NATIONAL GRID ELECTRICITY GROUP

Annual Report and Financial Statements 2021

nationalgrid

MESSAGE FROM THE CHAIR OF THE GROUP TRUSTEE

I am pleased to introduce the National Grid Electricity Group (the Group) of the Electricity Supply Pension Scheme (the Scheme) Annual Report and Financial Statements for the year ended 31 March 2021 (Scheme Year).

Long-Term Funding Objective

Following the conclusion of the 2019 Actuarial Valuation, the Group Trustee and its advisers have undertaken a review of the Group's long-term approach to funding, known as a Long-Term Funding Objective (LTFO). Considering the valuation, the strength of the Company covenant and the revised Recovery Plan agreed by the Company and the Group Trustee, an in-depth analysis of the Group's investment strategy has been carried out and with the assistance of its advisers, the Group Trustee has agreed upon an updated LTFO and corresponding investment strategy.

The Group Trustee has subsequently made a number of key decisions, including:

- Risk – the pace of de-risking from higher-risk funds like equities has been revised.
- Investment types – the allocation to equities has been reduced and hedge funds have been removed from the Group's portfolio. New asset classes have been introduced to provide a more efficient risk versus return portfolio.
- Timeframe – the target to reach full funding has been revised from 2027 to 2029.

Group Trustee Changes and 2021 Election

As reported in the 2020 Annual Report and Financial Statements, there were a couple of changes to the Board. Sue Adam, an Appointed Trustee since 1 October 2016, stepped down on 2 July 2020 following her resignation from the Company. In addition to general trustee duties, Sue had also served on the Communications Committee.

Richard Smith, an Elected Trustee since 1 April 2018, stepped down from the Board on 2 July 2020, having also left National Grid. Richard served on the Board and was also a member of the Investment Committee and the 2019 Actuarial Valuation Working Groups.

As Richard stepped down before the end of his term of office, the procedure for the appointment of Elected Trustees allowed for a replacement to be selected from the Panel. Under the 2018 election process, Paul Hernaman was selected and appointed as an Elected Trustee with effect from 3 July 2020. Paul will serve the remainder of Richard Smith's term of office.

In addition to Paul joining the Board, Roisin Quinn was appointed by the Company as the replacement for Sue Adam with effect from 3 July 2020.

The 2021 Group Trustee election campaign was successfully completed during the Scheme Year. The election sought to fill the vacancies on the Group Trustee Board that arose as a result of the terms of office for the Elected Trustees Graham Commons, Philip Johnson and John Ong coming to an end in March 2021. All three decided to stand for re-election.

Nominations were sought from Contributing and Pensioner members to fill the vacancies and a concerted communications campaign was carried out to engage members with the election process and to invigorate their interest in the Trustees who govern their pension scheme. I am pleased to say that there was strong interest from eligible members and the candidates who stood for election were of a very high calibre. I would like to extend my sincere thanks to all those who took the time to put themselves forward, together with those members who took part in the voting. I can report that collectively 32% of the Contributing and Pensioner membership voted online and by post in the election this time.

In preparation for the 2021 election, the Group Trustee decided to remove the Contributing and Pensioner ballots and allow for one overall ballot. Graham Commons and John Ong were both directly elected to the Group Trustee Board, and Philip Johnson was selected from the remaining candidates by a Selection Board comprising the three Elected Trustees not involved in the election process. All three successful candidates were appointed with effect from 1 April 2021 and will be in post for a maximum term of five years.

I would like to congratulate Graham, John and Philip on their re-appointments, together having served for over 30 years on the board, and who will provide continuity, extensive knowledge of the pension arrangements and skill sets which complement the other members of the Group Trustee Board.

Further details were reported in the Summer 2021 edition of *Pensions brief* and were also posted on the Group website www.ngeg.nationalgridpensions.com.

Further information about the Group Trustee can be found on page 8 of this report.

Panel Members

As I have previously noted, the purpose of the Panel is to provide additional skills and knowledge to support the work of the Board, whilst having the opportunity to build on their experience and learn more about trustee matters. The Panel also provides a possible source of succession should a Group Trustee step down from the Board and proved to be invaluable when Richard Smith stood down in 2020.

During the Scheme Year, the following individuals served as Panel Members:

- Paul Hernaman (April – July 2020)
- Henry Lu
- Alun Robinson
- Anthony Salisbury

I would like to take this opportunity to thank all the Panel Members for their commitment and hard work over the past year and the significant contribution they have each made in their individual capacities to the work of the Group Trustee.

Following the results of the 2021 Election, the Group Trustee has formed a new Panel of candidates who stood for election but who were not directly elected/selected. With effect from 1 April 2021 the Panel Members are:

- Henry Lu
- Yogesh Nakarja
- Alun Robinson
- Anthony Salisbury

Yogesh is new to the Panel and I would like to extend a warm welcome to him as well as congratulating Henry, Alun and Tony on their re-appointment.

Funding Level & Investment Performance

Overall, the Group's invested assets (excluding Additional Voluntary Contributions and the longevity swap) increased by £209.3m over the year to give a total portfolio value of £3,414.4m as at 31 March 2021. Much of the negative performance from the Group's investments during March 2020 was reversed during the remainder of 2020. This resulted in the Group's funding level on the Technical Provisions basis improving over the year, increasing from 90.5% to 99.4% as at 31 March 2021. The Group's asset portfolio has shown strong resilience following the outbreak of Covid-19.

The proceeds from the phased disinvestment from the hedge fund mandate with JP Morgan together with the annual company contribution in September 2020, continued to cover regular cashflows for the Group. The Group Trustee agreed to implement a tactical allocation to opportunistic private credit with a view to taking advantage of some of the market dislocations arising from the global pandemic. A commitment of £106.0m of Group assets was made to the HPS Credit Fund IV in September 2020 although only £33.0m had been drawn by the Year end.

Following the completion of the 2019 Actuarial Valuation, the Group Trustee updated the long-term funding target and conducted a triennial review of the investment strategy resulting in setting a revised strategic asset allocation in mid-March 2021. This review considered both the return needed to achieve the long-term funding target and the risks associated with the investment strategy needed to achieve it, including liquidity/cashflow risk. The new strategic allocation is in the process of being implemented and is expected to take shape over 2021/2022 given the more illiquid nature of the new asset classes being introduced.

Investment Strategy & Risk Management

The Group Trustee undertook a review of the Group's Long-Term Financial Objective (LTFO) and its investment strategy in the year to 31 March 2021 following completion of the 2019 actuarial valuation. The agreed LTFO targets a prudent funding level, with a time horizon to reaching full funding by 2029. The approved investment strategy will diversify the Group's risk exposures by switching some of the global equity investments into new asset classes such as Property Debt and Direct Lending as well as an allocation to tactical credit as mentioned above.

The Group Trustee also approved a new de-risking flight plan, with new funding level triggers to de-risk the Group as the funding level improves. In addition, the Group Trustee agreed an updated Statement of Investment Principles, which includes principles governing decisions about investments of assets of the Group and monitoring the Group's investment strategy with help of the Group's investment adviser.

In 2020, the Group Trustee reviewed the Group's investment advisory service provided by Aon to ensure the Group was receiving appropriate levels of service and advice. The Group Trustee confirmed it remains comfortable with the level of service and reaffirmed Aon's appointment as investment advisers. Finally, the Group Trustee continues to develop its approach to Responsible Investment (RI) and plans to build up its current RI Policy during 2021, including further consideration of Environmental, Social, and Governance-related risks in the portfolio.

Brexit

As we are all aware, the United Kingdom (UK) ceased its membership of the European Union (EU) on 31 January 2020 and the formal transition period ended on 31 December 2020, with new rules governing the relationship between the UK and EU taking effect from 1 January 2021. The Group Trustee has kept the situation under review since the referendum in 2016 and has taken advice on the possible impacts on the Group's investment strategy and risk management.

Member options

The Group Trustee recognises that it is very important that Group members are able to make informed decisions about their options at retirement, and to ensure as far as possible, that they are safeguarded from receiving inappropriate or fraudulent advice. To assist with this, the Group Trustee agreed that members who are interested in exploring their options outside the Group should have access to a dedicated Independent Financial Adviser.

During the Scheme Year WPS Advisory Ltd (WPSA) was appointed by the Group Trustee to provide this service to members who are approaching their Normal Pension Age, or who wish to consider accessing their benefits and will give them the opportunity to access, independent financial advice to support their decision making.

WPSA receives the same fees regardless of the recommendations it makes and is completely independent of the Group Trustee, the Company, RPMI, and the Electricity Supply Pension Scheme.

If this affects you, RPMI will contact you closer to the time you are approaching being able to access your benefits with the information you need to start the process. For eligible members, initial advice from WPSA will be funded by the Group.

Covid-19

Since early 2020, every one of us has had our lives subjected to unprecedented constraints and restrictions owing to the effects of the Covid-19 pandemic, some more so than others. If you have been directly affected by Covid-19 or suffered the loss of a loved one during this time, our thoughts are with you. On a personal front, it has imposed significant changes to the way we all live our lives and how we interact with family and friends. On a work front, it has meant the Group Trustee, its support team and its advisers have all had to adapt quickly and efficiently to a different way of working and managing the Group.

The Group Trustee is acutely aware of how reliant Group members are on the Board for safeguarding their benefits and making sure that pensions are paid accurately and on time. This has always been and will always remain the Board's top priority; everything it does is carried out to ensure the future provision of members' benefits. Throughout the Scheme Year, the Group Trustee has worked with its administrator, RPMI, to ensure pensions have been paid on time each month and that the member experience has not been negatively impacted by the pandemic. I would therefore like to thank all Group members for their patience during these times.

During the initial months of the pandemic when there was volatility in the global markets, the Group Trustee closely monitored the potential impact on the Group's funding and investments, with the assistance of its support team and investment adviser and agreed to make no changes to the investment strategy at the time. Throughout the Scheme Year, the Investment Committee, on behalf of the Group Trustee, has continued to monitor the situation with the assistance of its advisers. The Group Trustee has also considered the potential impact on a going-concern basis, specifically looking at liquidity and the impact of Covid-19 on the sponsoring employers, and their ability to continue supporting the Group.

While I don't imagine any of us expected Covid-19 to impact our lives and change our way of living in the way it has and for so long, it is clearly evident that its impact will be with us for a few years yet. However, the past few months suggest that things are improving and it's hopeful that we'll return to some form of social normality soon.

Take care and stay safe.

Best wishes

Jon Carlton
Chair of the Group Trustee

SUMMARY OF THE YEAR

What Came In	**£m**
For the year to 31 March 2021	
Contributions receivable	80.5
Transfer values received	0.1
Net increase on investments	217.2
TOTAL	**297.8**

What Went Out	**£m**
For the year to 31 March 2021	
Pension and dependants' benefits	114.3
Payments to and on account of leavers	25.8
Administrative expenses	1.7
TOTAL	**141.8**

Statement showing value of Group Assets over the last five years

As at 31 March	**£m**
2021	3,356.9
2020	3,200.9
2019	3,220.2
2018	3,050.9
2017	3,010.3

Summary of membership statistics as at 31 March 2021

Contributors	738
Pensioners	4,646
Dependants	1,495
Deferred Pensioners	1,424
TOTAL	**8,303**

Statement of investments spread by category of investment as at 31 March 2021

Asset type	**% of Group assets**
Global Equities (active)	20.12%
Insight LDI	44.10%
Longevity Swap Collateral Portfolios	7.28%
Unconstrained Bonds	17.34%
Absolute Return Fund of Funds	3.16%
Property and Cash	7.03%
Currency Overlay	-0.10%
Private Credit	1.07%
TOTAL	**100.00%**

REPORT OF THE GROUP TRUSTEE

INTRODUCTION

This Annual Report & Financial Statements is produced by the Group Trustee for the members of the National Grid Electricity Group of the Electricity Supply Pension Scheme.

The Scheme is 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 Scheme has 26 (2020: 26) separate actuarially independent sections (known as 'Groups') in respect of each 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 & Financial Statements.

The Principal Employer of the Group is National Grid Electricity Transmission plc (the Company). National Grid UK Limited, National Grid Electricity System Operator Limited, and Elexon Limited are Participating Employers in the Group. The Principal and Participating Employers of the Group are collectively referred to as 'Employers' in this Report.

The Scheme is established under an irrevocable trust and its provisions are set out in the Clauses and Rules contained in the Scheme document. Membership has been closed to new employees since April 2006 for whom alternative arrangements have been put in place.

The Scheme is a registered pension scheme under the Finance Act 2004 and is also a tax registered scheme.

In the case of the National Grid Electricity Group, only Defined Benefit Arrangements apply where benefits are based on member's salary and length of service.

The Financial Statements on pages 37 to 52 have been prepared and audited in compliance with Regulations made under Section 41 (1) and (6) of that Act.

GROUP MANAGEMENT

The Group is administered by a trustee company – National Grid Electricity Group Trustee Limited (NGEG TL).

The Board of NGEG TL (the Group Trustee) is comprised of ten Directors (Trustees) - four appointed by the Company (Appointed Trustees) and six who are elected\selected by both members of the Group (Elected Trustees) and existing Elected Trustees.

The following were Trustee Directors during the Scheme Year:

Elected Trustees:

Ray Arrowsmith [1]	Ex-Asset Management, ETAM
Graham Commons [1]	Ex-Asset Management, ETAM
Paul Hernaman[1, 4]	Former Head of Finance Business Development
John Dyke [1]	Ex-Commercial Manager, Coventry
Philip Johnson [1]	Ex-Business Transition Manager, System Operator
John Ong [1]	Ex-UK Head of Employee Relations
Richard Smith [4]	Head of Commercial, System Operator

Appointed Trustees:

Jon Carlton (Chair) [1, 2]	Ex-Director, UK LNG and Metering
Sue Adam [4]	Head of UK Performance Delivery
Darren Pettifer	Chief Financial Officer of NGET
Roisin Quinn[4]	Chief Customer Connections Officer
Linda Ryan [1, 3]	Ex-Head of Corporate Audit

[1] In receipt of a pension from the Group.
[2] The Company asked Jon Carlton to remain as Chair of the Group Trustee following his retirement.
[3] The Company asked Linda Ryan to remain as Chair of the Investment Committee following her retirement.
[4] Richard Smith and Sue Adam both stepped down from the Board on 2 July 2020 following their respective resignations from National Grid. Paul Hernaman and Roisin Quinn both joined the Board on 3 July 2020.

In line with the Group Trustee Company's Articles of Association and Election process, Elected Trustees cease to be a Trustee at the end of their term of office (five years) or 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 Trustees whereas Appointed Trustees can only be removed from office by the Company. If a casual vacancy for an Elected Trustee arises it can be filled by a Panel Member in accordance with the Trustee's Election and Selection Process.

Voting rights of the Trustees are divided equally between the Elected and Appointed Trustees. The Chair has a casting vote in the event that a majority decision cannot be reached.

Changes to membership of the Group Trustee Board

There were two changes to the Group Trustee Board during the Scheme Year. As noted above, Richard Smith and Sue Adam stepped down from their respective positions on the Board on 2 July 2020. Roisin Quinn was appointed by the Company to replace Sue Adam whilst Paul Hernaman was selected from the Panel by the remaining Elected Trustees to replace Richard Smith as an Elected Trustee for his remaining tenure. Roisin and Paul both joined the Board on 3 July 2020.

2021 Group Trustee Election

In preparation for the 2021 election, the Group Trustee removed the Pensioner and Contributing member categories and in early 2021 the election was held for two Elected Trustees. Graham Commons and John Ong were both re-elected via the ballot and will each serve a further maximum five-year term of office.

A third Elected Trustee was chosen by the Group Trustee's Selection Board that comprised the three Elected Trustees not standing in the election. Philip Johnson was re-selected as an Elected Trustee and will also serve a further maximum five-year term. All three Elected Trustees new terms commenced effective 1 April 2021.

The next Group Trustee Election will take place in early 2023.

Panel Members:

During the Scheme Year, the following individuals served as Panel Members:

- Paul Hernaman*
- Henry Lu
- Alun Robinson
- Tony Salisbury

**Paul Hernaman was selected by the Elected Trustees on the Board to replace Richard Smith effective 3 July 2020.*

As part of the 2021 Group Trustee Election, a new Panel effective 1 April 2021 was formed by the Selection Board and comprised candidates who had not been successful in either the ballot or selection process. In addition to re-selecting Henry, Alun, and Tony, Yogesh Nakarja was also selected as a Panel Member.

Meetings of the Group Trustee during the Scheme Year

Group Trustee Meetings:

At its meetings, the Group Trustee deals with matters relating to the management of the Group, members' benefits, and funding and investment matters. It also receives periodic reports and presentations from its sub-committees and advisers.

In addition to these regular items of business, the Group Trustee maintains and monitors its risk and business plans throughout the year. The Group Trustee also holds an annual business planning day that it uses to review the work undertaken in the previous Scheme year and to discuss issues that are to be considered over the next Scheme year.

The Group Trustee continues to communicate with members on key issues affecting the Group via its newsletter, *Pensions brief*, and via the Group's website, which holds copies of important documents including this report: www.ngeg.nationalgridpensions.com

During the Scheme Year, all four quarterly meetings of the Group Trustee were held via video conference due to the restrictions introduced in response to Covid-19. The Group Trustee also held two ad hoc Board meetings and the annual Business Planning Day (September 2020) and Training & Strategy Day (December 2020). Due to the low level of interest shown, a virtual 'Meet the Group Trustee' event did not take place during the Scheme Year.

Each Panel Member attends one quarterly Board meeting each year on a rotational basis.

Trustee Committees:

In addition to the meetings of the Group Trustees, certain matters were subject to detailed consideration in Trustee Committees. During the year the Trustee Committees comprised the Investment Committee, Discretions Committee, and Communications Committee.

- **Investment Committee**

  The Investment Committee consists of two Appointed Trustees and two Elected Trustees. A Panel Member also attends, on a rotational basis.

