

Northern Powergrid Pension Scheme ('the Scheme')

Annual Implementation Statement for the Year Ended 5 April 2023

1. Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles ("SIP") produced by the Trustees in relation to the Scheme has been followed during the year to 5 April 2023 (the "**Scheme Year**"). This statement has been produced in accordance with the Pension Protection Fund (Pensionable Service) and the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the guidance published by the Pensions Regulator.

The statement is based on, and should be read in conjunction with, the relevant versions of the SIP that were in place for the Scheme Year. For this Scheme Year, this was the SIP dated September 2021.

Sections 2.1 and 2.2 of this statement sets out the investment objectives of the Scheme and any changes which have been made to the SIP during the Scheme Year, respectively.

Section 2.3 of this statement sets out how, and the extent to which, the policies SIP have been followed. **The Trustees can confirm that all policies in the SIP have been followed in the Scheme Year.**



A copy of the latest version of the SIP is available on Northern Powergrid's website by using the search facility at <http://www.northernpowergrid.com/document-library>

Sections 3 and 4 include information on the engagement and key voting activities of the underlying investment managers within the Scheme.



2. Statement of Investment Principles

2.1. Investment Objectives of the Scheme

The Trustees recognise that members have differing investment needs and that these may change during the course of members' working lives. The Trustees also recognise that members have different attitudes to risk. The Trustees regard their duty as making available a range of investment options and lifestyle strategies sufficient to enable members to tailor their own investment strategies to their own needs.

The Trustees also recognise that members may not believe themselves qualified to take investment decisions. As such, the Trustees make available a default investment option to members.

The Trustees undertake a review of the Scheme's fund choices and the investment manager arrangements on a regular basis, at least every three years and without delay following any significant changes in membership.

The policies set out in the SIP are intended to help meet the overall investment objectives of the Scheme. Details of the Trustees' objectives with respect to the default investment option, the alternative lifestyle options and the self-select fund range are outlined in the SIP.



2.2. Review of the SIP

No changes were made to the Scheme's SIP and no material changes were made to the Scheme's investments, during the Scheme Year.

2.3. Assessment of how the policies in the SIP have been followed for the Scheme Year

The information provided in table below highlights the work undertaken by the Trustees during the Scheme Year and over the longer term, where relevant, and sets out how this work followed the Trustees' policies in the SIP, relating to the Scheme as a whole and the default investment arrangements.



In summary, it is the Trustees' view that the policies in the SIP have been followed during the Scheme Year.



Investment Mandates

Securing compliance with the legal requirements about choosing investments

Policy

The Scheme's SIP (section 1) outlines the Trustees' policy:

The Trustees have consulted with Northern Electric plc, the Principal Employer, and have considered written professional advice from a suitably qualified person from Mercer. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

How has this policy been met over the Scheme Year?

A review of the self-select fund range was completed in 2022, which considered:

- Details of the current self-select fund range and member usage.
- Mercer's views on constructing a self-select fund range.
- The suitability of existing funds, or funds which could potentially be added to the self-select fund range.

As a result of this review, the Trustees decided to add a new fund to the self-select fund range, the NPPS Emerging Markets Equity Fund. Formal investment advice on the addition of this fund was provided in June 2023, with the fund due to be implemented in August 2023, both after the end of the Scheme Year covered by this statement. Other changes were considered, however these have been put on hold pending a more in-depth consideration of the Trustees' beliefs in relation to ESG factors and how these could be incorporated into the Scheme's investments.

The Trustees last carried out a triennial investment strategy review in 2020, with formal advice received from Mercer in June 2021 and the agreed changes implemented in July 2021. The next triennial investment strategy review will take place in the Scheme Year ending 5 April 2024.



Investment Mandates

Realisation of Investments

Policy

The Scheme's SIP (section 5.2) outlines the Trustees' policy:

All funds, including those in the default investment option, are daily-dealt pooled investment arrangements. These pooled investment arrangements are themselves regulated and underlying investments are mainly invested in regulated markets. Where pooled investment arrangements do not invest in assets in regulated markets, they are not expected to account for a material proportion of assets. Therefore, assets should be realisable at short notice, based on member or Trustees' demand.

How has this policy been met over the Scheme Year?

