

**E.ON UK GROUP OF THE ELECTRICITY SUPPLY PENSION  
SCHEME**

**REPORT AND FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 MARCH 2019**

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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 E.ON UK Group ("the Group") of the Electricity Supply Pension Scheme.

The Electricity Supply Pension Scheme ("the Scheme") is an industry-wide pension scheme. The Scheme has 25 actuarially independent Groups. Each Group has its own Trustees and assets to fund the benefits of its members. Further 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. The Scheme is a registered pension scheme under the Finance Act 2004 and was primarily contracted out of the State Second Pension until 5 April 2016, when contracting-out ceased for all pension schemes to coincide with the introduction of new State Pension arrangements.

In the case of the E.ON UK Group, the Group provides for:

- Defined Benefit ("DB") pensions, where benefits are based on a member's salary and length of service; and
- Defined Contribution ("DC") pensions, where benefits are based on what a member's accumulated fund value will purchase at retirement.

The E.ON UK Group has eight benefit categories which include four former Groups of the Electricity Supply Pension Scheme (Powergen, East Midlands Electricity (EME), Eastern and Midlands) as well as the EME Pension Plan (EMEPP), the Retirement Balance Plan (RB Plan), the Midlands Electricity Pension Scheme (MEPS) and the Eastern Group Pension Scheme (EGPS). Within the MEPS and EGPS categories there are both Defined Benefit and Defined Contribution sections. Since 1 December 2008 all categories have been closed to new members.

The Group's Principal Employer is E.ON UK plc and there are a number of other Participating Employers in the Group who are:

E.ON UK Cogeneration Limited  
E.ON UK CHP Limited  
E.ON IT UK Limited (ceased to participate with effect from 31 January 2019)  
E.ON Climate & Renewables UK Limited  
E.ON Connecting Energies Limited

These are collectively referred to as 'the Employers' throughout this Report.

The Group Financial Statements on page 30 to 46 have been prepared and audited so as to comply with Regulations made under Sections 41 (1) and (6) of the Pensions Act 1995.

## THE GROUP STRUCTURE AND RESPONSIBILITIES

The Group Trustees' duties and responsibilities are carried out by a trust company, limited by guarantee, called E.ON UK Trustees Limited. The Directors of E.ON UK Trustees Limited have the same functions as individual Group Trustees. The rules for their appointment, election and tenure of office are exactly the same as individual Group Trustees, as are their responsibilities under the provisions of the Scheme and pensions legislation.

For simplicity the term 'Group Trustees' has been used elsewhere in this Report as shorthand for the more accurate term 'Directors of E.ON UK Trustees Limited'.

The Group has 10 Trustees of whom 5 are appointed by E.ON UK plc and 5 are nominated by the members, as follows:

<b>Appointed</b>	<b>Member-Nominated</b>
Stefan Brenk	Mike Andrews
Capital Cranfield Pension Trustees Limited represented by Martine Trouard-Riolle – Chair	Chris Brown
John Harding	Ant Donaldson
Keith Plowman – Deputy Chair	Derek Evans
Graeme Thompson	Adrian Harris

The Group Trustees met 10 times during the year.

## **Trustee committees**

The Group Trustees delegate some of their work to committees whilst still remaining ultimately responsible. These committees are as follows:

- The Audit Committee is responsible for oversight of the Group’s internal controls, risk management, accounting processes and the preparation of the annual report and financial statements. The Committee met 5 times during the year. The members of the Committee are John Harding (chair) and Adrian Harris. Gary Burmiston (Head of International Audit, E.ON) is also a member of the Committee by invitation of the Group Trustees.
- The Determinations Committee is responsible for determining the recipients of benefits payable under discretionary trust and for considering and responding to complaints under the Internal Dispute Resolution Procedure. The Committee met frequently during the year. The members of the Committee are Adrian Harris (chair), Chris Brown, Derek Evans and John Harding.
- The Investment Committee gives detailed consideration to certain investment matters and has delegated authority to make investment decisions within risk parameters defined by the Trustee Board. The Committee met 5 times during the year. The members of the Committee are Martine Trouard-Riolle (chair), Mike Andrews, Stefan Brenk, Ant Donaldson and Graeme Thompson. Björn Siggemann (E.ON SE Pension Finance & Asset Strategy team) is also a member of the Committee by invitation of the Group Trustees.

## **Appointment of Group Trustees**

Member-Nominated Group Trustees normally serve for a term of six years. The next nomination and selection/election process is due to take place in 2022. In addition to changes that take place at a scheduled nomination and selection/election process, a Member-Nominated 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 Member-Nominated Group Trustees. A casual vacancy for a Member-Nominated Group Trustee can be filled by a person nominated by the remaining Member-Nominated Group Trustees.

The Appointed Group Trustees can be removed by E.ON UK plc. The rules for the appointment, election and tenure of office of Group Trustees are set out in the Articles of Association of E.ON UK Trustees Limited.

## **Group Trustees’ responsibilities in respect of the financial statements**

The financial statements, which are prepared in accordance with UK 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 the preparation of the financial statements 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 adequate 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 towards the Group by or on behalf of the employer 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.

The Group Trustees are also responsible for the maintenance and integrity of the pension scheme website ([www.eon-uk.com/pensions](http://www.eon-uk.com/pensions)). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Additional Trustees' responsibilities**

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

The main responsibilities of the Scheme Trustee 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.

## ADVISERS AND FUND MANAGERS

To assist them in their work the Group Trustees have appointed a team of professional advisers as follows:

<b>Group Actuary</b> David Eteen FIA of 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.
<b>Independent Group Auditors</b> PricewaterhouseCoopers LLP	Reports on the audit of the Group Financial Statements.
<b>Scheme Custodian</b> The Bank of New York Mellon	Maintains safe custody of the Scheme's assets.
<b>Investment Advisers</b> Cardano Risk Management B.V.	Advises the Group Trustees on all investment matters including the Statement of Investment Principles and on the long-term strategic benchmark having regard to the nature of the liabilities and the funding position of the Group.
Aon Hewitt Limited	Advises the Group Trustees on all investment matters relating to the Defined Contribution and Additional Voluntary Contribution (AVC) arrangements.
<b>Legal Advisers</b> DLA Piper UK LLP	Principal legal adviser to the Group Trustees.
Field Fisher Waterhouse LLP	Additional legal adviser to the Group Trustees.
Freshfields Bruckhaus Deringer LLP	Additional legal adviser to the Group Trustees.
<b>Performance Measurer</b> The Bank of New York Mellon (Defined Benefit section)	Provides the Group Trustees with a measurement service for their investments relative to the strategic benchmark and on the performance of the investment managers.
Aon Hewitt Limited (Defined Contribution section)	Retained by the Group Trustees to monitor the performance of the Defined Contribution and AVC providers.
<b>Sponsor Covenant Assessor</b> Lincoln Pensions Limited	Assesses the employer's willingness and ability to fund the Group's liabilities.
<b>Administrator</b> RPMI (formerly RPMI EPAL)	Maintains individual records, calculates and pays the benefits on behalf of the Group Trustees.
<b>Investment Adviser Assessor</b> IC Select Limited	Assesses the investment adviser in relation to non-defined contribution assets and provides oversight of the Niche Assets portfolio.

### Group Appointed Fund Managers – Defined Benefit Section

Aberdeen Property Investors UK Limited  
BlueBay Asset Management LLP (terminated May 2018)  
Blue Mountain Capital Management LLC  
Brevan Howard Capital Management Limited (terminated September 2018)  
Bridgewater Associates LP  
Cambridge Associates LLC  
Capula Investment Management LLP  
Caxton Associates LP  
Egerton Capital Limited  
Farallon Capital Management LLC (appointed September 2018)  
GoldenTree Asset Management LP (appointed April 2018)  
Insight Investment Management (Global) Limited  
Invesco Perpetual Life Limited  
Lynx Asset Management (terminated October 2018)  
Lyxor International Asset Management SAS  
Two Sigma Advisers, LP  
Westwood International Advisors  
Winton Fund Management Limited

### Group Appointed Fund Managers – Defined Contribution Section

Aegon (formerly known as BlackRock Pensions Limited, whose defined contribution pension policies transferred to Scottish Equitable plc with effect from July 2018. Scottish Equitable is part of the Aegon NV Group and Aegon is its brand name)  
Prudential Assurance Company Limited

### Additional Voluntary Contribution (AVC) Providers

Aviva plc  
The Equitable Life Assurance Society Limited  
The Prudential Assurance Company Limited  
Royal London (formerly known as Scottish Life Assurance Limited)  
Standard Life Assurance Limited

## MEMBERSHIP STATISTICS

### Defined Benefit section

	Contributors	Pensioners	Dependants	Deferred Pensioners	Total
<b>As at 1 April 2018</b>	<b>2,713</b>	<b>12,014</b>	<b>4,068</b>	<b>6,347</b>	<b>25,142</b>
Adjustments to opening balance	(43)	(5)	(1)	11	(38)
<b>As at 1 April 2018 (revised)</b>	<b>2,670</b>	<b>12,009</b>	<b>4,067</b>	<b>6,358</b>	<b>25,104</b>
Retirements	(128)	363	-	(235)	-
Deaths	(1)	(431)	(273)	(4)	(709)
New dependants	-	-	224	-	224
Cessation of child allowances	-	-	(5)	-	(5)
Leavers with deferred pensions	(341)	-	-	341	-
Transfers to other schemes	-	-	-	(89)	-
<b>As at 31 March 2019</b>	<b>2,200</b>	<b>11,941</b>	<b>4,013</b>	<b>6,371</b>	<b>24,525</b>

As at 31 March 2019 there were 257 (2018: 327) deferred pensioners and 54 (2018: 55) pensioners who were entitled to/receiving a benefit equivalent to the relevant State Graduated Pension Scheme benefit in respect of service prior to 31 March 1975. These members are in addition to the above membership statistics. The adjustments to the opening balance arise from changes to the status of members that were processed after the membership statistics were compiled for the 2018 Report.

## Defined Contribution section

	Contributors	Annuitants	Dependants	Deferred Pensioners	Total
As at 1 April 2018	19	34	1	423	477
Transfers to other schemes	-	-	-	(8)	(8)
As at 31 March 2019	19	34	1	415	469

As at 31 March 2019 there were 34 (2018: 34) annuitant policies purchased in the name of the Trustee and these remain assets of the Group. However, given the levels involved, these annuity policies have been excluded from the financial statements on the grounds of materiality.

