concluded that there were no immediate areas of concern and view this increased focus on environmental and social factors as a demonstration of how Burberry is working to ensure its durability.

Ruffer LLP Absolute Return Fund (0.3% of Group and a total of 85 share holdings as at 31 March 2021)

Voting

Ruffer LLP ("Ruffer"), as a discretionary investment manager, does not have a formal policy on consulting with clients before voting. However, it can accommodate client voting instructions for specific areas of concern or companies where feasible. Ruffer has internal voting guidelines as well as access to proxy voting research, currently from third party provider Institutional Shareholder Services ("ISS"), to assist in the assessment of resolutions and the identification of contentious issues. Although Ruffer is cognisant of proxy advisers' voting recommendations, in general, it does not delegate or outsource its stewardship activities when deciding how to vote on clients' shares. Research analysts are responsible, supported by Ruffer's responsible investment team, for reviewing the relevant issues on a case-by-case basis and exercising their judgement, based on their in-depth knowledge of the company shares on which they vote. If there are any controversial resolutions, a discussion is convened with senior investment staff and, if agreement cannot be reached, there is an option to escalate the decision to the Head of Research or the Chief Investment Officer. Ruffer looks to discuss any relevant or material issue that could impact its investment with companies. Ruffer will ask for additional information or an explanation, if necessary, to inform its voting discussions. If Ruffer decides to vote against the recommendations of management, it will endeavour to communicate this decision to the company before the vote along with its explanation for doing so.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices

Over the year to 31 March 2021	
Number of resolutions eligible to vote on	1144
% resolutions voted on for which the fund was eligible	97.0%
% that were voted against management	9.3%
% that were abstained from	1.6%

An example of a significant vote was seen in the case of Exxon Mobil in May 2020, where Ruffer voted against the re-election of all non-executive directors. In the past, Ruffer had engaged with Exxon Mobil and stressed that it should further align its strategy with the goals of the Paris Agreement and accept responsibility for its greenhouse gas emissions. Due to the limited progress since the 2019 Annual General Meeting, Ruffer decided to vote against the re-election of all non-executive directors because Ruffer didn't believe that the directors had been representing the best interests of shareholders owing to the slow progress of the engagement with the Climate Action 100+ initiative. Although the re-election proposals passed with a range of 83-98% shareholder approval, Ruffer stands by its belief and has since sold down the equity.

Engagement

Ruffer believes that engagement is an effective tool to achieve meaningful change and management is committed to engaging with companies in which its clients' assets are invested on a wide range of topics. By engaging with a company to achieve specific goals, management is improving its understanding of the material ESG risks it faces, challenging its behaviour in relation to ESG considerations and in turn increasing its awareness of regulatory and societal changes. Ruffer believes that it will likely result in superior outcomes and returns for its clients.

Ruffer also appreciates the significance of discussing with these companies the importance of greater transparency with regards to climate-related disclosure as well as tangible targets for reducing greenhouse gas emissions. Ruffer's responsible investment team engages regularly with formal and informal groups on ESG issues and facilitates Ruffer's involvement in collaborative engagements.

Engagement example

As part of Climate Action 100+ (an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change), Ruffer engaged with Equinor, a Norwegian energy company developing oil, gas, wind and solar energy in more than 30 countries. Climate Action 100+ had a call with the CEO and Senior Vice President for Sustainability along with other senior colleagues. Following the recent appointment of a new CEO, Ruffer reviewed the progress made, given the constructive dialogue between the company and investors in recent years and since the joint statement made in 2019 with the Climate Action 100+ initiative.

Ruffer welcomed the enhanced greenhouse gas reduction targets, the commitment to reach net-zero emissions by 2050 and the ambition for Equinor to be a leader in the energy transition. Whilst these commitments are important, Ruffer pushed the company to provide more information on how it will allocate capital to achieve these objectives. Specifically, it would like to understand how the allocation of capital is aligned with the goals of the Paris Agreement and to have greater transparency around how capital expenditure is allocated.

The company confirmed it is working on its transition plan to achieve net-zero emissions and will provide a strategy update in June 2021. On the topic of remuneration, it was noted this is an area in which little progress has been made since the joint statement. The company is committed to developing this further once it has finalised its transition plan. Ruffer will look to engage further with the company following its strategy update in June 2021.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices

Engagement activity – Fixed income

The Group also invests in a number of fixed income strategies.

