

Magnox Electric Group of the ESPS

SLC Section

Statement of Investment Principles

1. INTRODUCTION

This Statement of Investment Principles ("SIP") sets out the principles governing decisions about the investment of the assets of the Magnox Electric Group of the Electricity Supply Pension Scheme (ESPS) ("the Group"). The Statement is issued by the Trustee of the Group ("Magnox Electric Group Trustee Company Limited") to comply with Section 35 of the Pensions Act 1995 & 2004 and the Occupational Pension Schemes (Investment) Regulations 2005, 2018 & 2019. The Group Trustee complies with the requirements to maintain and take advice on the SIP and with the disclosure requirements.

This SIP gives a broad overview of the principles governing investment decisions by the Group Trustee and applies to the Site Licence Company ("SLC") Section ("the Section") only. For more detailed information on the Section's current investment and covenant arrangements, please refer to the SLC Section Investment Policy Implementation Document and Integrated Risk Management Summary which are supplemental documents to this SIP.

The Group comprises four sections: 'the SLC Section', 'the Cavendish Nuclear Section' (formerly known as the Babcock Section, the VT Nuclear Services Section and Project Services Section), 'the National Nuclear Laboratory Section' (formerly known as the Nexia Solutions Section) and 'the Atkins Section' (formerly known as the EnergySolutions EU Section, the RSMC Section and the Reactor Sites PBO Section). Each section has its own separate assets and investment policy reflecting its particular liability profile and other relevant circumstances. The principles and policies set out in this Statement apply to the SLC Section only.

The SIP can be found online here: <https://www.my-magnox-pension.com/library/scheme-documents>

2. INVESTMENT OBJECTIVES

The Group Trustee aims to invest the Section's assets in order to ensure that sufficient assets and cashflows are available to pay members' benefits as and when they arise (cashflow objective), while at the same time having regard to the volatility of measures of funding and security and the employer's ability in meeting contribution payments given their size and incidence (valuation objective).

In setting the investment strategy for the Section, the Group Trustee first considered the lowest risk asset allocation that they could adopt in relation to the liabilities. The investment strategy adopted has been selected with the aim of achieving a higher return than this lowest risk strategy. The targeted level of outperformance will be reviewed from time to time while maintaining a prudent, diversified approach to meeting the Section's liabilities.

The overall objective for the Section has been agreed with the Principal Employer (Magnox Limited - a direct subsidiary of the Nuclear Decommissioning Authority) and is as follows:

To set an investment strategy which maintains a funding level of 100% (or more) on a Technical Provisions ("TP") basis, with an expectation to reach full funding on the long-term target basis (which uses a discount rate of gilts +0.5% p.a.) by no later than 2034 and an eventual funding level of 105% (including a 5% buffer for adverse experience).

Longer term, the Group Trustee aims to ensure that should the Section be discontinued there would be sufficient assets to meet the discontinuance liabilities.

3. INVESTMENT STRATEGY

The Group Trustee invests the assets of the Section with regard to the individual actuarial characteristics it has, in particular the strength of the funding position and the liability profile. The Group Trustee's policy is to make the assumption that equities and other growth assets will outperform gilts over the long term and assumes that active fund management can be expected to add value in certain asset classes. However, the Group Trustee recognises the potential volatility in

equity and other growth asset returns, particularly relative to the Section's liabilities, and the risk that the investment managers do not achieve the targets set.

When choosing the planned asset allocation, the Group Trustee considered written advice from its investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes, invested both domestically and globally
- The risks and rewards of a range of alternative asset allocation strategies
- The suitability of each asset class
- The need for appropriate diversification

In addition, the Group Trustee also consulted with the Principal Employer and any other relevant Participating Employers when setting this strategy.

4. RISK

The Group Trustee recognises that the key risk to the Section is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Group Trustee has identified a number of risks which have the potential to cause a deterioration in the Section's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). These risks include but are not limited to:
 - Market risk: the risk of a large fall in equity or other investment markets
 - Interest rate risk: the risk that interest rate changes increase the funding and discontinuance value of the liabilities by a greater amount than they improve the value of the assets
 - Inflation risk: the risk that asset values do not keep pace with or exceed inflation
 - Longevity risk: the risk that mortality improvements increase the cost of benefits more than currently anticipated

The Group Trustee and its advisers considered this mismatching risk when setting the investment strategy.

- The risk of a shortfall of liquid assets relative to the Section's immediate liabilities ("cash flow risk"). The Group Trustee will manage the Section's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the investment managers to achieve the rate of investment return assumed by the Group Trustee ("manager risk"). This risk is considered by the Group Trustee and its advisers both upon the initial appointment of the investment managers and on an ongoing basis thereafter.
- The failure to spread investment risk ("risk of lack of diversification"). The Group Trustee and its advisers considered this risk when setting the Section's investment strategy and has also mandated to each of the investment managers employed that a suitably diversified portfolio of assets should be maintained at all times.
- The possibility of failure of the Section's Principal Employer ("covenant risk"). The Group Trustee and its advisers considered this risk when setting the investment strategy and consulted with the Principal Employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Group Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Group Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews. In particular, the mismatching risk was modelled explicitly as part of the most recent investment strategy review.