## PENSION INCREASES

The Rules of the Scheme applicable to the Group provide for the following increases to pensions in payment, children's allowances and deferred pensions:

- For the Powergen, EME, Eastern and Midlands categories, pensions in payment, children's allowances and deferred pensions in relation to pensionable service before 1 November 2018 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% E.ON UK plc has the discretion to limit the pension increase to a lower figure subject to a minimum of 5%. For pensionable service from 1 November 2018, 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 Consumer Prices Index (CPI) in the 12 months ended on the preceding 30 September subject to a maximum of 3%. If the CPI increase is greater than 3% E.ON UK plc has the discretion to limit the pension increase to a lower figure subject to a minimum of 3%.
- For the EMEPP and MEPS categories pensions in payment and children's allowances in relation to pensionable service before 1 November 2018 to be increased on an annual basis on 1 April each year in accordance with the rise in the RPI in the 12 months ended on the preceding 30 September, subject to a maximum of 5% per annum. Pensions in payment and children's allowances in relation to pensionable service from 1 November 2018 to be increased on an annual basis on 1 April each year in accordance with the rise in the CPI in the 12 months ended on the preceding 30 September, subject to a maximum of 3% per annum. Deferred pensions to be increased over the number of complete years of deferment in line with the statutory provisions of the Pension Schemes Act 1993. With effect from 1 January 2011, the Government amended these statutory provisions such that the CPI replaced the RPI as the measure used for determining minimum increases to deferred pensions.
- For the EGPS category, pensions in payment and children's allowances in relation to pensionable service before 1 November 2018 to be increased on an annual basis on 1 April each year by an amount not less than the lower of the rise in the RPI in the 12 months ended on the preceding 30 September and 5%, or such greater amount as E.ON UK plc may determine. Pensions in payment and children's allowances in relation to pensionable service from 1 November 2018 to be increased on an annual basis on 1 April each year by an amount not less than the lower of the rise in the CPI in the 12 months ended on the preceding 30 September and 3%, or such greater amount as E.ON UK plc may determine. Deferred pensions in relation to pensionable service before 1 November 2018 to be increased over the number of complete years of deferment by the increase in the RPI over the period subject to a maximum of 5% per annum. Deferred pensions in relation to pensionable service from 1 November 2018 to be increased over the number of complete years of deferment by the increase in the CPI over the period subject to a maximum of 3% per annum.
- For the RB Plan category, Retirement Balances are increased in the period before payment on an annual basis on each 1 April in accordance with the rise in the CPI in the 12 months ended on the preceding 30 September.

The pensions increase applied from 1 April 2019 in relation to pensionable service before 1 November 2018 was 3.3% in line with the RPI increase for the 12 months to September 2018 and was therefore non-discretionary. The pensions increase applied from 1 April 2019 in relation to pensionable service from 1 November 2018 was 2.4% in line with the CPI increase for the 12 months to September 2018 and was therefore non-discretionary. A proportionate increase was applied to pensions which came into payment between 2 April 2018 and 1 March 2019 for all categories.



Pension increases over the previous five years were:

1 April 2018	3.9%
1 April 2017	2.0%
1 April 2016	0.8%
1 April 2015	2.3%
1 April 2014	3.2%

## **TRANSFERS FROM THE GROUP**

Deferred pensioners can transfer the cash equivalent of their deferred benefits to another registered pension scheme. Cash equivalents are calculated and verified in accordance with Pension Schemes Act 1993. The policy of the Group Trustees is to make allowance for certain discretionary benefits. For all categories, excluding the RB Plan category, there is discretion to pay a pension to a dependant when the member dies without a surviving spouse or civil partner. On the death of a member in the RB Plan category there is discretion to pay a dependant's pension regardless of the marital status of the member.

Deferred members of the Defined Contribution section can transfer their accumulated fund value to a registered pension scheme.

## **INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2019**

### **Statement of Investment Principles**

The Group Trustees have adopted a Statement of Investment Principles (SIP) in accordance with Section 35 of the Pensions Act 1995. In preparing the SIP the Group Trustees took professional advice from Cardano Risk Management B.V. and consulted with the Principal Employer, E.ON UK plc.

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

- a) ensuring compliance with the current investment requirements;
- b) the types of investment, and the balance between different types of investment;
- c) risk;
- d) expected return of investments;
- e) realisation of investments;
- f) voting rights; and
- g) social, environmental and ethical investment considerations.

The latest SIP was adopted by the Group Trustees on 1 December 2016. A copy can be obtained by writing to the Group administrators, RPMI, whose address and telephone number are shown on page 15. The Group Trustees have a separate policy setting out their approach to Environmental, Social & Governance considerations in relation to investments, and a copy can also be obtained from RPMI.

The asset allocation chosen to meet the Group Trustees' investment objective will normally fall within the ranges set out in the table below. The actual allocation at any point in time is based on advice from the Group Trustees' Investment Advisers and will take into account prevailing economic conditions and the wider investment environment in order to meet the target return over time while remaining within the risk level described in the SIP. The Group Trustees monitor the actual allocation versus the ranges set out below. The Group Trustees will consider advice and

take appropriate action should the allocation fall outside of these ranges. This is likely to result in a plan to ensure that the allocation returns within range over a defined period of time and / or according to defined market triggers.

	Minimum (%)	Maximum (%)
<b>Hedge Ratio</b>		
Interest rate hedge ratio (as % of the liabilities)	55	100
Inflation hedge ratio (as % of the liabilities)	55	100
<b>Fund Structures for Return Seeking Assets</b>		
Non-traditional	0	40
Hedge Funds	0	40
Illiquids	0	30
<b>Asset Classes</b>		
Return Seeking Assets		
Credit	0	30
Equities	0	25
Property	0	15
Multi-Strategy and Macro Oriented	0	40
Niche Assets	0	10
Cash	0	10
Liability-Driven Investment Assets	45	100

The table above sets out the ranges within which the Group Trustees will operate during the normal course of implementing the investment strategy. Further information on the hedge ratio definition, fund structures for return seeking assets and the types of investments that would fall within the ranges stated above can be found in the SIP.

The Group Trustees adopted a separate SIP related to the Defined Contribution section and the Additional Voluntary Contributions arrangements under the Defined Benefit section on 12 June 2017. A copy is appended to the Group Trustees' Statement on Defined Contribution Governance on page 17. The investment objective of the Defined Contribution section is to offer a range of investments that are suitable for meeting members' long and short term investment objectives allowing for members' differing individual circumstances. Members may make a choice of one or more of the available investment funds in any combination.

#### **Defined Benefit section**

For all investment matters including establishing strategy, fund selection and independent assessment and performance monitoring (other than in relation to the Niche Assets portfolio), the Group Trustees are advised by Cardano Risk Management B.V.. Fund selection in relation to the Niche Assets portfolio is carried out by Cambridge Associates LLC.

The performance of the fund for the year ended 31 March 2019 was 5.1%. The annualised return on the fund in the past three Group years was 7.2%.

As at 31 March 2019 the investments comprised:

Class/Fund		As at 31 March 2019	Year ended 31 March 2019 <sup>1</sup>	
Asset Manager	Date of Inception	£million	Fund return <sup>1</sup>	Return Relative to Benchmark <sup>2</sup>
<b>Liability-Driven Investment Assets</b>				
Insight	January 2006	2,228.2	4.9%	0.5%
<b>Credit (Bonds)</b>				
Blue Mountain	February 2012	11.0	6.2%	4.6%
GoldenTree	April 2018	156.4	0.6%	-0.2%
<b>Equity</b>				
Lyxor	September 2013	199.5	9.9%	-0.5%
Westwood	September 2013	148.5	0.9%	1.3%
Egerton	August 2013	345.8	6.1%	-0.5%
<b>Property</b>				
Aberdeen	February 2007	1.3	-15.3%	-20.8%
<b>Multi-Strategy &amp; Macro-Oriented</b>				
Bridgewater	June 2013	243.2	0.9%	0.0%
Capula	November 2011	153.4	-5.0%	-4.7%
Caxton	November 2011	97.1	-1.3%	-1.0%
Farallon	September 2018	155.4	4.0%	3.4%
Winton	January 2015	98.2	-0.6%	0.5%
<b>Diversified Growth</b>				
Invesco Perpetual	August 2015	303.4	-2.1%	-3.0%
Two Sigma	June 2017	96.6	3.7%	2.8%
<b>Niche Assets/Private Equity</b>				
Cambridge Associates	September 2015	142.2	14.9%	14.9%
<b>Other Hedging Assets</b>				
US Dollar Hedge	November 2012	1.2	0.7% <sup>3</sup>	n/a
<b>Other</b>				
Other <sup>4</sup>	n/a	231.1	n/a	n/a
<b>Total</b>		<b>4,612.5</b>	<b>5.1%</b>	<b>-0.1%</b>
<sup>1</sup> Returns are quoted for the full year or since date of first investment if less than one year and are net of fees.				
<sup>2</sup> Returns are assessed against benchmarks specific to each fund.				
<sup>3</sup> Return to a UK investor that is short the US Dollar.				
<sup>4</sup> Liquidity Fund, Additional Voluntary Contributions assets, cash balances, and accruals.				

The Group Trustees specify the investment objectives for each of these portfolios, including performance targets for each manager where applicable. Investment reports are received in accordance with the instructions of the Group Trustees, and representatives of each fund manager attend meetings of the Group Trustees as required to discuss the results of their management of the portfolio(s) concerned against targets.

Fund manager appointments and terminations during the year are shown on page 7.

All investment assets (other than those held in the Niche Assets/Private Equity portfolio) are readily marketable.

Fund manager fees across all of the portfolios are calculated as a percentage of the net asset value of the investment or, in limited circumstances, the exposure value of the investment. In some cases a cap or a floor is applied to the total fee a fund manager can charge each year. There are also instances where a fund manager may charge a performance related fee for generating exceptional returns.

#### Defined Contribution section

The range of funds currently available to Defined Contribution members and the performance of the Defined Contribution investment funds can be analysed as follows:

##### MEPS category - Prudential Assurance Company Limited

Fund Name	Asset Type	Year ended 31 March 2019	
		Fund Return %	Benchmark Return %
International Equity	Global equity (excluding UK)	4.3	6.3
UK Equity	UK equity	6.5	6.4
Discretionary	Mixed	5.3	5.8
Fixed Interest	Gilts and bonds	3.7	3.7
Index-linked	Index-linked gilts	6.0	5.7
UK Property	Commercial property	5.5	4.8
Cash	Money market	0.6	0.5
BlackRock Aquila UK Equity Index	UK equity	8.5	6.4
BlackRock Aquila World ex UK Index	Global equity (excluding UK)	14.4	12.1
BlackRock Aquila Consensus	Mixed	8.7	6.8
BlackRock Aquila 50:50 Global Equity Index	Global equity (including UK)	9.4	6.8
BlackRock Aquila Over 15 years UK Gilt Index	Gilts	6.2	4.7
Schroders Diversified Growth Fund	Mixed	0.7	7.0

##### EGPS category - Aegon

Fund Name	Asset Type	Year ended 31 March 2019	
		Fund Return %	Benchmark Return %
BlackRock 70/30 Global Growth	Global equity	6.4	6.6
BlackRock Balanced Growth	Mixed	6.3	6.3
BlackRock Pre-Retirement	Long-dated gilts	4.1	4.5
BlackRock Cash	Money market	0.4	0.5
LGIM Global Equity (50:50) Index	Global equity	6.9	6.8
LGIM Multi Asset (formerly Consensus)	Mixed	6.8	3.9
BlackRock Long Gilt	Gilts	4.7	4.7
BlackRock Diversified Growth	Mixed	3.7	4.2

The Defined Contribution unitised insurance policies are priced and traded daily by the fund providers. The Group Trustees regard the Defined Contribution investments as readily marketable.

## **Employer-related investments**

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

The Regulations apply separately to each Group within the Scheme, by reference to the investments of the Group Trustees in the Employers participating in the Group and their associated companies, and provide that such employer-related investments must not exceed 5% of the market value of the Group's assets.

