

**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 2020**

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2020**  
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**Magnox Electric Group of the Electricity Supply Pension Scheme  
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Message from the Chairman of Group Trustees**

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**Message from the Chairman of Group Trustees**

I am pleased to present the Magnox Electric Group Annual Report and Financial Statements for the year ended 31 March 2020.

This effective date of these accounts fell at a very strange time for us all, including for pension schemes, with many pension schemes having been badly affected by turbulent times for investments.

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

The investment strategies of the Group have been resilient to the extreme levels of volatility experienced in global financial markets and have largely protected the funding levels of each Section. The outbreak of Covid-19 has had some impact on the valuation of property portfolios; details of this are given in the notes which accompany the formal accounts.

The in house team, Group administrators and our advisers have all been able to adapt well to working from home; pensions have continued to be paid uninterrupted and the trustees have continued to meet in order to manage the Group properly, albeit by using technology. We are grateful to all of our advisers and the administrators for their support in this testing time.

During the year we completed actuarial valuations for each section of the Group to test that they have sufficient assets to cover the expected benefit payments on an ongoing basis. The results of these valuations have been communicated separately in our Pensions Update newsletters but in summary all of the schemes remain in a very comfortable position, as can be seen on page 23 of this report, with funding levels between 94% and 107%.

In September 2019 Magnox Limited, which is the Principal Employer for this Group, became a direct subsidiary of the Nuclear Decommissioning Authority (NDA). Whilst this change had no impact on either the running of, or the security or funding of the Group, there have been changes to the trustee board, with the addition of new members of the Magnox Executive. Gordon Frisby and John Vickerman have replaced Paul Edwards and Karen Walkden as Company Nominated Trustee Directors.

At the beginning of this year there were further changes to the trustee board when two of our trustees came to the end of their terms of office. John Jones and Jim Boyd both stood down after 8 years' and 14 years' service respectively. We have been joined on the trustee board by Chris Wells who is a current employee based at Dungeness and Martin Turner who was based at Wylfa prior to his retirement. Fergus Hall, who has been associated with the Group for many years will continue for another term of office and I am looking forward to working with them all. I am very grateful to Paul, Karen, John and Jim for their significant contribution to the running of the Group and wish them well for the future.

Susan Jee  
Chairman

Date: 30<sup>TH</sup> September 2020

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**Report of the Group Trustees**

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## **Report of the Group Trustees**

### **Introduction**

This Group 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 27 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.

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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 <sup>6</sup>

**Andrew Clare** Chairman of the Investment Sub-committee (Independent Trustee) <sup>1</sup>

**Paul Edwards** resigned 31 August 2019 <sup>2,5</sup>

**Gordon Frisby** appointed 1 September 2019 (Finance Director Magnox Ltd)

**Martin Veasey** (Independent Trustee) <sup>1</sup>

**John Vickerman** appointed 1 March 2020 (HR Director Magnox Ltd)

**Karen Walkden** resigned 29 February 2020

### **MEMBER REPRESENTATIVE TRUSTEE DIRECTORS**

**Jim Boyd** resigned 31 December 2019 (Retired employee) <sup>4</sup>

**Paul Bridgeman** (Retired employee) <sup>1,4</sup>

**Ceri Davies** (Current employee, Oldbury Technical Centre) <sup>2,3</sup>

**Nick Gore** (Retired employee) <sup>1,4</sup>

**Fergus Hall** (Retired employee) <sup>2,4</sup>

**John Jones** resigned 31 December 2019 (Current employee, Wylfa) <sup>3</sup>

**Martin Turner** appointed 1 January 2020 (Retired employee) <sup>4</sup>

**Chris Wells** appointed 1 January 2020 (Current employee, Dungeness) <sup>2,3</sup>

*Note:*

*1. Member of the Investment Committee at 31 March 2020*

*2. Member of the Governance & Audit Sub-committee at 31 March 2020*

*3. Active member of the Group*

*4. In receipt of pension from the Group*

*5. Employee of Cavendish Nuclear Limited seconded to Magnox*

*6. 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.*

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### **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 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 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 six times, including two special meetings. 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. Two special meetings were held during the year at which the focus was on training and consideration of the actuarial valuations.

### **Trustee 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 committee reports comprehensively to the Trustee Board on the performance of the Group's investments and any other matters it has reviewed or considered. The 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 committee routinely attend meetings of the sub-committee as and when they are able to do so. The Investment Sub-committee met three times during the year.

There is a Governance and Audit Sub-committee which advises the Trustee Board on agreed aspects of the Group's governance and controls to provide assurance of effective stewardship. The committee provides comprehensive reports to the Trustee Board and the meetings are open for any Group Trustee who is not a member of the committee to attend. This Sub-committee met three times during the year.

Communication with members was maintained by means of Pensions Update newsletters, via the website and through the Group Annual Meeting held at Falfield.

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## **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 also 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.

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### **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 64 and 65. The Trustee Directors are assisted in the management of the Group by the pensions team from Magnox Ltd including the Group Administrator, Rachel Hewlett.

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 2020 Fergus Hall was the councillor chosen by the member representative Trustee Directors and Rachel Hewlett was the councillor chosen by our Principal Employer. 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.



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**Membership statistics for the year ended 31 March 2020**

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
<b>At 1 April 2019</b>	<b>1,314</b>	<b>5,566</b>	<b>1,375</b>	<b>1,236</b>	<b>9,491</b>
<b>Increases</b>					
Contributors/pensioners/dependants/deferred pensioners	-	166	80	44	290
Pension sharing orders and new equivalent pension benefit ("EPB") pensioners in payment	2	-	-	-	2
<b>Sub Total</b>	<b>2</b>	<b>166</b>	<b>80</b>	<b>44</b>	<b>292</b>
<b>Reductions</b>					
Contributors / deferred pensioners retiring	(87)	-	-	(79)	(166)
Deaths	(1)	(152)	(65)	(1)	(219)
Leavers with deferred pensions	(44)	-	-	-	(44)
Leavers with refunds of contributions/transfers to other schemes/cessation of child allowances	-	-	(4)	(39)	(43)
<b>Sub Total</b>	<b>(132)</b>	<b>(152)</b>	<b>(69)</b>	<b>(119)</b>	<b>(472)</b>
<b>At 31 March 2020</b>	<b>1,184</b>	<b>5,580</b>	<b>1,386</b>	<b>1,161</b>	<b>9,311</b>

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

**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 2020 was 2.4% 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 2019 and 1 March 2020.

Pension increases over the previous five years were:

1 April 2019	3.3%
1 April 2018	3.9%
1 April 2017	2.0%
1 April 2016	0.8%
1 April 2015	2.3%

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### **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.

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## **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 (formerly Aon Hewitt Limited) and take into account each Section's 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 65.

See Note 10 to the financial statements for details of the allocation of each Section's assets as at 31 March 2020.

### **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 & 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 & 2018. 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.

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

- (a) ensuring compliance with the current investment requirements;
- (b) investment objectives;
- (c) investment strategy;
- (d) risk;
- (e) implementation; and
- (f) governance.

The Group Trustees are not aware of, and have not been informed by the fund managers of, any departures from the SIPs during the year. A copy of the SIP can be obtained by writing to the Group's Administrator, whose address and telephone number appears on page 64.

### **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.

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**Strategic changes over the year to 31 March 2020**

SLC Section

We are making progress towards implementing our long-term target portfolio focussed on liability driven investment ("LDI"), credit and inflation-linked assets which we expect to be largely in place over the next 12 to 18 months. Commitments to long lease property (CBRE), property debt (GAM & DRC), direct lending (Arcmont & Hayfin) and private rented sector property (L&G and Invesco) are expected to be largely drawn within the next 12 months (based on the current pipeline of opportunities).

The Group Trustees fully redeemed their holdings with Lindsell Train, LGIM, Genesis and JP Morgan over the financial year. The sale proceeds of c.£300m were used to meet the Section's cashflow requirements (drawdowns and benefit-related payments). Future cashflow requirements are expected to be funded from the remainder of the settlement of the JPMorgan redemption and the Section's diversified growth fund managers, Schroders and Ruffer.

The Group Trustees are in the process of reviewing the investment strategy following the 2019 actuarial valuation.

Cavendish Nuclear Section

The Group Trustees redeemed the Section's holdings with JP Morgan on 31 March 2019 following a period of persistent underperformance. The majority of the cash proceeds settled in May 2019 and were temporarily invested with existing multi-asset manager, Schroders. The remainder will settle over the remainder of 2020/2021.

The Group Trustees are in the process of reviewing the investment strategy following the 2019 actuarial valuation.

Atkins Section

In April 2019, the Group Trustees completed the purchase of an annuity insurance contract with Canada Life for c£40m. The annuity is held as an asset of the Section and is viewed by the Group Trustees as an illiquid matching investment which reduces both the financial and demographic risk within the Section.

