SSE Southern Group of the ESPS
Annual Meeting of Members – 26th November 2020

Review of the Year

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John Sykes
Chair of the Trustees

Introductions

- **Trustees**
- **Admin Support Staff**
- **Advisors**
  - Legal Adviser
  - Investment Adviser
  - Covenant Adviser
  - Actuary

Annual Meeting of Members 2020

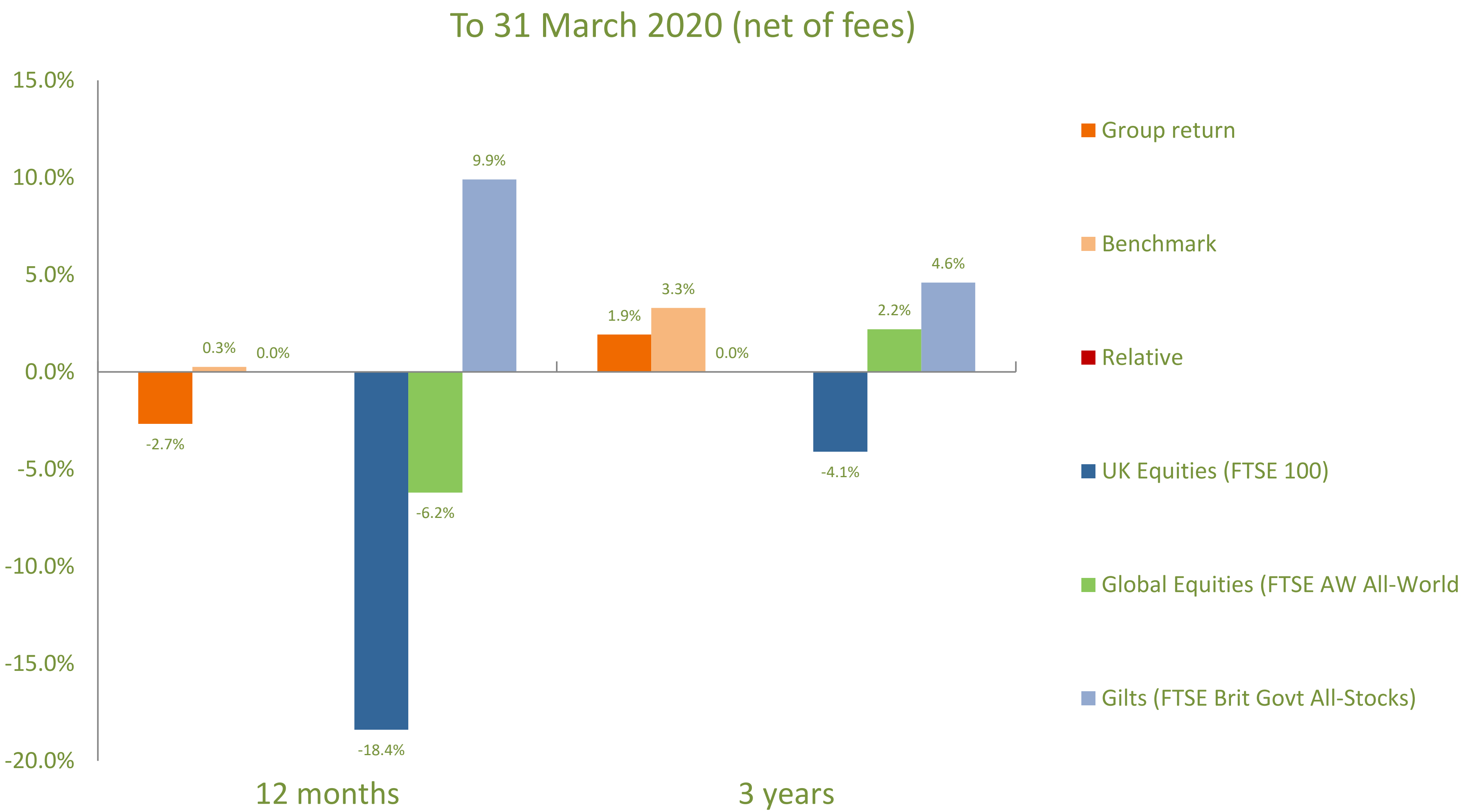
Agenda – surviving COVID

- Introductions
- Statistical Overview
- Investment Returns and Strategy
- Scheme Funding and Valuation
- Administration and Support
- SSE as the Scheme Sponsor
- Trustee Board
- Key Activities for 2020 and 2021
- Prospects for the scheme
- Open Session

