NATIONAL GRID ELECTRICITY GROUP

Annual Report & Financial Statements

for the year ended 31 March 2023

Contents 1

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 2023 (Scheme Year).

This is my first report as Chair of the Group Trustee, having taken up the role with effect from 1 April 2023, following the end of Jon Carlton's tenure as Chair and Appointed Group Trustee. I would like to take this opportunity to thank Jon for his valuable contribution, support, and dedication to the work of the Group Trustee over the years and wish him all the best for the future. My appointment as Chair follows my initial appointment as a Company Appointed Trustee on 6 April 2022.

Group Trustee Changes and 2023 Election

Jon Carlton stepped down from the Board on 31 March 2023, after more than fourteen years as a Company Appointed Trustee and more than eleven years as Chair of the Group Trustee. Jon was also a member of the Investment Committee for a number of years and more recently a member of the newly created Governance Committee.

As noted in the 2022 Report and Financial Statements, Kylee Dickie, Head of Group External Reporting and Technical Accounting at National Grid, was appointed as a Company Appointed Trustee on 1 June 2022 to replace Darren Pettifer who stepped down from the Board on 31 May 2022. Kylee also replaced Darren as a member of the Investment Committee.

The 2023 Group Trustee election campaign was successfully completed during the Scheme Year, as a result of the tenures of Elected Trustees Ray Arrowsmith, John Dyke and Paul Hernaman coming to an end in March 2023. Paul stood for re-election, whereas Ray and John decided to step down from the Board at the end of their respective terms.

Contributing and Pensioner members were eligible to stand for election and a communications campaign was carried out with the aim of encouraging member engagement and interest in the election process and in pension scheme matters.

I am pleased to say that there was strong interest from eligible members with highly competent candidates standing in the election. 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 27% of the Contributing and Pensioner membership voted online and by post in the election.

Henry Lu and Linda Ryan were both directly elected to the Group Trustee Board, and Paul Hernaman was selected from the remaining candidates by a Selection Board comprising the five Elected Trustees who were not involved in the election process. All three successful candidates were appointed with effect from 1 April 2023 and will be in post for a maximum term of five years.

Ray Arrowsmith and John Dyke, both Elected Trustees for over fourteen years and twenty years respectively, stepped down from the Board at the end of their tenures on 31 March 2023. As well as serving on the Board, both John and Ray were previously members of the Investment Committee whilst John was Chair of the Governance Committee since its formation in 2022 and Ray a past member of the Discretions Committee.

I would like to take this opportunity to thank Jon, Ray and John for their valuable service and contribution to the work of the Board and its Committees and wish them the very best for the future.

I would also like to congratulate Paul on his re-appointment and welcome Henry and Linda to the Board. Henry was previously a Panel Member (having joined the Panel in 2016) and Linda was previously a Company Appointed Trustee from October 2011 until February 2022 and formerly the Chair of the

Investment Committee. All three Trustee Directors have extensive knowledge of pension arrangements and skill sets which complement the other members of the Group Trustee Board.

Further details were reported in the Summer 2023 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

Members of the Panel receive training and provide support whilst gaining experience of the Group Trustee Board's work. The members of the Panel are not Trustees and do not vote on Board matters. The Panel also provides a possible source of succession, should a Trustee step down from the Board.

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

- Henry Lu
- Yogesh Nakarja
- 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 2023 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 2023, the Panel Members are:

- Ian Braine
- Yogesh Nakarja

Ian is new to the Panel, and I would like to extend a warm welcome to him, as well as congratulating Yogesh on his re-appointment. Anthony Salisbury decided to step down from the Panel on 31 March 2023 and I would like to thank him for his service as a Panel Member and valuable contribution to the work of the Board.

Group member, Andrew Wainwright, initially joined the new Panel from April, but has subsequently stepped down due to a change in his employment.

2022 Actuarial Valuation

Every three years, the Group Trustee is required to undertake a full actuarial valuation of the liabilities of the Group. This involves an in-depth analysis of the Group's funding, its investment strategy and how these are expected to evolve in the future.

As with previous valuations, the Group Trustee has worked constructively with National Grid Electricity Transmission plc (the Company) through the forum of a Joint Valuation Working Group (JVWG) to agree a prudent but fair funding target for the Group, which balances security for members with affordability for the Company.

I am pleased to announce that the Group has made good progress against its funding target since the last valuation, with a reduced deficit figure of £59.9m as compared to £237.4 at the previous valuation, a reduction in the shortfall of £177.5m.

The Company and the Group Trustee have agreed a revised Recovery Plan which maintains the existing level of deficit contributions and target date for achieving full funding. Additional protection arrangements have also been agreed with the Company.

The Group Trustee is pleased with the outcome of the valuation, which we view as being a fair agreement, taking into account the interests of all parties. We also believe that the Group has strengthened its position on the path to full funding and remains well-protected against any potential deterioration in the strength of the Company's covenant.

Members will be informed of the valuation results and the revised Recovery Plan via an edition of *Valuation Update* and announcements on the Group's website, www.ngeg.nationalgridpensions.com.

Transfer of members between the National Grid Electricity Group and the National Grid UK Pension Scheme

There have been some changes to the membership due to the sale of National Grid Gas. As part of the sale process, the Company managed an exercise to align impacted employees whose business area changed as a consequence of the sale. As a result, 158 former active members of the National Grid UK Pension Scheme (the Gas scheme) joined the Group as contributing members from either 1 April or 1 September 2022.

At the same time, 21 contributing members left the Group (on 31 March 2022) and joined the Gas scheme from 1 April 2022. All members involved will continue to pay contributions and earn benefits with their new scheme in the same way as they did with their previous scheme and were given the option to transfer their past service benefits to their new scheme.

Due to the movement of members, NGUKPS Trustee Executive Limited became a participating employer of the Group with effect from 1 September 2022.

Governance & Audit Committee

During the year, the Group Trustee decided to form a new committee to manage matters concerning governance of the Group, including risk management and relevant audits on behalf of the Group Trustee (thus taking over the role of the Internal Audit Working Group, which subsequently disbanded). Initially titled the Governance Committee, the Committee first met on 17 August 2022 and subsequently held a further two meetings during the Scheme Year.

The Committee is the main interface with the Group's third-party suppliers and internal auditor regarding risk management, overall governance of the Group, statutory and internal audits, management of relevant policies ensuring that the Group is compliant with the overarching Scheme Rules and statutory regulations and pensions law. The Committee has recently conducted a full review of the format of the Group's risk register and has implemented a new Risk Management policy. Following the Group's Business Planning Day in March 2023, the Committee's remit was expanded to include closer oversight of the Group's risk and cost monitoring processes.

Funding Level & Investment Performance

Over the year, the Group's assets decreased by £819m, to give a total portfolio value of £2,682.4m as at 31 March 2023. The decrease in the Group's assets was largely driven by rising yields, causing the value of the Liability Driven Investment (LDI) portfolio to fall. However, the decrease in assets was accompanied by an even larger fall in the value of the liabilities, resulting in the funding level increasing over the year. The Group's well diversified growth assets stood up well to the considerable market volatility seen over 2022.

The improvement in the Group's funding level over the year meant further de-risking triggers were hit. The Group Trustee removed investment risk from the portfolio by selling down the Group's global equity funds and reducing the allocation to return-seeking bonds and UK commercial property, together with an increase in the level of LDI hedging to further protect against interest rate moves and rising inflation. In addition, the Group's infrastructure and private credit funds have continued to call capital, leading to increased allocations to these asset classes over the year.

Gilt yields rose steadily throughout 2022, largely driven by increasing inflationary pressures. This trend was accelerated in September 2022, following the then Chancellor's 'mini budget'. What followed was a rapid rise in yields, with daily moves far in excess of historical norms. However, given the Group's low levels of LDI leverage and high levels of collateral coverage (which before the crisis could withstand rises in gilt yields of more than 6 percent), there were no liquidity issues or forced sales of growth assets required to maintain the interest rate and inflation protection through the LDI portfolio.

Ukraine/Russia Conflict

The ongoing conflict between Ukraine and Russia has contributed to economic instability since the invasion began in February 2022; however, the Group's ability to pay member benefits remains unaffected. At the outset of the conflict, it was estimated that the Group's direct exposure to the conflict was approximately £2m to £3m, i.e., direct exposure of less than 0.1% of total Group assets. As at 31 March 2023, the Group has no tangible direct exposure to the conflict to declare.

The Group Trustee continues to regularly monitor the employer covenant with the support of its advisors, including macroeconomic factors which could impact the UK energy sector, such as the Russian invasion of Ukraine. The Group Trustee does not believe such factors have materially impacted the strength of the employer covenant, but is keeping this under regular review, and this was considered as part of the latest triennial valuation process.