Following the annuity transaction, the remaining assets in the LDI portfolio were rearranged to hedge the financial risk (interest rate and inflation risk) not being provided by the annuity with Canada Life.

The Group Trustees plan to purchase further annuities as the membership matures.

NNL Section

The Group Trustees reviewed the investment strategy following the 2019 actuarial valuation and decided to introduce an LDI portfolio. The LDI portfolio should reduce the funding level volatility that has been experienced in recent years due to changes in gilt yields and inflation expectations.

An investment was made into BMO's LDI pooled funds in December 2019 and a c.80% interest rate and inflation hedge was achieved relative to the Section's Technical Provision liabilities. The Section's allocations to Schroders and Ruffer were consequently adjusted to maintain the target level of expected return of the overall portfolio (in the region of Gilts +2.4% per annum).

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## **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.

<b>Section</b>	<b>1 year to 31 March 2020</b>		<b>3 years (annualised) to 31 March 2020</b>	
	<b>Return (%)</b>	<b>Benchmark (%)</b>	<b>Return (%)</b>	<b>Benchmark (%)</b>
SLC	4.4	2.6	4.6	4.1
Cavendish Nuclear	0.9	2.6	3.4	4.2
Atkins	3.1	3.3	3.2	3.2
NNL	1.3	6.3	1.6	5.0

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

The outbreak of Covid-19, declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries and market activity has been impacted in many sectors.

The investment strategies of the Group have been resilient to the extreme levels of volatility experienced in global financial markets and have largely protected the funding levels of each Section. The outbreak of Covid-19 has had some impact on the valuation of property portfolios. This is further explained in Note 18.

### SLC Section

The SLC Section generated a return of 4.4% over the one-year-period to 31 March 2020. 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 LDI manager BMO, diversified growth fund manager Ruffer, and PFI infrastructure managers Innisfree and Infrared.

### Cavendish Nuclear Section

The Cavendish Nuclear Section underperformed its benchmark over the one-year period to 31 March 2020. The underperformance was largely attributable to diversified growth fund manager Schroders.

### Atkins Section

The Atkins Section's performance was broadly in line with benchmark over the one-year period to 31 March 2020. 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 underperformed its benchmark over the one-year period to 31 March 2020. The underperformance was largely attributable to diversified growth fund manager Schroders.

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### **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.

With the exception of Schroders, who allocated 0.004% of the fund's assets to one of the Group's related companies (Babcock International Group Plc, which is the parent company of Cavendish Nuclear Ltd), the Group assets had no other exposure to the employers participating in the Group and their associated companies as at 31 March 2020. 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 2020, 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.

### **Custody**

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

The Bank of New York Mellon is the custodian in relation to securities. Where certificates are available in relation to such securities, they are held by The Bank of New York 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.

All cash is held in bank accounts 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.

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## **Changes in Scheme Provisions**

### **Scheme wide amendments by the Scheme Co-ordinator, Electricity Pensions Limited (EPL)**

EPL may amend the provisions of the Scheme with the unanimous consent of all of the participating Principal Employers. During the year ended 31 March 2020 the following Scheme-wide amendments were made:

- Deed of Amendment dated 21 January 2020 enhanced provisions concerning the insolvency of a Principal Employer.

## **Changes to the Group**

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

### **Guaranteed Minimum Pension ("GMP") Equalisation**

In October 2018, the High Court determined that benefits provided to members who had contracted out of their pension scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. This is known as "GMP Equalisation". Under the ruling, schemes are required to backdate benefit adjustments in relation to GMP Equalisation and provide interest on the backdated amounts.

The Group has undertaken a process of assessing the overall impact of GMP Equalisation, and plans to adjust members' benefits to reflect the correct position and communicate this to members. The Group Trustees have obtained an initial estimate of the backdated benefits and interest which relate to equalisation of Group benefits for the period between May 1990 and April 1997. Based on an initial assessment by the actuary, an estimate of 0.2% of liabilities on a technical provisions basis has been determined. With the likely liability of backdated payments for the Group to be substantially less, the Group Trustees do not expect these to be material to the financial statements and therefore 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.

### **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 Trustee 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 Trustee will review your complaint at its next meeting.

You will be notified of the Trustee's 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 22 to 24, were approved by the Group Trustees and signed on their behalf on 30<sup>th</sup> September 2020:



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

### **Statement about contributions**

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#### **Opinion**

In our opinion, the contributions required by the schedules of contributions for the Group year ended 31 March 2020 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 as detailed on page 17.

We have examined Magnox Electric Group of the Electricity Supply Pension Scheme's summary of contributions for the Group year ended 31 March 2020 which is set out on pages 16 and 17.

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#### **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 Trustees in respect of contributions***

As explained more fully in the Statement of Group Trustees' Responsibilities, the Group's Group Trustees are 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 Trustees 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  
Chartered Accountants and Statutory Auditors  
Leeds  
Date 30/9/2020

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2020**  
**Contributions**

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

During the year ended 31 March 2020, the contributions required by the schedules of contributions were as follows:

**Site Licence Company Section**

	Employer £ million	Employee £ million	Total £ million
<b>Required by the schedule of contributions</b>			
Normal*	23.9	-	23.9
<b>Total (as reported on by the Group auditors)</b>	<b>23.9</b>	<b>-</b>	<b>23.9</b>
<b>Other contributions payable</b>			
Augmentations (Early retirements)	6.9	-	6.9
Supplementary pensions funding	1.7	-	1.7
Other	1.3	-	1.3
AVCs	1.1	0.2	1.3
<b>Total (as per Fund Account)</b>	<b>34.9</b>	<b>0.2</b>	<b>35.1</b>

\*Under salary sacrifice arrangements, £3.6m of contributions were met by the Employer rather than the Employees and are included in the £23.9m above.

**Cavendish Nuclear Section**

	Employer £ million	Employee £ million	Total £ million
<b>Required by the schedule of contributions</b>			
Normal*	1.4	-	1.4
<b>Total (as per Fund Account)</b>	<b>1.4</b>	<b>-</b>	<b>1.4</b>

\*Under salary sacrifice arrangements, £0.2m of contributions were met by the Employer rather than the Employees and are included in the £1.4m above.

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2020**  
**Contributions**

**Atkins Section**

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

**National Nuclear Laboratory Section**

	<b>Employer £ million</b>	<b>Employee £ million</b>	<b>Total £ million</b>
<b>Required by the schedule of contributions</b>			
Normal	0.2	-	0.2
Deficit	0.2	-	0.2
<b>Total (as per Fund Account)</b>	<b>0.4</b>	<b>-</b>	<b>0.4</b>

**Summary of Schedules of Contributions in force during the year ended 31 March 2020:**

<b>Section</b>	<b>Date of certification of Schedule(s)</b>
Site Licence Company	30 June 2017
Cavendish Nuclear	22 March 2017 and 31 March 2020
Atkins	26 May 2017 and 13 March 2020
National Nuclear Laboratory	22 March 2017 and 7 February 2020

Approved by the Group Trustees and signed on their behalf on 30th September 2020:

**Magnox Electric Group of the Electricity Supply Pension Scheme  
Annual Report and Financial Statements for the year ended 31 March 2020  
Contributions**

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**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	<i>Chris Vaughan-Williams</i>	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 2020  
Contributions**

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**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 2020  
Contributions**

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**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 2020  
Contributions**

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**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 2020**  
**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:

	<b>SLC £m</b>	<b>Cavendish Nuclear £m</b>	<b>Atkins £m</b>	<b>NNL £m</b>
Value of technical provisions	3,186.7	74.9	67.0	11.4
Value of assets available to meet technical provisions	3,223.5	76.4	71.8	10.7
As a percentage of technical provisions	101%	102%	107%	94%

An approximate update was performed as at 31 March 2020 for each Section and the results are set out in the table below:

	<b>SLC £m</b>	<b>Cavendish Nuclear £m</b>	<b>Atkins £m</b>	<b>NNL £m</b>
Value of technical provisions	3,231.6	80.7	64.4	11.6
Value of assets available to meet technical provisions	3,249.9	77.4	70.0	10.7
As a percentage of technical provisions	101%	96%	109%	92%

The value of 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 calculations are as follows:

### Method

The actuarial method used in 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 2020**  
**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 2020**  
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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 18 to 21 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.

# ***Independent auditors' report to the Group Trustees of the Magnox Electric Group of the Electricity Supply Pension Scheme***

## **Report on the audit of the Financial Statements**

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### **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 2020, 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 2020; the Fund Account for the year then ended; and the notes to the Financial Statements, which include a description of the significant accounting policies.

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### **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.