Statistical Overview 2019 - 2020

	31 March 2019	31 March 2020
Assets £m	**2,258**	**2,084**
Liabilities £m	**2,544**	**2,564**
Deficit £m (Funding Level)	**287 (89%)**	**481 (81%)**
Active Deferred Pensioners	**1,041** **1,322** **6,726**	**891** **1,262** **6,702**
Total	**9,089**	**8,855**
Pensions £m p.a.	**75**	**77**
Employer Contributions Normal £m p.a. Deficit £m p.a. Total £m p.a.	 **16** **48** **64**	 **14** **40** **54**

Investment Returns to 31 March 2020



Investment Returns
12 months to 31 March 2020

- Global equities reached record highs in early February, before falling sharply in March as the COVID-19 pandemic brought the global economy to a halt.

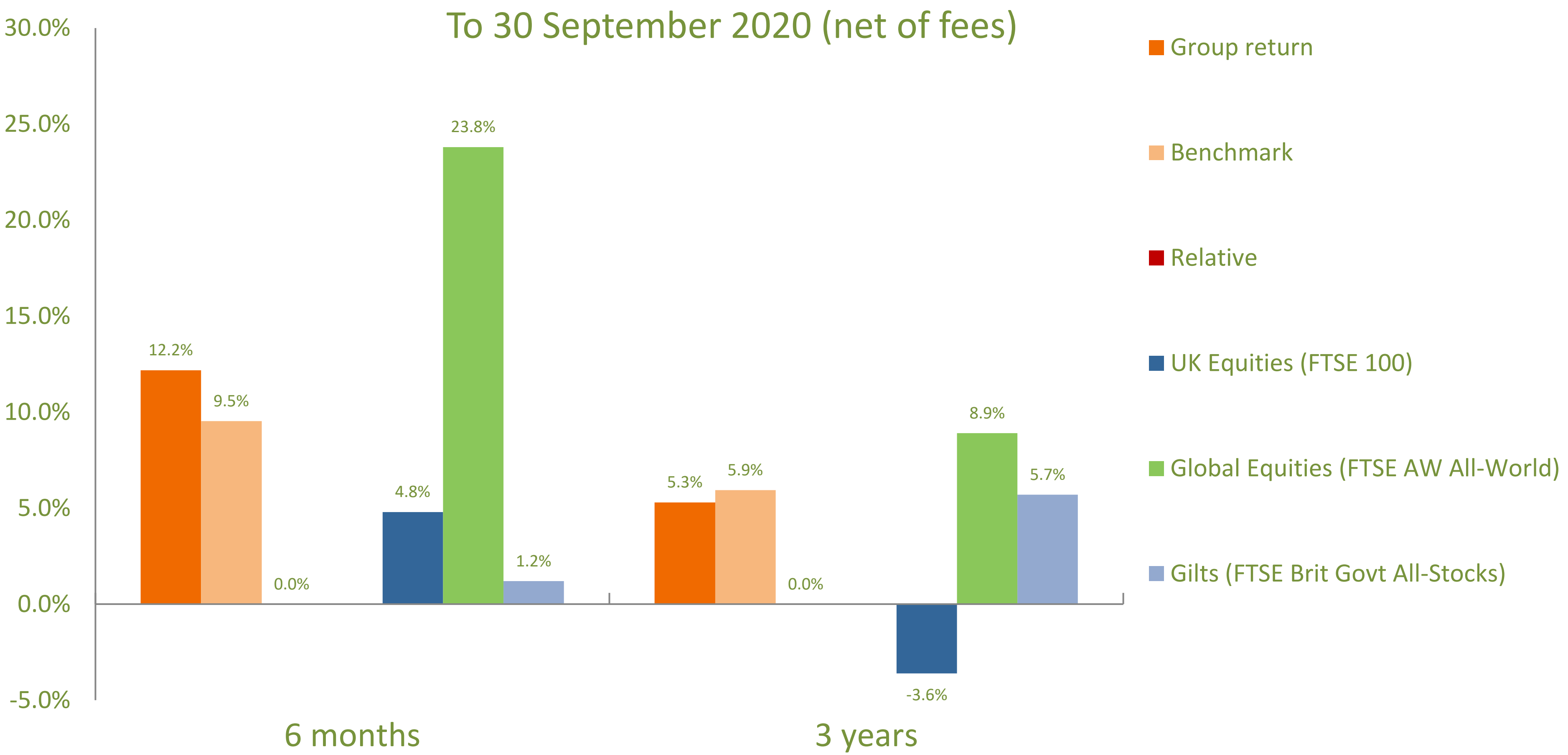
- The UK equity market was the worst performing region over the year, largely due to its exposure to the oil & gas sector. The FTSE 100 posted its biggest fall since 1987 in Q1 2020.