While equity managers may have more direct influence on the companies they invest in, fixed income managers are increasingly influential in encouraging positive change through engagement with investee companies. The Group Trustee believe that engagements of this nature are key to reducing ESG risks within the Group's portfolio, as well as having the added benefit of contributing to the transition towards a low carbon economy.

The following examples demonstrate some of the engagement activity being carried out in respect of the Group's investments] over the year.

PIMCO Diversified Income Fund (6.8% of Group as at 31 March 2021)

PIMCO has engaged with c.600 corporate issuers over 2020. Moreover, as a leading global investment manager, PIMCO is engaged in nearly 20 industry bodies where PIMCO is an active leader. A notable example is where PIMCO helped to found the CFO Taskforce for Sustainable Development Goals ("SDG"). PIMCO in partnership with the UN Global Compact and energy utility ENEL formed the taskforce with the aim to mobilize hundreds of CFOs to tackle the financing needs around the SDG. Another is its engagement with the Institutional Investors Group on Climate Change ("IIGCC"), which is an important framework that helps support investors decarbonise their investment portfolios and increases their allocations to climate solutions in a way that is consistent with a 1.5°C net zero emissions future. Here, PIMCO co-led the Sovereign Bond working group and provided critical input to the Corporate Bond working group.

An example of a fund level engagement relevant to the Group's investment is where PIMCO engaged with the Lloyds Banking Group to obtain an update on the progress made on their ESG initiatives and developments. The engagement was led by the credit analyst covering this issuer. PIMCO discussed Lloyds' progress and plans on climate risk assessment, Paris alignment, human capital support towards digitalisation and how ESG is reflected into employee performance assessment. The discussion has led to an update of PIMCO's ESG view for Lloyds Banking Group. PIMCO aims to maintain the dialogue for follow-up discussion on these areas moving forward.

Insight Global Asset Backed Securities Fund (3.0% of Group as at 31 March 2021)

A key element of stewardship is proactive engagement with companies to ensure accurate analysis and to influence them to improve their practices. This engagement with issuers is a key part of Insight's credit analysis and monitoring and complements Insight's approach to responsible investment. Given the size and depth of Insight's credit analyst resource, one of the key inputs into its ESG analysis is the direct information which it receives from companies via engagements that take place with it.

As a matter of policy, all Insight's credit analysts regularly meet with issuers to discuss ESG-related and non-ESG related issues. Each analyst identifies the engagement issues relevant for each specific issuer. Insight will use ESG ratings and its carbon model to engage companies. Meetings with company management provides the most effective and timely opportunity to raise these issues. If Insight does not already have regular meetings with a company's management, its investment teams are encouraged to request a meeting with them. Where this is not possible, or additional action is deemed appropriate in order to further the interests of its clients, Insight may consider raising the issues with the company's broker or, if appropriate, the chairman. Further to this, if Insight do not receive a response from the issuer regarding engagement then they will lead on a wider collaborative initiative, via the Principles for Responsible Investment or by engaging with other investors, to achieve greater influence over the issuer.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices**

Additionally, as a global investment manager, Insight has an important role in financial markets. It believes that it must take a proactive role in ensuring the long-term sustainability of the markets as this is in its clients' long-term interests, as well as that of wider society. Long-term initiatives include engagement with other industry members to ensure its clients' rights and considerations are fully represented, including:

- Joining the Working Group on Sterling Risk-Free Rates.
- Participation in climate change related collaborative engagements as an active member of the Climate Action 100+ initiative.
- Collaborating with peers on a range of issues, such as credit risk and ratings with the PRI initiative.
- Encouraging issuers to submit their carbon emissions to CDP (carbon disclosure project) initiative.
- Development of new sources of repo liquidity - a key issue for pension funds seeking to manage risk efficiently and effectively.
- Challenging the pressure on derivatives users, including pension funds, to post only cash as variation margin on their derivatives transactions - a key issue for pension funds seeking to manage risk effectively over the long term.
- Supporting the transition to a low carbon economy by investing in 43 green bonds, and encouraging banks to consider green bond issuance, and through its Advisory Council role with the Green and Social Bond Principles.

These engagements inform the overall credit analyst views of the companies and provide a platform not only for both increased transparency around ESG issues, but also ongoing engagement to change company behaviour, where appropriate.

Insight provided some examples of how it implements its ESG rating system. For example, residential mortgage backed securities fund La Trobe was rated a 3 out of 5 in Q4 2020. The originator had strong governance and social scores, but could improve their disclosure of information on environmental risks. Insight have engaged with them on providing information on environmental metrics and stress tests and to incorporate climate change factors into their origination process. There are also some areas that can be improved on the origination and servicing side such as the way origination teams are compensated and the setting of fee incentives for the services collection process. Insight stated it would also like to see the complaints independently reviewed away from the service function.