The Trustees receive governance reports on a quarterly basis to ensure that core financial transactions are processed within service level agreements and regulatory timelines, which includes the timely processing and settling of member trades.

All funds are daily-dealt pooled investment arrangements, with assets mainly invested on regulated markets, and therefore should be realisable at short notice, based on member demand.

No known liquidity issues arose on any of the Scheme's funds over the Scheme Year.



Environmental, Social and Governance (“ESG”)

Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments

Policy

The Scheme’s SIP (section 5.3) outlines the Trustees’ policy:

The Trustees believe that environmental, social, and corporate governance (ESG) factors do have a material impact on investment risk and return outcomes and that good stewardship helps create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes when appointing new investment managers and monitoring existing investment managers. Monitoring ESG integration is included as part of the quarterly reporting.

The Scheme’s SIP (section 5.4) also confirms that it is the Trustee’s policy to occasionally consider the views of Scheme members when deciding on the range and suitability of the investment options.

How has this policy been met over the Scheme Year?

During the Scheme Year, the Trustees completed Mercer’s “Responsible Investment Total Evaluation” (“RITE”) assessment, which considered how the Trustees are integrating ESG considerations into decision-making, benchmarked the Scheme against peers and identified action which could be taken to improve integration. As a result of this assessment, and discussions held as part of the self-select fund review also carried out in the Scheme Year, the Trustees plan to conduct an ESG beliefs survey in the next Scheme Year, followed by a review of how ESG considerations could be better integrated into the Scheme’s investment strategy.

The investment performance report is reviewed by the Trustees on a quarterly basis and includes fund ratings (both general and ESG-specific) by the investment consultant. The investment consultant periodically reports any change in its ESG ratings to the Trustees and makes recommendations, as appropriate. ESG ratings are also included as part of the annual VfM assessment, which forms part of the Chair’s Statement.

The majority of managers remained generally highly rated during the Scheme Year. Where managers were not highly rated from an ESG perspective, the Trustees continued to monitor them. When implementing a new manager the Trustees consider the ESG rating of the manager.

Member views were not considered over the Scheme Year, although the Trustees make available an ESG fund for self-select members to invest following consideration of members views in a prior Scheme Year.

The Trustees keep their policies under regular review with the SIP subject to review at least triennially.



Voting and Engagement Disclosures

The exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustee would monitor and engage with relevant persons about relevant matters).

Policy

The Scheme's SIP (section 5.3) outlines the Trustees' policy:

Due to the arrangement with Aegon to access pooled funds, the Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the Scheme's investments.

Where investments are on a passive basis, whilst the manager has no discretion over the selection of individual shares or bond issues (as the manager seeks to match the composition of the benchmark index as closely as possible) the Trustees expect managers to vote in line with their own corporate governance policy.

However, the Trustees consider how ESG, climate change and stewardship is integrated within investment processes when appointing new investment managers and monitoring existing investment managers.

How has this policy been met over the Scheme Year?

During the Scheme Year, voting and engagement summary reports from the Scheme's investment managers were provided to ensure that they were aligned with the Trustees' policy. The Trustees do not use the direct services of a proxy voter.

Section 3 sets out examples of engagement activity undertaken by the Scheme's investment managers and Section 4 sets out a summary of voting activity and a sample of the most significant votes cast on behalf of the Trustees by these investment managers.



Monitoring the Investment Managers

Incentivising asset managers to align their investment strategies and decisions with the Trustees' policies

Policy

The Scheme's SIP (section 5.5) outlines the Trustees' policy:

The underlying investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected. The underlying investment managers are aware that their continued appointment is based on their success in delivering the mandate they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

How has this policy been met over the Scheme Year?

Over the Scheme year, the Trustees continued to monitor the performance of the investment managers against their stated objectives/benchmarks on a quarterly basis. The investment report includes changes to the investment adviser's manager research ratings and notes any other relevant developments at the investment managers. Based on this ongoing monitoring, the Trustees are happy that the contractual arrangements in place continue to incentivise the managers to make decisions based on medium to long-term financial and non-financial performance.

