AN UPDATE FOR THE NATIONAL GRID ELECTRICITY GROUP OF THE ELECTRICITY SUPPLY PENSION SCHEME

Summer 2023

VALUATION UPDATE

2022 Group valuation results

An overview

Every three years, the Group must undertake a formal valuation of its fund and share the results with Group members. This update provides a summary of the most recent valuation as at 31 March 2022.

The Group Trustee is pleased to report an improvement in funding level since the previous valuation in 2019.

The results

- The Group's deficit has fallen by £177 million between 2019 and 2022 – a marked improvement in the funding position.
- The deficit now stands at £60 million – at the previous valuation (31 March 2019) the deficit was £237 million.
- The Group's funding position improved to 98%, another significant increase since 2019.
- The main reasons for the improvement have been better-than-expected investment returns, higher gilt yields and the additional contributions made by the Sponsoring Employer (the Company) in the period between valuations.

The path to full funding

- The Company made a deficit payment of £57 million in September 2022.
- Allowing for improvements in market conditions, the Group is now expected to be broadly, fully funded on the 2022 valuation basis.
- No further deficit contributions will be payable by the Company until the next actuarial valuation is completed, other than in respect of new benefits provided to active members of the Group.

Additional protections

Additional protections are in place to support the Group if certain triggers are hit, relating to National Grid's ability to provide financial support to the Group in the future.

Next time

The next full actuarial valuation is due to be undertaken as at 31 March 2025. Regular updates on the Group's funding position will be provided in the interim.

The purpose of an actuarial valuation

An actuarial valuation is an in-depth look at the Group's finances at a specified date. This calculation is carried out by the Group Actuary, who provides specialist advice to the Group Trustee.

The estimated cost of providing the benefits that Group members have earned to date is known as the Group's '**liabilities**'. These include the benefits of retired members and their dependants.

The Group Trustee has invested money across a range of different investments, which are collectively held on behalf of all members (not individuals). These investments are known as '**assets**'.

To check the Group's financial security, the Actuary compares the value of the Group's liabilities with the value of its assets at the date of the valuation. If the value of the Group's assets is less than the value of the liabilities, it is said to have a '**deficit**'. If the assets are more than the liabilities, there is said to be a '**surplus**'. The '**funding level**' is the percentage of the liabilities covered by the assets.

The valuation results do not change the pension you are either already receiving or are due to receive from the Group.

Welcome

A message from the Chair of the NGE Group Trustee, Stephen Yandle

Welcome to the Group *Valuation Update* 2023, covering the outcome of the latest valuation of the Group as at 31 March 2022.

I am pleased to confirm that the Group's funding position has improved since the last valuation (31 March 2019), with a reduced deficit of £60 million compared with the deficit of £237 million at the previous valuation – a reduction in the shortfall of £177 million.

Following an additional contribution from the Company in September 2022, the Group is now expected to be fully funded.

As with previous valuations, the Group Trustee has worked constructively with the Company to agree a prudent but fair funding target for the Group, which balances security for members with affordability for the Company.

In addition, the agreement includes a number of additional protections similar to those that were put in place following the 2019 valuation.

Since the valuation date, there has been considerable uncertainty in the global economy, which in turn has had a significant impact on financial markets.

As a Trustee Board, we are comfortable that the Group is well protected by its investment strategy, which has been designed to be well diversified and resilient to severe market conditions. Our strong position has meant that we have not needed to take any specific additional measures over this volatile period. The Group Trustee will continue to work with our advisers to closely monitor the Group's funding level and the ability of the Company to support the Group.

The next formal valuation of the Group's funding level will be carried out as at 31 March 2025, with the results reported during 2026. A summary of the interim annual funding updates will be covered in *Pensions Brief*.

Best wishes
Stephen Yandle
Chair of the NGE Group of the ESPS

The Group Trustee appreciate the importance of keeping you regularly updated on the Group's funding position and hope that this update provides a thorough insight into the 2022 Group valuation outcome and process.

If you have any questions about the valuation results, please email them to: **NGEGESPS@Barnett-Waddingham.co.uk**

The Group valuation: the details

What were the results of the 2022 valuation?

The table below compares the results of the 31 March 2022 formal valuation for the Group with those as at 31 March 2019.