- The Fed and the Bank of England (BoE) cut rates to record lows over the period with the Bank of Japan and the European Central Bank (ECB) joining the Fed and BoE in restarting and expanding their quantitative easing programs.

- In response to the pandemic, governments made available unprecedented levels of fiscal support with the aim of limiting bankruptcies and unemployment. Government bond yields fell to record lows in March.

- Returns from UK commercial property market slowed, returning 0.1% over the period, with income return insufficient to offset declining capital values.

Investment Returns
6 months to 30 September 2020



Investment Returns
6 months to 30 September 2020

- Global equity markets rebounded strongly since the sell-off in Q1. Since the end of March, global equities experienced a 27% rise and are now in positive territory year-to-date. The rebound in equity markets has been far from uniform with the US leading the way and the UK underperforming.

- Over the past six months most economies have seen core inflation fall. UK CPI fell from 1.5% in March to 0.5% in September, having reached its lowest level since 2015 of 0.2% in August.

- In response to falling global growth and inflation, the US Federal Reserve and the Bank of England cut rates to record low levels. The European and Japanese central banks joined them in announcing large expansions of their quantitative easing programs. UK bond yields moved even lower over the period.

- The lasting effects of the pandemic on the property market are evident with capital values having fallen 4.3% over the past 6 months. This can be largely attributed to the retail sector which has seen capital values fall 9.1% over the period.

Investment Asset Values
9 months to 30 September 2020

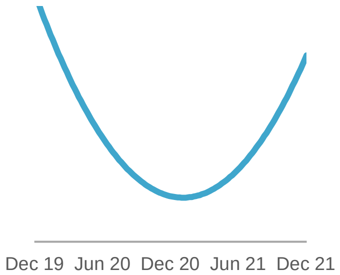
	Q4 2019 (£'m)	Q1 2020 (£'m)	Q2 2020 (£'m)	Q3 2020 (£'m)
Total Fund	£2,313	£2,072	£2,322	£2,326

Covid-19 economic recovery

In response to the pandemic, the Trustee considered a plausible set of economic recovery scenarios and the accompanying economic and market impact.

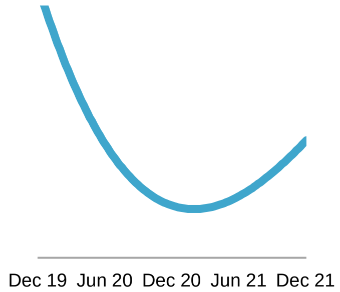
Base case (U-shaped) –

- Gradual lifting of lockdowns
- Consumer spending remains subdued
- Large increases in unemployment
- Company failures weigh on the prospects for a rapid recovery
- Monetary policy acts as a longer-term drag to growth



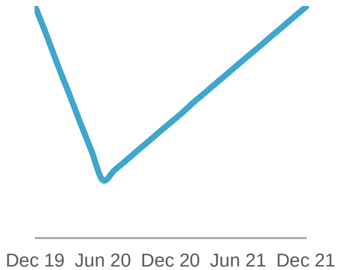
Bear case (L-shaped) –

- Infection rates start to rise again
- Lifting of lockdown is slower than anticipated
- Significant and prolonged economic shutdown
- Extended recession and further significant falls in risk assets



