ScottishPower Pension Scheme

Statement of Investment Principles

1. INTRODUCTION

This Statement sets out the principles governing decisions about the investment of the assets of the ScottishPower Pension Scheme (the "Scheme"). It is issued by SPPS Trustee Limited as Trustee of the ScottishPower Pension Scheme (the "Trustee") to comply with section 35 of the Pensions Act 1995 (the Act), as amended by the Pensions Act 2004, and The Occupational Pension Schemes (Investment) Regulations 2005 (the Investment Regulations).

The Trustee has obtained and considered written advice on the content of this Statement from the Scheme's investment advisers whom the Trustee believes to be suitably qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge of the management of the investments of pension trusts. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Act (as amended by the Pensions Act 2004). This Statement is consistent with the investment powers of the Trustee which are set out in the Consolidated Definitive Trust Deed and Rules dated June 2006.

The Trustee has consulted the sponsoring Employer (Scottish Power UK Plc) on the content of this Statement.

2. DECISION-MAKING STRUCTURE

Overall investment policy falls into two parts:

1. The strategic management of the assets is fundamentally the responsibility of the Trustee acting on expert advice and is driven by the investment objectives as set out in Section 3 below.

2. The remaining elements of policy are part of the day to day management of the assets which is delegated to professional investment management firms and is described in Section 4.

The Trustee has delegated certain investment powers to an Investment Sub-Committee which are detailed in a separate Terms of Reference document.

The Investment Sub-Committee maintains an Investment Implementation Policy Document (IIPD), which contains details of the Scheme's investment arrangements.

3. Strategic Management

3.1 Investment Objectives

The Trustee has adopted the following primary objective to help guide it in the strategic management of the assets and control of the various risks to which the Scheme is exposed:

- The Trustee seeks to invest the Scheme's assets so as to maximise the likelihood:
  - that benefits will be paid to members as they fall due, and
  - of continued long-term financial support from the sponsoring Employer.

In addition, in consultation with the sponsoring Employer, the Trustee has adopted the following specific objectives:

- to target an expected return in excess of the liabilities, which in conjunction with the contributions to be paid by the sponsoring Employer under the agreed Recovery Plan, is consistent with the following funding objectives

- To achieve and maintain an ongoing funding level of at least 100% by 2028

- To achieve a funding level of 100% by 2028 by reference to liabilities determined using duration based gilt yields and inflation expectations with 0.4% p.a. outperformance assumed

In setting these objectives, the Trustee recognises that the investment policy requires a level of risk to be taken relative to the liabilities. The Investment Sub-Committee reviews the quantum of the investment risks associated with the Scheme's investment strategy on a quarterly basis.

The Trustee believes that acting to achieve these objectives will mean that the assets are invested in the best interests of the members and beneficiaries of the Scheme. The Trustee does not foresee these objectives giving rise to any conflict with the interests of the members and beneficiaries, but if a potential conflict arose, the Trustee would take steps to ensure that the assets were invested in the sole interest of members and other beneficiaries.

The Trustee takes advice from the Scheme's actuaries and investment advisers with a view to investing the Scheme's assets in a manner that is appropriate to the nature and duration of the expected future retirement and death benefits payable from the Scheme. In particular, the Trustee has established a Liability Driven Investment ("LDI") framework to determine the appropriate level of interest rate and inflation hedging within the Scheme's LDI mandates. It has also considered the appropriate level of longevity hedging.

With the benefit of the advice from the Scheme's actuaries and investment advisers the Trustee has determined a benchmark mix of asset types; as set out in Section 3.3.

It is the intention of the Trustee to review the investment strategy on a regular basis.

The Trustee believes the guidelines agreed with the investment managers will result in the powers of investment delegated to the investment managers being exercised so as to optimise the security, quality, liquidity and return potential of the Scheme's portfolio of investments as a whole.

