Annual Report 2022

The ESB Defined Benefit Pension Scheme

ESB Pensions

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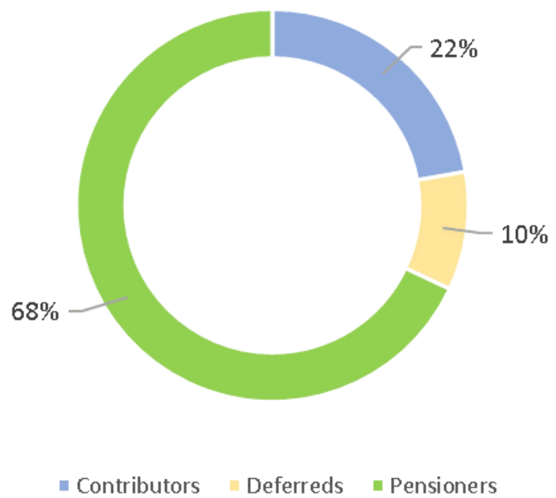
TRUSTEES, SUPERANNUATION COMMITTEE, FORUM AND OFFICERS

Trustees		**Pensions Implementation Forum**	
Kieran Sweeney	Chairperson (from Oct 2022)	Tom McMahon	Chairperson
Tony Donnelly	Chairperson (until Sept 2022)	Tony Donnelly	(until Sept 2022)
Anne Marie Kean		Jim Dullaghan	
Adrian Kelly		Adrian Kelly	
Jeremiah Murphy		Kieran Sweeney	(from Oct 2022)
Pat Naughton		Margaret O'Connor	
Peter Van Dessel	(until Dec 2022)	Fran O'Neill	
Anthony Walsh		Gerard Tallon	
		Peter Van Dessel	(until Dec 2022)
Superannuation Committee		David Sexton	
John Carton	Chairperson		
Ann Carroll		**ESB Pensions**	
Adrian Fox		*Pensions and Insurance Manager*	
Lorna Heron		James O'Loughlin	
Sean Kelly			
Louise Murphy		*Investment Team*	
Margaret O'Connor		Noel Friel – Pensions Chief Investment Officer	
John O'Sullivan		Ciara Quinn – Investment Analyst	
Claire Quane			
David Sexton		*Pension Services Team*	
		Susan Cahill - Regulatory & Accounting Manager	
Secretary to Trustees and Superannuation Committee		Colm O'Raghallaigh – Regulatory & Accounting Manager (seconded)	
James O'Loughlin		Krystle Healy - IORP II Implementation Manager	
		Jennifer Hickey - Pension Administration Specialist	
Key Function Holders		Claire O'Brien - Pension Administration Specialist	
Risk	Krystle Healy	Dave Curran - Risk and Governance Manager	
Internal Audit	James O'Loughlin	Lisa Donegan - Fund Accountant	

A YEAR IN NUMBERS 2022

Fund Return (%)	-4.5%
Fund Value at the end of 2022 (€million)	5,063
Net Return on Investments (€million)	(238)
Contributions and Transfers In (€million)	53
Benefits Paid (€million)	(280)
Overall Change in Value over 2022 (€million)	(465)
Number of members:	12,016



The Annual Report tells you what happened in the Scheme Year – January to December 2022

SCHEME FOREWORD BY TRUSTEE CHAIRPERSON

As Trustee Chairperson, I am pleased to present my first Annual Report for the ESB Defined Benefit Pension Scheme for 2022. The Annual Report and its Summary are the primary methods used by the Trustees to communicate with members. We hope our members find this year's report both informative and interesting in giving an insight into the scale and operation of the Scheme.

Following the departure of my predecessor Tony Donnelly last year, I was appointed Chairperson from October 2022. I previously worked in ESB from 1986 to 2012 where I had a number of roles including General Manager Power Generation, Head of Business Service Centre and as Corporate Change Manager I led the negotiations on the Pensions Agreement 2010. So, my pensions experience goes back a long way. I would like to personally thank Tony for his support to me as incoming Chair and for his enormous contribution to the Scheme since becoming a trustee in 1998 and Chairperson in 2008. His energy, enthusiasm, expertise and professionalism will be missed, and I wish him all the best in his "second retirement" from ESB. I am excited and honored to be appointed Chairperson, in what is a pivotal time in the history of the Scheme which celebrated its 80th anniversary last year. We have seen many significant developments over that time – and as in the past, we will continue to address challenges positively as they arise currently and no doubt into the future.

2022 was a busy year for the Scheme. Some of the main highlights of the year that I'd call out which are covered in more detail elsewhere in this Report are as follows:

- The Actuary confirmed that the Scheme met the Minimum Funding Standard (MFS) including the Risk Reserve for the first time in over 20 years. This is a very positive development for the Scheme. This is due to several reasons including higher interest rates, the change in the definition of the normal retirement age and solid investment performance over the past few years. The ongoing actuarial valuation remains 'in balance' which is also crucial.
- Pension increases were awarded last year following the successful outcome of several Solvency Tests for 2018, 2019, 2021 and 2022 (there was deflation in 2020).
- The Fund recorded a return of -4.5% during 2022 which was a tough year for investment markets. 2022 saw global equities fall over 15% and EU government bonds fall over 30%. As a balanced portfolio, the performance of the ESB Pension Fund is driven primarily by the return of a basket of assets, as opposed to the performance of any one particular asset, along with manager skill. The return over the past 3 years was 2.4% p.a., while the Fund returned 3.2% p.a. and 6.0% p.a. over the past 5 and 10 years respectively.
- The Trustees and Committee spent much time in 2022 ensuring that they were IORP II compliant by the end of 2022. This included agreeing many new policy and process documents and new IORP compliant reporting. The "Key Function Holders" for Internal Audit (James O'Loughlin) and Risk (Krystle Healy) were appointed by the Trustees in December 2021. All existing Trustees were independently assessed to ensure they met the fitness and probity requirements under IORPs. As part of our move to having all our Trustees undertake the professional Trustee exams, four trustees successfully completed this qualification with the remaining Trustees to undertake this qualification in 2023 and 2024.
- An amended set of Scheme rules are with the Minister recommending changes arising from the IORP Directive and other anomalies which arose over the past 80 years of the Scheme's history. A requirement under IORP is that all pension schemes must be managed under one supervisory body, so the Scheme rules were required to be updated to allow for the amalgamation of the Trustees and the Committee.
- CARE revaluation of 9.2% was applied from 1st January 2023 which reflected the 12 month Irish inflation print to the end of September 2022 plus 1%.

- The Scheme continues to mature which is most evident in the membership number and the cashflow profile. 68% of members are pensioners whereas 22% are contributing members and 10% are deferred members. Benefits and payments to leavers totalled €280 million for the year while total contributions from employees and the employer were €53 million. The trend of higher pension payments relative to contributions will only be strengthened over the coming years which has implications for investment strategy and maintaining liquidity to pay pensions.

This Report is laid out over five sections:

- Section 1 covers the overview of the Scheme which includes information on the Trustees and Superannuation Committee members, Scheme amendments, financial accounts, membership profile, solvency position, revaluations and pension increases and the investment allocation and performance.
- Section 2 provides more information on the Scheme's solvency position and actuarial statements.
- Section 3 details the performance of the investments throughout the year along with the changing asset allocation.
- Section 4 is the Trustees' Statement of Investment Policy and Principles which sets out the main elements of the Trustees' investment policy and how it is implemented.
- Section 5 covers the financial statements.

Due to the pandemic, our member communication event last year was an online live event which took place in October 2022. This year's event will be a hybrid event held on Microsoft Teams with in person attendance available at ESB Headquarters, 27 Lower Fitzwilliam Street, Dublin 2. This event will be held on 19th October 2023 and if you would like to attend this event, please email onehr@esb.ie outlining whether you will be attending in person or virtually before 31st August 2023.

As Chairperson, I want to express my appreciation of the generous commitment shown by my fellow Trustees. Throughout this period, they have devoted considerable time and effort to their role as Trustees. I also want to acknowledge the very valuable contribution from Peter Van Dessel who after over 11 years' service decided to leave the Trustee board in December 2022. I wish him great success in developing his investment business in the USA. I would also like to put on record the Trustees' appreciation for the support and outstanding work of James O'Loughlin (Secretary to the Fund). Noel Friel (Chief Investment Office) and all the staff in ESB Pensions.

While the Scheme's solvency is currently in a good position, this is a very challenging time for pension funds globally given the economic, geopolitical, regulatory and investment backdrop. We continue to manage the Scheme with the aims of reducing solvency volatility, by de-risking when opportunities allow, and paying pension increases in line with inflation when affordable and being mindful of intergenerational equity. These are demanding objectives to balance, but we continue to work hard to achieve them.

I am really looking forward to the next few years working with my fellow Trustees, ESB Pensions, ESB and other stakeholders on your behalf.

Kieran Sweeney,
Trustee Chairperson
May 2023

SECTION 1 SCHEME OVERVIEW

Scheme Overview

The Annual Report and its Summary describe the operation of the ESB Defined Benefit Pension Scheme, its funding position and investment policies and performance. The report also contains the audited financial statements as at 31 December 2022. Each is available online on the intranet for all contributing members and upon request for pensioners and deferred members.

The Scheme is a funded defined benefit pension scheme as defined by the Pensions Act 1990. The Scheme was established under the Electricity Supply Board (Superannuation) Act 1942 and provides benefits based on pensionable earnings and service for members and their dependants on retirement, death or ill health.

Superannuation Committee and Trustees

The Trustees and the Superannuation Committee are responsible for overseeing all aspects of the Scheme with ESB being the Registered Administrator. The Trustees have overall responsibility for the investment of the Fund's assets. The Superannuation Committee oversees the payment of benefits to members and their dependents.

In total, 11 regular Trustee meetings were held during the year. Kieran Sweeney was appointed from October to replace Tony Donnelly who resigned. There were 13 Superannuation Committee meetings held during 2022.

Table 1 Attendance at Trustee meetings in 2022

Trustee	Period	Attendance	Meetings*
Tony Donnelly	Jan – Sept 2022	8	8
Kieran Sweeney	Oct – Dec 2022	3	3
Adrian Kelly	Jan – Dec 2022	10	11
Anne Marie Kean	Jan – Dec 2022	10	11
Jeremiah Murphy	Jul– Dec 2022	11	11
Pat Naughton	Jan – Dec 2022	9	11
Peter Van Dessel	Jan – Dec 2022	11	11
Anthony Walsh	Jan – Dec 2022	11	11

** Number of meetings individual was eligible to attend.*

Table 2 Attendance at Committee meetings in 2022

Member	Period	Attendance	Meetings*
Ann Carroll	Jan – Dec 2022	10	13
John Carton	Jan – Dec 2022	10	13
Adrian Fox	Jan – Dec 2022	11	13
Lorna Heron	Jan– Dec 2022	10	13
Sean Kelly	Jan – Dec 2022	7	13
Louise Murphy	Jan – Dec 2022	12	13
Margaret O'Connor	Jan – Dec 2022	13	13
John O'Sullivan	Jan – Dec 2022	12	13
Claire Quane	Jan – Dec 2022	7	13
David Sexton	Jan – Dec 2022	7	13

** Number of meetings individual was eligible to attend.*

Pensions Implementation Forum

The Pensions Implementation Forum was set up post the Pensions Agreement 2010 to ensure that the parties to the Scheme are fully conversant with and have a shared understanding in relation to the associated management of the Scheme risks. It is made up of representatives of the Trustees, the Committee, the ESB Group of Unions and ESB. It is chaired by Tom McMahon and Darina Gallagher is the Secretary. There were four Forum meetings in 2022.

Scheme Administration

ESB is the Registered Administrator and day to day administration for 2022 was provided by Aon Solutions Ireland Ltd. ESB Pensions support the work of the Trustees and Committee. James O'Loughlin fulfils the statutory role of Secretary to both.

Administrative expenses, with the exception of certain professional and investment fees, are borne directly by the ESB. Fees for investment managers are based on a percentage of assets under management, calculated on a quarterly basis while some also have a performance fee element should performance exceed certain targets.

IORP II Provisions

The European Union (Occupational Pension Schemes) Regulations, 2021 (the Regulations) were signed into Irish Law on 22 April 2021. The transposed Regulations introduced new requirements and changes to the Pensions Act, 1990, as amended ("the Act"). IORP II sets out the minimum standards for the management and supervision of pension schemes to protect the entitlements of members and beneficiaries. The Code of Practice for trustees of occupational pension's schemes and trust Retirement Annuity Contracts (RACs) was published by the Pensions Authority on 18th November 2021 with the expectation that all schemes would be fully compliant by 1st January 2023.

IORP II introduces many new obligations on Irish pension schemes including:

- Minimum qualification and experience standards for trustee boards.
- The appointment of key function holders for risk management, actuarial and internal audit.
- Requirement for written policies on risk management, internal audit, remuneration and, where relevant, actuarial and outsourced activities.
- Standards for internal controls, administrative and accounting procedures, contingency plans.
- Communications and information to be provided to active members, prospective members, deferred members, those nearing retirement and pensioners

An IORP II readiness plan was put in place for the DB Scheme and throughout 2022 the Trustees and the Superannuation Committee were briefed monthly on IORP II. At the December 2022 Trustee meeting all new IORP policies were approved by the Trustees.

Key Function Holders

Under IORP II, Trustees must appoint "Key Function Holders". The Trustees approved the appointment of the two key function holders: James O'Loughlin for Internal Audit and Krystle Healy for Risk in December 2021.

Scheme Amendments

As notified in the 2020 and 2021 Annual Reports, in March 2020, as part of the proposed Minimum Funding Standard (MFS) solution, the rules of the Scheme were updated to require retirements prior to the state pension age to be specifically approved by the Superannuation Committee. This rule change was submitted to and approved by the Minister in December 2020. This then allowed for the MFS Funding Proposal to be submitted to the Pensions Authority that aimed to address the MFS shortfall by the end of 2021. In bringing that rule change through the approval process with the Department and NewERA, it was pointed out that by changing the rules as submitted, only active staff would be subject to the approval process by the Superannuation Committee and not deferred members. On further consideration it was felt that this anomaly needed to be addressed and at the October 2021 Board meeting, the ESB Board approved a rule change to make the approval by Superannuation Committee a requirement for deferred members also. This is seen as ensuring equality between serving and deferred members. It should be noted that this new rule change does not affect anyone who left under a Voluntary Severance (VS) arrangement. As per the Scheme rules, there followed a consultation process with employees in November for a period of 21 days. This change was submitted for approval to the Minister early in 2022 which was received in April 2022.

