SECTION 4 STATEMENT OF INVESTMENT POLICY PRINCIPLES

Introduction

The Trustees are responsible for deciding on the investment objectives and strategy for the ESB Pension Fund (the 'Fund' or 'Scheme'). This statement sets out the main elements of their investment policy and how this is implemented. Publication of this policy is required under the Occupational Pension Schemes (Disclosure of Information) Regulations 2006.

In preparing this statement, the Trustees have consulted with ESB and professional investment advisors and considered the Pensions Authority's *Guidelines for setting investment strategy for defined benefit schemes*.

The responsibility for setting investment policy lies solely with the Trustees. The Trustees will review the statement from time to time and modify it as appropriate, with a formal review at least every three years. In addition, the Trustees will monitor compliance with this statement on an ongoing basis. The last Investment Strategy Review was finalised in 2021 and a mini Strategy Review was also undertaken in late 2022 / early 2023 to ensure the investment strategy was still appropriate. This current version is to incorporate the revised rate of return following a derisking step undertaken in June 2024.

Investment objectives

The investment objectives of the Trustees can be summarised as follows:

- To seek sustained long-term growth, sufficient to meet the liabilities (core and discretionary) of the Fund over a prolonged period having due regard to the nature and timing of those liabilities,
- Ensure that the level of risk taken in pursuit of this growth is acceptable to meet the Fund's liabilities over the long term and that exposure to unrewarded risk is minimised,
- Ensure that the investments are structured and managed in a manner that provides for the cashflow requirements of the Fund to be met as they arise.

The ability of the Fund's resources, assets and future contributions, to achieve these objectives and its obligations under the Pensions Act is measured at least every three years through a formal valuation by the Scheme Actuary along with annual interim updates. The valuation also quantifies the return required from the asset portfolio over the period of the liabilities and provides the Trustees with its return benchmark. The rate of return implicit in the Actuarial Valuation at the end of December 2023 was 4.70% p.a. (2.45% pa over expected long term inflation). This increased to 5.00% p.a. at the end of June 2024 following the rise in swap rates over the first 6 months of 2024 (2.7% over expected long term inflation).

Strategic Asset Allocation Framework

The Trustees together with the Scheme Actuary and their investment advisors have devised and adopted a framework to guide them in deciding on the most appropriate asset allocation to manage the Scheme's investments.

The plan specifically considers:

- the required level of return and resultant appropriateness of the related level of risk,
- the requirement to satisfy the Minimum Funding Standard (MFS) and associated risk reserve requirements,
- a de-risking objective (e.g. increasing the liability matching asset portfolio) of reducing the Fund's target return over time as the funding level (defined as assets divided by liabilities as measured by the economic value of the liabilities) increases. Specifically, this means a portfolio containing an increased allocation to lower risk (matching) assets or increased hedging over time. The general intention is not to increase investment risk as the funding level decreases.

The framework is reviewed regularly, and the most recent review determined the following Strategic Asset Allocation as being consistent with the Trustees' objectives.

Table 1 Medium-term Strategic Asset Allocation

Asset class	Strategic Target Allocation	Allocation Range
Matching Assets	**37%**	
Cash	3%	0-10%
Euro Corporate Bonds	11%	5-15%
Bonds/LDI	23%	10-70%
Cashflow Producing Assets	**36.5%**	
Credit	16%	14-22%
Property/Forestry	10%	5-15%
Infrastructure	10.5%	5-15%
Growth Assets	**26.5%**	
Equities	15.5%	12-20%
Hedge Funds	9%	5-13%
Private Equity	2%	0-4%

The table above shows the current strategic asset allocation and the ranges within which the Trustees believe that the immediate return objectives can be achieved. The desired medium term allocation to Matching Assets is 56% which the Trustees will move to if the Fund's finances and market conditions permit by 2030. The assets of the Fund will be dynamically managed to help achieve this allocation as opportunities arise. The Trustees consider matching assets as those which broadly move in line with the Scheme's liabilities.

The Trustees introduced liability driven investing (LDI) a few years ago to increase the hedging of certain key risks through physical and derivative investments.