3.2 Investment Risk

In determining its investment policy, the Trustee has considered a number of investment risks to which the Scheme is exposed, in particular the risk arising from the mismatch between the investment strategy and the overall level and profile of the liabilities. As part of this, analysis has been undertaken to understand the Scheme's funding level sensitivity to:

- Interest rates
- Inflation
- Property market riskCredit risk
- Longevity risk

The Trustee regularly monitors the risk of having a shortfall of assets relative to the liabilities in the event of a significant deterioration in the strength of the Employer covenant.

In addition, when considering the implementation of the investment policy, the Trustee has considered the risk associated with longevity and credit risk. The Trustee has implemented the following measures to manage the risk associated with the investments:

- To diversify the risks that the Scheme faces, the Trustee invests in different asset types and strategies including property and private debt;
- To protect the Scheme against adverse currency movements associated with non-sterling denominated assets, the Trustee has implemented a currency hedging mandate.
- To help reduce the uncertainty regarding the amount of assets that will be required to meet the liabilities, the Scheme has implemented a longevity insurance contract. The longevity insurance contract hedges the risk of members covered by the contract living longer than expected;
- Counterparty risk is mitigated by both the Scheme and the counterparty posting collateral to the other party on a daily basis to account for market movements in the value of derivatives held;
- The assets are divided between a number of investment managers. This reduces the risk associated with one manager having responsibility for all of the Scheme's assets;
- Each fund manager has agreed a set of restrictions that govern the management of its portfolio. The purpose of the restrictions is to limit the risks from each individual investment and to prevent unsuitable investment activity;
- The Trustee has a written agreement in place with the custodian, which provides reasonable assurances of the physical security of the Scheme's assets.

The Trustee monitors these risks on a regular basis and will consider new risks that may emerge from time to time. In particular, on a quarterly basis the Trustee reviews;

- The Scheme's overall funding position, size of monetary deficit amount and the probability of achieving the long term funding objective (as measured by both the Scheme Actuary and the investment advisor using their proprietary stochastic modelling tools);

- The Scheme's interest rate and inflation hedge ratios, the longevity hedge ratio and the currency hedge ratios;

- The asset allocation weights across the various growth mandates and the overall allocation to growth asset exposure, relative to the strategic target weights;

- The counterparty exposure associated with the derivatives implemented within the LDI mandates;

- The investment managers' reported compliance with their respective operational controls;

- The forward looking scenario analysis provided by the investment advisor on the quantum of interest rate, inflation, longevity and growth asset class risk that the Scheme is exposed to under various scenarios;

- The ex-ante strategic risk level and the 3 Year Value-at-Risk associated with the Scheme's investment strategy, as measured by the investment advisor using their proprietary stochastic modelling tools;

- The free cashflow coverage of total annual contributions and SPUK total comprehensive income relative to the combined deficits of the Scheme and the Manweb Group of the ESPS, to help assess covenant risk.

As noted in 3.1, the Trustee has agreed a LDI framework which partially hedges the interest rate and inflation risk associated with the Scheme's liabilities. It is possible that the extent of longevity hedging may also be increased at a future date if conditions are appropriate.

3.3 Investment Strategy

The Trustee's current investment strategy is set out in the table below:

Asset Class	Benchmark Allocation
Bonds/liability-driven type investments	65.0%
Property	8.0%
Private Debt	27.0%
Total	**100.0%**

The private debt allocation is expected to reduce over time as the pace of distributions from the private debt funds increases. Using capital market models based upon assumptions derived from current market conditions and historic market return patterns, the above investment strategy (allowing for the allocation to private debt reducing over time) is expected to generate a return which results in an acceptable probability of achieving the Trustee's funding objectives set out in 3.1.

The investment strategy is reviewed regularly by the Trustee to ensure that it remains appropriate for meeting the objectives set out in 3.1 and for controlling the risks identified in 3.2.

This target allocation to bonds/liability-driven investments includes the value of the Fee Collateral Account and the Buffer Collateral Account associated with the longevity insurance contract, but excludes the Experience Collateral.

3.4 Consultation with the sponsoring Employer

The Trustee seeks to maintain a good working relationship with the sponsoring Employer and will consult with the sponsoring Employer before making any changes to this Statement or any material changes to the Scheme's investment arrangements.