From time to time, and in particular at each valuation or in the event of a significant covenant event, the Group Trustee will formally assess the employer covenant, taking specialist independent advice

as appropriate. Further information on the assessment of covenant risk can be found in the Group Trustee's IRM Summary.

Having set an investment objective which relates directly to the Section's liabilities and implemented it using a range of investment managers, the Group Trustee's policy is to monitor, where possible, these risks periodically. The Group Trustee receives reports showing:

- Actual funding level.
- Performance versus the Section's investment objective.
- Performance of individual investment managers versus their respective benchmarks.
- Any significant issues with the investment managers that may impact their ability to meet the performance targets set by the Group Trustee.

5. IMPLEMENTATION

The Group Trustee is responsible for investment of the Group's assets. The Group Trustee takes some decisions themselves and delegates others. When deciding which decisions to take and which to delegate, the Group Trustee takes into account whether it has the appropriate training and expert advice in order to make an informed decision. As part of their investment business plan the Trustees receive ongoing training and undertake from time to time a needs analysis to determine the specific training requirements for each individual Trustee Director.

An Investment Committee has been established to assist the Group Trustee and to apply appropriate focus to the more complex areas of investment strategy and to monitor the continued effectiveness of the appointed investment managers and advisers. The Group Trustee appoints members of the Investment Committee, which has clearly defined terms of reference and levels of delegated authority.

The Group Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant investment manager through a written contract.

When choosing investments, the Group Trustee and the investment managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

In setting the Section's investment strategy, the Group Trustee's primary concern is to act in the best financial interests of the Section and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the financial impact that Environmental, Social and Governance ("ESG") factors including climate change may have on the value of investments held over, if not understood and evaluated properly. The Group Trustee considers these factors when setting the Section's asset allocation, when selecting managers and when monitoring their performance so that they are taken into account in the selection, retention and realisation of the Section's investments. The Group Trustee also takes advice on these issues from its investment adviser having regard to an appropriate time horizon for the Section and recognising that ESG implications may vary across the different types of assets that the Section invests in.

Members' views and non-financial factors

In setting and implementing the Section's investment strategy (including its approach to the selection, retention and realisation of its investments) the Group Trustee does not take into account the views of Section members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

Policy on stewardship – voting and engagement

The Group Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Group Trustee recognises that ultimately this protects the financial interests of the Section and its beneficiaries, and it will periodically review the alignment of its policies to those of the Section's investment managers.

The Group Trustee expects the Section's investment managers to use their influence as major institutional investors to engage with underlying investee companies to promote good corporate governance, accountability, and positive change.

The Group Trustee regularly reviews the ongoing suitability of the Section's managers and takes advice from its investment adviser regarding any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. The Group Trustee will engage with its investment managers where necessary for more information and will request updates from managers at face-to-face meetings.

The Group Trustee accepts responsibility for how each manager stewards assets on its behalf, including the casting of votes in line with each managers' individual voting policies. The Group Trustee reviews qualitative data provided by investment managers on an annual basis to ensure activities are in line with the Trustee's expectations and in members' best interests.

The Group Trustee expects the Section's appointed investment managers to provide transparency on engagement and voting activity. The transparency for engagements should include: objectives and relevance to the Section, method of engagement, progress and perspectives around shortcomings, outcomes to date, escalation points and procedures as necessary. The transparency for voting should include voting actions and rationale with relevance to the Section, in particular where: votes were cast against management, votes against management generally were significant, votes were abstained; and/or votes differed from the voting policy of either the Group Trustee or the investment manager.

From time to time, the Group Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, an investment manager or another holder of debt or equity, and other stakeholders. The Group Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Policy on arrangements with investment managers

The Group Trustee, supported by its investment adviser, considers the extent to which the investment strategy and decisions of the investment managers are aligned with the Group Trustee's policies. This includes monitoring the extent to which investment managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

Before appointing a new investment manager, the Group Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Group Trustee's policies. Where possible, the Group Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Section invests in a collective vehicle, the Group Trustee may express their expectations to the investment managers by other means (such as through a side letter, in writing, or verbally at Investment Committee meetings).

The Group Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the investment managers to make decisions that align with the Group Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance. Where investment managers are considered to make decisions that are substantially not in line with the Group Trustee's policies, expectations, or the other considerations set out above, the Group Trustee will typically first engage with the manager but could ultimately replace the investment manager where this is deemed necessary.

There is typically no set duration for arrangements with investment managers, although the continued appointment all for investment managers will be reviewed periodically, and at least every three years.

Policy on costs and performance

The Group Trustee is aware of the importance of monitoring investment managers' total costs and the impact these costs can have on the overall value of the Section's assets. The Group Trustee recognises that in addition to annual management charges, there are other costs incurred by investment managers that can increase the overall cost incurred by the Section's investments.

The Group Trustee expects all of the Section's investment managers to provide them with full cost transparency in line with industry standard templates. Where applicable, the Group Trustee has a preference for performance related fees in the belief that this offers a better alignment between manager remuneration and performance.