Investment Strategy & Risk Management

The period was marked by heightened levels of inflation and volatility in markets. This was particularly true during September and October 2022, when the Bank of England was required to intervene in the UK government debt market following a dramatic fall in value of government bonds as a result of the UK government's 'mini budget'. The Group was well placed to weather the market turmoil, in light of the governance framework in place and the programme to reduce risk that had been undertaken by the Group Trustee. Overall, the Group saw an improvement in its funding position over the period in question.

The Group Trustee continued to review its investment strategy in light of the results of the 2022 actuarial valuation, and in particular the Long-Term Financial Objective (LTFO), which targets a prudent level of funding by 2029. Following material improvements in the funding position, the Group is expected to now be broadly fully funded on the LTFO (around six years ahead of plan). The decision has been taken to further materially lower risk in the Group's investment strategy by reducing exposure to growth assets (mainly equities and property) and increasing exposure to assets that match the value and nature of the Group's pension liabilities.

Looking ahead to the next 12 months, the Group Trustee will be reviewing the LTFO with a view to further refining the investment strategy and mitigating the key risks to the Group's funding position as far as possible.

Best wishes

Stephen Yandle
Chair of the Group Trustee

SUMMARY OF THE YEAR

What Came In	£m
For the year to 31 March 2023	
Contributions receivable	87.5
Transfers in	108.4
TOTAL	**195.9**

What Went Out	£m
For the year to 31 March 2023	
Pension and dependants' benefits	116.8
Payments to and on account of leavers	31.2
Administrative expenses	3.2
Net decrease on investment returns	876.7
TOTAL	**1,027.9**

Statement showing value of Group Assets over the last five years

As at 31 March	£m
2023	2,597.8
2022	3,429.8
2021	3,356.9
2020	3,200.9
2019	3,220.2

Summary of membership statistics as at 31 March 2023

Contributors	753
Pensioners	4,510
Dependants	1,447
Deferred Pensioners	1,297
TOTAL	**8,007**

Statement of investments spread by category of investment as at 31 March 2023

Asset type	% of Group assets
Insight LDI	64.30%
Longevity Swap Collateral Portfolios	7.96%
Unconstrained Bonds	5.98%
Absolute Return Fund of Funds	0.07%
Property and Cash	6.01%
Private Credit	5.21%
Infrastructure	5.91%
Multi-Asset Credit	4.56%
TOTAL	**100.0%**

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 23 (2022: 24) 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, Elexon Limited and NGUKPS Trustee Executive 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 each member's salary and length of service.

The Financial Statements and notes on pages 34 to 51 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, 2]	Ex-Asset Management, ETAM
Graham Commons [1]	Ex-Asset Management, ETAM
Paul Hernaman [1]	Former Head of Finance Business Development
John Dyke [1, 2]	Ex-Commercial Manager, Coventry
Philip Johnson [1]	Ex-Business Transition Manager, System Operator
John Ong [1]	Ex-UK Head of Employee Relations

Appointed Trustees:

Jon Carlton (Chair) [1, 3]	Ex-Director, UK LNG and Metering
Kylee Dickie [4]	Head of Group External Reporting and Technical Accounting
Darren Pettifer [5]	Chief Financial Officer of NGET
Roisin Quinn	Director of Customer Connections
Stephen Yandle [6] (Chair from 1 April 2023)	Professional Trustee employed by Zedra Governance Ltd

[1] In receipt of a pension from the Group.
[2] Stood down as a Group Trustee Director on 31 March 2023. Ray Arrowsmith and John Dyke were replaced by Henry Lu and Linda Ryan with effect from 1 April 2023.
[3] Stepped down as Chair of the Group Trustee on 31 March 2023.
[4] Appointed by the Company on 1 June 2022.
[5] Stood down as a Group Trustee Director on 31 May 2022.
[6] Appointed by the Company on 6 April 2022 and became Chair of Group Trustee Board on 1 April 2023. Stephen joined Zedra Governance Ltd in late 2022 and Zedra became the Director as of 1 December 2022.

Following the end of the Scheme Year, Rachel Croft, a professional Trustee employed by Independent Governance Group (IGG), was appointed by the Company to replace Jon Carlton on the Board as a Company Appointed Group Trustee Director, with effect from 1 August 2023.

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.

The next Group Trustee Election will take place in early 2026.

Panel Members:

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

- Henry Lu
- Tony Salisbury
- Yogesh Nakarja

As part of the 2023 Group Trustee Election, a new Panel effective 1 April 2023 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 Yogesh, Ian Braine was also selected as a Panel Member, whilst Anthony Salisbury decided to step down from the Panel on 31 March 2023.

Group member, Andrew Wainwright, initially joined the new Panel from 1 April 2023, but subsequently stepped down due to a change in his employment.

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 in person, with some attendees joining via video conference. The Group Trustee also held two ad hoc Board meetings and the annual Training & Strategy Day in December 2022. Two Business Planning Days were also held (April 2022 & March 2023) looking ahead to their respective years.

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, Governance & Audit Committee, Discretions Committee, and Member Experience & Engagement Committee.

- **Investment Committee**

  The Investment Committee consists of two Appointed Trustees and two Elected Trustees. Panel Members are also invited to attend.

  During the Scheme Year, the Appointed Trustee Committee members were Darren Pettifer (until 31 May 2022), Stephen Yandle (from 6 April 2022) and Kylee Dickie (from 1 June 2022). The Elected Trustee Committee members were Ray Arrowsmith and Paul Hernaman.

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.

- **Governance & Audit Committee**

  The Governance & Audit Committee (initially known as the Governance Committee) was set up during the Scheme Year and held its first meeting on 17 August 2022. The Committee composition consists of a minimum of one Appointed Trustee and one Elected Trustee. Panel Members are also invited to attend.

  During the Scheme Year, the Appointed Trustee Committee member was Jon Carlton, and the Elected Trustee Committee members were John Dyke and John Ong.

  The main aim of the Committee is to deal with governance matters in an effective manner on behalf of the Group Trustee Board, which includes work relating to the internal audit and risk management.

  During the Scheme Year, the Committee held three meetings.

- **Discretions Committee**

  During the Scheme Year, the Discretions Committee core membership consisted of an appointed Group Trustee Director and an elected Group Trustee Director, participating by rotation through the members of the Board.

  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, transfer out cases and ill health cases.

- **Member Experience & Engagement Committee**

  The Member Experience & Engagement Committee, previously known as the Communications Committee, consists of a minimum of one Appointed Trustee and one Elected Trustee. Panel Members are also invited to attend.

  During the Scheme Year, the Appointed Trustee member was Roisin Quinn, and the Elected Trustee member was John Ong.

  The main aim of the Member Experience & Engagement Committee is to allow the Group Trustee to have oversight of the member experience provided by the Group's administration provider, Railpen, and to discuss the Group's communications strategy and all matters related to effective communication with members.

  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 194 hours of training, broadly equivalent to 28 days. Of this, 73 hours were investment specific, equivalent to 10 days.

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 Trustee's policy (if any) in relation to investments and the extent to which Social, Environmental and Governance 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.

The Group's investments continue to remain aligned to the policies set out in the Statement of Investment Principles. The Group Trustee is preparing its first annual report to meet the requirements of the Taskforce on the Climate related Financial Disclosure (TCFD).

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 2023, is set out on pages 59 to 68 and forms part of the Group Trustee’s Report.

Group Trustee’s Responsibilities

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 are 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 them 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’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 are dealt with 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 Employers;
- to prepare and agree with the Employers 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 Employers for making good any shortfall in assets against liabilities identified in periodic actuarial valuations; and
- 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 52. In addition, the Group Trustee is supported by Trustee Services, 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 Scheme assets;
- to produce the Scheme Report and Financial Statements on an annual basis.

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 2023, 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;

b) Four Directors must be Councillors chosen by Principal Employers.

The Board also has an Independent Chair, Zedra Governance Ltd, represented by Melanie Cusack.

As at 31 March 2023, 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.

At the Council meeting in November 2022, the Principal Employer nominated Nikki Dark as its appointed representative and Nikki was re-appointed as a Director until the Council meeting in 2023.

Graham Commons was re-elected at the meeting and will serve as a Director until the November 2024 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:

EPL may amend the provisions of the Scheme with the unanimous consent of all of the participating Principal Employers. During the year ended 31 March 2023, the following Scheme-wide amendments were made:

- Deed of Amendment dated 9 June 2022 enabling partial and full solvent buy-outs and bulk transfer without consent.
- Deed of Amendment dated 22 February 2023 for the appointment of a Sole Professional Trustee; make two minor clarificatory changes to the Scheme Rules; and clarify the Scheme's Amendment Power and notice provisions.

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 2023, the following amendment was made:

Admission of members from the National Grid UK Pension Scheme

As a result of National Grid Plc's sale of the Gas Transmission and Metering (GT&M) businesses and the associated restructure of the business, two Deeds of Amendment were executed to enable a defined group of contributing members of the National Grid UK Pension Scheme (NGUKPS) to be admitted to the Group.

