

Eggborough Power Group of the Electricity Supply Pension Scheme

Statement of Investment Principles

1. Introduction

The Trustees of the Eggborough Power Group of the Electricity Supply Pension Scheme ("the Trustees") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the 1995 Pensions Act ("the Act"), as amended by the Pensions Act (2004) and subsequent regulations. As required under the Act, the Trustees have obtained written advice from Isio Group/Services Limited ("Isio"). In preparing this Statement, the Trustees have also consulted the Company, Eggborough Power Limited ("the Sponsor"), as sponsor of the Eggborough Power Group of the Electricity Supply Pension Scheme ("the Group"), and EPH Holdings, as guarantor of EPL's obligations to Group (see section 4).

The Electricity Pensions Trustee Limited ("EPTL"), who has responsibility for the operation of part of the cash holdings, has prepared a separate SIP. The Trustees have satisfied themselves that they are happy with the controls set out in that Statement.

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

2. Decision-Making Structure

The Group's assets are held in Trust by the Trustees. The Trustees are responsible for the investment of the Group's assets and their investment powers are set out in the Group's Trust Deed. The Trustees take some decisions and delegate others. When determining which decisions to delegate, the Trustees have taken into account whether they have the appropriate training and are able to secure the necessary expert advice in order to take an informed decision. Further, the Trustees' ability to effectively execute the decision is also considered.

Overall, the Group's investment policy falls into two parts. The strategic management of the assets, including setting the asset allocation guidelines, is fundamentally the responsibility of the Trustees acting on advice from their investment consultant, Isio, and is driven by their investment objective as set out in Section 3 below.

The remaining elements of policy, including investment restrictions and the performance objectives, are reflected in the mandates and agreements that have been put in place with the investment managers. The day to day management of the assets is delegated to professional investment managers and is described in Section 6.

3. Strategic Management

The Trustees' objective is to invest the Group's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the

members and beneficiaries. Within this framework the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Group is exposed. The Trustees have considered their objectives and adopted the following:

3.1 Primary Objective

The primary objective of the Group is as follows:

- To provide for members pension and lump sum benefits on their retirement or for their dependants benefits on death or after retirement, on a defined benefits basis.

In order that the primary objective can be achieved, the following funding and investment objective have been agreed by the Trustees.

3.2 Funding Objectives - Ongoing Plan

To fund the Group in such a manner that, in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Group's assets and that an appropriate level of contributions is agreed by the participating employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

3.3 Funding Objective - Discontinuance

To aim to ensure that at any point in time, in normal market conditions, the assets of the Group (at their realisable value) are sufficient to cover 100% of the liabilities for pensions in payment and deferred pensions and the liabilities in respect of the completed service of employee members, assuming they were to leave service at the date of the test. For this purpose the liabilities will be calculated on the basis used for the Trustees' Technical Provisions.

For the purposes of this objective, the funding position will be reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 1995, as amended by the Pensions Act (2004) and subsequent regulations.

3.4 Investment Objectives

To achieve a return on the Group assets which is sufficient, over the long-term, to meet the funding objectives set out above on an ongoing basis and to do this in a way which minimises, to the extent that is practical, the possibility of failing to meet the discontinuance funding objective described above.

4. Investment Strategy

The investment strategy of the Group is to invest in a mixture of equities, bonds and other assets aiming to produce a positive real return in line with the investment objectives. The Trustees believe that the investment risk arising from the strategy combined with the risks arising from active management are consistent with the overall level of risk being targeted.

The Trustees will look for opportunities to reduce the equity allocation (subject to the constraint of meeting the return expectations underlying the current funding plan) when, acting on advice from their advisers, they view the conditions to be appropriate to make changes to the asset allocation.

5. The Trustees' Policy on Risk Measurement and Management

There are various risks to which any pension scheme is exposed. The Trustees have considered the following key risks which they expect to manage over the lifetime of the Group:

- The risk that the investment strategy fails to deliver sufficient returns to meet the Trustees' obligations to beneficiaries;
- The risk that the investment returns result in volatile performance which in turn results in a high variability in the cost incurred by the Sponsor.

These risks are managed by ensuring that the investments contain an appropriate balance of diverse assets including equities and bonds. The equities are used with a view to delivering returns in excess of bonds to improve the funding position, whilst the bond investments aim to ensure that the volatility of returns remains acceptable. The mix of investments is reviewed on a formal basis at each actuarial valuation.

The Trustees also pay close regard to:

- The volatility which may arise through a lack of diversification of investments - this risk is managed by investing in diversified pooled funds.
- The risk that assets are not able to be realised at short notice without incurring significant costs. This risk is managed by ensuring that all assets are invested in pooled fund units which can be redeemed on regular dealing dates. The Trustees believe that in normal market conditions the manager will be able to meet all redemption requests from the assets of the funds.
- The risk of investment manager underperformance. The Trustees invest using both "active" and "passive" investment styles to ensure that they are not overly exposed to one manager's underperformance. The Trustees have taken advice and set a realistic performance objective for their active manager that is set out in the IIPD. The Trustees accept this risk as a consequence of aiming to generate higher investment returns for the purpose of improving the long-term funding of the Scheme.

