Statement of Investment Principles

National Grid UK Pension Scheme

Effective on and from 27 March 2024

Introduction

1. This Statement of Investment Principles (the 'SIP') sets out the investment objectives of National Grid UK Pension Scheme Trustee Limited as Trustee (the 'Trustee') of the National Grid UK Pension Scheme (the 'Scheme') and the principles governing how investment decisions and stewardship considerations are made for each of the two Sections that form the Scheme (the 'Sections').

2. The SIP has been prepared as required under Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004 and regulations made under it, and with regard to the requirements of the Pensions Act 2004 concerning diversification and suitability of investments.

3. The sole responsibility for deciding investment policy lies with the Trustee.

4. In preparing the SIP, the Trustee has consulted the sponsoring lead section employer of each Section (the 'LSEs') and the Trustee has obtained and considered written advice from the Master Manager.

5. The Trustee will review the SIP at least once a year and without delay after any significant change in investment policy.

Scheme objectives

6. The primary objective of the Trustee is to meet its obligations to beneficiaries of each Section, by means of:

   - Maintaining a long-term journey plan target for each Section.

   - Acquiring assets of suitable liquidity that would be expected to generate sufficient income and capital growth, together with new contributions from members and the participating employers, to meet the cost of current and future benefits each Section provides.

   - Limiting the risk of each Section's assets failing to meet its liabilities over the long term, in particular in relation to any statutory funding requirements.

   - To minimise the long-term costs for each Section by maximising the return on the assets while having regard to other objectives.

Investment strategy

7. The investment strategy should be consistent with the funding plan and objectives set out in the most recent Statement of Funding Principles. The Trustee will monitor the liability profile of each Section and will review the appropriateness of its investment strategy at least every three years in conjunction with the Master Manager and the Scheme Actuary.

8. The Trustee will also consult with the LSE of each Section on key elements that make up the investment strategy, including but not limited to; the evolution of the interest and inflation rate hedging arrangements, the expected portfolio returns to be targeted, and the risk budget the Section will work to.

9. In addition, the Trustee is mindful of the need to review each strategy's performance and risk regularly, and to amend the portfolios as appropriate.

10. The balance of each Section's investments will be reviewed regularly, maximising the chance of achieving the Section's investment objectives and ensuring that the Section's investments are adequately diversified.

11. The Trustee has elected to invest in buy-in policies to insure a proportion of the benefits for the Sections. The remaining investments for each Section consist predominantly of investments admitted to trading on regulated markets. Investments not traded on such markets are kept to a prudent level and will be subject to agreed control ranges. Should the investments fall outside of the pre-agreed ranges when reported quarterly, the Trustee will, if appropriate, agree actions and timescales to correct the breach.

12. The Trustee will ensure that sufficient cash is held within each Section to meet the likely benefit payments. There should be sufficient investments in liquid or readily realisable assets to meet unexpected cash flow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt each Section's overall investment strategy.

Master Manager, Investment Managers and Custodian

13. The Trustee has delegated the day-to-day management of the Scheme's assets to the Master Manager under an Investment Advisory and Management Agreement. The Master Manager is authorised and regulated by the Financial Conduct Authority under the Financial Services and Markets Act 2000.

14. The Master Manager's role, amongst other things, is to manage and monitor the Investment Manager(s) and the Custodian, subject to rights of veto that the Trustee has, which are reviewed from time to time.

15. The Trustee delegates the responsibility for selection of specific investments to appointed Investment Manager(s). The Investment Manager(s) provide the skill and expertise to manage the investments of each Section competently and, if deemed beneficial, further delegate this responsibility by appointing additional Investment Manager(s). The Trustee, the Master Manager and Investment Manager(s) do not borrow money or act as guarantor for the purpose of providing liquidity (unless it is temporary).

16. The Scheme uses many different investment managers and mandates to implement its investment policies. The composition of investment managers and mandates is delegated to the Master Manager, as is the ongoing management and oversight. The Master Manager ensures that, in aggregate, the portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005).

17. The Master Manager also ensures that the investment objectives and guidelines of any particular pooled vehicle are consistent with the Trustee's policies, where relevant to the

mandate in question. Where segregated mandates are used, the Master Manager will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement between the Scheme and Investment Manager(s) to ensure consistency with the Trustee's policies, where relevant to the mandate.

18. The Master Manager has delegated authority to appoint and/or terminate mandates and/or Investment Manager(s). Any changes will be summarised to the Trustee in advance of implementation to enable the Trustee right to veto.

