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

ELECTRICITY SUPPLY PENSION SCHEME

MAGNOX ELECTRIC GROUP
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

Magnox Electric Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2022
Contents

Message from the Chairman of Group Trustees

I am pleased to present the Magnox Electric Group's Annual Report and Financial Statements for the year ended 31 March 2022.

The last 12 months has been a busy period for the Group Trustees. In addition to our normal business, we have had four Trustee Working Groups in operation addressing Guaranteed Minimum Pension Equalisation, developing further our resilience to cyber risks, preparing for our future compliance with the requirements of the Task Force on Climate-related Financial Disclosures and evaluating and developing our governance and management arrangements in advance of the publication of The Pensions Regulator's future Combined Code.

I would like to express my appreciation for the additional time our Scheme Secretary, Kelly Capdeville, and fellow Group Trustees are investing to make sure your Scheme remains "ahead of the game".

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

Against a background of prolonged lockdowns and economic uncertainty, the investment strategies of the Group continued to be resilient and have contributed to stability in the funding levels of each Section.

The financial statements in this report reflect the position at the scheme year end, 31 Match 2022. Though since that time, we were deeply saddened of the news of the Russian invasion of Ukraine. Our thoughts are first and foremost with the Ukrainian people as this crisis unfolds. The Group Trustees would like to reassure members that our total investment exposure to Russia is negligible. As a result, we don't expect any material financial impact on the Group from our indirect investments in the region, but we continue to monitor developments closely with our investment advisers.

At the end of 2021, there was a change to the trustee board when Chris Wells decided to step down after accepting a new role with Magnox. We have since been joined by Lisa Thomas, who is a current employee based at Wylfa. The Group Trustees are grateful for Chris's contribution and are looking forward to working with Lisa over the years.

Susan Jee
Chairman

Date: 10 October 2022

Report of the Group Trustees

Introduction

This Annual Report and Financial Statements is produced by the Group Trustees for the members of the Magnox Electric Group of the Electricity Supply Pension Scheme (the 'Group'). The Group is part of an industry-wide pension scheme in which the Participating Employers are companies formed upon the privatisation of the electricity industry in 1990 or their successors. The Electricity Supply Pension Scheme (the 'Scheme') has 24 (formerly 26) separate actuarially independent sections (known as Groups) in respect of the companies participating in the Scheme as Principal Employers, and each Group has its own assets to fund the benefits of its members. Information relating to the Scheme as a whole can be found in the Scheme Annual Report and Financial Statements.

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

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

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

The Group's Financial Statements starting on page 25 have been prepared and audited so as to comply with Regulations made under Sections 41(1) and (6) of the Pensions Act 1995.

Group Management

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

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

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

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

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

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

Group Trustees

APPOINTED TRUSTEE DIRECTORS
Susan Jee Chairman of the Group Trustees [5]
Andrew Clare Chairman of the Investment Sub-committee (Independent Trustee) [1]
Gordon Frisby (Finance Director Magnox Ltd)
Martin Veasey (Independent Trustee) [1]
John Vickerman (HR Director Magnox Ltd)

MEMBER REPRESENTATIVE TRUSTEE DIRECTORS
Paul Bridgeman (Retired employee) [1,4]
Ceri Davies (Current employee, Oldbury Technical Centre) [2,3]
Nick Gore (Retired employee) [1,4]
Fergus Hall (Retired employee) [2,4]
Lisa Thomas (appointed 1 December 2021) (Current employee, Wylfa) [2,3]
Martin Turner (Retired employee) [4]
Chris Wells (resigned 30 November 2021) (Current employee, Dungeness) [2,3]

Note:
1. Member of the Investment Committee at 31 March 2022
2. Member of the Governance & Audit Sub-committee at 31 March 2022
3. Active member of the Group
4. In receipt of pension from the Group
5. Non-Executive Director Magnox Limited

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

Appointment and Removal of Group Trustees

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

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

Meetings of the Group Trustees during the Year

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

Trustee Sub-committees

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

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

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

Communication with members was maintained by means of Pensions Update newsletters and via the website. As a result of the Covid-19 pandemic it was not possible to hold a Group Annual Meeting in 2021.

Statement of Group Trustees' Responsibilities

The Group Trustees' responsibilities in respect of the financial statements

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

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

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

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

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

The Group Trustees are also responsible for the maintenance and integrity of the group's website (https://my-magnox-pension.com/). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Group Trustees' responsibilities in respect of contributions

The Group Trustees are responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the group by or on behalf of employers and the active members of the group and the dates on or before which such contributions are to be paid. The Group Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the group and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the group in accordance with the schedule of contributions.

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

Additional Group Trustees' Responsibilities

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

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

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

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

Under a revised constitution introduced in January 2012, each Group within ESPS currently appoints two individuals to be Councillors on the Council which, amongst other matters, is responsible for the appointment of the Board of EPTL the Scheme Trustee. As at 31 March 2022 Fergus Hall was the councillor chosen by the member representative Trustee Directors and Kelly Capdeville was the councillor chosen by our Principal Employer. There were no Magnox Electric Group councillors represented on the Board of EPTL.

The main responsibilities of EPTL are:

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

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

- The Eggborough Group exited from the Scheme.
- The British Energy Generation Group and the EDF Energy Generation and Supply Group merged, and the combined Group was renamed EDF Group.
- The Scheme's AGM took place on 22 November 2021 and was held virtually by video conferencing. The 2022 Scheme AGM will take place on 22 November 2022.
- The Board continued to monitor risks through its Risk Register which is considered at each main meeting.
- The Scheme's Tax Adviser, KPMG, were re-engaged.
- The Scheme's Auditor was reviewed.
- The new Capita contract was monitored.
- TCFD (Task force on Climate-related Financial Disclosure) and the impact TPR Single Code of Practice were considered.
- Work on the development of the ESPS website (espspensions.co.uk) continued.
- Various governance matters were progressed.

Administration report

Membership statistics for the year ended 31 March 2022

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
At 1 April 2021	**1,099**	**5,509**	**1,409**	**1,117**	**9,134**
Increases					
Contributors/pensioners/dependants/ deferred pensioners	-	110	91	23	224
Pension sharing orders and new equivalent pension benefit ("EPB") pensioners in payment	-	1	-	7	8
Sub Total	**-**	**111**	**91**	**30**	**232**
Reductions					
Contributors / deferred pensioners retiring	(38)	-	-	(72)	(110)
Deaths	(1)	(168)	(71)	(4)	(244)
Leavers with deferred pensions	(23)	-	-	-	(23)
Leavers with refunds of contributions/ transfers to other schemes/cessation of child allowances	-	-	(1)	(11)	(12)
Sub Total	**(62)**	**(168)**	**(72)**	**(87)**	**(389)**
At 31 March 2022	**1,037**	**5,452**	**1,428**	**1,060**	**8,977**

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

Pensions increases

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

The pensions increase applied from 1 April 2022 was 4.9% in line with the RPI increase for the 12 months to 30 September 2021 and was therefore non-discretionary. A proportionate increase was applied to pensions which came into payment between 2 April 2021 and 1 March 2022.

Pension increases over the previous five years were:

1 April 2021	1.1%
1 April 2020	2.4%
1 April 2019	3.3%
1 April 2018	3.9%
1 April 2017	2.0%

Transfers from the Group

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

In all cases the cash equivalents paid during the year were calculated and verified in the manner prescribed by the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and full allowance is included for and in respect of increases to pensions and dependant's benefits. No allowance is made in respect of other discretionary benefits.

Ukraine Conflict

The Group Trustee continues to monitor the impact of the ongoing conflict between Russia and Ukraine, with particular focus on the three areas below:

1. Payment of pensions: the Group currently has no pensioners based in Russia or Ukraine, so there has been no impact on pension payments.
2. Employer Covenant: the Employer hasn't been directly impacted by the conflict and therefore there has been no impact on the Employer Covenant.
3. Investments: the Group has a negligible investment exposure to Russia and Ukraine, and there hasn't been any large market movements in the Group's investments caused by the conflict.

Investment Report

Investment Arrangements

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

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

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

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

See Note 10 to the financial statements for details of the allocation of each Section's assets as at 31 March 2022.

Statement of Investment Principles

The Group Trustees have produced a Statement of Investment Principles ("SIP") for each Section in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended in 2004) and the Occupational Pension Schemes (Investment) Regulations 2005 (as amended in 2018 & 2019). In preparing the SIPs the Group Trustees took professional advice from Aon Solutions UK Limited and consulted with the relevant sponsoring company of each Section.

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

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

Within the implementation section of the SIPs, the Group Trustees include their policies in relation to:

- Members' views and non-financial factors;
- Stewardship (including voting and engagement);
- Arrangements with investment managers;
- Costs and performance; and
- Evaluation of performance and remuneration.

The Group Trustees' Engagement Policy Implementation Statement (EPIS) on page 68 provides further information on engagement and voting activities over the financial year.

The Group Trustees are not aware of and have not been informed by the fund managers of, any departures from the SIPs during the year. The SIPs are publicly available, and the latest versions can be found within the library section on the Group's website: www.my-magnox-pension.com.

Socially Responsible Investment and Corporate Governance

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

Strategic changes over the year to 31 March 2022

SLC Section

The Group Trustees have made no material changes to the investment strategy over the year to 31 March 2022 and are in the process of reviewing it as part of the 2022 actuarial valuation.

The Section's illiquid credit portfolio reached its peak allocation during the year and is expected to be a net distributor of capital over the financial year to 31 March 2023. The Group Trustees intend to commit to new funds in due course to reinvest the capital being returned.

Cavendish Nuclear Section

The Group Trustees added a strategic allocation of illiquid credit to increase diversification within the portfolio. A commitment of £8.7m (c10% of Section assets) was made to PIMCO's Tactical Opportunities Fund in August 2021 and the majority of the commitment was drawn down by 31 March 2022. The allocation has been funded from a combination of equities and excess collateral within the LDI portfolio

The Group Trustees are in the process of reviewing the investment strategy as part of the 2022 actuarial valuation.

Atkins Section

The Group Trustees have made no material changes to the investment strategy over the year to 31 March 2022 and are in the process of reviewing it as part of the 2022 actuarial valuation.

NNL Section

Following a material improvement in Technical Provisions funding, the Group Trustees have increased the liability hedge to reduce funding volatility due to changes in gilt yields and inflation expectations going forwards. This was achieved by adjusting the allocation to levered and unlevered pooled funds within the BMO LDI portfolio.

Similar to the other Sections, the Group Trustees are in the process of reviewing the investment strategy as part of the 2022 actuarial valuation.

Investment Performance

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

	1 year to 31 March 2022		3 years (annualised) to 31 March 2022	
Section	**Return (%)**	**Benchmark (%)**	**Return (%)**	**Benchmark (%)**
SLC	7.2	7.1	5.1	4.6
Cavendish Nuclear	4.7	7.2	3.7	4.8
Atkins	3.7	3.4	2.7	2.7
NNL	6.2	9.2	7.3	6.9

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

<u>SLC Section</u>

The SLC Section generated a return of 7.2% over the one-year-period to 31 March 2022. The Section return was broadly in line with benchmark return over the one-year period. The Section's investment managers posted a range of results in terms of performance relative to their respective benchmarks over the year.

Absolute and relative performance over the year was driven by the Section's infrastructure and property managers.

<u>Cavendish Nuclear Section</u>

The Cavendish Nuclear Section underperformed its benchmark over the one-year and three year-periods to 31 March 2022.

The underperformance was mostly attributable to UK equity manager Lindsell Train, who underperformed the FTSE All Share index, and Schroders and PIMCO who failed to meet their return targets.

<u>Atkins Section</u>

The Atkins Section generated a return of 3.7% over the one year period to 31 March 2022. The Section has run a passive strategy for a number of years and therefore the assets are expected to perform in line with benchmark over the long-term.

