ELECTRICITY SUPPLY PENSION SCHEME

Statement of Investment Principles – November 2024

INTRODUCTION

This Statement of Investment Principles has been prepared by the Group Trustees of the RWE Group of the Electricity Supply Pension Scheme (ESPS). It sets out the principles that govern the Group Trustees' decisions about the investment of the Group's assets.

The Group is a Registered Pension Scheme for the purposes of the Finance Act 2004. The RWE Group of the Electricity Supply Pension Scheme (the "Group") has two defined benefit sections (RWE Section and Innogy Section). Both the RWE Section and the Innogy Section contain various benefit structures (Main, 60ths, 2005, etc.) inherited from the former RWE npower Group of the ESPS, as well as those replicated for former E.ON members. The Group's defined contribution section (DC Section) is closed to new contributions but continues to hold a very small number of legacy AVCs. The Group is governed as a single entity but we have noted where the policies differ for each Section. Otherwise it is to be assumed that all policies apply to both Sections.

This Statement is designed to meet the requirements of Section 35 of the Pensions Act 1995 (as amended) and the Occupational Pension Scheme (Investment) Regulations 2005.

In preparing this Statement, the Group Trustees have obtained written advice from the Group's Investment Consultant. The Group Trustees believe that the Investment Consultant meets the requirement of Section 35(3) of the Pensions Act 1995. Where matters described in this Statement may affect the Group's funding policy, input has also been obtained from the Scheme Actuary. The Group Trustees will obtain similar advice whenever they review this Statement.

The Group Trustees have ultimate power and responsibility for the Group's investment arrangements. The Group Trustees seek to maintain a good working relationship with RWE Generation UK Plc (the "Company") and any other participating employers, and will discuss any proposed changes to this Statement with them. However, the Group Trustees' fiduciary obligations to Group members will take precedence over the Company's wishes should these ever conflict.

The Group Trustees do not expect to revise this Statement frequently because it covers broad principles. The Group Trustees will review it at least once every three years, and without delay if there are relevant, material changes to the Group and/or the Company and any other participating employers. These include, for example, changes in the Group's liabilities and finances, the covenant of the Company and any other participating employers, or the risk attitude of the Group Trustees.

INVESTMENT GOVERNANCE

The Group Trustees have established an Investment Implementation Committee (the "IIC") to focus on investment implementation matters. The Group Trustees have appointed a firm of professional consultants (the "Investment Consultant") to provide relevant advice to the Group Trustees and the IIC. The Group Trustees also take advice as appropriate from the Scheme Actuary and other professional advisers.

The Group Trustees are responsible for the investment of the Group's assets. They delegate some aspects of the Group's investment arrangements to the IIC, the Investment Consultant or Investment Managers in order to manage the Group's affairs effectively.

The Group Trustees retain direct responsibility for setting investment objectives, setting the Responsible Investment policy, establishing risk and return targets and setting the Group's investment manager structure.

The matters delegated to the IIC are set out in Terms of Reference that have been agreed by the Group Trustees.

The Investment Managers are responsible for day-to-day management of the Group's assets in accordance with guidelines agreed with the Group Trustees. The Investment Managers have discretion to buy, sell or retain individual securities in accordance with these guidelines. The Investment Managers report to the Group Trustees regularly regarding their performance. The Group Trustees have appointed HSBC as their Performance Measurer independent of the Investment Managers to calculate returns for each Investment Manager's portfolio and for the assets in aggregate.

The Custodian is responsible for the safekeeping of the Group's assets, both individual securities and holdings in collective vehicles, and for performing the associated administrative duties, such as trade settlement, dividend collection, corporate actions, tax reclamation and proxy voting. The Group Trustees will only invest in collective investment vehicles where they are satisfied that appropriate procedures are in place for selecting and monitoring the custodian(s) of the underlying assets.

GROUP SPECIFIC FUNDING

The Pensions Act 2004 requires that, with effect from the completion of the formal actuarial valuation, the Trustee will maintain a Statement of Funding Principles, stating the methods and assumptions used in calculating the amount required to make provision for the Group's liabilities, and the manner and period in which any shortfall will be remedied. The Group Trustees will consult the Scheme Actuary, the Investment Consultant and the Company when deciding upon the appropriate response to any shortfall.