With the advent of the IORP II Directive, ESB established a Governance Structure Review Group ("Review Group") to work with ESB Pensions with a view to making recommendations on changes to the Scheme's governance to ensure compliance with the Directive. External legal advice was also sought as part of this exercise. Following careful consideration, the Review Group recommended that the number of Trustees should be increased (to encompass some of the existing members of the Superannuation Committee). The Trustees would then take on all roles relating to the administration and governance of the Scheme and the Superannuation Committee would then cease to exist. This would result in a governance structure that meets the requirements of the Regulations while retaining the experience and knowledge of the Superannuation Committee. This proposal was reflected in an amended set of Scheme rules that were approved by the ESB Board and are now with the Minister for approval. As per the Scheme rules, there was a consultation process with employees in September 2022 for a period of 21 days. The amended rules include the appointment of two additional Trustees (one nominated by ESB and one nominated by members following election), bringing the total number of Trustees to nine.

In addition to the changes required to bring the Scheme into compliance with the Regulations, other (non-material) changes are also proposed. These include presentational changes and clarifications such as the inclusion of rule sub-headings, which are intended to make the rules easier to navigate. The proposed rule changes also reflect changes to the normal retirement date to reflect the option to retire at age 67 (from 2023) and age 68 (from 2028) as a result of a change in HR policy communicated by ESB in July 2022. It is important to note that the proposed rule changes do not amend either the benefits payable under the Scheme or ESB's contribution obligations to the Scheme. In addition to recommending the changes to the ESB Board, ESB Pensions briefed the Trustees, the Superannuation Committee and the Group of Unions on the requirements of IORP II and the proposed changes to the Scheme's governance. At the time of writing, the Trustees are awaiting formal Ministerial approval for the amended rules.

Pension Increases

Under the terms of the Pensions Agreement 2010, pension increases are based on the level of annual price inflation (to end September in the previous year), subject to an annual Solvency Test, prior to any payment and subject to a cap of 4%. With the submission of the Funding Proposal to the Pensions Authority in 2021, the Solvency Test for previous years (2018 and 2019) was then conducted. Irish inflation was -1.2% in the 12 months to September 2020, therefore no test was applicable for 2020. The applicable rates of inflation in the 12 months to the end of September 2018 and September 2019 were 0.9% for each year. Following the positive outcome from the Solvency Test, the Committee approved these increases which were applied in March 2022 and backdated to the respective applicable dates.

Irish inflation for the 12 months to September 2021 was 3.7% and following the successful outcome of the Solvency Test for 2021, this increase was awarded by the Committee in July 2022 and backdated to the start of the year. The 12 month Irish inflation to the end of September 2022 was 8.2% and following the successful outcome of the Solvency Test for 2022, a 4% increase (which is the capped amount under the Pensions Agreement 2010) was awarded by the Committee in December 2022 to take effect from the 1st January 2023. In total, 9.5% of pension increases were awarded during 2022.

Solvency Position at the end of 2022

In the years between the formal Triennial Actuarial Valuations, the Actuary carries out a less formal Interim Valuation. The formal Actuarial Valuation is undertaken in accordance with Section 56 of the Pensions Act and is prepared in accordance with relevant actuarial standards and guidelines issued by the Society of Actuaries in Ireland. However, as the Interim Valuation is not a formal valuation, it does not comply with all of the detailed reporting and disclosure requirements of a full Valuation. The last Triennial Actuarial Valuation was at the end of 2020.

The ESB Gateway Trust, valued at €47 million, is included in the valuation of the Scheme's assets. This amount will be payable on call by the Superannuation Committee to fund the cost of any benefits granted on earlier retirement between ages 60 and normal retirement date that the Committee cannot, on the basis of advice from the Scheme Actuary, be absorbed by the Scheme's resources.

At the end of 2022, the Scheme Actuary confirmed that the assets and liabilities remained broadly in balance on an ongoing basis with a funding level of 101.4%. This is based on a 5.25% discount rate which is higher than last years (3.7%) due to the significant increase in bond yields over the year.

The regulatory MFS position moved from a shortfall of c. €290 million to a surplus of €733 million at the end of 2022 while the Risk Reserve Requirement was €396 million. This reflects an MFS solvency ratio of 117% or 107% (including the Risk Reserve) at the end of 2022. As the Scheme met the MFS at the end of 2022, there was no need for a Funding Proposal. This change in position was due to the rule change approved by the Minister in April 2022 and the significant increase in bond yields over the year.

This position for both the Ongoing Actuarial and MFS valuations at the end of 2022 includes the impact of all approved pension increases and CARE effective from the end of 2022. The next Triennial Valuation will be conducted at the end of 2023.

Risk Statement

The Trustees are obliged by the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 (as amended) to make a statement describing the condition of the Scheme, and in particular the financial, technical and other risks associated with the Scheme and the nature and distribution of those risks.

The Scheme operates on a defined benefit basis for the purposes of the Pensions Act, 1990. Defined benefit schemes are not guaranteed, as benefits are ultimately dependent on continuing contributions and Scheme solvency. Some of the risks identified are set out below:

- Actual experience of salary growth, interest rates, mortality and the investment returns achieved by the Scheme's assets may vary to a significant extent from the assumptions made about the Scheme. Therefore, conditions may occur that could lead to a shortfall in the Scheme's assets i.e. the Scheme may not be solvent.
- The administration of the Scheme may fail to meet acceptable standards.
- There may be regulatory or legislative changes that will restrict the level or type of benefits members may receive and how they are taxed. This risk is outside the control of the Trustees.

The Trustees are also required by regulations made under the Pensions Act 1990 to include in the Annual Report a risk statement in the following form:

- The Scheme is funded by contributions paid by the employer and members. Actuarial advice will have been obtained when setting those contributions. However, there is no guarantee that the Scheme will have sufficient funds to pay the benefits promised. It is therefore possible that the benefits payable under the Scheme may have to be reduced. If the Scheme is wound up and there is a deficit, the employer may not be under an obligation to fund the deficit or, even if the employer is under such an obligation, they may not be in a position to fund the deficit.

The Trustees are satisfied that they are taking all reasonable steps to protect the members from the effects of these risks, including:

- Appointing professional investment managers to manage the Scheme's investments; the Scheme holds a range of diversified assets and there is regular monitoring of how these investments are performing.
- Appointing a Fellow of the Society of Actuaries in Ireland who holds an appropriate certificate to act as a Scheme Actuary of an occupational pension scheme; furthermore, the Trustees commission an Actuarial Valuation of the Scheme which is carried out at least every three years. The Valuation determines whether the Fund is likely to be adequate to meet the future liabilities of the Scheme. In undertaking the Valuation, the Actuary takes account of the future contributions at prevailing rates and makes assumptions regarding future experience covering the amount and timing of benefit payments and investment returns.

- In addition, the Actuary undertakes an annual review of the Scheme's ability to meet the statutory funding standard. If the Scheme does not satisfy the funding standard, a Funding Proposal designed to address the shortfall has to be put in place. The Actuary's review extends to considering whether the Proposal is on track to achieve its objective. If the Actuary is not satisfied that the Proposal is on track, then the Trustees and the employer are required to submit a revised Proposal to the Authority that is designed to address the shortfall.
- Appointing experienced professional advisers and administrators to assist with the proper running of the Scheme.
- Having access to appropriate training in relation to their duties and responsibilities as Trustees and having access at all times to the Trustees' Handbook produced by The Pensions Authority and the Guidance Notes issued by The Pensions Authority from time to time in accordance with Section 10 of the Pensions Act, 1990.

CARE Revaluation

Under the terms of the Pensions Agreement 2010, a Career Average Revalued Earnings (CARE) defined benefit structure was introduced for all active Scheme members from 1st January 2012. CARE revaluation is based on the annual inflation rate to end September each year plus 1%. The 12-month inflation rate until September 2022 was 8.2% according to the Central Statistics Office (CSO) which means a CARE revaluation of 9.2% which was applied to all relevant members at the start of 2023.

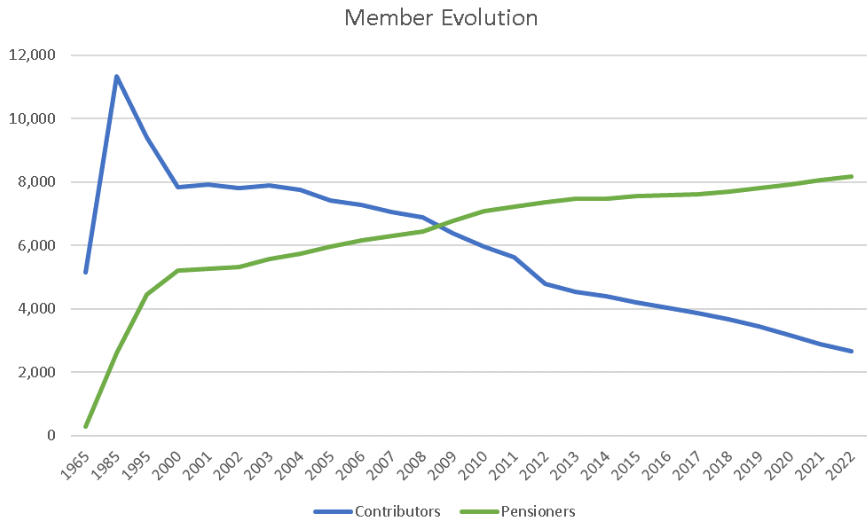
Table 3 Scheme Member Profile

Pensioners	2022	2021
Pensioners at the start of year	8,068	7,906
Add:		
New Pensioners (including spouses & children)	448	464
Less:		
Pensions ceased during the year	(347)	(302)
Pensioners at end of year	8,169	8,068

Contributors	2022	2021
Contributors at start of year	2,900	3,161
Add:		
New entrants (return from career breaks)	2	1
Less:		
Opening adjustments	(3)	0
Career break starters (to Preserved)	(6)	0
Retirements – Ordinary	(211)	(228)
Retirements – Ill health	(1)	(2)
Resignations	(3)	(5)
Death in Service	(4)	(1)
Post 2010 VSS Leavers	(0)	(25)
Transfer Out	(0)	(1)
Contributors at year end	2,674	2,900

Scheme Member Profile	2022	2021
Contributors	2,674	2,900
Pensioners	8,169	8,068
Deferred members	1,173	1,278
Total Members	12,016	12,246

Figure 1 Active Member vs Pensioner Evolution (1965 – 2022)



Fund Performance

2022 was a challenging year for most asset classes given the significant increase in interest rates and inflation and geopolitical developments with equities and bonds experiencing falls of 15% to 30%. The Fund returned -4.5% in 2022 which was below the 3.7% target with positive contributions coming from hedge funds, property, infrastructure, credit and private equity. However, negative contributions from government and investment grade corporate bonds, equities and cash more than offset these positive contributions. The return over the past 3 years was 2.4% p.a., while the Fund returned 3.2% p.a. and 6.0% p.a. over the past 5 and 10 years respectively. Given the increase in yields, the long-term return target was increased to 5.25% from 2023 on an actuarial basis.

Table 4 Annualised Fund Returns to 31st December 2022

	1 Yr	3 Yr	5 Yr	10 Yr
Fund Return	-4.5%	2.4%	3.2%	6.0%

Fund's Allocation

Given the significant moves in asset class returns in 2022, the improvement in the Scheme's solvency ratios and to review the Fund's derisking program, the Trustees undertook a mini strategy review to ensure that the investment strategy agreed in 2021 was still appropriate. Arising from this review a number of small changes were agreed including reclassifying the underlying funds in the Inflation Sensitive Portfolio (Wellington inflation hedges fund, gold holdings and forestry) into the rest of the portfolio. This was done as it was proving difficult to model this portfolio given the different characteristics of the underlying assets and furthermore, other parts of the Fund also have inflation sensitivity such as infrastructure, property, floating rate credit and the inflation swaps in the Liability Driven Investing (LDI) portfolio. The Trustees also agreed a longer term 2030 target of 56% in the liability matching portfolio should conditions allow to lower the Scheme's overall funding volatility.

The Fund's asset allocation changes over the year is shown in Table 5 Asset class Target and Actual Allocations. The underlying managers in the multi asset funds themselves invest in a range of bonds, equities and other asset classes. The Gateway Trust is included in "Cash & Other". The medium-term target allocation and allocation ranges represent where the Trustees are moving towards in terms of asset allocation which will take time in some cases given the illiquid nature of certain assets like property or infrastructure. "LDI" represents "liability driven investing" which is a portfolio of assets designed to hedge out liability risks, mainly interest rate and Inflation, through appropriate swaps. The Statement of Investment Principles (SIPP) has more details in Section 4. Matching / Defensives Assets are those expected to generally move in line with liability movements which are different to Performance Assets which are expected to perform in excess of Matching /Defensive Assets over time.

Table 5 Asset class Target and Actual Allocations

Asset class Allocations	Strategic Asset Allocation	Strategic Allocation Range	Actual Allocation At End 2022	Actual Allocation At End 2021
Matching/Defensive Assets	25%		23%	20%
Cash	3%	0-10%	4%	3%
Euro Corporate Bonds	10%	5-15%	7%	4%
Government Bonds/LDI	12%	10-70%	12%	13%
Performance Assets	75%		77%	80%
Credit	18%	14-22%	17%	15%
Equities	18%	14-22%	15%	19%
Infrastructure	13%	8-15%	10%	8%
Property/Forestry	10%	5-15%	14%	13%
Hedge Funds	9%	5-13%	9%	9%
Multi-Asset	5%	0-10%	10%	15%
Private Equity	2%	0-4%	2%	1%

Scheme Financials

At 31 December 2021 the value of Fund assets was €5,528 million. During 2022 contributions from ESB and members and transfers in amounted to €53 million. Benefits and payments to leavers amounted to €280 million. Overall, the Fund lost €238 million arising from the increase in the valuation of investments and income less expenses. This resulted in net assets of €5,063 million at 31 December 2022. This net asset includes the Gateway Trust which is included in the overall Fund.

Table 6 Financial summary

	2021 €million	€million	2022 €million	€million
Value of Fund at start of year		5,171		5,528
Contributions and Transfers In				
ESB	40		34	
Member Contributions and Transfers In	20	60	19	53
Benefits and payments to leavers		(257)		(280)
Net Return on Investment		554		(238)
Change in Fund value during year		357		(465)
Value of Fund at end of year		5,528		5,063

(Numbers are rounded to the nearest million.)

