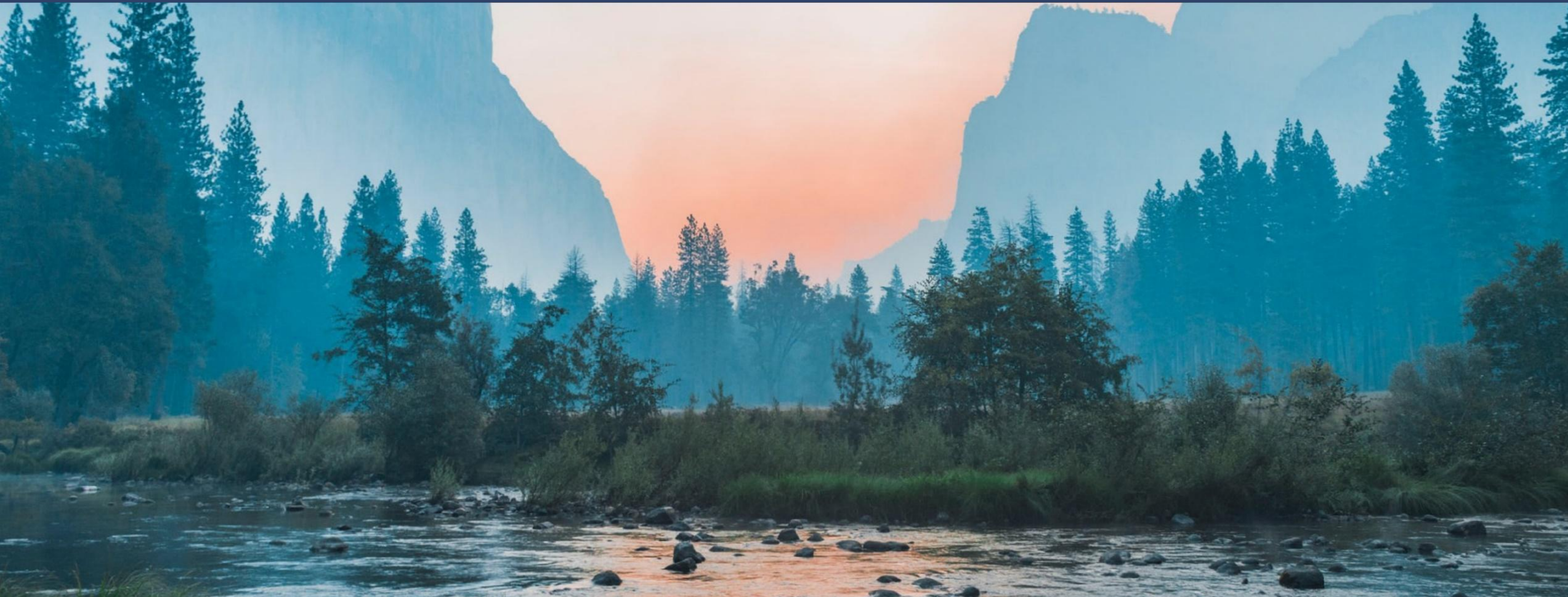
# *Statement of Investment Principles*

## For the Northern Ireland Electricity Pension Scheme

## Effective from: June 2026



# 1. Introduction

This Statement of Investment Principles ("SIP") has been produced by the Trustees of the Northern Ireland Electricity Pension Scheme on various matters governing investment decisions for the Scheme.

The Scheme has a Defined Benefit ("DB") section (the "Focus Section") and a Defined Contribution ("DC") section (the "Options Section").

This SIP replaces the previous SIP dated July 2025.

For the purposes of this SIP, references to we, us and our relate to the Trustees.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy or in the demographic profile of the members invested in the Options Section default investment option and at least once every three years.

This SIP contains the information required by legislation, including Article 35 (as amended) of the Pensions (Northern Ireland) Order 1995 ("the Order"), the Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005 (as amended), the Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015, and also considers the Pension Regulator's guidance on investments.

# 2. Investment objectives for the Focus and Options Sections

The primary objective for the **Focus Section** is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, we have the following objectives:

- the funding position (i.e. the value of assets relative to the assessed value of liabilities on a Technical Provisions basis) should remain at an appropriate level. We are aware that there are various measures of funding and have given due weight to those considered most relevant to the Scheme. We have taken into account the funding requirements detailed in the Occupational Pension Schemes (Scheme Funding) Regulations (Northern Ireland) 2005; and
- target full funding on a more prudent measure of liabilities over an agreed period of time, with the intention of reducing investment risk as the return required to reach this objective falls.