<u>NNL Section</u>

The NNL Section underperformed its benchmark over the one-year period as multi-asset manager Schroders failed to meet its return targets. The Section's assets have outperformed benchmark over three-year period to 31 March 2022, driven by strong returns from multi-asset manager Ruffer.

Employer Related Investments

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

The Group's assets had no direct exposure to the employers participating in the Group and their associated companies as at 31 March 2022. The Group Trustees recognise that indirect investment in such companies is possible through holdings in pooled investment vehicles. However, the Group Trustees believe that the diversification across the Group's assets by asset class, manager and fund means that any indirect exposure through pooled funds is likely to be negligible at any time during the year and at year end.

AVC Investments

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

The Group Trustees are in the process of appointing a new AVC provider.

Custody

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

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

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

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

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

Changes in Scheme Provisions

The Scheme Co-ordinator, Electricity Pensions Limited (EPL) may amend the provisions of the Scheme with the unanimous consent of all the participating Principal Employers. During the year ended 31 March 2022 the following Scheme-wide amendment was made:

- Deed of Amendment dated 26 August 2021 which updated the Deemed Consent Process for EPL and adopted the Consolidated Scheme Document.

Changes to the Group

The following changes were made to the rules during the year:

- From 17 July 2021, members of the Magnox Group have a right to draw their pension from the statutory minimum retirement age.

Task Force on Climate-Related Financial Disclosures ("TCFD")

The Electricity Supply Pension Scheme as a whole is in scope of the climate change governance and reporting requirements from 1 October 2021. It has a scheme year end date of 31 March, so the deadline for the Scheme as a whole publishing a TCFD report is 31 October 2022. However, the Group does not meet the size threshold that requires TCFD reporting and as such has been advised that no regulatory disclosures are required for this period.

For more information on the Scheme's TCFD report — the Scheme trustee's identification, assessment and management of climate change risk (to be published no later than 31 October 2022) - please visit https://www.espspensions.co.uk/#useful-documentation.

Guaranteed Minimum Pension ("GMP") Equalisation

The Group has undertaken a process of assessing the overall impact of the October 2018 and November 2020 rulings regarding GMP Equalisation and based on an initial assessment by the actuary the Group Trustees have not included a liability in respect of these matters in these Financial Statements as the amount is not considered to be material. They will be accounted for in the year they are determined.

Dispute Resolution Procedure

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

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

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

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

The Report of the Group Trustees, as well as the Report on Actuarial Liabilities on pages 22 to 24, were approved by the Group Trustees and signed on their behalf on 10 October 2022:

A Clare (Oct 10, 2022 11:14 GMT+1)

Group Trustee

C W Davies (Oct 10, 2022 15:25 GMT+1)

Group Trustee

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

Statement about contributions

Opinion

In our opinion, the contributions required by the schedules of contributions for the group year ended 31 March 2022 as reported in Magnox Electric Group of the Electricity Supply Pension Scheme's summary of contributions have, in all material respects, been paid in accordance with the schedules of contributions certified by the group actuary on the dates detailed on page 17.

We have examined Magnox Electric Group of the Electricity Supply Pension Scheme's summary of contributions for the group year ended 31 March 2022 which is set out on pages 16 and 17.

Basis for opinion

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

Responsibilities for the statement about contributions

Responsibilities of the Group Trustee in respect of contributions

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

Auditors' responsibilities in respect of the statement about contributions

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

Use of this report

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
10 October 2022

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

During the year ended 31 March 2022, the contributions required by the schedules of contributions were as follows:

Site Licence Company Section

	Employer £ million	Employee £ million	Total £ million
Required by the schedules of contributions			
Normal*	20.9	-	**20.9**
Total (as reported on by the Group auditors)	**20.9**	**-**	**20.9**
Other contributions payable			
Augmentations (Early retirements)	0.3	-	**0.3**
Other	0.7	-	**0.7**
AVCs	1.4	0.2	**1.6**
Total (as per Fund Account)	**23.3**	**0.2**	**23.5**

*Under salary sacrifice arrangements, £3.1m of contributions were met by the Employer rather than the Employees and are included in the £20.9m above.

Cavendish Nuclear Section

	Employer £ million	Employee £ million	Total £ million
Required by the schedule of contributions			
Normal*	1.4	-	**1.4**
Total (as reported on by the Group auditors)	**1.4**	**-**	**1.4**
Other contributions payable			
Supplementary pensions funding	0.1	-	**0.1**
Total (as per Fund Account)	**1.5**	**-**	**1.5**

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

Atkins Section

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

National Nuclear Laboratory Section

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

Summary of Schedules of Contributions in force during the year ended 31 March 2022:

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

Approved by the Group Trustees and signed on their behalf on 10 October 2022:

A Clare (Oct 10, 2022 11:14 GMT+1)

C W Davies (Oct 10, 2022 15:25 GMT+1)

Group Trustee

Group Trustee

Certification of schedule of contributions

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

Adequacy of rates of contributions

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

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

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 10 June 2020.
The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Section's liabilities by the purchase of annuities, if the Section were to be wound up.

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

Certification of schedule of contributions

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

Adequacy of rates of contributions

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

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

Adherence to statement of funding principles

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

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

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

Certification of schedule of contributions

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

Adequacy of rates of contributions

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

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

Adherence to statement of funding principles

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

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

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

Certification of schedule of contributions

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

Adequacy of rates of contributions

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

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

Adherence to statement of funding principles

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

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

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

Report on Actuarial Liabilities

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

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

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

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

An approximate update was performed as at 31 March 2021 for each Section and the resulting estimated funding level on each Section's technical provisions measure is set out in the table below:

31 March 2021	SLC	Cavendish Nuclear	Atkins	NNL
Approximate funding level (technical provisions)	102%	98%	108%	103%

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

Method

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

Significant actuarial assumptions

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

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

Recovery plans

Recovery plan arrangements are in place for the NNL Section where a funding deficit was declared at the last actuarial valuation. These arrangements were formalised in a Schedule of Contributions, which the Group Actuary certified. Copies of the certificates can be found on pages 18 to 21 of this annual report.

Next actuarial valuation

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

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

Report on the audit of the financial statements

Opinion

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

- show a true and fair view of the financial transactions of the group during the year ended 31 March 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

We have audited the financial statements, included in the Annual Report and Financial Statements, which comprise: the Statement of Net Assets Available for Benefits as at 31 March 2022; the Fund Account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Group Trustee for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Testing journal entries where we identified particular fraud risk criteria.
- Obtaining independent confirmations of material investment valuations and cash balances at the year end.
- Testing estimates and judgements made in the preparation of the financial statements for indicators of bias.
- Reviewing meeting minutes, any correspondence with the Pensions Regulator, and significant contracts and agreements.
- Holding discussions with the Group Trustee to identify significant or unusual transactions and known or suspected instances of fraud or non-compliance with applicable laws and regulations.
- Assessing financial statement disclosures, and agreeing these to supporting evidence, for compliance with the Pensions Acts 1995 and 2004 and regulations made under them.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
10 October 2022

Fund Account for the year to 31 March 2022

	Note	SLC Section 2022 £ million	CN Section 2022 £ million	Atkins Section 2022 £ million	NNL Section 2022 £ million	**Total 2022 £ million**	*Total 2021 £ million*
Additions from dealings with members							
Employer contributions	**5**	23.3	1.5	0.1	0.3	**25.2**	*30.2*
Employee contributions	**5**	0.2	-	-	-	**0.2**	*0.2*
Total contributions		23.5	1.5	0.1	0.3	**25.4**	*30.4*
Other income	**6**	-	0.1	-	-	**0.1**	*-*
		23.5	1.6	0.1	0.3	**25.5**	*30.4*
Withdrawals from dealings with members							
Benefits paid or payable	**7**	(118.5)	(1.8)	(1.5)	(0.2)	**(122.0)**	*(122.4)*
Payments to and on account of leavers	**8**	(8.1)	-	-	-	**(8.1)**	*(14.7)*
		(126.6)	(1.8)	(1.5)	(0.2)	**(130.1)**	*(137.1)*
Net (withdrawals) / additions from dealings with members		(103.1)	(0.2)	(1.4)	0.1	**(104.6)**	*(106.7)*
Returns on investments							
Investment income	**9**	54.3	0.7	1.5	0.2	**56.7**	*44.7*
Change in market value of investments	**10**	190.3	3.2	1.1	0.7	**195.3**	*92.8*
Investment management expenses	**11**	(0.8)	(0.1)	-	(0.1)	**(1.0)**	*(1.1)*
Taxes on investment income	**12**	-	-	-	-	**-**	*0.9*
Net returns on investments		243.8	3.8	2.6	0.8	**251.0**	*137.3*
Net increase in the fund		140.7	3.6	1.2	0.9	**146.4**	*30.6*
Opening net assets		3,288.8	83.0	68.9	12.4	**3,453.1**	*3,422.5*
Closing net assets		**3,429.5**	**86.6**	**70.1**	**13.3**	**3,599.5**	*3,453.1*

The accompanying notes on pages 30 to 57 form an integral part of these financial statements.

Statement of Net Assets Available for Benefits as at 31 March 2022

	Note	SLC Section 2022 £ million	CN Section 2022 £ million	Atkins Section 2022 £ million	NNL Section 2022 £ million	**Total 2022 £ million**	*Total 2021 £ million*
Investment assets							
Equities	**10**	-	-	-	1.4	**1.4**	*1.2*
Bonds	**10**	170.9	-	-	1.3	**172.2**	*183.3*
Property loan assets	**10**	136.1	-	-	-	**136.1**	*160.5*
Pooled investment vehicles	**13**	3,097.2	85.9	27.8	9.9	**3,220.8**	*3,011.4*
Derivatives	**14**	15.7	-	-	-	**15.7**	*9.3*
Insurance policies	**15**	-	-	42.2	-	**42.2**	*41.6*
AVC investments	**16**	13.7	0.7	-	0.1	**14.5**	*14.3*
Cash	**17**	1.8	-	-	0.4	**2.2**	*32.4*
Other investment balances	**17**	2.9	-	-	-	**2.9**	*3.2*
		3,438.3	86.6	70.0	13.1	**3,608.0**	*3,457.2*
Investment liabilities							
Derivatives	**14**	(10.8)	-	-	-	**(10.8)**	*(7.8)*
Other investment balances	**17**	(0.1)	-	-	-	**(0.1)**	*(0.2)*
		(10.9)	-	-	-	**(10.9)**	*(8.0)*
Total net investments		3,427.4	86.6	70.0	13.1	**3,597.1**	*3,449.2*
Current assets	**22**	3.6	0.3	0.5	0.2	**4.6**	*5.3*
Current liabilities	**23**	(1.5)	(0.3)	(0.4)	-	**(2.2)**	*(1.4)*
Total net assets available for benefits		**3,429.5**	**86.6**	**70.1**	**13.3**	**3,599.5**	*3,453.1*

The financial statements summarise the transactions of the Group and deal with the net assets at the disposal of the Group Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Group year. The actuarial position of the Group, which takes into account such obligations, is dealt with in the Report on Actuarial Liabilities included within this Annual Report on pages 22 to 24, and these financial statements should be read in conjunction with this report.

The financial statements on pages 28 to 57 were approved by the Group Trustees on 10 October 2022.