During the Scheme Year, the Appointed Trustee Committee members were Linda Ryan and Darren Pettifer. The Elected Trustee Committee members were Ray Arrowsmith and Richard Smith. When Richard stepped down from the Board in July 2020, Paul Hernaman replaced him on the Committee.

The main aim of this Committee is to allow the Group Trustee to deal with investment matters in an effective manner, and to ensure sufficient time is available for investment issues to be properly addressed. The Committee also acts as the main interface with investment managers, allowing Committee members to develop an in-depth knowledge and understanding of investment matters.

During the Scheme Year, the Committee held four quarterly meetings plus two special meetings and four additional ad hoc meetings.

- **Discretions Committee**

The Discretions Committee core membership consists of a Group Trustee Director and the Group Administrator; however, a Senior member of Trustee Services may take the place of the Group Administrator.

A further Group Trustee Director (either Appointed or Elected) participates in the Committee by rotation through the other Trustees who are not core members of the Committee.

During the Scheme Year, Adele Nairn was the Group Administrator and the core Trustee Committee member was Graham Commons.

The Discretions Committee considers matters via correspondence or convenes meetings as necessary, on an ad hoc basis, to consider discretionary cases, including Rule 22, overpayment, dependants' pensions, and ill-health cases.

- **Communications Committee**

The Communications Committee consists of a minimum of one Appointed Trustee and one Elected Trustee.

During the Scheme Year, the Appointed Trustee member was Sue Adam and the Elected Trustee member was John Ong. After Sue stepped down from the Board in July 2020, Roisin Quinn was appointed to the Committee as a replacement.

The main aim of the Communications Committee is to allow the Group Trustee to deal with communication matters in an effective manner and to ensure sufficient time is available for member communication issues to be given due consideration.

During the Scheme Year, the Committee held four quarterly meetings.

Trustee Training

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for the Group Trustee to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets, and other matters to enable them to exercise their functions as Trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.

The Group Trustee reviews its training provision against the Trustee Development Plan (the Plan). The Plan formalises the training and development opportunities for the Group Trustee, both new and experienced, and sets out its commitment to training. The Plan includes a Skills Framework, which allows the Trustees to assess themselves against the Pension Regulator's (tPR) Trustee Knowledge and Understanding (TKU) requirements.

The Trustees are provided with training opportunities including training on topical issues where a need is identified. In addition, the Trustees are required to complete the online learning modules, the 'Trustee Toolkit', available from tPR. All Group Trustees in office during the Scheme Year had completed the Pensions Regulator's Trustee Toolkit. New Trustees are required to complete this within six months of taking office.

During the Scheme Year, the Trustees completed a total of 238 hours training, broadly equivalent to 34 days. Of this, 126 hours were investment specific, equivalent to 18 days.

Covid-19

Following the outbreak of Covid-19 in the UK early last year and its widespread impact on how people live and work, the Group Trustee, in conjunction with its support team and appointed advisers / service providers, has carried out a significant amount of work to identify any potential risks to the Group due to the pandemic. The Group Trustee has also sought to understand and, where necessary, worked to ensure that steps have been taken to mitigate any potential exposure to protect the security of the Group, its funding, and members' benefits.

The Group Trustee identified and prioritised the risks to service delivery, including paying pensions to members, in addition to the Group's security and funding. With the assistance of the Group Trustee's support team and advisers, the Group Trustee continued its risk management approach and incorporated any additional risks and mitigating actions arising due to Covid-19 into the existing risk management framework. The Group Trustee already had an Emergency Protocol in place which has been supplemented by the development of an Emergency Protocol for the Investment Committee.

The Group Trustee has focussed on the following key areas:

- Operational — from the outset of the pandemic, the Group Trustee sought information from its advisers regarding their ability to continue to operate and provide a service to the Group despite the restrictions imposed because of the pandemic. This has been monitored on an ongoing basis and all advisers continue to provide services largely as normal following the implementation of their business continuity plans to facilitate remote working.
- Communication — during the first few months of the pandemic news items were uploaded to the Group's website and emails sent to all members registered to the website to reassure members that the Group Trustee was closely monitoring the situation and ensuring the Groups' pensioners would continue to receive their monthly pension payment. An article was also included in the Summer 2020 edition of *Pensions brief* and the Group Administrator maintained the helpline throughout the different periods of lockdown and beyond to continue to assist Group members.
- Trustee effectiveness — the Group Trustee has adapted and evolved its way of working to suit the circumstances during the pandemic and has successfully transitioned to video and teleconference meetings in order to facilitate the effective running of the Group. Additional meetings, particularly of the Investment Committee, have been held as necessary to understand and mitigate potential risks posed to the Group as a result of the pandemic and its impact on global markets. The Investment Committee also developed an Emergency Protocol to ensure that it could mobilise quickly and effectively to consider any significant events arising outside of normal day to day business that could materially impact on the management or funding of the Group.
- Covenant — the Group Trustee has worked closely with its covenant advisers to understand and monitor the ongoing impact of Covid-19 on the strength of the employer covenant. The Group Trustee's outgoing covenant adviser did not revise their overall covenant assessment as a result of the impact of Covid-19 and the new adviser has not indicated that the pandemic has materially affected the Company's ability to support the Group. It was agreed at the 2019 valuation that the Group's security arrangements, which are designed to protect the Group if the covenant deteriorates in future, will remain in place until 31 March 2029. The Group

Trustee will continue to monitor the employer covenant with support from its advisers and support team, as well as the circumstances that would trigger additional funding into the Group through the contingent security arrangements.

- Investments — The Group has a well-diversified portfolio of assets that is specifically designed to guard against volatility and market fluctuations. Therefore, whilst the initial fall in markets in March 2020 had some impact on the Group, the Group portfolio has subsequently recovered and improved on its position.
- Funding — advice was sought from the Group Actuary who confirmed that the funding position had not seen a material change due to Covid-19. The Group Trustee continues to monitor the situation.
- Liquidity — the Investment Committee already closely monitored the Group's cashflow position prior to the pandemic through its cashflow policy and has continued to do so. The policy operates to ensure that sufficient funds are available in the event that they are required and was stress tested for extreme scenarios and was still found to be robust.

Although the impact of the Covid-19 pandemic lessened to some degree during the year, its overall impact on investment managers' operations and control environments is being continuously monitored. The Group's investment managers were able to issue valuations as at 31 March 2021 and none of those valuations were issued with a Material Valuation Uncertainty clause. Additionally, there were no funds which had suspended trading or had placed restrictions on the funds under their management at the year-end due to the pandemic or for any other reason. Confirmation was sought from investment managers that their control environments (including those of their administrators) continued to operate effectively and that there were no issues concerning their operational activities.

Group Trustee's Statement on Investments

The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 requires Group Trustees to provide a statement of the Group Trustees' policy (if any) in relation to investments and the extent to which Social, Environmental and Ethical considerations are taken into account in the selection, retention and realisation of investments. A similar Statement must also be documented in the Statement of Investment Principles (SIP).

The Group Trustee recognises that social, environmental and governance considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale.

On 1 October 2019 new requirements came into force regarding a pension scheme's SIP. A SIP must include the trustees' policy relating to the exercise of the rights attaching to the investments, including voting rights, and engagement activities of investments. Additional changes were made to the SIP by 1 October 2020, the same date on which the Group's SIP was made publicly available on the Group's website.

In accordance with the Disclosure Regulations Schedule 3, 30(d)(iv) Investment Regulations 2(3)(d), from 1 October 2020 the Group Trustee have set out in their SIP their policies in relation to the following matters:

- how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Group Trustee's policies mentioned in sub paragraph B of the Investment Regulations;
- how that arrangement incentivises the asset manager to make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long term;

- how the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Group Trustee's policies mentioned in sub paragraph b of the Investment Regulations;
- how the Group Trustee monitors portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range; and
- the duration of the arrangement with the asset manager.

The Group Trustee's Engagement Policy Implementation Statement, which sets out further voting and engagement information undertaken by the Group's investment managers for the year ended 31 March 2021, is set out on pages 60 to 77, and forms part of the Group Trustee's Report.

Statement of Group Trustee's Responsibilities

The Group Trustee's 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 trustee. Pension scheme regulations require, and the group trustee is 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 trustee is 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 trustee is also responsible for making available certain other information about the group in the form of an annual report.

The group trustee has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it 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 trustee is also responsible for the maintenance and integrity of the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Group Trustee's responsibilities in respect of contributions

The group trustee is 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 trustee is 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 trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

Additional Group Trustee Responsibilities:

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

The main additional responsibilities of the Group Trustee 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 Company;
- to prepare and agree with the Company, a Statement of Funding Principles, which includes the actuarial assumptions used to assess the Group's liabilities;
- to prepare and agree a Recovery Plan with the Company for making good any shortfall in assets against liabilities identified in periodic actuarial valuations;
- to make available to members annual funding updates on the financial position of the Group;

In carrying out its work the Group Trustee must always act impartially and in the best interests of all the members of the Group.

To assist it in its work, the Group Trustee has appointed a team of professional advisers whose advice must be taken into account when necessary. The advisers include lawyers, actuaries, investment consultants, and investment managers. Their details are set out on page 53. In addition, the Group Trustee is supported by Trustee Team Partnership – a dedicated team of specialists covering finance, investment, governance, and operations.

The Group Trustee is also responsible for the maintenance and integrity of the Group's website, which can be accessed via www.ngeg.nationalgridpensions.com.

Scheme Trustee Responsibilities and Constitution:

The central Scheme Trustee, EPTL, is a trust corporation and consists of a Council and a smaller board of Directors. The main responsibilities of the Scheme Trustee (EPTL) are:

- to ensure the safe custody and administrative control of assets;
- to produce the Scheme Report and Financial Statements on an annual basis, and;

Each Group appoints two individuals to be Councillors of the Council; one Councillor is chosen by the Elected Trustees, and one by the Principal Employer. At 31 March 2021 Graham Commons and Nikki Dark were respectively the Elected and Appointed Councillors of the National Grid Electricity Group.

The Council is responsible for the appointment of a smaller Board of eight Directors, selected from their number under the following criteria:

a) Four Directors must be Councillors chosen by Elected Group Trustees; and
b) Four Directors must be Councillors chosen by Principal Employers.

The Board also has an Independent Chair. Until 31 December 2020 this was Capital Cranfield Trustees Limited, who were normally represented by Joanna Matthews. From 1 January 2021 PTL Governance Limited was appointed, represented by Melanie Cusack.

As at 31 March 2021 Graham Commons of the NGE Group was a Director on the Board. The Council has also chosen a panel of four Reserves who may attend Board meetings as observers, but they do not have any voting rights at these meetings. Two are chosen by the Elected Group Trustees and two by the Principal Employers. There were no NGE Group Reserves represented on the Board.

Following the Council meeting in November 2020, the Principal Employer nominated Nikki Dark as its Director. Nikki Dark will continue in this role until the November 2022 Council meeting. Graham Commons was re-elected at the November 2020 Council meeting and will serve as a Director until the November 2022 Council meeting.

Changes in Scheme Provisions

From time to time there may be a need to amend the provisions of the Scheme or the provisions as they apply to the Group only.

Scheme wide amendments:

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 Scheme Year ended 31 March 2021 no Scheme-wide amendments were made.

Group Amendments:

National Grid Electricity Transmission plc, the Principal Employer, may make amendments to the provisions of the Scheme as they apply to the Group. During the Scheme Year ended 31 March 2021 no Group amendments were made.

Review of the Operation of the ESPS

- The appointment of a new independent Chair, Melanie Cusack, who replaced Joanna Matthews.
- The Scheme's AGM took place on 23 November 2020 and was held virtually by video conferencing.
- The Board continued to monitor risks through its Risk Register, which is considered at each main meeting. The risks considered included Covid-19 implications and the effect on the suppliers of services.
- Work on the consolidation of the Scheme Document was approved.
- A new contract with the custodian, The Bank of New York Mellon, was negotiated and signed.
- The new ESPS website went live on 28 September 2020 - www.espspensions.co.uk
- An updated EPTL Statement of Investment Principles was approved and published on the ESPS website.
- The Carillion situation continued to be monitored.

The General Data Protection Regulation (GDPR)

The European Union (EU) General Data Protection Regulation (GDPR) came into force on 25 May 2018 in order to harmonise data privacy laws and applies directly in the UK. Although the key principles of data privacy remain, there are some fundamental changes to the requirements surrounding data protection.

Compliance with GDPR is obligatory and although the UK has left the EU, the European Commission has agreed that personal data may continue to flow from the EU to the UK for at least the next four years, when the EU will review the UK's level of data protection.

The GDPR sets out eight data protection principles which govern the way that personal data is obtained, stored, used and shared; it also sets out the conditions subject to which personal data may be processed.

Personal data must:

- be processed fairly and lawfully (including meeting appropriate conditions);
- be obtained and processed for specified and lawful purposes and is not processed in any manner incompatible with those purposes;
- be adequate, relevant and not excessive in relation to the processing purpose;
- be accurate and kept up-to-date;
- be kept no longer than is necessary;
- be processed in accordance with the rights of data subjects;
- ensure that appropriate technical and organisational measures must be in place to protect against unauthorised or unlawful processing, and against accidental loss or destruction of personal data; and
- not be transferred to a jurisdiction that does not offer and adequate level of protection.

The Group Trustee has conducted a review of the level and type of personal data held by its service providers and the processes those providers have in place to ensure the security of personal data.

The Group Trustee has updated the Group's Privacy Notice and put the following policies in place to ensure compliance with GDPR:

- Data protection
- Data breach
- Consent
- Document retention and information security
- Electronic device acceptable use
- Data rights.

ADMINISTRATION REPORT

Membership Statistics for the year ended 31 March 2021

	Contributors	Pensioners	Dependants*	Deferred Pensioners	Total
At 31 March 2020	**792**	**4,708**	**1,520**	**1,447**	**8,467**
Adjustments to opening balance	(6)	12	3	62	71
Adjusted opening members	**786**	**4,720**	**1,523**	**1,509**	**8,538**
Retirements	(30)	97	-	(67)	-
Deaths	(1)	(171)	(114)	-	(286)
Leavers with deferred pensions	(17)	-	-	17	-
Leavers with refunds of contributions/transfers to other schemes/cessation of child allowances	-	-	(1)	(35)	(36)
New dependants	-	-	87	-	87
At 31 March 2021	**738**	**4,646**	**1,495**	**1,424**	**8,303**

**Includes spouses, dependants, and children in receipt of a pension from the Group.*
***There were no transfers in or out from other ESPS Groups.*
****One member was in receipt of a pre-vesting insurance policy during the Scheme Year. Further information can be found in Note 15.*

The adjustments to the opening balance are due to retrospective changes following late notification of movements.

As at 31 March 2021 there were 58 deferred pensioners (2020: 58) who were entitled to a frozen benefit, equivalent to the relevant State Graduated Pension Scheme benefit, in respect of service prior to 1975. These members were previously reported separately but are now included in the above membership statistics.

Pension Increases

The Clauses and Rules of the Scheme, applicable to the Group, provide for all pensions in payment, child allowances, and deferred pensions, to be increased on an annual basis on 1 April each year. The rise is 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% National Grid Electricity Transmission plc has the discretion to limit the pension increase to a lower figure subject to a minimum of 5%.

The pension increase applied from 1 April 2021 was 1.1% in line with the RPI increase for the 12 months to 30 September 2020. A proportionate increase was applied to pensions which came into payment between 2 April 2020 and 1 March 2021.

Pension increases over the previous five years were:

Pensions in payment:

1 April 2020	2.4%
1 April 2019	3.3%
1 April 2018	3.9%
1 April 2017	2.0%
1 April 2016	0.8%

Transfers from the Group

Deferred Pensioners can transfer the cash equivalent of their deferred benefits to another approved 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.

The Group Trustee is making no allowance in the calculation of cash equivalents for discretionary pension increases where RPI exceeds 5% in any year.

GMP Equalisation

The Group has undertaken a process of assessing the overall impact of the October 2018 ruling regarding GMP Equalisation and based on an initial assessment by the actuary, an estimate of £6.0 million has been determined for the full liability. The Group Trustee has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year in which they are determined.

On 20 November 2020, the High Court handed down a further judgment on the GMP equalisation case in relation to the Lloyds Banking group pension schemes. This follows from the original judgement in October 2018. This latest judgment confirms that defined benefit schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Group has historical transfers which may be subject to adjustment as a result of this second ruling. The Group Trustee will be considering this at a future meeting and decisions will be made as to the next steps. Any adjustments necessary will be recognised in the financial statements in future years. At the date of signing these financial statements, it is not possible to estimate the value of any such adjustments.

INVESTMENT REPORT FOR THE SCHEME YEAR

Investment Strategy and Statement of Investment Principles

The Group Trustee determines its investment strategy based on advice received from Aon which takes account of the Group's current and anticipated future pension liability profile. As a result, the Group has exposure to risks because of the investments it makes in following its investment strategy. This strategy considers the Group's investments in the following categories:

- **Return-seeking assets:** Predominantly equities, credit assets, hedge funds and property, where the objective is to achieve growth within the constraints of the risk profile set by the Group Trustee; and

- **Liability-driven assets:** Predominantly LDI funds (gilts and swaps) where the objective is to secure a fixed or inflation-adjusted cash flows in future, and where the investments are generally expected to be held to maturity.

The Group Trustee manages investment risks, including credit risk and market risk, within agreed risk limits implemented through the investment agreements in place with the Group's investment managers, and monitored by the Group Trustee by regular reviews of the investment portfolio. For further information see Note 20 of the Financial Statements on pages 47 to 50.

The Group Trustee has produced a Statement of Investment Principles (SIP) in accordance with Section 35 of the Pensions Act 1995. In preparing the SIP the Group Trustee took professional advice from Aon and consulted with the Company.

The SIP covers the Group Trustee's policy on the following matters:

(a) ensuring compliance with the current investment requirements;
(b) investment objectives and overview of strategy;
(c) investment beliefs;
(d) risk;
(e) realisation of investments; and
(f) social, environmental and ethical investment considerations.

