Myners Adherence Document

Introduction

This is the Scheme's Statement of Adherence to the Myners Principles for the Defined Benefit Section of the Northern Gas Networks Pension Scheme (the "Scheme"), as made by the Trustee of the Scheme

In the document, the main recommendations from the Myners Review are set out in bold. The Trustee's response for each principle is set out below.

Principle 1: Effective Decision Making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

There is an ongoing Trustee training program in place and the adequacy of training is kept under regular review. Individual Trustees will receive additional training as appropriate on both investment and other Scheme-related matters. A record of training undergone is maintained by the Scheme Secretary.

The Trustee has established an Investment Sub-Committee ('ISC'). The remit of the Sub-Committee is given in Appendix 1 of this document. All decisions relating to the Scheme's investment strategy are taken by the full Trustee body. They have also established a rolling three year Business Plan for reviewing and monitoring the investment arrangements. This Plan is reviewed on a quarterly basis.

The Trustee is currently supported by an internal qualified pensions professional. It also takes advice on all aspects of the Scheme's investment arrangements from the appointed investment advisers, Willis Towers Watson.

The Trustee has a formal policy for identifying conflicts of interest.

Principle 2: Clear Objectives

Trustees should set out an overall investment objective(s) for the fund that takes account of the Scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

The Trustee has set the overall objective of the Scheme to meet all of the benefits of the Scheme at the time when they fall due. The asset allocation strategy has been set on the basis of an asset liability modelling study assessing the potential risks and expected returns from a range of different strategies. The Trustee has also explored the nature and strength of the sponsor covenant in setting the investment strategy.

An agreed joint aim of the Trustee and sponsoring company is to reduce investment risk in an efficient manner over time and in line with the long-term funding objective as described in the Statement of Funding Principles. This long term funding objective of the Scheme is to be self-sufficient by 2028, by which it is meant the Scheme will be:

- fully funded on the long term target basis of gilts+0.2% p.a.; and
- running an appropriate low risk investment strategy.

The Trustee has translated its objectives into a suitable strategic asset allocation benchmark for the Scheme. The Trustee has decided to invest the assets in a range of equity, bond, property and alternative investments.

At the time of reporting, the Trustee is in the process of considering insuring the pensioner proportions of the Scheme's liabilities through a Buy-In. As a result, the Trustee has undertaken a series of de-risking of the Scheme's assets over recent periods to align the portfolio with the objective of achieving a buy-in and reducing the long-term risk borne by the Scheme.

The investment in 'alternatives' is in the form of allocations to a European loans fund and secure income assets. The Trustee has previously invested in other 'alternatives' in the form of insurance-linked securities and listed infrastructure, and has also considered directly investing in other alternative asset classes, such as private equity, commodities and hedge funds. However, they do not believe that such investments are aligned with the long-term objectives of the Scheme at the current time.

The overall target asset allocation for the Defined Benefit Section of the Scheme is shown below.

Asset Class	Benchmark Weight (%)
UK Equities	*0.9*
Overseas Equities	*3.1*
Total Equities	**4.0**
UK Property	*5.0*
Total Property	**5.0**
Secure Income Assets	*3.0*
European loans	*5.0*
Total Alternatives	**8.0**
Liability Driven Investments (LDI)	*68.0*
UK Corporate Bonds	*15.0*
Total Matching Assets	**83.0**
Total	**100**

The Trustee has sought to hedge a portion of the Scheme's liabilities by investing in matching assets. The Scheme currently invests in matching assets which constitute 83% of the Scheme's total asset allocation. These matching assets consist of pooled Liability Driven Investment funds, a liquidity fund and corporate bond funds. As at 31 July 2020, these assets are structured to target a hedge ratio of 95% of the Scheme's interest rate and inflation exposure as a % of assets. The Scheme's LDI manager, Legal and General, are responsible for maintain the target hedge ratio within a reasonable tolerance range of +/- 3%.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.

These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

The Trustee has considered the valuation carried out by the Scheme Actuary in considering the adequacy of contributions to meet their ongoing funding target, and taken account of the maturity profile of the liabilities. The objectives are set out in more detail in the Scheme's Statement of Investment Principles.

