

The Nuclear Liabilities Fund Limited (the ‘Fund’)

Statement of Investment Principles

January 2026

Section 1: Introduction

- 1.1 The Nuclear Liabilities Fund (the 'Fund') is a fund set up by British Energy (since acquired by EDF Energy) and the UK Government to hold and invest funds to meet the long-term costs of defueling and decommissioning eight nuclear power stations in the UK.
- 1.2 The investments within the Fund are separated into two parts: assets held in the National Loans Fund¹ and the Mixed Assets Portfolio (the 'MAP'). A substantial portion of the assets of the Fund is held in the National Loans Fund where cash can be accessed at short notice, and its security is backed by the UK Government. It is used to meet the current and shorter-term liabilities of the Fund² and allows the Trustees³ a longer investment time horizon in investing the balance of the Fund, known as the MAP.
- 1.3 The Trustees are responsible for setting the investment objectives for the Fund, covering both performance and risk. The Trustees and the Investment Committee⁴ draw on advice from their Investment Adviser (currently Aon) when agreeing the types of investments and investment managers to be used in the day to day management of those assets. The Trustees may consider additional investment advice if this is beneficial when making investment decisions.
- 1.4 The Trustees have delegated investment management responsibilities for the MAP to the Investment Adviser who monitors and oversees all of the day to day investment management operations within the remit of a strategy, and the implementation of decisions by the Trustees and the Investment Committee. This delegation includes delegated authority to manage the liquid investments (in the liquid portfolio within the MAP).
- 1.5 The ultimate power and responsibility for the investment of the Fund's assets lies with the Trustees, subject to any policy set from time to time by the Secretary of State for Energy Security and Net Zero.
- 1.6 This Statement of Investment Principles provides more detail on the responsibilities of the Trustees and the investment objectives and principles which they have set for the MAP.

¹ The National Loans Fund, established on 1 April 1968 and administered by HM Treasury accounts for government borrowing and lending.

² The liabilities to be met from the National Loans Fund are set out in the Funding Agreement between the Commissioners of HM Treasury, the Secretary of State for Energy Security and Net Zero and NLF dated 23 June 2020. These include qualifying costs of decommissioning, general administration costs, investment management costs, remuneration /fees / costs payable to employees, consultants, directors or service providers, and tax.

³ The 'Trustees' mean the trustees, from time to time, of the Nuclear Trust. The Trustees are also directors of the Nuclear Liabilities Fund Limited and where Trustees is mentioned in this document this means: trustees of the Nuclear Trust, directors of the Nuclear Liabilities Fund Limited and the board of directors of the Nuclear Liabilities Fund Limited.

⁴ The Investment Committee is a committee of three directors of the Nuclear Liabilities Fund Limited who are appointed by the Board.

Section 2: Governance

Trustees

2.1 The Trustees are responsible for:

- Reviewing the Statement of Investment Principles and modifying it when appropriate.
- Appointing (and when necessary, dismissing) the Investment Adviser and any independent or other investment adviser (if deemed necessary).
- Conducting strategic investment reviews and agreeing the investment objectives.
- Reviewing the types of asset which are used and the strategic asset allocation to those different types of assets.
- Confirming the selection (and when necessary, dismissal) of the investment managers responsible for day to day investment decisions in managing the investment mandates used for different asset types.
- Appointing (and when appropriate, dismissing) the firm or firms responsible for the custody of the Fund's assets including monitoring their security and efficiency.
- Monitoring the performance of the Investment Adviser.

2.2 The Trustees delegate some of the decisions to their Investment Committee, working within the investment objectives and risk appetite which they have agreed.

2.3 From time to time the Trustees will identify investment opportunities either through existing managers or new managers. These investment opportunities will be explored by the Investment Committee, working closely with the Investment Adviser.

Investment Adviser

2.4 The Trustees have delegated day-to-day responsibility for the implementation of the investment strategy and the management of the assets in the MAP to the Investment Adviser. The Investment Adviser will monitor and oversee the underlying investment managers, reporting to the Investment Committee and making recommendations on selection and de-selection.