Environmental, Social and Governance/Sustainability Policy

The Trustees believe that environmental factors, social factors and corporate governance behaviour (referred to together as 'ESG issues', which for the avoidance of doubt includes sustainability risks) are potentially financially material for the value of the Scheme's investments. ESG integration may, at times, lead to reduced cost and increased efficiencies, reduced risk of fines, reduced externalities and improved adaptability to sustainability megatrends in the underlying companies in which the Scheme invests. The Trustees are of the view that sustainability risks are relevant to, and may materially impact upon, the returns of the Scheme.

With respect to our investment managers who manage either segregated accounts or unitized funds on our behalf, the Trustees assess their ESG policies and data through the investment managers' stated ESG, voting and engagement policies and investment manager reports on same. This data is compiled as part of the Critical Review Assessments, biannual investment manager assessments and onsite/ offsite investment manager meetings. In terms of our direct holdings in Irish government bond, Irish bank bonds and a direct debt holding, the Trustees do not engage with them directly on ESG.

The Trustees invest in a range of investment vehicles including direct holdings as mentioned above. The Trustees are satisfied that the Scheme's current funds are managed in accordance with their views on financially material factors, as set out below:

Financially Material Considerations

The Trustees understand that the method of incorporating ESG in the investment strategy and process will differ between asset classes and should be considered alongside other implementation factors. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

The Trustees delegate the consideration of all financially material factors in relation to determining the underlying holdings within each of the funds, including ESG factors, to the Scheme's investment managers as part of their day-to-day management of scheme assets. Only financial material considerations are used by the Trustees at this point for their direct holdings.

Exercise of Voting Rights and Shareholder Engagement Activity

For the Scheme's unitized and segregated accounts, the Trustees currently adopt a policy of delegating the exercising of the rights (including voting rights) to the investment managers. The Trustees also delegate undertaking engagement activities to the investment managers. This is not applicable to our direct holdings.

Policy Assessment and Monitoring

The Trustees will consider ESG, voting and engagement issues when appointing and reviewing their investment managers (and reviewing the investment strategy) to ensure that they are appropriately taken into account given the asset class involved. The Trustees will also review aspects such as, but not limited to, longer term performance and manager incentivisation in order to ensure alignment with the Scheme's investment policy. This is not applicable to our direct holdings.

The Trustees meet regularly with their investment managers and consider how ESG issues are taken into account. Additionally, the Trustees have developed their ESG/Sustainability policy to help guide decision making with respect to ESG issues arising from the Scheme's investment strategy. This is not applicable to our direct holdings.

In terms of ESG policies and data, the Trustees assess these through the investment managers' stated ESG, voting and engagement policies and investment manager reports on same. This data is compiled as part of the Critical Review Assessments, biannual investment manager assessments and onsite/ offsite investment manager meetings.

Implementation

The Trustees have completed an ESG questionnaire and carried out ESG training. As an outcome of this, an ESG investment beliefs document has been developed which will inform and be a part of the investment decisions of the Scheme. The Trustees' preference is to appoint and retain managers which are highly rated by Mercer's (or other) manager researchers from both an investment and ESG perspective, but mainly an investment perspective. If significant under/out performance arises then the Trustees will consider Mercer's (or other) manager research views on the prospects of the investment manager (including ESG ratings). The Trustees have made allocations to ESG screened funds or funds whose investment managers engagement policies take ESG into account.

Investment Risk Management

The Trustees ensure that they understand the performance, risk and other characteristics of all asset classes and funds that the Scheme invests in. Investment guidelines and targets are agreed with external managers to take advantage of their particular strengths and to provide a complementary approach to the management of the overall Fund. Direct holdings are also assessed with respect to their fit in the overall investment strategy. These are incorporated into Investment Management Agreements (IMAs) with the managers where applicable to ensure that the assets:

- Are invested in a manner designed to ensure the security, quality and liquidity of the assets as a whole is appropriate having regard to the nature and duration of the expected liabilities of the Fund;
- Are predominantly invested in regulated markets;
- Are properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings and so as to avoid accumulations of risk in the portfolio as a whole;
- Include use of derivative instruments only in so far as they contribute to a reduction in investment risks or facilitate efficient portfolio management.