Barings Global Loan Fund (5.2% of Group as at 31 March 2021)

Barings believes that value is derived from transparent communication with the entities in which it invests coupled with the expertise and discretion of experienced analysts and portfolio managers.

Barings broadly prioritize engagements according to the materiality of a topic to the investment case, as determined by its analysts' ESG research, as well as by the size of the holdings. The former affects the value that may be realized, and the latter may affect the chance of success. Barings prefer to engage proactively and on longer-term issues that may meaningfully affect investors but will also engage reactively and on shorter-term threats to value on an incident-driven basis. Barings believes that the most productive exchanges occur within the context of established relationships and reports.

Barings aims to set objectives, milestones and appropriate timelines for each engagement, and monitor the success or failure of these milestones and objectives. It may escalate unsuccessful engagements by increasing the intensity or frequency of the engagement, by joining together with other investors in a collaborative engagement, or in some cases by divesting or declining to participate in future offerings. What Barings learns in engagements feeds back into their fundamental ESG analysis and may result in changes to their investment thesis.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices

An example of a fund level engagement is with CFOs of energy companies. Most recently, one of the main avenues for Barings to engage on climate change has been through honest and transparent discussions directly with energy company CFOs about their cost of debt. As debt investors, Barings have found that CFOs understand that debt investors can influence their cost of capital in the primary markets and to a certain extent in the secondary markets through trading prices. These conversations have led CFOs to rethink their approach to accessing capital markets for debt. In addition, Barings has indirectly engaged on climate change through corporate governance. As a large lender and in certain situations through amendments or restructurings, Barings has been able to change management teams and board members that may prioritise climate change initiatives more favourably compared to previous management teams or board members.

Arcmont Asset Management European Direct Lending Fund III (0.9% of Group as at 31 March 2021)

Arcmont states that given it is a debt investor, and not owner of businesses, it has more limited legal mechanisms to influence borrowers. However, it does engage with portfolio companies on a variety of issues, including ESG issues. Until recently, all engagements were conducted on an ad hoc basis where Arcmont believed ESG issues could be better managed by the company. In March 2021, Arcmont rolled out its ESG Target Improvement Plan for all new borrowers. The plan offers financial incentives via interest rate discounts to borrowers that meet certain agreed upon environmental and social performance targets. As the plan was only implemented in March, Arcmont are still in the early stages of discussing the plan with its new borrowers and is currently unable to provide details on the outcomes. It stated that it will disclose details of the plan and updates on borrowers' progress via the quarterly reports to investors. The Group Trustee expects details to be available for reporting in next year's EPIS.

Hayfin Direct Lending Fund III – Direct Lending (1.7% of Group as at 31 March 2021)

Hayfin stated that it is a lender rather than an owner in nature of business. Hayfin reported that in terms of gross capital invested, it has engaged with 54% of companies over the past year. By count, 62% of its memos (components and rationale of investing in a company) show engagement. This includes the deals which have not ultimately proceeded to approval stage. However, it was not able to provide any further details.

For 2021 Hayfin is planning to further enhance its level of ESG-related client reporting to include ESG issues/case studies and incident disclosure in its quarterly reporting.

Chorus Capital Credit Fund IV – Bank Capital Relief (1.5% of Group as at 31 March 2021)

Chorus Capital considers climate change risks in the context of wider ESG considerations within each investment's approval and monitoring process, as it believes that environmental risks may ultimately lead to heightened credit default risk in the portfolio. Therefore, Chorus Capital actively limits the exposure to industries which are non-compliant for climate-related business involvement, for example coal mining and oil sands. Over the year to 31 March 2021, the manager engaged several times with the transaction issuers to exclude loans that did not meet the requirements from an ESG perspective. For example, in September 2020, Chorus Capital engaged with a North American Bank to remove a particular name from the portfolio due to the company's poor environmental record and related controversies.

Robeco Buy & Maintain Credit (5.7% of Group as at 31 March 2021)

Robeco is focused on improving business conduct and function of the companies it invests in. It carries out extensive baseline research on the companies it invests in - measuring changes in company performance relative to engagement objectives – and allows three years for engagement. Any cases that are not resolved to Robeco's satisfaction are considered for potential exclusion from their fund.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices**

Over the last few years, Robeco at a firm level has engaged with senior employees of a multinational oil company at various times. The focus of the engagement was to encourage the company to take action to contribute towards preventing global warming to below 2 degrees Celsius, as then the world, and therefore industries, will be exposed to significant transitional and physical risks.