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### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the Group Trustees' use of the going concern basis of accounting in the preparation of the Financial Statements is not appropriate; or
- the Group Trustees have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Financial Statements are authorised for issue.

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

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2020**  
**Financial statements**

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### **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 Trustees are 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.

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### **Responsibilities for the Financial Statements and the audit**

#### *Responsibilities of the Group Trustees for the Financial Statements*

As explained more fully in the Statement of Group Trustees' Responsibilities, the Group Trustees are 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 Trustees are also responsible for such internal control as they determine 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 Trustees are 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 Trustees either intend to wind up the Group, or have 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.

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](http://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 Trustees 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  
Chartered Accountants and Statutory Auditors  
Leeds  
Date 30/9/2020

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2020**  
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**Fund Account for the year to 31 March 2020**

	<b>Note</b>	SLC Section 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	<b>Total 2020 £ million</b>	<i>Total 2019 £ million</i>
<b>Additions from dealings with members</b>							
Employer contributions	<b>5</b>	34.9	1.4	0.1	0.4	<b>36.8</b>	34.8
Employee contributions	<b>5</b>	0.2	-	-	-	<b>0.2</b>	0.3
Total contributions		35.1	1.4	0.1	0.4	<b>37.0</b>	35.1
Transfers in	<b>6</b>	-	-	-	-	-	0.1
		35.1	1.4	0.1	0.4	<b>37.0</b>	35.2
<b>Withdrawals from dealings with members</b>							
Benefits paid or payable	<b>7</b>	(121.9)	(1.0)	(1.1)	(0.6)	<b>(124.6)</b>	(118.8)
Payments to and on account of leavers	<b>8</b>	(22.9)	-	(4.1)	-	<b>(27.0)</b>	(33.9)
		(144.8)	(1.0)	(5.2)	(0.6)	<b>(151.6)</b>	(152.7)
<b>Net (withdrawals) / additions from dealings with members</b>		(109.7)	0.4	(5.1)	(0.2)	<b>(114.6)</b>	(117.5)
<b>Returns on investments</b>							
Investment income	<b>9</b>	36.6	0.8	1.3	-	<b>38.7</b>	40.9
Change in market value of investments	<b>10</b>	98.8	(0.1)	2.0	0.1	<b>100.8</b>	154.2
Investment management expenses	<b>11</b>	(2.0)	(0.1)	-	-	<b>(2.1)</b>	(3.8)
Taxes on investment income	<b>12</b>	0.6	-	-	-	<b>0.6</b>	0.6
<b>Net returns on investments</b>		134.0	0.6	3.3	0.1	<b>138.0</b>	191.9
<b>Net increase / (decrease) in the fund during the year</b>		24.3	1.0	(1.8)	(0.1)	<b>23.4</b>	74.4
<b>Opening net assets</b>		3,239.0	77.1	72.2	10.8	<b>3,399.1</b>	3,324.7
<b>Closing net assets</b>		<b>3,263.3</b>	<b>78.1</b>	<b>70.4</b>	<b>10.7</b>	<b>3,422.5</b>	3,399.1

The accompanying notes on pages 29 to 58 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 2020**  
**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	Total 2019 £ million
<b>Investment assets</b>							
Equities	10	29.7	-	-	0.6	30.3	104.3
Bonds	10	63.9	-	-	1.3	65.2	56.4
Property loan assets	10	142.4	-	-	-	142.4	125.2
Pooled investment vehicles	13	3,001.8	77.3	27.7	8.6	3,115.4	3,074.4
Derivatives	14	-	-	-	-	-	0.1
Insurance policies	15	-	-	42.2	-	42.2	-
AVC investments	16	13.4	0.7	0.4	0.1	14.6	16.7
Cash	17	3.8	-	-	0.2	4.0	16.6
Other investment balances	17	1.9	-	-	-	1.9	10.1
		<u>3,256.9</u>	<u>78.0</u>	<u>70.3</u>	<u>10.8</u>	<u>3,416.0</u>	<u>3,403.8</u>
<b>Investment liabilities</b>							
Derivatives	14	(2.6)	-	-	(0.1)	(2.7)	(0.3)
Other investment balances	17	(0.3)	(0.1)	-	-	(0.4)	(7.4)
		<u>(2.9)</u>	<u>(0.1)</u>	<u>-</u>	<u>(0.1)</u>	<u>(3.1)</u>	<u>(7.7)</u>
<b>Total net investments</b>		<u>3,254.0</u>	<u>77.9</u>	<u>70.3</u>	<u>10.7</u>	<u>3,412.9</u>	<u>3,396.1</u>
Current assets	22	10.9	0.2	0.1	-	11.2	4.8
Current liabilities	23	(1.6)	-	-	-	(1.6)	(1.8)
<b>Total net assets available for benefits</b>		<u>3,263.3</u>	<u>78.1</u>	<u>70.4</u>	<u>10.7</u>	<u>3,422.5</u>	<u>3,399.1</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 does take account of such obligations, is dealt with in the Report on Actuarial Liabilities included within this Annual Report on pages 22 to 24 and these financial statements should be read in conjunction with this report.

The financial statements on pages 27 to 58 were approved by the Group Trustees on 30<sup>th</sup> September 2020

Signed on behalf of the Group Trustees:

## **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.

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2020**  
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**3. Comparative disclosures for the Fund Account and Statement of Net Assets Available for Benefits**

**Fund Account for the year to 31 March 2019**

	<b>Note</b>	<i>SLC Section 2019 £ million</i>	<i>CN Section 2019 £ million</i>	<i>Atkins Section 2019 £ million</i>	<i>NNL Section 2019 £ million</i>	<b>Total 2019 £ million</b>
<b>Additions from dealings with members</b>						
Employer contributions	<b>5</b>	32.9	1.3	0.2	0.4	<b>34.8</b>
Employee contributions	<b>5</b>	0.2	0.1	-	-	<b>0.3</b>
Total contributions		33.1	1.4	0.2	0.4	<b>35.1</b>
Transfers in	<b>6</b>	0.1	-	-	-	<b>0.1</b>
		33.2	1.4	0.2	0.4	<b>35.2</b>
<b>Withdrawals from dealings with members</b>						
Benefits paid or payable	<b>7</b>	(116.7)	(0.8)	(1.1)	(0.2)	<b>(118.8)</b>
Payments to and on account of leavers	<b>8</b>	(31.8)	(0.6)	(1.5)	-	<b>(33.9)</b>
		(148.5)	(1.4)	(2.6)	(0.2)	<b>(152.7)</b>
<b>Net (withdrawals) / additions from dealings with members</b>		(115.3)	-	(2.4)	0.2	<b>(117.5)</b>
<b>Returns on investments</b>						
Investment income	<b>9</b>	38.3	0.8	1.8	-	<b>40.9</b>
Change in market value of investments	<b>10</b>	147.4	4.3	2.1	0.4	<b>154.2</b>
Investment management expenses	<b>11</b>	(3.8)	-	-	-	<b>(3.8)</b>
Taxes on investment income	<b>12</b>	0.6	-	-	-	<b>0.6</b>
<b>Net returns on investments</b>		182.5	5.1	3.9	0.4	<b>191.9</b>
<b>Net increase in the fund during the year</b>		67.2	5.1	1.5	0.6	<b>74.4</b>
<b>Opening net assets</b>		3,171.8	72.0	70.7	10.2	<b>3,324.7</b>
<b>Closing net assets</b>		<b>3,239.0</b>	<b>77.1</b>	<b>72.2</b>	<b>10.8</b>	<b>3,399.1</b>



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**Statement of Net Assets Available for Benefits as at 31 March 2019**

	<b>Note</b>	<i>SLC Section 2019 £ million</i>	<i>CN Section 2019 £ million</i>	<i>Atkins Section 2019 £ million</i>	<i>NNL Section 2019 £ million</i>	<b>Total 2019 £ million</b>
<b>Investment assets</b>						
Equities	10	103.7	-	-	0.6	104.3
Bonds	10	55.7	-	-	0.7	56.4
Property loan assets	10	125.2	-	-	-	125.2
Pooled investment vehicles	13	2,917.4	76.2	71.8	9.0	3,074.4
Derivatives	14	0.1	-	-	-	0.1
Insurance policies	15	-	-	-	-	-
AVC investments	16	15.5	0.7	0.4	0.1	16.7
Cash	17	16.4	-	-	0.2	16.6
Other investment balances	17	10.0	-	-	0.1	10.1
		<u>3,244.0</u>	<u>76.9</u>	<u>72.2</u>	<u>10.7</u>	<u>3,403.8</u>
<b>Investment liabilities</b>						
Derivatives	14	(0.3)	-	-	-	(0.3)
Other investment balances	17	(7.3)	-	-	(0.1)	(7.4)
		<u>(7.6)</u>	<u>-</u>	<u>-</u>	<u>(0.1)</u>	<u>(7.7)</u>
<b>Total net investments</b>		<u>3,236.4</u>	<u>76.9</u>	<u>72.2</u>	<u>10.6</u>	<u>3,396.1</u>
Current assets	22	3.8	0.2	0.6	0.2	4.8
Current liabilities	23	(1.2)	-	(0.6)	-	(1.8)
<b>Total net assets available for benefits</b>		<u>3,239.0</u>	<u>77.1</u>	<u>72.2</u>	<u>10.8</u>	<u>3,399.1</u>

**4. Summary of significant accounting policies**

**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.

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.