The Scheme benchmark is consistent with the Trustee's view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme, and will normally be reviewed annually. The Trustee has been working with the company to establish a potential framework for setting future investment strategy in conjunction with the continuing evolution of the Scheme's funding position. In reviewing strategy, the Trustee seeks written advice as required.

The Scheme uses a combination of active and passive management. In determining the allocation between active and passive management, the Trustee considered where selection skills might be best applied. The Trustee also took account of the lower level of fees charged by passive managers.

The Trustee recognises that the pursuit of superior performance through active management also carries the risk of underperformance. However, the Trustee believes and the managers accept that the range of guidelines set will contain risk within the tolerance that the Trustee deems acceptable. Where they adopt active management they have considered and are prepared to tolerate the potential risks associated with the managers' pursuit of outperformance.

The overall Scheme benchmark is set out above. Managers have their own individual benchmarks as outlined in Appendix 2. The Scheme and managers' benchmarks are used to:-

- evaluate managers' relative performance;
- monitor the extent of managers' deviations from benchmark performance;
- specify the limits on managers' asset allocation deviations.

The Trustee has taken into consideration the strength of the Sponsor covenant when setting the investment strategy of the Scheme. In respect to assessment of the sponsor covenant, the Finance Director of the ultimate sponsor, NGN Ltd, provides a comprehensive pack of Company information, including financial information, to the Trustee on an annual basis. The Finance Director presents this information to the Trustee and its advisers at a quarterly Trustee meeting and the Trustee has the opportunity to ask questions about the Company's results and backing of the Scheme. Following the presentation, the Trustee discusses the Company covenant with its advisers and agrees whether there are any issues that require further investigation or whether it is satisfied that the Company covenant remains unchanged, or improved, since the last assessment. The Trustee gives consideration to the need for an external covenant assessment alongside each triennial valuation and the last external assessment took place in 2020.

Internal Controls

The Scheme's auditors, PwC, review the Scheme's internal controls on an annual basis. The results of the audit are discussed by the Audit Sub-Committee as well as by the full Trustee Board.

Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

The Trustee has selected a number of investment managers to manage the assets of the Defined Benefit Scheme. Each manager has been given an explicit mandate and investment objective set out in Appendix 2 of this document.

The investment managers provide quarterly performance reports covering fund performance and asset allocation. These reports are considered by the Investment Sub-Committee at their regular meetings. The managers' performance is assessed against their stated performance objective. The managers will also be invited to make presentations to the Investment Sub-Committee on a regular basis.

The Trustee has developed a process for assessing the service provided by the Investment Adviser and will review the performance of the Investment Adviser on an annual basis, and for assessing its own procedures and the quality of its decision making.

Principle 5: Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the Scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Given the size of the Scheme, the Trustee has determined it is not in their economic interest to directly engage in activism. The Trustee has delegated responsibility for corporate governance (including engagement) and the exercise of rights and voting powers to their investment managers.

The appointed investment managers are required to provide the Trustee with their policy on shareholder voting, where relevant.

In line with upcoming regulatory requirements coming into effect as at 1 October 2021, the Trustee will be establishing an Implementation Statement that documents its review of its investment managers' engagement and stewardship policies, as well as detailing information on the voting activity executing by its investment managers on behalf of the Scheme.

The Trustee has established a policy on Environmental, Social and Governance (ESG) factors and has documented this in the latest version of the Scheme's Statement of Investment Principles (SIP). At the time of reporting, the Trustee is also considering its policy on manager engagement, with the policy address the alignment, incentivisation and monitoring of the Scheme’s investment managers versus the overall long-term objectives of the Scheme. This policy is being considered as part of the latest review of the Scheme’s SIP (dated August 2020).

Principle 6: Transparency and Reporting

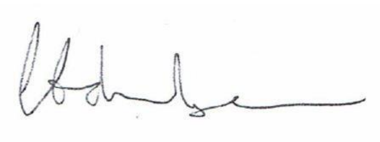
Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate.

The Trustee has decided to maintain separate Statement of Investment Principles and Myners Adherence Document.

This document provides additional information which, when taken in conjunction with the Scheme’s Statement of Investment Principles, sets out the decision making framework of the Scheme.

The Statement of Investment Principles and this Myners Adherence Document are available to members.