As at 31 March 2019 the Group had none of its assets invested directly in E.ON UK plc or its associated companies. There were also no assets invested indirectly in E.ON UK plc through pooled investment vehicles. This was in accordance with the policy of the Group Trustees.

## **Additional Voluntary Contribution (AVC) investments**

The Group Trustees hold these assets invested separately from the main fund in the form of individual insurance policies. Each member receives an annual statement confirming the amount held in their account and the movements in the year. Details of the AVC providers can be found on page 7.

## **CUSTODY**

The assets of the Group are subject to the overall custody and control of the Scheme and are held by Scheme-wide custodians appointed by Electricity Pensions Trustee Limited 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.

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

All cash is held in 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.

## **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 to be assessed at least every 3 years using assumptions agreed between the Group Trustees and the employer and set out in the Statement of Funding Principles, a copy of which is available to Group members on request by writing to the Group administrators, RPMI, whose address and telephone number are shown on page 15.

The current statutory funding regime came into force at the end of 2005 and for this purpose each Group of the Electricity Supply Pension Scheme is treated as a pension scheme in its own right. The Group's latest actuarial valuation under this regime was carried out by the Group Actuary, David Eteen of Aon Hewitt Limited, as at 31 March 2018.

As part of the valuation as at 31 March 2018 the Group Trustees have prepared and agreed with the Employers their current Statement of Funding Principles. This statement includes details of the actuarial assumptions used to assess the Group's liabilities. The Pensions Regulator has issued a Code of Practice for the current funding regime and reviews valuations against this Code.

A summary of the results of the valuation as at 31 March 2018 are set out below:

<b>Value of technical provisions:</b>	£4,986m
<b>Value of assets available to meet technical provisions:</b>	£4,484m
<b>Funding shortfall:</b>	£502m
<b>Funding level:</b>	90%

The value of technical provisions is based on pensionable service to the valuation date and assumptions about various factors that will influence the Group 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 main assumptions underlying the valuation calculations were:

Method	Projected unit
<b>Discount rate</b>	The annualised gross redemption yield on the fixed interest gilt yield curve at the valuation date plus 1.1% p.a.
<b>Rate of salary increase (excluding allowance for promotional increases)</b>	If salary is below £70,000 p.a., 3% Limited Price Indexation (LPI) swap yield curve (based on Consumer Prices Index) (assumed until the £70,000 cap is reached). If salary is above £70,000 p.a., nil increases.
<b>Retail Price inflation</b>	The RPI swap yield curve at the valuation date
<b>Consumer Price inflation</b>	The RPI swap yield curve at the valuation date less 1.1% p.a.
<b>Increases to pensions in payment</b>	The 5% LPI swap yield curve (based on RPI) for pre-1 November 2018 accrued pensions in excess of GMPs. The 3% LPI swap yield curve (based on CPI) for post-31 October 2018 accrued pensions for the EME, Midlands, Powergen, Eastern and EGPS Categories. The 3% LPI swap yield curve (based on CPI) for post 88 GMPs.
<b>Post-retirement mortality</b>	S2P(M/F)A U2018 using the CMI_2017 Projections Model with smoothing parameter $S_k=8.0$ for future improvements in mortality with an assumed long term improvement rate of 1.50% p.a. and no constant additional rate of mortality improvement. These tables have been scaled using combined scaling factors produced by Demographic Horizons™ adjusted to allow for the Group's actual pensioner mortality experience.

A recovery plan to repair the funding shortfall was agreed between the Group Trustees and the Employer on 27 June 2019. Under this plan, a payment of £65m was made in January 2019, further payments totalling £233.8m will be made in August 2019, and two further payments of up to £91.5m each will be made in January 2022 and January 2023. If the assumptions underlying the valuation calculations are borne out in practice the funding shortfall is expected to be eliminated by 31 January 2023.

### **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 is undertaking 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 likely funding impact of GMP equalisation and, based on this initial assessment, do not expect it to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. Any backdated benefit adjustments will be accounted for in the year they are determined.

## **ADDRESS FOR ENQUIRIES**

Enquiries about the administration of benefits, payment of pensions and requests for copies of the Statement of Investment Principles, the actuarial valuation report, the Statement of Funding Principles and the Schedule of Contributions should be addressed to the administrators as follows:

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

Telephone: 02476 472541  
Email: enquiries@rpmico.uk

Approved by and signed on behalf of the Group Trustees on 25 July 2019



**Martine Trouard-Riolle**  
On behalf of Capital Cranfield  
Pension Trustees Limited – Chair



**John Harding**  
Director

## ACTUARIAL CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Name of scheme: E.ON UK Group of the Electricity Supply Pension Scheme ("the Group")

### 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 2018 to be met by the end of the period specified in the recovery plan dated 27 June 2019.

### 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 27 June 2019.

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 Group's liabilities by the purchase of annuities, if the Group were to be wound up.

Signature



Date

27 June 2019

Name:

David Eteen

Qualification:

Fellow of the Institute and  
Faculty of Actuaries

Address:

Verulam Point  
Station Way  
St Albans  
Hertfordshire  
AL1 5HE

Name of employer:

Aon Hewitt Ltd



## GROUP TRUSTEES' STATEMENT ON DEFINED CONTRIBUTION GOVERNANCE – SCHEME YEAR ENDED 31 MARCH 2019

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (“the Administration Regulations”) were amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 to include the requirement for the Trustee to prepare an annual statement regarding governance of Defined Contribution (DC) funds within the Group, which should be included in the annual report.

This statement is in respect of the DC Category of the Group (the MEPS and EGPS Categories) and the Additional Voluntary Contribution (AVC) arrangements. It covers governance and charges disclosures in relation to the items set out below for the period 1 April 2018 to 31 March 2019:

- The default investment strategy
- Charges and transaction costs paid by members
- Processing of core financial transactions, and
- Trustee knowledge and understanding

### The Default Investment Strategy

A default strategy is one in which members contributions are automatically invested if they do not select their own investment funds from the available range. A deemed default strategy is one that 80% or more of members have chosen to invest in.

The DC Category of the Group has been closed to new entrants since 2005 and therefore the category does not have a default investment strategy as defined by the Regulations i.e. an investment strategy into which members are automatically enrolled. However, the MEPS Category has a deemed default strategy - the Prudential Discretionary Fund.

The AVC arrangement with Standard Life has a default lifestyle strategy which invests in the Standard Life BlackRock Managed Global Equity 50:50 Fund until five years before selected retirement age. It then switches to the Standard Life Deposit and Treasury Fund as retirement approaches, as members are expected to take their AVC funds as cash at retirement. The structure of this lifestyle strategy is illustrated in the chart below:



More details on the Group's investment strategy for these funds are included in the DC Statement of Investment Principles (SIP), which can be found in the appendix to this Statement.

The investment options available to members are reviewed by the Group Trustees on an annual basis to ensure they continue to meet the needs of most members. The review considers provider financial strength, fund quality, liquidity and tradability, fund performance and charges. Following the latest review carried out in June 2019, the Group Trustees were satisfied that the majority of investment options remain appropriate (though the review did not include an in-depth review of the structure of the Standard Life default lifestyle strategy). The review identified that a number of the funds members hold through the AVC arrangements have under-performed. The Group Trustees are therefore carrying out a benchmarking review of the AVC providers and fund choices with a view to providing improved value for members.

## Processing of Core Financial Transactions

The Group Trustees have a specific duty to ensure that core financial transactions are processed promptly and accurately. These include, but are not limited to:

- Investing DC/AVC contributions in the Group,
- Transferring assets relating to members into and out of the Group,
- Transferring assets relating to members between different investments within the Group, and
- Making payments from the Group to or on behalf of members.

In practice, the Group Trustees delegate responsibility for this to the Group administrators, RPMI. The Group Trustees have a service level agreement in place with RPMI and this covers payment of contributions, transfers in or out of the Group, and settlement of benefits. The Group Trustees receive regular communications on core financial transactions from RPMI via quarterly stewardship reports, which are reviewed in detail by the Group Trustees' Audit Committee.

The transfer of assets between different investments within the Group (fund switches) are actioned by RPMI at members' request for the arrangements where members do not have online access to their policy. RPMI do not currently report on fund switch transactions therefore the Group Trustees will work with RPMI to address this.

The Group Trustees can confirm that all core financial transactions have been processed promptly, accurately and in accordance with agreed service levels the Group Trustees have in place with RPMI under their remit as administrator over the period covered by this Statement

## Charges and transaction costs paid by members

The Group Trustees regularly monitor the (i) explicit charges such as the Annual Management Charge ('AMC') and additional expenses that are disclosed by the fund manager which when added to the AMC, make up the Total Expense Ratio ('TER') and (ii) transaction costs (i.e. the costs of buying and selling investments in the fund) which are paid by members. Where information about member charges and costs is not available for whatever reason, the Group Trustees have to disclose this, together with an explanation of what steps are being taken to obtain the information.

### Explicit charges

The 'deemed default' for the MEPS Category (the Prudential Discretionary Fund) is subject to the charge cap of 0.75% p.a. as, although the DC Category of the Group is not used for automatic enrolment purposes, it is deemed to be a qualifying arrangement for satisfying the automatic enrolment obligations for active members. The Prudential Discretionary Fund complies with the charge cap as, although it is subject to a TER of 0.80% p.a. the additional expenses are property expenses and costs incurred as a result of holding or maintaining property are excluded from the charge cap.

The AMC, TER, and transaction costs for the funds offered under the MEPS Category and the EGPS Category are shown in the tables below. Transaction costs for the period covered by this statement are not available for many funds, therefore we have shown the latest transaction cost data available.

MEPS Category (Prudential DC arrangement)	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.) (12m to 30/06/2018)
Cash	0.55	0.55	0.00
Discretionary	0.75	0.80	-0.07
Fixed Interest	0.75	0.75	-0.10
Index Linked	0.75	0.75	0.08
Property	0.75	1.31	0.26
<i>International</i>	0.75	0.76	0.08
<i>UK Equity</i>	0.75	0.75	-0.04
<i>BlackRock Aquila 50:50 Global Equity Index</i>	0.75	0.75	0.03
<i>BlackRock Aquila Consensus</i>	0.75	0.75	0.14
<i>BlackRock Aquila Over 15 Years Gilt Index</i>	0.75	0.75	0.11
<i>BlackRock Aquila UK Equity Index</i>	0.75	0.75	0.08
<i>BlackRock Aquila World-ex UK Equity Index</i>	0.75	0.75	0.00

EGPS Category (AEGON DC arrangement)	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.) (12m to 31/12/2018)
DC Balanced Growth	0.75	0.76	0.1815
DC 70/30 Global Growth	0.75	0.76	0.222
DC Cash	0.3	0.33	0.0167
DC Pre-Retirement	0.5	0.53	0.0033
<i>DC Diversified Growth</i>	0.55	0.61	0.3781
<i>DC Long Gilt</i>	0.15	0.15	-0.0192
<i>LGIM Global Equity 50:50 Index</i>	0.25	0.25	0.0012
<i>LGIM Multi-Asset</i>	0.33	0.33	-0.0013

Funds shown in italics are those available to members but in which no members are currently invested.