The Group Trustee is not aware of and has not been informed by the fund managers of any departures from the SIP during the Scheme Year.

A copy of the SIP is available on the Group website www.ngeg.nationalgridpensions.com or alternatively, it can be obtained by writing to the Group Administrator, whose contact details appear on page 58.

Investment Arrangements

The Group Trustee is responsible for making suitable arrangements for the investment of the assets of the Group and for monitoring the investment performance of those assets.

The Group Trustee has considered the nature, disposition, marketability, security and valuation of the Group's investments and consider them to be appropriate relative to the reasons for holding each class of investment.

Group Appointed Fund Managers:

As at 31 March 2021 the names of the fund managers appointed by the Group Trustee, the investment portfolio(s) they manage, and the amounts under their management were:

Fund Manager	Appointment Date	Type of Portfolio	AUM (£million)
Walter Scott & Partners	28 May 2010	Active Global Equities	356.5
Aon Investments Limited (AIL)*	11 May 2017	Active Global Equities	330.4
Goldman Sachs Asset Management	14 February 2015	Total Return Bonds	190.9
PIMCO	8 May 2019	Absolute Return Bonds	189.2
Insight Investment	31 March 2014	Absolute Return Bonds	211.8
Insight Investment	18 November 2013	Liability Driven Investment (LDI)	1,505.8
Insight Investment	2 March 2017	Currency Overlay	(3.4)
Insight Investment	5 March 2018	Longevity Swap Collateral**	248.4
JP Morgan Alternative Asset Management	1 December 2012	Absolute Return Fund of Funds	12.4
Lighthouse Investment Partners	1 June 2017	Absolute Return Fund of Funds	95.4
BlackRock	28 February 2014	UK Property	104.8
CBRE Global Investors Limited	1 December 2016	UK Property	101.5
HPS Investment Partners	25 September 2020	Opportunistic Private Credit	37.6
State Street Global Advisors Limited	1 July 2005	Liquidity Fund	33.8
Insight Investment	28 June 2016	Liquidity Fund	0.1
Total			**3,415.1*** **

Source: BNY Mellon, Insight and JP Morgan

**Formerly known as Hewitt Risk Management Services Limited. Name change effective 11 June 2020.*
***The longevity swap collateral account(s) form part of the Liability Driven Investment (LDI) portfolio but have been presented separately above for clarity and these assets are covered by the LDI benchmark and performance objectives detailed on the next page.*
****Difference of £0.1m between the Total and the aggregate of the individual funds due to rounding.*

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

The performance objectives set for each of the above portfolios were:

Mandate	Benchmark	Outperformance	Assessment
Walter Scott Global Equities	MSCI All Countries World	RPI + 7-10% pa (gross of fees)	Annual
AIL Global Equities	MSCI World	Benchmark + 2.0% pa (net of fees)	Annual
GSAM Total Return Bonds	Three-month GBP LIBOR	Benchmark + 4-5% pa (gross of fees)	Annual
Insight Bonds Plus	One-month SONIA	Benchmark + 2% pa (gross of fees)	Rolling three years
Insight LDI	76.0% PV01, 76.0% IE01[1]	Outperformance of benchmark	Continuous
PIMCO Absolute Return Bonds	Three-month GBP LIBOR[2]	Benchmark + 3-4% pa (net of fees)	Continuous
JP Morgan Absolute Return Fund of Hedge Funds	Three-month US Treasury Bills	Benchmark + 5-7% pa (net of fees)	Market cycle (c. five-year periods)
Lighthouse	One-month GBP LIBOR	Benchmark + 5% pa (net of fees)	Annual
BlackRock UK Property	Association of Real Estate Funds/Investment Property Databank All Balanced Property Fund Index	Outperformance of average of similar institutional pooled commercial property funds (gross of fees)	Continuous
CBRE Global Investment - UK Property	Association of Real Estate Funds/Investment Property Databank All Balanced Property Fund Index	Outperformance of benchmark	Continuous
HPS Investment Partners	50% Credit Suisse Leveraged Loan Index, 50% Credit Suisse High Yield Index	Net Internal Rate of Return 12-15% p.a.	Over lifetime of the fund

Notes

1. *The Group Trustee took the decision not to hedge the Liability Proxy in full based on the prevailing funding position of the Group. Instead, the Group Trustee has set a strategic target hedge ratio to protect against a set proportion of the interest rate exposure (PV01) and of the inflation exposure (IE01) of the Liability Proxy which increases in line with their flight plan arrangement. This forms the Insight Benchmark, which Insight aims to outperform over the long term. At 31 March 2021, the target hedge ratios for interest rate and inflation were 76.0%.*
2. *PIMCO quote their objective as aiming to 'seek maximum long-term return consistent with preservation of capital and prudent investment management'. The objective in the above table is Aon's view of what the manager can achieve.*

See Notes 10 and 14 to the Financial Statements for details of the allocation of Group assets as at 31 March 2021.

The following changes were undertaken over the Scheme Year:

Tactical credit implementation

Following the appointment of HPS Investment Partners in September 2020, in October 2020 the Group implemented a tactical allocation to opportunistic private credit by investing in HPS Credit Fund IV with a view to taking advantage of market dislocations following the outbreak of Covid-19. The Group committed £106.0m (c3% of Group assets). As at 31 March 2021, the Fund had invested £33.0m of the Group's commitment.

Change of structure for the AIL Global Equity Fund

Effective from 4 December 2020, the Group's equity holdings with AIL were transferred from the Adept Strategy 1 Fund to the Aon CCF Global Equity as the CCF's tax transparent structure is expected to be advantageous to the Group.

Interest rate and inflation hedge extension

Insight restructured the LDI portfolio to incorporate a new set of liability cashflows and the new benchmark came into effect on 1 December 2020. This change, along with reaching a de-risking trigger as the Group’s funding improved, resulted in the portfolio's target interest rate and inflation hedge ratios increasing from 70% to 76%.

Investment strategy review

Following the completion of the 2019 triennial actuarial valuation, the Group Trustee finalised the review of the Group's investment strategy in March 2021, and a new long-term funding objective was agreed with the aim of reaching a point of low dependency on the sponsoring employer by 2029. The Group Trustee agreed to remove the strategic allocation to hedge funds and add some new asset classes to the portfolio to broaden the sources of return. The de-risking framework was also reviewed, and the flight plan has been updated to reflect the Group Trustee's objectives. Implementation of the agreed strategy changes is currently underway, and this is expected to be completed in 2021. Further details can be found in the Group's Investment Policy Implementation Document.

Fund Manager Appointments

After the end of the Scheme Year, the Group Trustee appointed two new fund managers. CVC Capital Partners (Direct Lending related investments) and KKR Co. Inc. (Infrastructure related investments) were appointed on 8 June 2021 and 24 June 2021 respectively.

Investment Performance

The Group Trustee assesses the performance of the Group’s investments in the following categories consistent with the overall strategy:

- Return-seeking assets are assessed by reference to benchmarks and performance targets set and agreed with each manager; and

- Liability-driven assets are compared with benchmarks, but the Group Trustee's main concern is security of cash flows, and therefore growth in these assets (which is normally linked to growth in Group liabilities, or vice versa) is less relevant.

The Group Trustee receives quarterly reports from its investment advisers showing actual performance by manager and fund. Investment managers present reports as required each year, to report on compliance with their agreements and to be questioned by the Group Trustee.

Performance of the Group's investments (where invested for at least one year) is summarised on the next page.

Annualised return over	1 year – fund (%)	1 year – benchmark (%)	3 year – fund (%)	3 year – benchmark (%)	Allocation (%)
Walter Scott Global Equities	31.0	38.9	16.6	12.7	10.4
AIL Global Equities	43.8	38.4	13.7	13.4	9.7
GSAM Total Return Bonds	14.3	0.2	2.3	0.6	5.6
PIMCO Absolute Return Bonds	13.1	0.2	n/a	n/a	5.5
Insight LDI	-0.8	-0.9	3.4	3.3	44.1
Insight Longevity Swap Collateral Reserve	1.5	n/a	1.8	n/a	3.4
Insight Longevity Swap Fee Collateral	-0.3	n/a	2.7	n/a	3.9
Insight Bonds Plus	6.3	0.2	0.6	0.6	6.2
Insight Currency Overlay	5.2	5.2	-0.3	-0.3	-0.1
JP Morgan Absolute Return Fund of Hedge Funds*	31.8	0.2	10.0	0.6	0.4
Lighthouse Fund of Hedge Funds	28.4	0.1	2.0	0.5	2.8
BlackRock UK Property	3.6	2.5	2.3	2.4	3.1
CBRE UK Property	1.5	2.5	2.3	2.4	3.0
Group Total	**8.0**	**5.9**	**6.2**	**5.7**	

Source: BNY Mellon. Currency hedge performance figures sourced directly from Insight.
n/a indicates that there is no benchmark available for these assets.
A dash indicates these funds have been held for a period of less than three years.
**Performance is lagged by one month, so shown to 28 February 2021.*

Gross of fees returns are shown for all managers except for AIL, JP Morgan, Lighthouse and CBRE.

The change in Retail Price Index (RPI) for the year to 31 March 2021 was 1.5% and the three-year annualised change in RPI was 2.2% per annum.

The longevity contract was transacted in Q1 2018 with an 'on risk' date of 1 January 2018. Based on high level analysis, the Group's mortality experience has been heavier than expected over the period since inception. The fair value of the longevity contract has decreased to (£63.5) million (2020: (£8.7m)). See Note 3 for further information on how the longevity swap valuation has been calculated.

The Group Trustee employs Aon as its investment adviser to provide quarterly independent assessments of the investment managers. The Group Trustee employs BNY Mellon to independently calculate the Group's investment performance.

Investment Report

Market Background Summary: 12 Months to 31 March 2021:

Total market returns (in Sterling terms) over the year to 31 March 2021 were as follows:

Asset Class	%
UK equities	20.1
US equities	43.2
European ex UK equities	34.4
Japanese equities	26.0
Emerging market equities	42.8
Fixed interest gilts	-5.5
Index-linked gilts	2.3
UK corporate bonds	7.0
UK property	2.6

Market Commentary:

After severe disruption in global markets in early 2020 from the Coronavirus pandemic, equity markets rebounded in Q2 and Q3 2020 as a slowdown in new cases and the relaxation of lockdown measures resulted in a sharp economic rebound. A second wave outbreak at the onset of winter, however, dampened economic optimism over Q4 2020. Equity markets continued to rally as huge fiscal and monetary stimulus and optimism over Covid-19 vaccine rollouts led to investor willingness to overlook the sharpest economic recession in generations.

US equities posted the strongest return over the year, helped by their high exposure to large technology companies. The $1.9tn US economic relief package was approved by the Senate soon after Democrat Joe Biden was sworn in as US President in January 2021 which fed market expectations of stronger US growth and inflation. In contrast to the US, UK equities performed poorly as the UK economy struggled with a high virus death rate and Brexit worries over 2020.

Emerging markets (EM) held up well as they were supported by the low global interest rate backdrop and the weak dollar. The risk of a reversal in both of these drivers led to weaker EM equity performance in Q1 2021, however.

Governments across major economies announced swift and significant fiscal support for businesses and individuals. The US government approved several stimulus packages and proposed a new infrastructure bill worth $1.9tn. The European Union (EU) promised a recovery package which was increased to €1.8tn and passed in late 2020.

Central banks loosened monetary policy with quantitative easing (QE) programs. The US Federal Reserve even began buying individual corporate bonds directly from the secondary market for the first time in Q2 2020. The Federal Reserve then announced a major policy shift in Q3 2020 by adopting an ‘average inflation targeting’ approach which implied a higher tolerance towards inflation. In Q4 2020 and Q1 2021, the Federal Reserve maintained its guidance surrounding keeping interest rates near zero until at least 2024 and continuing to buy $120bn of debt per month until ’substantial further progress has been made’ towards its employment and inflation targets.

In Q3 2020, the Bank of England (BoE) reported in its meeting minutes that it was examining how negative interest rates could be implemented effectively should this be required. However, deputy governor Dave Ramsden later suggested that the current base rate represented the ‘effective lower bound’ for interest rates.

The European Central Bank (ECB) launched a €1.9tn pandemic emergency purchase program (PEPP) which will continue until March 2022.

After years of negotiations, the UK and the EU reached a historic Brexit trade deal. The deal was reached after issues including EU fishing rights in UK waters and fair competition rules were agreed. The agreement allows most goods to be traded between the UK and the EU without tariffs or quotas. Meanwhile, EU fishing rights in UK waters will be reduced by one-quarter over a five and a half-year transition period, after which access will depend on annual negotiations. Spain and the UK also agreed to keep the land border between the British overseas territory of Gibraltar and Spain open.

Sterling ended the twelve months 5.7% higher on a trade-weighted basis. Sterling depreciated in Q2 2020 due to the deteriorating UK coronavirus situation, Brexit uncertainty and a poor economic outlook. However, in Q3 2020, the weak US dollar led to sterling gains against the dollar. Sterling continued to more broadly appreciate in Q4 2020 in anticipation that a Brexit deal would be reached. The relief rally in sterling in Q1 2021, in the wake of the Brexit deal was boosted by the launch of a successful UK vaccination program.

Inflation expectations rose globally over the last year on the back of liquidity expansion and growth optimism. This rise in inflation expectations was a key driver of rising global bond yields from record low levels reached in the first half of 2020. The rise in inflationary expectations was most significant in the US given the shift in Fed strategy and the massive US fiscal spending program.

UK gilt yields fell to extreme lows in summer 2020 on the back of the pandemic, Brexit uncertainty and increased expectations of a BoE rate cut to negative levels. However, yields started to edge up across maturities in Q3 as global risk sentiment improved. In Q1 2021, gilt yields rose sharply on the back of economic optimism in the light of several vaccine discoveries, further fuelled by the new US stimulus package. According to FTSE All-Stocks indices, UK fixed-interest gilts fell by 5.5%, whilst index-linked gilts returned 2.3% over the last twelve months.

Credit markets benefited from risk-on investor sentiment over the year, with credit spreads continuing to contract to ever tighter levels. UK investment-grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, ended the period 111bps lower at 106bps.

UK commercial property returned 2.6% over the period as the income return of 5.6% offset the 2.9% fall in capital values. Virus pressure on the already struggling retail sector meant it returned -5.8% over the year. The office sector returned -0.8% over the year, whilst industrials outperformed with a return of 13.9%.

Employer Related Investments

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

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

As at 31 March 2021 the National Grid Electricity Group had less than 0.01% of its assets invested in National Grid Electricity Transmission plc and its associated companies (these were indirect investments). The proportion of Group assets in employer-related investments does not exceed 5% of the market value of the Group assets as at 31 March 2021, and these investments therefore comply with legislative requirements.

See also Note 22 to the Financial Statements on page 50.

Additional Voluntary Contributions (AVC) Investments

Members of the Group can pay AVCs to purchase additional years of pensionable service or money purchase benefits.

During the Scheme Year, 56 members paid AVCs into insurance companies to obtain further benefits, on a money purchase basis, within the overall allowances set by HM Revenue & Customs. The Group Trustees hold these assets, invested separately from the main fund, in the form of individual insurance policies. Each member receives an annual statement at year end confirming the amount held in his/her account and the movements in the Scheme Year.

During the Scheme Year, the Group Trustee conducted a review of the Group's AVC providers in conjunction with its Investment Adviser. No major issues were identified by the review.

Custody

The assets of the Group were 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.

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

The Group Trustee is responsible for instructing BNY Mellon on the day to day management of the assets of its Group.

For Segregated Funds, money at call and short notice is placed in accordance with the provisions of Investment Management Agreements negotiated between the Group Trustee and the Segregated Fund Managers. In each case the Scheme is identified as the lender.

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

REPORT ON ACTUARIAL LIABILITIES AND STATEMENT OF FUNDING PRINCIPLES

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 Trustee and the Employer and set out in the Statement of Funding Principles, a copy of which is available on the Group's website. The most recent triennial actuarial valuation of the Group was carried out as at 31 March 2019. An approximate update was performed as at 31 March 2020 and 31 March 2021.

Valuation date: 31 March	**2021**	**2020**	**2019**
Value of technical provisions	£3,351.5m	£3,451.7m	£3,380.9m
Value of assets available to meet technical provisions	£3,330.6m	£3,124.0m	£3,143.5m
As a percentage of technical provisions	99.4%	90.5%	93.0%

The technical provisions position is ahead of the expected position under the Recovery Plan (outlined below) by around £120m at 31 March 2021.

Although there are no current plans to discontinue the Group and buy-out liabilities with an insurance company, the Group Trustee also considers the level of funding relative to the estimated costs of such a buy-out (known as 'solvency liabilities') and equivalent information on this basis is provided below:

Valuation date: 31 March	**2021**	**2020**	**2019**
Value of solvency liabilities	£3,946.3m	£4,097.6m	£4,098.9m
Value of assets available to meet solvency liabilities	£3,330.6m	£3,124.0m	£3,143.5m
As a percentage of solvency liabilities	84.4%	76.2%	76.7%

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

Method

The actuarial method to be used in calculation of the technical provisions is the Projected Unit Method.

Significant Actuarial Assumptions

Discount interest rate: term dependent and different sets of rates are used for the periods before and after retirement. The rate for each future year is determined as the forward rate of the fixed interest gilt yield curve at the valuation date plus 1.7% p.a. in the period before retirement and 0.5% p.a. in the period after retirement.

Future retail price inflation: term dependent rates derived from the difference between the fixed-interest and index-linked gilt yield curves.

Future consumer price inflation: term dependent rates derived from the assumption for future retail price inflation less 0.9% p.a. pre 2030 and 0.1% p.a. post 2030 (the differential varies to reflect best estimate at the relevant date and was -0.6% p.a. at 31 March 2020 and -1.1% p.a. at 31 March 2019).

Pension increases: For benefits in excess of GMPs, the assumptions are derived from the retail price inflation assumption allowing for the minimum increase of 0% in any year and the maximum increase of 5% in any year, and the fact that inflation varies from year to year.