Signed on behalf of the Group Trustees:

A Clare (Oct 10, 2022 11:14 GMT+1)

Group Trustee

C W Davies (Oct 10, 2022 15:25 GMT+1)

Group Trustee

Notes to the financial statements

1. Basis of preparation

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

2. Identification of the financial statements

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

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

Fund Account for the year to 31 March 2021

	Note	*SLC Section 2021 £ million*	*CN Section 2021 £ million*	*Atkins Section 2021 £ million*	*NNL Section 2021 £ million*	***Total 2021 £ million***
Additions from dealings with members						
Employer contributions	**5**	*27.7*	*2.1*	*0.1*	*0.3*	***30.2***
Employee contributions	**5**	*0.1*	*0.1*	*-*	*-*	***0.2***
Total contributions		*27.8*	*2.2*	*0.1*	*0.3*	***30.4***
Other income	**6**	*-*	*-*	*-*	*-*	***-***
		27.8	*2.2*	*0.1*	*0.3*	***30.4***
Withdrawals from dealings with members						
Benefits paid or payable	**7**	*(119.4)*	*(1.6)*	*(1.2)*	*(0.2)*	***(122.4)***
Payments to and on account of leavers	**8**	*(14.0)*	*-*	*(0.7)*	*-*	***(14.7)***
		(133.4)	*(1.6)*	*(1.9)*	*(0.2)*	***(137.1)***
Net (withdrawals) / additions from dealings with members		*(105.6)*	*0.6*	*(1.8)*	*0.1*	***(106.7)***
Returns on investments						
Investment income	**9**	*42.6*	*0.7*	*1.4*	*-*	***44.7***
Change in market value of investments	**10**	*88.7*	*3.6*	*(1.1)*	*1.6*	***92.8***
Investment management expenses	**11**	*(1.1)*	*-*	*-*	*-*	***(1.1)***
Taxes on investment income	**12**	*0.9*	*-*	*-*	*-*	***0.9***
Net returns on investments		*131.1*	*4.3*	*0.3*	*1.6*	***137.3***
Net increase / (decrease) in the fund		*25.5*	*4.9*	*(1.5)*	*1.7*	***30.6***
Opening net assets		*3,263.3*	*78.1*	*70.4*	*10.7*	***3,422.5***
Closing net assets		***3,288.8***	***83.0***	***68.9***	***12.4***	***3,453.1***

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

	Note	*SLC Section 2021 £ million*	*CN Section 2021 £ million*	*Atkins Section 2021 £ million*	*NNL Section 2021 £ million*	***Total 2021 £ million***
Investment assets						
Equities	**10**	-	-	-	1.2	***1.2***
Bonds	**10**	182.1	-	-	1.2	***183.3***
Property loan assets	**10**	160.5	-	-	-	***160.5***
Pooled investment vehicles	**13**	2,893.7	81.5	26.8	9.4	***3,011.4***
Derivatives	**14**	9.3	-	-	-	***9.3***
Insurance policies	**15**	-	-	41.6	-	***41.6***
AVC investments	**16**	13.0	0.8	0.4	0.1	***14.3***
Cash	**17**	32.1	-	-	0.3	***32.4***
Other investment balances	**17**	3.2	-	-	-	***3.2***
		3,293.9	82.3	68.8	12.2	***3,457.2***
Investment liabilities						
Derivatives	**14**	(7.8)	-	-	-	***(7.8)***
Other investment balances	**17**	(0.2)	-	-	-	***(0.2)***
		(8.0)	-	-	-	***(8.0)***
Total net investments		3,285.9	82.3	68.8	12.2	***3,449.2***
Current assets	**22**	4.2	0.8	0.1	0.2	***5.3***
Current liabilities	**23**	(1.3)	(0.1)	-	-	***(1.4)***
Total net assets available for benefits		***3,288.8***	***83.0***	***68.9***	***12.4***	***3,453.1***

4. Summary of significant accounting policies

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

Currency

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

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

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

Contributions

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

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

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

Transfers to and from the Group

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

Benefits and payments to and on account of leavers

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

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

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

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

Investment income and expenditure

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

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

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

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

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

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

Valuation and classification of investments

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

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

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

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

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

Critical accounting judgements and estimation uncertainty

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

Critical accounting judgements

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

Key accounting estimates and assumptions

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

5. Contributions

	SLC Section 2022 £ million	CN Section 2022 £ million	Atkins Section 2022 £ million	NNL Section 2022 £ million	**Total 2022 £ million**
Employers:					
- Normal[1]	20.9	1.4	0.1	0.1	**22.5**
- Deficit funding[2]	-	-	-	0.2	**0.2**
- Augmentations (Contractual early retirements)	0.3	-	-	-	**0.3**
- Supplementary pensions funding[3]	-	0.1	-	-	**0.1**
- Other					
- Rule 29	0.7	-	-	-	**0.7**
- Salary sacrifice AVC	1.4	-	-	-	**1.4**
Employees:					
- AVCs	0.2	-	-	-	**0.2**
	23.5	1.5	0.1	0.3	**25.4**

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

[1] Included within Normal Employers are contributions that were met by the employer rather than the employees under the salary sacrifice arrangement. The salary sacrifice contributions for the SLC Section were £3.1 million (*2021: £3.3 million*), and for the Cavendish Nuclear Section £0.2 million (*2021: £0.1 million*).

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

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

6. Other income

	SLC Section 2022 £ million	CN Section 2022 £ million	Atkins Section 2022 £ million	NNL Section 2022 £ million	**Total 2022 £ million**
Claims on term insurance policies	-	0.1	-	-	**0.1**

	SLC Section 2021 £ million	*CN Section 2021 £ million*	*Atkins Section 2021 £ million*	*NNL Section 2021 £ million*	***Total 2021 £ million***
Claims on term insurance policies	-	-	-	-	**-**

7. Benefits paid or payable

	SLC Section 2022 £ million	CN Section 2022 £ million	Atkins Section 2022 £ million	NNL Section 2022 £ million	**Total 2022 £ million**
Pensions	110.1	1.0	1.1	0.2	**112.4**
Lump sum retirement benefits and commutations	7.2	0.4	-	-	**7.6**
Purchase of annuities on retirement (AVCs)	0.9	0.1	0.4	-	**1.4**
Lump sum death benefits (in service)	-	0.3	-	-	**0.3**
Lump sum death benefits (in retirement)	0.1	-	-	-	**0.1**
Taxation where lifetime or annual allowance exceeded	0.2	-	-	-	**0.2**
	118.5	1.8	1.5	0.2	**122.0**

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

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.

8. Payments to and on account of leavers

	SLC Section 2022 £ million	CN Section 2022 £ million	Atkins Section 2022 £ million	NNL Section 2022 £ million	**Total 2022 £ million**
Transfer values paid to other pension schemes:					
- Individual transfers	8.1	-	-	-	**8.1**
- Individual transfers - AVCs	-	-	-	-	**-**
Intra-scheme transfers					
- Individual transfers	-	-	-	-	**-**
	8.1	-	-	-	**8.1**

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

9. Investment income

	SLC Section 2022 £ million	CN Section 2022 £ million	Atkins Section 2022 £ million	NNL Section 2022 £ million	**Total 2022 £ million**
Dividends from equities	-	-	-	-	**-**
Income from bonds	6.1	-	-	-	**6.1**
Income from property loan assets	8.9	-	-	-	**8.9**
Income from pooled investment vehicles	39.7	0.7	0.5	0.2	**41.1**
Income from insurance policies	-	-	1.0	-	**1.0**
Other	-	-	-	-	**-**
Net interest on swaps	(0.4)	-	-	-	**(0.4)**
	54.3	0.7	1.5	0.2	**56.7**

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

10. Reconciliation of net investments

Investment movements – SLC Section

	Value at 01.04.2021 £ million	Purchases at cost and derivative payments £ million	Sales proceeds and derivative receipts £ million	Change in market Value £ million	**Value at 31.03.2022 £ million**
Bonds	182.1	15.5	(15.6)	(11.1)	**170.9**
Property loan assets	160.5	17.9	(43.3)	1.0	**136.1**
Pooled investment vehicles	2,893.7	337.1	(340.2)	206.6	**3,097.2**
Derivatives – net	1.5	18.1	(6.1)	(8.6)	**4.9**
AVC investments	13.0	1.6	(0.9)	-	**13.7**
	3,250.8	390.2	(406.1)	187.9	**3,422.8**
Cash deposits	32.1				**1.8**
Other investment balances	3.0				**2.8**
Net investment assets	3,285.9				**3,427.4**

Change in market value – SLC Section

	2022 £ million	*2021 £ million*
Change in market value shown above	**187.9**	*87.1*
Exchange gains	**2.4**	*1.6*
Change in market value per fund account	**190.3**	*88.7*

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

Investment transaction costs

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

	Equities £ million	**2022 £ million**	*2021 £ million*
Fees	-	**-**	*0.1*
Commissions	-	**-**	-
Taxes	-	**-**	-
2022 total	-	**-**	
2021 total	*0.1*		*0.1*

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

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

Investment movements – Cavendish Nuclear Section

	Value at 01.04.2021 £ million	Purchases at cost £ million	Sales proceeds £ million	Change in market value £ million	**Value at 31.03.2022 £ million**
Pooled investment vehicles	81.5	14.6	(13.4)	3.2	**85.9**
AVC investments	0.8	-	(0.1)	-	**0.7**
Net investment assets	82.3	14.6	(13.5)	3.2	**86.6**

Transaction costs incurred during the year amounted to £nil (*2021: £nil*). Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Group Trustees to quantify such indirect transaction costs.

Investment movements – Atkins Section

	Value at 01.04.2021 £ million	Purchases at cost £ million	Sales proceeds £ million	Change in market value £ million	**Value at 31.03.2022 £ million**
Pooled investment vehicles	26.8	0.5	-	0.5	**27.8**
Insurance policies	41.6	-	-	0.6	**42.2**
AVC investments	0.4	-	(0.4)	-	**-**
Net investment assets	68.8	0.5	(0.4)	1.1	**70.0**

Transaction costs incurred during the year amounted to £nil (*2021: £nil*). Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Group Trustees to quantify such indirect transaction costs.

Investment movements – NNL Section

	Value at 01.04.2021 £ million	Purchases at cost £ million	Sales proceeds £ million	Change in market value £ million	**Value at 31.03.2022 £ million**
Equities	1.2	1.0	(1.0)	0.2	**1.4**
Bonds	1.2	1.9	(1.9)	0.1	**1.3**
Pooled investment vehicles	9.4	4.1	(4.0)	0.4	**9.9**
AVC investments	0.1	-	-	-	**0.1**
	11.9	7.0	(6.9)	0.7	**12.7**
Cash deposits	0.3				**0.4**
Net investment assets	12.2				**13.1**

Change in market value – NNL Section

	2022 £ million	*2021 £ million*
Change in market value shown above	**0.7**	*1.5*
Exchange gains	**-**	*0.1*
Change in market value per fund account	**0.7**	*1.6*

Transaction costs incurred during the year amounted to £nil (*2021: £nil*). Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Group Trustees to quantify such indirect transaction costs.

11. Investment management expenses

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

	SLC Section 2022 £ million	CN Section 2022 £ million	Atkins Section 2022 £ million	NNL Section 2022 £ million	**Total 2022 £ million**
Administration and management fees	(0.1)	0.1	-	0.1	**0.1**
Other advisory fees	0.9	-	-	-	**0.9**
	0.8	0.1	-	0.1	**1.0**

	SLC Section 2021 £ million	*CN Section 2021 £ million*	*Atkins Section 2021 £ million*	*NNL Section 2021 £ million*	***Total 2021 £ million***
Administration and management fees	*0.3*	-	-	-	***0.3***
Other advisory fees	*0.8*	-	-	-	***0.8***
	1.1	-	-	-	***1.1***

12. Taxation

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

13. Pooled investment vehicles

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

	2022 £ million	*2021 £ million*
Bonds	**672.5**	*624.4*
Property	**384.7**	*324.6*
Hedge funds	**1.1**	*7.6*
Private equity	**119.5**	*88.7*
Infrastructure funds	**348.0**	*304.1*
Liability Driven Investments	**1,348.4**	*1,324.2*
Cash and other liquid assets	**223.0**	*220.1*
	3,097.2	*2,893.7*

At 31 March 2022 and 31 March 2021 the Section held a bespoke Liability Driven Investment (LDI) portfolio. The portfolio has been included above in pooled investment vehicles and is specifically tailored for the Section's individual requirements and there are no other investors.