The AMC, TER and transaction costs for the funds held by members of the AVC arrangements, where they are disclosed by the providers, are shown in table below.

Standard Life AVC arrangement	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.) (12m to 31/03/2019)
Aberdeen Life Sterling Credit	0.95	1.08	Not available <sup>3</sup>
Annuity Targeting	0.60	0.61	
Asia Pacific ex Japan Equity	0.60	0.74	
At Retirement (Multi Asset Universal)	0.60	0.64	
Baillie Gifford UK and Worldwide Equity	0.90	0.93	
Baillie Gifford UK Equity Core	0.90	0.90	
BlackRock Managed (50:50) Global Equity	0.60	0.62	
Corporate Bond	0.60	0.61	
Deposit & Treasury	0.60	0.61	
Ethical	0.60	0.61	
European Equity	0.60	0.62	
Far East Equity	0.60	0.70	
FTSE Tracker	0.60	0.61	
Global Equity 50:50	0.60	0.61	
Index Linked Bond	0.60	0.61	
International Equity	0.60	0.63	
iShares UK Equity Index	0.60	0.61	
Japanese Equity	0.60	0.62	
Managed	0.60	0.62	
Mixed Bond	0.60	0.61	
Multi Asset Managed (20-60% Shares)	0.60	0.62	
Money Market	0.60	0.61	
Newton UK Equity	0.90	1.01	
North American Equity	0.60	0.61	
Property	0.60	0.63	
Standard Life Investments Global Absolute Return Strategies (GARS)	1.10	1.19	
Standard Life Investments UK Smaller Companies	1.00	1.09	
Stock Exchange	0.60	0.63	
UK Equity	0.60	0.61	
Pension With Profits Fund	1.75 (estimate) <sup>1</sup>	N/A	

Aviva AVC arrangement	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.)
Long Gilt	0.875	0.875	Not available <sup>3</sup>
Mixed Investments (40-85% Shares)	0.875	0.875	
UK Equity	0.875	0.875	
With Profits Guaranteed	N/A <sup>1</sup>	N/A <sup>1</sup>	
With Profits	N/A <sup>1</sup>	N/A <sup>1</sup>	

Equitable Life AVC arrangement	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.) (12m to 31/12/2018)
With Profits Fund	1.5	1.5	0.041

Prudential AVC arrangement	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.) (12m to 30/06/2018)
Deposit	N/A <sup>2</sup>	N/A <sup>2</sup>	0.00
Discretionary	0.75	0.80	-0.07
Fixed Interest	0.75	0.75	-0.10
Global Equity	0.75	0.75	-0.04
International Equity	0.75	0.76	0.08
UK Equity Passive	0.65	0.65	0.31
UK Equity	0.75	0.75	-0.04
With Profits	0.94 (estimate) <sup>1</sup>	N/A	N/A

Royal London AVC arrangement	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.)
BlackRock Aquila Global Equity Index (50:50)	0.59	0.59	Not available <sup>3</sup>
BlackRock Aquila UK Equity Index	0.59	0.59	
Deposit	0.59	0.59	
Index Linked	0.59	0.59	
Sustainable Leaders	0.59	0.59	

## Notes

<sup>1</sup> The charges on these With Profits Funds are not explicit, they are taken into account when the bonus on the Funds is declared. Standard Life estimates the charges on the Pension With Profits Fund are 1.75% p.a.; Prudential estimates the charges on the With Profits Fund are 0.94% assuming investment returns on the underlying assets are 5% p.a. Aviva does not disclose any indication of the level of charges on its With Profits Funds.

<sup>2</sup> The charges on the Prudential Deposit Fund are not explicit, this Fund aims to provide a net return in line with the Bank of England base rate.

<sup>3</sup> Although these providers are now able to calculate transaction costs using the prescribed method, these calculations were not ready at the time of writing this statement. We expect these providers to report this information more quickly in future and therefore hope to include this information, where relevant, in future statements.

The prescribed method of calculating transaction costs states the trading cost is arrived at by comparing the price at which the transaction was actually executed with the price when the order to transact entered the market. So, when selling into a rising market or buying into a falling market, the calculation produces a credit that may outweigh the other 'explicit' transaction costs, resulting in negative overall transaction costs. This has been the case for a number of the funds held by members.

The requirement to provide details of transaction costs calculated in a standard way is a relatively recent one. It is therefore difficult to carry out a market comparison to provide comfort around the reasonableness of the costs disclosed by our DC and AVC fund managers. We would expect actively managed funds to have higher transaction costs than index-tracking funds. Not all the transaction costs reported above are consistent with this, but the limited data we have, reported over different periods does not allow us to draw any meaningful conclusions at this time.

### Illustrations to show the cumulative effect of costs and charges

The Group Trustees are now required to illustrate the effect of the costs and charges typically paid by a member on the value of their DC fund at retirement (as a "pounds and pence figure"). The Regulations allow the Group Trustees to exercise their discretion with regards to the illustrative examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the Group's DC membership.

The Group Trustees have taken account of the statutory guidance when preparing these illustrations.

We have decided to illustrate four example members - 2 for the MEPS Category and 2 for the EGPS Category (we have decided not to take account of future contributions paid to the MEPS Category, given the decision to close this Category to future contributions in the near future):

- Example member 1: the member of the MEPS category with the longest term to retirement (age 35) with a retirement age of 60 and fund value of £58,850;
- Example member 2: the average member of the MEPS category (aged 49) with a retirement age of 60 and fund value of £58,850;
- Example member 3: the youngest member of the EGPS Category (age 37) with a retirement age of 60 and fund value of £21,500;
- Example member 4: the average member of the EGPS Category (aged 47) with a retirement age of 60 and fund value of £21,500;

For the MEPS category, in order to show the impact of different levels of charges and investment returns, we have produced illustrations to demonstrate the effect of the above costs and charges for the Discretionary Fund and the Cash Fund. 91% of members and 84% of assets are invested in the Discretionary Fund and 56% of members and 12% of assets are invested in the Cash Fund (some members invest in more than one Fund). We have decided not to show the representative effect of costs on the other funds available through the MEPS category,

The tables below illustrate the effect of the costs and charges at different ages on projected retirement pots for example members 1 and 2.

#### Example member 1:

For the youngest member of the MEPS Category, the estimated impact of charges on accumulated fund values invested in the Prudential Discretionary Fund or the Prudential Cash Fund are shown in the table below.

At age:	Prudential Discretionary Fund			Prudential Cash Fund		
	Fund value (before charges)	Fund value (after charges)	Impact of charges on fund value	Fund value (before charges)	Fund value (after charges)	Impact of charges on fund value
35	£58,850	£58,850	£0	£58,850	£58,850	£0
40	£68,791	£66,449	£2,342	£58,136	£56,589	£1,547
45	£80,410	£75,029	£5,382	£57,430	£54,415	£3,016
50	£93,993	£84,717	£9,276	£56,733	£52,324	£4,409
55	£109,869	£95,655	£14,214	£56,045	£50,314	£5,731
60	£128,428	£108,007	£20,421	£55,365	£48,381	£6,984

**Example member 2:**

For the average member of the MEPS Category, the estimated impact of charges on accumulated fund values invested in the Prudential Discretionary Fund or the Prudential Cash Fund are shown in the table below.

At age:	Prudential Discretionary Fund			Prudential Cash Fund		
	Fund value (before charges)	Fund value (after charges)	Impact of charges on fund value	Fund value (before charges)	Fund value (after charges)	Impact of charges on fund value
50	£60,716	£60,297	£419	£58,706	£58,391	£316
55	£70,972	£68,082	£2,889	£57,994	£56,147	£1,847
60	£82,960	£76,873	£6,087	£57,920	£53,990	£3,300

**Notes**

Fund values shown are estimates and are not guaranteed

Illustrations assume no further contributions are paid

Inflation is assumed to be 2.5% per annum

The projected growth rates for the Discretionary Fund and the Cash Fund have been provided by Prudential and are 3.25% per annum above inflation for the Discretionary Fund and 0.25% per annum below inflation for the Cash Fund.

For the EGPS Category, in order to show the impact of different levels of charges and investment returns, we have produced illustrations to demonstrate the effect of the above costs and charges for the AEGON BlackRock Balanced Growth Fund and the AEGON BlackRock Cash Fund. 93% of members and 54% of assets are invested in the Balanced Growth Fund and 29% of members and 39% of assets are invested in the Cash Fund (some members invest in more than one Fund). We have decided not to show the representative effect of costs on the other funds available through the EGPS Category.

The tables below illustrate the effect of the costs and charges at different ages on projected retirement pots for the example members 3 & 4.

**Example member 3:**

For the youngest EGPS Category member the estimated impact of charges on accumulated fund values invested in the AEGON BlackRock Balanced Growth Fund or the AEGON BlackRock Cash Fund are shown in the table below.

At age:	AEGON BlackRock Balanced Growth Fund			AEGON BlackRock Cash Fund		
	Fund value (before charges)	Fund value (after charges)	Impact of charges on fund value	Fund value (before charges)	Fund value (after charges)	Impact of charges on fund value
40	£23,544	£22,920	£624	£20,692	£20,480	£212
45	£27,391	£25,498	£1,893	£19,413	£18,887	£526
50	£31,866	£28,366	£3,501	£18,213	£17,418	£795
55	£37,073	£31,556	£5,517	£17,087	£16,063	£1,024
60	£43,131	£35,105	£8,026	£16,030	£14,814	£1,217

**Example member 4:**

For the average EGPS Category member, the estimated impact of charges on accumulated fund values invested in the AEGON BlackRock Balanced Growth Fund or the AEGON BlackRock Cash Fund are shown in the table below.

At age:	AEGON BlackRock Balanced Growth Fund			AEGON BlackRock Cash Fund		
	Fund value (before charges)	Fund value (after charges)	Impact of charges on fund value	Fund value (before charges)	Fund value (after charges)	Impact of charges on fund value
50	£23,544	£22,920	£624	£20,692	£20,480	£212
55	£27,391	£25,498	£1,893	£19,413	£18,887	£526
60	£31,866	£28,366	£3,501	£18,213	£17,418	£795

## Notes

Fund values shown are estimates and are not guaranteed

Illustrations assume no further contributions are paid

Inflation is assumed to be 2.5% per annum

The projected growth rates used here for the AEGON BlackRock Balanced Growth Fund and the AEGON BlackRock Cash Fund have been recommended by our investment advisers and are 3.15% per annum above inflation for the AEGON BlackRock Balanced Growth Fund and 1.3% per annum below inflation for the AEGON BlackRock Cash Fund.

## Value assessment

The Administration Regulations require that the Group Trustees make an assessment of charges and transactions costs borne by members and the extent to which those charges and costs represent good value for money for members. The Group Trustees have established a cost-benefit analysis framework in order to assess whether the member borne charges and transaction costs deliver good Value for Members. In terms of the benefits of membership the Group Trustees have considered four core benefit categories: Governance and Management, Administration, Investments and Communications. The assessment takes into account available research on the costs and features of other DC schemes for comparison purposes.

Having undertaken an assessment of the Group over the period which considered the costs and charges members pay and the benefits of membership (in terms of quality of administration, investment, governance of the arrangements and communications), the Group Trustees have concluded that overall the DC Categories provide value for members.