Signed For and on Behalf of the Trustee of the
Northern Gas Networks Pension Scheme

August 2020

Appendix 1: Terms of Reference (ISC)

Constitution of the Investment Committee ("the Committee")

A. INTRODUCTION

The Committee described below is the Investment Committee of the Trustee, acting in its capacity as the trustee of the Scheme.

In this constitution

"**Articles**" mean the Trustee's Articles of Association

"**Director**" means a director of the Trustee.

"**Elected Director**" means a director of the Trustee elected by the beneficiaries of the Scheme in accordance with Article 11(b) of the Articles.

"**Employer Director**" means either a Founder Trustee or an Asset Owner Trustee, both as defined in Article 11(b) of the Articles.

"**Trustee Board**" means the board of directors of the Trustee.

B. DELEGATION AND CONSTITUTION OF THE COMMITTEE

1 Under Regulation 72 of Table A (as defined in Article 1), the Trustee Board may delegate any of its powers, duties and discretions to (among others) a committee consisting of one or more of its Directors.

2 The Trustee Board hereby confirms that it has delegated to the Committee its powers, duties and discretions in relation to investment matters as set out below on the terms and conditions set out below. Notwithstanding this delegation the Trustee Board may, if it so desires on any occasion, itself exercise any of those powers, duties and discretions.

3 The Trustee Board may at any time –

3.1 alter the constitution (as currently set out in this document) of the Committee;

3.2 appoint or remove individual members of the Committee; or

3.3 disband the Committee.

4 The Committee must comprise at least one Elected Director and one Employer Director. A Director serving on the Committee who ceases to be a Director shall simultaneously cease to be a member of the Committee.

C. POWERS OF THE COMMITTEE

1 The Committee shall have the following powers, duties and discretions in relation to the Scheme –

1.1 to examine the investment strategy and to make reports and recommendations to the Trustee Board in that regard;

1.2 to liaise with and monitor the performance of the investment managers, other investment providers and custodians and to make reports and recommendations to the Trustee Board in this regard;

1.3 to consider the appointment of the investment manager, investment provider or custodian, their fees and any questions of resignation or dismissal and make recommendations to the Trustee Board in this regard;

1.4 to recommend as required a shortlist of candidates for the positions in 1.3 above;

1.5 (whether or not in connection with a selection by the Trustee Board following a recommendation under 1.4 above) to negotiate, agree and execute on behalf of the Trustee Board any agreement or other necessary or desirable documents with any investment manager or other investment provider selected by the Trustee Board, or custodian, or proposed investment manager or provider or custodian;

1.6 to recommend to the Trustee Board the review or termination of any agreement with any investment manager, other investment provider or custodian; and

1.7 to exercise any other power, duty or discretion of the Trustee Board which the Trustee Board delegates to the Committee.

The Trustee Board may at any time limit the extent of the powers, duties and discretions delegated in this document to the Committee.

2 The Committee may take advice and commission and receive reports in relation to any of the above and generally do anything ancillary and sign any documents ancillary to any of the above. Any member of the Committee may sign any document on behalf of the Committee if duly authorised by the Committee to do so.

3 The Committee may, in its absolute discretion, remit any matter to the Trustee Board.

4 The Committee may, in accordance with section D below, transact its business in meetings or in writing as it either generally or in any individual case thinks fit.

5 The Committee shall not have power to delegate any of its powers.

D. PROCEEDINGS OF THE COMMITTEE

The provisions in the Articles regulating the meetings and proceedings of the Trustee Board (including, without limitation, the powers to conduct meetings by means of conference telephone or similar communications equipment and to pass resolutions in writing) shall be treated as applying to the Committee, as if references to the Trustee Board and Directors were references respectively to the Committee and those Directors currently members of the Committee, subject to the following:

1 The quorum necessary for the transaction of the business of the Committee at a meeting shall be a minimum of two members of the Committee, at least one of whom shall be an Employer Director and at least one of whom shall be an Elected Director.

2 The Chairman of the Committee shall be appointed by the Committee, subject to the approval of the Trustee Board, and need not be an Employer Director.