Due to the movement of members, NGUKPS Trustee Executive Limited became a Participating Employer of the Group with effect from 1 September 2022.

Review of the Operation of the ESPS

- The Drax Group exited from the Scheme.
- The Scheme's AGM took place on 22 November 2022 and was held virtually by video conferencing. The 2023 Scheme AGM will take place on 21 November 2023.
- The Board continued to monitor risks through its Risk Register which is considered at each main meeting.
- The new Capita contract was monitored.
- TCFD (Task force on Climate-related Financial Disclosure) and the impact of the Pensions Regulator (TPR) Single Code of Practice were considered. The first Scheme TCFD was produced and is available on the ESPS website - www.espspensions.co.uk.
- Liaising with TPR on the implications for the Scheme in respect of Pensions Dashboards.
- Various governance matters were progressed.

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 2023

	Contributors	Pensioners	Dependants*	Deferred Pensioners	Total
At 31 March 2022	**669**	**4,573**	**1,484**	**1,360**	**8,086**
Adjustments to opening balance	-	(6)	(5)	(5)	(16)
Adjusted opening members	**669**	**4,567**	**1,479**	**1,355**	**8,070**
Fenchurch Members**	158	-	-	-	158
Retirements	(39)	85	-	(46)	-
Deaths	-	(142)	(116)	(1)	(259)
Leavers with deferred pensions	(35)	-	-	35	-
Leavers with refunds of contributions/transfers to other schemes/cessation of child allowances	-	-	(2)	(46)	(48)
New dependants	-	-	86	-	86
At 31 March 2023	**753**	**4,510**	**1,447**	**1,297**	**8,007**

**Includes spouses, dependants, and children in receipt of a pension from the Group.*
*** there was a bulk transfer in from NGUKPS (Fenchurch movers) of 58 members on 1 April 2022 and 100 members on 1 September 2022. One of the members involved transferred back to the Group from NGUKPS on 1 February 2023.*
**** the above includes 56 deferred pensioners and 17 pensioners, who were entitled to a frozen benefit equivalent to the relevant State Graduated Pension Scheme benefit, in respect of service prior to 1975.*

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 2023 was capped at 5%, as National Grid Electricity Transmission plc utilised its discretion to limit the pension increase. A proportionate increase was applied to pensions which came into payment between 2 April 2022 and 1 March 2023.

Pension increases over the previous five years were:

Pensions in payment:

1 April 2022	4.9%
1 April 2021	1.1%
1 April 2020	2.4%
1 April 2019	3.3%
1 April 2018	3.9%

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

As stated in Note 23 to the Financial Statements, the Group has undertaken a process of assessing the overall impact of the October 2018 ruling regarding GMP Equalisation and based on an assessment by the actuary, an estimate of £3.3 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 credit assets, private credit, infrastructure 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 18 of the Financial Statements on pages 45 to 49.

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 57.

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 2023 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)
PIMCO	8 May 2019	Absolute Return Bonds	76.2
Insight Investment	31 March 2014	Absolute Return Bonds	84.0
Legal and General Investment Management (LGIM)	1 March 2022	Multi-Asset Credit	122.3
Insight Investment	18 November 2013	Liability Driven Investment (LDI)	1,723.2
Insight Investment	5 March 2018	Longevity Swap Collateral*	213.2
JP Morgan Alternative Asset Management	1 December 2012	Absolute Return Fund of Funds	2.0
BlackRock	28 February 2014	UK Property	23.3
CBRE Global Investors Limited	1 December 2016	UK Property	79.3
HPS Investment Partners	25 September 2020	Opportunistic Private Credit	66.6
CVC Credit Partners	22 June 2021	Private Credit	72.9
KKR	30 March 2022	Infrastructure	158.5
State Street Global Advisors Limited	1 July 2005	Liquidity Fund	58.4
Insight Investment	28 June 2016	Liquidity Fund	0.1
Total			**2,680.1****

Source: BNY Mellon
*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 below.
**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
Insight Bonds Plus	SONIA[2] Index - Compounded	Benchmark + 2% pa (gross of fees)	Rolling three years

Insight LDI	91% PV01, 91% IE01[1]	Outperformance of benchmark	Continuous
PIMCO Absolute Return Bonds	SONIA[3] Index – Compounded[4]	Benchmark + 3-4% pa (net of fees)	Continuous
JP Morgan Absolute Return Fund of Hedge Funds	SONIA[3] Index - Compounded	Benchmark + 5-7% pa (net of fees)	Market cycle (c. five-year periods)
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
CVC European Direct Lending	N/A	Net IRR 7% p.a.	Over lifetime of the fund
KKR Diversified Core Infrastructure	N/A	Net IRR (7-9%) p.a.	Over lifetime of the fund

LGIM Global Diversified Credit SDG	40% Blended 50/50 benchmark comprising the JPM EMBI Global Diversified 3-5 Years Index (sovereign) and the JPM CEMBI Diversified 3-5 Years Index (corporate), 40% Bank of America Merrill Lynch Global High Yield BB-B Rated 2% Constrained Ex-Financial Index and 20% Bloomberg Barclays USD/EUR/GBP Corporates 1% issuer capped	+ 0.75% p.a.	Annual

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 2023, the target hedge ratios for interest rate and inflation were 91.0% on Gilts 0.12% basis.*
2. *Prior to Q4 2021, the benchmark was LIBOR based.*
3. *Prior to Q1 2022, the benchmark was LIBOR based.*
4. *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 11 and 15 to the Financial Statements for details of the allocation of Group assets as at 31 March 2023.

The following changes were undertaken over the Scheme Year:

De-risking: Reduction of growth assets and extension to interest rate and inflation hedging

Throughout the year the Group hit several funding level triggers (based on the low dependency discounting measure of Gilts +0.12% p.a.).

In April 2022, in anticipation of hitting the 96% funding level trigger once the deficit repair contribution settled in September 2022, the Group Trustee took to decision to fully redeem from Aon Investments Limited (AIL) and make a redemption from Walter Scott, bringing the total equity allocation to 2% of total assets.

In May 2022 the Group's funding level hit its 96% trigger earlier than expected and the Group Trustee took the opportunity to de-risk the portfolio further. The hedge ratios for interest rate and inflation were increased from 87% to 91% of liabilities on a low dependency basis and the strategic allocation to liquid credit was reduced as was the allocation to property, which resulted in a full redemption from BlackRock and a partial redemption from CBRE.

Following receipt of the deficit repair contribution and rising yields in September 2022, the Group's funding level hit its 98% trigger. The Group Trustee made the decision to fully redeem from Walter Scott bringing the strategic equity allocation to 0% but held off on any further disinvestments at this point due to on-going discussions regarding the longer-term strategy.

The Group was made aware that due to the significant amount of redemption requests made to both CBRE and BlackRock from other investors on the back of gilt crisis, the two funds were gated and there would be scale backs and delays to redemptions.

In February 2022 the Group Trustee made the decision to sell down the remaining allocation to property but agreed to keep the current credit and illiquids portfolios in place pending the completion of the 2022 Actuarial Valuation and discussions regarding longer-term strategy.

Post year end the Group has been able to fully redeem funds from the BlackRock UK Property Fund without any scale backs. The Group is still subject to scale backs on the CBRE UK PAIF fund.

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 below.

Annualised return over	1 year – fund (%)	1 year – benchmark (%)	3 year – fund (%)	3 year – benchmark (%)	Allocation (%)
PIMCO Absolute Return Bonds	-5.5	2.3	0.8	0.9	3.0
Insight LDI	-24.1	-24.4	-8.3	-8.5	66.9
Insight Longevity Swap Collateral Reserve	-13.0	n/a	-1.7	n/a	4.5
Insight Longevity Swap Fee Collateral	-18.3	n/a	-5.7	n/a	3.8
Insight Bonds Plus	1.4	2.3	2.7	0.9	3.3
JP Morgan Absolute Return Fund of Hedge Funds*	19.8	2.3	-4.8	0.9	0.1
BlackRock UK Property	-17.9	-14.5	1.1	2.6	0.9
CBRE UK Property	-14.3	-14.5	2.8	2.6	3.1
LGIM Global Diversified Credit	-5.1	-4.3	-	-	4.7
Group Total	**-24.4**	**-25.3**	**-5.2**	**-6.0**	

Source: BNY Mellon. Currency hedge performance figures sourced directly from Insight.
Net of fees returns are shown for all managers except for BlackRock and Insight Bonds Plus.
n/a indicates that there is no comparative 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 2023.*

The change in Retail Price Index (RPI) for the year to 31 March 2023 was 13.5% and the three-year annualised change in RPI was 7.9% per annum.