In the years between full valuations, the Group Actuary also carries out less detailed annual updates. The table therefore also provides an estimate of the Group's funding position as at 31 March 2020 and 31 March 2021.

	31 March 2019 Group valuation	31 March 2020 Group update	31 March 2021 Group update	31 March 2022 Group valuation
The value of the liabilities (technical provisions) was:	£3,381 million	£3,452 million	£3,352 million	**£3,423 million**
The assets were valued at:	£3,144 million	£3,124 million	£3,330 million	**£3,363 million**
This means that there was an estimated deficit of:	£237 million	£328 million	£22 million	**£60 million**
Funding level:	93%	90.5%	99.4%	**98.2%**

Please note, the 2022 figures are on the new valuation basis, and therefore a different basis to the figures quoted in the other three columns.
Any discrepancies in figures are likely to be as a result of rounding.

How has the Group's financial position changed since the last formal valuation?

The Group's financial position has improved overall since the last formal valuation, with the Group's (technical provisions) deficit reducing from £237 million to £60 million over the three years to 31 March 2022.

This was primarily due to Company contributions received over the period, combined with favourable investment returns on the Group's assets and higher gilt yields.

A deficit contribution of £57 million was made by the Company in September 2022, and following changes in market conditions the Group is now expected to be fully funded on this basis.

Additional protections also remain in place to support the Group should certain triggers be hit, relating to the Company's ability to provide financial support to the Group in the future (see page 9).

What is the purpose of giving the 'solvency position'?

> The fact that this information is provided doesn't mean the Company is considering winding up the Group – the Group Trustee is required by law to provide this information.

The aim of both the Group Trustee and the Company is for there to be enough money to pay Group pensions now and in the future, but this depends on the Company continuing in business and being able to meet any new deficits as they arise.

Should the Company go out of business or decide to wind up the Group, it is required to pay the Group enough money so that an insurance company can be paid to provide all the benefits built up by the members. This is known as being 'bought out'.

The comparison of the Group's assets to the estimated cost of buying the benefits from an insurance company is known as the 'solvency position', as it represents the expected cost of securing all benefits payable from the Group. This is why the Company's continued ability to provide funding to the Group in future, as well as the additional security in place and the funding plan, are so important to the security of Group members' benefits.

Is there enough money in the Group to provide my full benefits if the Group was wound up?

Regarding the Group's solvency position, the actuarial valuation as at 31 March 2022 showed that the Group's assets could not have paid for full benefits of all members to be provided by an insurance company if the Group had wound up at that date. The assets would have covered around 92% of the liabilities (2019: 78%). This equates to a funding deficit of £280 million (2019: £955 million).

What happens if the Group is wound up and there isn't enough money to pay for all my benefits?

If the Group were to wind up without enough money to buy all the benefits with an insurer, unless the Company can afford to pay the difference, you would be unlikely to receive the full benefits you were expecting in accordance with the Rules of the Scheme. To help members in this situation, the government set up the Pension Protection Fund (PPF) in 2005.

The PPF pays a legally defined level of benefits to members of eligible UK pension schemes. This only occurs when the sponsoring employer becomes insolvent and the pension scheme does not have sufficient assets to pay the level of benefits payable under the PPF. The level of PPF benefits payable is lower than that offered by the Group, and therefore the cost of providing these benefits is also lower than the cost of fully securing Group benefits with an insurer.

The Group Actuary is required to carry out a comparison of the Group's assets with the estimated cost of the benefits that would be provided by the PPF.

On this basis, the Group is 140% funded as at 31 March 2022 (31 March 2019: 114%).

This means that as at 31 March 2022, the Group's assets covered more than the expected cost of the benefits that would be provided by the PPF, albeit those benefits would potentially be at a lower level than full Scheme benefits.

Further information about the PPF is available at: **www.ppf.co.uk**

For general enquiries, email: **information@ppf.co.uk**

Have there been any payments to the Company?

We are required to tell you if there have been any payments to the Company from the Group and we can confirm that there have not been any such payments.

How does this affect those who work for Elexon and contribute to the Group?

Elexon is a ring-fenced, 'not-for-profit' company which is wholly owned by National Grid. It contributes to the Group for a small number of employees who are members of the NGE Group. Elexon pays the same contributions as National Grid for future service accrual.