Though the charges on the AVC arrangements are in line with market rates for schemes of a similar size, the Group Trustees are carrying out a benchmarking review of the AVC providers and fund choices with a view to providing improved value for members.

## Trustee Knowledge and Understanding

The law requires Trustees to have, or have access to, sufficient knowledge and understanding to properly exercise their functions as Trustees and to run the Scheme effectively. These requirements are set out in Sections 247 and 248 of the Pensions Act 2004.

The Chair of the Group Trustees is an experienced pension professional who has acted as a trustee for nine years across a number of different pension schemes with DC sections.

Over the period covered by this Statement, the Group Trustees have worked to address any relevant gaps which they have identified in their knowledge and kept their knowledge and understanding up to date through various training activities and involvement in the running of the Group.

This has involved working on a wide range of issues including:

- An ongoing project to review the current DC and AVC arrangements, including a review of the Group Trustees' powers and current processes in respect of these funds, as well as liaising with the employer over future contributions to the MEPS Category;
- Work in relation to topical issues in pensions, such as the introduction of the EU's General Data Protection Regulation (GDPR) and the policies/practices that the Group needed to introduce as a result of this and cyber security risks.
- Making decisions on specific member cases, taking into account the requirements of the Group's Trust Deed & Rules and also the wider law relating to pensions and trusts;
- Regular tasks, such as input into the completion of the Trustee Report & Accounts for the year ending 31 March 2018, which included work in relation to the reviews of the DC and AVC arrangements and the DC governance and charges statement for that period; and
- The Group Trustees take their training and development responsibilities seriously. We maintain a training log and all Group Trustees are encouraged to identify any gaps in their knowledge and work with the pensions team, professional advisers and external agencies to fill any gaps. All Group Trustees have completed the Pensions Regulator's Trustee Toolkit.

As a result of the training activities which have been completed by the Group Trustees individually and collectively as a board and taking into account the professional advice available to the Group Trustees, I am confident that the combined knowledge and understanding of the Group Trustees enables them to exercise their functions properly.

Signed on behalf of the Group Trustees on 25 July 2019



**Martine Trouard-Riolle**  
On behalf of Capital Cranfield Pension Trustees Limited - Chair

**E.ON UK GROUP OF THE ESPS (THE 'GROUP')**  
**STATEMENT OF INVESTMENT PRINCIPLES – DEFINED CONTRIBUTION ARRANGEMENTS**

The following document outlines the Group's Statement of Investment Principles (SIP), which sets out the investment objective, the investment strategy, the Group Trustees approach to risk management, issues concerning implementation of the strategy and the policy on governance for the Money Purchase arrangements within the Group. This covers both the Defined Contribution Sections of the Group and the Additional Voluntary Contributions (AVCs) arrangements under the Defined Benefit Section.

### 1. INVESTMENT OBJECTIVE

The Group has two Defined Contribution categories; the EGPS Category which uses AEGON (formerly BlackRock) as its provider and the MEPS Category which uses Prudential. The Group also makes AVC arrangements available to final salary members of the Defined Benefit category. The Group Trustees maintain a similar approach to AVCs to that for Defined Contribution categories, particularly in respect to the selection and monitoring of investments.

The Group Trustees are responsible for investing the Money Purchase assets in line with members' preferences. Its key aim is to provide a range of investments that are suitable for meeting members' long and short term investment objectives allowing for members' differing individual circumstances. In particular, the range of members' attitudes to risk and term to retirement are considered.

In preparing this statement, the Group Trustees have consulted with E.ON UK plc ('the Sponsoring Employer') and obtained and considered advice from its investment adviser, Aon Hewitt Limited ('Aon'), on the appropriateness of this statement. Aon is authorised and regulated by the Financial Conduct Authority in respect of a range of investment business activities.

In accordance with The Occupational Pension Schemes (Investment) Regulations 2005 the statement is reviewed:

- At least every three years; and
- Without any delay after any significant change in investment policy or the demographic profile of relevant members.

### 2. STRATEGY

The Group Trustees policy is to provide suitable information for members so that they can make appropriate investment decisions. Members are responsible for selecting the fund or combination of funds in which they wish to invest their pension accounts from the available range.

The 'Group Trustees use fund platforms provided by AEGON and Prudential for the Defined Contribution Sections to implement the Group's objectives.

<b>BlackRock Platform (EGPS Category)</b>	
<b>Fund</b>	<b>Benchmark</b>
BlackRock Balanced Fund	Fixed Weight Benchmark <sup>1</sup>
BlackRock 70/30 Global Fund	70% FTSE All Share Index / 30% Fixed Overseas <sup>2</sup>
BlackRock Cash Fund	7 Day LIBID
BlackRock DC Pre-Retirement Fund	Composite Benchmark <sup>3</sup>
BlackRock DC Diversified Growth Fund	Bank of England official Bank Rate plus 3.5%
BlackRock DC Long Gilt Fund	FTSE A Over 15 Year Gilts Index
BlackRock LGIM Consensus Fund	ABI Mixed Investments 40 -85% shares sector average
BlackRock LGIM Global Equity 50:50 Index Fund	50% FTSE All Share Index, 17.5% FTSE All World North America Index, 17.5% FTSE All World Europe (ex UK) Index, 8.75% FTSE All World Japan Index, 6.25% FTSE All World Asia Pacific (ex Japan) Index

<sup>1</sup> 55% FTSE All-Share TR Index, 10% FTA All Stocks Gilts Index 10%, 8% FTSE World Europe ex UK Gross Return (GBP), 8% FTSE World US TR in GBP Terms, 5% Barclays Global Agg 500 Ex GBP (GBP), 5% LIBID 7 Day GBP, 4%, FTSE World Pacific Ex Japan (GBP), 4% FTSE JAPAN INDEX (GBP), 1% MSCI Emerging Markets Gross Returns (GBP).

<sup>2</sup> Overseas Weights: 10% Continental Europe, 10% North America, 5% Japan, 4% Pacific Basin, 1% Emerging Markets

<sup>3</sup> The benchmark and the underlying investment strategy take into account a number of factors including current expected longevity of immediate annuitants, the yields available in the corporate bond market and the types of annuities generally purchased by defined contribution pension investors in the UK. The constituents of the benchmark and consequently the investment strategy are subject to an annual review and may be updated to include other factors.

<b>Prudential Platform (MEPS Category)</b>	
<b>Fund</b>	<b>Benchmark</b>
Prudential Discretionary	Internal composite benchmark <sup>1</sup>
Prudential Cash	London Interbank LIBID 7 Day Deposit Rate
Prudential Property	All Balanced Property Fund component of the AREF / IPD UK Quarterly Property Fund Index
Prudential Index Linked	FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index
Prudential Fixed Interest	FTSE Actuaries UK Conventional Gilts All Stocks Index
Prudential International Equity	Internal composite benchmark <sup>2</sup>
Prudential UK Equity	FTSE All-Share Index
Prudential World ex-UK Index	FTSE All-World Developed ex-UK Index
Prudential BlackRock Consensus	CAPS Pooled Fund Survey Balanced Fund asset weights excluding property and emerging markets
Prudential BlackRock 50:50 Global Equity	Composite Benchmark <sup>3</sup>
Prudential BlackRock Over 15 Years UK Gilt Index Fund	FTSE Actuaries UK Conventional Gilts Over 15 Years Index
Prudential Absolute Return Fund	UK CPI + 5%p.a.

<sup>1</sup> benchmark asset allocation 67.5% global equities (split 40/60% UK/ overseas); 7.5% property; 25% bonds/cash

<sup>2</sup> benchmark asset allocation 26.7% North America; 26.7% Europe; 26.7% Pacific Basin; 11.7% Japan; 8.3% Emerging markets

<sup>3</sup>50% FTSE All-Share Index TR, 16.5% FTSE United States Index in GBP, 16.5% FTSE All-World Developed Europe ex-UK Index NET of Tax GBP, 8.5% FTSE All-World Developed Japan Index NET of Tax GBP, 8.5% FTSE All-World Developed Asia Pacific ex Japan Index NET of Tax GBP.

In addition, the Group Trustees have made available a lifestyle option for the MEPS category:

- >5 years to retirement monies are invested 100% in the BlackRock 50:50 Global Equity Index, and
- < 5 years to retirement monies are switched and rebalanced 75% into the BlackRock Over 15 years UK Gilt Index Fund and 25% into the Prudential Cash Fund.

The Group Trustees operate a number of AVC policies for final salary members of the Defined Benefit category. The AVC policy available to new AVC payers is provided by Standard Life and offers a broad range of funds including the following lifestyle option, which is the default investment strategy for this arrangement:

- > 5 years to retirement monies are invested 100% in the BlackRock Managed Global Equity 50/50 Fund, and
- < 5 years to retirement monies are switched and rebalanced into the Deposit and Treasury Fund so that at retirement 100% of the fund is invested in this fund.

The range of funds, including the lifestyle option, was chosen by the Group Trustees after taking advice from their investment adviser, Aon. In choosing the Group's investment options, it is the Group Trustees policy to consider:

- A full range of asset classes.
- The suitability of the possible styles of investment management and the need for manager diversification.
- The suitability of each asset class for a defined contribution scheme / money purchase arrangement.
- The need for appropriate diversification of asset classes.
- The current and expected future membership of each Section of the 'Group.

### 3. DEFAULT INVESTMENT STRATEGIES

The Defined Contribution Section of the Group is closed to new entrants.

There are no contributions being made to the EGPS Category and therefore the Group Trustees have not designated a default arrangement for this Category.

Within the MEPS Category, at 6 April 2015 over 80% of members were contributing to the Prudential Discretionary Fund, and therefore this is considered as the default investment arrangement. This fund is reviewed as part of the Group Trustees' annual review of the money purchase arrangements.

The lifestyle option for the Standard Life AVC policy is also reviewed as part of the Group Trustees annual review of the money purchase arrangements.



**4. RISK MEASUREMENT AND MANAGEMENT**

The Group Trustees consider the following sources of risk:

- Member Understanding – the risk that the Group Trustees do not provide clear, balanced and timely information to members to aid their understanding. The Group Trustees are aware that poor information could lead to members' reasonable expectations not being met.
- Investment Practices – the risk that the range of funds does not meet members' requirements. The range of funds is monitored for both suitability and competitiveness on an ongoing basis.
- Risk of default funds, where provided, being unsuitable for the requirements of some members.
- Manager risk – the risk of fund managers not meeting their objectives. This risk is considered by the Group Trustees and their advisors both upon the initial appointment of the fund manager and on an ongoing basis thereafter.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Group Trustees have sought to minimise such risk by ensuring that all advisors and third party service providers are suitably qualified and experienced and that suitable liquidity and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Group Trustees consider these risks in a qualitative rather than quantitative manner as part of each formal strategy review. The Group Trustees policy is to review the range of funds offered and the suitability of its approach to a default strategy at least every three years.

These risks are considered as part of each normal strategy review. In addition, the 'Group Trustees measure risk in terms of performance of the assets compared with the benchmarks on a regular basis (at least annually) along with monitoring any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Group Trustees.

**5. IMPLEMENTATION**

The range of funds available to EGPS Category members is provided through AEGON and to MEPS Category members through Prudential. There is also a range of AVC options from providers selected and monitored by the Group Trustees.