The longevity contract was transacted in Q1 2018 with an 'on risk' date of 1 January 2018. The longevity swap valuation captures how actual mortality experience has compared to the mortality assumptions underlying the swap at the inception date and changes in best estimate views of future mortality since the policy inception date. The fair value of the longevity contract has decreased to (£105.9m) million as at 31 March 2023 (2022: (£76.9m)).

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 2023:

Total market returns (in Sterling terms) over the year to 31 March 2023 were as follows:

Asset Class	%
UK equities	5.6
US equities	(2.5)
European ex UK equities	9.5
Japanese equities	1.3
Emerging market equities	(4.5)
Fixed interest gilts	(16.3)
Index-linked gilts	(26.7)
UK corporate bonds	(10.2)
UK property	(14.7)

Market Commentary:

Global equities generated negative returns over the last twelve months, suffering a sharp sell-off over the first six months, as geopolitical risk continued to take centre stage with Russia's ongoing invasion of Ukraine and central banks sharply tightening monetary policy in response to elevated inflationary pressures. However, equity markets recouped more than half of the losses over the last six months of the year as markets felt confident that a deep recession would be avoided, and investor concerns on tighter monetary policy abated.

Significant volatility in the gilt market occurred following the UK's 'mini-budget' in September, affecting many UK schemes using leveraged liability-driven investments (LDI). The resulting collateral calls were met by forced selling of gilts, swaps, and credit. The Bank of England (BoE) subsequently intervened to restore normal market function.

In the US, Silicon Valley Bank (SVB) entered receivership with the Federal Deposit Insurance Corporation (FDIC) on 10 March 2023, with the regulator citing inadequate liquidity and solvency protection.

Shortly after SVB's demise, investor concerns regarding Credit Suisse accelerated amidst reports that its top shareholder had ruled out further funding. UBS later agreed to buy Credit Suisse for $3.25bn at CHF0.76 per share on 19 March 2023, representing a significant discount to its pre-crisis share price, after Swiss regulators urgently stepped in to broker a deal. The Swiss National Bank has offered a CHF100bn liquidity line as part of the deal and the government will provide a loss guarantee of up to CHF9bn after UBS takes on the first CHF5bn of losses on certain assets. Under the deal's terms, CHF16bn of Credit Suisse's additional tier 1 capital bonds are being written off to zero.

UK prime minister Rishi Sunak and the European Commission President Ursula von der Leyen announced a new post-Brexit deal on Northern Ireland under the 'Windsor Framework' on 27 February 2023. The agreement aims to ease trade barriers between Northern Ireland and the rest of the UK. The UK Parliament passed a vote on the deal on 22 March 2023 after Sunak gathered the support of some Democratic Unionist Party and Eurosceptic Tory members of parliament. The UK announced a deal to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership on 31 March 2023, becoming the first nation to join the group since its establishment in 2018. Current members of the group include Australia, Canada, Japan, and Mexico, amongst seven other countries. The UK government estimates that the agreement will increase UK GDP by only around 0.08% in the next 10 years.

Geopolitical tension remained elevated. In June 2022, the European Union (EU) agreed to implement the sixth package of sanctions on Russia. The package includes removing Sberbank, Russia's largest bank, from the SWIFT cross-border payment system and a ban on sea-borne oil purchases from Russia, which is almost two-thirds of Europe's imports from Russia. In September 2022, the Russia-Ukraine conflict escalated after Moscow announced the annexation of four regions in south-eastern Ukraine - Donetsk, Luhansk, Kherson, and Zaporizhzhia. President Vladimir Putin vowed to use "all the means" to defend the annexed territories. The European Union (EU) decided to implement a price cap on seaborne Russian oil while the US imposed sanctions on the governor of Russia's central bank. The US unveiled its plans to impose fresh sanctions on more than 200 entities throughout Europe, Asia, and the Middle East "that are supporting Russia's war effort" in February 2023. Russian President Vladimir Putin announced on 21 February 2023 that Russia would suspend its nuclear weapons treaty with the US and also unveiled its plans to deploy tactical nuclear weapons in Belarus by July in March 2023. Russia cut oil production by 500,000 barrels a day in response to a price cap imposed by Western nations.

Over the last year, the BoE raised its benchmark interest rate cumulatively by 350bps to 4.25%. The BoE noted that the need for further monetary policy tightening would depend on future evidence concerning the persistence of price pressures. Meanwhile, the BoE became the first major central bank to actively start to unwind quantitative easing as it sold £750mn of government bonds in November 2022. The US Federal Reserve (Fed) increased its benchmark interest rate by 450bps to a range of 4.75%-5%, the highest level since 2007. In Q1 2023, the Federal Open Market Committee (FOMC) dropped its previous warning that "ongoing increases" would be needed to bring soaring inflation under control, instead noting that "some additional policy firming may be appropriate". The European Central Bank (ECB) raised its deposit rates by 350bps to 3.0% over the year, its highest level in 14 years. The ECB announced plans to start shrinking the €5tn of bonds it purchased over the last eight years from March 2023.

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 2023 the National Grid Electricity Group had none of its assets directly invested in National Grid Electricity Transmission plc and its associated companies, however, there is a small level of indirect investments through pooled funds (less than 0.02% of Group assets). 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 2023, and these investments therefore comply with legislative requirements.

See also Note 20 to the Financial Statements on page 49.

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 78 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 2022. An approximate update was performed as at 31 March 2023. The table below also shows the approximate updates performed as at 31 March 2020 and 31 March 2021, which were based on the assumptions used for the triennial valuation carried out as at 31 March 2019.

Valuation date: 31 March	**2023**	**2022**	**2021**	**2020**
Value of technical provisions	£2,547.9M	£3,423.2M	£3,351.5M	£3,451.7M
Value of assets available to meet technical provisions	£2,579.8M	£3,363.3M	£3,329.9M	£3,124.0M
As a percentage of technical provisions	101.3%	98.3%	99.4%	90.5%

The technical provisions position is ahead of the expected position under the Recovery Plan (outlined below) by around £31.9M at 31 March 2023.

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	**2023**	**2022**	**2021**	**2020**
Value of solvency liabilities	£2,783.4M	£3,643.0M	£3,946.3M	£4,097.6M
Value of assets available to meet solvency liabilities	£2,579.8M	£3,363.3M	£3,329.9M	£3,124.0M
As a percentage of solvency liabilities	92.7%	92.3%	84.4%	76.2%

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 used in calculations from 2022 onwards 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 0.25% 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 1.0% p.a. pre 2030 and 0.1% p.a. post 2030.

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.

For former NGUKPS members that joined the Group after 31 March 2022, for benefits in excess of GMPs, the assumptions are derived as above but based on uncapped increases.

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 100% for male active members; 95% for male deferred members and 90% for male pensioners and dependants; and S3NFA with a scaling factor of 105% for female active and deferred members and 100% for female pensioners and dependants.

Recovery Plan

A Recovery Plan was agreed between the Group Trustee and the Company on 29 June 2023. Under the Recovery Plan, in the year to 31 March 2023, the Company paid deficit contributions of £56,875,000 in September 2022. On the basis of conditions prevailing at the valuation date and assuming asset returns are 0.1% p.a. above the technical provisions discount rate, the Group funding deficit was expected to be eliminated by 31 March 2023. These arrangements were formalised in a Schedule of Contributions certified by the Group Actuary on 29 June 2023. A copy of this certificate is included on page 30 of this annual report.

In addition to the agreed contributions, the Group Trustee has agreed additional security with the Company that will be put in place if the Company credit rating falls. It becomes payable if the Company ceases to hold its Licence to operate or in the event of insolvency of the Company. Further information regarding the additional security can be found on page 50.

Next Actuarial Valuation

The next triennial valuation is being performed as at 31 March 2025. The Group Trustee expects to agree a revised Recovery Plan before the statutory deadline of 30 June 2026.

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 required by the Schedule of Contributions for the group year ended 31 March 2023 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 schedule of contributions certified by the group actuary on 31 March 2022.

We have examined National Grid Electricity Group of the Electricity Supply Pension Scheme’s summary of contributions for the group year ended 31 March 2023 which is set out on the previous 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 schedule 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’ responsibilities, the group’s group trustee are 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

SUMMARY OF CONTRIBUTIONS PAYABLE FOR THE YEAR ENDED 31 MARCH 2023

National Grid Electricity Group of the Electricity Supply Pension Scheme

During the Scheme year ended 31 March 2023, the contributions payable to the Group were as follows:

	Employer £m	Employees £m	Total £m
Contributions required by the Schedule of Contributions			
Normal contributions	20.9	0.2	21.1
Deficit contributions	56.9	-	56.9
In respect of administrative expenses and levies	3.4	-	3.4
Total as reported on by Group auditors	**81.2**	**0.2**	**81.4**
Other contributions payable			
AVCs	-	0.6	0.6
Augmentations	3.8	-	3.8
Other employer contributions	1.7	-	1.7
Total (as per Fund Account)	**86.7**	**0.8**	**87.5**

Approved and Signed on behalf of the Group Trustee:

Stephen Yandle
Chair of National Grid Electricity Group Trustee Limited
17 October 2023

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 2022 to be met by the end of the period specified in the recovery plan dated 29 June 2023.