Compliance Details

Pensions legislation requires that we confirm the following details:

- The Scheme is a funded defined benefit pension scheme as defined by the Pensions Act 1990. ESB Group is the principal employer.
- The Scheme has been approved as a retirement benefits scheme for the purposes of Chapter II, Part I, Capital Finance Act 1972, with effect from 6 April 1972.
- The Scheme is registered with the Pensions Authority, registration number PB1699.
- The Trustees, the Superannuation Committee and the staff of ESB Pensions have access to the Trustees' Handbook and Guidance notes as issued by the Pensions Authority from time to time.
- The right of members to select or approve the selection of Trustees to the Scheme is set out in Occupational Pension Schemes (Member Participation in the Selection of Persons for Appointment as Trustees (No.3)) Regulations, 1996, (S.I. No. 376 of 1996).
- No pension increases were paid during the year for which the scheme would not have a liability in the event of a wind-up.
- In the event of judicial separation, divorce or dissolution of a civil partnership, a Court application may be made for a Pension Adjustment Order in respect of the retirement or contingent benefits payable to or in respect of a married or civil partner member. Further information on this topic may be obtained from the Pensions Authority, Verschoyle House, Lower Mount Street, Dublin 2.
- The Financial Services and Pensions Ombudsman Act 2017 requires that all pension schemes have an internal disputes resolution (IDR) procedure. The purpose of the procedure is to give actual or potential beneficiaries a formal basis for raising disputes. If a complainant is not satisfied with the outcome of the IDR process they can bring forward their complaint or dispute to the Financial Services and Pensions Ombudsman who may decide to investigate the matter. A copy of the IDR procedure is available on the Scheme's intranet site at https://thehub.esb.ie/ or https://www.esbstaffservices.com/ or by email to pensions@esb.ie.
- There are no members of the Scheme included for Death in Service Benefits only.
- The Trustees and Superannuation Committee confirm that ESB and members have paid and continue to pay contributions in accordance with the rate determined by the Scheme regulations.
- The Trustees and Superannuation Committee have appropriate procedures in place to ensure that contributions payable during the scheme year have been received by the Trustees and Superannuation Committee in accordance with Section 58A of the Pensions Act where applicable to the contributions and otherwise within 30 days of the end of the scheme year. These monies are invested in accordance with legislative requirements.
- The Trustees and Superannuation Committee have access to appropriate training on their duties and responsibilities and are compliant with all legislative trustee training requirements. No trustee training costs were borne by the Scheme in 2022.
- Queries in relation to Scheme benefits or related matters should be addressed to the contact details on the back page of this Annual Report.
- There were no employer related investments at any time during the year.
- There have been no significant subsequent events post year end which would impact on the financial statements for the year to 31 December 2022 as at the date of approval of the Annual Report.
- The annual compliance statement for 2022 has been prepared and signed
- IORPII was transposed into Irish law in 2021. The Trustees were compliant by the end of 2022 as per the obligations set out by the Pensions Authority.
- The Trustees and Committee appointed Krystle Healy as Risk Key Function Holder and James O'Loughlin as Internal Audit Key Function Holder in December 2021.
- The annual review and sign off of all Policies were completed in December 2022.
- The Trustees collectively have adequate qualifications, knowledge and experience, with at least one trustee having trustee experience in two of the previous three years.

SECTION 2 FUNDING

Funding

The Scheme Regulations require that the funding position is measured at least every three years through a formal Ongoing / Actuarial Valuation which assesses whether the Scheme has adequate assets to pay benefits now and in the future. Furthermore, the Scheme is also assessed under the Minimum Funding Standard (MFS) which is an annual statutory test required by the Pensions Act. These two measures of a pension scheme's financial position are different in a number of ways but primarily in their treatment of the ongoing nature of the pension scheme.

The Actuarial Valuation assesses whether the Scheme has an adequate level of assets, including future contributions, to pay benefits now and into the future. In this valuation, the Actuary compares the capitalised value of the pensions being paid now and in the future and the benefits to be paid to current employees in the future with the total value of the existing assets and future contributions from ESB and members.

In contrast, the MFS valuation assesses whether the Scheme could meet certain prescribed liabilities in the unlikely event of the Scheme being wound up on the valuation date. Typically, the wind-up mechanism would involve buying annuities from a life insurance company to provide pensions in the future. Where an MFS Funding Proposal is in place with the Pensions Authority, the Actuary also assesses whether the Proposal is still on track to resolve the deficit by the end of its term.

Actuarial Position

In the years between the formal Triennial Actuarial Valuations, the Actuary carries out a less formal Interim Valuation. The formal Triennial actuarial valuation is undertaken in accordance with Section 56 of the Pensions Act and is prepared in accordance with relevant actuarial standards and guidelines issued by the Society of Actuaries in Ireland. However, as the Interim Valuation is not a formal valuation, it does not comply with all of the detailed reporting and disclosure requirements of a full valuation. The Scheme Actuary carried out the interim Actuarial Valuation at the end of 2022.

On the basis of the method and assumptions employed, the Scheme Actuary reported a projected surplus of €78 million which he considered to be broadly in balance given the size of the Scheme. The position at the end of 2022 represented a funding level (ratio of assets to liabilities) of 101.4%. This position includes the effect of pension increases and CARE awarded at the beginning of 2023 (and other benefit increases awarded during 2022).

The main assumptions used in the (Triennial and Interim) Actuarial Valuations are:

- the anticipated rate of return on the Scheme's investments,
- the rate of benefit inflation, future mortality rates and
- average age at retirement of employees.

The long term expected rate of investment return was increased from 3.4% at the end of 2020 to 3.7% at the end of 2021 to 5.25% at the end of 2022 mainly due to the increase in core government bond yields (interest rates) over this period. The rate of long term expected inflation was also increased significantly from 1.35% (at the end of 2020) to 2.1% (at the end of 2021) to 2.5% (at the end of 2022) in line with inflation expectations priced into long term bonds.

Minimum Funding Standard (MFS)

A pension scheme satisfies the MFS if the accumulated fund is adequate to meet the prescribed liabilities. The liabilities as specified by the Pensions Act, which form the basis of the Minimum Funding Standard test, are divided into the following priorities:

1. The estimated expenses of administering a wind up of the Scheme
2. For pensioners and those eligible for pension, the priority is for:
    - 100% for the first €12,000,
    - 90% for €12,000 - €60,000 (min €12,000) and
    - 80% of over €60,000 (min €54,000) based on the cost of providing for pensions in payment and survivors' pensions at the rates in force on the effective date
3. For actives under 66 and deferreds, 50% of statutory minimum entitlement based on the rates in force at the effective date
4. For pensioners and those eligible for pension, any amounts excluded under 2.
5. For actives under 66 and deferreds, any amounts excluded under 3.

As part of the Interim Actuarial Valuation, the Scheme Actuary also measures the solvency of the Scheme under the MFS. Over the course of 2022, the MFS moved from a significant shortfall of c. €290 million to a surplus of €733 million and €336 million when including the Risk Reserve (of €396 million) at year end. This reflects an MFS solvency of 117% or 107% including the Risk Reserve. The improvement reflects the change in normal retirement age definition in the Scheme rules from age 60 to age 66 and the increase in yields. This position also includes the effect of pension increases and CARE awarded at the end of 2022 (and other benefit increases awarded during 2022). As the Scheme meets the MFS (and the MFS Risk Reserve), there is no need for a Funding Proposal.

A copy of the Actuarial Funding Certificate and Funding Standard Reserve Certificate both with an effective date of 1st May 2022, Actuary's Statement at end 2022 and the Report on Actuarial Liabilities at end 2020 are on pages 19 to 24 of this report.

Solvency Test

This is covered in detail in Section 1 under "Pension Increases".

Main financial drivers for the funding position

One of the key drivers in determining the financial health of a pension scheme is the value of its assets and the expected long-term return from those assets. In determining the strategic mix of assets in which to invest to achieve the Fund's target return, the Trustees seek to manage the inherent volatility in asset values through a diversified portfolio. Nevertheless, in order to achieve the required long-term return, the Trustees must invest in appropriate return generating assets. In the Triennial Actuarial Valuation at the end of 2020, the Trustees targeted a long-term return of 3.4%. This was increased to 3.7% in the Interim Valuation at the end of 2021 due solely to the increase in core bond yields over 2021. This was further increased to 5.25% at the end of 2022 again due to the increase in interest rates over the year. This is a challenging target to achieve given the economic and investment backdrop. The Trustees also have to overlay this with a need to move to more matching (relative to the Scheme's liability) assets such as bonds and credit to lower interest and inflation rate sensitivity given the maturity of the Scheme.

Another key driver is the level of interest rates and inflation levels. Lower interest rates generally results in lower discount rates which increases the present value of liabilities. Interest rates since the early 1980's have declined significantly driven by falling growth, inflation and productivity levels and action by central banks globally. However, they have been increasing for the past 3 years largely on account of higher inflation. Higher inflation results in higher liabilities. Some commentators now believe that we are in a world of higher inflation driven by ESG, deglobalisation and low unemployment rates (driving up wages). Others believe that inflation will revert back to central bank target levels over the next few years. A really important factor going forward will be how these two factors behave in relation to each other. All these factors are assessed in the Actuarial Valuation. Actuarial valuations use market assumed levels of inflation.

Life expectancy is another important input into the Actuarial Valuation. Future mortality assumptions were reduced by a few months in the Valuation at the end of 2020 as we outlined in the last two year's Annual Report, in light of studies from the Continuous Mortality Investigation (CMI) and Mercer best practice. Future life expectancy for a member currently aged 65 is now assumed at 22.3 years for a male and 24.1 for a female. While this is a disappointing outcome for members and society generally, the reduction in mortality assumptions lowers pension liabilities.

Actuarial Funding Certificate

An tÚdarás Pinsean
The Pensions Authority

SCHEDULE BD

Article 4

ACTUARIAL FUNDING CERTIFICATE

THIS CERTIFICATE HAS BEEN PREPARED UNDER THE PROVISIONS OF SECTION 42(1) OF THE PENSIONS ACT 1990 (the ACT) FOR SUBMISSION TO THE PENSIONS AUTHORITY BY THE TRUSTEES OF THE SCHEME

SCHEME NAME: ESB Defined Benefit Pension Scheme

SCHEME COMMENCEMENT DATE: 01/04/1943

SCHEME REFERENCE NO.: PB1699

EFFECTIVE DATE: 01/05/2022

EFFECTIVE DATE OF PREVIOUS CERTIFICATE (IF ANY): 31/12/2021

On the basis of information supplied to me, having complied with any guidance prescribed under section 42(4)(b) of the Act and, subject thereto, having regard to such financial and other assumptions as I consider to be appropriate, I am of the opinion that at the effective date of this certificate:-

(1) the resources of the scheme, which are calculated for the purposes of section 44(1) of the Act to be €5,567,000,000.00, would have been sufficient if the scheme had been wound up at that date to provide for the liabilities of the scheme determined in accordance with section 44(1) of the Act which, including the estimated expenses of administering the winding up of the scheme, amount to €4,628,000,000.00, and

(2) €0.00 of the resources of the scheme referred to in paragraph (1) comprise contingent assets, in accordance with and within the meaning of the guidance issued by the Authority and prescribed under section 47 of the Act.

I, therefore, certify that as at the effective date of this certificate the scheme satisfies the funding standard provided for in section 44(1) of the Act.

I further certify that I am qualified for appointment as actuary to the scheme for the purposes of section 51 of the Act.

Signature: Liam Quigley **Date:** 08/06/2022

Name: Mr Liam Quigley **Qualification:** FSAI

Name of Actuary's: Employer/Firm Mercer (Ireland) Limited **Scheme Actuary Certificate No.** P044

Submission Details

Submission Number: SR2918464 **Submitted Electronically on:** 08/06/2022

Submitted by: Liam Quigley

Funding Standard Reserve Certificate

An tÚdarás Pinsean
The Pensions Authority

SCHEDULE BE

Article 4

FUNDING STANDARD RESERVE CERTIFICATE

THIS CERTIFICATE HAS BEEN PREPARED PURSUANT TO SECTION 42(1A) OF THE PENSIONS ACT 1990 (the ACT) FOR SUBMISSION TO THE PENSIONS AUTHORITY BY THE TRUSTEES OF THE SCHEME

SCHEME NAME: ESB Defined Benefit Pension Scheme

SCHEME COMMENCEMENT DATE: 01/04/1943

SCHEME REFERENCE NO.: PB1699

EFFECTIVE DATE: 01/05/2022

EFFECTIVE DATE OF PREVIOUS CERTIFICATE (IF ANY): 31/12/2021

On the basis of information supplied to me, having complied with any guidance prescribed under section 42(4)(b) of the Act and, subject thereto, having regard to such financial and other assumptions as I consider to be appropriate, I am of the opinion that at the effective date of this certificate:-

(1) the funding standard liabilities (as defined in the Act) of the scheme amount to €4,628,000,000.00,

(2) the resources of the scheme (other than resources which relate to contributions or a transfer of rights to the extent that the benefits provided are directly related to the value of those contributions or amount transferred (DC resources)), calculated for the purposes of section 44(1) of the Act amount to €5,567,000,000.00,

(3) €1,285,000,000.00 , of the amount referred to in paragraph (2) (subject to a maximum of an amount equal to the funding standard liabilities) is invested in securities issued under section 54(1) of the Finance Act 1970 (and known as bonds), securities issued under the laws of a Member State (other than the State) that correspond to securities issued under section 54(1) of the Finance Act 1970, cash deposits with one or more credit institutions and such other assets (if any) as are prescribed under section 44(2)(a)(iv) of the Act,

(4) the amount provided for in section 44(2)(a) of the Act (Applicable Percentage x ((1) minus (3)) is €334,000,000.00,

(5) the amount provided for in section 44(2)(b) of the Act, being the amount by which the funding standard liabilities of the scheme would increase if the interest rate or interest rates assumed for the purposes of determining the funding standard liabilities were one half of one per cent less than the interest rate or interest rates (as appropriate) assumed for the purposes of determining the funding standard liabilities less the amount by which the resources of the scheme (other than DC resources) would increase as a result of the same change in interest rate or interest rates is €122,000,000.00,

(6) the aggregate of (4) and (5) above amounts to €456,000,000.00, and

(7) the additional resources (as defined in the Act) of the scheme amount to €939,000,000.00, of which, in accordance with and within the meaning of the guidance issued by the Authority and prescribed under section 47 of the Act, €0.00 comprises contingent assets and €0.00 of such contingent assets comprise an unsecured undertaking.

I therefore certify that as at the effective date of the funding standard reserve certificate, the scheme does hold sufficient additional resources to satisfy the funding standard reserve as provided in section 44(2) of the Act.

I further certify that I am qualified for appointment as actuary to the scheme for the purposes of section 51 of the Act.

Signature:	Liam Quigley	**Date:**	08/06/2022
Name:	Mr Liam Quigley	**Qualification:**	FSAI
Name of Actuary's: Employer/Firm	Mercer (Ireland) Limited	**Scheme Actuary Certificate No.**	P044

Submission Details

Submission Number:	SR2918465	**Submitted Electronically on:**	08/06/2022
Submitted by:	Liam Quigley		

Report on Actuarial Liabilities

The ESB Defined Benefit Pension Scheme ("the Scheme")

REPORT ON ACTUARIAL LIABILITIES

Under Section 56 of the Pensions Act, 1990 and associated regulations, the trustees of defined benefit pension schemes are required to have a valuation of the scheme prepared by the Scheme Actuary at least once every three years. I completed the most recent formal actuarial valuation as at 31 December 2020.