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Employers' deficit funding contributions are accounted for on the due dates set out in the Schedule 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.

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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 judgements in applying the accounting policies
- Key accounting estimates and assumptions

The Group Trustees make estimate and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. For the Group, the 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 investments and, in particular, those classified in Level 3 of the fair-value hierarchy. The Trustees do not consider there to be any critical judgements.

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**5. Contributions**

	SLC Section 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	Total 2020 £ million
Employers:					
- Normal <sup>1</sup>	23.9	1.4	0.1	0.2	25.6
- Deficit funding <sup>2</sup>	-	-	-	0.2	0.2
- Augmentations (Contractual early retirements)	6.9	-	-	-	6.9
- Supplementary pensions funding <sup>3</sup>	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>

	SLC Section 2019 £ million	CN Section 2019 £ million	Atkins Section 2019 £ million	NNL Section 2019 £ million	Total 2019 £ million
Employers:					
- Normal <sup>1</sup>	25.6	1.3	0.2	0.2	27.3
- Deficit funding <sup>2</sup>	-	-	-	0.2	0.2
- Augmentations (Contractual early retirements)	3.8	-	-	-	3.8
- Supplementary pensions funding <sup>3</sup>	1.4	-	-	-	1.4
- Other					
- Rule 29	0.7	-	-	-	0.7
- Salary sacrifice AVC	1.4	-	-	-	1.4
Employees:					
- AVCs	0.2	0.1	-	-	0.3
	<u>33.1</u>	<u>1.4</u>	<u>0.2</u>	<u>0.4</u>	<u>35.1</u>

<sup>1</sup> 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 £3.6 million (2019: £3.9 million), and for the Cavendish Nuclear Section £0.2 million (2019: £0.2 million).

<sup>2</sup> 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 2020 and 31 March 2019 and this amount will continue to be paid by each 31 March to 31 March 2022, with £150,000 due by 31 March 2023.

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

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**6. Transfers in**

	SLC Section 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	<b>Total 2020 £ million</b>
Individual transfer values received from other pension schemes:	-	-	-	-	-

	SLC Section 2019 £ million	CN Section 2019 £ million	Atkins Section 2019 £ million	NNL Section 2019 £ million	<b>Total 2019 £ million</b>
Individual transfer values received from other pension schemes:	0.1	-	-	-	0.1

**7. Benefits paid or payable**

	SLC Section 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	<b>Total 2020 £ million</b>
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
Lump sum death benefits (in retirement)	-	-	-	-	-
Taxation where lifetime or annual allowance exceeded	-	-	-	0.1	0.1
	<b>121.9</b>	<b>1.0</b>	<b>1.1</b>	<b>0.6</b>	<b>124.6</b>

	SLC Section 2019 £ million	CN Section 2019 £ million	Atkins Section 2019 £ million	NNL Section 2019 £ million	<b>Total 2019 £ million</b>
Pensions	106.2	0.7	1.0	0.2	108.1
Lump sum retirement benefits and commutations	9.3	0.1	0.1	-	9.5
Purchase of annuities on retirement (AVCs)	0.9	-	-	-	0.9
Lump sum death benefits (in service)	-	-	-	-	-
Lump sum death benefits (in retirement)	0.3	-	-	-	0.3
Taxation where lifetime or annual allowance exceeded	-	-	-	-	-
	<b>116.7</b>	<b>0.8</b>	<b>1.1</b>	<b>0.2</b>	<b>118.8</b>

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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.

As explained on page 13 of the Group Trustees Report, in October 2018, the High Court determined that benefits provided to members who had contracted out of their pension scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. This is known as "GMP Equalisation". Under the ruling, schemes are required to backdate benefit adjustments in relation to GMP Equalisation and provide interest on the backdated amounts.

The Group has undertaken a process of assessing the overall impact of GMP Equalisation, and plans to adjust members' benefits to reflect the correct position and communicate this to members. The Group Trustees have obtained an initial estimate of the backdated benefits and interest which relate to equalisation of Group benefits for the period between May 1990 and April 1997. Based on an initial assessment by the actuary, an estimate of 0.2% of liabilities on a technical provisions basis has been determined. With the likely liability of backdated payments for the Group to be substantially less, the Group Trustees do not expect these to be material to the financial statements and therefore 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.

#### **8. Payments to and on account of leavers**

	SLC Section 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	Total 2020 £ million
Purchase of annuities to match preserved benefits	-	-	-	-	-
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>

	SLC Section 2019 £ million	CN Section 2019 £ million	Atkins Section 2019 £ million	NNL Section 2019 £ million	Total 2019 £ million
Purchase of annuities to match preserved benefits	0.1	-	-	-	0.1
Transfer values paid to other pension schemes:					
- Individual transfers	30.5	0.6	0.9	-	32.0
- Individual transfers - AVCs	1.0	-	0.6	-	1.6
Intra-scheme transfers					
- Individual transfers	0.2	-	-	-	0.2
	<u>31.8</u>	<u>0.6</u>	<u>1.5</u>	<u>-</u>	<u>33.9</u>

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**9. Investment income**

	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	-	-	-	-	-
	<u>36.6</u>	<u>0.8</u>	<u>1.3</u>	<u>-</u>	<u>38.7</u>

	SLC Section 2019 £ million	CN Section 2019 £ million	Atkins Section 2019 £ million	NNL Section 2019 £ million	Total 2019 £ million
Dividends from equities	2.6	-	-	-	2.6
Income from bonds	0.4	-	-	-	0.4
Income from property loan assets	5.7	-	-	-	5.7
Income from pooled investment vehicles	29.1	0.8	1.8	-	31.7
Income from insurance policies	-	-	-	-	-
Interest on cash deposits	0.4	-	-	-	0.4
Other	0.1	-	-	-	0.1
	<u>38.3</u>	<u>0.8</u>	<u>1.8</u>	<u>-</u>	<u>40.9</u>

**10. Reconciliation of net investments**

**Investment movements – SLC Section**

	Value at 01.04.2019 £ million	Purchases at cost and derivative payments £ million	Sales proceeds and derivative receipts £ million	Change in market Value £ million	Value at 31.03.2020 £ million
Equities	103.7	44.8	(116.4)	(2.4)	29.7
Bonds	55.7	51.4	(45.3)	2.1	63.9
Property loan assets	125.2	53.8	(34.5)	(2.1)	142.4
Pooled investment vehicles	2,917.4	827.4	(848.4)	105.4	3,001.8
Derivatives – net	(0.2)	7.2	(4.6)	(5.0)	(2.6)
AVC investments	15.5	1.3	(2.5)	(0.9)	13.4
	<u>3,217.3</u>	<u>985.9</u>	<u>(1,051.7)</u>	<u>97.1</u>	<u>3,248.6</u>
Cash deposits	16.4				3.8
Other investment balances	2.7				1.6
<b>Net investment assets</b>	<u>3,236.4</u>				<u>3,254.0</u>

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**Change in market value – SLC Section**

	<b>2020</b>	<i>2019</i>
	<b>£ million</b>	<i>£ million</i>
Change in market value shown above	<b>97.1</b>	<i>146.9</i>
Exchange gains	<b>1.7</b>	<i>0.5</i>
Change in market value per fund account	<b>98.8</b>	<i>147.4</i>

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	Equities	<b>2020</b>	<i>2019</i>
	£ million	£ million	<b>£ million</b>	<i>£ million</i>
Fees	-	0.1	<b>0.1</b>	<i>0.2</i>
Commissions	-	-	-	-
Taxes	-	-	-	-
<b>2020 total</b>	<b>-</b>	<b>0.1</b>	<b>0.1</b>	
<i>2019 total</i>	<i>0.1</i>	<i>0.1</i>		<i>0.2</i>

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.

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.