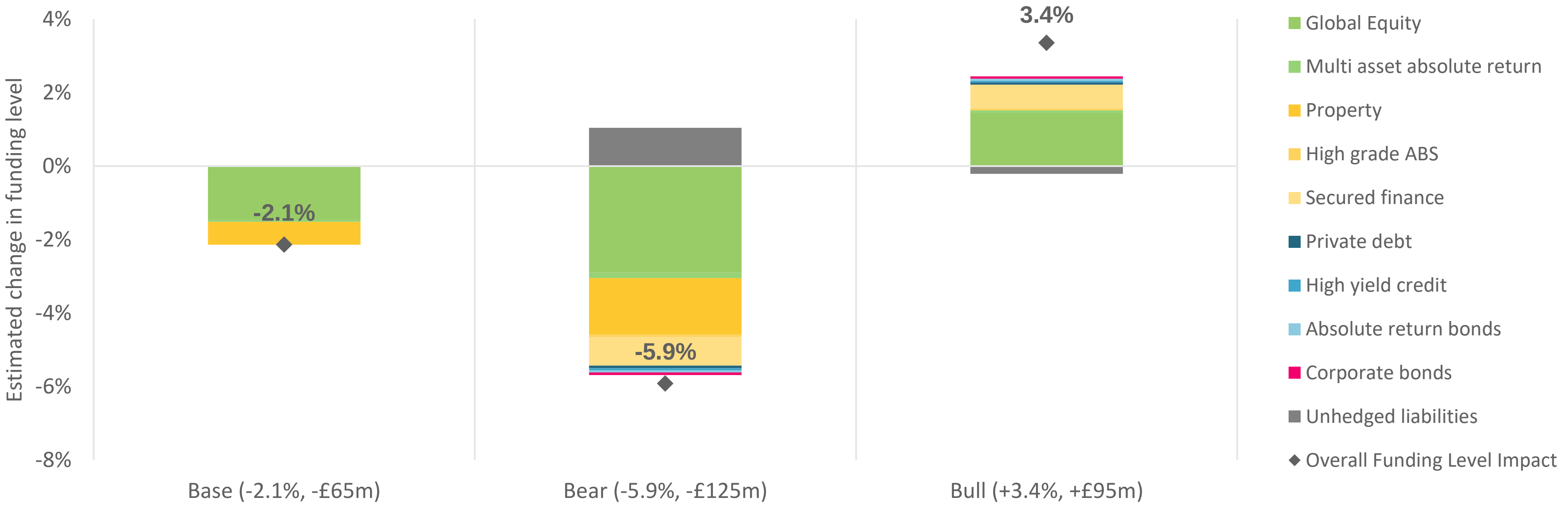
Bull Case (V-shaped) –

- Sustainable and progressive reopening of economies
- Rapid emergence of a vaccine
- Deferred consumption, production and business investment
- Unprecedented levels of fiscal and monetary support