19. Should the Master Manager's monitoring process reveal that an Investment Manager's portfolio is not aligned with the Trustee's policies, the Master Manager will engage with the Investment Manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG (environmental, social and governance) characteristics of the portfolio and Investment Manager's engagement activities. If, following its engagement with the Investment Manager, it is the view of the Master Manager that the degree of alignment remains unsatisfactory, the Master Manager will notify the Trustee of proposed portfolio changes and, subject to the Trustee right of veto, the Investment Manager will potentially be terminated.

20. For most of the Scheme's investments, the Trustee expects the Investment Manager(s) to invest with a medium to long-time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee invests in certain mandates where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

21. Investment Managers are appointed with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing an Investment Manager's performance, the focus is on longer-term outcomes, and a manager's appointment is not expected to be terminated (with termination decisions undertaken as per section 18 above) based purely on short-term performance. However, an Investment Manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or investment team.

22. The Trustee's fee arrangements are in line with normal market practice. The Master Manager and all Investment Managers are paid an ad valorem fee for a given scope of services, which includes consideration of long-term factors and engagement. Some legacy private market managers also receive an additional performance fee. It is the Trustee's view that fees linked to investment performance increase complexity and in most cases do not materially improve alignment with long-term objectives. Such fee structures are therefore only used in a limited number of new cases.

23. The Trustee reviews the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

24. All exchange-traded investments will be held by an external custodian (the 'Custodian') appointed by the Trustee. The Master Manager is responsible for the day-to-day monitoring of the activities of the Custodian and providing advice on changes as appropriate.

Risks

25. The Trustee is concerned to manage risk in the Sections by identifying, controlling and monitoring potential risks, and regularly reviewing its policies and procedures. The Master Manager performs regular checks and provides inputs to the Integrated Risk Management Committee, amongst other things.

26. The Trustee recognises a number of risks involved in the investment of each Section's assets, including:

- Strategic investment risk:
  - Measured by the difference in the actual return on the investment portfolio vs the target return.
  - Managed via regular review in the awareness that each Section's investment portfolio may not evolve as expected or indeed may fall in value.

- Deficit risk:
  - Measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.
  - Managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

- Manager risk:
  - Measured through a combination of quantitative and qualitative factors including performance against their respective investment objectives.
  - Managed by monthly monitoring of the Sections' performance and quarterly monitoring of managers' investment processes.

- Liquidity risk:
  - Measured by the level of cashflow required by each Section over a specified period.
  - Managed by each Scheme's Master Manager, assessing the level of cash held in order to limit the impact of the cashflow requirements on the investment policy and through holding assets of appropriate liquidity.

- Currency risk:
  - Measured by the level of exposure to non-Sterling denominated assets.
  - Managed by the implementation of a currency hedging programme (through a combination of a segregated currency hedging overlay and currency hedging carried out by some of the Investment Managers) which reduces the impact of exchange rate movements on a Section's asset value.

- Interest rate and inflation risk:
  - Measured by comparing the exposure in each Section's liabilities and assets to movements in inflation and interest rates.
  - Managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable each Section's assets to better match movements in the value of the liabilities due to inflation and interest rates.

- Collateral risk:
  - Measured by assessing the collateral available to support the management of interest rate and inflation risk.
  - Managed by ensuring there is sufficient allocation to collateral eligible assets and identification of further assets that can be liquidated should there be a need to increase the allocation to collateral eligible assets.

- Political risk:
  - Measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political events.
  - Managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.

- Sponsor risk:
  - Monitored by considering the level of ability and willingness of each Section's LSE to support the continuation of that Section and to make good any current deficit.
  - Managed by assessing the interaction between each Section and the LSE, as measured by a number of factors. These include the credit worthiness of the lead section employer, and the size of the respective Section's pension liability relative to a number of metrics reflecting the financial strength of the LSE.

- Counterparty risk:
  - Measured by exposure to specific counterparties and through a combination of market indicators (credit ratings and credit default swap spreads) and qualitative considerations.
  - Managed by having a diverse range of counterparties and through the negotiation of a suitable collateralisation process, or alternative approaches where appropriate. The Trustee has delegated the measurement and management of counterparty risk at the specific investment level to the relevant Investment Manager(s).

- Custodian risk:
  - Measured by assessing the creditworthiness of the Custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.
  - Managed by ongoing monitoring of the custodial arrangements against pre-agreed service levels and regular reporting to the Trustee.

- ESG risk:
  - Measured through a combination of quantitative and qualitative ESG factors to ascertain the impact on expected returns.
  - Managed by ongoing monitoring portfolio ESG metrics, as well as the Master Manager's and Investment Managers' policies on responsible investing and active ownership.

Responsible Investment

27. The Trustee believes that investing sustainably is consistent with the Scheme's mission of taking full account of longer-term return drivers and risk. In particular, the Trustee believes climate change to be a systemic, long-term material financial risk to the value of Scheme assets, as well as impacting on the Sections' liability profile and sponsor covenants.