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**Investment movements – Cavendish Nuclear Section**

	Value at 01.04.2019 £ million	Purchases at cost £ million	Sales proceeds £ million	Change in market value £ million	Value at 31.03.2020 £ million
Pooled investment vehicles	76.2	37.5	(36.3)	(0.1)	77.3
AVC investments	0.7	-	-	-	0.7
	<u>76.9</u>	<u>37.5</u>	<u>(36.3)</u>	<u>(0.1)</u>	<u>78.0</u>
Other investment balances	-				(0.1)
<b>Net investment assets</b>	<u>76.9</u>				<u>77.9</u>

Transaction costs incurred during the year amounted to £nil (2019: £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 01.04.2019 £ million	Purchases at cost and derivative payments £ million	Sales proceeds and derivative receipts £ million	Change in market value £ million	Value at 31.03.2020 £ million
Pooled investment vehicles	71.8	8.1	(52.7)	0.5	27.7
Insurance policies	-	40.8	-	1.4	42.2
AVC investments	0.4	-	(0.1)	0.1	0.4
<b>Net investment assets</b>	<u>72.2</u>	<u>48.9</u>	<u>(52.8)</u>	<u>2.0</u>	<u>70.3</u>

Transaction costs incurred during the year amounted to £nil (2019: £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.

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**Investment movements – NNL Section**

	Value at 01.04.2019 £ million	Purchases at cost £ million	Sales proceeds £ million	Change in market value £ million	Value at 31.03.2020 £ million
Equities	0.6	1.0	(0.8)	(0.2)	0.6
Bonds	0.7	1.4	(0.8)	-	1.3
Pooled investment vehicles	9.0	11.0	(11.8)	0.4	8.6
Derivatives – net	-	0.1	(0.1)	(0.1)	(0.1)
AVC investments	0.1	-	-	-	0.1
	<u>10.4</u>	<u>13.5</u>	<u>(13.5)</u>	<u>0.1</u>	<u>10.5</u>
Cash deposits	0.2				0.2
<b>Net investment assets</b>	<u>10.6</u>				<u>10.7</u>

Transaction costs incurred during the year amounted to £nil (2019: £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.

**11. 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 2020 £ million	CN Section 2020 £ million	Atkins Section 2020 £ million	NNL Section 2020 £ million	Total 2020 £ million
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>

	SLC Section 2019 £ million	CN Section 2019 £ million	Atkins Section 2019 £ million	NNL Section 2019 £ million	Total 2019 £ million
Administration and management fees	2.5	-	-	-	2.5
Other advisory fees	1.3	-	-	-	1.3
	<u>3.8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3.8</u>

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## 12. 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.

## 13. Pooled investment vehicles

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

	<b>2020</b>	<i>2019</i>
	<b>£ million</b>	<i>£ million</i>
Equities	<b>14.6</b>	<i>165.9</i>
Bonds	<b>544.8</b>	<i>563.8</i>
Property	<b>225.0</b>	<i>129.8</i>
Hedge funds	<b>9.9</b>	<i>92.4</i>
Diversified growth funds	<b>102.7</b>	<i>110.2</i>
Private equity	<b>76.7</b>	<i>21.9</i>
Infrastructure funds	<b>312.1</b>	<i>172.8</i>
Liability Driven Investments	<b>1,413.3</b>	<i>1,413.0</i>
Cash and other liquid assets	<b>302.7</b>	<i>247.6</i>
	<b><u>3,001.8</u></b>	<i><u>2,917.4</u></i>

At 31 March 2020 and 31 March 2019 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:

	<b>2020</b>	<i>2019</i>
	<b>£ million</b>	<i>£ million</i>
Bonds	<b>1,494.5</b>	<i>1,585.2</i>
Swaps – net	<b>(36.3)</b>	<i>(5.8)</i>
Repurchase agreements	<b>(198.2)</b>	<i>(300.3)</i>
Cash and other liquid assets	<b>153.3</b>	<i>133.9</i>
	<b><u>1,413.3</u></b>	<i><u>1,413.0</u></i>

No direct transaction costs (*2019: £nil*) were incurred during the year on the sole investor arrangement.

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

	<b>2020</b>	<i>2019</i>
	<b>£ million</b>	<i>£ million</i>
Equities	<b>8.2</b>	<i>8.7</i>
Bonds	<b>7.3</b>	<i>7.4</i>
Fund of hedge funds	<b>-</b>	<i>3.4</i>
Diversified growth funds	<b>7.1</b>	<i>4.2</i>
Liability Driven Investments	<b>53.9</b>	<i>52.0</i>
Cash and other liquid assets	<b>0.8</b>	<i>0.5</i>
	<b><u>77.3</u></b>	<i><u>76.2</u></i>

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

	<b>2020</b>	<i>2019</i>
	<b>£ million</b>	<i>£ million</i>
Liability Driven Investments	<b>27.7</b>	<b>71.4</b>
Cash and other liquid assets	<b>-</b>	<b>0.4</b>
	<b>27.7</b>	<b>71.8</b>

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

	<b>2020</b>	<i>2019</i>
	<b>£ million</b>	<i>£ million</i>
Equities	<b>0.8</b>	<i>0.3</i>
Bonds	<b>-</b>	<i>6.3</i>
Diversified growth funds	<b>3.0</b>	<i>1.9</i>
Liability Driven Investments	<b>4.1</b>	<i>-</i>
Cash and other liquid assets	<b>0.7</b>	<i>0.5</i>
	<b>8.6</b>	<i>9.0</i>

## 14. 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 2020 and 31 March 2019 are summarised as follows:

	<b>2020</b>	<b>2020</b>	<b>2020</b>	<i>2019</i>	<i>2019</i>	<i>2019</i>
	<b>Assets</b>	<b>Liabilities</b>	<b>Total</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Total</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
<b>Over-the-counter contracts</b>						
Forward foreign currency	<b>-</b>	<b>(2.6)</b>	<b>(2.6)</b>	<i>0.1</i>	<i>(0.3)</i>	<i>(0.2)</i>

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

#### Forward foreign currency contracts – SLC Section

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

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For the **NNL Section**, outstanding derivative financial instruments at 31 March 2020 and 31 March 2019 are summarised as follows:

	<b>2020 Assets £ million</b>	<b>2020 Liabilities £ million</b>	<b>2020 Total £ million</b>	<i>2019 Assets £ million</i>	<i>2019 Liabilities £ million</i>	<i>2019 Total £ million</i>
<b>Over-the-counter contracts</b>						
Forward foreign currency	-	(0.1)	(0.1)	-	-	-

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

**Forward foreign currency contracts – NNL Section**

Type of contract	Currency	Currency Bought £ million	Currency	Currency Sold £ million	<b>2020 Assets £ million</b>	<b>2020 Liabilities £ million</b>
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)
		1.2		(1.3)	-	(0.1)

**15. 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 £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 22 to 24 based on market conditions as at 31 March 2020.

**16. AVC investments**

The number of AVC accounts (including "frozen" accounts) for the **SLC Section** as at 31 March 2020 was 409 (2019: 452). In some cases members may have two or more accounts.

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

	<b>2020 £ million</b>	<i>2019 £ million</i>
Utmost Life and Pensions Limited (formerly Equitable Life Assurance Society)	0.1	0.1
Prudential Assurance Society	13.3	15.4
	<b>13.4</b>	<b>15.5</b>

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The number of AVC accounts (including "frozen" accounts) for the **Cavendish Nuclear Section** as at 31 March 2020 was 13 (2019: 14). In some cases members may have two or more accounts.

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

	<b>2020</b> <b>£ million</b>	<i>2019</i> <i>£ million</i>
Prudential Assurance Society	<u><b>0.7</b></u>	<u><i>0.7</i></u>

The number of AVC accounts (including "frozen" accounts) for the **Atkins Section** as at 31 March 2020 was 3 (2019: 4). In some cases members may have two or more accounts.

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

	<b>2020</b> <b>£ million</b>	<i>2019</i> <i>£ million</i>
Prudential Assurance Society	<u><b>0.4</b></u>	<u><i>0.4</i></u>

The number of AVC accounts (including "frozen" accounts) for the **NNL Section** as at 31 March 2020 was 2 (2019: 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:

	<b>2020</b> <b>£ million</b>	<i>2019</i> <i>£ million</i>
Prudential Assurance Society	<u><b>0.1</b></u>	<u><i>0.1</i></u>

## 17. Cash and other net investment balances

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

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	<i>SLC</i>	<i>CN</i>	<i>Atkins</i>	<i>NNL</i>	<i>Total</i>
	<i>Section</i>	<i>Section</i>	<i>Section</i>	<i>Section</i>	<i>2019</i>
	<i>2019</i>	<i>2019</i>	<i>2019</i>	<i>2019</i>	
	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>
Cash – sterling	16.4	-	-	0.2	16.6
Accrued interest and dividends	1.8	-	-	-	1.8
Recoverable income tax	0.2	-	-	-	0.2
Rebates receivable	0.1	-	-	-	0.1
Amounts receivable from sale of investments	7.9	-	-	0.1	8.0
Other creditors	(0.8)	-	-	-	(0.8)
Amounts payable for purchase of investments	(6.5)	-	-	(0.1)	(6.6)
	<u>19.1</u>	<u>-</u>	<u>-</u>	<u>0.2</u>	<u>19.3</u>

## 18. 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.

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 2020 or 31 March 2019.