The Scheme Actuary performs a valuation of the Group at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree an appropriate funding strategy for the Group. Full details of the current funding strategy and contributions payable can be found in the Statement of Funding Principles and the Schedule of Contributions.

INVESTMENT RISK AND RETURN

The Group Trustees recognise that, with the development of modern financial instruments, it is possible to select investments that produce cash flows similar to the estimated liability cash flows of the Group ("matching assets"). However, in order to meet the long-term funding objective, whilst having regard for the level of contributions required, the Group Trustees have agreed to take investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide, whilst maintaining a prudent approach to meeting the Group's liabilities.

In addition to targeting an appropriate overall level of investment risk, the Group Trustees seek to spread risks across a range of different sources. The Group Trustees aim to take on those risks for which they expect to be rewarded over time, in the form of excess returns. The expected levels of return for each asset class are detailed within this statement for each Section. The Group Trustees further believe that diversification limits the impact of any single risk.

The Group Trustees monitor the risk and return characteristics of the Group on a quarterly basis and aim to keep the exposures within reasonable tolerance ranges. As a check on the validity of the risk and return assumptions they have made, the Group Trustees monitor the actual volatility of the Group's funding level on a quarterly basis to check it is consistent with the agreed targeted level of risk. This monitoring also discloses whether the funding level has changed sufficiently to warrant a review of the risk and/or return targets.

For some asset classes, the Group Trustees have chosen to employ active management and have selected Investment Managers whom they believe have the skill and judgment to add value net of fees.

The Group Trustees recognise a number of risks involved in the investment of the Group's assets:

Deficit risk:

- is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.

- is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

Manager risk:

- is measured by the expected deviation of the return relative to the benchmark set.

- is managed by limiting exposure to any one investment manager, by considering the appropriate amount of the Group's funds to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the Investment Managers' investment process.

Liquidity risk:

- is measured by the level of cash flow required by the Group over a specified period and the amount of collateral that is available to support the Group's derivative-based exposures.

- is managed by the Group's administrators assessing the level of cash held, in order to limit the impact of the cash flow requirements on the investment policy, and by holding assets of appropriate liquidity. In addition, the available collateral is managed by monitoring the available collateral on a frequent basis, and by providing the Group's Liability Driven Investment (LDI) manager with a prudent level of assets to support any derivative exposures.

Currency risk:

- is measured by the level of exposure to non-Sterling denominated assets.

- is managed by the implementation of a currency hedging programme which reduces the impact of exchange rate movements on the Group's asset value.

Interest rate and inflation risk:

- is measured by comparing the likely movement in the Group's liabilities and assets due to movements in inflation and interest rates.

- is managed by holding a portfolio of matching assets (physical bonds and in some cases derivatives) that enable the Group's assets to better match movements in the value of the liabilities due to inflation and interest rates.

Political risk:

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.

- is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.

Sponsor risk:

- is measured by receiving regular financial updates from the Company and other participating employers, and periodic independent covenant assessments.

- is managed through an agreed contribution and funding schedule.

Derivatives risk

- Counterparty risk :

    - is measured by the level of concentration the Group has to a single counterparty through the derivative contracts held.
    - is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust ISDA, GMRA or other relevant derivatives documentation.

- Basis risk:
    - is the risk that the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly.
    - is addressed through the investment policy adopted by the Group Trustees for the backing assets and the Investment Managers' asset management capabilities.

- Legal and operation risk:
    - recognises that the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks.
    - is mitigated through the Group Trustees taking appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.

- The Group Trustees are also aware of the risks relating to the initial terms of entry in derivative contracts (for example, purchasing the contracts at a competitive price) and the valuation of the derivatives on an ongoing basis. With the help of their advisers, the Group Trustees monitor these positions on a regular basis.

INVESTMENT MANAGERS

The Group uses a number of different Investment Managers and mandates to implement its investment policies. The Group Trustees ensure that the portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Group Trustees will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Group Trustees will use their discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Group Trustees' policies, where relevant to the mandate.

To maintain alignment with the Trustee's policies, investment managers with a segregated mandate are provided with the most recent version of the Group's Statement of Investment Principles and are requested to confirm that the management of the assets is consistent with those policies. For pooled fund managers, the alignment of the underlying investment strategy with the Group Trustees' policies will be taken into account by the Investment Consultant as part of their advice when appointing the managers and through any ongoing oversight of the investment arrangements.