The primary purpose of the valuation is to set out the funding level at the valuation date on the basis that the Scheme continues to operate indefinitely and, on the basis of this analysis, confirm whether the finances of the Scheme are in surplus, in deficit or in balance. This is considered by comparing the value of the Scheme's accumulated assets plus the present value of future anticipated contributions with the value of its liabilities. Liabilities for this purpose include past service (benefits already accrued) and future service (benefits yet to be accrued). The funding level emerging from the 31 December 2020 valuation was as follows:

	€ millions
Scheme Resources	
Accumulated Fund at 31/12/2020	5,171
Value of Future Anticipated Contributions	577
Total Value of Scheme Resources	5,748
Scheme Liabilities	
Past Service Liabilities	5,168
Future Service Liabilities	613
Total Service Liabilities	5,781
Scheme Funding Level	
Excess of Liabilities over Scheme Resources	33
Funding Level	99.4%

On the basis of this outcome, it was considered that the Scheme's assets and liabilities were broadly in balance at the valuation date.

Valuation Method & Assumptions

The value of the liabilities and future contributions were calculated by firstly projecting the benefits and contributions payable in the future, making assumptions in relation to unknown future outcomes such as inflation and mortality rates. The resultant projected cashflows were then discounted to the valuation date to arrive at a single capitalised value.

The valuation assumptions were determined by the Scheme Actuary following consultation with the Trustees. A summary of the significant actuarial assumptions used to determine the liabilities are as follows (full details are provided in the Scheme's triennial actuarial report):

Principal assumptions used in 31 Dec 2020 valuation	
Financial assumptions	***% pa***
Discount rate	3.40%
CARE revaluation	2.35%
Pension Increases	1.35%
Salary Increases	2.85%
Demographic assumptions	
Mortality in retirement	Mercer best practice basis
Average Assumed Retirement Age	64.1

It should be borne in mind that a valuation is only a snapshot of a scheme's estimated financial condition at a particular point in time; it does not provide any guarantee of future financial soundness of a scheme. Over time, a scheme's total cost will depend on a number of factors, including the amount of benefits paid, contributions paid in and the amount earned on any assets invested to pay benefits.

The next valuation is expected to be completed with an effective date of 31 December 2023.

Liam Quigley

Liam Quigley
Fellow of the Society of Actuaries in Ireland
Scheme Actuary Certificate No. P044

6 August 2021

Actuary's Statement

Mercer welcome to brighter

The ESB Defined Benefit Pension Scheme (Pensions Authority Reference Number 1699)

Actuary's Statement for the year ended 31 December 2022

The most recent Actuarial Funding Certificate completed in respect of The ESB Defined Benefit Pension Scheme (the "Scheme") had an effective date of 1 May 2022. That certificate confirmed that the Scheme satisfied the Funding Standard set out in Section 44(1) of the Pensions Act, 1990.

The most recent Funding Standard Reserve Certificate for the Scheme was also completed with an effective date of 1 May 2022. That certificate confirmed that the Scheme satisfied the Funding Standard Reserve laid down in Section 44(2) of the Pensions Act, 1990.

I have completed a review of the financial condition of the Scheme as at 31 December 2022. Based on that review, I am reasonably satisfied that the Scheme continued to meet the Funding Standard and the Funding Standard Reserve at that effective date.

Liam Quigley

Liam Quigley, FSAI
Practicing Certificate Number P044
Date: 3 March 2023

SECTION 3 INVESTMENTS

Overview

The US, and to some extent European economies, entered 2022 with a lot of momentum. Easy monetary policies had worked, transitioning economies from collapse (post the outbreak of Covid) to extremely high nominal (i.e. including inflation) growth, high nominal spending and income growth that was outpacing supply and producing inflation. The policies had also produced a layer of excess liquidity that drove asset prices higher and left a store of liquidity or cash in the hands of people and the financial system.

Central banks, particularly the US Federal Reserve System (the "Fed"), faced the decision to either tighten at a much faster rate than discounted or risk the growing inflation pressures becoming entrenched. The effects of Russia's invasion of Ukraine worsened the already dire inflation picture. The Fed chose tightening at a rapid pace. The speed and magnitude of the monetary tightening of 2022 were among the most aggressive in history. Every movement by the Fed and other central banks was essentially the only thing driving markets, with almost every asset moving in line with its relationship to real interest rates (excluding inflation). In the end, the markets priced in the upward movement in real yields.

The tightening's impact on markets was big and pervasive, but its impact on economies has not yet been fully felt, at least by the end of 2022. The effects are probably coming, and if they don't, then more tightening will be required to bring wage inflation down to a level that is consistent with sustainably achieving inflation targets. There is several changes that must occur for inflation to rest sustainably near the 2% level, most of which are not priced in. It has in the past been associated with a fall in nominal spending growth and lower wage inflation via a higher unemployment rate.

Fund Return

2022 was a challenging year for most asset classes given the significant increase in interest rates and inflation combined with the geopolitical environment with equities and bonds experiencing falls of 15% to 30%. The return over the past 3 years was 2.4% p.a., while over the longer term, the Fund returned 3.2% p.a. and 6.0% p.a. over the past 5 and 10 years respectively. Given the increase in yields, the long-term return target was increased to 5.25% in 2023 from 3.7% in 2022 on an actuarial basis.

Table 7 Fund Returns to end 2022

	2022	3 Years p.a.	5 Years p.a.	10 Years p.a.
Fund Return	-4.5%	2.4%	3.2%	6.0%

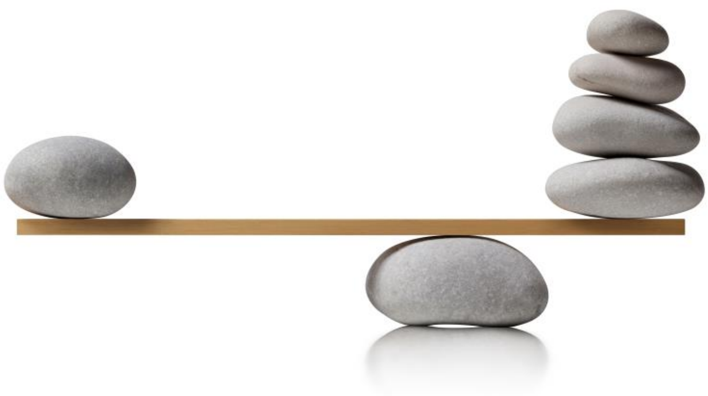


Table 8 Index Returns to end 2022

Returns to End 2022	2022	3 Years p.a.	5 Years p.a.	10 Years p.a.
Equities				
FTSE World	-15.3%	5.6%	6.7%	10.0%
Bonds				
EU Sovereign AAA (15+ Yr)	-36.1%	-12.9%	-4.9%	0.1%
EU Sovereign Inflation Linked	-18.8%	-4.8%	-2.4%	0.2%
EU Corporates (5+ Yr)	-20.6%	-6.7%	-2.6%	1.0%
Other				
Commodities	26.0%	10.5%	6.5%	-3.3%
Fund of Hedge Funds	1.0%	5.1%	4.2%	4.2%
€/$	-5.8%	-1.6%	-2.3%	-2.1%
€/£	5.2%	1.5%	-0.1%	0.9%

The main developments in the major asset classes included the following:

- Global Equities

Equities suffered losses over the course of 2022. In the first half of the year, significant central bank tightening led to a decline in equity markets of the order of 20-25%, due largely to the direct impact on the risk-free discount rate and to a lesser extent to the indirect impact on market participants' outlook for the economy and earnings. In the second half of 2022, some of the more acute pressures on inflation began to fade while growth remained resilient, supported by healthy balance sheets and pent-up demand even as tightening began to percolate through the economy. Market participants saw these outcomes as increasing the possibility of a soft landing, which led to some bear market rallies that occurred coincident with interest rate declines driven by expectations of easier Fed policy. These shifts were exacerbated by reversals in some of the most pessimistic positioning among some of the fast-moving players within the equity market. These rallies have been sizable to date.

It's noteworthy that equity returns were not generally pricing much of a fall in earnings expectations over the year. Most of the fall in markets was due to the rise in interest rates or discount rates. By the start of 2023, market pricing remains consistent with a soft landing - only a moderate slowing in growth and a pause in earnings, but not a significant decline. Meanwhile, central banks have stated a continued commitment to remaining tight until inflation comes back down to their targets.

Looking across countries, there were significant divergences in returns, with Japan and the UK outperforming on a relative basis and the US and China underperforming. Significant divergences in cyclical positioning, shifts in monetary policy, and currency movements were among the major drivers of differential returns.

- Bonds

Over the course of 2022, world central banks in the developed world began to tighten aggressively in response to high and stubborn inflation, with many central banks hiking in 0.5% to 1% increments over the course of the year. Towards the end of 2022, central banks were beginning to slow their pace of tightening, as they judged the current level of interest rates to be neutral or marginally restrictive. Central banks have stated that rates will likely need to remain restrictive for some time in order to ensure inflation will fall sustainably toward their targets. This is at odds with the pivot toward easing that was priced into markets early in 2023, where short term interest rates in economies that tightened aggressively, like the US, were priced to reach a peak and then decline in the coming years.

Every developed economy, with the exception of Japan, saw significant increases in short rates over the year. By year end, the US delivered substantially more tightening than the Eurozone or the UK in the face of inflationary pressures. Japan remained the outlier among its developed world peers, keeping rates near zero.

Developed world bond yields sold off significantly in 2022, along with short rates, due to central bank tightening. This move was broad-based during the first half of the year and came primarily from rising real (inflation adjusted) yields as markets priced in that more tightening by central banks would keep inflation expectations anchored. Japan was an exception for most of the year, but in December, the Bank of Japan adjusted its yield curve control policy to a wider yield band as core inflation began to pick up and the government bond market suffered from illiquidity. This policy shift could potentially indicate a broader retreat from easy policy in the months ahead.

In the latter part of the year, the largest bond markets sold off but with significant volatility, switching between rallies as inflation began to moderate, with markets pricing that central banks would not have to tighten as much as initially feared, and subsequent reversals as inflation remained stubborn and central banks continued to signal that they would tighten aggressively to fight it.

- Credit (including Emerging Market bonds)

Corporate credit spreads widened over the course of the year. Corporate credit sold off in tandem with the equity market, with the liquidity squeeze caused by monetary tightening driving a sell-off during the first nine months of 2022 and a subsequent rally as conditions eased. Emerging markets were far more aggressive than developed markets in tightening in the face of inflation, setting themselves up to ease and rallying back strongly over the last few months of the year.

- Commodities

Commodities generally outperformed in 2022 due to strong nominal demand and some significant supply disruptions.
Oil rose over 40% in the first half of the year, as markets priced in potential disruptions in Russian production at a time when demand was already sharply outpacing supply. This extreme price move cut into demand, and the increase in supply (largely from OPEC+) caused the market to move from a steep deficit to a surplus, leading to a partial reversal in prices in the second half of the year. European natural gas prices rallied sharply in 2022, driven by Russia cutting over 75% of its natural gas exports to the region. Prices peaked in October, then moderated due to a mix of demand destruction and warm weather. As natural gas is difficult to transport, the US market was less affected, though US prices were still up over the year.

Most industrial metals were up moderately earlier in the year. From the peak, prices declined due to a recovery in Chinese supply and substantial falls in demand, specifically from Chinese housing, retail sales, and export sectors. Of the metals, nickel performed the best, partly due to an increase in its use in batteries and tighter battery-grade supply.
Grains markets rallied dramatically at the start of the year on concerns about supply from the Russia-Ukraine war. This later reversed, as the contraction in China's import demand eased the imbalance in the market and Ukrainian exports outperformed expectations.

Gold prices ended the year flat (in US terms) but with a fair amount of volatility over the year. The price movements reflected the tug-of-war between the supportive factors of high inflation and geopolitical risk increasing the attractiveness of alternate stores of wealth, versus the broad downward pressure on financial assets created by the rapid withdrawal of liquidity experienced in 2022. That liquidity pullback, as reflected in the sharp rise in US real yields, has been a drag on gold, but relative to the magnitude of that rise in real yields, gold has been fairly resilient when compared to other financial assets. The second half of the year saw a big move in global central banks buying gold, which has been a support.

- Property

Global investment volumes fell sharply in the final quarter of 2022 compared to the same period a year ago, after a strong start to the year. The shift to higher interest rates, and borrowing costs, coupled with an uncertain economic outlook led to a sharp reduction in transactional activity. Lower liquidity is a natural byproduct of market volatility as owners are reluctant to sell at lower prices than previously guided and buyers are tempted to hold out for a discount. Despite reduced liquidity, valuers did react quickly to factor in higher rates and capital values came under pressure.

Valuation adjustments were uneven. In general, low yielding assets experienced the sharpest declines. As such, low yielding industrial and residential assets were affected more than higher yielding retail with offices somewhere in between. Differences by geography were evident too, but broadly the same trends applied globally with lower yielding regions most severely impacted. The UK and Europe devalued quickly while the US showed softer initial adjustments with stronger growth assumptions, in general, able to partially offset outward yield adjustments.

In Asia-Pacific, property values were relatively more stable. The region took longer to recover from Covid with China's economy just reopening in early 2023. As a result, there is optimism that an economy in recovery phase paired with limited new supply should support real estate fundamentals.

- Currencies

In 2022, the US dollar rallied 8% versus developed world currencies, driven by tightening global dollar liquidity. The resilience of the US economy to aggressive Fed tightening created expectations of more tightening, furthering the continued dollar rally. Relatively weaker conditions in other developed countries led to comparatively easier policy outside the US, which also supported the dollar. In recent months, some of the dollar rally has unwound as tightening expectations moderated.

The Euro and British pound saw high volatility and ended the year down 6% and 11%, respectively, against the dollar. The rise in energy prices severely weakened the EU's and the UK's external balances, as they were forced to increase notional imports. At the same time, domestic conditions weakened as higher energy prices damaged manufacturing activity. The policy response of pursuing easy monetary policy and expanding fiscal stimulus into an inflationary situation made their assets less attractive at a time when their external financing needs were growing, as evidenced by the market reaction to the announcement of a fiscal expansion in the UK. The Euro and the Pound retraced over half of their losses later in the year as the energy crisis moderated, the UK walked back some of its fiscal expansion, and global liquidity increased.