2.5 The Investment Adviser has responsibility for:

- Providing recommendations to the Trustees on appointing (and dismissing) investment managers, including where an investment manager has been proposed by the Investment Committee
- Performing day to day monitoring and oversight of underlying investment managers, reporting to the Investment Committee
- Instructing and liaising with the custodians to ensure the Fund's trading and liquidity needs are met, and to ensure the smooth running of the MAP
- Undertaking project work as required including reviews of the required return to meet the forecast decommissioning liabilities, the strategic asset allocation and the investment managers
- Assisting the Trustees in review of and compliance with this Statement of Investment Principles

- Advising the Trustees on the appropriate investment response to any improvement or deterioration in circumstances
- Benchmarking the monthly National Loans Fund interest rates against the market and advising on the re-investment of monies
- Allocation and management of the Fund's liquid portfolio to meet the Trustees' objectives. This includes the ability:
 - to tactically manage the Fund's level of equity exposure, to reflect changing market views and capture opportunities to mitigate risk or enhance returns
 - to allocate surplus cash to alternative asset classes that seek to enhance returns above prevailing money market rates
 - to target a rate return agreed with the Trustees.

Investment managers

2.6 The responsibilities of the investment managers include:

- At their discretion, but within any guidelines given by the Trustees or Investment Adviser, implementing changes in the asset mix and investment of funds and selecting securities within each asset class
- Provision of information required by the Investment Adviser and the Fund's Accountant for the proper management and oversight of the assets
- Having regard to the need for diversification of investments and to the suitability of investments
- Where appropriate having responsibility for custody arrangements.

Custodians

2.7 The responsibilities of the custodians (as appointed by the investment managers) and the Fund's appointed custodian include:

- The safekeeping of the underlying assets for the liquid portfolio
- Processing the settlement of all transactions
- Processing all dividends and tax reclaims in a timely manner
- Processing of all cash directions as directed by the Investment Adviser authorised by the Trustees
- Dealing with corporate actions.

Section 3: Investment objectives of the Fund

- 3.1 The MAP is designed to deliver a return that is sufficient for the Fund as a whole to meet the qualifying nuclear decommissioning costs taking risks but within the bounds of prudence (the 'Required Return').
- 3.2 Analysis to identify the Required Return for the MAP will be carried out on an annual basis by the Investment Adviser.
- 3.3 A measure of adequacy of the Fund's returns will be the comparison of the expected return of the MAP to the Required Return. This analysis will be carried out quarterly by the Investment Adviser.
- 3.4 The Trustees recognise that low returns will result in claims falling on the UK Government. The risk of underperforming against the Required Return is mitigated by managing the volatility of the returns and other actions as set out in the assets section of the investment risk register.
- 3.5 The MAP also aims to:
- Benefit from the illiquidity premium which normally exists in capital markets for long-term investors who do not need to sell assets at short notice;
 - Reduce risk by diversifying the investments across different types of asset which are expected to react differently in the range of economic scenarios which may present themselves in the longer term;
 - Provide exposure to real assets in recognition that decommissioning costs escalate with inflation;
 - Benefit from the active management of the investments, with skilled asset managers making investment decisions to deliver returns which exceed market indices;
 - Reduce the costs of the investments by having a stable investment strategy to reduce the costs of buying and selling investments and by requiring competitive fee rates from its investment managers.

3.6 **Environmental, Social, and Corporate Governance considerations**

The Trustees' primary responsibility for the Fund is fiduciary; that is, to ensure that the Fund's investments produce the Required Return within a prudent and acceptable level of risk.

The Trustees acknowledge that environmental, social, and corporate governance ("ESG") factors, and risks relating to these factors, can represent financially material risks and opportunities to the Fund. Accordingly, good practice in terms of ESG issues is considered as part of this fiduciary responsibility. The nature of investments is of concern to the Trustees as a source of both financial and reputational risk. The ability of the Fund's investment managers to integrate ESG risks and opportunities into their investment decision-making is considered as part of the criteria for selecting and monitoring investment managers. The monitoring is undertaken as part of the Investment Adviser's ongoing reporting to the Trustees, and the Trustees receive an in-depth report on an annual basis regarding the Fund's investment managers and their approach to ESG.

As part of their delegated responsibilities, the Trustees expect the Fund's investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns, the transition to a low-carbon economy, and crystallisation of climate change risks) in the selection, retention and realisation of investments on behalf of the Fund. Any decision in this regard should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.