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 29 June 2023.

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	29 June 2023
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 2023, 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 2023; 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' 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 are 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' responsibilities, the group trustee are 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 are also responsible for such internal control as they determine 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 are 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 intend to wind up the group, or have 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 by the engagement team included:

- Testing journal entries where we identified particular fraud risk criteria.
- Obtaining independent confirmations of material investment valuations and cash balances at the year end.
- Testing estimates and judgements made in the preparation of the financial statements for indicators of bias.
- Reviewing meeting minutes, any correspondence with the Pensions Regulator, and significant contracts and agreements.
- Holding discussions with the group trustee to identify significant or unusual transactions and known or suspected instances of fraud or non-compliance with applicable laws and regulations.
- Assessing financial statement disclosures, and agreeing these to supporting evidence, for compliance with the Pensions Acts 1995 and 2004 and regulations made under them.

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

FUND ACCOUNT

for the year ended 31 March 2023

	Note	2023 £m	2022 £m
Contributions and benefits			
Employer contributions	**4**	**86.7**	81.5
Employee contributions	**4**	**0.8**	0.6
Total contributions		**87.5**	82.1
Transfers in	**5**	**108.4**	-
		195.9	82.1
Benefits paid or payable	**6**	**(116.8)**	(112.4)
Payments to and on account of leavers	**7**	**(31.2)**	(26.6)
Administrative expenses	**8**	**(3.2)**	(3.0)
		(151.2)	(142.0)
Net additions/(withdrawals) from dealings with members		**44.7**	(59.9)
Returns on investments			
Investment income	**9**	**34.1**	34.8
Change in market value of investments	**10**	**(908.7)**	98.2
Investment management expenses	**12**	**(2.1)**	(0.1)
Taxes on investment income	**13**	**-**	(0.1)
Net returns on investments		**(876.7)**	132.8
Net (decrease)/increase in the fund		**(832.0)**	72.9
Opening Net Assets		**3,429.8**	3,356.9
Closing Net Assets		**2,597.8**	3,429.8

The notes on pages 38 to 52 form part of these Financial Statements.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
As at 31 March 2023

	Note	2023 £m	2022 £m
Investment assets			
Equities	**10**	**-**	126.4
Bonds	**10**	**135.3**	249.5
Pooled investment vehicles	**14**	**2,544.9**	3,046.5
AVC investments	**15**	**4.1**	4.4
Cash deposits and other investment balances	**16**	**16.0**	79.4
		2,700.3	3,506.2
Investment liabilities			
Longevity swap	**10**	**(105.9)**	(76.9)
Other investment balances	**16**	**-**	(1.9)
		(105.9)	(78.8)
Total net investments		**2,594.4**	3,427.4
Current assets	**21**	**7.9**	6.5
Current liabilities	**22**	**(4.5)**	(4.1)
Total net assets available for benefits		**2,597.8**	3,429.8

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 pages 26 and 27 of the Annual Report and these Financial Statements should be read in conjunction with this report.

The notes on pages 36 to 51 form part of these Financial Statements.

These Financial Statements were approved by the Group Trustee on 17 October 2023 and signed on its behalf by:

Stephen Yandle
Chair of National Grid Electricity Group Trustee Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

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 Pension Solutions Ltd, Hartshead House, 2 Cutler's Gate, Sheffield S4 7TL. 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 or payable 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.

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.

Longevity swaps are valued on a fair value basis on the expected cash flows arising under the swap, discounted using market interest rates. In line with the approach taken as at 31 March 2022, the fair value as at 31 March 2023 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 11.

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. The Group Trustee does not consider there to be any critical accounting judgements in applying the Group's accounting policies.

- 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.

(h) Insurance Policies

In 2017 it was decided that it was no longer viable to obtain an actuarial valuation of the Pre-Vesting insurance policies as their value, based on the 2014 valuation, would round down to zero in the Group Financial Statements. Since the conclusion of the 2023 Scheme Year, there are no more Pre-Vesting insurance policies in place.

4. Contributions

	2023 £m	2022 £m
Employer contributions		
Normal	**20.9**	19.5
Deficit funding	**56.9**	54.8
In respect of administrative expenses and levies	**3.4**	2.2
Augmentations (Early retirements)	**3.8**	3.7
Other		
- Supplementary pensions funding	**-**	1.0
- Other	**1.7**	0.3
	86.7	81.5
Employee contributions		
Normal	**0.2**	0.2
Added Years AVCs*	**-**	0.1
Money Purchase AVCS**	**0.6**	0.3
	0.8	0.6
Total	**87.5**	82.1

**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 (2023: £20.4 million and 2022: £3.9 million).

In accordance with the Schedule of Contributions, the Principal Employer pays contributions in respect of the future accrual of benefits. With effect from 1 July 2023 an expense reserve has been established as part of the actuarial valuation as at 31 March 2022 and therefore the majority of expenses are now paid by the Group.

In respect of the deficit as at 31 March 2022, the Company paid a contribution of £56.875m in September 2022. No further deficit contributions are to be paid as the Group is now expected to have a funding surplus.

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

5. Transfers in

	2023 £m	2022 £m
Transfer values received from other pension arrangements:		
Bulk transfers in from other schemes	**108.2**	-
Individual transfers in from other schemes*	**0.2**	-
	108.4	-

**There was an individual intra scheme transfer in from another Group of the ESPS during the Scheme Year.*

6. Benefits paid or payable

	2023 £m	2022 £m
Pensions	**107.9**	105.2
Commutation of pensions and lump sum retirement benefits	**8.2**	6.5
Purchase of annuities (AVCs)	**0.4**	0.1
Lump sum death benefits	**-**	0.1
Taxation where lifetime or annual allowance exceeded	**0.3**	0.5
	116.8	112.4

7. Payments to and on account of leavers

	2023 £m	2022 £m
Individual transfers out to other schemes	**21.7**	26.6
Bulk transfers out	**9.5**	-
	31.2	26.6

The bulk transfer out relates to 15 active members who left the group on 31 March 2022 and joined NGUKPS on 1 April 2022 and whose past service liability was also transferred. The transfer agreement was dated 27 January 2023.

8. Administrative expenses

	2023 £m	2022 £m
Administration, processing and Group Trustee expenses	**0.4**	1.6
Actuarial fees	**1.1**	0.4
Pension levies	**0.1**	0.1
Legal and other professional fees	**1.6**	0.9
	3.2	3.0

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 2023, and not directly related to the investment management of the securities and property portfolios, continue to be met by the Employers.

9. Investment income

	2023 **£m**	2022 £m
Dividends from equities	**11.2**	6.5
Income from bonds	**15.8**	13.9
Income from pooled investment vehicles	**0.2**	14.4
Interest on cash deposits	**6.9**	-
	34.1	34.8

10. Reconciliation of net investments

	Value at 1 April 2022 £m	Purchases at cost and derivative payments £m	Sale proceeds and derivative receipts £m	Changes in market value £m	**Value at 31 March 2023 £m**
Equities	126.4	3.0	(125.4)	(4.0)	**-**
Bonds	249.5	20.8	(87.6)	(47.4)	**135.3**
Pooled investment vehicles	3,046.5	1,895.4	(1,578.4)	(818.6)	**2,544.9**
Longevity swap	(76.9)	7.5	-	(36.5)	**(105.9)**
AVC investments	4.4	0.3	(0.6)	-	**4.1**
	3,349.9	1,927.0	(1,792.0)	(906.5)	**2,578.4**
Cash deposits and other investment assets	79.4				**16.0**
Other investment liabilities	(1.9)				**-**
Net investment assets	3,427.4				**2,594.4**

Change in market value as shown above	(906.5)
Exchange gains/losses	(2.2)
Change in market value per fund account	**(908.7)**

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 £(105.9) million as at 31 March 2023 is provided under Note 3(f).

11. Investment transaction costs

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the investment reconciliation on the previous page. Direct transaction costs incurred during the year are analysed as follows:

	Equities £ m	**Total 31 March 2023 £ m**	Total 31 March 2022 £ m
Commissions	0.1	**0.1**	0.1
Total	**0.1**	**0.1**	0.1

Direct transaction costs in the prior year had values below the level of rounding required 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.