Evaluation of asset managers' performance and remuneration for asset management services

Policy

The Scheme's SIP (section 5.5) outlines the Trustees' policy:

The Trustees receive investment manager performance reports on a quarterly basis, which present performance information over three months, one year, three years and five years. The Trustees review the absolute performance and relative performance against a suitable index used as the benchmark and against the underlying manager's stated target performance (over the relevant time period) on a net of fees basis. Whilst the Trustees' focus is on long-term performance, they also take shorter-term performance into account.

How has this policy been met over the Scheme Year?

Whilst the Trustees' focus is on long-term performance, they also take shorter-term performance into account, by reviewing the investment manager performance reports. If an underlying manager is not meeting performance objectives, or their investment objectives for the fund have changed, the Trustees may review the suitability of the manager and change managers where required.

As part of the annual VfM assessment, the Trustees review the investment managers' fees. Action is taken where the Trustees feel an improvement in value might be possible.



Monitoring the Investment Managers

Monitoring portfolio turnover costs

Policy

The Scheme's SIP (section 5.5) outlines the Trustees' policy:

The Trustees consider portfolio turnover costs as part of the annual VfM assessment. The Trustees do not currently define target portfolio turnover ranges for funds, but they will engage with a manager if portfolio turnover is higher than expected.

How has this policy been met over the Scheme Year?

The Trustees consider portfolio turnover costs – by way of considering transactions costs and the associated disclosures - as part of the annual VfM assessment. However, as there is no “industry standard” or universe to which the Scheme's transaction costs can be compared, the Trustees are still not in a position to make a meaningful relative comparison.

As the Scheme invests via pooled funds, the Trustees do not currently define target portfolio turnover ranges for funds, but they will engage with a manager if portfolio turnover is higher than expected.

The duration of the arrangements with asset managers

Policy

The Scheme's SIP (section 5.5) outlines the Trustees' policy:

All the funds are open-ended with no set end date for the arrangement. The fund range and default investment option are reviewed on at least a triennial basis. An underlying manager's appointment may be terminated if it is no longer considered optimal or does not have a place in the default investment option or the self-select fund range. This is independent of time.

How has this policy been met over the Scheme Year?

The Trustees monitor the performance of the funds against their stated objectives/benchmarks. This is done on a quarterly basis. The investment report also includes changes to the investment consultant's manager research ratings. The Trustees may terminate manager appointments if they are dissatisfied with the managers' ongoing ability to deliver against specific targets.

The review of the self-select fund range, which was undertaken over the Scheme Year, also considered the suitability of the existing self-select funds and managers and whether they should be retained.

The Trustees did not make any investment changes over the Scheme Year, although a new fund, the NPPS Emerging Markets Equity Fund, is planned to be implemented in the Scheme Year ending 5 April 2024.



Strategic Asset Allocation

Kinds of investments to be held, the balance between different kinds of investments and expected return on investments

Policy

The Scheme's SIP (sections 2.3 and 3) outlines the Trustees' policy:

The Trustees make available a range of options including equity, property, bonds, diversified growth and money market funds with both active and passive management options offered depending on asset class. The Trustees believe this range provides appropriate choices for members' different saving objectives, risk profiles and time horizons.

If members self-select, they can combine the investment funds in any proportion to determine the balance between different kinds of investments. This will also determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerances.

In designing the default investment option, the Trustees have explicitly considered the trade-off between risk and expected returns. The default option balances between different kinds of investments to ensure that the expected amount of risk (and commensurately the expected return) is appropriate given the age of the member and their expected retirement date.

How has this policy been met over the Scheme Year?

The review of the self-select fund range, which was undertaken during the Scheme Year, considered the suitability of the existing self-select funds and managers and whether they should be retained. The Trustees did not make any investment changes over the Scheme Year, although a new fund, the NPPS Emerging Markets Equity Fund, is planned to be implemented in the following Scheme Year.

The Trustees last carried out a triennial investment strategy review in 2020, with formal advice received from Mercer in June 2021 and the agreed changes implemented in July 2021. The next triennial investment strategy review will take place in the Scheme Year ending 5 April 2024.

Over the Scheme Year, the Trustees received investment performance reports on a quarterly basis which monitored the investment performance of the funds within the default investment option, the alternative lifestyle options and the self-select funds, looking at the funds' performances against their benchmarks over both short and longer-term periods. The Trustees were satisfied with the performance of the funds over the Scheme Year, which have mainly performed in line with their underlying aims and objectives. As such, the Trustees remained comfortable that the Scheme's investment options were appropriate for members.