Performance is reviewed by the Trustees at each meeting based on reports independently collected and calculated by the Custodian. The Fund's performance is also reviewed by the Trustees relative to the long-term required return and benchmark return. The Trustees also receive an independent assessment of performance, together with an analysis of the factors affecting performance, relative to the Fund's benchmark.

Risk controls

The Trustees use a number of measures to control and reduce the risks associated with making investments including the following:

Diversification

The Trustees aim to invest in a range of asset classes in order to achieve the required real long-term return while limiting the volatility of returns. Where practical, investments are spread geographically, across industry sectors and individual stocks.

Number of managers

The assets are divided between a number of specialist investment managers and a small number of direct holdings. This allows for the benefits from different areas of expertise and diversifies the specific investment risk taken by the active managers. This is monitored by the Trustees, who have engaged with due diligence experts to assess individual investment manager risk.

Manager restrictions

The Trustees have an Investment Management Agreement (IMA) in place with external segregated investment managers. Direct holdings by their nature do not have an IMA. Each IMA contains restrictions which limit the risk from each individual stock or security held and which prohibit unsuitable investment activity. Compliance with the IMA is monitored. For pooled funds, the Trustees ensure that they understand the performance, risk and other characteristics of these funds before investment.

Risk versus the liabilities

The Trustees have adopted an investment strategy that they believe is capable of achieving the long-term actuarial target while being mindful of the MFS requirements. However, future returns are uncertain, and the long-term risk is that the value of the assets may not increase sufficiently over time to allow the Trustees to provide all of the intended benefits. The Trustees review this risk by monitoring the performance of the assets and the liabilities in the Triennial Actuarial Valuations, funding updates and Interim Valuations from time to time. The Trustees have adopted LDI investment strategies to increase the level of interest rate and inflation hedging relative to the Fund's liabilities. Foreign currencies over €50m are hedged in line with the active currency hedging policy range of 25% to 100%.

Custody

The Trustees ensure the separation of responsibility for the safe-keeping or custody of the Fund's financial assets from its investment managers and the protection of the financial rights attaching to those assets by the employment of an independent global custodian. Custody services for pooled investment funds are provided by the appointed custodians for those funds. The global custodian is also responsible for transaction settlements, income collection, overseas tax reclamation and other administrative actions in relation to the investments.

Risk measurement

The Trustees understand that there is no single definitive risk measure. Therefore, they use a number of risk measures to quantify the overall level of risk.

The Trustees specifically consider the Value at Risk (VaR) measure. This measures the likelihood of the Fund losing more than a particular amount in a year assuming normal market conditions. An asset only VaR and Scheme level VaR measures are considered. The Trustees consider both the absolute level of the VaR and the movement over time when assessing the level of risk inherent in the Scheme.

At manager level the following are used;

- *Tracking error,* i.e. variability of return, for each manager, relative to their benchmark return (where relevant), is calculated and reviewed on a quarterly basis.

- *Information Ratio,* being the ratio of the excess return relative to the risk taken, is calculated and monitored quarterly for each manager.

The Trustees understand that the determination of risk measures (such as VaR) are based on investment models and assumptions. The model and the underlying assumptions have been explained to the Trustees and the Trustees understand the limitations of the model and the metrics which they output.

The VaR (95%) underlying the assets of the Fund based on asset allocation as at 31 March 2024 was calculated at €723 million and €800m on an ongoing and MFS basis respectively, meaning that there is a 5% chance that the solvency might decrease by more than this amount over a 1 year period. This excludes longevity risk. The projected asset volatility is 8.5%.

At the end of March 2024, the interest rate and inflation hedge ratios were 28% and 21% respectively as a percentage of the ongoing liabilities which includes both physical bonds and the LDI portfolio.

The Trustees monitor the movement of all risk metrics over time and consider their level in terms of market conditions. The absolute levels of these metrics and their general trends are included in performance reports produced for the Trustees who then discuss them with professional advisors and are considered against the risk tolerance of the Scheme.