For most of the Group's investments, the Group Trustees expect the Investment Managers to invest with a medium to long time horizon, and to use their engagement activity, where applicable, to drive improved performance over these periods. When assessing a manager's performance, the focus is on longer-term outcomes, and the Group Trustees would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors, such as a significant change in business structure or the investment team.

Investment Managers are paid an *ad valorem* fee, in line with normal market practice, for a given scope of services agreed prior to investment. The Group Trustees also utilise their scale to negotiate competitive fee rates with Investment Managers on an ongoing basis.

The scope of services will include consideration of long-term factors and engagement, where applicable. In some cases, additional fees may be paid to Investment Managers based on investment performance exceeding pre-agreed targets.

The Group Trustees, with the help of their Investment Consultant, monitor the level of transaction costs across the Group incurred by each Investment Manager through the receipt of MiFID II compliant cost reporting. There is no broad targeted portfolio turnover (how frequently assets within a fund are bought and sold by Investment Managers) which the Group Trustees adhere to. The Group Trustees, with the help of their Investment Consultant, will monitor that the level of portfolio turnover remains appropriate in the context of the Investment Managers' strategy and the Group's investment strategy.

SOCIALLY RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE

The Group Trustees take account of all financially material risks and opportunities in consultation with their advisers. All risks and opportunities are considered for materiality and impact within an integrated risk management framework, which takes account of the Group's investment and funding time horizon. In considering Responsible Investment, the Group Trustees feel it is important to focus on both their investments and the nature and time horizon of the Sponsors' businesses. The Group considers Responsible Investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) risks, which the Group Trustees take to include climate change, in the context of this broader risk management framework. The Group defines sustainable investing and responsible investing to have the same meaning in this case. Given the importance placed on this area, the Group Trustees have established a Responsible Investment Committee (the "RIC") to focus on Responsible Investment matters. The matters delegated to the RIC are set out in Terms of Reference that have been agreed by the Group Trustees.

The Group Trustees also rely on their Investment Consultant to take into account the Group Trustees' beliefs in the advice that they provide, regardless of whether these beliefs align with their own. These beliefs reflect the Group Trustees' collective responsibility to deliver member benefit security and will be reviewed regularly. The Group Trustees' approach can be summarised as follows:

- When making investment decisions, the Group Trustees believe in taking a long-term outlook focusing on good governance and stewardship.

- The Group Trustees believe that understanding how an investment manager takes into account Responsible Investment factors is an important consideration when selecting investments. They rely on their advisers' process in all aspects of investment advice (particularly when selecting Investment Managers) and investment industry engagement, and regularly monitor and engage with their advisers to ensure this happens appropriately. The Group Trustees rely on the transparency of the WTW research process when selecting investments. The Group Trustees understand that this process reviews how Investment Managers integrate ESG risks into their investing decision making, their engagement with ESG, the diversity of the manager's team, how transparent the manager is, and their alignment with other Investment Managers researched, along with reviewing the specific manager's voting policies and documented policies.

- The Group Trustees consider that Responsible Investment considerations are important, and probably as good a source of return as any other driver and should, therefore, be considered in a balanced risk/return framework when making investment decisions.

- The Group Trustees' policy is that day-to-day decisions relating to the investment of the Group's assets are left to the discretion of its Investment Managers. This includes consideration of all financially materially factors and other relevant matters, including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings.

- The Group Trustees do, however, recognise that they retain ultimate responsibility for how Responsible Investment factors are considered. The Reponsible Investment Committee take an active role in monitoring how these responsibilities are exercised by the Group, as well as its Investment Managers, for example, a review of the Investment Managers' voting behaviours is undertaken on an annual basis, and feeds into the Group's Implementation Statement.

- The Group Trustees review their stewardship priorities on an annual basis. The current stewardship priorities identified are climate change, wider social issues (e.g. conduct, culture, ethics and human rights) and natural resource use/impact. These are, therefore, a key focus area when monitoring the underlying manager voting and engagement activities.

- Understanding how an investment allows for ESG risks is relevant, but exclusion investing (banning investments in certain industries/countries) and impact investing (making investments using pension scheme money with the primary aim of creating a measurable social benefit) will not explicitly form a part of the Group Trustees' investment strategy. The Group Trustees are, however, aware that this may feature to some extent in some Investment Managers' portfolios. The Group Trustees monitor reporting from their Investment Managers and advisers to ensure these possible approaches are assessed and taken account of on an ongoing basis.