3.7 **Stewardship - Voting and Engagement**

The Trustees recognise the importance of their role as the primary steward of the Fund's capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Trustees recognise that promoting and effecting high standards of corporate governance protects the financial interests of the Fund and mitigates financially material risks, including those related to ESG.

The Trustees expect the Fund's investment managers to use their influence as institutional investors to carry out the Trustees' rights and duties as a responsible asset owner. This includes voting, along with – where relevant and appropriate – engaging with underlying investee companies. The Trustees acknowledge that differences by asset type will influence how the Fund's appointed investment managers discharge their role as a steward of the Fund's assets (for example, the Fund's unlisted assets versus its listed equity investments). Where voting rights are attached to the Fund's underlying investments within its physical equity portfolio, these are delegated to the investment managers. The Trustees expect that these will be used to the fullest extent possible. The Trustees recognise that in the case of pooled and passive investments, the investment managers will select investments and exercise voting rights within the terms of the relevant pooled fund agreement. In the case of the pooled investments with Aon, the Trustees have delegated all voting and engagement activities to the underlying managers within the Aon pooled funds. The Trustees accept responsibility for how the underlying managers steward assets on their behalf, including the casting of votes in line with each underlying manager's individual voting policies. The Trustees rely on Aon to review underlying manager voting and engagement policies and activities on an annual basis. Aon review these factors to check they are aligned with expectations and can reasonably be considered to be in the Trustees' best interests.

Managers are expected to vote at company meetings and engage with companies on the Trustees' behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

Where voting rights are not attached to the underlying investments, the Trustees expect that the investment manager will nevertheless act as a good steward of capital. Therefore, where appropriate, the Trustees expect that the investment managers will engage with the underlying investments in order to promote good corporate governance, accountability, and positive change.

The Trustees expect that their investment managers will provide details of their stewardship policy and activities on an annual basis. The Investment Adviser will engage with the investment managers where necessary for more information and report to the Trustees as appropriate, on an exceptions basis.

3.8 **Impact investing**

The Trustees have an aspiration to support the principles enshrined by the United Nations Sustainable Development Goals ('UN SDGs'). The Trustees believe that supporting the UN SDGs is desirable from the perspective of supporting positive change and the 'just transition' to a sustainable economy, and may also give rise to future attractive investment opportunities.

Accordingly, when considering new investment opportunities for the MAP, providing the Fund's objectives can be met, the Trustees will seek to include investment opportunities which are positively aligned with the UN SDGs.

3.9 **Transparency of investment management costs**

The Trustees are aware of the importance of monitoring their investment managers' total costs and the impact these costs can have on the overall value of the Fund's assets. The Trustees recognise that in addition to annual management charges, there are a number of other costs incurred by their asset managers that can increase the overall cost incurred by their investments.

The Trustees collect annual cost transparency reports covering all of the Fund's investments and ask that the investment managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustees to understand what costs are incurred as part of the Fund's ongoing investment management.

The Trustees have agreed that they will only appoint investment managers who offer full cost transparency via the CTI templates to manage assets of the Fund. This will be reviewed before the appointment of any new managers, and includes the existing managers held by the Fund. All of the Fund's asset managers are currently compliant. Should any manager not comply, the Trustees will engage with the manager (via the Investment Adviser) in the first instance.

The Trustees accept that transaction costs are naturally incurred as part of ongoing portfolio management, to drive investment returns, and that the level of these costs varies across asset classes and by manager style within an asset class. The Trustees review transaction costs on an annual basis in line with the CTI templates. Transaction costs are considered in the context of expected performance and the reduction in risk associated to the asset class in question. Where the Trustees' monitoring identifies a lack of consistency the mandate will be reviewed.

The Trustees evaluate the performance of their asset managers relative to their respective objectives on a regular basis via the investment monitoring reports provided by the Investment Adviser, and updates from the investment managers

Section 4: Strategic asset allocation

Suitability

- 4.1 The Trustees have set out a long-term strategic asset allocation for the MAP based on advice from the Fund's Investment Adviser, which it considers is likely to achieve the dual objectives for return and volatility and the other objectives set out in the previous section.

Diversification

- 4.2 The strategic asset allocation is designed to ensure that the MAP is invested consistently with the investment objectives and, in particular, that sources of risk are diversified.
- 4.3 Diversification includes investing to avoid excessive reliance on any particular asset, provider or group of undertakings and to avoid accumulations of risk (including counterparty risk) in the MAP as a whole.
- 4.4 In certain cases investment restrictions have been agreed with the investment managers to ensure the Fund avoids any undue concentration.