Shareholders Rights Directive Policies

Engagement Policy

The Shareholder Rights Directive relates to investments in EU listed equities only. To the extent that the Trustees invest in EU listed equities, this section applies.

The Trustees engage investment managers through which they invest Fund assets.

The Fund's investment managers exercise shareholder voting rights on behalf of investors in accordance with their own voting policies. When the Trustees engage a new manager, part of the procurement and assessment process involves enquiring how they exercise voting rights and stewardship obligations attached to the investments and considering the response in accordance with their own corporate governance policies.

The Funds' investment managers monitor investee companies on relevant matters, including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance on behalf of the Trustees. The investment managers report on at least an annual basis to the Trustees on such matters. Where relevant these matters will be considered by the Trustees' at their monthly meetings and as part of the Critical Review Assessments. Please see section above titled "*Exercise of Voting Rights and Shareholder Engagement Activity*". If a material sustainability risk is alluded to in one of these reports, this could result in the Trustees divesting from or reducing its allocation to a particular investment manager/fund.

Due to the collective nature of the investments undertaken by the Trustees, the Trustees do not:
- enter into direct dialogue with investee companies or their relevant stakeholders;
- exercise voting or other rights attached to shares; or
- engage with other shareholders.

Due to the nature of a pension scheme, shareholder engagement is integrated into the Trustees' investment strategy indirectly through the engagement with investment managers. The Trustees manage any actual or potential conflicts of interest in relation to its engagement responsibilities with its own and the relevant asset manager's conflict of interest policies (excluding direct holdings). All existing and potential Trustee conflicts are addressed at each meeting as per our Conflict of Interest Policy which is reviewed on an annual basis. Further information in relation to the Trustees' and investment managers' conflict of interests policy upon request is available upon request.

Annual update on engagement policy

In line with its engagement policy and this SIPP the Trustees do not directly exercise any voting rights during the year. The investment manager engaged by the Trustees exercises those votes in accordance with their own voting policies through proxy systems (and advisors where applicable) rather than directly on behalf of the Trustees. Such information as is publicly available in relation to how the investment manager casts votes can be found at the investment manager's website which is available upon request.

Investment strategy and arrangements with investment managers

The overall investment objective of the Trustees is to seek sustained long-term growth, sufficient to meet the liabilities of the Fund over a prolonged period having due regard to the nature and timing of those liabilities and optimise the level of investment return appropriate to the Fund's long-term objectives achieved by the Fund's assets subject to taking an acceptable level of risk, through adopting a prudent, carefully planned and well-executed investment policy. The Trustees seek to pursue this investment objective and effect the main elements of the equity strategy employed in respect of the Fund by, *inter alia*, selecting and appointing investment managers to (i) manage the Fund's assets directly through segregated mandate arrangements or (ii) by allocating the Fund's assets to collective investment schemes managed by investment managers. The Trustees seek to ensure that any allocation of Fund assets to investment managers are consistent with the profile and duration of the Fund's liabilities (in particular, the Fund's long-term liabilities) and that any allocation contributes to the long term performance of the Fund's assets. In general, the Trustees expect the appointed investment manager to make investment decisions with the objective of preserving and enhancing long-term shareholder value.

In general, the Trustees' contractual relations with investment managers are open ended (subject to termination provisions which are negotiated as part of the appointment terms) in order to build long term partnerships with investment managers. The investment manager's report is usually considered by the Trustees on a quarterly basis. Through this assessment and as a result of the terms of the contractual arrangement with the investment manager, the investment manager is incentivised to make investment decisions based on the medium to long-term financial and non-financial performance of their investee companies and engage with them, where appropriate, to improve their performance in the medium to long term. Any such engagement is subject to the investment manager's own internal corporate governance policies and best practice. The evaluation of the asset manager and in general, the remuneration for investment management services is in line with the long-term nature of pension scheme investments and takes into account the long-term performance of the investment manager. In respect of the Scheme's segregated assets and direct holdings, and indeed underlying funds, the Trustees agree the overall investment strategy with their investment consultants to ensure that the overall asset mix is in line with the profile and duration of the long term liabilities of the Scheme. These segregated and direct holdings are generally liquid so can be liquidated if needed for shorter term liability needs in the near term. There are IMAs in place with the segregated investment managers to ensure absolute long term performance is taken into account during reviews. For direct holdings, the Trustees assess performance versus their original investment objective at the outset on a regular basis.