The Trustee will also seek the sponsoring Employer's opinion on whether the Trustee's investment strategy and approach to risk management is consistent with the investment objective stated in 3.1 above. As required by the Pensions Act 1995 and as a matter of good practice, the Trustee consulted with the sponsoring Employer when the current investment arrangements were adopted.

4. DAY TO DAY MANAGEMENT OF THE ASSETS

4.1 Main Assets

As set out in Section 2, the Trustee delegates the day-to-day management of the Scheme's assets to a number of investment managers. The Trustee takes all reasonable steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently and complying with section 36 of the Pensions Act 1995 (as amended by the Pensions Act 2004). To facilitate this, the Investment Sub-Committee, on behalf of the Trustee, meets periodically with the Scheme's investment managers and receives regular reports from all the investment managers and the investment adviser. The Trustee has also appointed the investment adviser to assist in monitoring the Scheme's investments and to help the Trustee check that nothing has occurred that would bring into question the suitability of the current investments.

The Trustee invests the main assets of the Scheme in a specialist structure. Investment is via a mixture of closed-ended pooled funds and direct holdings. The Trustee is satisfied that the spread of assets by type and the spread of individual securities within each type provides adequate diversification of investments for risk management purposes. The overall investment strategy and structure are summarised in the Scheme's IIPD.

The Trustee has appointed The Bank of New York Mellon as the custodian for the safe keeping of the Scheme's assets. This is inclusive of the assets held as collateral to support the Scheme's longevity insurance contract. The custodian's responsibilities also include:

- Processing the settlement of all transactions;
- Providing the Trustee with statements of the assets and the cashflows;
- Undertaking all appropriate administration of the Scheme's assets, including processing of all dividends and tax reclaims and the collection of interest in a timely manner;
- Dealing with corporate actions;
- Providing performance measurement services.

4.2 Rebalancing Policy

The Trustee acknowledge that given the illiquid nature of the closed-ended private debt funds and the segregated property portfolio, it is not practical to implement a dynamic rebalancing policy to keep the Scheme assets broadly in line with the overall strategic asset allocation and the allocations to private debt, property and LDI may deviate from the strategic benchmark allocations due to market movements.

In the event that the Scheme's asset allocation has moved away from the strategic asset allocation within the Growth and Matching assets, the Investment Sub-Committee will consider whether any action is required. For instance, if the allocation to long-lease property becomes materially over/underweight relative to the strategic benchmark, the Investment Sub Committee may instruct the property manager to target a revised allocation through purchases or sales over time.

The Investment Sub-Committee monitors the Scheme's asset allocation at each Investment Sub-Committee meeting and also reviews the forecast of future cash flow requirements to agree an appropriate cashflow policy for required investments and/or disinvestments.

4.3 Investment Guidelines and Restrictions and Fees

The Trustee has adopted the following control framework in structuring the Scheme's investments;

- At the total Scheme level and within individual manager appointments, investments should be broadly diversified to ensure there is no concentration of investment in any particular asset or with any one issuer or by issuers belonging to the same group. This restriction does not apply to investment in UK Government debt.

- Subject to the restrictions imposed on individual investment managers, investments in derivatives may be permitted either directly or within pooled funds as long as they contribute to a reduction in risk or facilitate efficient portfolio management and that excessive risk exposure to a single counterparty and to other derivative operations is avoided.

- Investment may be made in securities that are not traded on regulated markets. The Trustee recognises the associated risks, in particular liquidity and counterparty exposure. Such investments will normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to access investment opportunities where the risk / return profile is deemed sufficiently attractive. In any event the Trustee will ensure that the assets of the Scheme are predominantly invested on regulated markets.

- No investment is permitted in securities issued by the Scheme's sponsoring Employer or affiliated companies (other than any such securities held within a pooled fund in which the Trustee invests).