The Group Trustee receives annual cost transparency reports from the Group's investment adviser to assist the Group Trustee in monitoring investment managers' costs. These reports present information in line with prevailing regulatory requirements for investment managers and show:

- The total amount of investment costs incurred by the Section;
- The fees paid to the investment managers;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers.
- Any charges incurred through the use of pooled funds (custody, administration, and audit fees)
- The impact of costs on the investment return achieved.

The Group Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. A high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and the manager's style. Where the disclosed costs are out of line with expectations the managers will be asked to explain the rationale, including why it is consistent with their investment strategy.

Targeted portfolio turnover is defined as the expected frequency with which the investment managers' holdings change over a year. The Section's investment adviser monitors this on behalf of the Group Trustee as part of the manager monitoring they provide and will flag to the Group Trustee where there are concerns.

Evaluation of performance and remuneration

The Group Trustee assesses the performance of the Section's investment managers on a quarterly basis and the remuneration of investment managers on an annual basis. This cost information is set out alongside the performance of the investment managers to provide context. The Group Trustee monitors these costs and performance trends over time.

The Trustees undertake analysis of the Section's costs on at least a triennial basis by receiving benchmarking analysis comparing the Section's costs of the underlying managers relative to those of the wider market. This is in line with the Trustees policies on reviewing the kinds and balance of investments to be held.

Custodian

Electricity Pensions Trustee Limited ('EPTL') in its capacity as the Scheme Trustee of the ESPS has appointed Bank of New York Mellon as custodian with regard to the day to day control and safekeeping of the Scheme's (and the Group's) assets. Bank of New York Mellon is independent of the Group's Principal Employer and other relevant employers.

6. GOVERNANCE

The Group Trustee has established the following decision-making delegation structure:

Group Trustee

- Sets structures and processes for carrying out its role.
- Selects and monitor planned asset allocation strategy.
- Appoints Investment Committee.
- Selects investment advisers.
- Considers recommendations from the Investment Committee.
- Appoints and terminate all investment manager appointments
- Selects direct investments (see below).
- Owns and signs off all publicly available investment related reporting (for example, Statement of Investment Principles (SIP), Engagement Policy Implementation Statement (EPIS), and Task Force on Climate-Related Financial Disclosures (TCFD) report)

Investment Committee

- Maintains an ongoing investment Business Plan and monitor progress against this.
- Monitors developments and trends in pension fund investment management.
- Monitors the performance of investment managers and recommend any changes.
- Monitors the performance of the investment advisers and recommend any changes.
- Decides on and instruct any rebalancing.
- Reviews investment manager documentation.
- Monitors developments in the asset-liability profile of the Group and recommend strategic changes.
- Ensures that the investment guidelines are followed and deal with day to day management issues arising from them.
- Reviews and recommends changes to all publicly available investment related reporting (for example, Statement of Investment Principles (SIP), Engagement Policy Implementation Statement (EPIS), and Task Force on Climate-Related Financial Disclosures (TCFD) report)
- Maintains Group Investment Policy Implementation Document.
- Monitors any direct investments.
- Monitors the risk register for investment-related risks.
- Makes recommendations on other relevant matters at the request of the Group Trustee.
- Makes any investment related decisions necessary if waiting until the next Trustee meeting would not be in the interest of the Group.

Investment Managers

- Operate within the terms of this Statement and their written contracts.
- Select individual investments with regard to their suitability and diversification characteristics.

The Pensions Act 1995 distinguishes between investments where the management is delegated to an investment manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Group Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' Additional Voluntary Contributions ("AVCs"). When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the investment manager(s).

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Group Trustee (or, to the extent delegated, by the investment managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Group Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Group Trustee expects the investment managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

Investment managers are remunerated on an ad valorem basis which ensures the investment managers' interests are aligned with those of the Section. In addition, investment managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs.

7. ADDITIONAL VOLUNTARY CONTRIBUTION ARRANGMENTS

The Group Trustee provides a range of funds for the members. The key aim of the Group Trustee is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives, based on the Group Trustee's consideration of members' needs.

The fund range is reviewed from time to time to ensure that it continues to meet the needs of members. On a quarterly basis the Group Trustee considers performance information and the range of funds is considered at least on a triennial basis.

The underlying funds that make up the default fund and other self-select funds should not apply personal ethical or moral judgements as the sole basis for an investment decision.

8. ADVICE AND CONSULTATION

The Group Trustee is responsible for the investment of the Section's assets, but obtains written advice as appropriate from Aon Investments Limited who is reasonably believed by the Group Trustee to be qualified for this purpose. Such advice has been obtained in preparing this Statement. Aon Investments Limited is authorised and regulated by the Financial Conduct Authority.

As required by the Pensions Act, the Group Trustee confirms that it has consulted with the Principal Employer and other relevant employers prior to writing this Statement, and has considered their recommendations and comments and will take these into account when it believes it is appropriate to do so.

The Group Trustee will review this SIP at least every three years and following any significant change in investment policy.

Approved: July 2023

Last Reviewed: June 2023