The Trustees engage separate investment advisers to independently rate certain investment managers. In conjunction with this, biannual questionnaires are issued by ESB Pensions on behalf of the Trustees to all the underlying investment managers requesting key information such as on portfolio statistics (return, risk, tracking error, turnover including portfolio turnover ratio/range and associated turnover costs), investment team changes, voting and engagement information, carbon emissions etc.) as part of the regular investment management monitoring and the impact on the overall performance of the assets under management during the reporting period. When selecting a new fund manager or new fund option, the Trustees request information such as return and risk targets, past performance and risk statistics, turnover (including portfolio turnover ratio/range and associated turnover costs), liquidity, ESG policies and data, counterparty data and fees for any given fund. Where relevant, for a particular fund option, as part of the regular manager review process, the Trustees monitor these, amongst other items, to ensure they remain in line with expectations for that particular mandate. The Trustees define the turnover ratio as the percentage of holdings that have been replaced over the course of one year.

Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) related disclosures

The Trustees do not consider the principal adverse impacts (PAI) of their investment decisions on sustainability factors within the meaning of Article 4 of SFDR. The reasons for this include lack of available/reliable data and/or an inability to ensure that all underlying investment managers will report on PAIs. If and/or when such data/reporting becomes available, the Trustees will then consider PAIs. Where available and required, investment managers may publish information on how they consider the PAI of investment decisions on sustainability factors. To the extent that information is publicly available, such information as to how the investment manager considers sustainability risks when making investment decisions is available on their website and/or in the offering documentation of the relevant underlying fund.

A review of remuneration policies (for example the long-term nature of them and how they incentivise key investment management personnel) is included in the appointed investment adviser's independent research and review of appointed investment managers.

Under SFDR, the Trustees are viewed as financial market participants, whilst the Scheme is considered to be the financial product offered by the Trustees. Products under SFDR can disclose under Article 9 (for those products that have sustainable investment as their investment objective), under Article 8 (for those products that promote social and/or environmental characteristics) or solely under Article 6 (for those products that do not disclose under Article 8 or Article 9). The Trustees have determined that the Scheme should disclose solely under Article 6 of SFDR, and so the Trustees are therefore required to disclose that the investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities. As noted above, the Trustees believe that environmental factors, social factors and corporate governance behaviour are potentially financially material for the value of the Scheme's investments and our policy is documented elsewhere in this SIPP.

Under Article 5 of the Sustainable Finance Disclosure Regulation (EU 2019/2088) ("SFDR"), the Trustees (as a financial market participant) are required to include in the Remuneration Policy information on how the Remuneration Policy is consistent with the integration of sustainability risks.

To the extent that they are subject to the SFDR, the Scheme's investment managers are subject to their own remuneration policies and procedures which are consistent with the integration of sustainability risks into their investment decision-making processes. As no other person involved in the management of the Scheme, including the Trustees or any Key Function Holder, is remunerated from the assets of the Scheme as part of their role as Trustee, nor is such remuneration connected to or impacted by the investment decisions that those persons make on behalf of, or the performance of, the Scheme, the remuneration payable to those persons has no correlation with, and as such is not inconsistent with, the manner in which sustainability risks are integrated into the Scheme's investment decision-making processes. All persons involved in the management of the Scheme are encouraged to take all risks including sustainability considerations into account as part of their roles and decision-making in line with the Trustees' ESG/Sustainability Policy as set out in the Statement of Investment Policy Principles.

Oversight and review

It is the intention of the Trustees to review this document at least every three years or sooner following any change in investment policy which is inconsistent with this statement.

This SIPP was agreed at the July 2024 Trustee meeting.

Signed by

Signed by:
Adrian Kelly
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Name: Adrian Kelly
Role: Trustee
Date: 25th July 2024

Signed by:
Anne Marie Kean
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Name: Anne Marie Kean
Role: Trustee
Date: 25th July 2024