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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	2020 Total £ million
<b>Investment assets</b>				
Equities	29.7	-	-	<b>29.7</b>
Bonds	63.9	-	-	<b>63.9</b>
Property loan assets	-	-	142.4	<b>142.4</b>
Pooled investment vehicles	-	2,378.1	623.7	<b>3,001.8</b>
AVC investments	-	13.4	-	<b>13.4</b>
Cash	3.8	-	-	<b>3.8</b>
Other investment balances	1.9	-	-	<b>1.9</b>
<b>Investment liabilities</b>				
Derivatives	-	(2.6)	-	<b>(2.6)</b>
Other investment balances	(0.3)	-	-	<b>(0.3)</b>
	<b>99.0</b>	<b>2,388.9</b>	<b>766.1</b>	<b>3,254.0</b>

In light of the recent Covid-19 pandemic, for five of the Pooled Investments Vehicles held by the SLC Section, the investment managers' property valuers have confirmed that there was 'material uncertainty' over the valuation of the investments that have been calculated as at 31 March 2020. The investments that these relate to are:

Investment manager	Valuer	Value as at 31 March 2020 £m	% of net assets of the Group as at 31 March 2020
M&G	CBRE	238.4	7.0
Legal & General	CBRE	16.9	0.5
Invesco	Jones Lange LaSalle (JLL)	44.3	1.3
CBRE (UKPP)	Knight Frank	113.7	3.3
CBRE (SLIF)	Cushman & Wakefield	49.0	1.4
<b>Total</b>		<b>462.3</b>	<b>13.5</b>

#### Valuation of the SLC Section's Property Funds

##### CBRE UK Property PAIF ("UKPP") and UK Secured Long Income Fund ("SLIF")

The external valuers, Knight Frank and Cushman & Wakefield, informed CBRE of material uncertainty around the valuation of the UKPP and SLIF following the Covid-19 pandemic which caused uncertainty across markets. Both valuers concluded that they were unable to make reliable judgements on value and therefore were required under guidance issued by the Royal Institute of Chartered Surveyors (RICS) to include a Material Value Uncertainty Clause ("MVUC") with their valuation for 31 March 2020.

On Friday 20 March 2020, the Board of CBRE Global Investors (UK Funds) Limited, the authorised corporate director of UKPP, suspended dealings (both issuance and redemption) in UKPP shares to ensure all investors are treated fairly. The prior agreement of the Fund's Depositary was obtained and the FCA was notified the same evening. Dealings for the SLIF remain unsuspended at the time of writing, however it's important to note the initial investors are within the 3-year lock in period.



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CBRE has confirmed that the MVUC is at the full discretion of the Funds' independent valuers. CBRE engages with the valuers on a monthly basis as to when the clause will be removed from each asset. As at 30 June 2020, UKPP remains suspended with 54% of the portfolio subject to the MVUC. The SLIF remains unsuspended with 71% of the portfolio subject to the MVUC. While these changes have impacted the NAV valuation process, the changes have not impacted the pricing frequency or income distribution of either fund, with UKPP and SLIF still distributing monthly and quarterly respectively.

#### L&G UK Build to Rent Fund

The Fund's external property valuer, CBRE, initially issued a MVUC for all underlying properties with the 31 March 2020 valuation. The MVUC was lifted for the 30 June 2020 valuation for all assets except for three plots of land. The land is due for development but does not yet have a fixed price build contract. The residual land value methodology used to value these plots of land is very sensitive to slight changes in expectations. Given the sensitivity, the valuer has retained the MVUC on development land. These three assets represent c.11% of the portfolio NAV. The Fund continues to provide valuations on a quarterly basis and placed no further restrictions on redemptions (initial investors in the Fund are already in lock-up until 31 December 2022).

Of the three sites still receiving the MVUC, two will enter into a fixed priced construction contract during Q3 2020 and so the MVUC will be removed. L&G expect the build contract to be finalised on the last site in Q4 2020, although the MVUC may be removed by CBRE at an earlier date. There has been no impact on the pricing frequency and the Fund continues to publish valuations on a quarterly basis.

#### Invesco UK Residential Fund

The Fund's external property valuer, Jones Lange LaSalle (JLL), initially issued a MVUC for all underlying properties for the 31 March 2020 valuation. For the 30 June 2020 valuation, the MVUC was removed by JLL for the newly developed assets in the Fund following guidance from the RICS that there was sufficient market evidence in the residential sector. Some of the Fund's assets are office to residential conversions and, as there had been limited transactional activity in the market, the MVUC had been retained in respect of these assets. The assets subject to the MVUC account for 27.2% of the Fund's valuation as at 30 June 2020. The Fund will continue to publish valuations on a quarterly basis and placed no further restrictions in relation to redemptions (existing fund documentation already allows redemptions to be deferred for up to 2 years).

The Fund recorded 94% rent collections through Q2 2020 and the overall Fund valuation for 30 June 2020 saw a positive adjustment of c.0.4% relative to the 31 March 2020 valuation.

#### M&G Inflation Opportunities III Fund

The Fund takes its exposure indirectly to property assets via the underlying Secured Property Income Fund ("SPIF"). The Fund allocated c.37% to the SPIF as at 31 March 2020.

In March, CBRE, the SPIF's valuer, inserted a MVUC into all valuations in relation to the SPIF, in line with all independent valuers across UK and Europe in response to Covid-19. Since then, CBRE has removed the MVUC from 35% of the SPIF's assets as at 30 June 2020. This is expected to rise to c.55% during Q3 2020 as MVUCs are removed from various other assets. The SPIF continues to trade as normal, with the calculation of a monthly NAV. This position is reviewed on a monthly basis and valuations are closely monitored to ensure the SPIF is priced appropriately.

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The SLIF continues to have a strong liquidity position with a stable capital base, comprised of long-term institutional investors, a substantial capital queue and an unused revolving credit facility. Most of the SPIF's valuations have remained stable over the year to date, however there has been a decline in the valuation of assets in the most impacted sectors (in particular the hotel and leisure sectors), resulting in a fund level capital value decline of 3.3% over the year to 15 July 2020. Additionally, M&G expects to see a temporary reduction in the net distribution yield for 2020 (to c.3.0% from c.3.8% p.a. in Q1 2020). M&G anticipates this will normalise in 2021 with the repayment of deferred rents.

With regards to liquidity, M&G expects to be able to meet the SPIF's requirements via the current capital queue (c.£402m). Furthermore, M&G has access to a £100m undrawn debt facility to ensure that the SPIF has sufficient capital to satisfy expected/unexpected liquidity requirements.

### Conclusion

All fund managers have advised that they are confident that there has not been a weakening of their control environments due to Covid-19. Policies and procedures have generally been implemented in a remote working environment with some adjustments to implementation. There have been no material weaknesses or significant deficiencies identified or corrective actions taken that have not already been disclosed to the Group Trustees.

The MVUC is to serve as a precaution and does not invalidate the valuations. The Group Trustees are satisfied that the year-end valuations, which have been provided by the investment managers, are appropriate for inclusion in the financial statements. It has appointed their investment adviser, Aon Solutions UK Limited, to oversee these managers and is satisfied that they are acting within their mandate, valuing the assets as accurately as possible given the current situation. The Group Trustees are aware of the uncertainty within the market at present but given the long-term nature of pension scheme investments, see this as a temporary period of uncertainty that is being reviewed regularly by the managers. Nonetheless, the Group Trustees do not believe that the impact of Covid-19 will have a material effect on the security of the Group and members' benefits.