The AEGON and Prudential policies provide funds which are managed using both active and passive approaches. Active management means that they make decisions on the appropriate asset mix and selection of the securities within each fund. Active management may result in periods of out and under performance of the investment markets as a whole. Passive management involves holding a large proportion of the securities in the markets in line with the market weight of each security and should match closely the performance of the investment markets as a whole.

**6. GOVERNANCE**

The Group Trustees are responsible for the investment of the Group's assets. The Group Trustees take some decisions themselves and delegates others. When deciding which decisions to take themselves and which to delegate, the Group Trustees have taken into account whether it has the appropriate training and expertise in order to take an informed decision. The Group Trustees have established the following decision making structure:

<p><b>Group Trustees</b></p> <ul style="list-style-type: none"> <li>• Monitor actual returns versus Group investment objective.</li> <li>• Set structures and processes for carrying out its role.</li> <li>• Select and monitor planned asset allocation strategy.</li> <li>• Select and monitor direct investments.</li> <li>• Select investment advisers and fund managers.</li> <li>• Decide on appropriate structure for implementing investment strategy.</li> <li>• Monitor investment advisers and fund managers.</li> <li>• Make ongoing decisions relevant to the operational principles of the Group's investment strategy.</li> <li>• Reviews the 'money purchase' fund range and lifestyle options for future contributions.</li> </ul>	
<p><b>Investment Advisers</b></p> <ul style="list-style-type: none"> <li>• Advise on all aspects of the investment of the Group's assets, including implementation.</li> <li>• Advise on this statement.</li> <li>• Provide any required training.</li> </ul>	<p><b>Platform Providers</b></p> <ul style="list-style-type: none"> <li>• Manage the allocation of certain of the funds between underlying fund managers, in accordance with agreed benchmarks and rebalancing protocols.</li> <li>• Operate within the terms of this statement and their written contracts.</li> </ul>

The Group Trustees have established an Investment Committee, whose primary responsibility is to consider all matters related to the implementation of the Group's investment strategy, to take decisions on matters delegated to the Committee by the Board and to make recommendations in respect of matters to be decided by the Board. The membership and terms of reference for the Committee are reviewed from time to time, and include reviewing and monitoring money purchase arrangements.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under 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 Trustees' policy is to review its direct investments and to obtain written advice about them at regular intervals (normally annually). These include vehicles available for members' DC contributions and AVCs. When deciding whether or not to make any new direct investments the Group Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

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 Trustees (or, to the extent delegated, by the fund 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

## **7. RELATIONSHIP WITH ADVISERS**

Aon Hewitt Limited (Aon) has been selected as investment adviser to the Group Trustees for money purchase arrangements. It operates under an agreement to provide a service which ensures the Group Trustees are fully briefed to take decisions itself and to monitor those it delegates.

Aon has the knowledge and experience required under the Pensions Act 1995.

The Group Trustees expect the Providers to handle the assets delegated to them under the terms of the contract and to give effect to the principles in this statement so far as is reasonably practicable.

## **8. SOCIAL, ENVIRONMENTAL AND ETHICAL CONSIDERATIONS**

The Group Trustees' primary consideration in formulating the investment options is to act in the best financial interests of the members of the Group, and to seek the best return that is consistent with taking a prudent/appropriate level of risk. However, the Group Trustees recognise that social, environmental and ethical considerations can have an impact on financial performance.

The Group Trustees have a long-term time horizon in relation to the Group's investment strategy and therefore acknowledge the importance of being a responsible investor. The Group Trustees consider responsible investment to be the integration of environmental, social and governance considerations into investment decisions in respect of the Group's investment portfolio where financial risk and / or return is, or could be, materially affected.

In setting and implementing the Group's investment strategy, the Group Trustees do not explicitly take into account the views of members and beneficiaries in relation to ethical considerations, social and environmental impact or present and future quality of life matters (defined as 'non-financial matters').

The Group assets are typically held in pooled arrangements, managed by investment managers who are in a position to exert significant influence on the companies in which they invest on the Group's behalf.

The Group Trustees therefore expect the appointed investment managers to integrate social, environmental and governance considerations (including, but not limited to, climate change) and opportunities within their investment process as applied to the assets of the Group. In relation to corporate governance and activism (including the way in which any rights attaching to investments, such as voting rights, are exercised) the Group Trustees support the policies set out in the Myrers' Report and Statement of Principles drawn up by the Institutional Shareholders' Committee and expect UK-regulated investment managers to comply with these principles where possible.

## 9. EXERCISE OF RIGHTS

The Group Trustees believe that the exercise of rights (including voting rights) attaching to investments should be exercised by each investment manager, to whom the day to day responsibilities have been delegated, in the interests of investors. The Trustee believes that this will ultimately be in the best interests of the members.

## 10. REALISATION OF INVESTMENTS

The Group's assets are invested in daily priced pooled investment funds, and the vast majority of the underlying assets are invested in quoted markets. The platform provider can be required to realise investments as soon as it becomes appropriate to do so.

## 11. REVIEW

The Group Trustees will review this Statement at least every three years and immediately following any significant change in investment policy or the demographic profile of relevant members. The Group Trustees will take investment advice and consult with the Sponsoring Employer over any changes to this Statement.

Dated: 25 July 2019

Signed:



Martine Trouard-Riolle

On behalf of Capital Cranfield Pension Trustees Limited - Chair of the Trustee

# INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE GROUP TRUSTEES OF THE E.ON UK GROUP OF THE ELECTRICITY SUPPLY PENSION SCHEME

## Statement about contributions

### Opinion

In our opinion, the contributions required by the schedule of contributions for the Group year ended 31 March 2019 as reported in E.ON UK Group of the Electricity Supply Pension Scheme's summary of contributions have, in all material respects, been paid in accordance with the schedule of contributions certified by the Group actuary on 5 May 2017.

We have examined E.ON UK Group of the Electricity Supply Pension Scheme's summary of contributions for the Group year ended 31 March 2019 which is set out on the following page.

### Basis for opinion

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

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds

Date: *7 August 2019*

## SUMMARY OF CONTRIBUTIONS PAYABLE IN THE YEAR ENDED 31 MARCH 2019

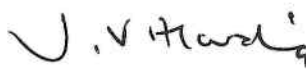
During the year the contributions required by the schedule of contributions to be paid to the Group by the Members and Employers were as follows:

	Members £ million	Employers £ million	Total £ million
<b>Required by the schedule of contributions</b>			
Normal contributions – Defined Benefit*	0.3	42.8	43.1
Normal contributions – Defined Contribution	-	0.1	0.1
Deficit funding contributions	-	65.0	65.0
Early retirements	-	13.2	13.2
Supplementary pensions funding	-	4.0	4.0
<b>Total as reported on by Group auditors</b>	<b>0.3</b>	<b>125.1</b>	<b>125.4</b>
<b>Other contributions payable</b>			
Rule 29 contributions	-	0.5	0.5
AVCs	1.4	0.2	1.6
<b>Total</b>	<b>1.7</b>	<b>125.8</b>	<b>127.5</b>

\*Under salary sacrifice arrangements, £6.5m of contributions were met by the Employer rather than the Members and are included in the £42.8m above.

Approved by and signed on behalf of the Group Trustees on 25 July 2019:

  
**Martine Trouard-Riolle**  
 On behalf of Capital Cranfield  
 Pension Trustees Limited - Chair

  
**John Harding**  
 Director

# INDEPENDENT AUDITOR'S REPORT TO THE GROUP TRUSTEES OF THE E.ON UK GROUP OF THE ELECTRICITY SUPPLY PENSION SCHEME

## Report on the audit of the financial statements

### Opinion

In our opinion, E.ON UK Group of the Electricity Supply Pension Scheme's financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2019, 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, which comprise: the statement of net assets available for benefits as at 31 March 2019; the fund account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

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

### *Independence*

We remained independent of the Scheme 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 responsibilities in accordance with these requirements.

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group, its operations and other organisations on which it depends and the wider economy.

## Reporting on other information

The other information comprises all the information in the annual report 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.

## 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 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 scheme, 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: 7 August 2019

## FUND ACCOUNT

For the year ended 31 March 2019

	Note	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
<b>Contributions and benefits</b>							
Employer contributions	4	125.7	0.1	125.8	118.5	0.1	118.6
Employee contributions	4	1.7	-	1.7	0.2	-	0.2
Total contributions		127.4	0.1	127.5	118.7	0.1	118.8
Transfers from other plans	5	-	-	-	0.4	-	0.4
Other income	6	-	-	-	0.3	-	0.3
		127.4	0.1	127.5	119.4	0.1	119.5
Benefits	7	(199.8)	(0.1)	(199.9)	(192.5)	(0.2)	(192.7)
Payments to and on account of leavers	8	(20.9)	(0.4)	(21.3)	(49.9)	(0.4)	(50.3)
PPF and other levies	9	(0.4)	-	(0.4)	(0.4)	-	(0.4)
Administrative expenses	10	(2.2)	-	(2.2)	(1.9)	-	(1.9)
		(223.3)	(0.5)	(223.8)	(244.7)	(0.6)	(245.3)
<b>Net withdrawals from dealings with members</b>							
		(95.9)	(0.4)	(96.3)	(125.3)	(0.5)	(125.8)
<b>Return on investments</b>							
Investment income	11	1.1	-	1.1	2.1	-	2.1
Change in market value of investments	12	226.9	0.6	227.5	33.0	0.3	33.3
Investment management expenses	18	(4.0)	-	(4.0)	(4.4)	-	(4.4)
<b>Net returns on investments</b>		224.0	0.6	224.6	30.7	0.3	31.0
<b>Net increase / (decrease) in the Fund during the year</b>							
		128.1	0.2	128.3	(94.6)	(0.2)	(94.8)
Opening net assets		4,488.8	11.3	4,500.1	4,583.4	11.5	4,594.9
<b>Closing net assets</b>		4,616.9	11.5	4,628.4	4,488.8	11.3	4,500.1

The notes starting on page 32 form part of these Financial Statements.



## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at 31 March 2019

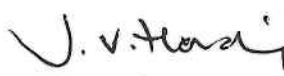
	Note	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
<b>Investment assets</b>							
Pooled investment vehicles	13	4,606.3	11.4	4,617.7	4,458.9	11.2	4,470.1
AVC investments	14	6.1	-	6.1	4.8	-	4.8
Cash	15	0.4	-	0.4	19.8	-	19.8
		4,612.8	11.4	4,624.2	4,483.5	11.2	4,494.7
<b>Investment liabilities</b>							
Other investment balances	15	(0.3)	-	(0.3)	(0.8)	-	(0.8)
		(0.3)	-	(0.3)	(0.8)	-	(0.8)
<b>Total net investments</b>		4,612.5	11.4	4,623.9	4,482.7	11.2	4,493.9
Current assets	22	6.5	0.1	6.6	8.1	0.1	8.2
Current liabilities	23	(2.1)	-	(2.1)	(2.0)	-	(2.0)
<b>Closing net assets</b>		4,616.9	11.5	4,628.4	4,488.8	11.3	4,500.1

The Financial Statements summarise the transactions of the Group and deal with the net assets available for benefits 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 Scheme year. The actuarial position of the Group, which does take account of such obligations, is dealt with in the report on Actuarial Liabilities on pages 13 to 14 of this Annual Report and these Financial Statements should be read in conjunction with this report.