In 2020, the company announced it will aim to reduce the net carbon footprint of its energy products by around half by 2050. Robeco was supportive but continued to push the company to set short term targets and link these to remuneration packages. In addition to announcing its long-term goal, Robeco agreed a joint statement with the company who agreed to start setting shorter term targets. Robeco believes the company now leads the sector in terms of its planning and positioning for the energy transition as they look to move to lower carbon products and solutions.

M&G Investments Inflation Opportunities Fund (7.2% of Group as at 31 March 2021)

Stewardship activities such as monitoring and engaging with investee companies, as well as voting at shareholder meetings and reporting to clients, are undertaken by the investment teams, research analysts and members of M&G's Corporate Finance & Stewardship team on an integrated basis. To ensure an integrated approach, regular investment meetings are held with investee companies (and meetings with potential investee companies) with representation from each team.

An example of engagement that took place in 2020 was when M&G engaged with an issuer company on a strategy level to improve the quality of investor reporting and disclosure which had historically been poor. The objective was to escalate the matter within the issuer company to ensure it receives appropriate attention. M&G made contact in November 2020 with the CEO to raise this as an important matter for investors. The CEO has been vocal about the business' level of communication with its staff and customers in the COVID-19 era but accepted that it needed to reflect on investor engagement. M&G provided examples of best practice investor reporting. M&G engaged again with the CEO in March 2021 to press for an update on investor reporting plans and meet the newly appointed CFO. As an outcome, it has established a direct line of communication with the CEO which provides for an escalation route if issues are not being addressed. M&G have a meeting planned with the new CFO, who has already presented new investor reporting plans to the Finance board-subcommittee.

Engagement activity – Real Estate & Alternative Assets

The Group also invests in a number of real estate and alternative asset strategies.

DRC UK Whole Loan Fund – Real Estate Debt (1.9% of Group as at 31 March 2021)

DRC undertakes technical and environmental due diligence on every asset that it finances. It is presently testing a detailed ESG due diligence approach alongside its technical advisors. DRC has also started a process of having quarterly ESG briefings with specialist advisors, who have the remit of monitoring developments, and they also take part in the DRC Investment Committee.

Where necessary the deal team proposes additional obligations on the borrower to make relevant improvements to the assets based upon their findings. For example, where the energy performance certificates ("EPC") ratings for a building are too low, the improvements budget could be altered to include additional cost for achieving a higher EPC rating. The costs for these adjustments would then be integrated into the underwriting process for the deal and leverage will be provided on this basis.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices**

DRC stated that it became a signatory to the Principles for Responsible Investment ("PRI") in 2020. DRC is currently reviewing the UK Stewardship code 2020 and will consider becoming a signatory as part of the Savills Investment Management / DRC partnership.

InfraRed Infrastructure Yield Fund - Infrastructure (1.3% of Group as at 31 March 2021)

InfraRed maintains a comprehensive sustainability management system which integrates sustainability into each stage of the investment process – from the initial assessment of an investment opportunity, during the on-going management of its portfolio and through to divestment or decommissioning of an asset.

InfraRed takes an active approach to long-term sustainable investment which is based on a foundation of robust ESG principles. It uses environmental criteria to assess how effectively a company stewards the natural environment, assists with the transition to a low carbon economy and complies with relevant laws and regulations. Through a social set of standards, InfraRed evaluates the company's approach to health & safety, labour standards and working conditions as well as the relationships it has with its stakeholders and surrounding communities. In terms of corporate governance, InfraRed looks to ensure that its partners adhere to the highest standards of corporate conduct. InfraRed undertakes regular studies, inspections, surveys and risk assessment to ensure this remains the case at all times.

**Legal & General Investment Managers ("LGIM") UK Build to Rent Fund – Residential Property
(2.2% of Group as at 31 March 2021)**

LGIM Real Assets team sets ESG objectives across the full range of its property investment and management activities, which assists it in delivering its core objective of strong investment returns. These high-level objectives are implemented as property level initiatives through their ESG strategy, with the expectation of a positive impact on income streams and capital values over the next few years. To gain support for this process from key stakeholders, LGIM aims to clearly articulate the connections between sustainability and value creation, particularly to their occupiers and shareholders, as they consider this engagement a crucial part of their fiduciary duty and responsibility as a landlord.