Strategic Asset Allocation

Risks, including the ways in which risks are to be measured and managed

Policy

The Scheme's SIP (section 2.2 and 3) outlines the Trustees' policy:

The Trustees have considered risk from a number of perspectives. Due to the complex and interrelated nature of these risks, the Trustees consider these risks in a qualitative rather than quantitative manner as part of each formal strategy review.

How has this policy been met over the Scheme Year?

The review of the self-select fund range, which was undertaken over the Scheme Year, considered a number of the risks outlined in the SIP when determining whether existing funds remained suitable, or new funds should be added to the self-select fund range.

The Trustees also maintain a risk register of the key risks, including the investment risks.

3. Examples of Engagement Activity by the Scheme's Investment Managers



LGIM Engages with BP

LGIM have been engaging with BP for many years, co-leading efforts with the company as part of the CA100+ initiative. In their 2022 AGM, LGIM were pleased to be able to support management's 'Net Zero – from ambition to action' report. Having strengthened its ambition to achieve net-zero emissions by 2050 and halve operational emissions by 2030, BP has also expanded its scope 3 targets, committed to a substantial decline in oil and gas production, and announced an increase in capital expenditure to low-carbon growth segments.

LGIM do have some areas of concern, and remain committed to continuing their constructive engagements with the company on its strategy and the implementation thereof, with a focus on both its 'downstream' targets and approach to exploration and responsible divestment.

BlackRock engages with Alphabet

BlackRock has a long history of engagement with Alphabet where they have discussed a range of corporate governance and sustainable business matters that they believe contribute to a company's ability to deliver the durable, long-term shareholder returns.

In June 2022, BlackRock supported the shareholder proposal "Report on Metrics and Efforts to Reduce Water Related Risk", as it believes that the shareholders would benefit from more information on the company's approach to water dependencies and impact. Engaging water risks is an increasingly important topic for BlackRock as it believes that water management is a material risk for Alphabet given the significant volumes of water used to cool data centres.

BlackRock engages with Amazon

BlackRock has a long history of engagement with Amazon where they have discussed a range of corporate governance and sustainable business matters that they believe contribute to a company's ability to deliver the durable, long-term shareholder returns.

In May 2022, BlackRock supported the shareholder proposal "Report on Efforts to Reduce Plastic Use", as the shareholders would benefit from more information on the company's approach reducing plastic waste arising from their products and services. Engaging on plastics pollution is an increasingly important topic for BlackRock as it believes that plastics pollution is a material risk for the company.

Source: Aegon, Investment Managers.

4. Voting Activity during the Scheme Year

Set out below is a summary of voting activity provided by the underlying investment managers over the year to 31 March 2023.

Funds where voting is not applicable (i.e. non-equity funds) are not included in the list below. The Trustees do not use the direct services of a proxy voter.

Fund	How many resolutions were you eligible to vote on?	What % of resolutions did you vote on for which you were eligible?	Of the resolutions on which you voted, what % did you vote with management?	Of the resolutions on which you voted, what % did you vote against management?	Of the resolutions on which you voted, what % did you abstain from voting
BlackRock UK Equity Index	10,135	99%	96%	3%	0%
BlackRock World (ex UK) Equity Index	25,196	95%	93%	6%	0%
HSBC Islamic Global Equity Index	1,423	97%	80%	20%	0%
BlackRock 30/70 Currency Hedged Global Equity Index ¹	59,844	97%	91%	8%	2%
LGIM Diversified Growth ²	99,252	100%	77%	22%	1%
BlackRock Diversified Growth ³	11,842	92%	94%	5%	1%
LGIM Ethical Global Equity Index	16,602	100%	82%	18%	0%

¹ Component of the NPPS Global Equity and NPPS Growth Fund

² Component of the NPPS Growth Fund and NPPS Drawdown Fund

³ Component of the NPPS Growth Fund, NPPS Diversified Growth Fund and NPPS Drawdown Fund

Note: the BlackRock Consensus Fund is a fund of funds and therefore aggregated voting information is not available.

Source: Aegon, Investment Managers. Data might not sum 100% due to rounding.