Asset classes

- 4.5 Consistent with the investment objectives described above, the MAP invests in the following asset types (although not limited to the below classes):

- Infrastructure (Debt and equity)
- Listed equities
- Private Equity
- UK Growth Equity
- Global Real Estate
- Illiquid Credit
- Liquid Credit
- Insurance Linked Securities
- Hedge funds
- Derivatives of the above (for example, equity futures)
- Government related investments

- 4.6 The Trustees will consider other asset types and investment management approaches and will approve investments where these are consistent with the overall objectives, taking advice from the Investment Adviser.

- 4.7 The Trustees have taken advice from the Investment Adviser to ensure that the strategic asset allocation is suitable for the MAP given its investment objectives.

Currency Hedging

- 4.8 The Trustees will consider the currency exposure of investments and in consultation with the Investment Adviser, may from time to time implement a hedging strategy to reduce the impact of foreign exchange movements on returns. It should be noted that the liability costs are in GBP therefore significant foreign exchange movements could impact the fund adversely.

Liquidity

- 4.9 The Trustees rely on the Investment Adviser to ensure that the Fund holds sufficient liquidity in the MAP to meet the required drawdowns from underlying investment managers. The Trustees' policy is that there should be sufficient investments in liquid or readily realisable assets to meet all cashflow requirements of the MAP in the majority of foreseeable circumstances (for example, the requirement to meet drawdowns required by the Fund's appointed illiquid investment managers) to avoid any realisation of assets that would disrupt the MAP's overall investment objectives.

Investment restrictions

- 4.10 From time to time the Fund's investment managers may be given mandates that prevent the use of certain types of investment. This is designed to promote transparency as per Risk Appetite Statement 8.

Section 5: Monitoring

- 5.1 The Trustees recognise the importance of monitoring the Fund's investment arrangements. Working with the Investment Adviser, the Trustees:
- review the investment objectives for the MAP at least annually
 - monitor compliance of the investment arrangements with this Statement of Investment Principles
 - review this Statement of Investment Principles annually.
- 5.2 The Trustees have delegated responsibility to its Investment Adviser the task of monitoring performance. The Investment Adviser will monitor and report on performance to the Trustees and make available sufficient information to enable evaluation, including:
- assessing the quality of the performance and processes of the investment managers by reviewing the investment results and other information
 - maintaining and recommending amendments to this Statement of Investment Principles.
- 5.3 The Trustees have delegated to the Investment Adviser the setting of performance objectives and benchmarks (if appropriate) with each investment manager. The Trustees accept that these objectives will be treated by the investment managers as targets only and the Trustees do not consider them an assurance or guarantee of the performance of each Investment Manager's portfolio or any part of it.
- 5.4 Through this process of monitoring the underlying investment managers, the Investment Adviser seeks to satisfy itself that the managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Fund.
- 5.5 The Investment Adviser conducts detailed due diligence for the appointment of any new investment managers and also carry out ongoing due diligence on a regular basis to ensure that the investment managers continue to meet the Fund's requirements. The due diligence process includes the review of each investment managers operational and investment capabilities, including performance of each mandate relative to its objective.
- 5.6 The Investment Adviser will provide advice to the Trustees in relation to any areas of concern that arise from the due diligence for each investment manager. The Trustees review such advice and agree appropriate action to address any issues either by the Investment Adviser acting on the Fund's behalf or by the Fund dealing directly with the investment managers.

Section 6: Investment Risk management

6.1 The Trustees recognise a number of risks involved in the investment of the assets of the Fund, as set out below.

Sufficiency risk

- is measured by the Fund being able to meet the remaining nuclear decommissioning costs by achieving its Required Return⁵
- is managed by designing the long-term strategic asset allocation and actively monitoring the Expected Return of the MAP relative to the Required Return.

Manager risk

- is measured by the expected standard deviation of the prospective risk and return as set out in the investment managers' performance objectives relative to the size of a manager's mandate
- is managed through diversification across investment managers and by the ongoing monitoring by the Investment Adviser both of the performance of the investment managers and of a number of qualitative factors supporting the investment managers' investment processes.

