Statement of Investment Principles

For the Powerhouse Retail Group Electricity Supply Pension Scheme

Effective from: July 2023

1. Introduction

This Statement of Investment Principles (“SIP”) has been produced by the Group Trustees of the Powerhouse Retail Group of the Electricity Supply Pension Scheme (“the Trustees”).

It sets out the Trustees’ policies on various matters governing investment decisions for the Powerhouse Retail Group of the Electricity Supply Pension Group (“the Group”), which is Defined Benefit (“DB”) in nature.

This SIP replaces the previous SIP dated August 2020.

This SIP has been prepared after obtaining and considering written advice from LCP, the Group’s investment adviser, whom the Trustees believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Group and the principles contained in this SIP.

The relevant employer has been consulted in producing this SIP.

The Trustees will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator’s guidance on investments.

The Trustees have produced a separate SIP addendum, which details further background and other matters relevant to the Group’s investments, but which are not required to be included in the SIP.

2. Investment objectives

The primary objective for the Group is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, the Trustees have the following objectives:

- the expected return on the Group’s assets is maximised whilst managing and maintaining investment risk at an appropriate level.
- the Group should continue to remain fully funded on a solvency basis (ie the asset value should be at least that of its liabilities on a solvency basis) and adopt a low risk long-term investment strategy.

3. Investment strategy

The Trustees, with input from their advisers and in consultation with the employer, have set the below investment strategy for the Group, considering the objectives described in Section 2 above.

Asset class	Benchmark allocation %
Equities	5.0
Total growth assets	**5.0**
Single-stock gilt funds	76.0
Corporate bonds	9.0
Cash	10.0
Total matching assets	**95.0**
TOTAL	**100.0**

The Trustees’ policy is to target the maximum expected level of return subject to ensuring the level of investment risk is appropriate to reflect the Group’s circumstances. The Trustees believe that the strategy above meets this objective.

The Trustees are aware that the Group’s allocation to the various asset classes will differ to the benchmark allocation from time to time due to market movements. The Trustees will review the Group’s asset allocation regularly and decide whether (or not) to rebalance back to the strategic benchmark.

4. Considerations in setting the investment arrangements

When deciding how to invest the Group's assets, it is the Trustees' policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as their beliefs about investment markets and which factors are most likely to impact investment outcomes.

The Trustees take an integrated approach when assessing risk and reviewing the investment strategy. In particular the Trustees take account of: the employer covenant, contributions, funding targets, liability profile (including interest rate and inflation sensitivities and the extent to which they are hedged) and the level of expected return and risk now and as the strategy evolves.

The primary ways that the Trustees manage investment risk is via diversification, ensuring they receive professional written advice prior to making any material investment decision, and their ongoing monitoring and oversight of the investments. Further details of specific risks (for example equity risk, credit risk and currency risk) and how the Trustees measure and manage those risks is set out in Part 2 of the SIP addendum.

In setting the strategy it is the Trustees' policy to consider:

- The Group's investment objectives, including the target return required to meet these.
- The circumstances of the Group, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant.
- The need for appropriate diversification between different asset classes to manage investment risk and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate.

The Trustees also consider other factors that they believe to be financially material over time horizons relevant to the funding of the benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

The Trustees' key investment beliefs, which influence the setting of the investment arrangements, are as follows:

- Asset allocation is the primary driver of long-term returns.
- Risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified.
- ESG factors should be considered when making investment decisions, and managers may be able to improve risk-adjusted returns by doing this.
- Investment managers who can consistently spot and profitably exploit market opportunities are difficult to find, and therefore passive management is usually better value.
- Costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.
- Climate change is a financially material systemic issue that presents risks and opportunities for the Group over the short, medium and long term.
- Voting and engagement are important and can create long term value which is in the best interest of Group members and therefore the Trustees encourage managers to improve their voting and engagement practices.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

The Trustees have signed agreements with the investment managers setting out the terms on which the portfolios are to be managed. Details of the investment managers are set out in the separate SIP addendum.

The Trustees have limited influence over managers' investment practices because all the Group's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees' view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines and restrictions of their funds. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustees' responsibility to ensure that the managers' investment approaches are consistent with their policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. The Trustees expect investment managers to make decisions based on assessments of the longer term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). The Trustees assess this when selecting and monitoring managers.

The Trustees evaluate investment manager performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. If a manager is not meeting its performance objectives, the Trustees will consider alternative arrangements.

The Trustees' policy is to evaluate each of their investment managers by considering performance, the role it plays in helping to meet the Group's overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in the Trustees' assessment of the investment managers, they do not explicitly monitor portfolio turnover. The Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Group's investment mandates.

6. Realisation of investments

The Trustees cannot usually directly influence the managers' policies where the Group holds assets in pooled funds. The investment managers have discretion over the timing of realisation of investments of the Group and in considerations relating to the liquidity of investments.

When appropriate, the Trustees, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings, and inform the investment managers of any liquidity requirements. The Trustees' preference is for investments that are readily realisable.

7. Financially material considerations and non-financial matters

The Trustees consider how ESG considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Group and its members.

The Trustees influence the Group's approach to ESG and other financially material factors through their investment strategy and manager selection decisions. The Trustees expect all of their investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. The Trustees seek to appoint managers that have the skills and processes to do this, and review how the managers are taking account of these issues in practice.

The Trustees encourage their managers to improve their ESG practices, although acknowledge that they have limited influence over managers' investment practices where assets are held in pooled funds and that the parameters of some pooled funds may limit the scope for significant incorporation of ESG factors.

The Trustees do not consider matters that are purely non-financial in nature (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments.

8. Voting and engagement

The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments and is in the best interests of their members.

The Trustees seek to appoint investment managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council.

The Trustees have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. The Trustees expect the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

As all of the Group’s investments are held through managers or pooled funds the Trustees do not monitor or engage directly with issuers or other holders of debt or equity.

The Trustees monitor managers’ activities in relation to ESG factors, voting and engagement on a regular basis. The Trustees seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with the Trustees’ expectations.

The Trustees have selected some priority ESG themes to provide a focus for their monitoring of investment managers’ voting and engagement activities. The Trustees review the themes regularly and update them if appropriate. The Trustees communicate these stewardship priorities to their managers.

If their monitoring identifies areas of concern, the Trustees will engage with the relevant manager to encourage improvements.