Statement of Investment Principles

This is the Statement of Investment Principles (the “Statement”) made by The Trustees of the OVO Energy Group of the Electricity Supply Pension Scheme (SSE Section), (“The Section”) in accordance with the Pensions Act 1995 (as amended). The Statement, which was last reviewed by the Trustees on 13 September 2021, is subject to periodic review at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustees have consulted with the employer to the Section, OVO Energy Ltd, and have taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

The Group is a defined benefit scheme established on 25 January 2020. At inception the Section is closed to new members and open to further accruals.

Group objective

The primary objective of the Group is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustees’ over-riding funding principles for the Section are to set the employer contributions at a level which is sufficient to:

- build up assets to provide for new benefits of active members as they are earned;
- recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- ensure that there are always sufficient assets of the Section (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

For employee members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated on the basis agreed by the Trustees and the Scheme Actuary. The funding position will be monitored regularly by the Trustees and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

The Section’s explicit funding objective is to ensure that the Section has sufficient and appropriate assets to cover its technical provisions. Further detail is set out in the Statement of Funding Principles which was agreed following the 2020 Actuarial Valuation.

Investment strategy

The Trustees have translated their objectives into a suitable strategic (asset allocation) benchmark for the Section. The strategic benchmark is consistent with the Trustee’s’ view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The strategic benchmark is reflected in the choice and mix of funds in which the Section invests.

The investment strategy in place is an interim investment strategy, due to be refined in 2021, following completion of the first actuarial valuation.

The interim investment strategy takes account of the anticipated maturity profile of the liabilities, together with the anticipated funding position (relative to the expected funding basis used).

The Trustees will monitor the interim strategy relative to the agreed asset allocation benchmark. It is intended that the investment strategy will be reviewed at least every three years following the actuarial valuation, and will normally be reviewed annually. Written advice is received as required from professional advisers.

The Trustees will monitor the performance of Section's investments relative to agreed criteria on a regular basis.

The Trustees have delegated all day to day investment decisions to the authorised investment manager.

Choosing investments

The Trustees have appointed Legal and General Investment Management ("LGIM") to manage the Section's investments. LGIM is authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Trustees have decided to invest in a number of individual pooled funds The Trustees are satisfied that the pooled funds selected are consistent with the objectives of the Section, particularly in relation to diversification, risk, expected return and liquidity.

The Trustees will review the nature of the investments on a regular basis, with particular reference to suitability and diversification. The Trustees will seek and consider written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

Kinds of investment to be held

The Section may invest in quoted and unquoted securities of UK and overseas markets including equities, cash, fixed interest and index linked bonds by way of pooled funds.

The Group may also make use of contracts of insurance, derivatives and contracts for difference (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all of these classes of investment to be suitable in the circumstances of the Section.

Balance between different kinds of investments

The manager of the passive funds in which the Section invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

Risk

The Section is exposed to a number of risks which pose a threat to it meeting its objectives. The principal risks affecting it are:

Funding risks

- Financial mismatch – The risk that Section's assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of the benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost

of meeting the liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

The Trustees measure and manage financial mismatch in two ways. As indicated above, the Trustees have set an interim strategic asset allocation benchmark for the Section. The Trustees assess risk relative to that benchmark by monitoring the asset allocation and investment returns relative to the benchmark. The Trustees also assess risk relative to liabilities by monitoring the delivery of returns relative to liabilities.

The Trustees keep mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations and the Trustees may enter into insurance contracts (bulk annuities or longevity swaps) to reduce these demographic risks.

The Trustees seek to mitigate systemic risks through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Section cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- Environmental, Social and Governance (ESG) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustees manage asset risks as follows.

The Trustees provide a practical constraint on investments deviating greatly from the intended approach by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within their expected parameters.

By investing across a range of assets, including quoted equities and bonds the Trustees recognise the need to access funds in the short term to pay benefits.

The risk of manager underperformance is mitigated by investing in only passive investment mandates.

The decision to appoint only one investment manager does involve some degree of risk which the Trustees accepts, given the structure of the funds, the governance requirements and the size of assets being invested.

The Trustee's approach to the consideration of ESG risks and climate risk is set out in further detail below.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers.
- Custody risk - The risk of loss of assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustees will monitor and manage risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Section, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). When carrying out significant transitions, the Trustees seek professional advice.

Expected return on investments

The interim investment strategy aims to achieve a return on the Section's assets which taken in conjunction with contributions is expected to be sufficient over time to match growth in the Section's liabilities. The Trustees are mindful that the interim investment strategy and expected return are based on the information at the time of establishing the Group. The Trustees will revise the strategy following completion of the actuarial valuation and covenant review to ensure that the expected return, when taken in conjunction with the contributions, is expected to be sufficient over time to match growth in the Section's liabilities.

Realisation of investments

The majority of the Section's investments may be realised quickly if required.

Asset manager engagement policies

Aligning manager objectives

The Trustees have developed an interim investment strategy that they aims to deliver the Section's long term objective and broadly reflects the liability profile of the members. Note that this is based on the high level information available at the time of setting the interim strategy, and will be refined following completion of the actuarial valuation and covenant review.

The Trustees have appointed its investment manager to deliver specific benchmarks, which overall align to deliver the broader investment strategy. The Trustees ensure that all manager engagements have a clearly defined objective.

The appointed investment manager is paid to provide returns in line with the objective.

Medium to long term decision making

The Trustees recognise the long term nature of the liability profile and expects its managers to invest in such a way that generates long term sustainable returns.