Pay increases: Each member's pay is assumed to increase in line with the assumed rate of retail price inflation plus 0.5% p.a. In addition, promotional salary increases will be allowed for using an age-related scale. For leavers after 31 March 2014, the benefits payable from the Group in respect of service after 31 March 2013 are calculated based on salary subject to a cap. Capped salary is subject to a maximum increase equal to the lower of retail price inflation and 3% each year. A separate assumption for increases in capped salary is derived from the retail price inflation assumption allowing for the minimum increase of 0% in any year and the maximum increase of 3% in any year, and the fact that inflation varies from year to year.

Mortality: For the period in retirement, standard tables S3NMA with a scaling factor of 90% for male active members; 95% for male deferred members and 85% for male pensioners and dependants; and S3NFA with a scaling factor of 100% for female active members, 105% for female deferred members and 100% for female pensioners and dependants.

Recovery Plan

A Recovery Plan was agreed between the Group Trustee and the Company on 26 June 2020. Under the Recovery Plan, in the year to 31 March 2020, the Company paid deficit contributions of £52,359,555 in September 2019 and Elexon Limited paid £49,867 per month. From 1 April 2020 to 31 March 2023 the Company will pay £53.631m per annum, increasing on 1 April 2021, and each subsequent 1 April, based on the increase in RPI from September 2019 to the September prior to the increase date. The annual amount will be paid by 30 September in the relevant scheme year. From 1 April 2023 to 31 March 2024 the Company will pay £26.406m, increased by the increase in RPI from September 2019 to September 2022. The amount will be paid by 30 September 2023. Elexon Limited will continue to pay £49,867 per month until 31 March 2022. On the basis of conditions prevailing at the valuation date, the Group funding deficit was expected to be eliminated by 30 September 2023. These arrangements were formalised in a Schedule of Contributions certified by the Group Actuary on 26 June 2020. A copy of this certificate is included on page 31 of this annual report.

In addition to the agreed deficit contributions, the Group Trustee has agreed additional security with the Company to support the Recovery Plan. The key elements of the additional security arrangements are:

- Security Amounts (provided through either Letters of Credit, Surety Bonds, Gilts or charges over Company bank accounts (or a combination of these forms of security) which become payable to the Group in the event of insolvency of the Company, or the Company ceasing to hold its Licence to operate. The Security Amount agreed is £100m up to 15 February 2023.

- Contributions of up to £500m (or the deficit on the Specified Actuarial Basis at each future valuation if lower) will be paid to the Group if triggers linked to the credit rating of the Company, ownership of the transmission licence held by the Company or insolvency of the Company occur. The Specified Actuarial Basis uses the same assumptions as the technical provisions except that the discount rate is gilts + 0.25% p.a. and an allowance for administration expenses is included.

- A contribution equal to the annual deficit contribution is payable from the security arrangement, in the event of non-payment by the Company of the deficit contributions due by 30 September each year, as specified in the Schedule of Contributions.

Next Actuarial Valuation

The next triennial valuation will be performed as at 31 March 2022.

Independent auditors' statement about contributions to the group trustee of National Grid Electricity Group of the Electricity Supply Pension Scheme

Statement about contributions

Opinion

In our opinion, the contributions payable to the Group for the group year ended 31 March 2021 as reported in National Grid Electricity 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 30 January 2020 and 26 June 2020.

We have examined National Grid Electricity Group of the Electricity Supply Pension Scheme's summary of contributions for the group year ended 31 March 2021 which is set out on the following page.

Basis for opinion

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the 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
Chartered Accountants and Statutory Auditors
Leeds
18 August 2021

SUMMARY OF CONTRIBUTIONS PAYABLE FOR THE YEAR ENDED 31 MARCH 2021

National Grid Electricity Group of the Electricity Supply Pension Scheme

During the Scheme year ended 31 March 2021, the contributions payable to the Group were as follows:

	Employer £m	Employees £m	Total £m
Contributions required by the Schedule of Contributions			
Normal contributions	20.4	0.5	20.9
Deficit contributions	54.2	-	54.2
In respect of administrative expenses and levies	2.5	-	2.5
Total as reported on by group auditors	**77.1**	**0.5**	**77.6**
Other contributions payable			
AVCs	-	0.2	0.2
Augmentations	2.3	-	2.3
Supplementary pensions	0.1	-	0.1
Other employer contributions	0.2	-	0.2
Employee Added Years AVCs	-	0.1	0.1
Total (as per Fund Account)	**79.7**	**0.8**	**80.5**

Approved and Signed on behalf of the Group Trustee:

Jon Carlton
Chair of National Grid Electricity Group Trustee Limited
18 August 2021

Certification of Schedule of Contributions

Name of scheme:	Electricity Supply Pension Scheme: National Grid Electricity Group

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2019 to be met by the end of the period specified in the recovery plan dated 26/06/2020

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: 26/06/2020

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

Signature		Date	26/06/2020
Name	Lynda Whitney	Qualification	Fellow of the Institute and Faculty of Actuaries
Address	Parkside House Ashley Road Epsom Surrey KT18 5BS	Name of employer	Aon Solutions UK Limited

Independent auditors' report to the group trustee of National Grid Electricity Group of the Electricity Supply Pension Scheme

Report on the audit of the financial statements

Opinion

In our opinion, National Grid Electricity 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 2021, 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 2021; 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 included:

- Testing of journals where we identified particular risk criteria.
- Obtaining independent confirmations of material investment valuations and cash balances at the year end.
- Reviewing estimates and judgements made in the preparation of the financial statements.
- Reviewing meeting minutes, any correspondence with the Pensions Regulator, contracts and agreements, and holding discussions with the group trustee to identify significant or unusual transactions and known or suspected instances of fraud or non-compliance with laws and regulations.

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
Chartered Accountants and Statutory Auditors
Leeds
18 August 2021

FUND ACCOUNT

for the year ended 31 March 2021

	Note	2021 £m	2020 £m
Contributions and benefits			
Employer contributions	**4**	**79.7**	88.7
Employee contributions	**4**	**0.8**	0.9
Total contributions		**80.5**	89.6
Transfers in	**5**	**0.1**	2.5
		80.6	92.1
Benefits paid or payable	**6**	**114.3**	123.9
Payments to and on account of leavers	**7**	**25.8**	44.1
Administrative expenses	**8**	**1.7**	0.8
		141.8	168.8
Net withdrawals from dealings with members		**(61.2)**	(76.7)
Returns on investments			
Investment income	**9**	**27.2**	33.7
Change in market value of investments	**10**	**189.2**	22.8
Investment management expenses	**12**	**0.9**	1.1
Taxes on investment income	**13**	**(0.1)**	(0.2)
Net returns on investments		**217.2**	57.4
Net Increase/(Decrease) in the fund		**156.0**	(19.3)
Opening Net Assets		**3,200.9**	3,220.2
Closing Net Assets		**3,356.9**	3,200.9

The notes on pages 37 to 52 form part of these Financial Statements.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at 31 March 2021

	Note	2021 £m	2020 £m
Investment assets			
Equities	**10**	**347.5**	264.2
Bonds	**10**	**237.5**	238.9
Pooled investment vehicles	**14**	**2,817.4**	2,685.8
AVC investments	**16**	**4.5**	4.1
Cash deposits and other investment balances	**17**	**14.5**	20.8
		3,421.4	3,213.8
Investment liabilities			
Longevity swap	**10**	**(63.5)**	(8.7)
Other investment balances	**17**	**(2.5)**	(4.6)
		(66.0)	(13.3)
Total net investments		**3,355.4**	3,200.5
Current assets	**23**	**6.2**	3.8
Current liabilities	**24**	**(4.7)**	(3.4)
Total net assets available for benefits		**3,356.9**	3,200.9

The Financial Statements summarise the transactions of the Group and deal with the net assets at the disposal of the Group Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme Year. The actuarial position of the Group, which does take account of such obligations, is dealt with in the report on Actuarial Liabilities on page 27 and 28 of the Report and these Financial Statements should be read in conjunction with this report.

The notes on pages 37 to 52 form part of these Financial Statements.

These Financial Statements were approved by the Group Trustee on 18 August 2021 and signed on its behalf by:

Jon Carlton
Chair of National Grid Electricity Group Trustee Limited
18 August 2021

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

1. General information

The National Grid Electricity Group of the Electricity Supply Pension Scheme is an occupational pension scheme established as a trust under English law to provide retirement benefits for certain groups of employees and its provisions are set out in the Clauses and Rules contained in the Scheme document. The address of the Scheme's principal office is c/o Capita – ESPS Team, 2nd Floor, 17-19 Rochester Row, Westminster, London, SW1P 1JB. The contact details for the Group are located in appendix 3.

The Group is a defined benefit (DB) arrangement which is no longer open to new members, but existing members continue to accrue benefits.

The 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 Scheme receive preferential tax treatment.

2. Basis of preparation of the financial statements

The individual financial statements of National Grid Electricity 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").

3. Accounting Policies

The following principal accounting policies, which have been applied consistently, have been adopted in preparation of the Financial Statements.

(a) Currency

The Group's functional currency and presentational currency is pounds sterling (GBP) which is the primary economic environment in which the Scheme operates.

Assets and liabilities in foreign currencies are expressed in sterling at the relevant rates of exchange ruling at the year-end.

Transactions denominated in foreign currencies are translated into sterling at the spot exchange rate prevailing at the date of the transaction.

Gains and losses arising on conversion or translation are shown within the change in market value of investments.

(b) Contributions

Normal contributions, due from the employees and employers, are accounted for on an accruals basis in the month employee contributions are deducted from the payroll.

Supplementary and augmentation contributions from employers 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 in accordance with the agreement under which they are being paid. In the absence of an agreement, they are accounted for on a receipt basis.

Employers' contributions in respect of administrative expenses and levies are accounted for in accordance with the agreement under which they are being paid. In the absence of an agreement, they are accounted for on a receipt basis.

Employers' other contributions are accounted for on an accruals basis in the month they are calculated and notified to the payroll team.

Additional voluntary contributions from members are accounted for, on an accruals basis, in the month deducted from the payroll.

Members' other contributions are accounted for, on an accruals basis, in the month deducted from the payroll.

(c) Transfers to and from the Group

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers, or payable to the pension scheme of new employers for members who have left the Group.

Individual transfers in or out of the Group are accounted for when member liability is accepted or discharged which is normally when the transfer amount is paid or received.

Bulk transfers of members, where the Trustee of the receiving scheme has agreed to accept liability prior to receipt, are accounted for in accordance with the agreement between the Group Trustee and the Trustees of the other pension scheme.

(d) Benefits

Members can take their benefits in accordance with the Clauses and Rules of the Group. This is generally in the form of a pension and lump sum benefit.

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 of the date of retirement and the date the option is exercised.

Where the Group has paid a tax charge incurred through the Lifetime Allowance or Annual Allowance being exceeded, this is included in Benefits paid under Note 6 of the Financial Statements.

(e) Investment Income and Expenditure

Income from equities, and any pooled investment vehicles which distribute income, is accounted for on the date stocks are quoted ex-dividend/interest.

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, changes in market value also includes income, net of any withholding tax, which is reinvested in the fund.

Income from bonds, cash and short-term deposits is accounted for on an accruals basis.

Rental income is accounted for as earned under the terms of the relevant lease.

Investment management fees are accounted for on an accruals basis. Acquisition costs are included in the purchase cost of investments. Transaction costs are reflected in sale proceeds. Acquisition and Transaction costs include costs charged directly to the Group such as fees, commissions, stamp duty and other fees.

(f) Investments

Equities traded through the London Stock Exchange Electronic Trading Service (SETS) are valued on the basis of the bid price. Other quoted investments are valued on the basis of the bid price (or, if unavailable, the most recent transaction) on the relevant stock market.

Pooled investment vehicles are valued at the closing bid price if both bid and offer prices are published, or, if single priced, at the closing single price obtained by the Custodian.

Unquoted securities are valued by the fund managers at the year-end in accordance with generally accepted guidelines.

Accrued interest is excluded from the market value of bonds, and is included in investment income receivable, i.e. bond stocks are quoted 'clean'.

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 Trustee. 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. Properties are valued in accordance with the Royal Institution of Chartered Surveyors Valuation Standards.

Pre-vesting insurance policies held by the Group are not valued as they are not material to these Financial Statements.

Longevity swaps are valued on a fair value basis on the expected cash flows arising under the swap, discounted using market interest rates. The fair value as at 31 March 2020 was estimated to be in line with the 'experience' or variation collateral which is required under the terms of the longevity swap contract. The fair value as at 31 March 2021 was calculated as:

- the expected present value of the future cashflows payable to the Group Trustee (i.e. the variable or 'floating leg' cashflows).

less

- the expected present value of the cashflows payable by the Group Trustee (i.e. the 'fixed leg' cashflows) under the terms of the longevity swap contract.

Reflecting that there was no upfront premium payment at the inception of the longevity swap, the fair value approach meant a nil day-one value was placed on the contract in the Group accounts. For consistency with this, the fair value calculated at later dates excludes the premium element of the fixed leg cashflows (i.e. the fair value assessment excludes the intermediation fees payable to Zurich and the risk fees payable to Canada Life Re).

All experience gains and losses arising under the swap are reported within Change in Market Value within the Investment Reconciliation Table in Note 10.

Additional Voluntary Contribution (AVC) investments are valued using the appropriate valuation treatment for the relevant asset type. Where AVC values at the date of the statement of net assets are not available then AVCs are valued on a cash basis, being the opening balance plus transfers in and purchases and less transfers out and sales.

(g) 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.

- Key accounting estimates and assumptions

  The Group Trustee makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. For the Group, the Group Trustee believes 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 investments and in particular, those classified in Level 3 of the fair value hierarchy. Explanation of the key assumptions underpinning the valuation of investments are included within (f) above and within Note 18.

Longevity swaps are valued on a fair value basis on the expected cash flows arising under the swap, discounted using market interest rates. How the fair value is calculated is detailed on the previous page.

All experience gains and losses arising under the swap are reported within 'Change in Market Value', and the net payments due under the terms of the longevity contract (fixed leg including premium element less floating leg) are reported within 'Purchases at cost and derivative payments', both within the Investment Reconciliation Table in Note 10.

4. Contributions

	2021 £m	2020 £m
Employer contributions		
Normal	**20.4**	18.0
Deficit funding	**54.2**	53.0
In respect of administrative expenses and levies	**2.5**	1.0
Augmentations (Early retirements)	**2.3**	11.5
Other		
- Supplementary pensions funding	**0.1**	4.6
- Other	**0.2**	0.6
	79.7	88.7
Employee contributions		
Normal	**0.5**	0.7
Added Years AVCs*	**0.1**	0.1
Money Purchase AVCS**	**0.2**	0.1
	0.8	0.9
Total	**80.5**	89.6

**Additional Voluntary Contributions paid to purchase additional pensionable service.*
***Additional Voluntary Contributions paid to the Group's AVC providers and invested in the open market.*

Employer normal contributions include contributions in respect of salary sacrifice arrangements made available to certain members by the employer.

With effect from 1 December 2019, some of the administrative expenses previously met by the Principal Employer are paid directly by the Group via the Group Cash Account. In accordance with the Schedule of Contributions, the Principal Employer pays a contribution in respect of administrative expenses and levies. The contribution paid in the previous year is lower as it represented a partial year of administrative expenses.

As per the Schedule of Contributions certified on 26 June 2020, Elexon Limited is due to pay deficit funding contributions of £49,867 per month until 31 March 2022. Between 1 April 2020 and 31 March 2023, the Company will pay £53.631m per annum increasing on each subsequent 1 April based on the increase in RPI from September 2019 to the September prior to the increase date. The annual amount will be paid as a lump sum by 30 September in the relevant Scheme Year. From 1 April 2023 to 31 March 2024 the Company will pay £26.406m by 30 September each year. This will increase in RPI from September 2019 to September 2022.

Between 1 April 2020 and 31 March 2021 Elexon Limited paid deficit funding contributions of £49,867 per month and the Company paid an annual amount of £53.631m. All deficit contributions paid during the year were paid in accordance with the Schedule of Contributions certified on 26 June 2020.

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

5. Transfers in

	2021 £m	2020 £m
Transfer values received from other pension arrangements:		
Individual transfers in from other schemes	**0.1**	2.5
	0.1	2.5

6. Benefits paid or payable

	2021 £m	2020 £m
Pensions	**106.3**	105.4
Commutation of pensions and lump sum retirement benefits	**7.5**	15.3
Purchase of annuities (AVCs)	**0.1**	2.5
Lump sum death benefits	**0.3**	0.3
Taxation where lifetime or annual allowance exceeded	**0.1**	0.4
	114.3	123.9

7. Payments to and on account of leavers

	2021 £m	2020 £m
Individual transfers out to other schemes	**25.8**	44.1
	25.8	44.1

8. Administrative expenses

	2021 £m	2020 £m
Administration, processing and Group Trustee expenses	**1.0**	0.5
Actuarial fees	**0.4**	0.2
Pension levies*	**0.1**	-
Legal and other professional fees	**0.2**	0.1
	1.7	0.8

In prior Scheme years the Principal Employer has covered any costs relating to pension levies.

With effect from 1 December 2019, some of the administrative expenses previously met by the Principal Employer have been paid by the Group. Certain administrative expenses of the Group incurred during the year to 31 March 2021, and not directly related to the investment management of the securities and property portfolios, continue to be met by the Employers.