- The Trustee also has a signed Investment Management Agreement with each investment manager which sets out the manager's performance objective, performance benchmark, investment guidelines and restrictions and the degree of risk relative to benchmark that the manager is permitted to take. These are summarised in the IIPD. The investment managers have full discretion to buy and sell investments on behalf of the Scheme, subject to the agreed constraints and applicable legislation.

The Trustee recognises that investment managers should be fairly remunerated and seeks to ensure that actual fees paid are competitive with market rates.

Details of the managers' fees are also included in the IIPD.

4.4 Environmental, Social and Corporate Governance ("ESG")

The Trustee is required to disclose the following in its Statement of Investment Principles:

- Its policy in relation to financially material considerations (including ESG considerations) over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments;
- The extent (if any) to which non-financial matters are taken into account in the selection, retention and realisation of investments;
- Its policy on (i) exercising rights (including voting rights, if applicable) attaching to Scheme investments and (ii) undertaking engagement activities in respect of the investments (see below and section 5.2).

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, including climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee assesses these financially material considerations over the expected lifetime of the Scheme and with reference to the overall investment strategy.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations. The managers are authorised to exercise discretion to vote (if applicable) and undertake engagement activities on behalf of the Trustee as they think fit, taking into account the best interests of the Scheme.

From time to time the Trustee will obtain and consider reports on the activity of its investment managers in the area of ESG investment considerations. The Trustee also considers how ESG (including but not limited to climate change) and stewardship considerations are integrated within investment processes in appointing new investment managers.

The Trustee does not explicitly consult members when making investment decisions but updates members, typically annually, via newsletters on any changes to the Scheme's investment arrangements and also makes available on request a copy of the Statement of Investment Principles. The Trustee does not intend to consider non-financial matters in the selection, retention and realisation of investments.

4.5 Realisation of Investments

The investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. When disinvestment is required in order to meet benefit outgo etc., the Trustee's agreed policy is for the Investment Sub-Committee to agree the appropriate source for disinvestments, taking into account the liquidity profile of the various asset classes held.

4.6 Monitoring the Investment Managers

Independent performance measurement is carried out by The Bank of New York Mellon. In addition, the investment adviser provides performance monitoring reports which are reviewed by the Investment Sub-Committee quarterly and the Investment Sub-Committee is also assisted by manager research undertaken by the investment adviser. The Investment Sub-Committee meets the investment managers as appropriate to review their investment performance from time to time.

5. INVESTMENT MANAGERS MONITORING AND ENGAGEMENT

The Trustee's policies in relation to the Trustee's arrangements with their investment managers are set out below.

5.1 Incentivising the asset manager to align its investment strategy and decisions with the Trustee policies:

Each of the investment managers is appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class / strategy they are selected to manage.

The Trustee looks to its investment consultant for their forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee and are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective of a particular fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

For appointments that are actively managed, the managers are incentivised through remuneration (including some via performance related fees) and performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustee will review the appropriateness of using actively managed funds on an ad-hoc basis.

For each segregated mandate, such as the liability-driven investments and property, the Trustee has specified criteria in each investment management agreement requiring the investment manager to invest in line with the Trustee specific investment requirements (which reflect the Trustee's investment policies).

Where the Trustee invests in pooled investment vehicles it accepts that it has no ability to specify the risk profile and return targets of the pooled fund manager, but appropriate pooled investment funds are selected to align with the Trustee's overall investment strategy and investment policies.

5.2 Incentivising the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an investee (or debtor) company, and to engage with investee (and debtor) companies in order to improve their performance in the medium to long-term:

The Trustee will consider the investment consultant's assessment of how the investment managers embed ESG into their investment process (which is reported on quarterly) and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment beliefs. This includes the investment manager's policy on voting (if applicable) and engagement. If the Trustee is dissatisfied with any investment manager, then it may look to replace that manager, but the Trustee also acknowledges the illiquid nature of the closed-ended private debt funds.

The Trustee meets with the investment managers at Trustee meetings as required and managers are aware that the Trustee may challenge decisions made by them, including with regard to their voting history (if applicable) and engagement activity.