	2023 £m	2022 £m
Investment management fees	**0.7**	(1.3)
Custody fees	**-**	0.1
Other advisory fees	**1.4**	1.3
	2.1	0.1

Investment management fees were negative during the previous Scheme Year due to the high value of fee rebates received during the 2022 Scheme 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	2023 £m	2023 £m	2022 £m	2022 £m
Equities		**282.5**		126.6
Return Seeking Bond Funds		**-**		497.2
Infrastructure funds		**158.5**		-
Fund of Hedge Funds		**2.0**		1.8
Private Equity		**139.5**		83.7
Property		**102.7**		245.5
*Liability Driven Investments (LDIs)				
Bonds	**2,111.4**		2,822.5	
Swaps	**(71.4)**		1.7	
Repurchase agreements	**(383.4)**		(1,091.6)	
Currency hedge	**-**		(2.7)	
Cash and other liquid assets	**66.6**		55.5	
		1,723.2		1,785.4
Cash and other liquid assets		**136.5**		306.3
		2,544.9		3,046.5

*As at 31 March 2023, the Group held £1,723.2m in a Liability Driven Investment (LDI) (a sole investor fund) with Insight (2022: £1,785.4m).

15. AVC 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, 78 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 2023 was 261 (2022: 264). 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 Trustee holds 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:

	2023 £m	2022 £m
Aviva	**0.4**	0.4
Utmost Life and Pensions	**0.1**	0.1
Prudential Assurance Society	**0.4**	0.3
Legal & General	**3.2**	3.6
	4.1	4.4

16. Cash deposits and other investment balances

	2023 £m	2022 £m
Cash deposits and other investment assets		
Cash deposits	**8.5**	14.0
Accrued interest and dividends	**6.6**	3.2
Recoverable income tax	**0.9**	1.1
Cash in transit	**-**	60.1
Other debtors	**-**	1.0
	16.0	79.4
Other investment balances		
Creditors	**-**	(1.9)
	-	(1.9)

17. 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. In line with the approach taken as at 31 March 2022, the fair value as at 31 March 2023 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 2023 or 31 March 2022.

Analysis for the current year-end is as follows:

Level	(1) £m	(2) £m	(3) £m	2023 Total £m
Investment assets				
Bonds	135.3	-	-	135.3
Pooled investment vehicles	-	418.9	2,126.0	2,544.9
Cash	8.5	-	-	8.5
AVCs	-	-	4.1	4.1
Other investment balances	7.5	-	-	7.5
	151.3	**418.9**	**2,130.1**	**2,700.3**
Investment liabilities				
Longevity Swap	-	-	(105.9)	(105.9)
	-	-	(105.9)	(105.9)
Net investment assets	**151.3**	**418.9**	**2,024.2**	**2,594.4**

Analysis for the prior year-end is as follows:

Level	(1) £m	(2) £m	(3) £m	2022 Total £m
Investment assets				
Equities	126.4	-	-	126.4
Bonds	249.5	-	-	249.5
Pooled investment vehicles	-	2,715.5	331.0	3,046.5
Cash	11.9	2.1	-	14.0
AVCs	-	-	4.4	4.4
Other investment balances	65.4	-	-	65.4
	453.2	2,717.6	335.4	3,506.2
Investment liabilities				
Longevity Swap	-	-	(76.9)	(76.9)
Other investment balances	(1.9)	-	-	(1.9)
	(1.9)	-	(76.9)	(78.8)
Net investment assets	451.3	2,717.6	258.5	3,427.4

18. 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			2023 value £m	2022 value £m
		Currency	Interest rate	Other price		
Equities	○	◐	○	●	**-**	126.4
Bonds	●	○	●	◐	**135.3**	249.5
Pooled investment vehicles	●	◐	●	●	**2,544.9**	3,046.5
Longevity swap	◐	○	●	●	**(105.9)**	(76.9)
Cash	●	○	●	○	**8.5**	14.0
Other investment balances	●	○	●	○	**7.5**	63.5
Total					**2,590.3**	3,423.0

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 by 31 March 2023 was to hold:

- 22% in return seeking investments comprising infrastructure, investment property, and various credit investments including total return and absolute return bond funds.
- 78% 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	**2023 £m**	2022 £m
Bonds (longevity swap - collateral and segregated bond portfolio)	**135.3**	249.5
Pooled investment vehicles	**2,544.9**	3,046.5
Cash and other net investment assets	**16.0**	77.5

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 2023, the Group held £1,656.6m (2022: £1,872.6m) 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	**2023 £m**	**2022 £m**
Authorised unit trusts	23.3	122.5
Open-ended investment companies	2,099.3	2,658.9
Limited partnerships	298.0	83.7
Unit linked insurance contracts	122.3	179.6
Cayman islands exempted company	2.0	1.8
Total	**2,544.9**	**3,046.5**

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 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 2023, the Group had posted eligible bonds and cash valued at £97.9m (2022: £129.4m) as fee collateral. A further £123.0m (2022: £132.2m) 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. £12.3m (2022: £17.8) 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 2023 related to the 31 December 2022 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.

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 2023, the Group Trustee has set a benchmark to hedge 91.0% 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 77.2% (2022: 66.7%) 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 26.6% of the Group's total net investment assets (2022: 33.3%).

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.

19. Concentration of investments

The table below details investment holdings which exceed 5% of the total value of the net assets of the Group as at 31 March 2023 or 31 March 2022.

	2023		2022	
	£m	**%**	£m	%
Insight LDI Active 28 Fund	**1,723.2**	**66.6**	1,785.4	52.1
KKR Diversified Core Infrastructure Fund	**158.5**	**6.1**	60.1	1.8
LGIM Global Diversified Credit SDG Fund	**122.3**	**<5.0**	179.6	5.2

20. Employer-related investments

At 31 March 2023 the Group had no direct assets (2022: £nil) invested in National Grid plc or its associated companies. The Group held indirect investments (i.e., investments via pooled vehicles) in National Grid plc or its associated companies as at 31 March 2023 of less than 0.02% (2022: less than 0.01%).

21. Current Assets

	2023	2022
	£m	£m
Contributions due from Employers	**-**	0.1
Due from NGUKPS Section B	**1.8**	-
Other debtors	**0.7**	0.4
Cash balances	**5.4**	6.0
	7.9	6.5

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

22. Current Liabilities

	2023 £m	2022 £m
Accrued benefits	**1.3**	1.1
Accrued expenses	**1.3**	3.0
Other creditors	**1.9**	-
	4.5	**4.1**

23. Related party transactions

Key management personnel

Total fees of £118,908 (2022: £90,600) were paid to Group Trustee Directors during the Scheme Year by the Participating Employers. Other than those items disclosed in Note 8 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.

24. 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 relation to investments, the Group has committed £100m to invest in opportunistic private credit with CVC. As at 31 March 2023, the Fund had invested £72m of the Group's commitment. The Group's commitment of £106m to the private credit fund with HPS has not been fully drawn down but this Fund's investment period has ended, so no further capital calls are expected.

In addition to the deficit contributions agreed for the 2022 actuarial valuation, the Group Trustee has agreed additional security with the Company. 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) will be put in place if the Company credit rating falls to BBB (or equivalent) equal to the sum of the deficit on the long term objective (LTO deficit) plus the Investment Value at Risk (Investment VAR) plus the Longevity Value at Risk (Longevity VAR) up to a cap of £300m.

- 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) will be put in place if the Company credit rating falls to BBB- (or equivalent) equal to the sum of the LTO deficit plus the Investment VAR plus the Longevity VAR up to a cap of £500m.

- If the Company credit rating falls below BBB- (or equivalent) the Security Amount equal to the LTO deficit will be provided through charges over Company bank accounts and the remainder of the Security Amount will be provided through either Letters of Credit, Surety Bonds, Gilts or charges over Company bank accounts (or a combination of these forms of security).

- The Security becomes payable to the Group if the Company ceases to hold its Licence to operate, or in the event of insolvency of the Company.

Company credit rating is as measured by 2 credit rating agencies for at least 40 business days.

The LTO deficit is measured on the technical provision assumptions except the discount rate is gilts plus 0.25% p.a.

Investment VAR is the 95% value at risk arising from investments over a one-year period.

Longevity VAR is the 95% value at risk arising from longevity over a one-year period.

For the period until the earlier of 30 June 2026 or the date the next valuation is agreed:

- the LTO deficit has been agreed and fixed at £20m; and
- the LTO deficit plus the Investment VAR plus the Longevity VAR has been agreed and fixed at £180m.

The Virgin Media Limited / NTL Pension Trustees II decision, handed down by the High Court in June 2023, considered the implications of section 37 of the Pension Schemes Act 1993, which required that the rules of a salary-related contracted-out scheme cannot be altered unless the actuary confirmed that the scheme would continue to satisfy the statutory standards. The High Court found that, where the required actuarial confirmation was not supplied, the effect of section 37 was to render the relevant amendment to any contracted-out right automatically void. It also held that references in the legislation included both past and future service rights and that the requirement for actuarial confirmation applied to all amendments to the rules of a contracted-out scheme. On 20 July 2023, Virgin Media was granted permission to lodge an appeal and as matters currently stand, the case has the potential to cause significant issues in the pensions industry. The Group Trustee will investigate the possible implications of the above with its advisers but, it is not possible, at present, to estimate the potential impact, if any, on the Group.