9. Investment income

	2021 **£m**	2020 £m
Dividends from equities	**11.2**	4.7
Income from bonds	**4.7**	6.1
Income from pooled investment vehicles	**11.1**	22.7
Interest on cash deposits	**-**	0.1
Other	**0.2**	0.1
	27.2	33.7

10. Reconciliation of net investments

	Value at 1 April 2020 £m	Purchases at cost and derivative payments £m	Sale proceeds and derivative receipts £m	Changes in market value £m	**Value at 31 March 2021 £m**
Equities	264.2	21.2	(20.3)	82.4	**347.5**
Bonds	238.9	8.3	(6.2)	(3.5)	**237.5**
Pooled investment vehicles	2,685.8	618.0	(658.4)	172.0	**2,817.4**
Longevity swap	(8.7)	7.2	-	(62.0)	**(63.5)**
AVC investments	4.1	0.2	(0.6)	0.8	**4.5**
	3,184.3	654.9	(685.5)	189.7	**3,343.4**
Cash deposits and other investment assets	20.8				**14.5**
Other investment liabilities	(4.6)				**(2.5)**
Net investment assets	3,200.5				**3,355.4**

Change in market value as shown above	
Exchange gains/losses	(0.5)
Change in market value per fund account	**189.2**

Longevity swaps

The Group Trustee has a longevity swap contract in place with Zurich Assurance Limited to mitigate the impact of longevity risk. The longevity swap backs the costs of increased life expectancy for existing pensions in payment with the Group as at the inception of the contract, 1 January 2018. The transaction was an investment decision and does not affect the pensions that are paid from the Group. The Group holds the swap as a fund asset to meet its liabilities.

Further information on the fair value of the contract of £(63.5) million as at 31 March 2021 is provided under Note 3(f).

11. Investment transaction costs

Direct transaction costs were incurred during the year. However, their values are below the level of rounding for disclosure.

In addition to direct transaction costs, indirect transaction costs are incurred through the bid-offer spread on investments within pooled investment vehicles when units are purchased and sold.

12. Investment management expenses

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

	2021 £m	2020 £m
Investment management fees	**(2.0)**	(2.0)
Custody fees	**0.1**	0.1
Other advisory fees	**1.0**	0.8
	(0.9)	(1.1)

Investment management fees are negative due to the high value of fee rebates received during the year.

13. Taxes on investment income

The taxation charge within investment returns represents irrecoverable withholding tax arising on certain classes of investment income.

14. Pooled investment vehicles

By type	**2021 £m**	**2021 £m**	2020 £m	2020 £m
Equities		**330.4**		230.6
Return Seeking Bond Funds		**590.3**		545.2
Fund of Hedge Funds		**107.8**		163.1
Private Equity		**37.6**		-
Property		**205.2**		205.5
*Liability Driven Investments (LDIs)				
Bonds	**2,662.6**		2,469.9	
Swaps	**45.2**		37.6	
Repurchase agreements	**(1,179.2)**		(994.9)	
Currency hedge	**(3.4)**		(11.9)	
Cash and other liquid assets	**(22.8)**		4.3	
		1,502.4		1,505.0
Cash and other liquid assets		**43.7**		36.4
		2,817.4		2,685.8

*As at 31 March 2021, the Group held £1,502.4m in a Liability Driven Investment (LDI) with Insight (2020: £1,505.0m). A breakdown of the underlying investment classes held within this portfolio has been included in Note 14 above.

15. Insurance policies

It has been decided that it is no longer viable to obtain an actuarial valuation of the Pre-Vesting insurance policies as their value, based on the 2014 valuation, will round down to zero in the Group Financial Statements.

16. Defined Benefit Section Additional Voluntary Contributions (AVCs) Investments

Members of the Group can choose to top up their retirement benefits by paying Money Purchase Additional Voluntary Contributions (AVCs) to AVC providers selected by the Group Trustee.

During the Scheme Year 56 members paid AVCs into insurance companies to obtain further benefits, on a money purchase basis, within the overall allowances set by HM Revenue & Customs. The total number of AVC accounts (including 'frozen' accounts) as at 31 March 2021 was 267 (2020: 301). In some cases, members may have two or more accounts.

The accumulated value of the AVCs, as determined by the AVC provider at the time the benefits are taken and subject to any adjustment, is applied upon the member's retirement or at any time up to age 75, or earlier death, to provide benefits to or in respect of the member. Additional benefits are provided by AVCs on a money purchase basis.

The Group Trustees hold these assets, invested separately from the main Defined Benefit Section investments to secure additional benefits on a money purchase basis for those members electing to pay AVCs. Each member receives an annual statement at year end confirming the amount held in their account and the movements in the Scheme Year.

The aggregate amounts of Money Purchase AVC investments are as follows:

	2021 £m	2020 £m
Aviva	**0.6**	0.8
Utmost Life and Pensions	**0.1**	0.1
Prudential Assurance Society	**0.4**	0.5
Legal & General	**3.4**	2.7
	4.5	4.1

17. Cash and other investment balances

	2021 £m	2020 £m
Cash deposits and other investment assets		
Cash deposits	**7.7**	12.0
Accrued interest and dividends	**5.3**	6.0
Recoverable income tax	**1.2**	2.4
Other debtors	**0.3**	0.4
	14.5	20.8
Other investment liabilities		
Creditors	**(2.5)**	(4.2)
Amounts payable for the purchase of investments	**-**	(0.4)
	(2.5)	(4.6)

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 can be assessed 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

The Group's investment assets and liabilities have been included at fair value within these categories as in the table below:

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.

Longevity swaps are valued on a fair value basis on the expected cash flows arising under the swap, discounted using market interest rates. The fair value as at 31 March 2020 was estimated to be in line with the 'experience' or variation collateral which is required under the terms of the longevity swap contract. The fair value as at 31 March 2021 was calculated as:

- the expected present value of the future cashflows payable to the Group Trustee (i.e. the variable or 'floating leg' cashflows).

less

- the expected present value of the cashflows payable by the Group Trustee (i.e. the 'fixed leg' cashflows) under the terms of the longevity swap contract.

Reflecting that there was no upfront premium payment at the inception of the longevity swap, the fair value approach meant a nil day-one value was placed on the contract in the Group accounts. For consistency with this, the fair value calculated at later dates excludes the premium element of the fixed leg cashflows (i.e. the fair value assessment excludes the intermediation fees payable to Zurich and the risk fees payable to Canada Life Re).

The value of other pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Group Trustee. 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 2021 or 31 March 2020.

Analysis for the current year-end is as follows:

Level	(1) £m	(2) £m	(3) £m	2021 Total £m
Investment assets				
Equities	347.5	-	-	347.5
Bonds	237.5	-	-	237.5
Pooled investment vehicles	-	2,562.2	255.2	2,817.4
Cash	0.6	7.1	-	7.7
AVCs	-	-	4.5	4.5
Other investment balances	6.8	-	-	6.8
	592.4	**2,569.3**	**259.7**	**3,421.4**
Investment liabilities				
Longevity Swap	-	-	(63.5)	(63.5)
Other investment balances	(2.5)	-	-	(2.5)
	(2.5)	-	(63.5)	(66.0)
Net investment assets	**589.9**	**2,569.3**	**196.2**	**3,355.4**

Analysis for the prior year-end is as follows:

Level	(1) £m	(2) £m	(3) £m	2020 Total £m
Investment assets				
Equities	264.2	-	-	264.2
Bonds	238.9	-	-	238.9
Pooled investment vehicles	-	2,391.5	294.3	2,685.8
Cash	2.3	9.7	-	12.0
AVCs	-	-	4.1	4.1
Other investment balances	8.8	-	-	8.8
	514.2	2,401.2	298.4	3,213.8
Investment liabilities				
Longevity Swap*	-	-	(8.7)	(8.7)
Other investment balances	(2.9)	-	(1.7)	(4.6)
	(2.9)	-	(10.4)	(13.3)
Net investment assets	511.3	2,401.2	288.0	3,200.5

**The Longevity Swap liability was listed under Investment assets in the prior year and is now listed under Investment liabilities in the above table.*

In the prior year-end analysis table above, the following assets have been recategorised to ensure consistency of treatment with the current year:

Asset	*Recategorisation*	*£m*
Pooled investment vehicles	*From Level 1 to Level 2*	*208.3*
	From Level 3 to Level 2	*1,505.0*
Cash	*From Level 1 to Level 2*	*9.7*

19. Fair Value Hierarchy

In the Group Trustee's 2020 Annual Report & Financial Statements, in light of the Covid-19 pandemic, for two of the Pooled Investments Vehicles held, the investment managers' property valuers had confirmed that there was 'material uncertainty' over the valuation of the investments that had been calculated as at 31 March 2020.

These uncertainties no longer remain as all the Group's investment managers were able to issue valuations as at 31 March 2021 and none of those valuations were issued with a Material Valuation Uncertainty clause. Additionally, there were no funds which had suspended trading or had placed restrictions on the funds under their management at the year-end due to the pandemic or for any other reason.

20. Investment risks

Types of risk relating to investments

FRS 102 requires the disclosure of information in relation to certain investment risks.

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk as follows:

- **Currency risk**: this is the risk that the 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 of 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 instruments or its issuer, or factors affecting all similar financial instruments traded in the market

The Group Trustee determines its investment strategy after taking advice from a professional investment adviser. The Group has exposure to these risks because of the investments it makes in following the investment strategy set out below.

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

	Credit risk	Market risk			2021 value £m	2020 value £m
		Currency	Interest rate	Other price		
Equities	○	◐	○	●	**347.5**	264.2
Bonds	●	○	●	◐	**237.5**	238.9
Pooled investment vehicles	●	◐	●	●	**2,817.4**	2,685.8
Longevity swap	◐	○	●	●	**(63.5)**	(8.7)
Cash	●	○	●	○	**7.7**	12.0
Other investment balances	●	○	●	○	**4.3**	4.2
Total					**3,350.9**	3,196.4

In the above table, the risk noted affects the asset class [●] significantly, [◐] partially or [○] hardly/ not at all. Further information on the Group Trustee's approach to risk management, credit and market risk is set out below.

Investment Strategy

The Group's investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the Group payable under the Clauses and Rules as they fall due.

The Group Trustee sets the investment strategy for the Group taking into account considerations such as the strength of the employer covenant, the long-term liabilities and the funding agreed with the Employer. The latest investment strategy is set out in the SIP and accompanying Investment Policy Implementation Document (IPID).

The strategy in place over the year to 31 March 2021 was to hold:

- 48% in return seeking investments comprising UK and overseas equities, investment property, hedge funds, and various credit investments including total return and absolute return bond funds.

- 52% in matching investments that move in line with the long-term liabilities of the Group. This includes the LDI portfolio and the bonds held in respect of longevity swap collateral. The LDI portfolio comprises UK and overseas government and supranational bonds, interest rate and inflation swaps and repurchase agreements, the purpose of which is to hedge against the impact of changes in market expectations for interest rates and inflation on the Group's liabilities.

Credit risk

The Group is subject to credit risk because the Group has cash balances, has a Longevity Swap contract and also invests in pooled investment vehicles (and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles). The Group is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles.

A summary of exposures to credit risk is given in the following table, the notes below which explain how this risk is managed and mitigated for the different classes:

Investments exposed to credit risk	**2021 £m**	2020 £m
Bonds (longevity swap - collateral and segregated bond portfolio)	**237.5**	238.9
Pooled investment vehicles	**2,817.4**	2,685.8
Cash and other net investment assets	**12.0**	16.2

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 investments amongst a number of pooled arrangements. The Group Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager.

Indirect credit risk arises primarily in relation to underlying investments held in the bond pooled investment vehicles. This risk is mitigated by the manager limiting the exposure to any one source of risk. For the pooled LDI vehicle, this includes indirect credit risk associated with the underlying derivatives. Credit risk arising on 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 collateral arrangements in place where both the Group and its counterparties post collateral to reduce the impact of any counterparty defaulting on their obligations under the derivative contracts held. As at 31 March 2021, the Group held £1,580.8m (2020: £1,587.6m) in assets that could be used as eligible collateral. The Group's LDI manager also normally requires all counterparties to have a minimum rating of A3 by Moody's, A- by S&P or A- by Fitch.

Type of arrangement	**2021 £m**	**2020 £m**
Authorised unit trusts	103.9	103.1
Open-ended investment companies	2,568.0	2,419.7
Limited partnership	37.6	-
Cayman islands exempted company	107.9	163.0
Total	**2,817.4**	**2,685.8**

The longevity swap contract includes collateral mechanisms to provide mitigation against the credit risk that Zurich Assurance defaults on the transaction and to provide Zurich Assurance protection against a Group default.

There are two types of collateral posted by the Group in respect of the longevity swap:

- Fee collateral, which is collateral held in respect of the premium margin due from the Group to Zurich Assurance over the life of the contract. This amount reflects the expected cost to the Group of insuring the risk of longevity changes over the life of the longevity swap contract and is regularly revalued by discounting the fees due at current market rates. These costs are built into the fixed leg and will amortise over the life of the contract. Fee collateral posted by the Group is held in separate custody accounts by the Group's global custodian and continues to be managed by the Group's appointed fund manager, Insight Investment. Zurich Assurance has a floating charge (or 'security interest') on the Fee collateral account, whereby in the event that the Group defaults, Zurich Assurance can enforce its rights and take control of the assets in the account.

- Experience collateral (since Q1 2019), is posted as variation collateral and it reflects whether actual mortality experience has been lighter or heavier than assumed under the contract. Where mortality experience is heavier than assumed, the contract has less inherent value to the Group and is therefore out of the money. Assets are posted by means of outright title transfer.

As at 31 March 2021, the Group had posted eligible bonds and cash valued at £132.8m (2020: £137.5m) as fee collateral. A further £114.6m (2020: £108.6m) of eligible bonds and cash is being held in a separate custody account as a 'buffer' to meet any increase in the fee collateral that may be required, and/or any experience collateral required to be posted from the Group to Zurich Assurance over the lifetime of the longevity swap. £10.2m (2020: £5.2m) of collateral from the 'buffer' was posted to Zurich as experience collateral as at the Year End. There is a two-month lag on the experience collateral valuation therefore assets pledged as at 31 March 2021 related to the 31 December 2020 valuation.

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 Trustee considers currency risk as part of the overall determination of the investment strategy. The majority of the currency risk in the Group's portfolio arises from the global equity investment. To reduce this risk, the Group Trustee implements a currency hedging programme to hedge 50% of US Dollar, Euro and Japanese Yen exposures within the equity portfolio. The currency hedge is implemented by Insight using a currency overlay in a separate sub-portfolio of the LDI mandate.

Interest rate risk

The Group is subject to interest rate risk because some of the Group's investments are held in bonds, repurchase arrangements interest rate swaps (through the LDI pooled vehicle and the longevity swap collateral), and cash.

As at 31 March 2021, the Group Trustee has set a benchmark to hedge 76.0% (2020: 70.0%) of its liability exposure to movement in interest rate as part of its LDI strategy. Under this strategy, if interest rates fall, the value of the matching investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the matching investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

At the year end the matching investments represented 51.7% (2020: 54.8%) of the Group's total net investment assets.

The cashflows in the longevity swap are discounted using market-based interest rates and are therefore subject to interest rate risk.

Other price risk

Other price risk arises in the Group's LDI funds as well as in relation to the Group's return seeking portfolio which includes directly held equities, as well as absolute return bonds, total return bonds, hedge funds and property all held in pooled vehicles.

At the year end the return seeking portfolio represented 48.3% (2020: 45.2%) of the Group's total net investment assets.

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

The longevity swap is also subject to other price risk insofar as one of the inputs to the fair valuation of the contract, as represented by the experience collateral balance, is the market view of longevity.

21. Concentration of investments

The table below details investment holdings which exceed 5% of the total value of the net assets of the Group.

	2021		2020	
	£m	**%**	£m	%
Insight LDI Active 28 Fund	**1,505.8**	**44.9**	1,516.9	47.4
Aon CCF Global Equity Fund*	**330.4**	**9.8**	-	-
HRMSL Global Equity Adept Strategy 1 Fund*	**-**	**-**	230.6	7.2
Insight Bonds Plus Fund	**211.8**	**6.3**	200.2	6.3
GSAM Global Strategic Income Bond Fund	**190.1**	**5.7**	173.1	5.4
PIMCO Dynamic Bond Fund	**188.4**	**5.6**	171.9	5.4

**See page 22.*

22. Employer-related investments

At 31 March 2021 the Group had no direct assets (2020: £nil) invested in National Grid plc or its associated companies. However, the Group held indirect investments (i.e. investments via pooled vehicles) of less than 0.01% of its assets in National Grid plc or its associated companies as at 31 March 2021 (2020: less than 0.01%).

23. Current Assets

	2021	2020
	£m	£m
Contributions due from Employers	**1.7**	0.1
Other debtors	**0.3**	0.1
Cash balances	**4.2**	3.6
	6.2	3.8

All contributions due in accordance with the Schedule of Contributions were paid in full to the Group.

24. Current Liabilities

	2021	2020
	£m	£m
Accrued benefits	**2.3**	1.0
Accrued expenses	**2.4**	2.4
	4.7	**3.4**

25. Related party transactions

Key management personnel

Included within Note 8 are total fees of £87,700 (2020: £87,156) paid to Group Trustee Directors during the Scheme Year. Other than those items disclosed elsewhere in these Financial Statements, there were no other related party transactions. The Group Trustee Directors who receive pensions from the Group, that are paid in accordance with the Scheme rules, are identified in the list of trustees shown on page 8.

26. Contingencies and commitments

In the opinion of the Group Trustee, the Group has contingent liabilities entered into which are not provided for in these Financial Statements.

In October 2018, the High Court determined that benefits provided to members who had contracted out of their pension scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women.

The High Court has since determined that trustees owed a duty to a transferring member to make a transfer payment which reflected the member's right to equalised benefits. Where the initial transfer payment was inadequate on this basis the trustee is under an obligation to make a top-up payment to the receiving scheme on behalf of the transferred member.

The Group has commenced a process of assessing the overall impact of GMP Equalisation and has obtained an initial estimate of approximately £6.0m of the backdated benefits and interest which relate to equalisation of Scheme benefits for the period between May 1990 and April 1997. Based on an initial assessment of the likely backdated amounts and related interest the Group Trustee does not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

In relation to investments, the Group has committed £103m to invest in opportunistic private credit with HPS Investment Partners. As at 31 March 2021 the Fund had invested £33.0m of the Group's commitment. This means £70.1m remains to be invested with the Fund.