Analysis for the prior year end is as follows:

	<i>Level 1</i> <i>£ million</i>	<i>Level 2</i> <i>£ million</i>	<i>Level 3</i> <i>£ million</i>	<b>2019 Total</b> <b>£ million</b>
<b>Investment assets</b>				
Equities	103.7	-	-	<b>103.7</b>
Bonds	55.7	-	-	<b>55.7</b>
Property loan assets	-	-	125.2	<b>125.2</b>
Pooled investment vehicles	-	2,500.5	416.9	<b>2,917.4</b>
Derivatives	-	0.1	-	<b>0.1</b>
AVC investments	-	15.5	-	<b>15.5</b>
Cash	16.4	-	-	<b>16.4</b>
Other investment balances	10.0	-	-	<b>10.0</b>
<b>Investment liabilities</b>				
Derivatives	-	(0.3)	-	<b>(0.3)</b>
Other investment balances	(7.3)	-	-	<b>(7.3)</b>
	<b>178.5</b>	<b>2,515.8</b>	<b>542.1</b>	<b>3,236.4</b>

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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	2020 Total £ million
<b>Investment assets</b>				
Pooled investment vehicles	-	77.3	-	<b>77.3</b>
AVC investments	-	0.7	-	<b>0.7</b>
<b>Investment liabilities</b>				
Other investment balances	(0.1)	-	-	<b>(0.1)</b>
	<b>(0.1)</b>	<b>78.0</b>	<b>-</b>	<b>77.9</b>

Analysis for the prior year end is as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2019 Total £ million
<b>Investment assets</b>				
Pooled investment vehicles	-	72.8	3.4	<b>76.2</b>
AVC investments	-	0.7	-	<b>0.7</b>
	<b>-</b>	<b>73.5</b>	<b>3.4</b>	<b>76.9</b>

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	2020 Total £ million
<b>Investment assets</b>				
Pooled investment vehicles	-	27.7	-	<b>27.7</b>
Insurance policies	-	-	42.2	<b>42.2</b>
AVC investments	-	0.4	-	<b>0.4</b>
	<b>-</b>	<b>28.1</b>	<b>42.2</b>	<b>70.3</b>

Analysis for the prior year end is as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2019 Total £ million
<b>Investment assets</b>				
Pooled investment vehicles	-	71.8	-	<b>71.8</b>
AVC investments	-	0.4	-	<b>0.4</b>
	<b>-</b>	<b>72.2</b>	<b>-</b>	<b>72.2</b>

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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	2020 Total £ million
<b>Investment assets</b>				
Equities	0.6	-	-	<b>0.6</b>
Bonds	1.3	-	-	<b>1.3</b>
Pooled investment vehicles	-	8.6	-	<b>8.6</b>
AVC investments	-	0.1	-	<b>0.1</b>
Cash	0.2	-	-	<b>0.2</b>
<b>Investment liabilities</b>				
Derivatives	-	(0.1)	-	<b>(0.1)</b>
	<u>2.1</u>	<u>8.6</u>	<u>-</u>	<u><b>10.7</b></u>

Analysis for the prior year end is as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2019 Total £ million
<b>Investment assets</b>				
Equities	0.6	-	-	<b>0.6</b>
Bonds	0.7	-	-	<b>0.7</b>
Pooled investment vehicles	0.1	8.9	-	<b>9.0</b>
AVC investments	-	0.1	-	<b>0.1</b>
Cash	0.2	-	-	<b>0.2</b>
Other investment balances	0.1	-	-	<b>0.1</b>
<b>Investment liabilities</b>				
Other investment balances	(0.1)	-	-	<b>(0.1)</b>
	<u>1.6</u>	<u>9.0</u>	<u>-</u>	<u><b>10.6</b></u>

## 19. 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.

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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 accounts. This section of the accounts 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 2020 asset position):

	Credit risk	Currency	Market risk Interest rate	Other price	2020 £million	2019 £million
Equities	○	●	○	●	30.3	104.3
Bonds	●	●	●	●	65.2	56.4
Pooled investment vehicles	●	●	●	●	3,115.4	3,074.4
Property loan assets	●	○	●	●	142.4	125.2
Other investment types	●	○	●	○	2.8	19.1
<b>Total</b>					<b>3,356.1</b>	<b>3,379.4</b>

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 2020 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 75% of liability interest rate risk and 79% 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. The investments are referred to as LDI and comprise 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 on long term liabilities.

The remainder of the assets are invested to provide an expected return above the liabilities over the long term, as well as in some instances provide matching characteristics. As at 31 March 2020 the return seeking assets accounted for 53% (2019: 54%) of the overall portfolio.

### **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 100% of liability interest rate risk and 100% 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 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 on long term liabilities.

The remainder of the assets are invested to provide an expected return above the liabilities over the long term. As at 31 March 2020 the return seeking assets accounted for 29% (2019: 31%) 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. This is referred to as LDI and comprises UK government bonds, repurchase agreements and cash, the purpose of which is to hedge against the impact interest rates and inflation have on the movement on long term liabilities. The target hedge ratios are 100% of liability interest rate risk and 100% of 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 target hedge ratios are 80% of liability interest rate risk and 80% of liability inflation risk (on Technical Provisions 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 on long term liabilities.

The remainder of the assets are invested to provide an expected return above the liabilities over the long term. As at 31 March 2020 the return seeking assets accounted for 60% (2019: 40%) 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. Although the Group's mandate with Ruffer enables sub-investment grade bonds to be held, there is currently no direct allocation to these. 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.

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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	2020 £000	2019 £000
Unit-linked insurance contracts	-	127.5
Authorised unit trusts	112.7	116.3
Open-ended investment companies	760.4	740.7
Shares of limited liability partnerships	345.7	183.2
Other*	1,896.6	1,906.7
<b>Total</b>	<b>3,115.4</b>	<b>3,074.4</b>

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

- Genesis – Closed-end fund
- 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 and Hayfin enable sub-investment grade or unrated exposure. These risks are mitigated by the Group through having explicit mandates with investment managers outlining the permitted investment instruments restricting the exposure to higher risk investments or any single counterparty and specifying the minimum permitted creditworthiness of counterparties.

### 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.

## **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 2020 targeted the same exposure to interest rates as:

- SLC Section: 75% of the liabilities (measured on a gilts +0.5% p.a. basis)
- Cavendish Nuclear Section: 100% of the liabilities (measured on a gilts +0.5% p.a. basis)
- Atkins Section: 100% of the liabilities (measured on a gilts +0% p.a. basis)
- National Nuclear Laboratory Section: 80% of the liabilities (measured on a Technical Provisions basis)

## **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.

The outbreak of Covid-19, declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries and market activity has been impacted in many sectors.

The Group's property funds rely on independent valuers to produce valuations for the underlying properties in the funds. Following the outbreak of Covid-19, independent valuers have been faced with an unprecedented set of circumstances on which to base a judgement, with less weight being able to be placed on previous market evidence when forming opinions. As a result, all property valuations by independent valuers have been reported on the basis of 'material valuation uncertainty' since the outbreak as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to property valuations in the report and accounts than would normally be the case.



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## 20. Concentration of investments

Investments exceeding 5% of the value of the **SLC Section's** net assets as at 31 March 2020 or 31 March 2019 are detailed below:

Investment	Value at 31.03.20		Value at 31.03.19	
	£ million	%	£ million	%
BMO LDI Private Sub Fund	1,413.3	43.3	1,413.0	43.6
M&G Inflation Opportunities III Fund	238.4	7.3	238.8	7.4
PIMCO Global Diversified Income Fund	211.8	6.5	224.8	6.9
Barings Global Loan Fund	152.8	4.7	181.3	5.6

Note: Percentages calculated using full values rather than rounded amounts

Investments exceeding 5% of the value of the **Cavendish Nuclear Section's** net assets as at 31 March 2020 or 31 March 2019 are detailed below:

Investment	Value at 31.03.20		Value at 31.03.19	
	£ million	%	£ million	%
BMO Regular Profile Unleveraged Real Gilt Fund	30.7	39.3	26.8	34.8
BMO Regular Profile Leveraged Real Gilt Fund	10.8	13.8	15.8	20.6
CF Lindsell Train UK Equity	8.2	10.5	8.7	11.2
PIMCO Global Libor Plus Fund	7.3	9.4	7.5	9.7
Schroder Life Diversified Growth Fund	7.1	9.0	4.2	5.4
BMO Regular Profile Unleveraged Nominal Gilt Fund	5.7	7.3	4.9	6.4
BMO Sterling Liquidity Fund	4.2	5.4	-	-
BMO Leveraged Mar 2068 Index-Linked Gilt sub-fund	2.4	3.1	4.4	5.7

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 2020 or 31 March 2019 are detailed below:

Investment	Value at 31.03.20		Value at 31.03.19	
	£ million	%	£ million	%
Canada Life Insurance policy	42.2	59.9	-	-
BMO Regular Profile Unleveraged Real Gilt Fund	23.7	33.6	66.6	92.3
BMO Regular Profile Unleveraged Nominal Gilt Fund	1.0	1.5	4.7	6.6

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 2020 or 31 March 2019 are detailed below:

Investment	Value at 31.03.20		Value at 31.03.19	
	£ million	%	£ million	%
Schroder Life Diversified Growth Fund	3.0	27.9	1.9	17.6
BMO Regular Profile Leveraged Real Gilt Fund	2.3	21.3	-	-
BMO Sterling Liquidity Fund	0.9	8.4	-	-
BMO Short Profile Leveraged Real Gilt Fund	0.7	6.7	-	-
L&G Over 5 Years Index-Linked Gilts Index	-	-	4.9	45.8
PIMCO UK Long Term Corporate Bond Fund	-	-	1.4	13.0

Note: Percentages calculated using full values rather than rounded amounts

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## 21. 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.