The Financial Statements on pages 30 to 46 were approved by the Group Trustees on 25 July 2019.

Approved by and signed on behalf of the Group Trustees:

  
**Martine Trouard-Riolle**  
 On behalf of Capital Cranfield  
 Pension Trustees Limited - Chair

  
**John Harding**  
 Director

# Notes to the Financial Statements

Year ended 31 March 2019

## 1. Basis of preparation of the financial statements

The individual financial statements of E.ON UK 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"). The Group Trustee has taken advantage of the option to adopt the amendments to FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland Triennial Review 2017 Incremental Improvements and Clarification issued in December 2017, and the SORP (Revised June 2018), early for these financial statements.

## 2. Identification of the financial statements

The Group is established as a trust under English law. The address for enquiries to the Group is included in the Group Trustee Report on page 15.

## 3. Summary of significant accounting policies

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

### Currency

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

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

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

### Contributions

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

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

Employers' deficit funding contributions are accounted for on the due dates set out in the 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 and opt-outs are accounted for when the Group Trustees are notified of the members' decision to leave the Scheme.

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 Scheme, 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.

## **Administrative and other expenses**

Administrative expenses, including the PPF and other levies, are accounted for on an accruals basis.

## **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.

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 within investment income.

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.

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:

- 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 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;
- The Group holds some historic annuity policies in the name of the Trustees. Given the levels involved, these annuity policies have been excluded from the financial statements on the grounds of materiality.

## 4. Contributions

	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
Employers						
Normal	36.3	0.1	36.4	41.0	0.1	41.1
Salary sacrifice*	6.5	-	6.5	7.2	-	7.2
Salary sacrifice – AVC**	0.2	-	0.2	0.2	-	0.2
Special						
Early retirement	13.2	-	13.2	3.9	-	3.9
Supplementary pensions funding***	4.0	-	4.0	1.0	-	1.0
Deficit funding****	65.0	-	65.0	65.0	-	65.0
Rule 29	0.5	-	0.5	0.2	-	0.2
Employees						
Normal	0.3	-	0.3	0.2	-	0.2
AVCs	1.4	-	1.4	-	-	-
	<b>127.4</b>	<b>0.1</b>	<b>127.5</b>	<b>118.7</b>	<b>0.1</b>	<b>118.8</b>

\*Under the salary sacrifice arrangement, £6.5m (2018: £7.2m) of contributions were met by the employer rather than the employees.

\*\*Under the salary sacrifice arrangement, £0.2m (2018: £0.2m) of additional voluntary contributions were met by the employer rather than the employees.

\*\*\*Supplementary pensions funding represents Employer contributions to grant additional benefits on early retirement including Rule 32 payments (grant of special terms).

\*\*\*\* Deficit funding contributions were paid as a result of the funding deficit declared in the actuarial valuation of the Group as at 31 March 2015 and under the terms of the agreement between the Employers and the Trustees dated 25 November 2016 and reflected in the schedule of contributions certified on 5 May 2017. Deficit repair payments of £65.0m were made in January 2019, 2018 and 2017. The actuarial valuation as at 31 March 2018 has been completed and a revised schedule of contributions was certified on 27 June 2019. Under this schedule, further deficit repair payments totalling £233.8m will be made in August 2019, and two further payments of up £91.5m each will be made in January 2022 and January 2023.

## 5. Transfers from other plans

	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
Transfer values received from other pensions arrangements:						
Individual transfers	-	-	-	0.2	-	0.2
Intra-scheme transfers:						
Individual transfers	-	-	-	0.2	-	0.2
	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.4</b>	<b>-</b>	<b>0.4</b>

## 6. Other income

	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
Other	-	-	-	0.3	-	0.3
	-	-	-	0.3	-	0.3

## 7. Benefits

	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
Pensions	178.6	-	178.6	175.1	-	175.1
Lump sum retirement benefits and commutations	19.9	0.1	20.0	16.1	0.1	16.2
Purchase of annuities on retirement (AVCs)	0.4	-	0.4	0.3	-	0.3
Lump sum death benefits (in service)	0.3	-	0.3	0.3	0.1	0.4
Lump sum death benefits (in retirement)	-	-	-	0.4	-	0.4
Taxation where annual or lifetime allowance exceeded	0.6	-	0.6	0.3	-	0.3
	199.8	0.1	199.9	192.5	0.2	192.7

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 15 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 is undertaking 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 likely funding impact of GMP equalisation and, based on this initial assessment, do not expect it to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. Any backdated benefit adjustments will be accounted for in the year they are determined.

## 8. Payments to and on account of leavers

	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
Purchase of annuities to match preserved benefits	-	-	-	0.1	-	0.1
Transfer values paid to other pension arrangements:						
Individual transfers	20.5	0.3	20.8	28.9	0.4	29.3
Individual transfers – AVCs	0.4	-	0.4	0.4	-	0.4
Intra-Scheme transfers:						
Bulk transfers	-	-	-	19.3	-	19.3
Individual transfers	-	0.1	0.1	0.9	-	0.9
Individual transfers – AVCs	-	-	-	0.3	-	0.3
	20.9	0.4	21.3	49.9	0.4	50.3

The 2018 bulk intra-scheme transfer relates to 51 members who elected to transfer their benefits to the Uniper Group of the Electricity Supply Pension Scheme.

## 9. PPF and other levies

	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
Pensions Protection Fund (PPF) levy	0.3	-	0.3	0.3	-	0.3
Pensions Regulator levy	0.1	-	0.1	0.1	-	0.1
	0.4	-	0.4	0.4	-	0.4

## 10. Administrative expenses

	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
Actuarial	0.4	-	0.4	0.3	-	0.3
Administration	0.8	-	0.8	0.9	-	0.9
Audit	0.1	-	0.1	-	-	-
Covenant assessment advice	0.3	-	0.3	-	-	-
Share of ESPS administration	0.1	-	0.1	0.1	-	0.1
Legal	0.1	-	0.1	-	-	-
Other professional fees	0.1	-	0.1	0.2	-	0.2
Support and other costs	0.3	-	0.3	0.4	-	0.4
	2.2	-	2.2	1.9	-	1.9

Other than those shown above, all administrative expenses incurred by the Group, and not directly related to the investment management of the securities and property portfolios, were met by the Employers.

## 11. Investment income

	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
Dividends from equities	-	-	-	1.4	-	1.4
Income from pooled investment vehicles	1.0	-	1.0	0.3	-	0.3
Other	0.1	-	0.1	0.4	-	0.4
	1.1	-	1.1	2.1	-	2.1

## 12. Reconciliation of net investments

### Defined benefit section

	Opening value £million	Purchases £million	Sales proceeds £million	Change in market value £million	Closing value £million
Pooled investment vehicles	4,458.9	908.2	(987.1)	226.3	4,606.3
AVC investments	4.8	1.6	(0.8)	0.5	6.1
	4,463.7	909.8	(987.9)	226.8	4,612.4
Cash	19.8				0.4
Other investment balances	(0.8)				(0.3)
<b>Total net investments</b>	<b>4,482.7</b>				<b>4,612.5</b>

## Change in market value reconciliation

	2019 £million	2018 £million
Change in market value from reconciliation of net assets	226.8	33.3
Exchange gains / (losses)	0.1	(0.3)
	<b>226.9</b>	<b>33.0</b>

## Defined contribution section

	Opening value £million	Purchases £million	Sales proceeds £million	Change in market value £million	Closing value £million
Pooled investment vehicles	11.2	0.1	(0.5)	0.6	11.4
	<b>11.2</b>	<b>0.1</b>	<b>(0.5)</b>	<b>0.6</b>	<b>11.4</b>

	DC 2019 £million	DC 2018 £million
Allocated to members	11.4	11.2
Not allocated to members	-	-
	<b>11.4</b>	<b>11.2</b>

The Defined Contribution funds are managed by Aegon and Prudential Assurance Company Limited, both registered in the UK.

Defined contribution assets purchased by the Group are allocated to provide benefits to those individuals on whose behalf the corresponding contributions were paid. Accordingly, the assets identified as designated to members above do not form a common pool of assets available for members generally. Members receive an annual statement confirming the contributions paid on their behalf and the value of their money purchase rights.

## Investment transaction costs

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

	DB Equities £million	DB Pooled investment vehicles £million	DB 2019 £million	DB 2018 £million
Fees	-	-	-	0.1
Commissions	-	-	-	0.1
<b>2019 total</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<i>2018 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.



### 13. Pooled investment vehicles

	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
Equities	693.9	8.9	702.8	619.2	7.9	627.1
Bonds	167.3	1.6	168.9	206.0	1.2	207.2
Property	1.3	0.2	1.5	6.2	-	6.2
Hedge funds	843.9	-	843.9	808.7	-	808.7
Diversified growth funds	303.4	-	303.4	331.1	-	331.1
Private equity	142.2	-	142.2	92.4	-	92.4
Liability driven investments	2,229.4	-	2,229.4	2,230.2	-	2,230.2
Cash and other liquid assets	224.9	0.7	225.6	165.1	2.1	167.2
	<b>4,606.3</b>	<b>11.4</b>	<b>4,617.7</b>	<b>4,458.9</b>	<b>11.2</b>	<b>4,470.1</b>

At 31 March 2019 and 31 March 2018 the Group held a bespoke Liability Driven Investment (LDI) portfolio. The portfolio has been included above in the DB Section's Pooled investment vehicles, is specifically tailored for the Group's individual requirements and there are no other investors in it.

The LDI portfolio has the following investments:

	DB 2019 £million	DB 2018 £million
Bonds	2,447.2	2,806.0
Swaps – net	(54.2)	(314.2)
Repurchase agreements	(171.5)	(284.2)
Cash and other liquid assets	7.9	22.6
	<b>2,229.4</b>	<b>2,230.2</b>

### 14. AVC Investments

The number of AVC accounts (including "frozen" accounts) as at 31 March 2019 was 387 (2018: 186). In some cases members have two or more accounts.

The aggregate amounts of AVC investments are as follows:

	DB 2019 £million	DB 2018 £million
Aviva	0.1	0.2
Equitable Life	0.3	0.3
Prudential Assurance Society	0.9	0.8
Scottish Life Assurance	1.1	0.7
Standard Life Assurance	3.7	2.8
	<b>6.1</b>	<b>4.8</b>

## 15. Cash and other net investment balances

	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
Cash – sterling	-	-	-	19.5	-	19.5
Cash – foreign currency	0.4	-	0.4	0.3	-	0.3
Total cash	0.4	-	0.4	19.8	-	19.8
Other investment liabilities	(0.3)	-	(0.3)	(0.8)	-	(0.8)
	0.1	-	0.1	19.0	-	19.0

## 16. Employer related investments

As at 31 March 2019 and 31 March 2018 the Group had none of its assets invested directly in E.ON UK plc or its associated companies. There were also no assets invested indirectly in E.ON UK plc through pooled investment vehicles. This was in accordance with the policy of the Group Trustees.