As part of the Recovery Plan agreed for the 2019 actuarial valuation, the Principal Employer has agreed to provide additional security to the Group. The key elements of these arrangements are detailed below.

- Security Amounts (provided through either Letters of Credit, Surety Bonds, Gilts or charges over Company bank accounts (or a combination of these forms of security) which become payable to the Group in the event of insolvency of the Company, or the Company ceasing to hold its Licence to operate. The Security Amount agreed is £100m up to 15 February 2023.

- Contributions of up to £500m (or the deficit on the Specified Actuarial Basis at each future valuation if lower) will be paid to the Group if triggers linked to the credit rating of the Company, ownership of the transmission licence held by the Company or insolvency of the Company occur. The Specified Actuarial Basis uses the same assumptions as the technical provisions except that the discount rate is gilts + 0.25% p.a. and an allowance for administration expenses is included.

- A contribution equal to the annual deficit contribution is payable from the security arrangement, in the event of non-payment by the Company of the deficit contributions due by 30 September each year, as specified in the Schedule of Contributions.

27. Subsequent events

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

APPENDIX 1 – GROUP ADVISERS AND SERVICE PROVIDERS

Group Actuary Lynda Whitney FIA of Aon Solutions UK Limited	Carries out valuations and other funding updates of the Group as required by the Clauses and Rules and legislation, provides all tables and factors for the application of Clauses and Rules and options, and advises on all matters relating to pension scheme funding.
Consulting Actuary Aon	Provides actuarial advice to the Group Trustee on matters that are not covered by the Group Actuary.
Independent Group Auditors 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 Aon	Advises the Group Trustee on all investment matters including the Statement of Investment Principles.
Legal Advisers DLA Piper UK LLP	Advises on legislative requirements and application of the provisions of the Group in particular circumstances.
Covenant Adviser Gazelle Corporate Finance Ltd PricewaterhouseCoopers LLP*	Advisers on the strength of the Company and its covenant and how this may impact the Group's funding.

**PwC were appointed as the Group's Covenant Adviser on 18 May 2021.*

Investment Managers

Aon Investment Limited (formerly known as Hewitt Risk Management Services Limited. Name change effective 11 June 2020)
BlackRock
Goldman Sachs Asset Management
CBRE Global Investors (UK) Limited
CVC Capital Partners (appointed 8 June 2021)
HPS Investment Partners (appointed 25 September 2020)
Insight Investment Management (Global) Limited
JP Morgan Asset Management
KKR & Co. Inc (appointed 24 June 2021)
Lighthouse Investment Partners LLC
PIMCO
State Street Global Advisors
Walter Scott and Partners

Fiduciary Manager

Aon Investments Limited (formerly known as Hewitt Risk Management Services Limited)

Additional Voluntary Contributions (AVCs)

The AVC providers for the Group are:

Aviva Investors*
Legal & General
Prudential Assurance Society
Utmost Life and Pensions

**Since 1 April 2010, no Aviva AVC options have been available to new contributors.*

APPENDIX 2 – GLOSSARY OF TERMS

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

Pension glossary	
Actuarial deficit	The actuarial valuation of the Group's assets is less than its actuarial liability meaning that there are insufficient assets to meet the future pensions provision of the Group.
Back Service Credits	The period which a Member has been granted under the Clauses and Rules for the purpose of being reckoned as Contributing Service as defined under the Clauses and Rules.
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 contributions	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	Shows the Group Actuary's estimate of the proportion of the value of the Group's assets which represents the costs of buying out the accrued benefits with an insurance company.
Guaranteed Minimum Pension (GMP)	The Guaranteed Minimum Pension (GMP) is the minimum pension which a United Kingdom occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997
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.
Pension Protection Fund (PPF)	The Board of the Pension Protection Fund is a statutory fund in the United Kingdom, intended to protect members if their pension fund becomes insolvent. It was created under the Pensions Act 2004
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).
S3NMA / S3NFA	Reference numbers for CMI (Continuous Mortality Investigation) mortality tables.
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	
Bond	A debt investment or a form of loan to a government, company or other body. Typically, the investor should receive a regular 'coupon' (i.e. interest payment) and the return of the principal sum originally lent when the bond matures. Bonds are bought and sold between investors and the price of a bond may at any time be higher or lower than the principal, depending on market conditions.
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.
Equities	A stock of other security representing an ownership interest in a company.
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.
Gilts	Bonds issued by the UK Government.
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.

LDI	Liability Driven Investment. An investment strategy that has a benchmark that is specific to the liabilities of the pension scheme. The objective is that the changes that occur in the value of the investments will be closely related to the changes in the value of the liabilities.
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.
LIBOR	London Inter Bank Offered Rate. This is the rate of interest banks charge each other for loans for one-month, three-month, six-month and one-year loans. It is fixed on a daily basis by the main UK banks though it changes all the time as banks agree transactions involving large amounts of funds.
Longevity Hedge	This is a derivative contract that offsets the risk of pension scheme members living longer than expected. This is a scheme that makes regular payments based on agreed mortality assumptions to an investment bank or insurer and, in return, the bank or insurer pays out amounts based on the scheme's actual mortality rates
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 over the counter (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 contract, the settlement date and price are all negotiable.
Property Authorised Investment Fund (PAIF)	A property authorised investment fund is a tax-efficient vehicle in the UK that allows funds to pay gross dividends from property rental income with no corporation tax deducted.
Pooled Investment Vehicle	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.
SETS	London Stock Exchange Electronic Trading Service. An automated trading system used by the largest companies quoted on the London Stock Exchange.

SONIA	Sterling Overnight Index Average. This index is based on actual transactions and reflects the average interest rates that banks pay to borrow sterling. It is used for overnight funding for trades that occur out of office hours and provides a benchmark interest rate for short-term financial transactions.
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.
Spreads	A spread is the difference between the bid and the ask price of a security or asset.
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 flow is generally determined by reference to an underlying asset, index, instrument or notional amount.
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 - CONTACT DETAILS (INCLUDING EXTERNAL BODIES)

Addresses for enquiries

General Enquiries about pension's policy, requests for a copy of the Statement of Investment Principles etc, should be addressed to:

Group Administrator
Trustee Services
National Grid plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Telephone: 01926 654 655
Email: uk.pensions@nationalgrid.com

Enquiries about benefits should be addressed to the administrators:

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

Telephone: 02476 422 842
Email: enquiries@rpmi.co.uk
Website: www.rpmi.co.uk

Further information about the Group, including general information regarding the benefits it provides and a number of Group documents (such as the Statement of Investment Principles), can be found on the Group's website which can be accessed via www.ngeg.nationalgridpensions.com

Pension legislation requires occupational pension schemes to have procedures in place to resolve disputes arising from the running of their pension scheme. Details of the Group's Internal Dispute Resolution procedure can be obtained from the Group Administrator.

Contact details for external bodies

Money & Pensions Service & MoneyHelper

From 1 January 2019, Pension Wise, The Pensions Advisory Service, and the Money Advice Service were merged into one organisation titled the Single Financial Guidance Body (SFGB). The SFGB is now known as the Money and Pensions Service (MaPS) and offers guidance on pensions and money, debt advice and consumer protection. MaPS published its *UK Strategy for Financial Wellbeing* in January 2020 and is due to publish its *Delivery* plans in the Autumn of 2021.

From June 2021 the existing websites for Pension Wise, The Pensions Advisory Service, and the Money Advice Service were deactivated and anyone trying to access the old websites will be redirected to the most applicable MoneyHelper page on its website. MoneyHelper is designed to help members of the public make their money and pension choices clearer with impartial guidance backed by the Government.

MoneyHelper
Money and Pensions Service
120 Holborn
London
EC1N 2TD

Pensions Helpline: 0800 011 3797 or +44 20 7932 5780
Money Helpline: 0800 138 7777 or +44 20 3553 2279
Website: www.moneyhelper.org.uk

The Pensions Advisory Service and Money Advice Service are no longer functioning and instead MoneyHelper will deliver the services these two organisations previously provided.

Pension Wise

Pension Wise is a Government service provided by MoneyHelper that offers individuals free tailored guidance, online, over the telephone or face to face regarding UK-based pensions:

- to explain what options are available and how to make the best use of pension savings;
- information on the tax implications of the different options and other important considerations; and;
- how to look out for scams and what to do next.

Telephone: 0800 138 3944 or +44 20 3733 3495
Website: www.moneyhelper.org.uk/en/pensions-and-retirement/pension-wise

Pensions Ombudsman

The Pension Ombudsman is available to help members and beneficiaries of occupational pension schemes resolve any difficulties they may have encountered and which they have failed to resolve with the trustees or administrators of schemes. The Pension 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 Trustee under the second stage of the procedure. The Ombudsman can investigate and determine any complaint or dispute of fact or law involving occupational pension schemes. The services of the Ombudsman are available to the members, beneficiaries and prospective members of pension schemes.

The Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
London
E14 4PU

Telephone: 0800 917 4487
Website: www.pensions-ombudsman.org.uk
Email: enquiries@pensions-ombudsman.org.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 as follows*:

Telephone: 0800 731 0193 or +44 191 215 4491
Website: www.gov.uk/find-pension-contact-details

**Due to Covid-19 it is currently not possible to contact the Pension Tracing Service via post.*

NGEG Engagement Policy Implementation Statement

This document sets out the actions undertaken by the Group Trustee, its service providers and investment managers, to implement the stewardship policy set out in the Statement of Investment Principles ("SIP"). We have included voting and engagement information that has been gathered from the asset managers along with an overview of how the stewardship policies within the SIP have been implemented over the reporting period.

This is the first engagement policy implementation statement the Group Trustee has prepared and covers the year ending 31 March 2021.

Group Stewardship Policy

The following bullet points set out the Group Stewardship Policy in force over the majority of the reporting year to 31 March 2021, as set out in the SIP. The full SIP can be found online here LIBRARY - www.ngeg.nationalgridpensions.com/group-sip/ .

- 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 promotion of corporate responsibility in the underlying companies and assets in which the Group invests, as this ultimately this creates long-term financial value for the Group and its beneficiaries.
- The Group's assets are managed by third party fund managers, and the Group Trustee expects these fund managers to engage with the companies in which the Group's assets are invested on ESG matters. The Group's equity fund managers are required to report to the Group Trustee on their ESG integration processes and also on their proxy voting and engagement activities on a quarterly basis. The Group Trustee also takes input from its advisers on the managers' approaches to ESG, where relevant and available, and monitors this quarterly.
- The Group Trustee will review the alignment of the Group's stewardship and other policies to those of the Group's fund managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Group Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change. If an incumbent manager is found to be falling short of the standards the Group Trustee has set out in their policy or is making decisions not in line with the Group Trustee’s policies or expectations, the Group Trustee undertakes to engage with the manager and seek a more sustainable position in the first instance but may look to replace the manager if this is deemed necessary.
- From time to time, the Group Trustee may consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, a fund 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 to 31 March 2021

The Group Trustee carried out significant work at a strategic level to ensure its stewardship policy was followed, this is demonstrated in the following sections with respect to training activity and other related processes carried out over the year.

Training

Over the year, the Group Trustee and its Investment Committee held several responsible investment training sessions which provided updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

The Group Trustee had previously completed a survey ("Viewpoints") and reviewed the responses on their responsible investment beliefs. In June 2019, the Group Trustee agreed its Responsible Investment Policy. This followed on to updating the SIP and an action plan to review the Group's investments in respect to ESG risks and opportunities.

Updating the Stewardship Policy

The Group Trustee has ensured the Group appropriately updated the Stewardship policy in the SIP. In line with regulatory requirements, to expand the SIP for policies such as costs transparency and incentivising managers, the Group Trustee also reviewed and expanded the Stewardship policy in September 2020. The updated wording in the SIP illustrates how the Group Trustee recognises the importance of its role as a steward of capital, as well as indicating how the Group Trustee would review the suitability of the Group's investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

The SIP has been made available online where it can be accessed by the public.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with monitoring reports being provided to the Group's Investment Committee by Aon. The reports include high-level engagement and voting data from the Group's equity managers as well as ESG ratings and highlight any areas of concern, or where action is required.

The ESG rating system is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a manager's level of ESG integration or broader responsible investment developments.

Climate risk management / TCFD / carbon reporting

The Group is currently progressing towards meeting the requirements as set out as part of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD establishes a set of eleven clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change. The increased transparency encouraged through the TCFD recommendations is intended to lead to decision-useful information and therefore better informed decision-making on climate-related financial risks. Aligning the Group to the TCFD can be a long process and requires careful planning. Aon are currently working with TEL and the Group Trustee to agree an action plan to meet the required deadline, 1 October 2022.

Manager Appointments

The Group Trustee is currently finalising an ESG focussed action plan that includes a review of its existing and newly appointed fund managers. ESG considerations and alignment with the Group's Responsible Investment

Policy have played a key part in the decision making process to appoint new managers to the Group's investment portfolio.

Implementation

The Group Trustee delegates investment decisions, including voting and engagement decisions to its investment managers and this approach has been maintained over the year. The following sections set out how the Group's managers have carried out voting and engagement in line with the Group Trustee's policy and expectations.

Voting and Engagement Activity carried out on behalf of the Group Trustee

Overall, the Group Trustee believes the stewardship carried out on its behalf over the year to 31 March 2021 has been adequate, noting examples of the willingness and ability of the DB and AVC managers (including the delegated manager) employed by the Group to take proactive votes against management where appropriate. However, not all managers were able to provide the necessary voting statistics on all funds at the time of writing this statement – the Group Trustee's investment consultants are continuing to request this information on the Group Trustee's behalf and expect this will be made available in time for next year's statement. Additionally, some managers were unable to provide examples of significant votes, and Utmost Life and Pensions failed to provide any information at all on the voting and engagement policies in place across the Group's AVC arrangements held with them.

The Group Trustee recognises that it has a responsibility as a large institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Group invests in. Accordingly, the Group Trustee expects improvements in the provision of this data over time, in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Group through considered voting and engagement.

The section below lays out the voting and engagement policies of the Group's investment managers in place over the year to 31 March 2021. A summary of voting statistics over the year to 31 March 2021 carried out by the Group's investment managers can be found in the Appendix.

DB Section Voting and Engagement activity

- ## Equity Funds

Over the year, the Group's DB Section was invested in the AIL Global Equity fund and the Walter Scott Global Equity fund. The AIL Global Equity Strategy employs a 'fund of funds' approach, with the current underlying managers as follows:

AIL Global Equity Strategy: Underlying Managers	Fund Name
Sands Capital	Global Growth Fund
Harris Associates	Global Equity Fund
GQG Partners	Global Equity Fund
Longview	Global Equity Fund
Arrowstreet	Global Developed Equity Fund

A summary of voting statistics for the underlying AIL Global Equity Fund managers and the Walter Scott Global Equity Fund is provided in the Appendix.

AIL Global Equity Strategy

The Group Trustee's review of the engagement levels for the AIL strategy take place at two levels due to the fund structure. Both the activity of AIL to engage with the underlying managers and the activity of the underlying managers to engage with the companies in which they invest has been taken into consideration.

Under the Group Trustee's delegated mandate managed by AIL, managers are appointed to achieve an overall target return. The Group Trustee delegates the monitoring of ESG integration and stewardship quality to AIL and AIL have confirmed that all equity managers have been rated 2 or above on AIL's four-tier ESG ratings system.[1] This means that all the appointed asset managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.

The Group Trustee has reviewed the AIL Annual Stewardship Report and are content that AIL is using its resources to appropriately influence positive outcomes in the strategies in which they invest.

AIL have undertaken a considerable amount of engagement activity over 2020, some examples of which have been outlined within this statement. AIL held around 35 ESG specific "deep-dive" meetings predominantly covering the equity and fixed income managers that are invested in by AIL across all delegated funds in which AIL's clients invest. At these meetings, AIL were able to analyse and discuss the voting and engagement activities undertaken during calendar year 2020, highlighting areas of improvement and discussing manager strategy for responsible investment moving forward.

Over 2020, AIL maintained a dialogue with one of its leading global asset managers on behalf of many of their schemes which invest with the manager. This culminated towards the end of the year in a discussion with their Global Head of Stewardship with respect to numerous areas of concern regarding stewardship, in particular, the manager's ability to demonstrate commitment to publicly stated climate change goals. Discussions were held regarding the following:

- AIL's analysis of the manager's voting actions over 2020 showed that the manager had not been voting in a manner consistent with their public pledges nor rhetoric on the importance of sustainability issues. The manager acknowledged that there was a disconnect between vote decisions made in the first half of 2020, but that they had markedly changed their voting policies in the second half of 2020, and reassured AIL that moving forward, vote decisions would better align with their stated positions on such ESG matters. AIL expect to see this reflected in voting actions by mid-2021.
- AIL expressed concern that given the level of potential influence the manager had; the manager was unable to bring shareholder resolutions to those companies with which it had reason to engage. Reasons for this are regulatory and concern its investor classification status. The manager acknowledged AIL's concern and agreed to follow up with further detail. While its situation has not yet changed, it is possible that regulatory restrictions may be eased in the future allowing the manager to use shareholder resolutions as a tool. The manager has since stated its intention to use its vote for shareholder resolutions brought by other organisations, to greater effect.

The manager has since provided further information on how they are updating their policies in a manner consistent with their strategy of intensifying engagement on sustainability. For example, in areas such as the transition to the low carbon economy; diversity, equity and inclusion; voting on shareholders proposals.

AIL welcome the improved stance on ESG issues from the manager and their proactive updating of their policies to more closely align with their responsible investment goals. AIL will continue to monitor and engage with the manager, scrutinising their voting and engagement actions. AIL is encouraged that the manager plans to strengthen their influence with invested companies to better effect, especially the changed stance around supporting appropriate shareholder proposals.

The following sections provide information on the voting and engagement activity of the underlying managers of the AIL fund over the year to 31 March 2021.