The LDI portfolio has the following investments:

	2022	*2021*
	£ million	*£ million*
Bonds	**1,614.3**	*1,522.4*
Swaps – net	**40.2**	*(34.7)*
Repurchase agreements	**(346.0)**	*(332.3)*
Cash and other liquid assets	**39.9**	*168.8*
	1,348.4	*1,324.2*

No direct transaction costs (*2021: £nil*) were incurred during the year on the sole investor arrangement.

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

	2022	*2021*
	£ million	*£ million*
Equities	**6.7**	*9.5*
Bonds	**7.6**	*7.9*
Hedge funds	**6.3**	*-*
Diversified growth funds	**9.0**	*8.7*
Liability Driven Investments	**53.6**	*54.7*
Cash and other liquid assets	**2.7**	*0.7*
	85.9	*81.5*

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

	2022	*2021*
	£ million	*£ million*
Liability Driven Investments	**27.8**	*26.8*

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

	2022	*2021*
	£ million	*£ million*
Equities	**0.6**	*0.9*
Diversified growth funds	**3.8**	*3.7*
Liability Driven Investments	**4.9**	*4.2*
Cash and other liquid assets	**0.6**	*0.6*
	9.9	*9.4*

14. Derivatives

Objectives and Policies

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

For the **SLC Section**, outstanding derivative financial instruments at 31 March 2022 and 31 March 2021 are summarised as follows:

	2022 Assets £ million	**2022 Liabilities £ million**	**2022 Total £ million**	*2021 Assets £ million*	*2021 Liabilities £ million*	*2021 Total £ million*
Over-the-counter contracts						
Forward foreign currency	**0.2**	**(0.3)**	**(0.1)**	*0.1*	*(0.7)*	*(0.6)*
Swaps	**15.5**	**(10.5)**	**5.0**	*9.2*	*(7.1)*	*2.1*
	15.7	**(10.8)**	**4.9**	*9.3*	*(7.8)*	*1.5*

Further analysis of the holdings at 31 March 2022 and 31 March 2021 is as follows:

Forward foreign currency contracts – SLC Section

Type of contract	Currency	Currency Bought £ million	Currency	Currency Sold £ million	**2022 Assets £ million**	**2022 Liabilities £ million**
OTC traded – less than 1 month	GBP	28.0	EUR	(28.3)	**-**	**(0.3)**
OTC traded – less than 1 month	USD	0.9	GBP	(0.9)	-	-
OTC traded – less than 1 month	GBP	85.9	USD	(85.7)	**0.2**	-
		114.8		(114.9)	**0.2**	**(0.3)**

Forward foreign currency contracts – SLC Section

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

Swaps – SLC Section

Type of contract	Duration Years	Nominal amount £million	**2022 Assets £ million**	**2022 Liabilities £ million**
Interest Rate Swap	1-5 years	122.1	**1.9**	**(2.0)**
Interest Rate Swap	6-15 years	154.2	**8.5**	**(5.0)**
Interest Rate Swap	>15 years	52.9	**5.1**	**(3.5)**
			15.5	**(10.5)**

Swaps – SLC Section

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

Collateral of £4.8 million (*2021: £1.0 million*) is pledged for the unrealised gain on swaps and is included in the Section's assets.

For the **NNL Section**, outstanding derivative financial instruments at 31 March 2022 and 31 March 2021 are summarised as follows:

	2022 Assets £ million	**2022 Liabilities £ million**	**2022 Total £ million**	*2021 Assets £ million*	*2021 Liabilities £ million*	*2021 Total £ million*
Over-the-counter contracts						
Forward foreign currency	-	-	-	-	-	-

Further analysis of the holdings at 31 March 2022 and 31 March 2021 is as follows:

Forward foreign currency contracts – NNL Section

Type of contract	Currency	Currency Bought £ million	Currency	Currency Sold £ million	**2022 Assets £ million**	**2022 Liabilities £ million**
OTC traded – 1 to 3 months	GBP	0.2	EUR	(0.2)	-	-
OTC traded – 1 to 3 months	USD	0.1	GBP	(0.1)	-	-
OTC traded – 1 to 3 months	GBP	0.3	USD	(0.3)	-	-
		0.6		(0.6)	-	-

Forward foreign currency contracts – NNL Section

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

15. Insurance policies

The Group Trustees hold an insurance policy with Canada Life in relation to specified beneficiaries of the Atkins Section. This policy is an asset of the Group Trustees and not a policy assigned for the benefit of the individuals it relates to, and is included within the Statement of Net Assets Available for Benefits at £42.2 million (*2021: £41.6 million*).

The significant actuarial assumptions underlying the current valuation calculation are in line with those set out in the Report on Actuarial Liabilities on pages 22 to 24 based on market conditions as at 31 March 2022.

16. AVC investments

The number of AVC accounts (including "frozen" accounts) for the **SLC Section** as at 31 March 2022 was 350 (*2021: 376*). In some cases members may have two or more accounts.

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

	2022	*2021*
	£ million	*£ million*
Utmost Life and Pensions Limited	**0.2**	*0.2*
Prudential Assurance Society	**11.9**	*12.8*
	12.1	*13.0*

The number of AVC accounts (including "frozen" accounts) for the **Cavendish Nuclear Section** as at 31 March 2022 was 11 (*2021: 13*). In some cases members may have two or more accounts.

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

	2022	*2021*
	£ million	*£ million*
Prudential Assurance Society	**0.7**	*0.8*

The number of AVC accounts (including "frozen" accounts) for the **Atkins Section** as at 31 March 2022 was 1 (*2021: 2*).

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

	2022	*2021*
	£ million	*£ million*
Prudential Assurance Society	**-**	*0.4*

The number of AVC accounts (including "frozen" accounts) for the **NNL Section** as at 31 March 2022 was 2 (*2021: 2*). In some cases members may have two or more accounts.

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

	2022	*2021*
	£ million	*£ million*
Prudential Assurance Society	**0.1**	*0.1*

17. Cash and other investment balances

	SLC Section 2022 £ million	CN Section 2022 £ million	Atkins Section 2022 £ million	NNL Section 2022 £ million	**Total 2022 £ million**
Cash – sterling	1.4	-	-	0.4	**1.8**
Cash – foreign currency	0.4	-	-	-	**0.4**
Accrued interest and dividends	2.2	-	-	-	**2.2**
Amounts receivable from sale of investments	0.7	-	-	-	**0.7**
Other creditors	(0.1)	-	-	-	**(0.1)**
	4.6	-	-	0.4	**5.0**

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

18. Fair value of investments

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

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

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

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

The value of other pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Group Trustees after taking advice from their advisers. Where the value of the pooled investment vehicle is primarily driven by fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustments are made. No such adjustments have been made to the valuations at 31 March 2022 or 31 March 2021.

Due to the nature of the SLC Section's investments with GAM International Management Limited (Renshaw Bay LLP), Longbow Real Estate Capital LLP, DRC Capital LLP and Invesco Real Estate Finance Fund (GBP) SLP, these assets have been classified as property loan assets in these financial statements, rather than pooled investment vehicles.

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

	Level 1 £ million	Level 2 £ million	Level 3 £ million	**2022 Total £ million**
Investment assets				
Bonds	-	170.9	-	**170.9**
Property loan assets	-	-	136.1	**136.1**
Pooled investment vehicles	-	2,143.3	953.9	**3,097.2**
Derivatives	-	15.7	-	**15.7**
AVC investments	-	13.7	-	**13.7**
Cash	1.6	0.2	-	**1.8**
Other investment balances	2.9	-	-	**2.9**
Investment liabilities				
Derivatives	-	(10.8)	-	**(10.8)**
Other investment balances	(0.1)	-	-	**(0.1)**
	4.4	2,333.0	1,090.0	**3,427.4**

Analysis for the prior year end is as follows:

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

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

	Level 1 £ million	Level 2 £ million	Level 3 £ million	**2022 Total £ million**
Investment assets				
Pooled investment vehicles	-	79.6	6.3	**85.9**
AVC investments	-	0.7	-	**0.7**
	-	80.3	6.3	**86.6**

Analysis for the prior year end is as follows:

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

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

	Level 1 £ million	Level 2 £ million	Level 3 £ million	**2022 Total £ million**
Investment assets				
Pooled investment vehicles	-	27.8	-	**27.8**
Insurance policies	-	-	42.2	**42.2**
AVC investments	-	-	-	**-**
	-	27.8	42.2	**70.0**

Analysis for the prior year end is as follows:

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

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

	Level 1 £ million	Level 2 £ million	Level 3 £ million	**2022 Total** **£ million**
Investment assets				
Equities	1.4	-	-	**1.4**
Bonds	1.3	-	-	**1.3**
Pooled investment vehicles	-	9.9	-	**9.9**
AVC investments	-	0.1	-	**0.1**
Cash	-	0.4	-	**0.4**
	2.7	10.4	-	**13.1**

Analysis for the prior year end is as follows:

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

19. Investment risks

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

- Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Market risk: this is the risk that the fair value of future cashflows of a financial investment will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk as follows:
    - Currency risk: this is risk that fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates;
    - Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates; and
    - Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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

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

The following table summarises the extent to which the Group's various classes of investments are affected by financial risk (based on 31 March 2022 asset position):

	Credit risk	Market risk			**2022**	*2021*
		Currency	Interest rate	Other price	**£million**	*£million*
Equities	○	◐	○	●	**1.4**	*1.2*
Bonds	●	◐	●	◐	**172.2**	*183.3*
Pooled investment vehicles	●	◐	●	●	**3,220.8**	*3,011.4*
Property loan assets	●	○	◐	●	**136.1**	*160.5*
Other investment types	●	○	●	○	**9.9**	*36.9*
Total					**3,540.4**	*3,393.3*

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

Investment Strategies

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

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

A broad summary of the investment strategy of each Section as at 31 March 2022 is below:

SLC Section

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

The remainder of the assets are invested to provide an expected return above the liabilities over the long term. As at 31 March 2022 the return seeking assets accounted for 55% (*2021: 54%*) of the overall portfolio.

Cavendish Nuclear Section

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

The remainder of the assets are invested to provide an expected return above the liabilities over the long term. As at 31 March 2022 the return seeking assets accounted for 34% (*2021: 32%*) of the overall portfolio.

Atkins Section

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

National Nuclear Laboratory Section

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

The remainder of the assets are invested to provide an expected return above the liabilities over the long term. As at 31 March 2022 the return seeking assets accounted for 62% (*2021: 64%*) of the overall portfolio.

Credit Risk

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

Credit risk arising on bonds held directly is mitigated in liability matching portfolios by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. The Group's mandate with Ruffer enables sub-investment grade bonds to be held as part of a wider portfolio of return-seeking assets. 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. This risk is mitigated by the arrangements both the Group and its counterparties have in place where collateral is posted to reduce the impact of any counterparty defaulting on their obligations under the derivative contracts held. The Group's LDI manager, BMO, has an explicit mandate outlining the permitted instruments and maximum exposure to any single counterparty. Furthermore, BMO only trade with counterparties that have been approved by its Counterparty Credit Committee.