Liquidity risk:

- is measured by the level of cashflow required by the MAP over a specified period (e.g. to meet liability payments; to meet cash drawdown requirements across the Liquid and Illiquid Portfolios; etc)
- is managed by the Investment Adviser actively allocating assets between investment managers and mandates to create the necessary liquidity.

Currency risk

- is measured by the level of non-GBP exposure at a total portfolio level
- is driven by the unhedged non-GBP investments in the portfolio and is intended to act as a risk diversifier at total portfolio level consistent with expectations over the long-term horizon.

Ownership risk:

- is measured by operational due diligence assessment of each manager holding
- Operational Due Diligence assessments are conducted for each Investment Manager on a regular basis by the Investment Adviser.

Political risk:

- is measured by the susceptibility of the MAP to suffer losses as a result of political events
- is managed through regular assessment of the levels of diversification within the existing investment policy.

6.2 These efforts to manage risk balance the need for risk control and the need for assets which are likely to achieve the Required Return: they cannot render the MAP free of risk.

6.3 The Trustees monitor these risks on an ongoing basis.

⁵ It should be noted that the quantum and phasing of liabilities can impact the required return as these vary over time.

6.4 Investment Risk Appetite Statements

The Trustees have agreed a set of Investment Risk Appetite Statements which they use to consider and evaluate the investment risk exposures of the Fund. These Statements and the agreed Key Metrics against which to monitor each Statement are set out in the table below, along with the agreed Red/Amber/Green thresholds assigned. In addition, the asset sections of the Risk Register set out the controls and steps taken to mitigate investment risks.

Risk Statement		Key Metric	RAG status		
1	High appetite to take a level of investment risk that maximises the probability of the Fund's sufficiency but within the bounds of prudence.	Probability of meeting the liabilities in full	>60%	40-60%	<40%
		Expected Return less Required Return	1.00%-3.00%	0%-1.00%	<0%
2	High appetite for investments to deliver positive Environmental, Social and Governance (ESG) outcomes as well as to have a high degree of alignment to the United Nation's Sustainable Development Goals.	The number of managers with an ESG rating of "Limited".	All managers rated "Integrated" or more	1 manager rated "Limited"	>1 manager rated "Limited"
3	Low appetite for the failure of the Mixed Asset Portfolio to meet its return target over the long term.	Probability that the return > Required Return – 2%	>65%	50-65%	<50%
4	Low appetite for concentration of risk positions in the Mixed Asset Portfolio, while making meaningful allocations to each type of asset.	Risk Contribution by asset class	<30%	30-50%	>50%
		Diversified Liquid Growth	15%-50%	0% - 5% outside SAA tolerance	>3 asset classes above 20%
		Infrastructure	0%-40%	0% - 5% outside SAA tolerance	More than 5% outside SAA tolerance
		UK Growth Equity	0%-25%	0% - 5% above SAA tolerance	5% above SAA tolerance
		Global Private Equity	0%-25%	0% - 5% above SAA tolerance	5% above SAA tolerance

Risk Statement		Key Metric	RAG status		
		Global Real Estate	0%-15%	0% - 5% above SAA tolerance	5% above SAA tolerance
		Illiquid Credit	0%-15%	0% - 5% above SAA tolerance	5% above SAA tolerance
		No. of managers who represent more than 15% of the total MAP	0-2	3-4	>4
5	High appetite for illiquidity in the MAP whilst there is a material allocation of assets to the liquid National Loans Fund.	Exposure to private markets which are not deemed to be 'liquid'.	55%-80%	Within 5% of the SAA tolerance	Outside 5% of the SAA tolerance
		Number of years of expected future liability cashflow covered by National Loans Fund	> 10yrs	5-10yrs	< 5yrs
6	Low appetite for embarrassment and reputation risk, reflecting the desired standard of a public body.	Number of managers for the Fund who have failed Aon's ODD assessment	Low (No manager failed ODD)	Medium (up to 10% of managers failed ODD)	High (25% of managers failed ODD)
7	Medium appetite to focus NLF investments in the UK, supporting the UK Government.	Exposure to UK based investments at total Mixed Asset Portfolio level	>50%	25%-50%	<25%
8	High appetite for transparency and understanding of operational complexity, including tax treatment	Number of vehicles identified as having an uncomfortable degree of complexity by the Trustees or their advisers	None	n/a	1 or more