Our objectives for the **Options Section** are to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile of the Options Section and the variety of ways that members can draw their benefits in retirement; and
- a default investment option that we believe to be reasonable for those members that do not wish to make their own investment decisions. The objective of the default option is to generate returns above cash whilst members are far from retirement, and to switch automatically and gradually to lower risk investments as members become relatively close to retirement, with the asset allocation at retirement being designed to be appropriate for members taking income drawdown.

All policies relating to the **Options Section** are covered in this SIP, rather than in a separate SIP, so all policies on the Scheme's investments are in one document.

Our investment objective for the AVCs is to make available a suitable range of investment options to meet members' risk / return objectives.

## 3. Investment strategy

With input from our advisers and in consultation with the employer, we have agreed the following investment strategy for the **Focus Section**.

| Asset class | Strategic allocation |
|---|---|
| Absolute return | 7% |
| Private credit | 14% |
| High quality credit* | 50% |
| Liability driven investment ("LDI") | 29% |
| **Total**** | **100%** |

**High quality credit includes allocations to corporate bonds and asset backed securities.*
***At the time of writing, the Scheme had a residual allocation to long lease property, which we're aiming to redeem from as soon as practical.*

We monitor the asset allocation from time to time. If material deviations from the strategic allocation occur, we consider with our advisers whether it is appropriate to rebalance the assets.

As the Scheme's funding position improves, we expect to de-risk the investment strategy to reflect the lower investment return required to achieve our long-term objectives.

For the **Options Section**, we make available a range of investment funds for members with different levels of expected return, including equity and bond-based funds as well as a cash fund. Each member is responsible for specifying one or more funds for the investment of their account.

If a member does not choose an investment option, their account will be invested into the default option, the "Drawdown Lifestyle Strategy" which is managed as a lifestyle strategy (ie it automatically combines investments in proportions that vary according to the time to retirement age). The default option initially invests to target a relatively high expected return (making use of equity based funds) and then gradually switches to investments with a lower expected return (such as a cash fund) as members get close to retirement.

The default option was designed to be in the best interests of the majority of the members based on analysis of the demographics of the membership. The default option targets drawdown at retirement, since based on analysis of the membership we believe that most members will wish to take their benefits in this form.

We monitor member behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

In the event of any suspension of investment funds (and subsequent re-direction of contributions into replacement funds), we expect our provider to inform us of fund closures as soon as possible, and we will then exercise our discretion to determine an appropriate course of action for any re-directed contributions, subject to overall investment objectives.

## 4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes.

The primary ways that we manage investment risk are via diversification, ensuring we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments.

For the **Focus Section** investment risk is measured using "Value at Risk". For the **Options Section** investment risk is measured as standard deviation of investment returns.

In setting the strategy for the **Focus Section** it is our policy to consider:

- our investment objectives, including the target return required to meet these;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the best interests of members and beneficiaries;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken; and
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate.

In determining the investment arrangements for the **Options Section including the default option** it is our policy to consider:

- the overall best interests of members and beneficiaries;
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards and suitability of a number of possible asset classes and lifestyle strategies and whether the return expected is considered sufficient given the risk being taken;
- the need for appropriate diversification to manage investment risk within the default option, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate; and
- the need for appropriate diversification between and, where appropriate, within the investment options offered to members.

We also consider any other factors which we believe to be financially material over the applicable time horizons to the funding of the Focus and Options Sections, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

Our policy regarding investments in illiquid assets in the DC default arrangement, is set out below. Illiquid assets means assets that can't be easily or quickly be sold or exchanged for cash, and where assets are invested as a component of daily-dealing multi-asset funds. The Scheme's default arrangement includes no direct allocations to illiquid investments.

The default arrangement does have indirect exposure to illiquid assets via an allocation to diversified growth funds ("DGFs") via pooled funds (a type of collective investment scheme).

Currently, the Scheme holds the following DGFs: the LGIM Diversified Fund (used within the NIEPS Growth Fund and NIEPS Diversified Fund) and the Ruffer Diversified Return Fund (used within the NIEPS Diversified Fund).

As at 31 December 2024, the exposure to illiquid assets within the LGIM Diversified Fund was 4.7% to direct property. The Ruffer Diversified Return Fund did not have exposure to illiquid assets as at 31 December 2024.

Members have exposure to the DGFs in the default from the growth phase to retirement and so members have exposure to illiquid assets for their whole retirement journey.