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

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

Type of arrangement	**2022 £ million**	*2021 £ million*
Authorised unit trusts	**12.8**	*12.4*
Open-ended investment companies	**775.5**	*734.0*
Shares of limited liability partnerships	**636.9**	*504.4*
Other*	**1,795.6**	*1,760.6*
Total	**3,220.8**	*3,011.4*

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

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

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

Currency Risk

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

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

Interest Rate Risk

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

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

The LDI assets as at 31 March 2022 targeted the same exposure to interest rates as:

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

Other Price Risk

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

20. Concentration of investments

Investments exceeding 5% of the value of the **SLC Section's** net assets as at 31 March 2022 or 31 March 2021 are detailed below:

Investment	**2022**		*2021*	
	£ million	**%**	*£ million*	*%*
BMO LDI Private Sub Fund	**1,348.4**	**39.3**	*1,324.2*	*40.3*
M&G Inflation Opportunities III Fund	**257.4**	**7.5**	*247.1*	*7.5*
PIMCO Global Diversified Income Fund	**212.0**	**6.2**	*232.6*	*7.1*
Barings Global Loan Fund	**177.8**	**5.2**	*178.5*	*5.4*

Note: Percentages calculated using full values rather than rounded amounts

Investments exceeding 5% of the value of the **Cavendish Nuclear Section's** net assets as at 31 March 2022 or 31 March 2021 are detailed below:

Investment	**2022** £ million	**%**	*2021* *£ million*	*%*
BMO Regular Profile Unleveraged Real Gilt Fund	**30.0**	**34.6**	*28.6*	*34.5*
BMO Regular Profile Leveraged Real Gilt Fund	**15.4**	**17.8**	*16.6*	*20.0*
Schroder Life Diversified Growth Fund	**9.0**	**10.4**	*8.7*	*10.5*
PIMCO Global Libor Plus Fund	**7.6**	**8.8**	*7.9*	*9.5*
CF Lindsell Train UK Equity	**6.7**	**7.7**	*9.4*	*11.4*
PIMCO Tactical Opportunities Offshore Fund	**6.3**	**7.3**	*-*	*-*
BMO Regular Profile Unleveraged Nominal Gilt Fund	**5.3**	**6.2**	*6.7*	*8.1*

Note: Percentages calculated using full values rather than rounded amounts

Investments exceeding 5% of the value of the **Atkins Section's** net assets as at 31 March 2022 or 31 March 2021 are detailed below:

Investment	**2022** £ million	**%**	*2021* *£ million*	*%*
Canada Life Insurance policy	**42.2**	**60.2**	*41.6*	*60.4*
BMO Regular Profile Unleveraged Real Gilt Fund	**23.7**	**33.8**	*22.6*	*32.9*

Note: Percentages calculated using full values rather than rounded amounts

Investments exceeding 5% of the value of the **NNL Section's** net assets as at 31 March 2022 or 31 March 2021 are detailed below:

Investment	**2022** £ million	**%**	*2021* *£ million*	*%*
Schroder Life Diversified Growth Fund	**3.8**	**28.5**	*3.7*	*29.7*
BMO Regular Profile Leveraged Real Gilt Fund	**2.6**	**19.2**	*2.3*	*18.4*
BMO Regular Profile Unleveraged Real Gilt Fund	**0.9**	**6.5**	*1.0*	*8.3*
BMO Short Profile Leveraged Real Gilt Fund	**0.7**	**5.0**	*0.7*	*6.0*

Note: Percentages calculated using full values rather than rounded amounts

21. Employer related investments

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

The Group's assets had no direct exposure to the employers participating in the Group and their associated companies as at 31 March 2022 (*31 March 2021: nil*). The Group Trustees recognise that indirect investment in such companies is possible through holdings in pooled investment vehicles. However, the Group Trustees believe that the diversification across the Group's assets by asset class, manager and fund means that any indirect exposure through pooled funds is likely to be negligible at any time during the year and at year end, and these investments therefore comply with legislative requirements.

22. Current assets

	SLC Section 2022 £ million	CN Section 2022 £ million	Atkins Section 2022 £ million	NNL Section 2022 £ million	**Total 2022 £ million**
Contributions due in respect of:					
Employers	1.8	-	-	-	**1.8**
Cash balances	1.8	0.3	0.5	0.2	**2.8**
	3.6	0.3	0.5	0.2	**4.6**

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

All contributions due to the Group at 31 March 2022 and 31 March 2021 relate to March 2022 and March 2021 respectively and were subsequently paid in full to the Group in accordance with the Schedule of Contributions.

23. Current liabilities

	SLC Section 2022 £ million	CN Section 2022 £ million	Atkins Section 2022 £ million	NNL Section 2022 £ million	**Total 2022 £ million**
Benefits payable	(1.5)	(0.3)	(0.4)	-	**(2.2)**

	SLC Section 2021 £ million	*CN Section 2021 £ million*	*Atkins Section 2021 £ million*	*NNL Section 2021 £ million*	***Total 2021 £ million***
Benefits payable	*(1.3)*	*(0.1)*	-	-	***(1.4)***

24. Related party transactions

Related party transactions and balances comprise:

Key management personnel

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

Fees of £114,640 (*2021: £112,274)* were paid to certain Group Trustees in the year by the Employers.

Employer and other related parties

Investment management expenses for Group-specific funds, performance measurement services and investment-related fees of Group advisers, are the responsibility of the Group Trustees. All other administrative expenses of the Group incurred during the years to 31 March 2022 and 31 March 2021 were paid by the Employers.

25. Contingencies and commitments

The Group has £518.7 million *(2021: £510.0 million)* of funds committed to eight (*2021: seven*) investment managers - GAM International Management Limited (formerly Renshaw Bay LLP), GreenOak Real Estate Advisors LLP, DRC Capital LLP, Invesco Asset Management, BlueBay Asset Management LLP, Hayfin Capital Management LLP, Chorus Capital Management Ltd and PIMCO Europe Ltd. As at 31 March 2022, approximately £104.6 million (*2021: £181.3 million*) is yet to be drawn down and represents a capital commitment at that date.

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

26. Subsequent events

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

Appendix 1 – Analysis of Membership Statistics by Section

Site Licence Company Section

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
At 1 April 2021	**1,044**	**5,438**	**1,407**	**1,061**	**8,950**
Increases					
Contributors/pensioners/dependants/ deferred pensioners	-	108	88	23	219
Pensions sharing orders and new EPB pensioners in payment	-	1	-	7	8
Sub Total	**-**	**109**	**88**	**30**	**227**
Reductions					
Contributors / deferred pensioners retiring	(37)	-	-	(71)	(108)
Deaths	-	(167)	(71)	(3)	(241)
Leavers with deferred pensions	(23)	-	-	-	(23)
Leavers with refunds of contributions/ transfers to other schemes/cessation of child allowances	-	-	(1)	(11)	(12)
Sub Total	**(60)**	**(167)**	**(72)**	**(85)**	**(384)**
At 31 March 2022	**984**	**5,380**	**1,423**	**1,006**	**8,793**

Cavendish Nuclear Section

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
At 1 April 2021	**49**	**39**	**1**	**40**	**129**
Increases					
Contributors/pensioners/dependants/ deferred pensioners	-	2	2	-	4
Sub Total	**-**	**2**	**2**	**-**	**4**
Reductions					
Contributors / deferred pensioners retiring	(1)	-	-	(1)	(2)
Deaths	(1)	(1)	-	-	(2)
Sub Total	**(2)**	**(1)**	**-**	**(1)**	**(4)**
At 31 March 2022	**47**	**40**	**3**	**39**	**129**

Atkins Section

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
At 1 April 2021	**2**	**26**	**-**	**14**	**42**
Increases					
Contributors/pensioners/dependants/ deferred pensioners	-	-	1	-	1
Sub Total	**-**	**-**	**1**	**-**	**1**
Reductions					
Deaths	-	-	-	(1)	(1)
Sub Total	**-**	**-**	**-**	**(1)**	**(1)**
At 31 March 2022	**2**	**26**	**1**	**13**	**42**

National Nuclear Laboratories Section

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
At 1 April 2021	**4**	**6**	**1**	**2**	**13**
At 31 March 2022	**4**	**6**	**1**	**2**	**13**

Appendix 2 – Glossary of Terms

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

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

Investment glossary	
Derivative	A derivative is a financial contract between two parties whose value is derived from an underlying asset's price or an index based on asset prices. Underlying assets are typically equities, bonds, interest rates, exchange rates and stock market indices. The main types of derivatives used by pension schemes are: - futures contracts - forward foreign exchange contracts - options - swaps A derivative can be exchange traded or traded over the counter ("OTC").
Exchange traded	An exchange traded security is purchased or sold through a registered exchange (e.g. a stock exchange) which provides trading facilities.
Forward foreign currency contract (FFX)	A forward foreign exchange contract is an over the counter transaction whereby two parties agree to exchange two different currencies at an agreed rate of exchange on a specific date in the future.
Futures Contract	A contract which legally binds two parties to complete a sale or purchase of an asset at a specified future date and at a price which is fixed at the time the contract is agreed.
Initial Margin	Before entering into a futures contract, a deposit is required which is referred to as the initial margin. This deposit may be in the form of cash or other assets, such as securities. The margin is required to protect parties against possible losses arising from the futures contract.
IPD	Investment Property Databank is an independent organisation that collates and publishes information about performance of the commercial property sector. The IPD provides a benchmark against which the performance of property assets can be monitored.
LIBID	London Inter-Bank Bid Rate. This is the rate of interest at which banks are willing to pay to borrow from each other for a specified period – normally one day. The rate fluctuates dependent on the supply and demand of funds.
Managed Funds	A managed fund is an investment contract which offers participation in one or more funds operated on similar lines to unit trusts. The range of managed funds available includes gilts, index-linked securities, equities, cash deposits, property and mixed funds. Typically managed funds relate only to a unitised fund under a policy of assurance from a life assurance company.
Options	An option is a contract which give the purchaser the right, but not the obligation, to buy (call option) or sell (put option) a standard specified nominal amount of an asset at a specific date or range of dates in the future at a specified price. Options may be exchange traded or OTC.

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

Appendix 3 – Advisers and Service Providers

Group Actuary Chris Vaughan-Williams FIA of Aon Solutions UK Limited	Carries out valuations and other funding updates of the Group as required by the Scheme Rules and Statute, provides all tables and factors for the application of Scheme Rules and options, and advises on all matters relating to pension funding.
Independent Group Auditor PricewaterhouseCoopers LLP	Reports on the audit of the Group Financial Statements.
Scheme Custodian The Bank of New York Mellon	Maintains safe custody of the Scheme's assets.
Investment Adviser Ruth Williams of Aon Solutions UK Limited	Advises the Group Trustees on all investment matters including the Statement of Investment Principles.
Legal Adviser Eleanor Daplyn of Sacker and Partners LLP	Advises on legislative requirements and application of the provisions of the Group in particular circumstances.
Performance Measurer Ruth Williams of Aon Solutions UK Limited	Provides the Group Trustees with a measurement service for their investments relative to the strategic benchmark and on the performance of the investment managers.

Benefits Administration and Accounting
Railpen (formerly known as RPMI)
2 Rye Hill Office Park
Birmingham Road
Allesley
Coventry
CV5 9AB

Tel: 02476 472582

Group Administrator
Rachel Hewlett (until 30 June 2021)

Kelly Capdeville (from 12 July 2021)
Head of Pensions
Magnox Ltd
Oldbury Technical Centre
Oldbury Naite
South Gloucestershire
BS35 1RQ

Group Appointed Fund Managers
Barings Global Investment Funds plc ("Barings")
BlackRock Investment Management (UK) Limited ("BlackRock")
Arcmont Asset Management Ltd ("Arcmont")
BMO Global Asset Management ("BMO")
CBRE Global Investors (UK) Limited ("CBRE")
Chorus Capital Management Ltd ("Chorus")
DRC Capital LLP ("DRC")
GAM International Management Limited (Renshaw Bay LLP) ("GAM")
GreenOak Real Estate Advisors LLP ("GreenOak")
Hayfin Capital Management LLP ("Hayfin")
Industry Funds Management ("IFM")
Infrared Capital Partners
Innisfree Ltd
Insight Investment Management Limited ("Insight")
Invesco Asset Management ("Invesco")
JP Morgan Asset Management Ltd
Legal & General Investment Management Limited ("L&G")
Lindsell Train Ltd
Longbow Real Estate Capital LLP ("Longbow")
M&G Asset Management ("M&G")
PIMCO Europe Ltd ("PIMCO")
Robeco Institutional Asset Management B.V. ("Robeco")
Ruffer LLP ("Ruffer")
Schroder Investment Management Limited ("Schroders")

Additional Voluntary Contributions (AVCs) Providers
Phoenix Life Assurance Limited
Utmost Life and Pensions Limited
The Prudential Assurance Company Limited
Scottish Equitable Public Limited Company ("Aegon")

Appendix 4 – Names and Addresses of External Bodies

The Pensions Advisory Service

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

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

Telephone: 0800 011 3797
Website for online contact: www.pensionsadvisoryservice.org.uk

Pensions Ombudsman

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

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

Telephone: 0800 917 4487
E-mail: helpline@pensions-ombudsman.org.uk (early resolution)
E-mail: enquiries@pensions-ombudsman.org.uk

The Pensions Regulator

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

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

Telephone: 0345 600 0760
E-mail: customersupport@tpr.gov.uk
Website: www.thepensionsregulator.gov.uk

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

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

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

Telephone: 0800 731 0193
From outside the UK: +44 (0)191 215 4491
Website: www.gov.uk/find-pension-contact-details

Appendix 5 – Address for Enquiries

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

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

Telephone: 02476 472 582
E-mail: enquiries@railpen.com

Appendix 6 – Engagement Policy Implementation Statement

Magnox Electric Group of the Electricity Supply Pension Scheme ("the Group")

The Engagement Policy Implementation Statement ("EPIS") has been prepared by the Magnox Electric Group Trustee Company Limited ("the Group Trustee") and covers the Group year 1 April 2021 to 31 March 2022.