Fund's Strategic Asset Allocation

As noted in Section 1, given the significant moves in asset class returns over 2022, the improvement in the Scheme's solvency ratios and to review the Fund's derisking program, the Trustees undertook a mini strategy review in late 2022/early 2023 to ensure that the investment strategy agreed in 2021 was still appropriate. A number of small changes were agreed including the following items (the SIPP in Section 4 has more details):

- Amalgamation of the underlying assets in the inflation sensitive asset portfolio into the rest of the portfolio. This involved moving forestry into the Property/Forestry Portfolio, moving the Wellington Inflation Hedges Fund into the Multi Asset Portfolio and the Vaneck Gold Miners equity fund into Equities. A new allocation to the ILIM (Irish Life Investment Managers) listed infrastructure fund was made in the Infrastructure portfolio.
- The strategic allocation to matching/defensive assets was increased from 19% to 25% while the growth assets strategic allocation was reduced from 81% to 75%. Furthermore, the Trustees also agreed a medium term 2030 target of 56% in the matching portfolio, should conditions allow, to better reflect the maturity of the Scheme.
    - Within the matching/defensive portfolio, the strategic allocation to Euro Corporate Bonds was increased from 4% to 10%.
    - Within the growth portfolio, the strategic allocation to Equities increased by 1%, Infrastructure increased by 2%, Multi Asset Funds reduced by 2%, Property/Forestry

increased by 2% and the absorption of the Inflation Sensitive Portfolio (9%) to other parts of the portfolio.

- The Trustees agreed to maintain their interest rate and inflation hedges at this time.

The Fund's asset allocation changes over the year is shown in Table 5 Asset class Target and Actual Allocations. The underlying managers in the multi asset funds themselves invest in a range of bonds, equities and other asset classes. The Gateway Trust is included in "Cash & Other". The medium-term target allocation and allocation ranges represent where the Trustees are moving towards in terms of asset allocation which will take time in some cases given the illiquidity of certain assets like property or infrastructure.

The main changes in the Fund's asset allocation over 2022 included the following:

- A 5% reduction in the allocation to Multi Asset Fund largely arising from the removal of a Bridgewater portfolio.
- A 4% reduction in the allocation to Equities arising from the Fund's derisking program and a redesign of the equity portfolio which removed several investment managers (Magellan, Epoch and Capula) and allocated some of the proceeds to passive mandates with ILIM.
- A 3% increase in the allocation to Euro Corporate Bonds arising from the Fund's derisking programme.
- A 2% increase in the allocation to Credit from a new exposure to Emerging Market Debt (hard currency) and funding previously agreed commitments.
- A 2% increase in the allocation to infrastructure which reflects funding previously agreed commitments and the transfer of listed infrastructure from equities to infrastructure.

Table 9 Asset Allocation vs Target Allocation

Asset class Allocations	Strategic Asset Allocation	Actual Allocation At End 2022	Actual Allocation At End 2021	Change over 2022
Matching/Defensive Assets	25%	23%	20%	+3%
Cash	3%	4%	3%	+1%
Euro Corporate Bonds	10%	7%	4%	+3%
Government Bonds/LDI	12%	12%	13%	-1%
Performance Assets	75%	77%	80%	-3%
Credit	18%	17%	15%	+2%
Equities	18%	15%	19%	-4%
Infrastructure	13%	10%	8%	+2%
Property/Forestry	10%	14%	13%	+1%
Hedge Funds	9%	9%	9%	0%
Multi-Asset	5%	10%	15%	-5%
Private Equity	2%	2%	1%	+1%

2022 Fund performance relative to Target Return

The Fund's return of -4.5% in 2022 was behind its 2022 target of 3.7%. Positive contributions coming from hedge funds, property, infrastructure, credit and private equity were not enough to make up from the significant negative contributions from government and investment grade corporate bonds and equities over the year. The following table shows the returns of the various asset classes over 2022.

Table 10 Asset Class Return

Asset class	2022 Return
Matching/Defensive Assets	
Cash	-0.7%
Euro Corporate Bonds	-14.5%
Government Bonds &LDI	-33.7%
Performance Assets	
Credit	3.0%
Multi-Asset	-0.8%
Property/Forestry	3.8%
Equities	-6.3%
Hedge Funds	7.6%
Infrastructure*	8.4%
Private Equity	8.1%

* This includes all of unlisted infrastructure investments and the ILIM listed infrastructure fund (since 2022 inception) but excludes Magellan (which was only held for a small portion of the year)

Appointment of Investment Managers

As outlined in the Statement of Investment Policy Principles (Section 4), the Trustees appoint investment managers with a mix of approaches and investment styles in order to optimise the required return for an acceptable level of risk. The Fund employs professional managers with both active and passive mandates. Passive management, where the investment manager is expected to replicate the return for the agreed index or benchmark, is a cost-effective way of achieving market returns and approximately 33% of the Fund's assets (including passively held equity exposures, some bonds (Irish, Emerging Market and corporate exposures) and the Bridgewater All Weather Fund) are managed in this way. Active managers are expected to outperform their agreed benchmark over an appropriate period and to add value after costs over the agreed benchmark or index return. The Trustees monitor the investment managers continually with the help of their advisors.

Investment Manager Performance 2022

Cash

While interest rates rose post summer time, cash returns were still negative in 2022 (-0.7%). However, some holdings in other currencies added slightly to the overall return. Cash is maintained to pay pensions, as a source of liquidity and to fund commitments made and to cover any cashflows on the various hedging programs. The cash weight at year end was 4.3%.

Investment Grade Corporate Bond Portfolio

An allocation was made to European Investment Grade Corporate Bonds in 2021 after certain derisking triggers (based on interest rates or inflation rates) were hit. This was increased in 2022 as further derisking triggers were hit and its weight at year end was 6.6%. The overall return for the year was -14.5%. These bonds move in line with annuity prices which is one of the main inputs into the MFS valuation of the pensioner liabilities. For example, this bond portfolio moves up and down in line with liability movements helping to decrease the overall volatility of the solvency level. Higher interest rates result in a lower valuation of the Scheme's liabilities while higher interest rates results in a lower valuation of a bond portfolio and vice versa. In a year when there was a significant decrease in the liability valuation from higher interest rates, this fall in this portfolio is to be expected.

Government Bonds & Liability Driven Investing Portfolio

The government bonds portfolio is largely comprised of Irish inflation linked bonds which fell in value over the year as real yields rose despite inflation pricing rising. The LDI portfolio also fell in value driven by the large increase in interest rates over the year. This portfolio is made up of interest rate and inflation swaps linked to European inflation along with cash and cash like funds. Like the Investment Grade Corporate Bond Portfolio, this portfolio helps to ensure that a portion of the Fund's assets move in line with the Scheme's liabilities, thereby lowering the overall solvency volatility level.

Table 11 Government Bonds & Liability Driven Investing Portfolio

Manager	Weight At End 2022	Mandate	2022 Return
Directly Held	6.9%	Irish Government Bonds (including inflation linked)	-26.5%
Insight	5.1%	Liability hedging portfolio	-43.4%
Total Bonds/LDI	**12.0%**		-33.7%

Credit

Credit is comprised of a large number of mandates including bank bonds, mezzanine loans, senior loans, asset back securities and Emerging Market Debt. The size of this portfolio at year end was 16.9%.

Table 12 Credit Portfolio

Manager	Weight at End 2022	Mandate	2022 Return
Directly Held	0.7%	Irish bank bonds	-10.7%
Cardinal Fund 2	1.5%	Mezzanine Irish loans	6.2%
Dunport Fund 1	1.4%	Irish senior loans	6.0%
Dunport Fund 2	0.5%	Irish senior loans	0.0%
Tetrarch	1.1%	Irish senior loan backed by property exposure	3.1%
Alcentra	2.3%	European senior loans	-3.2%
ILIM	3.0%	Emerging Market Debt (Local)	-3.7%
ILIM	2.0%	Emerging Market Debt (Hard) (from April 2022)	-5.1%
Libremax	4.4%	Structured credit (Euro return*)	10.7%
Total Credit	**16.9%**		3.0%

**Libremax's return was boosted over the year by the strengthening US Dollar.*

Multi Asset Fund Managers

These funds invest across many different asset classes and use manager skill (alpha) to help lower their overall risk through diversification. They typically have lower levels of volatility and leverage than hedge funds. They returned -0.8% in 2022. The total return includes also includes the returns of another Bridgewater fund which was removed earlier in the year.

Table 13 Multi Asset Fund Portfolio

Manager	Weight at Year End	Mandate	2022 Return
Ruffer	3.4%	Absolute return fund	**4.5%**
Bridgewater All Weather	1.9%	Passive, balanced beta	**-24.9%**
Wellington	5.1%	Inflation Hedges Portfolio	**10.5%**
Total Multi Asset	**10.4%**		**-0.8%**

Property Managers

At the end of 2022, the Fund's investment in the Property and Forestry portfolio amounted to 14.5%. The return for this portfolio which includes exposures in Ireland, UK, Eurozone, US and Asia was 3.8%. The return below for CBRE includes the effect of the US Dollar which rose over the year.

Table 14 Property Portfolio

Manager	Weight at Year End	Mandate	2022 Return
Ardstone	0.5%	Irish Residential Property – build to sell	**28.5%**
Ardstone	0.4%	Irish Residential Property – income fund	**1.5%**
Tetrarch	1.8%	Irish Commercial Property	**-5.2%**
IPUT	4.7%	Irish Commercial Property	**-4.3%**
Tetrarch	1.5%	Irish Aparthotel Fund	**-5.0%**
CBRE	3.4%	Global Property	**10.9%**
IFORUT	2.3%	Irish Forestry Fund	**11.2%**
Total Property	**14.5%**		**3.8%**

Equity Managers

At the end of 2022, 14.5% of the Fund was invested in equities or equity funds which returned- 6.3% during the year. The Fund's equity investments are managed by external specialist equity managers.

Table 15 Equity Portfolio

Manager	Weight at Year End	Mandate	2022 Return
Cantillon	3.1%	Active, global, quality style	**-19.1%**
Mercer	1.2%	Passive, Emerging Markets	**-15.0%**
ILIM	1.0%	Passive, Emerging Markets Fundamental	**-10.1%**
ILIM	1.9%	Passive, Eurozone (since March 2022)	**-3.8%**
ILIM	3.6%	Passive, Global Fundamental (since March 2022)	**-3.3%**
Vaneck	3.8%	Gold mining exchange traded fund	**-3.3%**
Total Equity	**14.5%**		**-6.3%**

Hedge Fund Managers

Hedge funds invest in a global spread of investments and actively switch between investments depending on their macro view or signal from their systems. Investments include equities, fixed interest, rates, currencies and commodities typically using derivative exposures. Total exposure to hedge funds at year end was 8.9%. These funds have a very low equity beta and so perform differently to other assets in the Fund which benefits the portfolio through diversification. CTA stands for Commodity Trading Advisor which is a specialist hedge fund strategy aiming to benefit from trends in markets. The hedge fund portfolio returned 7.6% in 2022.

Table 16 Hedge Fund Portfolio

Manager	Weight at Year End	Mandate	2022 Return
Abbey	0.8%	Fund of Funds CTA	19.2%
Aksia	2.0%	Fund of Funds - Emerging Markets bias mandates	-3.6%
Aksia	1.2%	Fund of Funds – Global bias mandates	9.3%
Man	2.5%	AHL Alpha (CTA) & Numeric Quality Long/Short & AHL Macro	11.5%
Bridgewater	2.4%	Global Macro	6.0%
Total Hedge Funds	**8.9%**		**7.6%**

Infrastructure Managers

The Fund's infrastructure investments are made through a number of limited partnership structures and a listed segregated account which comprised 10.2% of the Fund at year end. The Fund's infrastructure investments returned 8.4% in 2022.

Table 17 Infrastructure Portfolio

Manager	Weight at Year End	Mandate	2022 Return
Macquarie	2.0%	Fund 6 - European Infrastructure	**4.1%**
Macquarie	2.1%	Supercore Fund - OECD Infrastructure (partial year)	**6.6%**
Blackrock	1.5%	European Renewable Infrastructure	**16.0%**
JP Morgan	1.9%	Global Infrastructure	**4.5%**
Arcus	1.0%	Arcus Fund 2 - European Infrastructure	**31.5%**
ILIM	1.6%	Listed Global Infrastructure (since March 2022)	**1.1%**
Total Infrastructure*	**10.2%**		**8.4%**

* Note there was also a legacy Macquarie Fund 2 valued at 0.1% at year end which is in wind down. Also excludes Magellan which was held for a small portion of 2022.

Private Equity

The Trustees committed 2% of the Fund to private equity via the Cardinal Private Equity 2 Fund. These type of funds (e.g. private equity, venture capital) typically incur a "j" curve return profile due to material upfront costs of set up. At year end, 1.5% was invested in private equity which was up 8.1% in the year.

Currency Hedging Manager

The Trustees hedge foreign exposures over €50 million in a range of 25% to 100% which is managed by a currency overlay investment manager (PE). PE outperformed by 1.7% over the year relative to their 50% benchmark largely from under-hedging an appreciating US Dollar (relative to the benchmark).

ESG (Environmental, Social and Governance)

ESG investing is an approach to managing assets where investors explicitly acknowledge the relevance of environment, social and governance factors in their investment decisions as well as their own role as owners and creditors, with the long-term return of the investment portfolio in mind. There is no standard across the industry to breakdown environmental, social and governance issues. The Trustees worked with their consultants last year to determine their approach to ESG which is now contained in their Statement of Investment Principles and Policies (see Section 4). Under the EU Sustainable Finance Disclosures Regulation (SFDR), the Trustees must make the following disclosures:

- The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities and
- The Trustees continue to review the Plan's approach to sustainability risk considerations and their current approach is documented in the Statement of Investment Policy Principles.

While ESG is an evolving area and not all investment managers report on it currently, we do work with our investment managers to aggregate certain ESG statistics which we monitor periodically. We aim to be able to show details on carbon intensity and carbon footprint over the coming months and we are working with our investment managers on same.

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'). 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.

Investment objectives

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

- 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,
- Ensure that the level of risk taken in pursuit of this growth is acceptable in the context of failing 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 2022 was 5.25% p.a. (2.75% pa over expected 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 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 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 18 Medium-term Strategic Asset Allocation

Asset class	Strategic Target Allocation	Allocation Range	2030 Target Allocation
Matching/Defensive Assets	25%		56%
Cash	3%	0-10%	
Euro Corporate Bonds	10%	5-15%	
Bonds/LDI	12%	10-70%	
Performance Assets	75%		44%
Credit	18%	14-22%	
Multi-Asset	5%	0-10%	
Property/Forestry	10%	5-15%	
Equities	18%	14-22%	
Hedge Funds	9%	5-13%	
Infrastructure	13%	8-15%	
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 table also shows the desired medium term allocation 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 Scheme invests in defensive assets which are held in the portfolio to protect in times of market stress or volatility.