Our policy is to have exposure to DGFs with discretion to invest in illiquid assets within the default because our assessment is that, when compared to many other asset classes, illiquid assets offer members a potentially greater level of diversification and hence better risk management in the overall asset allocation. We also believe that long-term net risk-adjusted investment returns of the default may be improved by investing in illiquid assets.

Illiquid assets in DC pension schemes is a relatively new and developing area. Because of this we wish to see the further performance track record of illiquid funds available to DC schemes before we invest member assets in them. Therefore, at this time it is our policy not to invest the DC default in illiquid assets beyond our investment via DGFs. However, with the support of our investment advisers, we intend to consider investment in illiquid assets as part of our regular reviews of the default arrangements.

Our key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- strategic asset allocation is the primary driver of long-term returns;
- costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important;
- investment markets are not always efficient and there may be opportunities for good active managers to add value (eg in the absolute return and private market mandates);
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit, and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged, or diversified;
- ESG factors are likely to be one area of market inefficiency and managers may be able to improve risk-adjusted returns by taking account of these factors and we should therefore consider these when making investment decisions;
- climate change is a financially material systemic issue that presents risks and opportunities for the Scheme over the short, medium and long term; and
- voting and engagement are important and can create long term value which is in the best interest of Scheme members and therefore we encourage managers to improve their voting and engagement practices.

## 5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have signed agreements with the investment managers, and a platform provider in respect of the Options Section setting out the terms on which the portfolios are to be managed. The Options Section platform provider makes available the range of investment options to members. There is no direct relationship between the Scheme and the underlying managers of the investment funds.

We have limited influence over managers' investment practices because the majority of the Scheme's assets are held in pooled funds, but we encourage our managers to improve their practices within the parameters of the fund they are managing.

Our view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines, and restrictions of their mandate. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

It is our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect investment managers to make decisions based on assessments of the longer-term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter- and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. If a manager is not meeting its performance objectives, we will consider alternative arrangements.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

## 6. Realisation of investments

For the **Focus Section**, we instruct disinvestments as required for benefit payments and other outgoings. Our preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid. In general, our policy is to use income from the private market portfolio to help meet benefit payments, with net cash flow requirements used to rebalance the assets towards the strategic asset allocation.

For the **Options Section** including the default option, our policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

## 7. Financially material considerations and non-financial matters

We consider how ESG considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Scheme and its members.

We influence the Scheme's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect all of our investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and periodically review how the managers are taking account of these issues in practice.

We have limited influence over managers' investment practices where assets are held in pooled funds, but we encourage our managers to improve their ESG practices within the parameters of their funds.

We do not consider any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments for the Focus Section.

Within the Options Section we recognise that some members may wish for ESG and religious factors to be more explicitly reflected in their investments and therefore have made available the Aegon BlackRock World ESG Screened and Optimised Equity Tracker Fund and the NIEPS - Islamic Global Equity Fund as investment options to members in the self-select fund range.

## 8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors.

We monitor managers' activities in relation to ESG factors, voting and engagement on a regular basis. We seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations.

We have selected some priority ESG themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We review the themes regularly and update them if appropriate. We communicate these stewardship priorities to our managers each year and also confirm our more general expectations in relation to ESG factors, voting and engagement.

If our monitoring identifies areas of concern, we will engage with the relevant manager to encourage improvements. We will set objectives and target dates for each formal engagement, review progress, and have an escalation process which we will follow if progress is unsatisfactory.

We seek to appoint managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council, and from time to time we review how these are implemented in practice.

## 9. Self–investment

Our policy is that the Scheme's assets will not be directly invested in any "employer-related investments" including any shares or other securities issued by the employer or by any person who is connected with, or an associate of, the employer.

Where the Scheme's assets are invested in pooled investment vehicles, which may hold employer-related investments as part of their investment strategy, we require the investment managers of such pooled vehicles to notify us promptly of any investment by such pooled vehicles in employer-related investments. This is so that we can ensure that employer-related investments (including those held through such pooled vehicles and attributable to the Scheme) do not in aggregate exceed the statutory limit of 5% of the Scheme's assets. We will provide details of the group structure to the investment managers and will update the investment managers of any changes which may be made to this structure.

Where the manager of a pooled vehicle is unable to provide such notification due to the nature of the pooled vehicle (eg fund of funds) or other considerations, we (with the help of our advisers) will make necessary assumptions and calculations to ensure that their investment in such pooled vehicles does not cause the overall exposure to employer-related investments to exceed the statutory 5% threshold.