Introduction

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

- How and the extent to which the Group Trustee has followed its engagement policy which is set out in the Statement of Investment Principles ("SIP").

- The voting behaviour by or on behalf of the Group Trustee (including the most significant votes cast) during the Group year and use of third-party providers of proxy voting services.

Executive summary

Based on the activity carried out over the year by the Group Trustee, its investment advisers, and its investment managers, the Group Trustee is of the opinion that its stewardship policy has been implemented effectively in practice.

The Group Trustee notes that while all of the investment managers it requested information from were able to disclose evidence of engagement activity, not all were able to provide engagement examples specific to the funds in which the Group invests. The Group Trustee expects investment managers to be able to provide specific engagement examples and for disclosures to improve over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Group through considered voting and engagement.

The Group Trustee recognises that it has a responsibility as an institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Group invests in. The Group Trustee will therefore continue to use its influence to drive positive behaviour and change among the investment managers that it has employed to invest the assets of the Group, and with other third parties that the Group Trustee relies on such as its investment advisers. The Trustee will monitor, assess and ultimately hold them to account to make sure that the assets of the Group are appropriately invested

Preparing the EPIS – Data

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

The Group Trustee has concentrated on summarising the stewardship activities of material holdings where there is meaningful scope for engagement. With this in mind, the EPIS does not disclose stewardship information in relation to:

- Funds representing less than 2% of the Group's total assets at 31 March 2022 on the grounds of materiality, except for the investments held with Lindsell Train, Ruffer & Schroders given the managers have allocations to listed equities; and
- The Group's LDI holdings with BMO (c32% of total Group assets), annuity held with Canada Life (c1% of total Group assets) and cash held with BlackRock (c1% of total Group assets) as the Group Trustee deems the scope for engagement to be very limited.

Group stewardship policy

The below bullet points summarise the Group's stewardship policy in force over the Group year to 31 March 2022.

The Group's full policies can be found in the SIP for each Section. These can be found on the Group's website: https://my-magnox-pension.com/library/scheme-documents.

- The Group Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside.

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

- The Group Trustee regularly reviews the ongoing suitability of the investment managers and takes advice from its investment adviser regarding any changes.

- The Group Trustee expects the appointed investment managers to provide transparency on engagement and voting activity.

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

Group stewardship activity over the year

Ongoing monitoring

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

The Group Trustee regularly invites its managers to provide updates at its meetings. These updates will include, among other things, information on performance, stewardship and Environmental, Social and Governance ("ESG") factors.

In-depth ESG-focused meetings

In addition to the ongoing monitoring, the Group Trustee has also agreed to have an in-depth ESG-focussed meeting with each of its investment managers. The Group Trustee completed interviews with 10 of its investment managers in the year to 31 March 2022, with the remaining 8 investment managers scheduled for interview during the next Group year. Following the in-depth meetings the Group Trustee intends to follow-up with managers on ESG issues as part of its ongoing monitoring of managers.

Climate risk management

The Group Trustee continued to work towards meeting the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The TCFD is an initiative that developed some best practice guidance for climate-risk reporting.

The Group's first report will cover the period 1 October 2022 to 31 March 2023 and be published online within 7 months of 31 March 2023. Thereafter, the Group Trustee will publish a report annually within seven months of the Group year end.

Voting and engagement activity – Equity and multi-asset funds

Over the year, the equity and multi-asset funds held by the Group were:

Lindsell Train	UK Equity Fund
Schroder Investment Management	Diversified Growth Fund
Ruffer LLP	Absolute Return Fund

The Group's managers with holdings in listed equities have provided voting statistics and examples of 'significant' votes they have participated in. Each investment manager has its own criteria for determining whether a vote is significant. However, the definition of a significant vote typically includes:

- a vote where a significant proportion of the votes (e.g. more than 15%) went against the investment management's proposal;
- where the investment manager voted against a management recommendation or against the recommendation of a third party provider of proxy voting;
- a vote that is connected to wider engagement with the company involved; and
- a vote that demonstrates clear and considered rationale.

For the purpose of the EPIS we have assumed that the Group Trustee considers a significant vote as one which the voting manager deems to be significant.

Lindsell Train – UK Equity Fund
(c0.2% of Group and a total of 19 equity holdings as at 31 March 2022)

Voting policy

Lindsell Train uses the proxy voting services of Glass Lewis. It will give consideration to Glass Lewis' voting recommendations but will not necessarily support them if they are not in the best interests of its investors. Lindsell Train maintains final decision-making responsibility for all votes, based on its detailed knowledge of the companies in which it invests. Lindsell Train will vote against any agenda item that threatens the economic value of its investments. Some of the areas of particular interest are inappropriate management remuneration or incentives, general corporate governance matters, environmental and social issues, changes in capital structure and mergers or acquisitions which are seen as detrimental to the creation of business value.

Voting statistics

The table below shows the voting statistics for Lindsell Train's UK Equity Fund for the reporting period to 31 March 2022.

Number of resolutions eligible to vote on over the period	420
% of resolutions voted on for which the fund was eligible	100.0%
Of the resolutions on which the fund voted, % that were voted against management	0.0%
Of the resolutions on which the fund voted, % that were abstained from	0.2%

Source: Lindsell Train.

Voting example: Mondalez

In May 2021, Lindsell Train abstained from a vote regarding executive compensation for a company Mondelez. When considering executive compensation, Lindsell Train assesses companies' compensation policies and focuses more on how incentives are structured rather than the actual amount of compensation. It can be comfortable with large rewards provided that the incentives are aligned with shareholders' interests and Lindsell Train's principles.

In this case, Lindsell Train abstained from voting because it did not believe the company's compensation policy was aligned with the long-term interests of shareholders. Lindsell Train recognised the significant effort that Mondelez's management made throughout the past two years in explaining its rationale for its compensation policies and therefore chose to abstain rather than vote against management.

Engagement policy

More than 90% of Lindsell Train's engagement activities are with corporates, but it has also engaged with regulators, the Financial Reporting Council ("FRC"), industry bodies and Japan's Ministry of Economy, Trade and Industry ("METI").

Lindsell Train's engagement objectives can be broad. For example, it encourages corporate reporting in line with the Sustainability Accounting Standards Board ("SASB"), TCFD, and alignment with the Sustainable Development Goals ("SDGs"). The objectives may also relate to the success or failure of specific matters, upon which it would engage with management or the specific company. If Lindsell Train does not believe that raising its concerns with companies through constructive dialogue is having the desired effect, it will, where appropriate and if possible, use its voting rights. As the manager's holdings in individual companies tend to be large, its votes often carry significant weight.

Engagement example (firm level): Yakult

Lindsell Train engaged with the management and investor relations team of Yakult and several other companies throughout 2021. This was regarding Yakult's strategies to reduce the amount of plastic packaging, and improve its recycling practices, to protect the environment and specifically the oceans, to help achieve SDG 14 – Life Below water.

With regards to Yakult, Lindsell Train had concerns that the company's progress in terms of its environmental policies had been slow, in particular, its greenhouse gas ("GHG") reduction targets, plastic recycling and water consumption reduction targets. Lindsell Train's primary concern is that the brand may be tarnished if the problems are not addressed. Yakult has responded to concerns with management conveying that climate change, reducing plastic packaging, and water-related issues are of enormous strategic importance. Yakult went on to provide a detailed overview of its recycling infrastructure, as well as the various recycling techniques that are currently practiced. Lindsell Train believes the company will face tough decisions in terms of the future of its production strategy and the material it uses to bottle its product and continues to monitor the company's actions closely.

Schroders – Diversified Growth Fund
(c0.4% of Group and a total of 1,394 equity holdings as at 31 March 2022)

Voting policy

Schroders uses research from both Institutional Shareholder Services ("ISS") and Institutional Voting Information Service ("IVIS"), however, it states that this is only one component of the analysis which feeds into its voting decisions. Schroders stresses that its own research is also integral to its final voting decision. This research is conducted by its financial and ESG analysts. For contentious issues, Schroders' Corporate Governance specialists will engage with the relevant analysts and portfolio managers to seek their view and better understand the corporate context.

Schroders considers most significant votes as those against company management. It opposes management if it believes that doing so is in the best interests of shareholders and its clients. Schroders discloses its voting activity publicly. On a monthly basis, Schroders produces voting reports which detail how votes were cast, including votes against management and abstentions.

Voting statistics

The table on the next page shows the voting statistics for Schroders' Diversified Growth Fund for the reporting period to 31 March 2022.

Number of resolutions eligible to vote on over the period	22,236
% of resolutions voted on for which the fund was eligible	90.4%
Of the resolutions on which the fund voted, % that were voted against management	9.0%
Of the resolutions on which the fund voted, % that were abstained from	0.6%

Source: Schroders.

Voting example: Total SE

In May 2021, Schroders voted against a resolution to approve Total SE (energy company) Sustainable Development and Energy Transition. The transition included targets towards long-term carbon neutrality commitment and inclusion of scope 3 emissions targets at medium and long term. Schroders voted against this resolution because parts of the emissions strategy did not appear stretching, having already reached short term targets and with other targets potentially allowing for overall expansion in emissions from oil and gas. The strategy also did not include any absolute reduction targets between 2030 and 2050 which Schroders considers to be best practice within the sector. The company has also failed to provide a periodic vote schedule for investors to continually vote, track progress and monitor ambition on the company's transition plan.

Engagement policy

Schroders defines engagement to be purposeful communication with an entity (e.g. government, corporate, institution, financial counterparties, regulator, industry body) on particular matters of concern with the goal of encouraging change at the entity and/or wider system improvement. Active ownership is considered a key part of the ESG process at Schroders.

The Investment team monitors the engagement and voting activity that takes place in relation to the underlying holdings of the fund in partnership with the Schroders' Sustainable Investment team, to ensure it is driving ESG improvements at the underlying holding level. Engagement is an ongoing activity and where change is required, it can take 2-3 years from initial engagement to conclusion. Investment decisions are made by the underlying investment manager based on engagement activity.

Engagement example (firm level): Board diversity

In 2021, Schroders engaged with a number of FTSE 100 companies to inform them that, from 2022 onwards, it will be using its shareholder votes to apply pressure on firms that have failed to meet board diversity targets. Schroders' believes that diversity is important for a company's long-term strategy and success as it reduces groupthink and provides better representation of wider stakeholders.

Schroders engaged by sending out letters to companies. Since sending out these letters, 25 companies acknowledged receipt, 15 provided a substantial response and one has since appointed a non-white director to its board. Schroders will monitor the progress of companies on this issue.