With the exception of Schroders, who allocated 0.004% of the fund's assets to one of the Group's related companies (Babcock International Group Plc, which is the parent company of Cavendish Nuclear Ltd), the Group assets had no other exposure to the employers participating in the Group and their associated companies as at 31 March 2020. 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 2020, and these investments therefore comply with legislative requirements.

## 22. Current assets

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

	SLC Section 2019 £ million	CN Section 2019 £ million	Atkins Section 2019 £ million	NNL Section 2019 £ million	<b>Total 2019 £ million</b>
Contributions due in respect of:					
Employers	2.4	-	-	-	<b>2.4</b>
Investment income	0.1	-	-	-	<b>0.1</b>
Cash balances	1.3	0.2	0.6	0.2	<b>2.3</b>
	<u>3.8</u>	<u>0.2</u>	<u>0.6</u>	<u>0.2</u>	<u><b>4.8</b></u>

All contributions due to the Group at 31 March 2020 and 31 March 2019 relate to March 2020 and March 2019 respectively and were subsequently paid in full to the Group in accordance with the Schedule of Contributions.

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**23. Current liabilities**

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

	SLC Section 2019 £ million	CN Section 2019 £ million	Atkins Section 2019 £ million	NNL Section 2019 £ million	Total 2019 £ million
Benefits payable	(1.0)	-	-	-	(1.0)
Transfers to other plans	(0.2)	-	(0.6)	-	(0.8)
	<u>(1.2)</u>	<u>-</u>	<u>(0.6)</u>	<u>-</u>	<u>(1.8)</u>

**24. Related party transactions**

Related party transactions and balances comprise:

**Key management personnel**

Contributions and contributions receivable in respect of three of the Group Trustees and pensions paid in respect of five of the Group Trustees.

Fees of £105,451.60 (2019: £119,144.26) were paid to certain Group Trustees in the year.

**Employer and other related parties**

All administrative expenses of the Group incurred during the years to 31 March 2020 and 31 March 2019, and not directly related to the management of the investment portfolios, were paid by the Employers.

**25. Contingencies and commitments**

In the opinion of the Group Trustees the Group had no contingent liabilities or contractual commitments entered into which are not provided for in these financial statements.

The Group has £560 million (2019: £360 million) of funds committed to seven (2019: four) investment managers - GAM International Management Limited (formerly Renshaw Bay LLP), GreenOak Real Estate Advisors LLP, DRC Capital LLP, Invesco Asset Management, Legal & General Investment Management Limited, BlueBay Asset Management LLP and Hayfin Capital Management LLP. As at 31 March 2020, approximately £290.7 million (2019: £141.2 million) is yet to be drawn down and represents a capital commitment at that date.

## **26. Subsequent events**

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

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**Appendix 1 – Analysis of Membership Statistics by Section**

**Site Licence Company Section**

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
<b>At 1 April 2019</b>	<b>1,251</b>	<b>5,505</b>	<b>1,373</b>	<b>1,174</b>	<b>9,303</b>
<b>Increases</b>					
Contributors/pensioners/dependants/deferred pensioners	-	161	80	43	284
Pensions sharing orders and new EPB pensioners in payment	2	-	-	-	2
<b>Sub Total</b>	<b>2</b>	<b>161</b>	<b>80</b>	<b>43</b>	<b>286</b>
<b>Reductions</b>					
Contributors / deferred pensioners retiring	(85)	-	-	(76)	(161)
Deaths	(1)	(152)	(65)	(1)	(219)
Leavers with deferred pensions	(43)	-	-	-	(43)
Leavers with refunds of contributions/transfers to other schemes/cessation of child allowances	-	-	(4)	(36)	(40)
<b>Sub Total</b>	<b>(129)</b>	<b>(152)</b>	<b>(69)</b>	<b>(113)</b>	<b>(463)</b>
<b>At 31 March 2020</b>	<b>1,124</b>	<b>5,514</b>	<b>1,384</b>	<b>1,104</b>	<b>9,126</b>

**Cavendish Nuclear Section**

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
<b>At 1 April 2019</b>	<b>55</b>	<b>33</b>	<b>1</b>	<b>40</b>	<b>129</b>
<b>Increases</b>					
Contributors/pensioners/dependants/deferred pensioners	-	2	-	-	2
<b>Sub Total</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>
<b>Reductions</b>					
Contributors / deferred pensioners retiring	(1)	-	-	(1)	(2)
<b>Sub Total</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>(2)</b>
<b>At 31 March 2020</b>	<b>54</b>	<b>35</b>	<b>1</b>	<b>39</b>	<b>129</b>

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**Atkins Section**

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
<b>At 1 April 2019</b>	<b>3</b>	<b>23</b>	<b>-</b>	<b>20</b>	<b>46</b>
<b>Increases</b>					
Contributors/pensioners/dependants/deferred pensioners	-	2	-	1	3
<b>Sub Total</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>1</b>	<b>3</b>
<b>Reductions</b>					
Contributors / deferred pensioners retiring	-	-	-	(2)	(2)
Leavers with deferred pensions	(1)	-	-	-	(1)
Leavers with refunds of contributions/transfers to other schemes/cessation of child allowances	-	-	-	(3)	(3)
<b>Sub Total</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>(5)</b>	<b>(6)</b>
<b>At 31 March 2020</b>	<b>2</b>	<b>25</b>	<b>-</b>	<b>16</b>	<b>43</b>

**National Nuclear Laboratories Section**

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
<b>At 1 April 2019</b>	<b>5</b>	<b>5</b>	<b>1</b>	<b>2</b>	<b>13</b>
<b>Increases</b>					
Contributors/pensioners/dependants/deferred pensioners	-	1	-	-	1
<b>Sub Total</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Reductions</b>					
Contributors / deferred pensioners retiring	(1)	-	-	-	(1)
<b>Sub Total</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>
<b>At 31 March 2020</b>	<b>4</b>	<b>6</b>	<b>1</b>	<b>2</b>	<b>13</b>

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## **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.

<b>Pension glossary</b>	
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.

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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"> <li>- futures contracts</li> <li>- forward foreign exchange contracts</li> <li>- options</li> <li>- swaps</li> </ul> <p>A derivative can be exchange traded or traded over the counter ("OTC").</p>
Exchange traded	An exchange traded security is purchased or sold through a registered exchange (e.g. a stock exchange) which provides trading facilities.
Forward foreign currency contract (FFX)	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.
Futures Contract	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.
Initial Margin	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.
IPD	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.
LIBID	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.
Managed Funds	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.
Options	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



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	exchange traded or OTC.
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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.

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**Appendix 3 – Advisers and Service Providers**

**Group Actuary**

Chris Vaughan-Williams FIA  
of Aon Solutions UK Limited (formerly  
Aon Hewitt 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 (formerly  
Aon Hewitt Limited)

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

**Legal Adviser**

Mark Greenlees  
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 (formerly  
Aon Hewitt 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**

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CV5 9AB

Tel: 02476 472582

**Group Administrator**

Rachel Hewlett  
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Oldbury Technical Centre  
Oldbury Naite  
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BS35 1RQ

Tel: 01454 422608

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**Appendices**

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**Group Appointed Fund Managers**

Barings Global Investment Funds plc (formerly Babson Capital)  
BlackRock Investment Management (UK) Limited  
BlueBay Asset Management LLP  
BMO Global Asset Management (formerly F&C Investment Management)  
CBRE Global Investors (UK) Limited  
DRC Capital LLP  
GAM International Management Limited (formerly Renshaw Bay LLP)  
Genesis Asset Managers (to June 2019)  
GreenOak Real Estate Advisors LLP  
Hayfin Capital Management LLP  
Industry Funds Management ("IFM")  
Infrared Capital Partners  
Innisfree Ltd  
Insight Investment Management Limited  
Invesco Asset Management  
JP Morgan Asset Management Ltd  
Legal & General Investment Management Limited  
Lindsell Train Ltd  
Longbow Real Estate Capital LLP  
M&G Asset Management  
PIMCO Europe Ltd  
Ruffer LLP  
Schroder Investment Management Limited

**Additional Voluntary Contributions (AVCs) Providers**

Phoenix Life Assurance Limited  
Utmost Life and Pensions Limited (formerly Equitable Life Assurance Society Limited)  
The Prudential Assurance Company Limited

#### **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](http://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](mailto:helpline@pensions-ombudsman.org.uk) (early resolution)

E-mail: [enquiries@pensions-ombudsman.org.uk](mailto: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](mailto:customersupport@tpr.gov.uk)

Website: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

**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](http://www.gov.uk/find-pension-contact-details)

#### **Appendix 5 – Address for Enquiries**

Further information about the Scheme 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@rpm.co.uk](mailto:enquiries@rpm.co.uk)