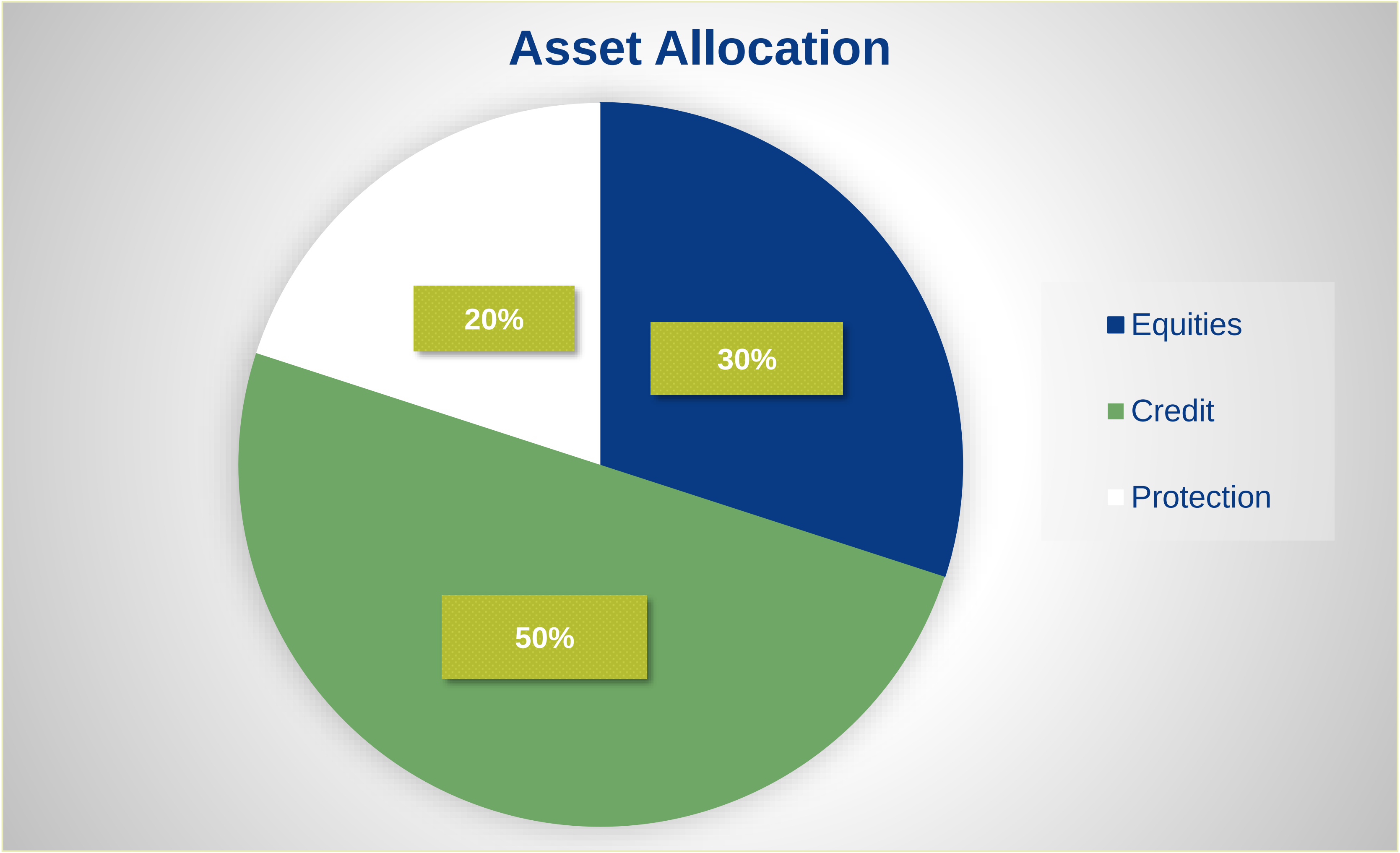


Scenario testing on funding position

The estimated relative change in the Group's funding level[1] associated with each of the Base, Bear and Bull scenarios and the drivers is shown below.



- The impact on the Group's funding level varies depending on the scenario. Under the Base case the funding level would be expected to reduce by c2%.
- The largest potential impact on the Group's funding level is driven by the Group's allocation to global equities. The Group currently hedges c47% of the liabilities' exposure to interest rates and inflation.
- The Group's investment strategy is well diversified.