3 If any member of the Committee is unavailable, the Secretary to the Trustee Board may, in consultation with the Chairman of the Trustee Board, appoint any other Director as that member's alternate and the powers of appointment of alternate Directors contained in Article 12 and Regulations 65 to 68 of Table A (as defined in Article 1) shall not apply. So far as the Secretary, in consultation with the Chairman, considers practicable in the circumstances, the alternate shall be from the same category of Director (either Elected Director or Employer Director) as the unavailable member.

4 Each Director shall be entitled to attend any meeting of the Committee as an observer. The Committee may invite any other person to attend any of its meetings as a guest. Any observer or guest shall not be treated as a member of the Committee for voting, quorum or any other purpose.

5 Decisions of the Committee shall be by majority of its members or their alternates present at a meeting. If a majority decision cannot be reached, the matter shall be remitted to the Trustee Board. In addition, any member of the Committee or its Secretary may require that any matter shall be remitted to the Trustee Board.

6 The Committee may, if it thinks fit, transact its business in writing without holding a meeting. Any decision being dealt with as written business must be a unanimous decision of all members of the Committee present in the United Kingdom at the time of the decision, which must include at least one Elected Director and one Employer Director. A decision confirmed in writing by all the members of the Committee present in the United Kingdom at the time of the decision, which must include at least one Elected Director and one Employer Director, shall be as valid and effective as if it had been passed by a meeting of the Committee duly convened, on appropriate notice, and held. It may consist of one or more documents and for this purpose a written document includes copies sent by facsimile or electronic transmission or in a similar form and they are deemed to be confirmed in writing if purported to be authorised by the relevant members of the Committee.

E. REFERENCES TO TRUSTEE BOARD

The Committee shall report to the Trustee Board on its proceedings, and on the exercise of the powers, duties and discretions delegated to it, at each Trustee Board meeting or at such other intervals as the Trustee Board from time to time determines.

F. SECRETARY

The Committee may appoint any person to be its Secretary. In the absence of a specific appointment, the Secretary to the Trustee Board shall be the Secretary to the Committee.

G. RECORDS OF MEETINGS

The Committee shall cause minutes of all proceedings and of all written decisions of the Committee to be entered in books to be kept for the purposes. Any such minute, if signed by the Chairman of the meeting at which the proceedings took place or the Chair of the next following meeting, shall be sufficient evidence of the matter to which it relates.

The Committee shall provide the Trustee Board with a copy of any such minutes.

H. CONFIDENTIALITY

Except for the communication to the Trustee Board or to their appointed advisers or as required by law or for the proper business of the Committee, the business and decisions of the Committee remain confidential to the Committee and the Trustee Board alone.

Appendix 2: Investment Manager Mandates

The Trustee has selected a number of investment managers for the Scheme's Defined Benefits assets. Investment Management agreements are in place for all investment managers.

The mandates for each manager are set out below.

Defined Benefit

Legal & General (Passive, Multi Asset)

The Legal & General's Multi-Asset portfolio has a target allocation of 4% of the Scheme assets. The assets are invested in the index-tracking pooled funds shown below. The proportion of assets in each fund is maintained within the control ranges shown below.

World Equity Benchmark	Weight (%)	Control Range (%)
UK Equity	23.3	+/- 2.5
North American Equity (Hedged)	27.0	+/- 2.5
Europe (ex UK) Equity (Hedged)	22.6	+/- 2.5
Japan Equity (Hedged)	10.6	+/- 1.0
Asia Pacific (ex Japan) Equity	3.1	+/- 0.5
World Emerging Markets Equity	13.3	+/- 1.5
	100	

The manager's objective is to deliver returns in line with each of the funds' relevant benchmark indices within prescribed tolerance ranges.

Legal & General (LDI) and corporate bonds

Legal & General's LDI portfolio has a target allocation of 68% of the Scheme assets. The Scheme also has a target allocation of 7% of Scheme assets to corporate bonds with Legal & General.As of July 2019, the Scheme had reached its target hedge ratio of 90% of assets and Legal & General are responsible for maintain the hedge target within a reasonable tolerance range (+/- 3%). Subsequent to this, the Trustee further derisked the portfolio and increased the target hedge ratio to 95% of assets, effective as at the end of March 2020. The Scheme has agreed with Legal & General that the manager can control how these assets are invested amongst its PF section funds in order to efficiently achieve this target objective.

