

## Statement of Investment Principles

This is the Statement of Investment Principles made by Northern Gas Networks Pensions Trustee Limited, the Trustee of the Northern Gas Networks Pension Scheme ('the Scheme') in accordance with the Pensions Act 1995 (as amended). The Statement is subject to periodic review by the Trustee at least every three years and more frequently as appropriate.

In preparing this Statement, the Trustee has consulted extensively with the principal employer to the Scheme and has taken and considered written advice from the Investment Practice of Towers Watson Limited.

### **Scheme Objective**

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustee seeks to achieve their primary objective through two buy-in policies, ensuring the member benefits are funded by the insurers' payments to the Scheme.

### **Investment Strategy**

In October 2020, the Scheme executed a buy-in policy with Legal and General Assurance Society (LGAS) to insure the majority of the Scheme's pensioner liabilities. Subsequently, at the beginning of 2023, the Trustee implemented a second buy-in policy with LGAS and sold the majority of its other invested assets. Aside from the buy-in policies and Trustee cash, the only remaining investment assets of the Scheme include a minimal residual holding with CSAM Reinsurance invested in a side-pocket holding awaiting distribution by the investment manager; a holding in a property fund managed by CBRE which is currently winding down; and a holding in a property fund managed by KFIM with capital expected to be distributed back to the Scheme at regular periods upon sale of the underlying assets.

For the residual reinsurance and property holdings, all day to day investment decisions have been delegated to the authorised investment managers. The existing managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee's policies, where relevant to the mandate.

**Investment manager engagement and monitoring:** The majority of the Scheme's assets are held in annuity policies that cover all of Scheme members and therefore has limited scope to implement its investment policies. The Trustee will continue to monitor its residual property and reinsurance positions and receive regular updates from their investment advisor on the process of these investments being wound up.

**Suitability:** The Trustee has taken advice from the Scheme's advisors to ensure that the buy-in policies are suitable for the Scheme.

**Liquidity:** The Trustee, together with the Scheme's administrators, will ensure that they hold sufficient cash to meet the likely benefit outgo from time to time. A cashflow management process is conducted with the assistance of the Scheme's administrator.

**Risk:** The Scheme is exposed to a number of risks which pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are its exposure to changes in the underlying drivers of liability valuation

being inflation, interest rates and longevity. The effect of these three factors can have a profound impact on the value of the pension liabilities that the Scheme is seeking to meet and is mitigated through the purchase of the two insurance policies to secure the member benefits associated with the Scheme.

The Scheme's liabilities are fully covered by the insurer. The insurer is monitored by both the Financial Conduct Authority and the Prudential Regulation Authority who require the insurer to hold sufficient capital reserves to cover certain shock scenarios. In the event of the insurer becoming insolvent, the Scheme would be covered by the Financial Services Compensation Scheme.

**Asset risk:** the Scheme's key asset risk is around the timing and size of redemption proceeds from the remaining property and, to a lesser extent, reinsurance assets versus the agreed premium payment terms of the buy-in policy. The Trustee, along with the Company, will monitor this on a quarterly basis.

**Environmental, Social and Governance (ESG) considerations:** The Trustee recognises that long-term sustainability issues have a material impact on risk and outcomes, both financial and non-financial, though the Trustee's fundamental mission is to meet its financial obligations, and therefore financial considerations must take precedence. The Trustee believes that ESG factors, including climate change, affect risk and return in the medium to long-term. Under the buy-in policy, consideration of the sustainable investment/ESG characteristics of the annuity portfolio and engagement activities is fully transferred to the annuity provider.

**Additional Voluntary Contributions (AVCs):** The Trustee gives members the opportunity to invest in a range of vehicles at the members' discretion.

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

June 2023