[1] More information on the Aon ESG Ratings Process can be found here: https://www.aon.com/getmedia/0b52d7ec-db77-41bc-bb45-9386034db392/AonCanada-Publication-Investment -GuideESGRatings.aspx

Sands Global Growth ("Sands")

Voting Policy

Sands holds a policy that votes made in proxy should consider the short and long-term implementations of each proposal. Sands states they are neither an activist in corporate governance nor an automatic supporter of management but hold a policy which usually means they will vote with recommendations from management. This is because they believe the management teams of most companies they invest in generally seek to serve shareholder interests. Sands will vote in accordance with the recommendation of management, unless, in Sand's opinion, such a recommendation is not conducive to long term value creation or otherwise in the best interest of its clients. Sands employs the services of Institutional Shareholder Service (ISS), Glass Lewis and Stakeholders Empowerment Services (SES) for research, analysis and voting recommendations.

An example of a significant vote against management took place in September 2020 regarding executive officer compensation at NIKE, Inc and was assessed as significant as Sands were in the minority on this issue and felt that the company's disclosures around a multi-year compensation plan made it difficult to support. Sands believe that paying a combined $20M transition bonus to ex-CEO Mark Parker & incoming CEO John Donahoe without clear disclosed targets is inappropriate and that utilizing the 'top 45% TSR for the S&P 500" was not an appropriate hurdle for compensating top-tier executives at a company like Nike. Sands engaged the company and some clarity was provided (Exec. Chairman Mark Parker's pay will be coming down to $8M p.a. or so in the future), but they still felt as though the quality of the pay program did not match the levels of pay provided to the CEOs. There is also a notable gap between other senior executives and John Donahoe's pay package. Sands plan to continue engaging the company on this over time to help improve the plan.

Engagement Policy

Sand's engage on business-specific matters that may have a material impact on their investments. They will engage with companies for the following three objectives;

1. To inform their business cases and build conviction in businesses
2. To exchange perspective on matters relevant for long-term shareholders' interest
3. To discuss ballot proposals and inform their proxy voting decision

In September 2020, Sands engaged with Illumina regarding their acquisition of Grail, a company it had spun out in 2016. Sands had several concerns around the deal (valuation, process, possibly insider ownership), and decided to engage the company on the matter in order to better understand the acquisition. Sands first engaged the CEOs of Illumina and Grail, who laid out their strategic thinking behind the proposed acquisition, and then followed up with two Illumina board members. The engagement allowed Sands to gain some comfort around the transaction given the long-term opportunity for Illumina. Following the closure of the deal, Sands have advised the board that they would like to see the CEO's compensation be directly tied to the performance of GRAIL given that it was his decision. Sands believe that accountability is important for large transactions like this if pushed by the management team.

Harris Global Equity Fund ("Harris")

Voting Policy

Harris have a proxy voting committee, who are responsible for recommending proxy voting guidelines, establishing and maintaining policies and procedures for proxy voting, and ensuring compliance with these policies and procedures.

Harris state that they will normally vote in line with management's recommendations, as they believe "voting with management is generally the same as voting to maximize the expected value of investments" following the extensive assessment of the company's management when choosing to invest. One example where Harris voted against management was in relation to executive officers' compensation at Liberty Global plc. Harris, along with c. 35% of shareholders voted against management regarding its remuneration policy, as it believed the CEO's compensation was excessive, and that half of it was time based, rather than performance.

Engagement Policy

Harris regularly monitor invested companies and take appropriate action if investment returns are at risk. To ensure that the companies are acting in their shareholders' best interests, Harris regularly communicate with management about new initiatives and matters affecting the business. Annually, Harris have more than a thousand management meetings with C-level executives and board members.

By the time Harris decides to invest in a company, it already concludes that management and the board of directors are likely to act in shareholders' best interests. When management does not meet Harris' expectations, a private and direct conversation is initiated. Engagement is carried out under the premise that unsatisfactory or insufficient change by the company will generally be met with divestment.

In November 2020, Harris engaged with the Oracle Corporation regarding gender and racial pay gap reporting. After considering the case, Harris decided to vote with management against a shareholder resolution on the matter, but engaged with the company directly to communicate the importance that they attach to this issue. Harris have stated they will continue to monitor that the issue is being adequately managed. Harris did not support the shareholders resolution as they believed it was not in the financial interest of shareholders, and because Oracle stated that it is already reporting in line with other tech companies and undertaking sufficient initiatives to ensure gender equality in the workplace.

GQG Partners Global Equity Fund ("GQG")

Voting Policy

GQG's voting policy is to determine their vote based on what is most likely to further the economic value of each investment for the expected holding period. Ultimately each vote is cast on a case-by-case basis, considering the relevant circumstances at the time of each vote. Guidelines were established with their proxy voting agent (ISS) and are intended as a reflection of proxy voting decisions most likely to maximize the ultimate value of assets under management.

GQG did not provide an example of a significant vote cast over the year.

Engagement Policy

GQG states they will engage with company management if they believe such an engagement will maximize shareholder value in the long term. GQG leverage their third-party ESG service provider, Sustainalytics, to monitor and provide ESG risk rankings across its portfolios. If a company's ESG Risk Rating is significantly downgraded, their investment team will review the cause of such downgrade and where appropriate, will engage with company management to discuss the issue further. GQG may also use individual engagements with companies to supplement research and monitoring for current and potential holdings.

GQG also periodically partakes in thematic engagement, whereby they send questionnaires to selected companies regarding a certain topic, and share the responses across investment teams. This may lead to additional engagement if necessary. Collaborative engagement is also something GQG participate in through working with ISS to identify companies who have failed to respect established ESG norms or joining conference calls with companies in collaboration with other investors.

In August of 2020, GQG disinvested from the company Barrick Gold following engagements regarding tailings dam safety issues (a tailings dam is an earth-fill embankment dam used to store by-products of mining operations). The discussions with management intensified concerns about the effectiveness of Barrick's ESG procedures and the safety of its tailings dams. The company's response to GQG's questions lacked transparency and were undermined by further research by GQG non-traditional analysts.

In May 2020, GQG engaged with Norilsk Nickel regarding ongoing environmental issues surrounding diesel spills and the progress made to identify the root causes and remediation. The company outlined its conclusions about the causes of the failure, released the summary of a third-party investigation into the incident and detailed organization changes made as a result. The response reassured GQG that management would be prioritizing ESG issues going forward and was restructuring the business to lower the probability of future environmental disasters.

Longview Global Equity Fund ("Longview")

Voting Policy

Longview approve the voting policy used by proxy-voting provider Glass Lewis on an annual basis. However, voting decisions are made on a case by case basis, and Longview will vote contrary to Glass Lewis' policy when they deem necessary. Such a decision will be made collectively by the Longview research team and CIO and will often follow engagement between the research team and the company.

Longview states that it believes companies should be managed in the interest of the shareholders and therefore they ensure clients' voting rights are used responsibly. Longview have provided a number of examples of where they have voted against management, including with regards to Oracle in October 2020. Longview voted against management in relation to its executive compensation and supported a shareholder proposal against management of the company regarding race and gender pay gap reporting.

Engagement Policy

Longview engage with the senior management of the companies they are invested in, and concentrate on strategy, corporate responsibility, and any factors that would affect a company's ability to deliver long-term sustainable value for shareholders. Longview also evaluates engagement with companies through ongoing dialogue with its management and incorporate these results into its own investment criteria. While Longview will put its views forward strongly in meetings, it does not consider itself an activist. If they do not believe, after lengthy discussions, that management was acting in the shareholder's best interest, Longview would sell the holding in order to minimise loss of shareholder value.

For example, in May 2020, Longview engaged with Compass following press speculation that the company was to issue equity through a share sale. Longview expressed its opinion that it would prefer the company raised additional capital through a credit facility or debt in order to ensure clients' investments were not unnecessarily diluted. The engagement was completed through written correspondence. While the company did then announce it was raising £2bn of equity, Longview stated that, though they believe Compass could have avoided the equity issuance, Longview sees the rationale of raising additional capital and appreciates Compass's argument against raising more debt. Longview still believes that there remains upside given the company's fair value.

Arrowstreet Global Developed Equity Fund ("Arrowstreet")

Voting Policy

Arrowstreet employs ISS to provide proxy-voting services and generally follows their proxy recommendations but may override an ISS decision in circumstances where ISS discloses a material conflict of interest or if Arrowstreet determine that doing so would be in the best interests of their clients. The third-party voting service is reviewed regularly to ensure proxy voting recommendations are based on current and accurate information and to address any conflicts of interest or other areas of concern from the service provider.

Engagement Policy

Arrowstreet stated that they do not engage with companies due to the quantitative nature of their strategy, which includes a high turnover of investments. AIL engaged with Arrowstreet regarding their investment strategy not suiting traditional engagement and discussed the possibilities of using a third-party engagement provider, which the manager is now considering.

Arrowstreet recognize that engagement is increasingly important to some of their investors, and as a result, they have partnered with a leader in responsible investing to provide that service. All engagement activities are fully outsourced through Sustainalytics, offering an established, standardized and systematic engagement framework with a global investor base. The engagement framework is incident and compliance based driven to remediate and mitigate violations of international norms and standards involving labour, environment, business ethics and human rights. Historically, Arrowstreet did not engage with companies, and due to the timing of this new partnership with Sustainalytics, they do not have engagement data for the requested time period requested but hope to be able to accommodate future requests.

Walter Scott

Voting Policy

Walter Scott does not use a service provider to vote on their behalf. They use Institutional Shareholder Services (ISS) for information purposes only and over the year to 31 March 2021, voted themselves on all proxies where they were eligible to do so. Walter Scott exercise discretionary proxy-voting authority with a view to safeguarding their clients' best interest. They state that they consider it their duty to vote client proxies in a manner consistent with the client's best interest without regard for the fund manager's business needs. Clients may choose to vote their own proxies in segregated accounts only.

The following are examples of significant votes made by Walter Scott with regards to Alphabet's pay practices, based on Walter Scott's own views on what constitutes a significant vote. Walter Scott state that Alphabet's compensation remains egregious and whilst there have been some improvements they are insufficient in quantum and demand. The cost of the stock plan is still excessive and permits the transfer of awards without stockholder approval. Consequently, as per previous years, Walter Scott voted against both the advisory vote on compensation and the stock plan at the June 2020 AGM. Walter Scott also withheld on the re-election of the Compensation Committee members, again having done so in previous years. Walter Scott's preferred stance was to vote against these directors, however, this option was not permissible. Furthermore, Walter Scott have also repeatedly voted for a shareholder proposal (against management) to approve recapitalization plan for all stock to have one-vote per share. In addition, they supported another shareholder proposal (also against management) to require a majority vote structure for the election of Directors as they believe this would improve corporate governance by increasing shareholder influence on the election of Directors. An email was sent to Alphabet outlining their voting decision and rationale.

Engagement Policy

Walter Scott is signatory to a range of responsible investment initiatives, namely: UNPRI, UK Stewardship code, Japanese Stewardship Code, CDP (Formerly Carbon Disclosure Project), Climate Action 100+, International Corporate Governance.

Walter Scott take a tailored approach to company engagement. They do not have a standardised starting point for engagement across sectors, geographies and capitalisations but typically, material issues or those that are a cause of concern to the team or client, are prioritised. As decision-making is team-based, all members of the team are familiar with all stocks in the portfolio. Because of this familiarity, issues and questions are raised at research team meetings (occurring three times weekly) and are part of their regular discussions with management.

Over 2020 Walter Scott engaged with 339 companies (579 meetings and calls) where ESG engagements accounted for 321 of these meetings. Some aspect of environmental, social or governance issues will have been discussed at these meetings however, those focused around governance and related matters tend to be more common during proxy voting season.

An example of engagement at the strategy level was with Disney regarding remuneration. Walter Scott first engaged on this with Disney in 2018 with the aim of better aligning management remuneration with long-term sustainable wealth creation. This engagement was led by members of the research team at Walter Scott and the percentage of portfolio allocated to Disney was 2.6%. The rationale behind this engagement was the Walter Scott's strong belief that, effective remuneration structures that align management incentives with appropriate long-term goals is an exceedingly important component of successful corporate governance, and directly aligned with their engagement policy.

Engagement on this topic has been conducted with both senior members of management team, and indirectly with the board through Disney's investor relations function. The format of the engagements has been a mixture of in-person meetings where they have verbally communicated their points, and written correspondence.

Disney has come under internal scrutiny given the magnitude of the Chairman's pay in his previous role as CEO. Ongoing engagement over the last two years has led to marked improvement in executive pay structure. Walter Scott have formally written to the company expressing their disappointment in the pay package of the chairman given reduced responsibilities. They have also formally raised concerns around the proxy's portrayal of the 'performance-based' proportion of the CEO's remuneration package. The company has responded positively to their engagement and intimated that the board has taken on board their points of view.

The engagement is ongoing, and Walter Scott are still looking for positive developments to ensue. They have notified the company of their willingness to vote against management and director re-election in instances where positive change isn't forthcoming.

DB Section Engagement Activity – Fixed Income, Hedge Funds and Real Estate

The Group's DB Section also invests in a number of fixed income strategies, hedge funds and real estate portfolios.

The Group Trustee acknowledges that the concept of stewardship may be less applicable with respect to its fixed income and alternative (hedge fund and property) investments. However, from the information received, it is encouraging that the majority of the managers are aware and active in their role as a steward of capital.

The following engagement policies and examples demonstrate some of the engagement activity being carried out on behalf of the Group over the year.

Goldman Sachs Asset Management – GSAM Strategic Income (Unconstrained) Fund

Goldman Sachs' engagement policy has been drawn up in accordance with the requirements of Directive (EU) 2017/828 and its implementing measures (collectively, the “Shareholder Rights Directive II”) and sets out how Goldman Sachs Asset Management (“GSAM”)* integrates shareholder engagement into its investment strategies with the ESG Criteria including climate related topics (including reducing greenhouse gas (GHG) emissions; promoting disclosure of climate metrics, such as emissions data, targets and goals; and addressing physical and transitional climate risks) and social risks (including increased disclosure of workplace demographics; and gathering information on a Company’s commitment to all stakeholders; including customers, employees, suppliers, communities, and shareholders).

In October 2020, GSAM launched a climate collaboration engagement framework to encourage disclosure of material emissions data. The GSAM Stewardship Team worked across the investment management teams, including the fixed income team, to identify companies held in their portfolios who do not disclose emissions data considered material under the Sustainability Accounting Standards Board (SASB) framework. GSAM are seeking to engage with these companies to promote disclosure of material climate data.

Insight Investment Management – Insight Bond Plus Fund

Insight states within their responsible investment policy that they engage as a bondholder with management and other entities to discuss issues such as strategy, deployment of capital, performance, remuneration, risk management and ESG factors. They prioritise engagement dependent on a variety of factors which can include portfolio position, materiality of issue and company access. In 2019, Insight conducted 1,151 engagements, of which 82% incorporated discussions of ESG issues - up from 54% of 1,311 engagements in 2018.

An example of engagement was in Q4 2020 with RMBS La Trobe. The originator has strong governance and social scores, but it is disappointing with regards to providing information on the environmental risks. Insight has engaged with them on providing information on environmental metrics and stress tests and to incorporate climate change factors into its origination process. Insight also believe there are also some areas that can be improved on the origination and servicing side such as the way origination teams are compensated and the setting of fee incentives for the services collection process. Insight would also like to see the complaints independently reviewed away from the service function.

PIMCO – Dynamic Bond Full Authority Strategy

At the firm level, PIMCO incorporates material ESG factors into the investment research process to better assess issuer risks. In ESG dedicated portfolios, PIMCO implement an additional ESG scoring system which considers how an issuer fairs against its peers regarding ESG momentum and chooses to invest in the issuers who score well in this ("ESG issuers").

PIMCO state that for non-ESG dedicated portfolios, like the Dynamic Bond Full Authority Strategy the Group is invested in, there is no explicit objective to actively engage with issuers on sustainability practices. However, it might benefit from the intensive engagement work pursued in the ESG dedicated portfolios, given that issuers may be held in both strategies. For example, PIMCO's engagement specialist and credit team met with the CFO and Treasurer of Aercap to learn more about its ESG performance, given the company did not publish a sustainability report. The company have now agreed to move towards sustainability reporting following the engagement.

JP Morgan Asset Management – JP Morgan Multi-Strategy Fund

JP Morgan Asset Management ("JPM") retains the services of the ISS voting agency to implement the JPMorgan Asset Management voting policy and uses research from ISS and Glass Lewis as an input in evaluating how a proxy should be voted. JPM 'tag' certain votes in the ISS system, to allow them to be subject to extra scrutiny, for example if engagement is ongoing, or if the company has been flagged as an 'ESG outlier', or if an analyst or portfolio manager has requested it be reviewed in more detail.

JPM votes at approximately 8,000 shareholder meetings per year, in over 80 markets worldwide. For key issues or core shareholdings, or where there is ongoing engagement, they endeavour to inform companies when opposing their recommendations.

In their engagement with the companies they invest in, JPM have five main investment stewardship priorities that they believe are most applicable. Governance, Strategy alignment with the long-term, Human capital management, Stakeholder engagement and climate risk. Please see the link here for more information on Investment Stewardship at JPM. https://am.jpmorgan.com/blob-gim/1383664293468/83456/J.P.%20Morgan%20Asset%20Management%20investment%20stewardship%20statement.pdf

Lighthouse Partners – Lighthouse Diversified Fund

Lighthouse generally does not trade in securities itself and their investment management business is based on allocating capital to third-party hedge fund managers, and as a result, do not have a Firm-wide ESG policy. Lighthouse state that they do take ESG issues seriously and strive to address ESG matters by first addressing the matters with investors who are particularly focused on such topics via the creation of products incorporating ESG approaches. Secondly, Lighthouse offers custom exposure reports for managed account investments that provide various position-level exposures to investors seeking information about ESG exposures, such as information on fossil-fuel related exposure. Lastly, Lighthouse has resolved to draft a Corporate Sustainability and Responsibility Statement for public release with purpose of setting out how they ensure ethical conduct across the company, management of human capital and consideration of the impacts on the environment, community and other stakeholders.