To find out more about Elexon and its role in operating the Balancing and Settlement Code critical to the UK's electricity trading arrangements, go to: **www.elexon.co.uk**

The Pensions Regulator

The Pensions Regulator is responsible for regulating work-based pension schemes in the UK. It aims to protect members' benefits and promote good scheme administration. You can find more details on their website at: **www.thepensionsregulator.gov.uk**

We are required to tell you if the Regulator has used its powers in relation to the Group over the last year, for example, by changing the way future benefits build up, or the way the funding target is worked out, or amending the employer contribution rate.

We are pleased to confirm that the Regulator has not used its powers in relation to the Group over the last year.

Covenant and security arrangements

The Group Trustee continues to use the services of an independent covenant assessor to review the National Grid companies that back the Group. This includes assessing their finances and continued ability to support the Group. The Group is fortunate to have a well-financed Company backing it.

The Company is also continuing to provide additional security for the Group which would be passed to the Group Trustee should certain conditions arise which would affect the Company's ongoing business.

Investment strategy update

The investment strategy is developed by the Group Trustee and its investment advisers, in consultation with the Company.

It sets out the target investment return and other investment objectives, such as the level of investment risk which can be taken. The Group Trustee aims to invest the Group's assets prudently to ensure that the benefits promised to members are provided.

The Group invests across a range of different types of investment. The assets include:

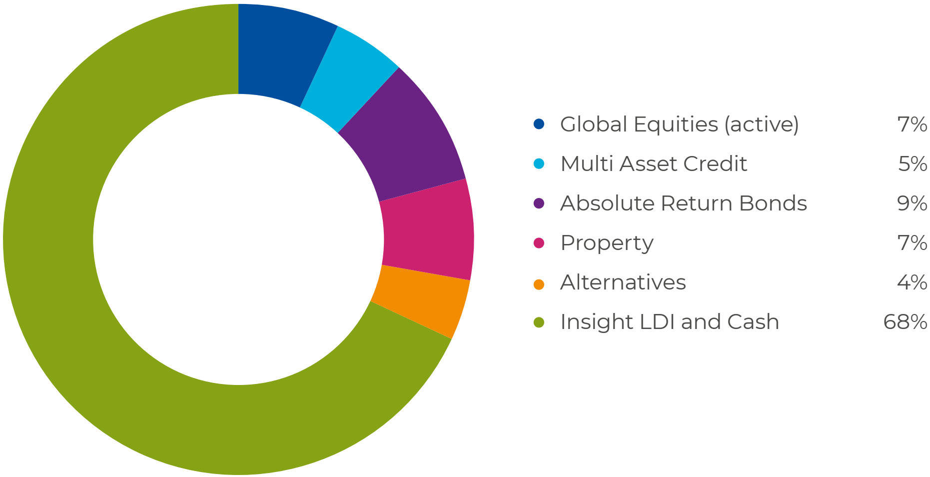
- Government bonds and bonds issued by companies
- Publicly traded equities
- Property
- Other alternative assets.

Bonds are generally held to generate regular income and are expected to track the movement in the value of the Group's liabilities, therefore broadly matching the liabilities and reducing risk. In contrast, equities, property and other alternative assets are generally held to generate returns above that of the liabilities and are viewed as 'return seeking'.

The investment strategy is set to generate an appropriate target return while managing investment risk, ensuring that there is a balance between the matching and return-seeking assets.

Split of assets as at 31 March 2022

The chart below shows the approximate split of the Group's assets between the different asset classes.



As a result of improvements in the Group's funding position since 31 March 2022, the Group Trustee took the decision to reduce the level of risk taken within the investment strategy. This is expected to help protect the funding level of the Group against volatile market movements. This has primarily been achieved by reducing exposure to Global Equities and Property and increasing exposure to liability driven investment (LDI).

Contact details

If you have any questions about your Group pension, please contact the Group administrator, Railpen:

Address: Unit 2, Rye Hill Office Park, Birmingham Road, Coventry CV5 9AB

Telephone: 02476 472540

Email: enquiries@railpen.com

Group website: https://ngeg.nationalgridpensions.com

If you have any questions about the latest Group valuation results, please email: NGEGESPS@barnett-waddingham.co.uk

Designed and produced by Wordshop
Our environmental and data protection policies can be seen online.
www.wordshop.co.uk

J-073418