Ruffer – Absolute Return Fund
(c0.1% of Group and a total of 81 equity holdings as at 31 March 2022)

Voting policy

Ruffer has internal voting guidelines as well as access to proxy voting research from ISS, to assist in the assessment of resolutions and the identification of contentious issues. Although it is cognisant of proxy advisers' voting recommendations, Ruffer does not delegate or outsource stewardship activities when deciding how to vote. Research analysts are responsible, supported by Ruffer's responsible investment team, for reviewing the relevant issues on a case-by-case basis and exercising their judgement, based upon their in-depth knowledge of the company. They look to discuss any relevant or material issue that could impact the investment with the relevant companies. Ruffer will ask for additional information or an explanation, if necessary, to inform its voting discussions, and will look to communicate decisions to the company before the vote, along with an explanation, when possible.

Voting statistics

The table below shows the voting statistics for Ruffer's Absolute Return Fund for the reporting period to 31 March 2022.

Number of resolutions eligible to vote on over the period	1,307
% of resolutions voted on for which the fund was eligible	100%
Of the resolutions on which the fund voted, % that were voted against management	6.4%
Of the resolutions on which the fund voted, % that were abstained from	1.8%

Source: Ruffer.

Voting example: American Express

In May 2021, Ruffer supported a shareholder resolution at American Express requiring the company to publish a report assessing diversity, equity and inclusion efforts an annual basis. Whilst American Express is taking meaningful steps to increase its workforce diversity and promote inclusion, reporting of its diversity statistics has room for improvement. Diversity feeds into social considerations when investing, under the guise of human capital and social opportunities and consequently, improvement in disclosure would benefit shareholders in assessing the company's long-term value and reputational and legal risks. The resolution passed with 59.7% votes in favour.

Engagement policy

Ruffer’s approach to engagement determines the way it sets objectives. Ruffer's engagement activities fall into three categories:

1) Thematic engagements;
2) ESG integration – engagement informed by its internal ESG team; and
3) Fundamental analysis and engagement with policy makers.

Ruffer believes in the power of collaborative engagement and was a founding investor signatory of the Climate Action 100+, as well as a member of the Institutional Investor Group on Climate Change (“IIGCC”).

Ruffer’s ESG analysis informs its active stewardship activities through engagement and voting. These are subsequently incorporated into its engagement plans as well as thematic engagements.

Once ESG risks or objectives are identified, Ruffer will draft an engagement plan and define specific objectives and targets for individual company engagement. It continually monitors engagement with companies throughout the holding period and uses a variety of methods to achieve its objectives.

Engagement example: Barclays

In July 2021, Ruffer engaged with Barclays to monitor the execution of its existing plan to manage climate-related risks within the company. Ruffer met with the Chair of the Board, the Group General Counsel and the ESG Investor Relations Director.

Ruffer discussed with Barclays the financing of certain sectors that the company invests in. The company explained that it would take an engagement rather than disinvestment approach which Ruffer is supportive of. This approach currently applies to lending within the energy and power sectors, with the aim of extending the reporting and data analysis to all sectors covered by its financing portfolio, including metals.

Management acknowledged the need for more detailed data and targets which the company is now working on. Barclays also accepted the need for it to provide more interim targets and benchmarking to its initial net zero 2050 commitment.

This was an initial, exploratory meeting and Ruffer intends to continue its engagement through involvement in future discussions on setting additional targets and further refining climate change policies.

Engagement activity – Credit funds

Whilst voting rights do not apply to non-equity mandates, the Group Trustee recognises that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and therefore debt issuers have a vested interest to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be naturally limited in comparison to equities, downside risk mitigation, and credit quality is a critical part of investment decision-making.

The following examples demonstrate some of the engagement activity carried out by the Group's credit managers with material allocations over the year.

Arcmont – European Direct Lending Fund III (c2% of Group as at 31 March 2022)

Engagement policy

Arcmont is committed to maintaining an open and active dialogue with management, enabling it to monitor the ESG risk profiles of its portfolio companies, assessing the severity of the risks, whilst moving to take appropriate action should a risk become too great. In March 2021, Arcmont formalised its engagement approach and began offering Environmental & Social ("E&S") Target Improvement Plans ("TIPs") to all new primary borrowers. The TIPs offer financial incentives via interest rate discounts to borrowers that meet certain agreed upon E&S performance targets. Arcmont views this approach as a key part of its ESG engagement strategy, allowing it to highlight and mitigate E&S risks amongst its portfolio companies.

Arcmont was unable to provide engagement examples due to only recently introducing the formal engagement programme. However, following the implementation of its TIPs programme, it has started to track engagement and will disclose examples going forward.

Barings – Global Loan Fund (c5% of Group as at 31 March 2022)

Engagement policy

Barings' engagements involve interactions between the investor and current or potential investees on ESG issues. Engagements are undertaken to influence ESG practices and improve ESG disclosures.

Through engagement, Barings aims to enhance the performance of its investments for the benefit of its clients. Barings does not, however, attempt to impose an inflexible approach that ignores local norms and contexts. Barings believes that value is derived from transparent communication with the entities in which it invests, coupled with the expertise and discretion of its experienced investment professionals.

As Barings invests in multiple asset classes, when appropriate approaches to and priorities for engagements differ, it gives its investment teams the flexibility to choose when to engage with investments. This is supplemented with general top-down guidance and assistance.

Barings will monitor controversies and escalate any issues that are not aligned with its ESG philosophy and approach as they occur. Escalation will involve articulating its ESG concerns primarily through private meetings with management teams. In cases where the company has significantly failed to improve, Barings will divest from the company at the earliest possibility.

Engagement example: Healthcare company

In September 2021, Barings engaged with a healthcare company as part of its due diligence process on a potential new transaction with the company.

Barings' due diligence process highlighted some care quality issues at the company's health facilities. During the debt syndication process, the company intended to include sustainability key performance indicators ("KPIs") into the finance terms of the deal. Barings actively engaged with senior management and the financial sponsor to support the addition of KPIs for the quality of patient care. The engagement was successful in adding these KPIs into the terms of the debt syndication.

Chorus – Credit Fund IV (c3% of Group as at 31 March 2022)

Engagement policy

Chorus partners with many of the world's largest banks and helps them to achieve their capital management objectives through risk-sharing transactions. Chorus' engagement with banks when originating these transactions has enabled Chorus to promote its ESG values by rejecting or reducing credit exposures to companies whose business profile is in conflict with its values, which in turn influences the bank's origination appetite for non-ESG friendly borrowers. Chorus believes this is an effective way of exercising its ESG values and ensuring it has a real impact. Its beliefs are described in the firm's Responsible Investment ("RI") Policy, which was implemented in March 2019.

Engagement example: Controversial weapons

Chorus reviewed a potential investment in June 2021. Chorus' investment team screened the portfolio for any entities that were to be excluded according to the firm's RI policy. The team requested the exclusion of an investment grade rated borrower due to the company's involvement with controversial weapons. The bank agreed to remove the name. Chorus interacted with senior management (Managing Director level) within the bank's Credit Portfolio Management team, which is responsible for managing the bank's loan portfolio, and undertaking risk-sharing transactions. The exposure was successfully removed from the portfolio and will not be added during any future replenishments

Hayfin – Direct Lending Fund III (c2% of Group as at 31 March 2022)

Engagement policy

Engagement is a key component of Hayfin's ESG process with lenders and sponsors, with all deals approved by its internal ESG sub-committee before they go to its investment committee. In 2021 Hayfin included terms in its loan documentation that required data disclosure for the first time. And in three cases Hayfin included an ESG-linked margin ratchet, whereby borrowers are incentivised to improve their ESG metrics. Typically, margin ratchets tie the rate of interest on a loan to a borrower's operational performance. In an ESG margin ratchet, the rate of interest also depends on the borrower's performance against pre-agreed ESG-related criteria.

Hayfin engages by conducting quarterly meetings with industry bodies. Throughout 2021 Hayfin has continued engagement with borrowers on ESG data. This led to an evaluation of a systematic approach to ESG margin ratchets/information disclosure requests.

Engagement example: FE Fundinfo

In 2021, Hayfin engaged with the data and analytics company, FE Fundinfo, regarding climate change, diversity and inclusion. Hayfin engaged with FE Fundinfo regarding annual carbon footprint assessment, setting and achieving carbon emissions reduction targets and encouraging the gender diversity by increasing the proportion of women in senior management. The engagement is ongoing and Hayfin will continue to follow up with the company later in the year 2022.

Insight – Global ABS Fund (c3% of Group as at 31 March 2022)

Engagement policy

Insight proactively engages on industry and regulatory issues that have implications for its clients and the wider market. Insight's credit analysts regularly meet with issuers to discuss ESG-related issues. Insight’s engagements inform the credit analysts’ views of companies and provide a platform for increased transparency on ESG issues and ongoing engagement to change company behaviour, where appropriate.

The credit analysts identify the engagement issues relevant for each issuer. If Insight does not already have regular meetings with a company’s management, its investment teams will request a meeting with them. Where this is not possible, or if Insight deems additional action to be needed, Insight may consider raising issues with the company’s broker. If Insight does not receive a response from the issuer when it engages with it then Insight will lead a wider collaborative initiative, via the Principles for Responsible Investment (“PRI”) or with other investors, to achieve greater influence over the issuer. It is involved in long-term initiatives such as Climate Action 100+.

Engagement example: Think Tank

In Q2 2021, Insight engaged with Think Tank’s senior management to get a better understanding of the governance and social risks involved in the company’s origination and servicing business. The areas Insight thought could be strengthened were the number of board members and some aspects of the renumeration policy.

Insight discussed the compensation and its linkage to the amounts of products sold as well as the collection recovery targets. Insight expressed some concerns about the complaint’s governance process and the lack of independent review. Regarding environmental disclosures, Insight has requested additional environmental metrics on the collateral pool.

Insight requested that Think Tank considers implementing an environmental assessment for all new loans. Insight expects to see improvements in servicing governance and environmental disclosures going forward and will continue to engage with the company to achieve this.

PIMCO – Diversified Income Fund (c7% of Group as at 31 March 2022)

Engagement policy

PIMCO sees engagement as an essential tool for delivering impact for investors, markets and society. It believes that engagement can be partnering with issuers that already demonstrate strong sustainability commitments and those with less advanced sustainability practices. PIMCO believes that this can be a way for it to influence positive change that may benefit investors, employees, society and the environment.

PIMCO's credit research analysts engage regularly with issuers, discussing topics with company management teams related to corporate strategy, leverage and balance sheet management, as well as sustainability-related topics such as climate change targets and environmental plans, human capital management and board qualifications and composition.

Engagement example (firm level): West African Development Bank

In 2021, PIMCO engaged with the West African Development Bank regarding an emerging market impact-oriented sustainability bond. The bank gives itself a target of investing 25% of its total financing budget into projects that have environmental benefits. The engagement resulted in a sustainability bond being issued by the West African Development Bank primarily aimed towards refinancing social projects that increase access to basic services in West Africa.

Since the issue of the sustainability bond, PIMCO has continued to engage with the issuer on the projects that the bond is financing. From this engagement, PIMCO noted that the new issuance will be used to fund new green and social projects. These include the construction of a solar power plant and a smart hydro-agricultural development. In particular, the West African Development Bank committed to increase its green investments in line with the targets set in its environmental and climate strategic plan.

Robeco – Buy and Maintain Credit (c5% of Group as at 31 March 2022)

Engagement policy

Robeco actively uses its ownership rights to engage with companies on behalf of its clients. Robeco believes improvements in sustainable corporate behaviour can result in an improved risk-return profile of its investments. Robeco engages with companies worldwide, in both its equity and credit portfolios.

Robeco carries out three types of engagement with the companies in which it invests:

- Value engagement;
- Enhanced engagement; and
- Sustainable development goals engagement.

Robeco aims to improve a company's behaviour on ESG issues to improve the long-term performance of the company and ultimately the quality of investments for its clients.

Engagement example (Firm level): Barclays

Robeco engaged with the British bank, Barclays, about its culture and risk governance over several years. The purpose was to gain a better understanding of the risks banks face by analysing the most material governance issues of the banking system.