25. Subsequent events

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

APPENDIX 1 – GROUP ADVISERS AND SERVICE PROVIDERS

Secretarial Support Barnett Waddingham LLP	Provides secretarial support to the Group Trustee, covering matters related to finance, investment, governance, and operations.
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 PricewaterhouseCoopers LLP	Advises on the strength of the Company and its covenant and how this may impact the Group's funding.

Investment Managers
Aon Investments Limited (AIL) (terminated 29 April 2022)
BlackRock
CBRE Global Investors Limited
CVC Credit Partners
HPS Investment Partners
Insight Investment
JP Morgan Alternative Asset Management
KKR
Legal & General Investment Management (LGIM)
PIMCO
State Street Global Advisors Limited
Walter Scott & Partners (terminated 7 December 2022)

Fiduciary Manager
Aon Investments Limited (AIL) (terminated 29 April 2022)

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:

NGE Group Trustee Services
Barnett Waddingham
3 Devon Way
Longbridge
Birmingham
B31 2TS

Email: NGEGESPS@barnett-waddingham.co.uk

Enquiries about benefits should be addressed to the administrators:

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

Telephone: 02476 472 540
Email: enquiries@railpen.com
Website: www.railpen.com

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.railpen.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.

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 or +44 207 630 2200
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 at:

The Pension Service
Post Handling Site A
Wolverhampton
WV98 1AF
United Kingdom

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

APPENDIX 4 – ENGAGEMENT POLICY IMPLEMENTATION STATEMENT

Engagement Policy Implementation Statement ("EPIS")

National Grid Electricity Group of the Electricity Supply Pension Scheme (the "Group")

Group Year End – 31 March 2023

The purpose of the EPIS is for us, the Trustee of the National Grid Electricity Group of the Electricity Supply Pension Scheme, to explain what we have done during the year ending 31 March 2023 to achieve certain policies and objectives set out in the Statement of Investment Principles ("SIP"). It includes:

1. How our policies in the SIP about asset stewardship (including both voting and engagement activity) in relation to the Group's investments have been followed during the year; and

2. How we have exercised our voting rights or how these rights have been exercised on our behalf, including the use of any proxy voting advisory services, and the 'most significant' votes cast over the reporting year.

Our conclusion

Based on the activity we have undertaken during the year, we believe that the policies set out in the SIP have been implemented effectively.

In our view, most of the Group's investment managers were able to disclose adequate evidence of voting and engagement activity where this would be expected, the activities completed by our managers align with our stewardship priorities, and our voting policy has been implemented effectively in practice.

We will engage with those managers who have not provided data to encourage improvements in their reporting, as set out in our Engagement Action Plan.

How voting and engagement policies have been followed

The Group Trustee delegates the responsibility for voting and engagement to the Group's investment managers. We reviewed the stewardship activity of the investment managers (ignoring those with immaterial holdings) carried out over the Group year and in our view, most were able to disclose adequate evidence of voting and engagement activity given the asset class. More information on the stewardship activity carried out by the Group's investment managers can be found in the following sections of this report.

Over the reporting year, we monitored the performance of the Group's investments on a quarterly basis and received updates on important issues from our investment adviser, Aon Investments Limited ("Aon"). In particular, we received quarterly Environment Social Governance ("ESG") ratings from Aon for the funds the Group is invested in where available.

During the year, we received training on ESG and stewardship topics, and agreed our policies in relation to these. We also received ongoing training on the requirements of the Pensions Regulator as set out as part of the Task Force on Climate-related Financial Disclosures (TCFD) and are nearing completion of the Group's first complete report.

The Group's stewardship policy can be found in the SIP: LIBRARY - National Grid Pension Portal (nationalgridpensions.com)

What is stewardship?

Stewardship is investors using their influence over current or potential investees/issuers, policy makers, service providers and other stakeholders to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

This includes prioritising which ESG issues to focus on, engaging with investees/issuers, and exercising voting rights.

Differing ownership structures means stewardship practices often differ between asset classes.

Source: UN PRI

Our Engagement Action Plan

Based on the work we have done for the EPIS, we have decided to take the following steps over the next 12 months:

- We recognise that the investment processes and the nature of some of our alternative investments may mean that stewardship is less practicable or may be less relevant for these types of strategy. Nevertheless, we expect our managers to provide reporting on stewardship activities in a timely fashion. Our investment adviser, Aon, will continue to engage with the fund managers in which the Group is expected to remain invested to encourage improvements in their reporting.

- We will invite select investment managers to future meetings to get a better understanding of their engagement practices, and how these help us fulfil our Responsible Investment policies.

- We will undertake detailed ESG monitoring of our investment managers with material holdings on a regular basis.

Our managers' voting activity

Good asset stewardship means being aware and active on voting issues, corporate actions and other responsibilities tied to owning a company's stock. Understanding and monitoring the stewardship that investment managers practice in relation to the Group's investments is an important factor in deciding whether a manager remains the right choice for the Group.

Voting rights are attached to listed equity shares, including equities held in multi-asset funds. We expect the Group's equity-owning investment managers to exercise their voting rights responsibly.

Why is voting important?

Voting is an essential tool for listed equity investors to communicate their views to a company and input into key business decisions. Resolutions proposed by shareholders increasingly relate to social and environmental issues

Source: UN PRI

Voting statistics

The table below shows the voting statistics for the Group's material fund holdings with voting rights for the year to 31 March 2023.

DB Section

	Number of resolutions eligible to vote on	% of resolutions voted	% of votes against management	% of votes abstained from
Walter Scott - Global Equity Fund	589	100.0%	2.0%	0.0%

Source: Walter Scott

AVC Section

	Number of resolutions eligible to vote on	% of resolutions voted	% of votes against management	% of votes abstained from
LGIM - Global Equity Market Weights 30:70 Index 75% currency hedged	76,499	99.9%	18.2%	1.1%
Schroders - Sustainable Future Multi Asset	9,657	93.0%	10.0%	0.0%
BlackRock - Aquila UK Equity Index	14,741	96.5%	3.8%	1.6%
Aviva - Pension International Index Tracking - Pension Mixed Investment (40-85% Shares) - Pension UK Index Tracking - Pension with Profit - Pension with Profit Guaranteed	*Not Provided*			
M&G - Prudential International Equity	*Not Provided*			
JPMorgan - Utmost Life and Pensions Multi-Asset Moderate - Utmost Life and Pensions Multi-Asset Cautious	*Not Provided*			

Source: Managers

Use of proxy voting advisers

Many investment managers use proxy voting advisers to help them fulfil their stewardship duties. Proxy voting advisers provide recommendations to institutional investors on how to vote at shareholder meetings on issues such as climate change, executive pay and board composition. They can also provide voting execution, research, record keeping and other services.

Responsible investors will dedicate time and resources towards making their own informed decisions, rather than solely relying on their adviser's recommendations.

The table below describes how the Group's managers have described their use of proxy voting advisers.

Why use a proxy voting adviser?

Outsourcing voting activities to proxy advisers enables managers that invest in thousands of companies to participate in many more votes than they would without their support.

	Description of use of proxy voting advisers
Walter Scott	Institutional Shareholder Services (ISS): Walter Scott receives third party research from ISS for information purposes. However, the recommendations from any intermediary have no bearing on how Walter Scott votes.
LGIM	LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions. For more details, please refer to the Voting Policies section of this document.
Schroders	Institutional Shareholder Services (ISS) act as our one service provider for which we have our own bespoke policy.
BlackRock	Voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Principles and custom market-specific voting guidelines. While we subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, it is just one among many inputs into our vote analysis process, and we do not blindly follow their recommendations on how to vote. We primarily use proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that our investment stewardship analysts can readily identify and prioritise those companies where our own additional research and engagement would be beneficial. Other sources of information we use include the company's own reporting (such as the proxy statement and the website), our engagement and voting history with the company, and the views of our active investors, public information and ESG research.
Aviva	*Not Provided*
M&G	*Not Provided*
JP Morgan	JP Morgan Asset Management ("JPMAM") acted as majority underlying fund manager for Utmost. JPMAM uses a third party corporate governance data provider, ISS, to receive meetings notifications, provide company research and process its votes. Although we use the ISS ProxyExchange platform and see their voting recommendations, this forms only the starting point for our proprietary thinking, and all our voting decisions are made on a case by case basis by in-house specialists in conjunction with the Analyst and/or Fund Manager in reference to the JPMAM Corporate Governance Policy and Voting Guidelines.

Source: Managers. The proxy voting policy for JP Morgan is as at 31 December 2022

Significant voting examples

To illustrate the voting activity being carried out on our behalf, we asked the Group's investment managers to provide a selection of what they consider to be the most significant votes in relation to the Group's funds. A sample of these significant votes can be found in the appendix.

