

NESO Section of The Pensions Master Plan

Statement of Investment Principles ("SIP")

Purpose of this Statement

This SIP has been prepared by the Section Trustee (the "Trustee") of the NESO Section of The Pensions Master Plan (the "Section"). This statement sets out the principles governing the Section Trustee's decisions to invest the assets of the Section.

The Section's investment strategy is derived from the Trustee's investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

Governance

The Trustee makes all major strategic decisions including, but not limited to, the Section's asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee believes that its investment advisers, Isio, are qualified by their ability in, and practical experience, of financial matters, and have the appropriate knowledge and experience. The investment advisers' remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Section.

The Trustee is aware that the sponsoring employer needs to abide by Ofgem regulations and will take into account all Ofgem principles, that may change from time to time, where appropriate.

Investment objectives

The Trustee invests the assets of the Section with the aim of ensuring that all members' current and future benefits can be paid. The Section's funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Section's circumstances.

The Section's present investment objective is to achieve a return of around 1.8% per annum above the return on a liability matching portfolio of UK Government bonds.

Investment strategy

The Trustee takes an holistic approach to considering and managing risks when formulating the Section's investment strategy.

The Section's investment strategy was derived following careful consideration of the factors set out in Appendix A. The considerations include the nature and duration of the Section's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Section, and also the strength of the sponsoring company's covenant. The Trustee considered the merits of a range of asset classes.

The Trustee recognises that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

The assets of the Section consist predominantly of investments which are traded on regulated markets.

The Scheme's strategy is to invest according to the following broad target asset allocation:

Asset Class	Initial Strategy	Medium-Term Strategy
LDI & Cash	45%	45%
High-quality Credit (lower-risk ABS)	10%	11%
High-quality Credit (higher-risk ABS)	15%	22%
Equities	-	12%
Infrastructure	10%	10%
Private Debt	15%	-
Property	5%	-
Expected Return	Gilts+1.8%	Gilts+1.8%

The investment strategy will move from the 'Initial Strategy' to the 'Medium-Term Strategy' as the illiquid investments (Private Debt and Property) run-off over the next 3-4 years. The Scheme's allocation will maintain the same level of expected return.

Leverage and collateral management

The Trustee will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Section's liability hedging investments (LDI).

The Trustee has a stated collateral management framework. The Trustee has agreed a process for meeting collateral calls should these be made by the Section's LDI investment managers. The Trustee will review and stress test this policy / framework no less frequently than annually, or as soon as possible in the event of significant market movements.

Further details on this can be found in Appendix C.

Investment Management Arrangements

The Trustee has appointed several investment managers to manage the assets of the Section. The investment managers are regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

As the Section's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager.

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Section's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	<ul style="list-style-type: none"> • The Trustee receives a quarterly report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting. 	<ul style="list-style-type: none"> • There are significant changes made to the investment strategy. • The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations. • Underperformance vs the performance objective over the period that this objective applies
Environmental, Social, Corporate Governance factors and the exercising of rights	<ul style="list-style-type: none"> • The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues. • The Trustee receives information from their investment advisers on 	<ul style="list-style-type: none"> • The manager has not acted in accordance with their policies and frameworks.

	<p>the investment managers' approaches to engagement.</p> <ul style="list-style-type: none"> • The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually. 	
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Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

Employer-related investments

The policy of the Trustee is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Section invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Section's total asset value. The Trustee will monitor this on an ongoing basis to ensure compliance.

Direct investments

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

Date: 15 July 2025

Appendix A – Risks, Financially Material Considerations (including ESG and climate change) and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	Definition	Policy
Investment	The risk that the Section's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none">• Selecting an investment objective that is achievable and is consistent with the Section's funding basis and the sponsoring company's covenant strength.• Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Section assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none">• Funding risk is considered as part of the investment strategy review and the actuarial valuation.• The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Section.	<ul style="list-style-type: none">• When developing the Section's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Section is exposed to is at an appropriate level for the covenant to support.

The Section is exposed to a number of underlying risks relating to the Section's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Section assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge c. 100% of these risks to minimise funding level volatility on the Technical Provisions basis, taking into account liquidity constraints whilst ensuring compliance with all regulatory guidance in relation to leverage and collateral management.

Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to meet regulatory guidance around providing collateral to the LDI manager.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Section for the risk of default.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Section's investments.	<p>To aim to appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI signatory <p>The Trustee monitors the managers on an ongoing basis.</p> <p>The Trustee believes that climate change is a financially material risk and supports the transition to a net-zero carbon emissions economy. It has considered this when selecting investment funds.</p>
Currency	The potential for adverse currency movements to have an impact on the Section's investments.	To invest in funds that hedge the majority of currency risk as far as practically possible.
Non-financial	Any factor that is not expected to have a financial impact on the Section's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

Appendix B

The Trustee has the following policies in relation to the investment management arrangements for the Scheme:

<p>How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.</p>	<ul style="list-style-type: none"> • As the Section is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invest in a portfolio of pooled funds that are aligned to the strategic objective.
<p>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</p>	<ul style="list-style-type: none"> • The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • Where appropriate, the Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
<p>How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies.</p>	<ul style="list-style-type: none"> • The Trustee reviews the performance of all of the Section's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustee will evaluate performance over the time period stated in the investment managers' performance objectives, which is typically 3 to 5 years, once this track record becomes available. • Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.
<p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</p>	<ul style="list-style-type: none"> • The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
<p>The duration of the Scheme's arrangements with the investment managers</p>	<ul style="list-style-type: none"> • The duration of the arrangements is considered in the context of the type of fund the Section invests in. <ul style="list-style-type: none"> ○ For closed ended funds or funds with a lock-in period the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's

	<p>objectives and Section's liquidity requirements.</p> <ul style="list-style-type: none"> ○ For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
Voting Policy - How the Trustees expect investment managers to vote on their behalf	<ul style="list-style-type: none"> ● The Trustee has acknowledged responsibility for the voting policies that are implemented by the Section's investment managers on their behalf.
Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'	<ul style="list-style-type: none"> ● The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Section's investment managers on their behalf. ● The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually. <p>○</p>

Appendix C

Collateral management policy

At the time of writing, the Trustee is targeting a level of collateral over and above that within the Section's LDI funds that is sufficient to withstand (at least) one collateral call from each of the Section's LDI funds.

The Trustee will review the collateral management policy no less frequently than annually, or as soon as possible in the event of significant market movements.

The Trustees also have a framework for topping up the collateral.

Trigger	Action	Responsibility
Pooled LDI fund issues capital call	Assets sold from below collateral waterfall to meet capital call	LDI manager
When assets within the automatic collateral waterfall are exhausted	Consider asking sponsoring employer to provide a temporary liquidity loan or consider reducing the liability hedge	Trustee responsible for monitoring trigger and implementation

The latest collateral waterfall is set out below. Assets held with the same manager as the LDI mandate are shown in bold, reflecting the lower governance burden on the Trustee.

Manager	Asset Class	Dealing frequency	Notice period	Settlement period
LDI Manager	ABS – Fund 1	Daily frequency	Accessed automatically by LDI manager.	
	ABS – Fund 2	Daily frequency		