The Trustees will seek advice from their investment consultants on the appropriateness of a manager and their decision making capabilities when appointing a new investment manager and/or investing in a new fund with an existing manager.

The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Section's objective.

The Trustees do not expect managers to take excess short term risk and will regularly monitor the manager's performance against an appropriate benchmark on a short, medium and long terms basis.

Engagement to improve performance

The Trustees recognise that they can influence the behaviour and practices of their investment managers through engagement, even where assets are invested through pooled funds.

The Trustees consider its investment managers to be best placed to engage with investee company management and will ensure their managers have the resources available and existing relationships with investee companies to engage effectively.

The Trustees believe that successful engagement with issuers of debt or equity is preferable to divestment. The Trustees expect both passive and active managers to actively engage with companies to improve long term performance.

The Trustees expect its investment managers to report on the details of their engagement activity on at least, an annual basis. The manager should be able to demonstrate the reasoning behind any engagement activity, the objectives of the engagement activity, the timeframe over which the engagement is expected to take place and the consequences should engagement be unsuccessful.

Evaluating manager performance

The Trustees will monitor managers' performance against their respective benchmarks on a quarterly basis over a long term time horizon. The Trustees will measure a fund's relative tracking error where appropriate. Managers are expected to provide explanation for any significant deviations away from benchmark.

A summary of the Section's investment mandates and the respective benchmarks is included in the appendix.

The Trustees expect its investment consultants to provide input and analysis to assist the Trustees in assessing their manager's performance.

The Trustees meet with the investment managers regularly, and the managers are expected to address performance and company engagement. Managers will be challenged on their approach where this is not aligned to the Trustees' policies.

Portfolio turnover

The Trustees expect managers to regularly report on the underlying assets held within the portfolio and details of any transactions over the period.

The Trustees will challenge the manager if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

The Trustees will request turnover costs incurred by the manager over the Section's reporting year.

Duration of manager agreements

A summary of the Group's investment mandates and the date of appointment is included in the appendix.

Conflict management

The Trustees consider their relationship with all external companies at appointment to identify any conflicts of interest and establish appropriate conflict of interest policies as appropriate.

The Trustees delegate the monitoring of investee companies' conflicts and capital structure to its investment managers.

Consideration of financially material factors in investment arrangements

The Trustees recognise that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process.

Strategic considerations

The strategic benchmark has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

Given the inherent uncertainty, the Trustees have not made explicit allowance for the risks of climate change in setting their strategic benchmark. The Trustees plan to discuss the potential impact of climate change with their Scheme Actuary duing the Group's first valuation and will reflect the inherent uncertainties in their choice of funding assumptions.

Selecting investment managers

In passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the benchmark and believe this approach is in line with the basis on which the current strategy has been set.

The Trustees will review the index benchmarks employed for the Section on at least a triennial basis.

Consideration of non-financially material factors in investment arrangements

Given the objectives of the Section, the Trustees have not considered any non-financially material factors in the development and implementation of their investment strategy.

The Trustees have not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

Voting and engagement

The Trustees have adopted a policy of delegating voting decisions on stocks to their investment manager on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The investment manager is expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustees may review the voting policies of their investment managers to determine that these policies are appropriate.

Where appropriate, the Trustees will engage with and may seek further information from their investment managers on how portfolios may be affected by a particular issue.

The Trustees do not engage directly but believe it is sometimes appropriate for its investment managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustees will review engagement activity undertaken by their investment manager as part of its broader monitoring activity.

Monitoring

Investment managers will report on voting activity to the Trustees on a periodic basis. The Trustees will monitor their investment manager's voting activity and may periodically review managers voting patterns. Where the Trustees deem it appropriate, any issues of concern will be raised with their manager for further explanation.

The Trustees aim to meet with their investment manager on a periodic basis. The Trustees will provide their manager with an agenda for discussion, including issues relating to individual holdings and, where appropriate, ESG issues. Managers will be challenged both directly by the Trustees and by their investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

Additional Voluntary Contributions (AVCs)

The Trustees allow members to purchase additional years' service, but do not offer an additional AVC arrangement.

Signed ………………………………………………………… Date ……………………………

Signed ………………………………………………………… Date ……………………………

Signed For and on Behalf of the Trustees of the

OVO Energy Group of the Electricity Supply Pension Scheme (SSE Section)

Appendix – Manager Arrangements

All of the Section's assets are held passively with Legal and General. The date of inception was 1 April 2020 and the below asset allocation shows the most recently agreed stragetic benchmark as at 17 November 2020.

Asset allocation

Asset class	Allocation
Equities	
All World Equity Index Fund	15%
Scientific Beta Multi-Factor Developed Equity Index Fund	15%
Total Equities	**30%**
Investment Grade Corporate Bonds	
Maturing Buy and Maintain Credit Fund 2025-2029	18%
Maturing Buy and Maintain Credit Fund 2030-2034	18%
Total Investment Grade Corporate Bonds	**36%**
Gilts	
2030 Leveraged Inflation Linked Gilts Fund	4%
2034 Leveraged Inflation Linked Gilts Fund	4%
2037 Leveraged Inflation Linked Gilts Fund	4%
2040 Leveraged Inflation Linked Gilts Fund	4%
>15 year Index Linked Gilt Fund	18%
Total Gilts	**34%**
Cash	
Sterling Liquidity Fund	0%
Total Cash	**0%**
Total	**100%**