Most significant votes

The Trustees have selected the 'most significant votes' by focussing on shareholder resolutions with a specific focus on the following Environmental, Social and Governance priorities, which are closely linked to UN Sustainable Development Goals ("SDGs"):

- **Environmental:** Climate change: low-carbon transition & physical damages resilience; pollution & natural resource degradation: air, water, land (forests, soils, biodiversity)
- **Social:** Human rights: modern slavery, pay (minimum/living wage etc.) & safety in workforce and supply chains, abuses in conflict zones
- **Governance:** Diversity, Equity and Inclusion (DEI) - inclusive & diverse decision making, executive remuneration and board composition

It is not possible to disclose all voting information in this statement. Therefore, the Trustee has focused on the funds which are used in the growth phase of the default investment option ("Lifestyle Drawdown"). Given that, by virtue, this is where the majority of members' assets were invested over the Scheme Year, the Trustees consider these votes to be the most significant.

Fund	Company	Date of vote	% size of fund's holding	Why the vote is considered significant	Summary of the resolution	How the Manager voted	If voting against management, was the intention revealed prior to the vote?	Rationale for Manager vote	Final outcome	Next steps
BlackRock 30/70 Currency Hedged Global Equity Index	Amazon.com inc	25 May 2022	*	Environmental (pollution)	Report on Efforts to Reduce Plastic Use	For	**	The company does not meet BlackRock's expectations for disclosure of natural capital policies and/or risk.	Fail	BlackRock determines which companies to engage directly based on their assessment of the materiality of the issue for sustainable long-term financial returns and the likelihood of their engagement being productive. BlackRock provide further details on their approach to corporate governance can be found in their Global Principles, which are reviewed annually.
	Meta Platforms, inc	25 May 2022	*	Social (human rights)	Publish Third Party Human Rights Impact Assessment	For	**	BlackRock believe it is in the best interests of shareholders to have access to greater disclosure on this issue.	Fail	

Fund	Company	Date of vote	% size of fund's holding	Why the vote is considered significant	Summary of the resolution	How the Manager voted	If voting against management, was the intention revealed prior to the vote?	Rationale for Manager vote	Final outcome	Next steps
LGIM Diversified	Royal Dutch Shell	24 May 2022	0.29%	Environmental (climate change)	Approve the Shell Energy Transition Progress Update	Against	N/A - Voted in line with management	LGIM acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products. However, they remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.	Pass	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.
	BP Plc	12 May 2022	0.13%	Environmental (climate change)	Approve Net Zero - From Ambition to Action Report	For	N/A - Voted in line with management	While LGIM note the inherent challenges in the decarbonisation efforts of the Oil & Gas sector, they expect companies to set a credible transition strategy.	Pass	
BlackRock Diversified Growth	Amazon.com Inc.	25 May 2022	*	Governance (DEI)	Report on Median Gender/Racial Pay Gap	Against	**	BlackRock believe that the company already provides sufficient disclosure and/or reporting regarding this issue, or is already enhancing its relevant disclosures.	Fail	BlackRock determines which companies to engage directly based on their assessment of the materiality of the issue for sustainable long-term financial returns and the likelihood of their engagement being productive. BlackRock provide further details on their approach to corporate governance can be found in their Global Principles, which are reviewed annually.
	Alphabet Inc.	1 June 2022	*	Governance (DEI)	Oversee and Report a Third-Party Racial Equity Audit	For	**	BlackRock believe it is in the best interests of shareholders to have access to greater disclosure on this issue.	Fail	

Source: Aegon, Investment Managers.

*Information unavailable.

** Information unavailable. BlackRock confirmed that they endeavour to communicate to companies when they intend to vote against management, either before or just after casting votes in advance of the shareholder meeting. They publish their voting guidelines to help clients and companies understand their thinking on key governance matters that are commonly put to a shareholder vote. They are the benchmark against which they assess a company's approach to corporate governance and the items on the agenda to be voted on at the shareholder meeting. BlackRock apply their guidelines pragmatically, taking into account a company's unique circumstances where relevant. BlackRock voting decisions reflect their analysis of company disclosures, third party research and, where relevant, insights from recent and past company engagement and their active investment colleagues. Their market-specific voting guidelines are available on our website at <https://www.blackrock.com/corporate/about-us/investment-stewardship#principles-and-guidelines>