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') are potentially financially material for the value of the Scheme's investments. The Trustees invest in a range of investment vehicles. 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.

Exercise of Voting Rights and Shareholder Engagement Activity

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.

Policy Assessment and Monitoring

The Trustees will consider ESG, voting and engagement issues when appointing and reviewing their Scheme provider and/or investment manager (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.

The Trustees meet regularly with their investment managers and consider how ESG issues are taken 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. 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. 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. 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 30 September 2022 was calculated at €881 million and €882m 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 September 2022, the interest rate and inflation hedge ratios were 26% and 20% 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 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 Fund's 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. 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.

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.

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. It is on this basis that the Trustees appoint investment managers. In turn, 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.

The Trustees engage separate investment advisers to independently rate certain investment managers. In conjunction with this, quarterly 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), 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, 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.

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

Where available and required, investment managers publish information on how they consider the principal adverse impacts 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.

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.

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 June 2023 Trustee meeting.

SECTION 5 AUDITED FINANCIAL STATEMENTS

2022 Audited financial statements

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Trustees, officers and other information

Trustees, officers and other information *(continued)*

Solicitors	LK Shields 40 Upper Mount Street Dublin 2
	Matheson 70 Sir John Rogerson's Quay Dublin 2
	McCann Fitzgerald Riverside One Sir John Rogerson's Quay Dublin 2
ESB Gateway Trustees	Kieran Sweeney (Chairperson Oct 2022 to date) Tony Donnelly (Chairperson until Sept 2022) Anne Marie Kean Adrian Kelly Jeremiah Murphy Pat Naughton Peter Van Dessel (until Dec 2022) Anthony Walsh
Superannuation Committee	John Carton (Chairperson) Ann Carroll Adrian Fox Lorna Heron Sean Kelly Louise Murphy Margaret O'Connor John O'Sullivan Claire Quane David Sexton
Secretary to Superannuation Committee	James O'Loughlin Electricity Supply Board 27 Lower Fitzwilliam Street Dublin 2

Key Function Holders:

Risk	Krystle Healy Electricity Supply Board 27 Lower Fitzwilliam Street Dublin 2
Internal Audit	James O'Loughlin, Electricity Supply Board 27 Lower Fitzwilliam Street Dublin 2

Trustees, officers and other information *(continued)*

Investment managers

Abbey Capital Ltd
1-2 Cavendish Row
Dublin 1

ACT Venture Capital Limited,
6 Richview Office Park, Clonskeagh,
Dublin 14

Aksia LLC
599 Lexington Avenue
46th Floor
New York, NY 10022, USA

Alcentra Ltd
160 Queen Victoria St
London EC4V 4LA, United Kingdom

Arcus Infrastructure Partners LLP
6 Andrew Street, London, United Kingdom

Ardstone Capital
48 Fitzwilliam Square
Dublin 2

Blackrock Asset Management Ireland Ltd
JP Morgan House
IFSC
Dublin 1

Bridgewater Associates, LP
One Nyala Farms Road
Westport
CT 06880, USA

Cantillon Capital Management LLC
Eagle House, 108-110 Jermyn Street
London SW1Y 6EE, United Kingdom

Capula Investment Management LLP
8 Lancelot Place,
London,
SW7 1DR, United Kingdom

Trustees, officers and other information (continued)

Investment managers (continued)

Cardinal Capital Group Unlimited Company
Simmonscourt House
Simmonscourt Road
Ballsbridge
Dublin 4, Ireland

CBRE Global Investment Partners
64 North Row
London WIK 7DA, United Kingdom

Delta Partners,
Fujitsu Building, South County Business Park,
Leopardstown, Dublin 18

Dunport Capital Management DAC
31 Leeson Street,
Dublin 2

Epoch Investment Partners, Inc. (until Q2 2022)
640 Fifth Avenue, 19th Floor
New York, NY 10019, USA

Insight Investment,
160 Queen Victoria Street, London EC4V 4LA
United Kingdom

IPUT plc,
2 Hume Street,
Dublin 2

Irish Forestry Unit Trust Forestry Management Ltd,
Unit 5, Woodford Court, Woodford Business Park,
Santry,
Dublin 17

Irish Life Investment Managers
Beresford Court, Beresford Place,
Dublin 1

JP Morgan (IIF UK 1 LP)
277 Park Avenue 35th Floor New York,
NY 10172, USA

Libremax Capital LLC
600 Lexington Ave
19th Floor (at 52nd Street)
NY 10022, USA

Trustees, officers and other information (continued)

Investment managers (continued)

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28 Ropemaker Street,
London EC2Y 9HD, United Kingdom

Magellan Asset Management (until Q2 2022)
MLC Centre, Level 36, 19 Martin Place, Sydney NSW 2000, Australia

MAN Group
Riverbank House
2 Swan Lane
London, EC4R 3AD, United Kingdom

Mercer Global Investments Management Ltd
70 Sir John Rogerson's Quay
Dublin 2

P/E Global LLC
75 State Street, 31st Floor
Boston, MA 02109, USA

Ruffer LLP

80 Victoria Street
London
SW1E 5JL, United Kingdom

Seroba Kernal Life Sciences,
15 Molesworth Street,
Dublin 2

Tetrarch

2nd Floor, Europa House

Harcourt Street

Dublin 2

Wellington Management International Limited
Cardinal Place
80 Victoria Street
London SWIE 5JL, United Kingdom

Statement of Trustees' responsibilities

The financial statements are the responsibility of the Trustees. Pension legislation requires the Trustees to prepare financial statements for each year which show a true and fair view, in accordance with Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102), of the financial transactions of the Scheme during the year and of the disposition, at the end of the year, of the Scheme's assets and liabilities. For this purpose, liabilities do not include liabilities to pay pensions and other benefits after the end of the Scheme year. Pension regulations require the Trustees to make available to the Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year.

In preparing the financial statements, the Trustees are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- ensure the financial statements contain the information specified in the Occupational Pension Schemes (Disclosure of Information) Regulations (as amended), including a statement as to whether the financial statements have been prepared in accordance with the Statement of Recommended Practice: Financial Reports of Pension Schemes (Revised July 2018), subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Scheme will continue in operation.

The Trustees are required to act in accordance with the Electricity Supply Board (Superannuation) Act 1942 and subsequent acts, and the Scheme rules, within the framework of pension and trust law. The Trustees are responsible for ensuring that proper membership and financial records are kept. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls. Under pensions legislation the Trustees are also responsible for, and have appropriate procedures in place to ensure that, insofar as is reasonable, the contributions payable by the employer and members of the Scheme are received in line with section 58A of the Pensions Act 1990 where applicable, and otherwise within 30 days of the end of the Scheme year and also that contributions have been paid in accordance with the rules of the Scheme and the recommendations of the actuary.

On behalf of the Trustees

DocuSigned by:
Kieran Sweeney
K. Sweeney
Chairperson
28 July 2023 | 12:04 BST

DocuSigned by:
Anthony Walsh
A. Walsh
Trustee
28 July 2023 | 10:26 BST

28 July 2023

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF THE ESB DEFINED BENEFIT PENSION SCHEME

Report on the audit of the financial statements

Opinion on financial statements of The ESB Defined Benefit Pension Scheme ("the scheme")

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the scheme during the financial year ended 31 December 2022 and of the amount and disposition of the assets and liabilities (other than liabilities to pay pensions and other benefits in the future) at that date;
- have been properly prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Ireland' issued by the Financial Reporting Council; and
- include the information specified in Schedule A to the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 which is applicable and material to the scheme.

The financial statements we have audited comprise:

- the fund account;
- statement of net assets available for benefits; and
- the related notes 1 to 24 including a summary of significant accounting policies as set out in note 2.

The financial reporting framework that has been applied in their preparation is Irish pension law, the Statement of Recommended Practice - "Financial Reports of Pension Schemes" and FRS 102 'The Financial Reporting Standard applicable in the UK and Ireland' issued by the Financial Reporting Council ("financial reporting framework")

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described below in the "*Auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the schemes ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the trustees with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The trustees are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are expected to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

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INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF
THE ESB DEFINED BENEFIT PENSION SCHEME

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are expected to report that fact.

We have nothing to report in this regard.

Responsibilities of trustees

As explained more fully in the Statement of the Trustees' Responsibilities the trustees are responsible for the preparation of the financial statements giving a true and fair view, for ensuring that contributions are made to the scheme in accordance with the scheme's rules and the recommendation of the actuary and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on IAASA's website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf.

This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Occupational Pension Scheme (Disclosure of Information) Regulations 2006

In our opinion:

- the contributions payable to the scheme during the financial year ended 31 December 2022 have been received by the trustees within thirty days of the end of the scheme financial year; and
- the contributions have been paid in accordance with the scheme rules and the recommendation of the actuary.

Use of our Report

This report is made solely to the scheme's trustees, as a body, in accordance with Section 56 of the Pensions Act, 1990. Our audit work has been undertaken so that we might state to the scheme trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Glenn Gillard
Partner
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House
29 Earlsfort Terrace
Dublin

28 July 2023

Fund Account

Fund account *for the year ended 31 December 2022*	*Note*	2022 €'000	2021 €'000
Contributions and Benefits			
Contributions receivable			
Employer	*3*	34,101	40,035
Employee	*3*	18,995	19,952
Transfers in		122	147
		53,218	60,134
Benefits and payments to leavers			
Benefits paid or payable	*4*	(276,525)	(254,452)
Payments to and on account of leavers	*5*	(3,312)	(2,582)
		(279,837)	(257,034)
Net (Withdrawals) from dealings with members		(226,619)	(196,900)
Return on investments			
Investment income	*6*	141,083	104,086
Change in market value of investments	*11*	(372,869)	456,112
Investment management expenses	*7*	(6,821)	(6,265)
Net (losses) / returns on investments		(238,607)	553,933
Net (decrease) / increase in fund during the year		(465,228)	357,033
Net assets of the fund at beginning of year		5,528,428	5,171,395
Net assets of the fund at end of year		5,063,200	5,528,428

The notes on pages 12 to 30 form part of the Financial Statements.

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K. Sweeney
Chairperson

DocuSigned by: Anthony Walsh
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A. Walsh
Trustee

DocuSigned by: James O'Loughlin
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J. O'Loughlin
Secretary

Statement of Net Assets

Statement of Net Assets (available for benefits) *at 31 December 2022*	Note	2022 €'000	2021 €'000
Investment Assets:			
Equities	*11*	**705,214**	910,151
Bonds	*11*	**477,098**	605,816
Pooled investment vehicles	*9 & 11*	**3,788,617**	3,966,546
Derivatives	*10 & 11*	**7,513**	3,423
Cash	*11*	**54,481**	7,625
Other investment balances	*11*	**7,423**	8,907
		5,040,346	5,502,468
Investment Liabilities:			
Derivatives	*10 & 11*	**(516)**	(4,945)
Other investment balances	*11*	**(13,312)**	(21,557)
Total net investments		**5,026,518**	5,475,966
Current assets	*16*	**48,514**	63,672
Current liabilities	*16*	**(11,832)**	(11,210)
Net current assets		**36,682**	52,462
Net assets of the Fund at end of year		**5,063,200**	5,528,428

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and other benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Trustees' Report, the Report on Actuarial Liabilities, the Actuarial Certificates, the Actuary's Statement for the year ended 31 December 2022 included in the Annual Report and these financial statements should be read in conjunction with them.

The notes on pages 12 to 30 form part of the Financial Statements.

DocuSigned by:
Kieran Sweeney
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K. Sweeney
Chairperson

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Anthony Walsh
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A. Walsh
Trustee

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James O'Loughlin
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J. O'Loughlin
Secretary

Notes

forming part of the financial statements

1 Basis of preparation and constitution of the Scheme

The Financial Statements have been prepared in accordance with Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice (SORP) (revised June 2018), published by the Pensions Research Accountants Group.

The financial statements have been prepared in accordance with the Electricity Supply Board (Superannuation) Act, 1942 and subsequent amendments and statutory instruments 1943 - 2014.

The Fund is constituted under the regulations and shall be called the "The ESB Pension Fund". The fund consists of members and ESB contributions, transfers in and any other income. All benefits shall be paid from the Fund. The Trustees are responsible for the management of the Fund which holds all of the assets on behalf of the Scheme members. The term 'Fund' and 'Scheme' are used interchangeably throughout the Financial Statements, and should be deemed to refer to "The ESB Pension Fund".

The financial statements comply with the Occupational Pension Schemes (Disclosure of Information) Regulations, (as amended).

The financial statements summarise the transactions and net assets of the Scheme. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Scheme, which takes account of such liabilities, is dealt with in the Report on Actuarial Liabilities and the Actuarial Certificates, included in the Annual Report and these financial statements should be read in conjunction with them. The Scheme is no longer open to new members.

2 Accounting Policies

The significant accounting policies of the Scheme are as follows:

a) Investments

Investment assets and liabilities are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price or most recent transaction price is used.

Where quoted or other unit prices are not available, the Trustees adopt valuation techniques appropriate to the class of investment. Details of the valuation techniques and principal assumptions are given in the notes to the financial statements where used.

The methods of determining fair value for the principal classes of investments are:

i. Equities, bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
ii. Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the last price provided by the manager at or before the year end.

2 Accounting Policies (continued)

iii. Fixed interest securities are stated at their clean prices where they are available, i.e. excluding accrued income. Accrued income is accounted for within investment income.

iv. The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Trustees. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustment is made.

v. Derivatives are stated at fair value.

- Over the counter (OTC) derivatives are stated at fair value using pricing models and relevant market data as at the year-end date.
- Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.
- Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase of investments.

Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that impact current estimates.

- Key accounting estimates and assumptions

The Trustees make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. For the Scheme, the Trustees believe the only estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are related to the valuation of the Scheme investments and, in particular, those classified in Level 3 of the fair-value hierarchy. Explanation of the key assumptions underpinning the valuation of investments are included within (i) and (v) above and within notes 14 and 15.

b) Investment income

Dividends from quoted securities are accounted for on an accruals basis when the security is declared ex-div.

Interest is accrued on a daily basis, on fixed interest securities and cash balances.

Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.