## 17. Concentration of investments

Investments accounting for more than 5% of the net assets of the Group at 31 March 2019 or 31 March 2018 were:

	2019 £million	2019 %	2018 £million	2018 %
Insight LDI Active 29 Fund	2,229.4	48.1	2,230.2	49.6
Egerton Capital Equity Fund Class I GBP (Hedged)	345.8	7.5	326.0	7.2
Invesco Perpetual Global Targeted Returns Fund	303.4	6.6	331.1	7.4
Bridgewater Optimal Portfolio II, Ltd	243.2	5.3	241.1	5.4

## 18. Investment management expenses

Investment management fees 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.

	DB 2019 £million	DB 2018 £million
Administration and management	3.0	3.3
Custody and accounting	0.1	0.1
Investment advice – DB	0.9	0.8
Legal	-	0.1
Investment advice – DC	-	0.1
	4.0	4.4

## 19. 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. The tax charge represents irrecoverable withholding taxes arising on certain classes of investment income.

## 20. 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 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. No such adjustments have been made to the valuations at 31 March 2019 or 31 March 2018.

The Group'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	2019 Total £million
<b>DB section</b>				
<b>Investment assets</b>				
Pooled investment vehicles	-	4,353.0	253.3	<b>4,606.3</b>
AVC investments	-	6.1	-	<b>6.1</b>
Cash	0.4	-	-	<b>0.4</b>
<b>Investment liabilities</b>				
Other investment balances	(0.3)	-	-	<b>(0.3)</b>
<b>DB section total</b>	<b>0.1</b>	<b>4,359.1</b>	<b>253.3</b>	<b>4,612.5</b>
<b>DC section</b>				
<b>Investment assets</b>				
Pooled investment vehicles	-	11.4	-	<b>11.4</b>
<b>DC section total</b>	<b>-</b>	<b>11.4</b>	<b>-</b>	<b>11.4</b>
<b>Total net investments</b>	<b>0.1</b>	<b>4,370.0</b>	<b>253.3</b>	<b>4,623.4</b>

Analysis for the prior period end is as follows:

	Level 1 £million	Level 2 £million	Level 3 £million	2018 Total £million
<b>DB section</b>				
<b>Investment assets</b>				
Pooled investment vehicles	-	4,359.3	99.6	4,458.9
AVC investments	-	4.8	-	4.8
Cash	19.8	-	-	19.8
<b>Investment liabilities</b>				
Other investment balances	(0.8)	-	-	(0.8)
<b>DB section total</b>	19.0	4,364.1	99.6	4,482.7
<b>DC section</b>				
<b>Investment assets</b>				
Pooled investment vehicles	-	11.2	-	11.2
<b>DC section total</b>	-	11.2	-	11.2
<b>Total investments</b>	19.0	4,375.3	99.6	4,493.9

## 21. 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 comprises 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.

The Group Trustees determine their investment strategy 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 strategy set out below. The Group Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which take into account the Group's strategic investment objectives. These investment objectives and risk limits are implemented through the investment agreements in place with the Group's 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 set out below. This does not include the legacy insurance policies or AVC investments as these are not considered significant to the overall investments of the Group.

The following table summarises the extent to which the various classes of investments are affected by financial risk:

	Credit risk	Market risk			2019	2018
		Currency	Interest rate	Other price	£ million	£ million
<b>Defined benefits section</b>						
Bonds	●	⊖	●	○	2,447.2	2,806.1
Pooled investment vehicles	●	⊖	⊖	●	2,376.9	2,228.7
Derivatives	⊖	⊖	⊖	⊖	(54.2)	(314.2)
Repurchase agreements	⊖	⊖	⊖	⊖	(171.5)	(284.2)
Cash and other investment assets	●	⊖	○	○	14.1	46.3
<b>Total DB section</b>					<b>4,612.5</b>	<b>4,482.7</b>
<b>Defined contribution section</b>						
Pooled investment vehicles	●	⊖	⊖	⊖	11.4	11.2

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

## Defined benefit section

### Investment Strategy

The investment objective of the defined benefit section (DB Section) is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the DB Section payable under the Trust Deed and Rules as they fall due.

The Group Trustees set the investment strategy for the DB Section taking into account considerations such as the strength of the Employer covenant, the long term liabilities of the DB Section and the funding agreed with the Employer. The investment strategy is set out in the Group's Statement of Investment Principles ("SIP").

The current strategy is to hold a portion of the assets (approximately 53% at the year-end) in investments that move in line with the long-term liabilities of the Group. This is referred to as LDI and comprises UK and overseas government and corporate bonds and interest rate swaps, the purpose of which is to hedge against the impact interest rate movement on long term liabilities.

The remaining assets are held in return seeking investments comprising UK and overseas equities, equity futures, investment property, hedge funds and private equity.

### Credit Risk

The Group is subject to credit risk because the Group directly invests in bonds, over-the-counter ("OTC") derivatives, has cash balances, and enters into repurchase agreements. The Group also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in 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 that are backed by UK Government guarantee. Credit risk arising on other investments is mitigated by investment mandates requiring all counterparties to be at least investment grade rated.

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.

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. The credit risk for OTC swaps is reduced by collateral arrangements that require daily posting of cash collateral between counterparties. Credit risk also arises on forward foreign currency contracts and these are also subject to daily collateralisation arrangements. All counterparties are required to be at least investment grade.

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

Credit risk on repurchase agreements is mitigated through collateral arrangements that require daily posting of cash collateral between counterparties.

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. Pooled investment arrangements used by the Group comprise unit linked insurance contracts and authorised unit trusts.

A summary of pooled investment vehicles by type of arrangement is as follows:

Type of arrangement	2019 £m	2018 £m
Unit-linked insurance contracts	303.4	331.1
Authorised unit trusts	-	-
Open-ended investment companies	-	-
Shares of limited liability partnerships	-	-
Other	4,302.9	4,127.8
<b>Total</b>	<b>4,606.3</b>	<b>4,458.9</b>

Indirect credit risk: arises in relation to underlying investments held in the bond pooled investment vehicles. This risk is mitigated by limiting the total proportion of the return seeking portfolio that may be invested in pooled investment vehicles that can hold sub-investment grade bonds.

The information about exposures to and mitigation of credit risk above applied at both the current and previous year end.

### 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 net currency exposure at the current and previous year-ends was:

	Direct exposure (million)	Indirect exposure (million)	Hedging (million)	2019 Net exposure after hedging (million)	2018 Net exposure after hedging (million)
Pounds sterling (GBP)	-	4,452.1	147.4	4,599.5	4,364.4
US Dollars (USD)	-	153.3	(147.4)	5.9	-0.5
Euros (EUR)	-	1.7	-	1.7	6.5
Other currencies	-	-	-	-	111.6
		<b>4,607.1</b>	-	<b>4,607.1</b>	<b>4,482.0</b>
<i>Unhedged foreign currency</i>				<i>5%</i>	<i>5%</i>

### Interest Rate Risk

The Group is subject to interest rate risk because some of the Group's investments are held in bonds and interest rate swaps (either as segregated investments or through pooled investment vehicles), and cash. The Group Trustees have set a benchmark for total investment in bonds and interest swaps of between 45% and 100% of the total actuarial liabilities as part of their LDI investment strategy. Under this strategy, if interest rates 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 interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. At the year-end the LDI portfolio represented 53% of the total investment portfolio (2018: 54%).

## Other Price Risk

Other price risk arises principally in relation to the Group's return seeking portfolio which includes directly held equities, equities held in pooled vehicles, hedge funds and private equity. At the year-end the return seeking portfolio represented 47% of the total investment portfolio (2018: 46%).

The Group manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

## Defined contributions section

### Investment strategy

The Group Trustees' objective is to make available to members of the Group an appropriate range of investment options designed to generate income and capital growth, which together with new contributions from members and their Employer, will provide a retirement amount with which the member can purchase a pension annuity (or other type of retirement product). The Defined Contribution SIP outlines the investment objectives and strategy for the Defined Contribution assets of the Group.

The investment funds offered to members are provided by Prudential (MEPS Category) and Aegon (EGPS Category) and cover a range of asset classes. The day to day management of the underlying investments of the funds is the responsibility of the providers, including the direct management of credit and market risks.

The Group Trustees monitor the underlying risks by regular investment reviews.

The risks disclosed relate to the Defined Contribution (DC) Section's investments as a whole. Members are able to choose their own investments from the range of funds offered by the Group Trustees, and therefore, may face a different profile of risks from their individual choices compared with the Section as a whole.

## Credit Risk

The DC Section is subject to direct credit risk in relation to the providers through their holdings in unit linked insurance funds.

The providers are regulated by the Financial Conduct Authority and maintain separate funds for their policy holders. The Group Trustees monitor the creditworthiness of the providers by reviewing published credit ratings. In the event of default by the providers the members may be entitled to limited compensation from the Financial Services Compensation Scheme.

The DC Section is also subject to indirect credit and market risk arising from the underlying investments held in the investment funds. Member level risk exposures will be dependent on the funds invested by members.

At the Group year-end the Bond, Cash and Diversified Growth funds were exposed to underlying credit risk.

## Market risk

The Group's DC Section is subject to indirect foreign exchange, interest rate and other price risk arising from the underlying financial instruments held in the funds managed by the providers.

Fund	Exposed to:	Currency risk	Interest rate risk	Other price risk
Equity funds		✓	-	✓
Bond funds		✓	✓	-
Cash funds		✓	✓	-
Diversified growth fund		✓	✓	✓

## 22. Current assets

	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
Amounts due in respect of:						
Contributions due from the Employers	5.7	-	5.7	4.6	-	4.6
Contributions due from Employees	0.1	-	0.1	-	-	-
VAT recoverable	0.3	-	0.3	0.2	-	0.2
Cash balances	0.4	0.1	0.5	3.3	0.1	3.4
	6.5	0.1	6.6	8.1	0.1	8.2

All contributions due to the Group at the year-end relate to March 2019 and March 2018 and were paid in full to the Group in accordance with the Schedule of Contributions.

At 31 March 2019, £nil (2018: £nil) was held as cash designated to members and £34,192.72 (2018: £35,075.83) was held as undesignated cash.

## 23. Current liabilities

	DB 2019 £million	DC 2019 £million	Total 2019 £million	DB 2018 £million	DC 2018 £million	Total 2018 £million
Benefits payable	(1.5)	-	(1.5)	(1.4)	-	(1.4)
Accrued expenses	(0.6)	-	(0.6)	(0.6)	-	(0.6)
	(2.1)	-	(2.1)	(2.0)	-	(2.0)

## 24. Related party transactions

Other than as disclosed elsewhere in the notes to the financial statements, related party transactions and balances comprise:

Contributions and contributions receivable in respect of 2 (2018: 4) Group Trustees during their time as Group Trustees, and pensions paid in respect of 5 (2018: 4) Group Trustees during their time as Group Trustees.

In the year to 31 March 2019 fees and expenses of £182,355 (2018: £159,273) were paid to certain Group Trustees from the Group.

## 25. Contingent liabilities and contractual commitments

In the opinion of the Group Trustees the Group had no contingent liabilities or contractual commitments except for benefits due after the year end which are not provided for in these Financial Statements.

## 26. Subsequent events

There are no subsequent events requiring disclosure in the Financial Statements.