LGIM has committed to achieve net zero carbon across its whole real estate portfolio by 2050 or sooner. This commitment goes beyond its landlord operations, covering whole building emissions which include their occupiers. Within its December 2020 report - Real estate: Net zero carbon roadmap, LGIM states that to achieve net zero, it is firmly committed to the principles defined by the UK Green Building Council framework. LGIM will measure and reduce embodied carbon. It will use the energy hierarchy to reduce the demand of its properties, to energy intensity levels which are 'Paris proof' (the methodology establishing the amount of energy reduction required for the UK to be fully powered by zero carbon energy in 2050). It will increase renewable energy supply and only consider verified offsetting as the final step. The Build to Rent fund specifically has set a goal of reaching net zero carbon in operation by 2030 and has set key tasks and milestones to help it reach the goal.

An example of engagement in relation to the fund was in October 2020, LGIM ran its first 'Sustainability Month' competition for residents to learn about steps that could be taken within their homes to improve their carbon and environmental impact. It hosted a number of talks to promote the idea of a sustainable lifestyle and created a resident team at each of their sites to foster a sense of community through the competition. All participants were signed up to Giki Zero, an environmental footprint calculator, with the team that reduced their footprint the most over the month the team winning the competition.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices**

IFM Global Infrastructure Fund ("GIF") – Infrastructure (2.4% of Group as at 31 March 2021)

IFM purposefully seeks out collaborative engagement opportunities such as the Climate Action 100+, with the belief that the collective investor voice is able to influence and achieve positive change outcomes more efficiently.

Over 2020, IFM engaged with all assets held in GIF. The ramifications of the COVID-19 pandemic had a clear impact on the health and safety of all employees working at the assets owned by GIF. IFM's infrastructure asset management team engaged with assets to ensure practices were in place to ensure the wellbeing of employees.

IFM have a Health & Safety Standard, Guideline and several toolkits, which guides all infrastructure professionals on this topic. IFM Nominee Directors engage on safety topics through the board of directors of the portfolio companies. Apart from having legal obligations placed on themselves as company directors in the various jurisdictions with respect to health and safety, it frequently challenges management to implement safety best practice beyond the minimum legal requirements and transfer knowledge on health and safety topics between portfolio companies.

**CBRE Global Investors UK Property PAIF & – Commercial Property (3.3% of Group as at 31 March 2021)
CBRE Long Income Investment Fund – Long Lease Property (1.8% of Group as at 31 March 2021)**

CBRE does not invest in companies directly itself. However, it does engage with stakeholders, primarily the tenants within the portfolios in direct real estate. The exception is for indirect investments where CBRE engage with the underlying fund manager or operating partner. As at end Q4 2020, there were 51 tenants in the UK Property PAIF portfolio, across the 11 directly held assets. Over the 12 months to 31 December 2020 CBRE engaged with all of the 51 tenants.

CBRE engages with the underlying property managers on ESG issues throughout its investment process, starting at the due diligence stage to ensure the holding will contribute positively to the portfolio's sustainability. The manager's approach to ESG is reviewed with reference to internal; strategy, processes and policies, and submission to independent organisations. CBRE is a signatory of the PRI. It is not a signatory of the UK Stewardship Code, as it stated that this has been focused on the listed equity sector. However, its new ESG vision, policy and reporting will be aligned with the Code's scope and purpose now that the Code includes clauses that can be adapted to suit different asset types.

Engagement Example – UK Property PAIF

Since 2020, CBRE has been engaging with Marks & Spencer ("M&S") on the theme of Climate Change/Natural Resource Use. The manager actively engages with tenants on many issues and created sustainability workshops to share best practices aligning with United Nations Sustainable Development Goal 11 - Sustainable Cities and Communities.

An initial workshop was arranged with the Lead Sustainability Manager at M&S Property to understand sustainability strategies, key priorities, and areas for collaboration. Following the establishment of this relationship, further engagement has been through email communications with another workshop planned for 2021.

**Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices**

As a result of the tenant engagement workshop, CBRE has been able to make progress in a number of areas:

1. Environmental data collection from tenants
2. Building Certification – M&S supported CBRE in obtaining information for the Building Research Establishment Environmental Assessment Method ("BREEAM") In Use ("BIU") assessment at the Arnison site in Durham, and a BIU improvement plan was prepared.
3. Electric Vehicle ("EV") charging and Solar PV – CBRE understood M&S's strategy on these technologies and prepared to review and give landlord approval on a site-by-site basis.