Arrangements are in place to monitor the Group's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees meet regularly with the Group's investment managers and receive regular reports from all the investment managers and the Investment Consultant. These reports include an analysis of the overall level of risk and return, along with their component parts, to ensure the risks taken and returns achieved are consistent with those expected.

The safe custody of the Group's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

Should there be a material change in the Group's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

6. Day to Day Management of the Assets

6.1 Main Assets

The Trustees delegate the day to day management of the assets to a number of investment managers. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Group's investments and that the managers are carrying out their work competently.

The Trustees have determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

The Trustees invest the main assets of the Group in pooled funds managed by investment managers appointed by the Trustees. The Trustees regularly review the continuing suitability of the Group's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time. However, any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that those set out in Section 5.

Details of the appointed managers can be found in the accompanying Investment Implementation Policy Document.

The Trustees are satisfied that the spread of assets by type and the spread of individual securities within each type provides adequate diversification of investments.

EPTL are responsible for the custody of the assets and have appointed Bank of New York as custodians.

6.2 Cashflow Management and Rebalancing

The Trustees have adopted a policy to efficiently manage cashflows and use the positive cashflow to improve the match of the assets and liabilities. More details are set out in the IIPD.

6.3 Monitoring the Investment Managers

The Trustees meet the investment managers as appropriate to review their investment performance. The Trustees also retain Isio to provide help in monitoring the investment managers, both in the form of quarterly written reports and attendance at meetings.

7. Additional Assets

Assets in respect of members' Additional Voluntary Contributions ("AVCs") are invested separately with Equitable Life, Norwich Union, Prudential, and Nationwide. Equitable Life is closed to new contributions. In addition, some members have AVCs held in other investment arrangements, for historical reasons, although these are not used for new contributions.

8. Realisation of Investments

Realisation of investments is administered as part of the cashflow management programme - see 6.2 above.

9. ESG, Stewardship and Climate Change

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented periodically.

The Trustees also expect the fund managers to engage with investee companies on the capital structure and management of conflicts of interest.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

10. Corporate Governance

The Trustees wish to encourage best practice in terms of activism. The investment managers are therefore encouraged to discharge their responsibilities in respect of investee companies in accordance with the Statement drawn up by the Institutional Shareholders' Committee as well as compliance with the principles of the UK Stewardship Code issued by the Financial Reporting Council.

The Trustees accept that by using pooled investment vehicles for its equity investments the day-to-day application of voting rights will be carried out by the investment managers. The Trustees have however reviewed the voting policies of each pooled fund and are comfortable with the arrangements in place.

11. Compliance with this Statement

The Trustees will monitor compliance with this Statement annually, or more frequently if necessary. The Trustees undertake to advise the investment managers promptly and in writing of any material change to this Statement.

12. Review of this Statement

The Trustees will review this Statement in response to any material changes to any aspects of the Group, its liabilities, finances and the attitude to risk of the Trustees and the Sponsor which they judge to have a bearing on the stated investment policy. Any such review will take place every three years, or after any material change in the investment arrangements. Any such review will again be based on written, expert investment advice and will be in consultation with the Sponsor.

Signed for and on behalf of the Eggborough Power Group of the Electricity Supply Pension Scheme

September 2020

Appendix A

The Trustees have the following policies in relation to the investment management arrangements for the Group:

<p>How the investment managers are incentivised to align their investment strategy and decisions with the Trustees policies.</p>	<ul style="list-style-type: none"> • As the Group is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective. • The Trustees believe fees being charged acts as the investment managers incentive to meet its objective.
<p>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</p>	<ul style="list-style-type: none"> • The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustees expect the investment managers to engage with the underlying companies • The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.
<p>How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.</p>	<ul style="list-style-type: none"> • The Trustees review the performance of all the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. • Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.
<p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</p>	<ul style="list-style-type: none"> • The Trustees define target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manager. This is monitored on a regular basis. The Trustees have delegated the responsibility of monitoring portfolio turnover costs and target portfolio turnover to their investment consultant.
<p>The duration of the Group arrangements with the investment managers</p>	<ul style="list-style-type: none"> • The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. <ul style="list-style-type: none"> ○ For closed ended funds or funds with a lock-in period the Trustees ensure

	<p>the timeframe of the investment or lock-in is in line with the Trustees objectives and Scheme's liquidity requirements.</p> <ul style="list-style-type: none">○ For open ended funds, the duration is flexible, and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
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