The culture at Barclays was a key area for improvement and Barclays did a lot of work to improve this. For example, the bank regularly reports the importance of behaviours to its staff and tries to foster an open culture. The bank's approach to financial crime is also now largely in line with other European banks. Robeco closed this engagement successfully in Q4 2021.

Engagement activity – Real estate & infrastructure

The Group also invests in a number of real estate and infrastructure funds. The Group Trustee acknowledges that the ability of real estate/infrastructure managers to engage with and influence investee companies may be less compared to equity managers. However, the Group Trustee still expects investment managers to be an active and responsible steward of the properties/projects it manages and the parties it contracts with.

The following section demonstrates some of the engagement activity being carried out by the Group's real estate and infrastructure managers over the year.

CBRE – UK Property PAIF & Long Income Fund (c7% of Group as at 31 March 2022)

Engagement policy

CBRE engages with a range of key stakeholders including investors, clients, employees, suppliers, and representatives from the industry. These engagement activities include written communications, meetings, surveys, and participation in various industry organisations and initiatives.

CBRE's engagements with investee companies are focused on company-specific issues and are prioritised by its investment analysts. The investment analyst determines the objective of the engagement and monitors the company's response. CBRE also has a committee, the Responsible Investment Management Committee, which engages with multiple companies on a broader ESG themes, such as disclosure or transparency. CBRE tends to engage more frequently with companies whose shares it owns or which are significant in size relative to industry benchmarks.

Engagement example – UK Property PAIF: Syzygy and OPDC

In 2021, CBRE engaged with the independent specialist renewable energy consultancy, Syzygy Consulting, and the Old Oak and Park Royal Development Corporation ("OPDC"), a development corporation working to transform the Old Oak and Park Royal areas of West London. OPDC was seeking to maximise the use of solar power generation in its developments and there was a project underway to install solar panels in suitable buildings. It involved ten sites in the Park Royal area and required close engagement with the tenants of the units identified as suitable for solar panels to be installed.

The project is ongoing; however, the following outcomes are expected:

- Total output of 3,500,000 kWh/year;
- Carbon emissions savings of approximately 800 tonnes/year which is equivalent of powering 1,500 electric cars every year; and
- Between 50-70% carbon offset of energy used.

Engagement example – Long Income Fund: Elflock Pubs

CBRE engaged with Elflock Pubs, owners of public houses and bars, on the environmental topic of green leases. A green lease is a lease that incorporate clauses whereby the owner and occupier must undertake specific requirements with regards to the sustainable occupation of a property e.g. energy efficiency measures, waste reduction or water efficiency.

As a result of the engagement CBRE successfully negotiated green lease clauses within leases at all the Elflock Pub sites. The leases cover three broad themes:

1) EPC ("Energy Performance Certificate") Compliance – ensuring that the tenant maintains the EPC rating.
2) Data Sharing – an agreement with the tenant to share their energy data on an annual basis to assist with the fund's voluntary reporting.
3) Collaboration – focusing on landlord and tenant collaboration to improve the environmental performance of the asset.

These clauses help the fund meet its ESG targets and help protect the asset value from current environmental legislation and future climate risks.

IFM – Global Infrastructure Fund (c3% of Group as at 31 March 2022)

Engagement policy

IFM's Infrastructure Team pursues an active engagement strategy with assets held in the Global Infrastructure Fund. The investment professionals engage on a variety of ESG matters such as energy and GHG emissions management, biodiversity, water and waste management, stakeholder engagement, labour relations, health and safety initiatives, customer privacy and diversity, and board composition and remuneration.

Oversight of IFM's RI framework occurs top down, as well as bottom up. The IFM Board Responsible Investment and Sustainability Committee (BRISC) assists the IFM Board by providing an objective view of the effectiveness of IFM's RI strategy and reporting framework and is convened on a quarterly basis. The Responsible Investment Team, which consists of five professionals and has Investment Committee representation, ensures that IFM remains disciplined with its scrutiny and analysis of responsible investment considerations in the investment process. The Infrastructure Team owns the investment case for each acquisition and is ultimately responsible for identifying all ESG matters and developing mitigation pathways prior to acquisition and improving the performance of investee companies with respect to ESG issues following acquisition.

Engagement example: D&I initiative

IFM's focus on promoting diverse and inclusive workplace cultures is based on its view that a diversity of perspectives, backgrounds and opinions drives improved employee engagement, productivity and commercial outcomes. The infrastructure diversity and inclusion ("D&I") initiative commenced in 2019 with an initial focus on collecting data to assess the current diversity profile of individual assets, including D&I strategy and reporting maturity. This work will inform IFM's approach to supporting portfolio companies to implement D&I improvement plans.

InfraRed – Infrastructure Yield Fund (c2% of Group as at 31 March 2022)

Engagement policy

InfraRed develops strong partnerships with stakeholders, including clients, co-shareholders and business partners, in each of its projects. InfraRed believes effective and efficient engagement is crucial to preserve and enhance both investor and stakeholder value.

InfraRed focuses its resources and influence on its four overarching priorities:

1) Climate;
2) Environment;
3) Communities; and
4) People

Engagement example (firm level): Education Taskforce

In 2021, the InfraRed's Social Impact Committee set up the Education Taskforce, a working group aimed at engaging with educational facilities to uncover the challenges faced by schools in order to have a tailored approach to address these. The Taskforce contacted the headteachers of schools across InfraRed's UK portfolio to better understand the greatest issues faced by these schools. The survey identified that child hunger was one of the greatest issues they were experiencing, in addition to poor access to IT equipment.

In response to the findings from the survey, InfraRed aims to implement a number of initiatives to help address some of the issues, such as growing its laptop donation programme.

To help combat child hunger the InfraRed Charitable Foundation has pledged £50,000 to Magic Breakfast and InfraRed held a breakfast in its London office to launch its partnership with Magic Breakfast. The purpose was to raise awareness about the prevalence of food poverty in the UK, its effect on social mobility and the positive impact the Magic Breakfast initiative is having on school communities.

Innisfree – PFI Continuation Fund and Secondary Fund 2 (c7% of Group as at 31 March 2022)

Engagement policy

Regular and ongoing engagement with the public sector clients throughout the concession life is key to the effective working and financial performance of the project. In terms of industry engagement, the Private Finance Initiative ("PFI") industry is small with only a handful of familiar participants. The principal means of government/industry engagement is with the Infrastructure and Projects Authority on matters such as hand back protocols and climate change.

Innisfree's funds hold the projects for the duration of the concessions and therefore decision-making in the management of assets is made with the perspective of a long-term partnership with the public sector including all stakeholders and asset users. Environmental and sustainability factors with regards to variations and lifecycle are considered at project board level and adopted where possible, but ultimately the decision (for example with regard to energy savings from switching to LED lighting or installing solar panels) often lies with Innisfree's government client as it could entail a change to the building's specification. Where it is possible to replace larger building lifecycle items with greener or more efficient options Innisfree seeks to encourage these.

Invesco –UK Residential Fund (c3% of Group as at 31 March 2022)

Engagement policy

At the issuer level, Invesco primarily seeks to address problematic areas or opportunities for improvement from an ESG perspective. When engaging with other stakeholders, such as regulators or industry bodies, the goal is to create an inducive environment that would allow for optimal ESG outcomes in an efficient and fair manner, such as alignment with existing frameworks and reduced reporting burden.

While Invesco's engagement activity is based on the premise of a company's continual improvement, it is in a process of setting up an engagement reporting template that tracks engagement outcomes on a yearly basis based on a clearly defined ESG objectives and goals. It is developing an escalation engagement framework to guide stewardship processes and achievements. For example, in 2022 it will be developing a Net-Zero engagement framework that will guide Invesco's climate related engagements

Engagement example (firm level): Australian state-owned oil & gas

As a Climate Action 100+ lead investor, Invesco met with an Australian state-owned oil and gas company's senior leadership four times in 2021 and sent a separate letter to the Chairman and CEO to further advocate for the net zero agenda.

The company's transition from oil and gas to chemicals resulted in structural and senior leadership changes in 2021, with the new CEO stepping in during September 2021. During this transition, Invesco met with the company and discussed its performance on the Net Zero Company Benchmark assessment, which was disclosed in March 2021, and highlighted examples of poor disclosure and insufficient commitments. In September 2021, Invesco sent a letter encouraging the company to fully comply with the net zero agenda by improving disclosures, scope 3 emissions targets and decarbonisation plans.

After the letter, Invesco's Global ESG team again met with the company and reiterated the need for it to address the Net Zero Company Benchmark assessment areas where the company lags in performance.

Since Invesco started engaging with the company in 2020, the company has now committed to achieving net zero emissions by 2050 or sooner, and to reducing its carbon intensity by at least 30% by 2025. The company has also committed to transforming its product range to be predominately low carbon/zero carbon by 2025. It has also increased the importance of emissions in executive's long-term incentive plans.

L&G – UK Build to Rent Fund (c3% of Group as at 31 March 2022)

Engagement policy

L&G UK Build to Rent (BTR) team engaged with c.10 entities over 2021. Engagements with entities such as suppliers and contractors revolved around embodied carbon and build cost inflation. The team actively monitors all its developments and the associated contractors.

<u>Engagement example: The Fold Croydon</u>

As part of LGIM's development at The Fold Croydon, BTR worked with UK-based Smile Plastics to provide coffee tables for the apartment development. Given the fund's goal of net zero operational carbon by 2030, BTR recognises the importance of working with suppliers who are aligned to ESG goals.

When considering a furniture supplier, BTR was mindful of sourcing locally where possible, but also sought out innovative suppliers who were committed to increasing the sustainability of the products they produce. BTR asset managers engaged with furniture suppliers that had a fundamental mission to reduce waste.

As a result of this engagement, Smile Plastics was chosen as one of the furniture suppliers, due to their focus on reducing waste by reusing plastic drinks bottles. Each coffee tabletop is unique and made from between 700-1000 500ml plastic drinks bottles. The material is made in a micro-factory in Wales using methods that create 80% less CO2 and use 85% less water that conventional approaches.

M&G – Inflation Opportunities Fund (c8% of Group as at 31 March 2022)

<u>Engagement policy</u>

M&G developed its engagement process through adopting the SASB framework. It uses this framework to structure its research and engagement activity, allowing it to incorporate ESG factors into the investment process for its holdings at all stages. M&G engages directly with companies and collaboratively through its membership of industry bodies, on both company-specific issues and broader thematic engagements. Over 2021, these included its climate engagement programme and its diversity and inclusion programme, as well as thematic engagements on modern slavery in supply chains and thermal coal.

<u>Engagement example: Social housing</u>

In 2021, M&G engaged with companies regarding social housing. The objective of the engagement was to create a new sustainability reporting standard for social housing that banks, housing associations and investors could agree on. In recent years there has been an increased focus on ESG in the sector, driven by multiple factors including poor energy efficiency in older houses, cladding and fire safety issues, as well as fuel poverty driven by rises in energy prices more broadly.

As a large and long-term investor in the asset class, M&G saw the importance of, and ability to meaningfully contribute to, developing an industry standard to improve the recorded measurements associated with each of these factors. Better data would enable the investment teams to measure ESG risk more accurately and improving the governance and transparency of the Social Housing companies themselves. M&G invested in the production of new ESG reporting, which, following various industry workshops, led to a draft template. M&G then engaged with Housing Associations and Investors to receive further feedback finalise a version suitable for all parties. As a result of M&G's actions, numerous banks, investors and housing associations have now signed up to undertake the new reporting.

Summary

Based on the activity over the year by the Group Trustee and its investment managers, the Group Trustee believes that the stewardship policy has been implemented effectively. The Group Trustee notes that most of its investment managers were able to disclose adequate evidence of voting and engagement activity.

The Group Trustee expects improvements in disclosures over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Group through considered voting and engagement. In particular, the Group Trustee expects improvements from Lindsell Train, Arcmont, Innisfree, ICG Longbow and Schroders on its reporting of fund level engagement examples. The Group Trustee has provided feedback to these managers through its investment adviser.