- When the risk and return characteristics of potential investments are suitable, the Group Trustees may consider which of the possible investments will provide the greatest long-term societal benefit.

- The Group Trustees do not intend to use pension scheme money to implement any kind of moral, ehical or lobbyist agenda.

- The Group Trustees recognise the collaborative initiatives undertaken on their behalf by their Investment Managers and advisers.

- The Group Trustees have decided not to take into account the views of members and beneficiaries of the Group in the selection, retention and realisation of investments.

INVESTMENT OBJECTIVES

The current investment objectives of the Group are as follows:

a. the acquisition of suitable assets of appropriate liquidity and appropriate security which will generate income and capital growth to meet, together with new contributions from members and the employers, the cost of accrued and future accrual of benefits. These assets should evolve over time in line with the Group's agreed target management approaches. This approach splits each portfolio into two parts – "return seeking" and "matching assets", with the aim of transitioning the return seeking assets into the matching asset portion of the portfolio over time, as each Section matures with the aim of being fully funded on a low-risk basis.

b. to limit the risk that a Section's assets will be insufficient to meet either accrued liabilities, or those defined by regulation;

c. to limit the extent to which the employers' contributions might increase in the future if investment market conditions are unfavourable;

d. to limit exposure to investment risks which the Group Trustees expect to be unrewarded;

e. to hedge an appropriate proportion of the nominal interest rate and inflation exposure within each Section's liabilities. For both Sections, this target is to hedge 90 – 100% of the interest rate and inflation sensitivity within the the respective liabilities. The liability hedging of the Group is reviewed quarterly, with each Section's respective targets reviewed periodically.

LONG-TERM TARGET PORTFOLIOS

The Group Trustees have developed a long-term target portfolio structure for each Section. . The assets have been categorised as either "income-generating" (most likely to be retained in the medium to longer term) or "return seeking" (most likely to be sold in the medium term or transitioned to the income generating portfolio over time). For both Sections this long-term target portfolio is constructed to achieve a target return of GIlts+1.0% - Gilts+1.5%.

EXPECTED RETURN ON INVESTMENTS

The Group Trustees have regard to the historical rates of return earned on the various classes of asset available for investment of the Group's assets in assessing how to achieve the return targets outlined above.

The Group Trustees' expectations for the long-term returns are derived from the Investment Consultant's assumptions. The long-term risk and return assumptions are updated on a quarterly basis and used in quarterly Risk Budgeting updates. The expected returns for each of the Group's asset classes relative to the liabilities, as at the date of each Section's respective actuarial valuations, are set out below:

	RWE Section as at 31 March 2022	**Innogy Section as at 31 March 2021**
Asset Class	**Expected Return relative to Gilts (%p.a.)***	
Cash	0.7%	0.6%
Index-linked gilts (long dated)	-0.5%	-0.8%
Fixed interest gilts (long dated)	0.6%	1.1%
UK Investment Grade Credit	1.4%	1.5%
Global Equities (hedged)	4.8%	4.6%
Alternative Credit	4.0%	4.1%

* Assumptions are as at the last valuation date and relate to expected 15 year median return relative to the Group's Gilts flat liability benchmark under WTW's standard assumption set.

GROUP CASH POLICIES

The Group Trustees have adopted a policy to manage cashflows efficiently and keep the Group's assets within an agreed level for up to three months. This policy includes the holding of a working cash balance for imminent payment of benefits and expenses, and covers how investments and disinvestment are to be allocated between Investment Managers and asset classes. The Group Trustees monitor each Section's cashflow projection on a quarterly basis, and rely on the Investment Consultant to provide advice on cashflow requirements in the interim if required.

DEFINED BENEFIT ADDITIONAL VOLUNTARY CONTRIBUTIONS (DB AVCs)

The Group holds a small number of DB AVCs within the Group with Prudential and Utmost Life & Pensions Limited, which are reviewed on a periodic basis. As the Group no longer holds any DC members or investments, following the transfer of these to a master trust, the structure of the Group now relates solely to Defined Benefits, as opposed to its previous hybrid structure.