Asset Allocation
20%
30%
50%
Equities
Credit
Protection

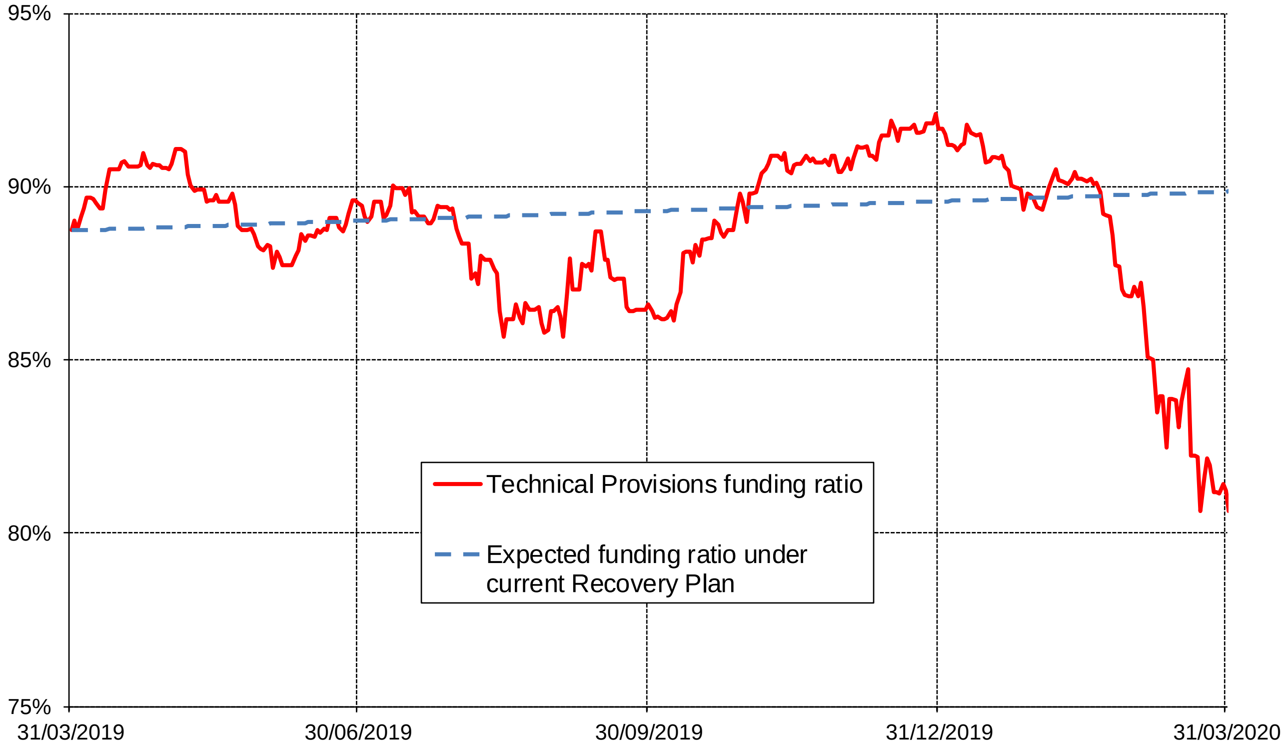
Actuarial Valuation

- **Full valuation as at 31 March 2019:**
  - Completed in January 2020
- **Key results and outcomes:**
  - Deficit of £287m at 31 March 2019
  - Funding level of 89%
  - Final funding position at 31 March 2019 better than initial estimate shown last year due to changes in assumptions used to calculate the liabilities
  - Main change is updated allowance for future improvements in life expectancy

Actuarial Valuation

- **Key results and outcomes (continued):**
  - Employer contribution rate for future benefits to remain at 32.5% of salaries
  - Reduction in deficit repair contributions payable in year ending 31 March 2020, but higher contributions payable from 2020 onwards than under existing plan
  - Expectation is now that deficit will be repaired by 31 March 2027 (compared to 31 March 2028 under previous plan)
  - Next valuation due as at 31 March 2022

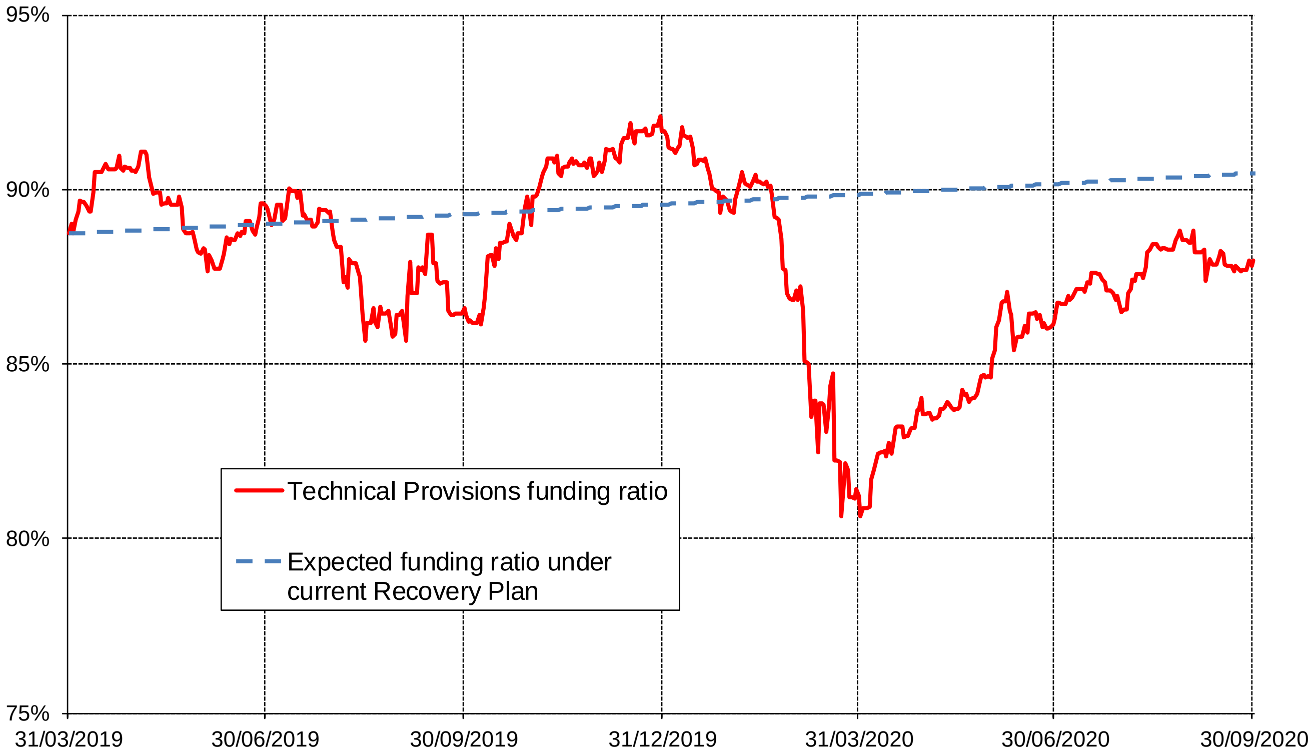
Scheme Funding – update to 31 March 2020



