Statement of Investment Principles

1. Introduction

This edition of the Statement has been prepared by the Group Trustees of the First Hydro Company Group of the Electricity Supply Pension Scheme in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended), and Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005, and any subsequent additional regulations.

In preparing this edition the Group Trustees have taken appropriate written advice from a suitably qualified individual, Simon Jagger FIA, Director of Jagger & Associates Limited. The Group Trustees have also consulted with the sponsoring employer, First Hydro Company. This Statement is consistent with the Scheme's governing documents.

The Scheme is registered with HM Revenue and Customs. The Scheme provides final-salary related benefits. No employer-related investment is intended by the Group Trustees. The sponsoring employer intends to remit all relevant contributions to the Group Trustees within the relevant timescales.

2. Delegation of Investment Management

The Group Trustees use a Global Equity product, a Liability Driven Investment (LDI) portfolio, a High Yield Bond product, unitised Property and Forestry funds, and two Absolute Return products. The Group Trustees also use cash products, including the Group Trustees' bank account, for managing short-term cash flows. The details of the managers used and their appointments, covering the roles of these organisations and their various subsidiaries and associated companies, are covered in the Group Trustees' Annual Report. The providers, where relevant, are suitably authorised under the Financial Services and Markets Act 2000.

3. Investment Strategy

The initial split of assets is 26% in the LDI portfolio, and 74% in a return-seeking portfolio. Due to the nature of the LDI portfolio, these weightings will vary over time, but the Group Trustees do not intend to rebalance between the portfolios other than at points when the LDI portfolio is reassessed to allow for membership movements.

The current return-seeking strategy is shown in the Table below, but the actual weightings may deviate from this through market movements. Rows marked (p) are currently implemented using an index-tracking provider, whereas the other allocations are implemented using active managers. The specific managers used for each asset class are listed in the appendix.

Asset Class	**Benchmark Weight (%)**
Global Equity (p)	20.0
Absolute Return	54.0
Forestry	7.0
Property	9.5
High Yield	9.5
Total	**100.0**

The Group Trustees consider the investment strategy and products used to be appropriate. In formulating the strategy and deciding on the suitability of the products, the Group Trustees sought advice from their professional advisers. The Group Trustees will review their decisions from time to time with their advisers.

Net cashflows will be used in order to rebalance back towards the return-seeking portfolio's benchmark split, but one-off adjustments may be used where necessary, for example through the Group Trustees' quarterly reviews. Any rebalancing relating to the Property and Forestry allocations may be done on a less frequent basis due to the reduced level of secondary market opportunities. The Group Trustees will keep the allocation of the Scheme's assets between the funds under review. The Statement of Investment Principles (SIP) will not be reviewed just because of movements between active and index-tracking managers (in the same asset class).

4. Expected Return on Investments

The LDI mandate can invest in long- and short-dated, inflation-linked and fixed versions of pooled leveraged bond funds. Each fund aims to match a generic cashflow profile and the use of multiple funds by the Group Trustees results in a closer match with the Scheme's cashflow profile.

The passive Global Equity product is expected to track its composite index, based on the FTSE All Share Index and the relevant regional Overseas Equity indices.

Specific outperformance targets for the actively managed products used are included in the appendix.

5. Risk Management & Risk Measurement

The Group Trustees are satisfied that their investment managers are prudent and professional in their general approach to investment. The investment products used involve holding units in pooled funds that maintain diversified portfolios of underlying assets (e.g. shares, bonds, units in property funds, and other financial instruments). This reduces the risk to the Scheme and members of investing in any specific individual asset. The use of passive funds also removes some of the risk involved in a purely active investment strategy.

The use of separate investment managers, in particular within the Absolute Return element, reduces the manager risk faced by the Scheme on its active mandates. The Group Trustees will keep the asset allocation under review, and risk measurement forms part of the performance monitoring process.

6. Realisation of Investments

The Group Trustees' policy is to ensure that the assets invested are sufficiently realisable to enable the Group Trustees to meet their obligation to provide benefits as they fall due. The Group Trustees are satisfied that the arrangements in place conform to this policy. The Group Trustees monitor their net cashflow position, the likely need to realise capital, and hence any effect on asset allocation and the choice of investment funds.