2 Accounting Policies (continued)

Tax charges where applicable are accrued on the same basis as the investment income to which they relate.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Other investment management expenses are accounted for on an accruals basis and are shown separately within investment returns.

c) Foreign currencies

The functional and presentational currency of the Scheme is the Euro. Balances denominated in foreign currencies are translated into Euro at the rate ruling at the year-end date. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.

d) Contributions

Employee normal contributions are accounted for on an accruals basis when deducted from pay. Employer normal contributions which are expressed as a rate of salary are accounted for on the same basis as employees' contributions, otherwise they are accounted for in the period they are due. Employer other contributions are accounted for in accordance with the agreement under which they are being paid.

e) Payments to members

Pensions in payment are accounted for in the period in which they fall due for payment. Where there is a choice for members to take their benefits as a full pension or as a lump sum with reduced pension these retirement benefits are accounted for in the period in which the member notifies the Trustees of his/her decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving.

f) Expenses

Investment managers' fees are calculated as a percentage of the assets under management and are paid over by the Scheme. They are accounted for on an accruals basis. Administrative expenses, with the exception of certain professional and investment fees, are borne directly by the ESB. Fees for investment managers are based on a percentage of assets under management, calculated on a quarterly basis while some also have a performance fee element should performance exceed certain targets.

g) Transfers to and from other plans

Individual transfers in or out are accounted for when paid or received which is normally when member liability is accepted/discharged. All of the values are based on methods and assumptions determined by the actuary.

Group transfers are accounted for in accordance with the terms of the transfer agreement.

3 Contributions receivable

	2022 €'000	2021 €'000
Employer:		
Normal	**34,101**	35,630
Other*	-	**4,405**
	34,101	40,035
Employee:		
Normal	**18,867**	19,688
Other	**128**	264
	18,995	19,952

*Other Employer Contributions of €4.4m relate to a Voluntary Severance Scheme in 2021

4 Benefits payable

	2022 €'000	2021 €'000
Pensions	**245,664**	220,910
Commutations and lump sum retirement benefits	**30,171**	32,711
Lump sum death benefits	**690**	831
	276,525	254,452

5 Payments to and on account of leavers

	2022 €'000	2021 €'000
Refunds of contributions	**441**	490
Transfer to other schemes – individuals	**2,871**	2,092
	3,312	2,582

6 Investment income

	2022 €'000	2021 €'000
Income from equities	23,399	20,268
Income from bonds	53,246	19,335
Income from pooled investment vehicles:		
- Income from property unit funds	24,100	31,812
- Income from Infrastructure	24,346	13,708
- Other Income from credit and fee rebates	15,051	18,492
Income from Cash Instruments	941	471
	141,083	104,086

7 Investment Management expenses

	2022 €'000	2021 €'000
Investment and custody expenses (including irrecoverable Dividend Withholding Tax)	6,821	6,265
	6,821	6,265

8 Tax

The Scheme has been approved by the Revenue Commissioners as an "exempt approved scheme" under Section 774 of the Taxes Consolidation Act 1997 and as such its assets are allowed to accumulate free of income and capital gains taxes.

9 Pooled Investment Vehicles (PIVs)

The holdings of PIVs are analysed below:

Fund Type	2022 €'000	2021 €'000
Credit	1,090,575	1,049,322
Credit (loan note)	117,586	108,119
Forestry	114,207	104,814
Hedge Funds	447,148	476,598
Infrastructure	435,802	311,117
Multi Asset	352,373	622,630
Equity	252,158	445,250
Property	553,583	559,147
Venture Capital	1,039	1,169
Cash and liquidity	83,268	72,714
Bond	335,717	215,666
Pooled Fund	5,240	-
Derivatives (Equity)	(79)	-
	3,788,617	3,966,546

10 Derivatives

The Trustees use derivatives as part of their investment strategy. Summarised details of the direct exposure to derivatives held at the year-end are set out below. The derivatives are used by fund managers to:

(1) Hedge large currency exposure, or
(2) Seek out a return in currency markets

The currency hedging strategy was continued in 2022 in which some US Dollar, Sterling, Canadian Dollar, Australian Dollar and Japanese Yen currency exposures were hedged or managed in a portfolio of derivatives, managed by P/E Global LLC and Ruffer LLP.

Forward foreign currency

Type	Expires within	Nominal value	Asset €'000	Liability €'000
Sell GBP for EUR	3 Months	204,522,614	7,109	-
Sell AUD for EUR	3 Months	39,352,364	319	-
Sell USD for GBP	3 Months	33,105,000	-	(421)
Sell USD for EUR	3 Months	262,022,186	62	(11)
Others	3 Months	-	23	(84)
			7,513	**(516)**

11 Investment reconciliation

Reconciliation of investments held at the beginning and the end of the year:

	Value at 1 January 2022 €'000	Purchases at cost and derivative payments €'000	Sales proceeds and derivative receipts €'000	Change in market value €'000	Value at 31 December 2022 €'000
Equities	910,151	793,963	(927,238)	(71,662)	705,214
Bonds	605,816	217,583	(143,327)	(202,974)	477,098
Pooled investment vehicles	3,966,546	2,856,431	(2,952,544)	(81,816)	3,788,617
Derivatives (net)	(1,523)	108,552	(86,023)	(14,009)	6,997
Cash (incl Spot FX)	7,625	171,056	(121,774)	(2,426)	54,481
Net investment assets	**5,488,615**	**4,147,585**	**(4,230,906)**	**(372,887)**	**5,032,407**
Other Investment Balances	(21,557)	8,945	(700)	-	(13,312)
Accrued Income	8,907	-	(1,502)	18	7,423
	5,475,965	**4,156,530**	**(4,233,108)**	**(372,869)**	**5,026,518**

11 Investments (continued)

During 2016, The ESB Pension Fund acquired a controlling interest (97.75% of the equity and 100% of the debt) in Tetrarch, an Irish Collective Asset-Management Vehicle (ICAV). During 2019, a controlling interest (97.75% of the equity and 100% of the debt) was acquired in the Tetrarch Aparthotel ICAV. Also, during 2019, the ESB Pension Fund became the sole investor in the Insight LDI Active 38 Fund. The ESB Pension fund avails of the exemption from the requirement to prepare consolidated financial statements in accordance with FRS 102 Section 9.3 and 9.9 (b) for these investments. In 2021 The Trustees requested ILIM to set up EM RAFI fund inline EM RAFI index. As result the Trustees are sole investors in the fund. No new controlling interests were acquired during 2022. This is further detailed in Note 15.

12 Concentration of investments

Further investment in the ILIM Investment Grade Corporate Bond Fund during 2022 resulted in a year end holding of 6.6% of Net Assets (up from 3.9% in 2021). Other funds which are over 5% of Net Assets at year end were Wellington at 5.1% (up from 4.2% in 2021) and Insight LDI Fund at 5.1% of Net Asset at year end (4.1% in 2021).

13 Transaction costs

Included within the investments purchases and sales are direct transaction costs of €0.6m (2021: €0.4m) comprising fees, commissions and stamp duty. These costs are attributable to the key asset classes as follows:

	Fees €'000	Commission €'000	Stamp Duty €'000	2022 Total €'000	2021 Total €'000
Equities	424	125	-	549	435
Pooled Funds	15	33	-	48	-
Total	**439**	**158**	**-**	**597**	**435**

Transaction costs are also borne by the Scheme in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately reported.

14 Investment Fair Value Hierarchy

For financial instruments held at fair value the financial statements shall disclose for each class of financial instrument, an analysis of the level in the following fair value hierarchy into which the fair value measurements have been categorised. A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Classification	Measurement input
Level 1	An unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
Level 3	Level 3 is used predominantly for the Scheme's Credit, Forestry, Hedge Funds, Infrastructure, Multi Asset Funds, Property and Venture Capital investments. All of these are in investment funds which are mainly valued on a monthly or yearly basis by the investment manager. Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

14 Investment Fair Value Hierarchy (continued)

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
At 31 December 2022				
Bonds	92,193	384,905	-	**477,098**
Cash	54,481	-	-	**54,481**
Derivative	-	6,997	-	**6,997**
Equities (including exchange traded funds)	705,214	-	-	**705,214**
Pooled investment vehicles:				
Cash fund	-	83,268	-	**83,268**
Credit	-	300,438	790,137	**1,090,575**
Credit (loan note)		-	117,587	**117,587**
Forestry	-	-	114,207	**114,207**
Hedge fund*	-	48,576	398,572	**447,148**
Infrastructure	-	-	435,802	**435,802**
Multi-asset fund	-	255,767	96,606	**352,373**
Pooled Equities	-	173,552	78,605	**252,157**
Property	-	-	553,583	**553,583**
Venture Capital	-	-	1,039	**1,039**
Bonds	-	335,717	-	**335,717**
Derivatives (Equity)	-	(79)	-	**(79)**
Pooled Fund		5,240	-	**5,240**
	851,888	**1,594,381**	**2586,138**	**5,032,407**

*Some of the underlying hedge-funds in the Aksia portfolio (Hedge fund portfolio) have shareholder gates of 10%-50% attaching to sub-funds valued at €75.02m at 31 December 2022.

14 Investment Fair Value Hierarchy (continued)

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
At 31 December 2021				
Bonds	84,333	521,483	-	**605,816**
Cash	7,625	-	-	**7,625**
Derivative	-	(1,523)	-	**(1,523)**
Equities (including exchange traded funds)	910,151	-	-	**910,151**
Pooled investment vehicles:				
Cash fund	-	72,714	-	**72,714**
Credit	-	219,258	830,064	**1,049,322**
Credit (loan note)	-		108,119	**108,119**
Forestry	-	-	104,814	**104,814**
Hedge fund*	-	46,652	429,946	**476,598**
Infrastructure	-	-	311,117	**311,117**
Multi-asset fund	-	230,793	391,837	**622,630**
Pooled Equities	-	378,384	66,866	**445,250**
Property	-	-	559,147	**559,147**
Venture Capital	-	-	1,169	**1,169**
Bonds	-	215,666	-	**215,666**
	1,002,109	**1,683,427**	**2,803,079**	**5,488,615**

*Some of the underlying hedge-funds in the Aksia portfolio (Hedge fund portfolio) have shareholder gates of 10%-50% attaching to sub-funds valued at €59.4m at 31 December 2021.

15 Investment risks

The Scheme is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The Scheme uses the "market approach" valuation technique to value its investments. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" may require significant judgement but can generally be considered as that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the risk of that instrument.

Where quoted or other unit prices are not available, the Trustees rely upon fair value valuations provided by the Investment managers. The Investment managers provide the Trustee with comprehensive detail regarding Level 3 valuations. This detail generally includes valuation policies and procedures, valuation techniques, use of independent experts / senior management review, internal and external controls including investment manager review of valuations audited as part of Investment Financial Statements audit.

Investments typically classified within level 1 include active listed equities, cash and certain Government bonds. Investments typically classified within level 2 include investments in Government bonds and over the counter derivatives. Investment cash funds and pooled equity funds are also considered level 2 investments where there is evidence that redemptions occurred during the year and there were no restrictions preventing redemptions at the year end. Investments typically classified within level 3 include investment funds that have single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions or redemption rights. Within level 3, the use of the market approach generally consists of using inputs that are unobservable (i.e. for which market data is unavailable) for the asset or liability.

15 Investment risks (continued)

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

- Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Market risk: this comprises currency risk, interest rate risk and other price risk.
  - Currency risk: this is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in foreign exchange rates.
  - Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market interest rates.
  - Other price risk: this is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

As described in the Statement of Investment Policy Principles (unaudited) in Section 4 of the Trustees' Report, the overall investment objective of the Trustees is to seek sustained long-term growth sufficient to meet the liabilities of the Scheme over a prolonged period and taking account of the nature and timing of

those liabilities, while limiting the Scheme's exposure to undue risk. The Trustees also want to ensure that the investments are structured and managed in a way that provides for the cash flow requirements of the Scheme to be met as they arise. In order to achieve this objective, the Trustees invest in a range of asset classes which by their very nature, have various risks associated with them. The Trustees aim to manage these risks by using diversification and using professional investment managers. This is monitored by the Trustees by regular review of the Fund and of the investment managers.

Further information on the Trustees' approach to risk management and the Scheme's exposures to credit and market risks are set out below.

(i) Credit risk

The Scheme is directly subject to credit risk due to its exposure in bonds, loan notes, credit funds, OTC currency contracts and its cash holdings with various counterparties. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the investments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

15 Investment risks (continued)

Investment grade is considered to be a rating of BBB- or above. The following tables categorises the Fund investments:

Analysis of direct investment credit risk

2022	Investment grade €'000	Non-investment grade €'000	Unrated €'000	Total €'000
Bonds	440,974	36,124	-	**477,098**
OTC Derivatives	6,997	-	-	**6,997**
Cash	184,049	-	-	**184,049**
Pooled investment vehicles (loan note)	-	-	117,587	**117,587**
Pooled investment vehicles (credit)	46,510	118,581	925,483	**1,090,574**
Pooled investment vehicles (Bonds)	335,717	-	-	**335,717**
	1,014,247	**154,705**	**1,043,070**	**2,212,022**

2021	Investment grade €'000	Non-investment grade €'000	Unrated €'000	Total €'000
Bonds	562,318	43,498	-	**605,816**
OTC Derivatives	(1,523)	-	-	**(1,523)**
Cash	141,718	-	-	**141,718**
Pooled investment vehicles (loan note)	-	-	108,119	**108,119**
Pooled investment vehicles (credit)	219,258	122,885	707,179	**1,049,322**
Pooled investment vehicles (Bonds)	215,666	-	-	**215,666**
	1,137,437	**166,383**	**815,298**	**2,119,118**

Note: Values included above are inclusive of accrued income.

15 Investment risks (continued)

Bonds
Credit risk arising on bonds held directly or through pooled investment vehicles is mitigated by investing in government bonds where the credit risk is regularly assessed. At year end the Fund held two (€37m in 2022; €43m in 2021) Irish bank bonds which were non-investment grade. In the case of other sub investment grade credit, this risk is managed by external specialists or investment managers who invest in a diversified manner across companies, sectors and currencies globally.

Loans

In the case of direct senior loans, the loans placed by the Fund's investment managers are backed by physical assets where possible with low loan to value ratios and are senior in the capital structure.

Derivatives
Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements. Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts but all counterparties are required to be at least investment grade.

Cash
Cash is held within financial institutions and short-term investment funds (STIFs) which are investment grade credit rated.

Pooled Investment Vehicles
Credit risk arising from pooled investment vehicles is mitigated by using external specialists or investment managers, the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. This diversification is across countries, sectors, securities and currencies. Trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the investment manager, regulatory and operating environment of the pooled managers. This is augmented by engaging with investment consultants who rate investment managers.