28. By exercising good investor stewardship and by taking financially material ESG factors, including climate change, into account in its investment process, the Trustee believes the Scheme is better positioned to deliver the required long-term investment objective of reaching self-sufficiency in line with target journey plans. Accordingly, the Trustee maintains a Responsible Investment Policy, which can be found here, to support the implementation of the principles set out in this statement.

29. The Trustee has delegated the day-to day investment decisions in relation to responsible investment to the Master Manager, having reviewed the Master Manager's approach to ESG considerations as part of their appointment. More specific details on the Master Manager's approach to responsible investment are available here.

30. The Trustee is satisfied that ESG considerations are integrated into the selection, retention and realisation of investments and are included in any manager selection and retention exercise as part of both the investment and operational due diligence processes.

Stewardship – Voting and Engagement

31. The Trustee is aware of its role as a responsible steward of capital and the need to assess all financially material risks which include the risks with climate change as well as other ESG-related factors. The Trustee believes that having a high standard of governance, promotion of corporate responsibility and appreciation of environmental factors will be additive and will help protect long term financial value.

32. The Trustee believes that active ownership (voting and engagement) is the most appropriate channel to promote positive ESG practices. All of the Scheme's assets are managed externally by the appointed Investment Manager(s) and overseen by the Master Manager. As such, the Trustee delegates active ownership to the Investment Manager(s), and delegates the responsibility for overseeing the Investment Managers' active ownership practices to the Master Manager.

33. The Master Manager monitors the voting and engagement approach of the Investment Manager(s) who are expected each to vote on their portfolio holdings in line with their internal voting policies (which are reviewed by the Master Manager periodically) and relevant recognised standards (e.g. the UK Stewardship Code).

34. The Trustee reviews and from time to time will request and review certain policies of the Master Manager that are considered relevant by the Trustee to consider the extent to which they align with the Trustee's policies. Where the Trustee identifies any inconsistency, the Trustee will engage with the Master Manager to consider how to promote alignment between the respective investment policies.

35. The Trustee expects the Master Manager to: (i) be a signatory to the UN PRI Code and (ii) provide adequate transparency around stewardship including an annual report on stewardship activities undertaken.

36. The Trustee works with the Master Manager to periodically consider and agree on key engagement themes that should be prioritised. The intention is that these themes become the key focus for engagements with Investment Manager(s) and that they are adequately reflected in the Investment Managers' own stewardship activities and reporting relating to the Scheme's underlying investments. At time of writing the focus will be on the following engagement themes:

- Environmental themes
  - Natural Capital: Encourage responsible environmental management and sustainable usage of resources.
  - Climate Change Resilience: Promote increased level of transparency required to better understand the impact of climate related risks and opportunities and how climate change is embedded into the strategy.

- Social themes
  - Human Capital: Action on how companies attract, develop, and retain employees while providing appropriate working conditions.
  - Diversity & Inclusion: Encourage companies to demonstrate how they are recruiting, promoting, protecting and retaining a diverse workforce

- Governance themes
    - Board Compensation & Accountability: Companies should have foundation structures that promote accountability, responsibility, transparency, responsiveness, diversity, and independence from company management
    - Executive Compensation: Alignment of executive compensation with corporate performance.
    - Cyber security: Data security and privacy

37. The Trustee will engage with the Master Manager as necessary for more information to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members.

38. The Master Manager has confirmed to the Trustee that it is a signatory to the UK Stewardship Code 2020.

Monitoring and reporting

39. The Trustee aims to monitor the impact and progress of its responsible investing activities.

40. The Master Manager reports quarterly on the overall responsible investment position, including key ESG metrics for each Section. Furthermore, they oversee and report on developments at the Investment Manager(s) in relation to their responsible investing and ESG integration processes. The Investment Manager(s) report quarterly to the Master Manager on their proxy voting and engagement activities where relevant.

Non-financial factors

41. The Trustee does not take into account non-financial matters in the selection, retention and realisation of investments. The Trustee does assess matters it considers to be financially material, this includes risks related to climate change and other ESG-related factors.

Other matters

42. The Scheme is registered with Her Majesty's Revenue and Customs under Chapter 2 of Part 4 of the Finance Act 2004.
43. Each Section provides a facility for members to pay AVCs to enhance their benefits at retirement. Members are offered a choice of "money purchase" funds in which to invest their AVC payments. The Trustee's objective is to provide a range of funds, which will provide a suitable long-term return for members, consistent with members' reasonable expectations. Members also have the option to apply AVCs to purchase added years of pensionable service.

Authorised for and on behalf of the Trustee of the Scheme