7. Additional Voluntary Contributions

The Scheme has available facilities for members who wish to contribute to enhance their retirement benefits. The Group Trustees believe these to be appropriate facilities for this purpose, but they note that the decisions on the level of contributions paid and the funds used rest entirely with the members.

8. Environmental, Social and Governance (ESG) Considerations including Voting and Engagement

In endeavouring to invest in the best financial interests of the beneficiaries, the Group Trustees have elected to invest in pooled funds and cannot therefore directly influence the environmental, social, and governance policies and practices of the companies in which the pooled funds invest. Given the objectives of the Scheme, the Group Trustees exclude non-financial matters in the selection, retention and realisation of investments.

The Group Trustees have no formal policy on either ESG or delegation of voting rights. Instead, they have delegated the responsibility for these matters to their investment managers, who will from time to time report on their current and future actions in these areas.

The Group Trustees will consider a manager's ESG credentials during their appointment process, and will ask for at least an annual written update on each manager's activity for the products used by the Group Trustees. The Group Trustees will include a statement in the annual report to advise members that this has been done.

As the Group Trustees use pooled funds, their asset managers are not incentivised to align their investment strategy and decisions with the Group Trustees' policies, nor are they incentivised to make decisions based on assessments about medium to long-term performance of an issuer of debt or equity, nor to engage with those issuers in order to improve their performance. However, the managers may make such decisions and/or engage of their own accord.

Performance monitoring, manager remuneration and duration of manager appointments are covered elsewhere in this Statement, or in the Group Trustees' Annual Report. As the Group Trustees use pooled funds, there is no targeted portfolio turnover or turnover range.

As the Group Trustees use pooled funds, they do not need to have an engagement policy in relation to monitoring the capital structure of companies they invest in, or any associated potential conflicts of interest.

From 1 October 2020 the Group Trustees will publish their SIP online for general public access.

In addition, from 1 October 2021, the Group Trustees will publish annually online an engagement policy implementation statement that outlines how the various requirements (set out above) have been followed during the year, and describes the voting behaviours of the asset managers on their behalf.

9. Compliance

The Group Trustees will formally review this statement as and when required, and at least every three years, with the assistance of their advisers. A copy of this statement is available for inspection by Scheme members.

This statement has been agreed by the Group Trustees on 10 February 2020.

Signed on behalf of the Group Trustees by

Name .... Signature Approved by the Group Trustees

Name .... Signature ....

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Appendix

This table provides background to the table used in section 3 of the SIP.

This appendix may be revised from time to time without triggering the need for a wholesale review of the SIP.

Manager targets

Asset Class	Manager	Actively Managed Fund Target
Absolute Return	Barings	Outperform LIBOR by 4% per annum
	L&G (Dynamic)	Outperform Base Rate by 4.5% per annum
	Ruffer	Outperform twice the bank base rate
Forestry	Bidwells	Outperform the IPD UK Forestry Index
Property	CBREI	Outperform the IPD Monthly Index over a rolling 3-year period
High Yield	L&G	Outperform the ICE BofA Global High Yield BB-B Rated (excluding financials) 2% constrained Currency Hedged Index by 1% p.a. (before fees) over a rolling three-year period.

Manager weightings

A more detailed version of the table used in section 3 of the SIP is as follows:

Asset Class	Weight (%)
Global Equity (p) – L&G	20.0
Absolute Return	54.0
Barings	***22.0***
L&G	***10.0***
Ruffer	***22.0***
Forestry – Bidwells	7.0
Property – CBRE	9.5
High Yield – L&G	9.5
Total	**100.0**

Internal rebalancing

Legal & General are not currently applying rebalancing on behalf of the Group Trustees.

In the Global Equity fund, a 60/40 distribution between UK and overseas assets is maintained with the overseas distribution being split 14% North America, 14% Europe ex UK, 7% Japan, 5% Asia Pacific ex Japan.

The Global Equity fund may be held on a Currency hedged or unhedged basis, and can move between these without triggering a full review of the SIP.

The L&G absolute return fund can switch between Diversified and Dynamic Diversified without triggering a full review of the SIP.

Legal & General provide the LDI funds used within the Group Trustees' LDI portfolio.