	31/03/2019	31/03/2020
Assets	£2,258m	£2,083m
Liabilities	£2,544m	£2,564m
Deficit	£287m	£481m
Funding ratio	89%	81%

- **Group Trustees monitor funding position regularly and report to members each year**
- **Funding position was broadly in line with the recovery plan until February 2020**
- **The impact of the COVID-19 pandemic on investment markets led to a significant fall in the asset value during February and March, which increased the deficit and put us behind on our plan**

Scheme Funding – update to 30 Sept 2020



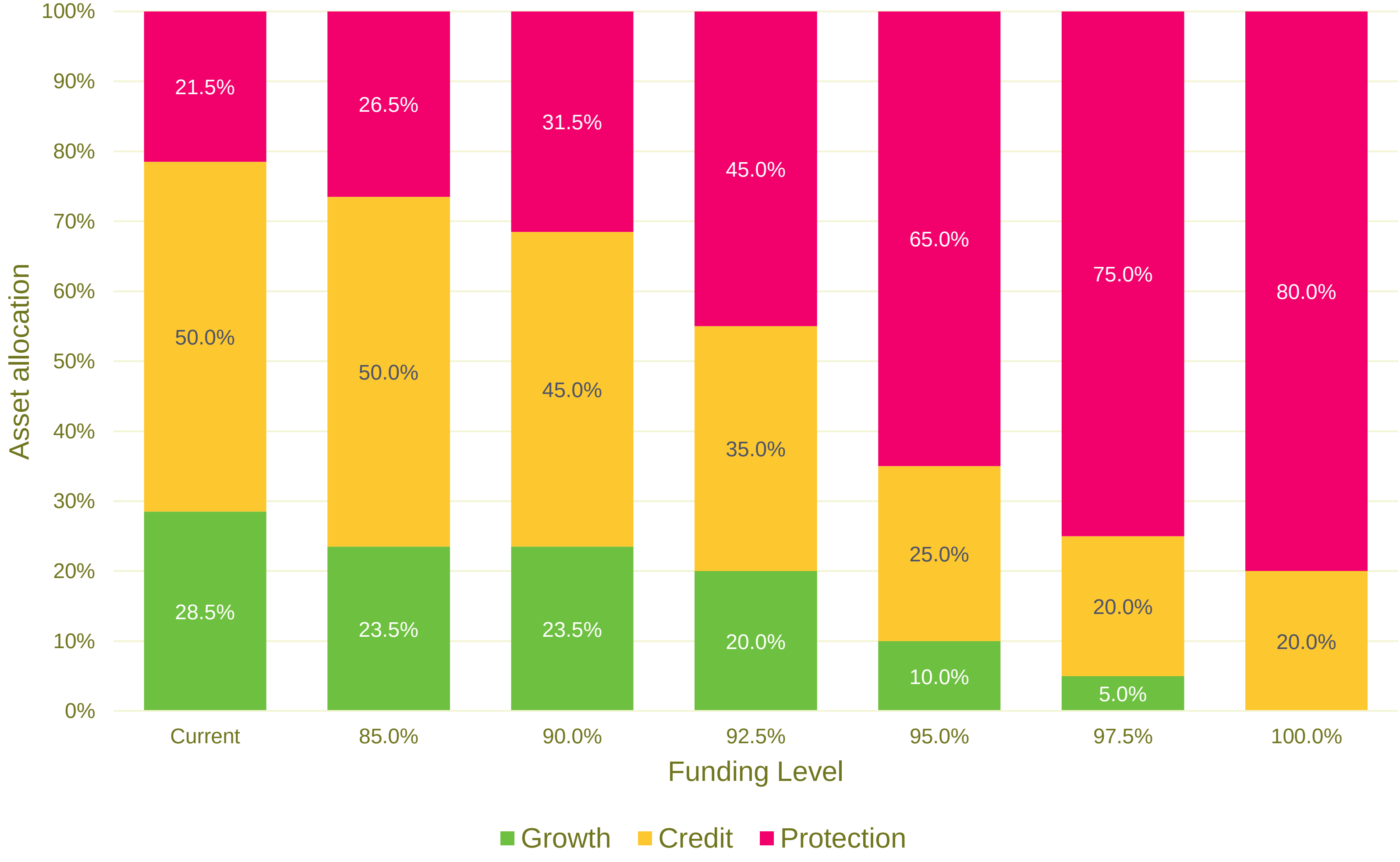
	31/03/2019	31/03/2020	30/09/2020
Assets	£2,258m	£2,083m	£2,332m
Liabilities	£2,544m	£2,564m	£2,652m
Deficit	£287m	£481m	£320m
Funding ratio	89%	81%	88%