Our managers' engagement activity

Engagement is when an investor communicates with current (or potential) investee companies (or issuers) to improve their ESG practices, sustainability outcomes or public disclosure. Good engagement identifies relevant ESG issues, sets objectives, tracks results, maps escalation strategies and incorporates findings into investment decision-making.

The table below shows some of the engagement activity carried out by the Group's managers. The managers have provided information for the most recent calendar year available. Some of the information provided is at a firm level i.e., is not necessarily specific to the fund invested in by the Group.

DB Section

Funds	Number of engagements		Themes engaged on at a fund-level
	Fund specific	Firm level	
Walter Scott – Global Equity Fund	4	11	Environment - Carbon Footprint, Climate change Governance - Remuneration
LGIM - Global Diversified Credit SDG Fund	79	*Not Provided*	Environment – Climate change, Natural resource use/impact (e.g. water, biodiversity), Social - Human and labour rights (e.g. supply chain rights, community relations), Human capital management (e.g. inclusion & diversity, employee terms, safety), Governance - Board effectiveness - Diversity, Board effectiveness - Other, Remuneration, Reporting (e.g. audit, accounting, sustainability reporting), and others.
Insight Bond Plus	145	1,178	Environment - Climate change, Pollution, Waste Social - Human capital management, Public health Governance - Board effectiveness - Independence or Oversight, Remuneration Strategy, Financial and Reporting - Strategy/purpose, Financial performance
PIMCO - Dynamic Bond Full Authority Strategy*	>220	>1,800	Environment - Climate change, Natural resource use/impact Social - Conduct, culture and ethics, Human and labour rights Governance - Board effectiveness – Diversity, Independence or Oversight Strategy, Financial and Reporting - Capital allocation
HPS Investment - Credit Value Offshore Fund VI	0	>100	*Not Provided*
KKR Global - Infrastructure Partners	*Not Provided*		
CBRE Global Investors UK Property PAIF	*Not Provided*		
Blackrock - UK Property Fund	*Not Provided*		
CVC - Credit Partners EU DL 2021 Feeder SCSp	*Not Provided*		

*Source: Managers. *PIMCO did not provide fund-level themes; themes provided are at a firm-level.*
All engagement data is as at 31 December 2022

AVC Section

Funds	Number of engagements		Themes engaged on at a fund-level
	Fund specific	**Firm level**	
LGIM - Global Equity Market Weights 30:70 Index 75% currency hedged	663	*Not Provided*	Environment - Climate change, Natural resource use/impact (e.g. water, biodiversity) Social - Human and labour rights (e.g. supply chain rights, community relations), Human capital management (e.g. inclusion and diversity, employee terms, safety) Governance - Public health, Board effectiveness - Diversity, Board effectiveness - Other, Remuneration, Reporting (e.g. audit, accounting, sustainability reporting), Strategy/purpose
Schroders - Sustainable Future Multi Asset	>900	>2,800	Environment - Climate change, Natural resource use/impact (e.g. water, biodiversity) Social - Human and labour rights (e.g. supply chain rights, community relations), Human capital management (e.g. inclusion and diversity, employee terms, safety) Governance and Strategy, Financial and Reporting
BlackRock - Aquila UK Equity Index	3,188	*Not Provided*	Environment- Climate Risk Management, Land Use/Deforestation Social - Business Ethics and Integrity, Diversity, and Inclusion Governance – Remuneration, Executive Management
Aviva - Pension International Index Tracking - Pension Mixed Investment (40-85% Shares) - Pension UK Index Tracking - Pension with Profit Pension with Profit Guaranteed	*Not Provided*		
M&G - Prudential International Equity	*Not Provided*	157	*Not Provided*
JP Morgan - Utmost Life and Pensions Multi-Asset Moderate Utmost Life and Pensions Multi-Asset Cautious	*Not Provided*	3277	*Not Provided*

Source: Managers. All engagement data is as at 31 December 2022

Data limitations

At the time of writing, the following managers did not provide all the information we requested:

- Aviva, M&G and JP Morgan did not respond to our requests, thus no voting or engagement data has been provided by these managers.
- KKR did not provide any engagement data. The manager said it does not track its engagements on any topic, including ESG-related issues.
- CVC did not provide the requested engagement data. They said they are unable to complete this request, given both the nature of the request and the nature of the strategy.
- CBRE did not provide the engagement data as it stated that it does not collate statistics on the number of engagements undertaken by the firm or fund.
- BlackRock did not provide engagement data for its UK Property Fund. The manager stated that the fund does not hold publicly listed securities, hence they do not produce engagement reporting.
- For the Aquila UK Equity Index, BlackRock provided significant voting examples which are detailed but not in the industry standard format, and so there are some data items missing. BlackRock also did not provide firm-level engagement information.
- PIMCO did not provide fund-level themes.
- HPS Investment did not provide fund-level or firm-level engagement themes.
- LGIM did not provide detailed fund-specific engagement examples and did not provide firm-level engagement information.

We will engage with the managers to encourage improvements in reporting, where this would be expected given the asset class and where the Group is expected to have medium to long-term holdings.

This report does not include commentary on the Group's gilts or cash, because of the limited materiality of stewardship to these asset classes.

Appendix – Significant Voting Examples

In the table below are some significant vote examples provided by the Group's managers. Each manager has their own criteria for determining whether a vote is significant. Managers use a wide variety of criteria to determine what they consider a significant vote, some of which are outlined in the examples below

DB Section

Walter Scott - Global Equity	**Company name**	Prudential
	Date of vote	26 May 2022
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	1.5%
	Summary of the resolution	Authorise Issue of Equity without Pre-emptive Rights in Connection with an Acquisition or Other Capital Investment
	How you voted	Against
	Where you voted against management, did you communicate your intent to the company ahead of the vote?	Yes
	Rationale for the voting decision	Due to potential dilution greater than 10%
	Outcome of the vote	Pass
	Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	All significant votes are reviewed and approved by the Investment Stewardship Committee. Any potential learnings from our significant votes are then taken into account for periodic reviews of our Proxy Voting Policy.
	On which criteria have you assessed this vote to be "most significant"?	Vote against management

Source: Walter Scott

AVC Section

LGIM - Global Equity Market Weights 30:70 Index 75% currency hedged	**Company name**	Alphabet Inc.
	Date of vote	1 June 2022
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	0.34%
	Summary of the resolution	Report on Physical Risks of Climate Change
	How you voted	For
	Where you voted against management, did you communicate your intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.

	Rationale for the voting decision	Shareholder Resolution - Climate change: A vote in favor is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.
	Outcome of the vote	Failed
	Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.
	On which criteria have you assessed this vote to be "most significant"?	LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote.
Schroders - Sustainable Future Multi Asset	**Company name**	The Toronto-Dominion Bank
	Date of vote	14 April 2022
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	*Not Provided*
	Summary of the resolution	Advisory Vote on Environmental Policy
	How you voted	For
	Where you voted against management, did you communicate your intent to the company ahead of the vote?	We may tell the company of our intention to vote against the recommendations of the board before voting, in particular if we are large shareholders or if we have an active engagement on the issue. We always inform companies after voting against any of the board's recommendations.
	Rationale for the voting decision	We believe our vote for this item will maximize the value to our clients. The company is asked to establish an annual advisory vote policy regarding its environmental and climate change targets and action plan. We welcome additional mechanisms for shareholders to hold the board accountable for its management of climate risk and contribution to the transition to a low carbon economy. As such, we support the proposal.
	Outcome of the vote	Failed
	Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	We monitor voting outcomes particularly if we are large shareholders or if we have an active engagement on the issue. If we think that the company is not sufficiently responsive to a vote or our other engagement work, we may escalate our concerns by starting, continuing, or intensifying an engagement. As part of this activity, we may also vote against other resolutions at future shareholder meetings, such as voting against the election of targeted directors.
	On which criteria have you assessed this vote to be "most significant"?	Significant Vote - SH E&S Proposal; Significant Vote - SH Governance Proposal; Significant Vote - MGT Governance Proposals; Votes against mgmt.
BlackRock - Aquila UK Equity Index	**Company name**	Rio Tinto Group
	Date of vote	5 May 2022
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	*Not Provided*

Summary of the resolution	Approve Climate Action Plan
How you voted	For
Where you voted against management, did you communicate your intent to the company ahead of the vote?	Yes
Rationale for the voting decision	Rio Tinto Group's Climate Action Plan, targets, and disclosures are consistent with what we look for and, in our assessment, demonstrate management and board responsiveness to shareholder feedback. Accordingly, BlackRock determined that it is in the best interests of our clients as long-term shareholders to support the proposal to approve the Climate Action Plan.
Outcome of the vote	Pass
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to engage to further assess progress, especially in relation to the group's strategy of "combining investments in commodities that enable the energy transition with actions to decarbonise [our] operations and value chains."
On which criteria have you assessed this vote to be "most significant"?	*Not Provided*

Source: Managers