The Trustee delegates all voting (if applicable) and engagement activities to the investment managers. When appropriate the Trustee will question managers' voting decisions if it deems them to be out of line with the investment fund's objectives or the investment objectives and/or policies of the Scheme.

The investment managers are aware that their continued appointment is dependent on their success in delivering the mandate and meeting the investment objectives for which they have been appointed. If the Trustee is dissatisfied with any investment manager, then it will look to replace that manager, but the Trustee also acknowledges the illiquid nature of the closed-ended private debt funds.

5.3 Aligning the evaluation of the asset manager's performance and the remuneration for asset management services with the Trustee's investment policies:

The Trustee receives performance reports (in respect of all investment managers) on a quarterly basis, which presents performance information over the shorter term (3 months and 1 year) and longer-term, since inception. The Trustee reviews the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustee's focus is primarily on long term performance (in line with the Trustee's investment policies) but short term performance is also closely monitored on a quarterly basis.

If a manager is not meeting their investment objectives (in line with the Trustee's investment policies) or the Trustee's requirements for the mandate have changed, the Trustee would expect to review the terms of the mandate and / or ask the manager to review the annual management charge levied (instead of proceeding to terminating the manager's appointment). The Trustee would also expect to formally review the appointment should the manager breach any of their investment guidelines.

For active mandates with performance related fees, the Trustee has hurdle rate structures in place to avoid the Trustee paying performance fees during periods of long term underperformance.

5.4 Monitoring portfolio turnover costs incurred by the asset manager and defining and monitoring targeted portfolio turnover or turnover range:

The Trustee reviews and considers the details of portfolio transaction costs for each investment manager in respect of the Scheme's respective mandates, where appropriate, and at least on an annual basis.

Furthermore, when appropriate (including when investment managers present at meetings), the Trustee reviews how the investment manager has moved their portfolio's positions over time.

The Trustee will actively engage with a manager if portfolio turnover is considered higher than expected, with reference to the manager's investment style and the specified portfolio turnover range in the applicable investment guidelines or prospectus. Portfolio turnover is also considered by the Trustee's investment consultants, Mercer, and forms part of their regular research meetings with each of the investment managers.

5.5 **The duration of the arrangement with the asset manager:**

The Trustee is a long term investor and is not looking to change the arrangements with its investment managers on a frequent basis.

The Trustee will retain an investment manager unless:

- There is a strategic change to the overall investment strategy that no longer requires exposure to that asset class and/or manager;

- The manager appointment has been reviewed and the Trustee has decided to terminate the appointment and appoint another manager.

For closed-ended funds in private debt, the Scheme is invested in a manager's fund for the lifetime of the fund, unless the Trustee seeks to exit early via a sale of the Scheme's interest in the fund in the secondary market. At the time of appointment, the investment managers state the expected investment duration of their funds and have the discretion to extend the lifetime of the funds in line with the investment management agreements and/or subscription documents. In order to maintain a strategic allocation to a particular asset class over time, the Trustee may choose to make a follow on commitment to the next vintage of a manager's fund or appoint a different manager.

6. TAX STATUS OF THE SCHEME

The Trustee would not knowingly permit any manager to act in any way such as to jeopardise the tax status of the Scheme.

7. COMPLIANCE WITH THIS STATEMENT

The Trustee will monitor compliance with this Statement annually, or more frequently if necessary, and will obtain written confirmation from the investment managers that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion, the investment managers have done so in accordance with Regulation 4 of the Investment Regulations.

8. REVIEW OF THIS STATEMENT

The Trustee will review this Statement at least annually and more specifically in response to:

- Legislative and regulatory changes

- A material change in the Scheme's funding level

- A change in the attitude to risk of the Trustee and the sponsoring Employer which they judge to have a bearing on the stated investment policy.

- A change in the Scheme's investment strategy

Any such review will again be based on written, expert investment advice and will be in consultation with the sponsoring Employer.

Date of Amendment:

Twenty seventh Amendment: November 2022