Lighthouse's proxy voting policy ensure that votes (if any) are voted to further the best interest of their funds. The policy also establishes a mechanism to address any conflicts of interest in situations where Lighthouse may vote proxies.

BlackRock – UK Property Fund

The UK property Fund invests directly in UK real estate so the concept of stewardship and engagement is less applicable to these investments. However, BlackRock have stated that they recognise that the long-term and physical nature of real asset investments make environmental, social and governance (ESG) considerations especially important, and that attention is given to sustainability issues and trends, including the impact of climate change, resource constraints and demographic trends through their real asset investments. BlackRock reports annually on its property funds to the Global ESG Benchmark for Real Estate (GRESB), which aims to assess and benchmark the ESG and other related performance of real assets across the market.

CBRE Global Investors – UK Property Fund

CBRE do not invest in companies themselves. However, they do engage with stakeholders, primarily the tenants within the portfolios in direct real estate. The exception is for indirect investments where CBRE engage with the underlying fund manager or operating partner. As at end Q4 2020, there were 51 tenants in the portfolio, across the 11 directly held assets. Over the 12 months to 31 December 2020 CBRE engaged with all of the 51 tenants.

CBRE engage with the underlying property managers on ESG issues throughout their investment process, starting at the due diligence stage to ensure the holding will contribute positively to the portfolio's sustainability. The manager's approach to ESG is reviewed with reference to internal; strategy, processes and policies, and submission to independent organisations. CBRE is a signatory of the PRI. They are not a signatory of the UK Stewardship Code, as they state this has been focused on the listed equity sector. However, their new ESG visions, policy and reporting, due to be published in Q4 2020, will be aligned with the Code's scope and purpose after the 2020 version now includes clauses that can be adapted to suit different asset types.

AVC Arrangements Voting and Engagement activity

The Group's AVC arrangements allow members to choose from a range of funds in which to invest their pension savings. This includes a range of asset managers and asset classes. We have laid out below the voting and engagement activity carried out by these managers over the year to 31 March 2021. Engagement policies are relevant to both fixed income and equity strategies. Voting policies and statistics for the period are relevant only to equity investments. The Group Trustee acknowledges that the concept of stewardship may be less applicable with respect to its fixed income investments, particularly for short-term money market instruments and gilt investments.

For the fixed income investments, the Group Trustee acknowledges the ability to engage and influence companies may be less direct than with equity holdings; from the information received, it is encouraging that the managers are aware and active in their role as a steward of capital.

The section below lays out the overarching voting and engagement policies in place for each of the AVC managers, recognising that there are a large number of funds available for members to choose from with each manager. A summary of voting statistics for each of the individual funds in the AVC section is provided in the Appendix (where relevant and available). Utmost Life and Pensions have not as yet been able to provide information regarding the stewardship of the Group's AVC arrangements. The Group Trustee expects improvement in this area and their investment advisers are engaging with both Utmost and JP Morgan (as the underlying fund manager for the Utmost arrangements) on gathering the relevant information in order to report on this in the future.

Aviva Investors

<u>Voting Policy</u>

Aviva's voting policy is reviewed on an annual basis and updated subject to Board approval. Final decisions are made by the ESG analysts in conjunction with portfolio managers who inform the decision-making process by bringing their knowledge and assessment of company strategy and any special circumstances. Aviva use governance and other research from a number of sources to support in their voting decision. These include the Investment Association's IVIS service and ISS. Aviva use research for data analysis only and do not automatically follow any voting recommendations.

<u>Engagement Policy</u>

Aviva seek to prioritise engagement by size of holding and where they are most likely to benefit their clients. This allows Aviva to consider additional context from the company which occasionally results in them changing a vote. In addition, every year Aviva write to the large majority of the companies they hold to notify them of the voting policy (highlighting any changes made), and also direct them to Aviva's voting records, where the companies are able to see how Aviva have voted at their AGMs etc and reasons for not supporting any resolutions. Aviva have a strong record of opposing resolution and holding boards to account. Aviva maintain a database to record voting and engagement with companies which allows them to review the effectiveness of their work. For Aviva's priority engagements their intention is to review these on a quarterly or half yearly basis.

Under circumstances where, despite engagement with companies, Aviva feels their concerns have not been adequately addressed, the matter may be escalated into a more focused project of intervention aimed at securing changes to the board, management, practices or strategy. As part of Aviva's escalation process, they may ask to discuss issues with executive and/or non-executive directors, work with other institutions and investors to press for change or exercise voting rights against the board. As a last resort Aviva may requisition a general meeting of a company or a resolution at an Annual General Meeting, or support others who are doing so. Aviva may also make public statements where they believe this is appropriate. However, Aviva expect this to happen only in the most extreme cases.

Aviva's Engagement policy is publicly available here: https://www.aviva.co.uk/services/about-our-business/about-us/our-approach-to-responsible-investing/

An example of engagement relevant to a number of the Group's Aviva funds took place in March 2021 with Toshiba Corporation, regarding the appointment of three individuals to investigate status of operations and property of the company. Support for this shareholder proposal was considered warranted given the doubts over the legitimacy of Toshiba's earlier investigation over the 2020 AGM vote irregularities whose conclusions were drawn based on one-sided conversations. Conducting an investigation in the way requested by the shareholder proposal was considered unlikely to divert managerial resources away from business operations and the cost burden on Toshiba should be minimal. Now that Toshiba is once again listed on the First Section of the Tokyo Stock Exchange, the company should increase transparency and establish a solid corporate governance system through an independent investigation.

Aviva engaged with both the shareholders who had submitted the proposal and Toshiba ahead of the vote and were pleased to see that the resolution obtained approval. According to Toshiba's press release, the investigators have already set up a hotline for any individuals who are willing to provide information. Furthermore, Toshiba's Board and its management team have a legal obligation to cooperate with investigators duly appointed by shareholders. There is clearly room for Toshiba's Board to improve its relationships with its shareholders and regain trust. Aviva state that they will be following up with the company after the AGM and monitoring progress with interest.

BlackRock

Voting Policy

Blackrock use Institutional Shareholder Services' (ISS) electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. Blackrock's voting decisions are informed by internally-developed proxy voting guidelines, their pre-vote engagements, research, and the situational factors for each underlying company. Voting guidelines are reviewed annually and are updated as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

Over 2020, BlackRock have increased their level of reporting by publishing more voting bulletins with detailed information and rationale for voting decisions. These specific significant votes are chosen by BlackRock based on a number of criteria such as level of public attention, and impact of financial outcome.

In June 2020, BlackRock voted against the re-election of Karl Gruber as Director for Evraz, due to the company's lack of progress on climate-related reporting. Evraz is a steel, mining and vanadium company listed in the UK with operations in the Russian Federation, the United States, Canada, the Czech Republic, and Kazakhstan. The company's principal activities include manufacturing steel and steel products, iron ore mining and enrichment, coal mining, manufacturing vanadium products, and trading operations and logistics. Evraz is controlled by a group of shareholders which in aggregate own 57% of the company. BlackRock began their multi-year engagement in November 2017, they wrote a letter to Evraz CEO and chairman of the board, asking the company to closely review the TCFD framework and to consider reporting in alignment with its recommendations. Since sending their letter, Evraz have taken positive steps, For example, they set a 5-year target to maintain an intensity ratio of less than two tons of carbon dioxide equivalent (tCO_2e) per ton of crude steel cast. For 2019 the company achieved 1.97 tCO_2e per ton of crude steel cast, which, while meeting the company's target, remains above the average in the steel industry (average of 1.83 tons of CO_2 were emitted for every ton of crude steel cast). The current sustainability reporting provides some insights about operational carbon emissions but is not aligned with the TCFD framework.

BlackRock voted against the re-election due to the company's limited progress in explicitly aligning its reporting with the TCFD recommendations and lack of public commitments to move towards TCFD-aligned reporting that fell short of their expectations of large carbon emitters with a previous history of engagement with BlackRock on this topic.

More detail on the vote rationale can be found at the vote bulletin here:

https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-evraz-jun-2020.pdf

Engagement

The Blackrock Investment Stewardship (BIS) Team's stated key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management.

Over 2020, BIS had over 3,500 engagements — an increase of 35% against 2019 – with 2,110 unique companies, covering nearly 65% by value of their clients' equity investments. They also had 936 engagements on the impact of COVID-19.

More information, including case studies, can be found in the Blackrock Investment Stewardship Annual Report 2020;

https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020-calendar-year.pdf

Legal & General Investment Management ("LGIM")

Voting Policy

LGIM make use of ISS's proxy voting platform to electronically vote and augment their own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. They have put in place a custom voting policy with specific instructions that apply to all markets globally, which seek to uphold what they consider to be minimum best practice standards all companies should observe. Even so, LGIM retain the ability to override any voting decisions based on the voting policy if appropriate, for example of engagements with the company have provided additional information.

An example of significant votes at a company was in May 2020, when LGIM supported 10 out of 12 shareholder proposals put forward against the management of Amazon, the largest number of shareholder proposals put on the table for any US company this proxy season. Two resolutions were in relation to governance structures that benefit long-term shareholders, and the remaining eight were in relation to disclosure to encourage a better understanding of process and performance of material issues. The resolutions received between 1.5% and 30% support from shareholders.

The company had received press coverage due to the largely negative sentiment related to its governance profile and its initial management of the COVID-19 pandemic. This was an important topic for LGIM's multiple engagements with the company over the past 12 months, as well as the separation of CEO and board chair roles, a desire for directors to participate in engagement meetings, and details about the data transparency committed to in their Climate Pledge. The Stewardship team at LGIM received more inquires related to Amazon than any other company this season.

Engagement Policy

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public Policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

An example of engagement over 2020 was with Proctor and Gamble ("P&G"). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their Tier 1 suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by Green Century that P&G should report on effort to eliminate deforestation (that was voted on in October 2020), LGIM engaged with the P&G, the resolution proponent, and with the Natural Resource Defence Counsel to fully understand the issues and concerns. Through this round of engagements, LGIM decided to support this resolution as although P&G has introduced several objectives and targets to ensure their business does not impact deforestation, LGIM felt P&G was not doing as much as it could. LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC-certified sources. More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

M&G Prudential Investments

The M&G Prudential funds held in the portfolio are funds of funds and as such, the fund management has been delegated to a number of fund managers, including M&G Investment Management. Any voting there is delegated and carried out by those fund managers.

Engagement Policy

Throughout 2019 M&G developed its engagement process, adopting the Sustainable Accounting Standards Board ("SASB") framework to structure their research and engagement activity, allowing them to incorporate ESG factors into the investment process for their holdings at all stages. Over the period, M&G has created a question databank of over 600 sector-specific ESG questions, which identifies key material risks and themes as identified by both SASB and its own internal experience of the effects of ESG factors on credit and equity positions. This includes 250 climate related questions and incorporates the Transition Pathway Initiative ("TPI") and World Economic Forum ("WEF") Climate Governance guidelines to further build their capability to identify financially material risks on a sector by sector basis.

This helps steer M&G's analysts towards asking the right questions of investee companies dependent on their sector and ensures that when there is a potentially material risk, M&G is able to identify and act on it in an efficient way. Engagement cases can then be easily prioritised and through M&G's hashtag system, which allows its analysts across asset classes to monitor material ESG risks across the capital structure.

Previously, M&G only reported on engagement from an equities perspective, but the Corporate Finance and Stewardship team has more recently begun working closely with M&G's Fixed Income teams to understand their engagement activities, participate in ESG-related engagements and help to coordinate engagements across asset classes where appropriate. In 2019, M&G's Fixed Income teams undertook 91 ESG-specific engagements. The fund itself had 21 ESG engagements over 2020.

An example of an engagement at a firm level was in April 2020 when M&G engaged with GlaxoSmithKline to discuss its climate change strategy and enquire into the transparency in its supply chain. M&G held a dedicated engagement with senior individuals across the environment, anti-microbial and supply chain teams, and shared agendas and questions on issues such as board responsibility for meeting climate targets, managing extreme weather events across supply chains, and technical expertise on climate change. The engagement has concluded, and the outcome was that the board now aims to focus more on environmental issues including what positioning it wants to develop. In addition, the company does not yet have any climate-related targets linked to incentivisation but has flagged this to the remuneration committee. The remuneration committee is reviewing how goals are structured and will consider whether changes need to be made.

Schroder Investment Management

Voting policy

When voting, Schroders receive research from both ISS and the Investment Association's Institutional Voting Information Services (IVIS) for upcoming general meetings, however this is only one component that feeds into their voting decisions. In addition to relying on their own policies, Schroders will also be informed by company reporting, company engagements, country specific policies, engagements with stakeholders and the views of portfolio managers and analysts. Further information can be found in the Environmental, Social and Governance Policy for Listed Assets found here.
On a quarterly basis, Schroders also produce sustainable investment reports at the firm level, and in each quarter over the year to 31 December 2020, the firm has voted on 99.68% of all possible resolutions. Of these resolutions, 26 were ESG related and the manager voted with management on 20 of these. More information on voting and engagement statistics, including case studies can be found in these reports. The Q4 stewardship report can be found here. While there are a number of case studies within these reports, Schroders are as yet unable to disclose fund level significant vote examples. The Group Trustee recognises that these disclosures are relatively new but do expect improved transparency at a fund level moving forward.

Engagement policy

Schroders define engagement to be purposeful communication with an entity (e.g. government, corporate, institution, financial counterparties, regulator, industry body (or managers of SPVs or funds e.g. CLO manager)) on particular matters of concern with the goal of encouraging change at the entity and/or wider system improvement. Active ownership is a key part of the ESG process at Schroders. The Multi-Asset team monitor 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 they are 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 fund manager based on engagement activity.

An example of Schroders firm-wide engagement and voting over the year would be with Amazon, specifically on their labour standards. Schroders requested increased transparency of the company's workforce structure and employment practices. This is part of an ongoing engagement with Amazon, having done so sixteen times since 2015. This year, Schroders decided to escalate engagement by voting against the company at the AGM on social issues, namely voting against the lead independent director in May 2020. Schroders had a call with Amazon in March and again in May before the meeting. Whilst some improvements on sustainability issues had been made overall, such as increased transparency and an ambitious climate pledge, the fund did not think their labour and business ethics concerns had been addressed.

At the AGM in May 2020, Schroders supported six calls for increased disclosure on employment issues. These were resolutions, or recommendations, from other shareholders which we voted in favour of. Schroders have explained to Amazon that the vote marks the start of a 12-month window for improvement, and that further escalation will be considered at the 2021 AGM.

Appendix - Voting Statistics

The table below shows voting statistics for each of the relevant funds used by the Group and its members over the year to 31 March 2021. This data has been provided by the underlying managers.

At the time of writing, data was not available for the Sands Global Growth Fund, the LGIM Global Ethical Fund and all of the M&G Prudential and Utmost Life AVC funds. The information has been requested by the Group Trustee's investment advisers and will be shared in next year's statement once received.

DB Section Voting Statistics over the year to 31 March 2021

AIL Global Equity Strategy Funds	**For the period from 1 Apr 2020 – 31 Mar 2021**		
	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
Sands Global Growth Fund	98.10%	4.50%	0%
Harris Global Equity Fund	100%	5.00%	0%
GQG Partners Global Equity Fund	100%	6.68%	0%
Longview Global Equity Fund	100%	5.30%	0.50%
Arrowstreet Global Developed Equity Fund	96.51%	9.44%	1.10%

Walter Scott Fund	**For the period from 1 Apr 2020 – 31 Mar 2021**		
	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
Walter Scott – WSPL Global Equity	100%	3.00%	0.40%

AVC Section Voting Statistics over the year to 31 March 2021

Aviva Investors Equity & Multi-Asset Funds	For the period from 1 Apr 2020 – 31 Mar 2021		
	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
Aviva Pension Global Equity	98.20%	23.30%	2.20%
Aviva Pensions International Index Tracking	92.20%	29.70%	2.40%
Aviva Pension Mixed Investment (40-85% shares)	97.70%	22.40%	2.10%
Aviva Pension UK Equity	95.60%	18.30%	4.10%
Aviva Pension UK Index Tracking	99.70%	5.50%	1.40%
Aviva Pension My Future Focus Consolidation	99.00%	24.40%	2.10%

BlackRock Equity & Multi-Asset Funds	For the period from 1 Apr 2020 – 31 Mar 2021		
	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
BlackRock Aquila World ex-UK Equity Index	93.65%	6.34%	0.46%
BlackRock Aquila UK Equity Index	97.17%	5.84%	1.85%

LGIM Equity & Multi-Asset Funds	For the period from 1 Apr 2020 – 31 Mar 2021		
	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
LGIM World (Ex-UK) Equity Index	99.83%	19.16%	0.60%
LGIM Global Equity Market Weights 30:70 Index	99.69%	14.75%	0.72%
LGIM Ethical Global Equity Index	99.92%	15.95%	0.27%

LGIM UK Equity Index	100.00%	7.05%	0.01%
LGIM Multi-Asset	98.98%	17.71%	0.56%

M&G Prudential Equity & Multi-Asset Funds	For the period from 1 Apr 2020 – 31 Mar 2021		
	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
M&G Prudential International Equity	*Awaiting data*	*Awaiting data*	*Awaiting data*
M&G Prudential Global Equity	*Awaiting data*	*Awaiting data*	*Awaiting data*
M&G Prudential UK Equity	*Awaiting data*	*Awaiting data*	*Awaiting data*
M&G Prudential UK Equity Passive	*Awaiting data*	*Awaiting data*	*Awaiting data*
M&G Prudential Discretionary	*Awaiting data*	*Awaiting data*	*Awaiting data*
M&G Prudential Dynamic Growth IV	*Awaiting data*	*Awaiting data*	*Awaiting data*

Schroders Equity & Multi-Asset Funds	For the period from 1 Apr 2020 – 31 Mar 2021		
	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
Schroder Life Dynamic Multi-Asset	99.10%	10.88%	0.32%