A summary of pooled investment vehicles exposed to credit risk by type of arrangement is as follows:

	2022 €'000	2021 €'000
Open ended investment company	**1,952,132**	2,396,674
Closed ended investment company	**449,784**	448,453
Limited Liability Partnership	**606,022**	501,314
Authorised unit trusts	**279,762**	247,365
Loan notes	**117,587**	108,119
Short Term Listed Funds	**47,613**	48,955
Open ended Unit Linked	**335,717**	215,666
	3,788,617	3,966,546

15 Investment risks (continued)

Sole investor in Pooled Investment Vehicles

There are six investments which are solely held. There were no new sole investments in Pooled Investment Vehicles during 2022. A summary of these investments on a 'look through' basis is as follows:

	2022 €'000	2021 €'000
Insight LDI Euro Active 38 Fund (100%)		
Swaps	(99,055)	51,676
Cash / Cash Fund / Collateral	307,160	96,612
Credit	53,276	76,391
	261,381	**224,679**
Tetrarch Dublin Commercial Property Fund – Loan Note (100%)		
Credit	52,682	53,243
	52,682	**53,243**
Tetrarch Dublin Commercial Property Fund – Equity (97.75%)		
Cash	-	-
Property	91,355	108,555
	91,355	**108,555**
Tetrarch Aparthotel – Loan Note (100%)		
Credit	64,905	54,876
	64,905	**54,876**
Tetrarch Aparthotel – Equity (97.75%)		
Cash	-	-
Property	7,000	4,900
	7,000	**4,900**
ILIM EM RAFI - Pooled Equity Fund (100%)	**154,413**	**77,540**
*Invested April 2021		
	631,736	**523,793**

15 Investment risks (continued)

As outlined in the Statement of Investment Policy Principles (Section 5), the Trustees appoint investment managers with a mix of approaches and investment styles in an effort to optimise the required return for an acceptable level of risk. The Fund employs professional managers with both active and passive mandates. Passive management, where the investment manager is expected to replicate the return for the agreed index or benchmark, is a cost-effective way of achieving market returns and approximately 33% of the Fund's assets (including passively held equity exposure, Irish and emerging market bonds and the Bridgewater All Weather fund) are managed in this way. Active managers are expected to outperform their agreed benchmark over an appropriate period to add value after costs over the agreed benchmark or index return. The Trustees monitor the investment managers continually with the help of their advisors.

(ii) Currency risk
The Fund is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustees limit overseas currency exposure through a currency hedging policy whereby an external currency overlay manager (P/E Global LLC) is employed to actively hedge the Scheme's largest foreign exposures (US Dollar, Canadian Dollar, Australian Dollar and Sterling) within a range of 25-100%. Ruffer LLP also hold derivatives as part of it's investment holding.

The Scheme's total exposure by major currency at the year-end was as follows

	2022 €'000	2021 €'000
Currency		
US Dollar	919,487	1,022,203
GB Pound	(82,272)	(32,869)
Japanese Yen	26,250	13,892
Australian Dollar	(7,169)	(34,358)
Canadian Dollar	(27,456)	(51,913)

(iii) Interest rate risk
From its bond, cash and certain credit exposures, the Scheme is also subject to interest rate risk. With respect to government bonds, the risk is somewhat mitigated by the counter move in the Scheme's liabilities on a regulatory basis. Interest rate risk is managed by the credit managers by a variety of approaches such as reducing duration (sensitivity to rising interest rates) and by using diversification. While the above relates to the Scheme's investments, rising interest rates help also to reduce the Scheme's liabilities.

15 Investment risks (continued)

	2022 €'000	2021 €'000
Direct		
Bonds	**477,098**	605,816
Cash	**54,481**	7,625
Indirect		
Cash Funds	**83,268**	72,714
Credit Funds	**1,208,161**	1,157,441

Multi asset funds also contain some exposures to currencies, bonds and credit in addition to equities and commodities on a look through basis.

(iv) Other price risk

Other price risk arises principally from the Scheme's other investments such as equities, property, forestry and from the underlying investments held in the pooled funds.

The Fund manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets and by using investment managers.

The Scheme's exposure to investments (excluding derivatives) subject to other price risk is detailed in the following table:

	2022 €'000	2021 €'000
Direct		
Equities	**705,214**	910,151
Indirect		
Forestry Funds	**114,207**	104,814
Hedge Funds	**447,148**	476,598
Infrastructure Funds	**435,802**	311,117
Multi Asset Funds	**352,373**	622,630
Pooled Equity Funds	**252,158**	445,250
Pooled Fund	**5,240**	
Property Funds	**553,583**	559,147
Venture Capital	**1,039**	1,169
Credit Funds (Including loan note)	**1,543,878**	1,373,108
	4,410,642	4,803,984

*In addition there is a derivative position of Asset €7.513 million and Liability €0.516 million at 31 December 2022 which is subject to other price risk.

16 Current Assets and Liabilities

	2022 €'000	2021 €'000
Current Assets		
Cash at bank	**46,300**	61,379
Transfer in due	**1,264**	1,142
Taxation & Other	**950**	1,151
Total Current Assets	**48,514**	**63,672**
Current Liabilities		
Accrued expenses	**(1,699)**	(2,727)
Taxation	**(3,566)**	(3,252)
Benefits Due	**(4,016)**	(3,300)
Other Creditor	**(2,551)**	(1,931)
Total Current Liabilities	**(11,832)**	**(11,210)**

17 Actuarial valuation

A full actuarial valuation of the assets and liabilities of the Scheme is carried out at regular intervals by the Scheme Actuary on an ongoing basis. The most recent triennial valuation is based on the assets and liabilities of the Scheme as at 31 December 2020.

18 Commitments

	Total Commitment '000	Undrawn Commitment at 31 December 2022 €'000	Undrawn Commitment at 31 December 2021 €'000
Arcus AEIF2	€75,000	10,441	33,533
Blackrock Renewable Income Europe Fund	€88,000	11,170	11,170
Cardinal Mezzanine Fund L.P.	€150,000	81,407	71,632
Cardinal PE Fund	€100,000	25,522	32,760
Cardinal WLR Fund	€100,000	16,150	16,150
Elm Corporate Credit DAC – Senior Credit	€66,500	1,339	1,339
Elm Corporate Credit DAC – Subordinated Debt	€28,500	574	574
Macquarie MEIF 6	€100,000	6,984	33,090
Macquarie MSCIF	€100,000	0	81,759
Tetrarch Aparthotel Fund	€76,866	0	11,099
Dunport- Oak	€95,000	68,926	0
Arcus 3	€54,000	54,000	0

19 Related party transactions

- **The Trustees and the Superannuation Committee:** The Trustees and Committee members are as set out on pages 2 and 3 of this report. During the year the Committee members and five Trustees made contributions to the Scheme and two Trustees were in receipt of pension benefits from the Scheme. The Trustees and Committee members did not receive, and are not due any remuneration, from the Scheme in connection with the management of the Scheme.

- **Electricity Supply Board:** The principal employer of the Scheme is Electricity Supply Board. Employer contributions are made in accordance with the Scheme regulations. Under the regulations, Electricity Supply Board provides and pays for administration services and certain investment management services which are required for the operation of the Scheme and is also the Registered Administrator of the Scheme.

19 Related party transactions (continued)

- **The investment managers:** The investment managers are as noted on pages 3 to 6. They are remunerated on a fee basis calculated as a percentage of the assets under management. The residual investment management fees borne directly by the Scheme for 2022 were €6.821 million *(2021: €5.899 million)*.

- **The actuary:** Liam Quigley, Mercer (Ireland) Ltd act as the actuary for the Scheme and is remunerated by the principal employer.

- **The custodian:** The Bank of New York Mellon acts as custodian to the Scheme. The fees are borne by the Scheme and for 2022 were €0.3 million *(2021: €0.1 million)*

- **AON Solutions Ireland Ltd** : Administration for active and preserved members up to retirement was performed by AON Solutions Ireland Ltd for the twelve month period from January 2022 to December 2022.

- **Internal Audit:** The ESB Pensions Office participated in a ESB Group Internal Audit on IORPII readiness in December 2022.

20 Self-investment

There was no self-investment at any time during the year.

21 Funding

There is no current requirement for additional funding based on most recent actuary assessment of scheme carried out in February 2023.

22 Subsequent Events

On 24 February 2022, Russia began a military invasion of Ukraine. In addition to causing intense human suffering, the conflict in Ukraine continues to be a key driver of global markets with commodity markets remaining volatile. The Trustees will continue to monitor the position in conjunction with their investment advisors.
There have been no other significant subsequent events post year end which would impact on the financial statements for the year to 31 December 2022 as at the date of approval of the Annual Report.

23 Contingent Liabilities

As detailed in the Statement of Accounting policies on pages 12 to 14 and the Statement of Net Assets on page 11, these financial statements do not take into consideration liabilities to pay pensions and other benefits in the future. On this basis, in the opinion of the Trustees, the Scheme had no contingent liabilities at the year-end, 31 December 2022.

24 Approval of financial statements

The financial statements were approved by the Trustees on 28th July 2023

The ESB Defined Benefit Pension Scheme

Financial statements

Year ended 31 December 2022

PB registered number PB1699

GLOSSARY

Actuary
An independent professional who advises on the financial position of the Scheme. Every three years the actuary must measure the value of the assets and liabilities of the Scheme and produce the actuarial valuation, which assesses the financial strength of the Scheme.

Alpha
Any return stream is made up of three components – cash, beta and alpha. Alpha generally refers to manager skill or asset return streams that are not persistently correlated to beta or market risk. The cost for alpha tends to be higher than beta as it is more difficult to find than pure market risk.

Asset Allocation
The way investments are distributed and weighted among different asset classes, such as equities, bonds, cash etc.

Benchmark
A yardstick against which the investment performance of an investment manager can be measured usually based on the return from a particular market or asset category.

Bear Market
A market in which prices decline sharply against a background of widespread pessimism, growing unemployment, or business recession.

Beta
Any return stream is made up of three components – cash, beta and alpha. Beta or market risk is the return from passively investing in an equity or bond.

Bonds / Credit
Companies and governments issue bonds to raise money. They are effectively an IOU with the company or government promising to repay the money on an agreed date. In the meantime, they pay interest on the loan – either at a fixed rate or linked to an inflation index such as the Consumer Price Index. Companies tend to issue corporate bonds or loans. While corporate bonds normally have a fixed interest rate, loans generally have a floating rate interest rate.

Bull Market
Any market in which prices are advancing in an upward trend.

Cash
Any return stream is made up of three components – cash, beta and alpha. Cash on deposit with financial institutions or other short-term financial securities, offering the prospect of stable but low returns. Over the long-term, cash returns are not expected to match price or salary inflation.

Custody
Safe-keeping of securities by a financial institution. The custodian keeps the records of a client's investments and may also collect income, process tax reclaims and provide other services, according to the client's instructions.

Discount Rate
This is one of the most significant assumptions used in an actuarial valuation. It is the rate used to value the current cost of future pension obligations.

Diversification

The spreading of risk by placing investments in several different categories such as stocks, bonds, and money market funds.

Equities
Equities are issued by companies to raise money to expand their business. They represent a share in the ownership and market value of a company. As an incentive for people to buy their shares, companies offer shareholders a share of their profits sometimes, paid out as an annual dividend. Dividends can vary and are never guaranteed. Generally, equities tend to be a higher return seeking asset for higher risk.

Exchange Traded Fund (ETF)
An ETF is an investment fund traded on a stock exchange much like a stock. An ETF can hold assets such as bonds, stocks or commodities.

Futures Contract
A standardised agreement to purchase or sell a defined amount of a particular security or commodity at a fixed price on a set future date. The buyer (or long) agrees to take delivery at expiration, while the seller (or short) agrees to deliver when the contract expires.

Hedge Funds
Hedge funds are alternative investments using pooled funds that may use a number of different strategies in order to earn return, or alpha, for their investors. Hedge funds are actively managed and use derivatives (a contract that derives its value from the performance of an underlying entity) and leverage with the goal of generating high returns (either in an absolute sense or over a specified market benchmark). Because hedge funds may have low correlations with a traditional portfolio of stocks and bonds, allocating an exposure to hedge funds can be a good diversifier.

Inflation
A rise in the prices of goods and services, resulting in a decrease in purchasing power.

Information Ratio
This is the ratio of the excess return (above a benchmark) relative to the risk (or volatility) taken to achieve that return.

Interest Rate
This is the interest rate set by a central bank in controlling monetary policy or by an intermediary involved in the lending process. Nominal interest rates are inclusive of inflation whereas real interest rates strip out inflation.

Investment Risk
The probability of a loss in the market value of an asset or portfolio.

Market Value
The price at which an investment can be bought or sold at a given date.

Mezzanine Debt
This is the debt that sits between equity and senior debt in a corporate structure. This is more risky than senior debt but less risky than equities.

Multi Asset Funds
Some funds invest in a diversified manner by investing across a wide variety of investment types. These typically include equities, bonds and cash, as well as more specialist investments such as property, commodities and currency. These funds typically have beta and alpha exposures.

Property

Property holdings, principally ownership of offices, retail and industrial units. Property investments can be through direct ownership of a building or through shared ownership with other investors. Income comes from renting the property concerned to tenants, generally on a long-term lease. Over long periods, property tends to provide a positive real return, i.e. a return in excess of the rate of inflation. Factors affecting the value of property include economic conditions which affect demand for space, rental levels and market interest rates.

Return
The total gain (or loss) from holding an investment over a given period, including income and increases (or decreases) in market value.

Risk Reserve
The funding standard provisions of the Pensions Act, 1990, as amended, were revised in 2012, introducing the requirement for funded defined benefit schemes to hold a funding standard reserve from 1 January 2016, i.e., additional assets or 'risk reserves'. The funding standard reserve is broadly calculated as 10% of 'unmatched' funding standard liabilities plus the net effect of a 0.5% fall in interest rates.

Tracking Error:
A measure of the variability on investment return relative to an index or benchmark.

Value at Risk (VaR)
This is the likelihood of the Fund losing more than a particular amount in a year assuming normal market conditions.

PROFESSIONAL ADVISORS AND THIRD PARTY SERVICE PROVIDERS

Under trust and pensions law, trustees are required to act in the interests of the beneficiaries and to act with the prudence of a normal businessperson. They are responsible for their decisions and to assist them in carrying out their function effectively, they have access to appropriate professional advice. A full list of service providers to the Scheme is set out on the following pages.

The Scheme Actuary carries out a formal actuarial valuation of the Scheme at least every three years and advises on the long-term financial viability of the Scheme and on the likelihood that it will be able to provide the promised benefits. The Actuary also advises on the suitability of the Trustees' investment strategy in light of the Scheme's long-term funding needs and the relationship between the assets and liabilities.

The Trustees appoint professional investment management firms to manage the majority of the Fund's assets as set out in Section 3. In deciding on the overall strategy and in relation to investment management issues, the Trustees obtain expert advice and support as required.

The Trustees have appointed an independent global custodian, BNY Mellon Trust Company (Ireland) Limited, to safeguard the financial assets and the rights attaching to those assets. The custodian is responsible for the safekeeping of the financial assets, transaction settlements, income collection, overseas tax reclamation and other administrative actions in relation to the investments. Bank of New York Mellon also provides fund accounting and associated services.

The Superannuation Committee and Trustees consult with legal and other professional advisors as required.

Member Enquiries
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