- **Strong recovery in investment markets**
- **Resulted in steady improvement in the funding position since 31 March**
- **Still slightly behind plan at 30 September**
- **But further improvement since then and now broadly back on track**

Long-term planning

- Aim of current recovery plan is to reach full funding on a “technical provisions” basis by 31 March 2027
- Broadly on track to achieve this
- But that’s not the end of the story
- Longer term strategic objective is to reach and maintain a position where there is no material financial reliance on the Company – known as “self-sufficiency”
- Company would still stand behind the Group and provide ultimate security for members’ benefits
- But aim would be for the Group to run on without needing significant annual contributions from the Company
- Current plan is to reach this position by 2030

Asset allocation evolution with funding level (self-sufficiency basis)



Long-term planning

- A key part of this long-term plan is the Group’s de-risking framework
- If funding position is ahead of target, we will take the opportunity to:
  - Reduce reliance on growth assets and credit
  - Increase hedging of interest rate and inflation risk
- To do this we have a set of funding level “triggers” – we monitor the funding level against these on a daily basis and have pre-agreed actions to be taken when we reach each one
- Ultimate aim is to achieve closer match between assets and liabilities, and reduce volatility in the funding position

Administration and Support

- **Admin staff working from home**
- **Visits to office only for essentials**
- **Priority for Life Events**
- **Regular updates from the Company and our Advisors**
- **Business as usual as far as possible**
- **Extensive use of virtual meetings**
  - Trustee has held all its meetings
  - All have been online
- **Website now has outward facing - statutory documents posted**

SSE Pensions Website

https://sse-live-rwd.compendiahosting.co.uk/

(in the newsletter on p4)

SSE as Scheme Sponsor

- **Business model for the future - recent changes**
- **Strong balance sheet**
- **Regular engagement between Company and Trustees**
- **It might be different from what we are used to – as long as it supports the scheme**
- **Role of Covenant Advisor – Penfida**

Group Trustee Structure from 1/1/21

Employer Nominated Trustees

1 corporate independent Chair of Trustees
with 1 normal and 1 casting vote
2 Trustees with 1 vote

Member Nominated Trustees

3 trustees with 1 vote each

Independent Trustee Special Powers

3 special powers retained and the
rest now covered by Pensions Legislation

MNT Appointments

- Two invitations for nominations
- 12 expressions of interest
- Induction Day held online
- 7 applications received
- 5 candidates interviewed online
- Jeff Rowlinson was re-appointed
- Andy Rees was newly appointed

Trustee Board from 1/1/21

Employer Nominated Trustees

Nicki Mortimer of Capital Cranfield - Chair of Trustees

John Sykes

John Stewart

Member Nominated Trustees

Jacqui Phillips

Jeff Rowlinson

Andy Rees

Key Activities 2020

SSE Retail De-merger - finally completed!

Triennial Valuation

Surviving COVID-19

Trustee Board Structure and Appointments

Statutory/Regulatory – ESG, SIP, CMA

De-risking Strategy Implementation

Key Activities 2021

Settling in the new Trustee Board Structure

Surviving and Recovering from COVID-19

SSE Contracting Disposal

GMP Reconciliation and Equalisation

Preparations for the 2022 Valuation

2021 Pension Increase

Looking Ahead for the Scheme

- Whole world economy faces uncertainty and a long recovery
- In the circumstances the scheme as well placed as it could be from a sponsor and forward investment plan.
- But we still have a deficit.
- No guarantees!

- Beware of Scams!

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Open Session

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Thank you for joining us – stay safe!

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