The tenant workshop programme is still ongoing and as a result of the engagement CBRE plans to undertake the following actions:

1. Set up a follow-up workshop with key M&S stakeholders in 2021
2. Review the BIU Improvement Plan for M&S Arnison with the tenant and highlight potential actions to improve the BREEAM score.
3. Continually monitor potential sites that are suitable for Landlord funded Solar PV and also grant approval for tenant led EV Chargers where appropriate.
4. Request M&S to provide environmental data (energy, water and waste) for 2020 and 2019 for the fund's Global ESG Benchmark for Real Estate (GRESB) reporting.

ICG-Longbow UK Real Estate Debt Investments IV – Real Estate Debt (1.3% of Group as at 31 March 2021)

The Group invests in a private debt fund with ICG Longbow. ICG monitors the ESG performance of its investments through annual ESG surveys. These comprehensive surveys are circulated to invested companies in strategies where ICG has influence and access to management. In addition, where ICG has influence in the capital structure, it collaborates with management to set company-specific ESG targets and Key Performance Indicators, which are monitored and tracked annually.

ICG also use a Green Loan Framework ("GLF") to help prioritise engagements. The team will work with an external advisor to review the selection and evaluation criteria for eligible investments, as well as an assessment of the GLF's alignment with the fund and ICG's environmental objectives. The GLF will set out ways to manage energy intensity and greenhouse gas emission reductions. An investor report will be made available on an annual basis, providing details of the different assets financed along with asset-level sustainability performance data reported by borrowers or sponsors.

Invesco Real Estate Finance Fund – Real Estate Debt (1.3% of Group as at 31 March 2021)

Invesco UK Real Estate Fund– Residential Property (2.2% of Group as at 31 March 2021)

Invesco Real Estate ("IRE")'s investment approach requires the investment team to maintain regular and meaningful contact with companies within the investment universe and more importantly, companies held within portfolios. The objective of engagement is to obtain deep understanding of the investment opportunity and, often as a shareholder, to ensure that issues which help to define long term shareholder value creation and risk are considered. Engagement with companies may take the form of IRE driven targeted engagement or company driven reactive engagement. It may take the form of broad, dialogue based, ongoing engagement or alternatively comprehensive engagement, focused on key specific issues, which may commonly relate to issues of appropriate capitalisation and financial structure and specific ESG related issues.

Further information on IRE's engagement policy in respect of real estate funds can be found at <https://www.invesco.com/content/dam/invesco/uk/en/pdf/inv-real-estate-engagement-policy.pdf>.

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2021
Appendices

Innisfree PFI Secondary Fund & Continuation Fund – Infrastructure (5.2% of Group as at 31 March 2021)

Innisfree's investments involve a large amount of stakeholder and community engagement. Regular and ongoing engagement with the public sector client throughout the concession life is key. Innisfree's projects engage with local communities and consumers by means of supporting the needs of the many thousands of users of the social infrastructure assets (e.g. school pupils and medical patients who benefit from the school and hospital facilities provided in their local communities), jobs provided by service providers and other community initiatives supported by the supply chain.

The specification of an infrastructure project is set out by the government client at the outset of the concession, and the client determines the initial question of environmental impact versus socio-economic and health or other benefits. Innisfree projects comply with their government clients' specified requirements as to sustainability targets. The health and safety of project users is of paramount importance to each project's SPV (special purpose vehicle, a subsidiary company that is formed to undertake a specific business purpose or activity) board and to its government clients. As Innisfree's projects are predominantly operational public buildings or transportation projects, a significant part of each meeting is spent addressing health and safety incidents and issues which could affect the project users and the employees of the facilities management companies performing the project. In particular, fire regulation compliance is monitored following the distressing events at Grenfell Tower in London. Monitoring is supported by periodic audits and surveys by independent health and safety and other consultants. Innisfree's Asset Management Board is responsible for monitoring all risks as reported by the relevant SPV board directors. All members of the Asset Management Board have undertaken training in health and safety for directors.

In summary

Overall, from the information reviewed, the Group Trustee is of the opinion the stewardship carried out in respect of the Group's investments is adequate and in line with its Stewardship Policy. The Group Trustee also believes the asset managers have demonstrated a willingness and ability to engage appropriately and are implementing voting and engagement activity in a manner consistent with the Group Trustee's policy and expectations.

The Group Trustee will continue to use its influence to drive positive behaviour and change among the managers that it has employed to invest the assets of the Group, and with other third parties the Group Trustee rely on such as its Investment Advisor.