Fidelity

Fidelity has a target allocation of 8% of the Scheme assets. The assets are invested in the UK Corporate Bond Fund, which has a performance objective to outperform the Bank of America Merrill Lynch Euro-Sterling Total Return Index by 0.75% p.a. before fees. The fund invests primarily in UK non-gilt fixed income securities.

CBRE

CBRE has a target allocation of 5% of the Scheme assets. The assets are invested in the Osiris Property Fund, which is a pooled property fund of funds. The fund invests in a range of other open- and closed-end vehicles managed by other property teams, investing in core balanced funds as well as more specialist funds. The performance target for the Osiris fund is to exceed the return on the IPD UK All Balanced Funds Index by 0.5% p.a. before fees. As at March 2020, the Trustee was informed by CBRE that the Osiris fund was being wound down, with an orderly sale of the fund’s assets to take place and capital to be returned to clients over an estimated 18 months period.

M&G

M&G has a target allocation of 5% of the Scheme assets. The assets are invested in the M&G European Loans Fund, which has a performance objective to outperform Sterling 3 month LIBOR by 3% p.a. after fees. The fund invests in diversified portfolio of leveraged loans and sub-participations in leveraged loans. The fund may also invest in senior secured floating rate notes.

Knight Frank Investment Management

Knight Frank Investment Management (‘KFIM’) has an allocation of 3% of the Scheme assets. The assets are invested in the Long Income Property Unit Trust Fund, which has a performance objective of long dated indexed-linked gilts plus 2.5% (net of fees and expenses). The fund invests in UK real estate assets of small lot sizes with long leases, offering long-term contractual and inflation-linked income streams from high quality and well collateralised counterparties.

Fees

Manager	Asset Class	Fund	Fee (% p.a.)
Legal & General	Equity	UK Equity	0.0525
Legal & General	Equity	North American Equity (Hedged)	0.1500
Legal & General	Equity	Europe (ex UK) Equity (Hedged)	0.1550
Legal & General	Equity	Japan Equity (Hedged)	0.1750
Legal & General	Equity	Asia Pacific (ex Japan) Equity	0.1750
Legal & General	Equity	World Emerging Markets Equity	0.4500 on the first £5m 0.3500 on the next £5m 0.0300 on the balance above £10m
Legal & General	Bonds	AAA-AA-A Corporate Bond – Over 15 Year - Index	0.0800
Legal & General	Bonds	Single Stock Bond Fund Range	0.100 per annum of the first £5 million, plus 0.075 per annum of the next £5 million, plus 0.050 per annum of the next £20 million, plus 0.030 per annum of the balance above £30 million
Legal & General	Bonds	Index Bond Fund Range	0.100 per annum of the first £5 million, plus 0.075 per annum of the next £5 million, plus 0.050 per annum of the next £20 million, plus 0.030 per annum of the balance above £30 million
Legal & General	Swaps	Matching Plus Swap Funds	0.1200
Legal & General	Bonds	Matching Plus Gilt Funds	0.1200
Legal & General	Cash	Sterling Liquidity	0.1250 on the first £5m 0.1000 on the next £5m 0.0750 on the next £20m 0.0500 on the balance above £30m
Fidelity	Bonds	UK Corporate Bond Fund	0.3000 on the first £20m 0.1500 on the balance above £20m
CBRE	Property	Osiris Property Fund	0.2000
M&G	Alternative Credit	M&G European Loans Fund	0.5000

KFIM	Secure Income Assets	Long Income Property Unit Trust Fund	Fees based on Trust NAV: 0.2500 on first £100m 0.2250 on next £100m 0.2000 on next £150m 0.1500 on next £150m 0.1000 on the balance above £500m

There is an overlay fee charged by Legal & General for managing the Matching Portfolio which is equal to 0.030% per annum of the Offer Value of the Matching Portfolio (including the AAA-AA-A Corporate Bond – Over 15 Year - Index Fund and LDI Sterling Liquidity Fund), subject to a minimum fee of £35,000 per annum.

KFIM is subject to acquisition fees (which are only payable where the aggregate value of KFIM's acquisition fee and 3rd party (broker) fee is no greater than 1% of the next acquisition price) and total expense ratio fees. Details on these can be found in the Investment Review letter dated 13 March 2018.