Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ("SIP") produced by the Trustee has been followed during the year to 31 March 2025.

This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by The Pensions Regulator.

Investment Objectives of the Group

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. An excerpt from the SIP describing the objectives is provided below:

The Trustee's objective is to invest the Group's assets in the best interest of the members and beneficiaries and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the Trustee has agreed a number of objectives to help guide the strategic management of the assets and control of the various risks to which the Group is exposed. The Trustee's primary objectives are set out below:

- *To maintain a Group funding level of at least 100% on a Technical Provisions basis. The Technical Provisions funding target broadly represents a reasonably cautious calculation of the value of the Group's liabilities;*
- *To ensure the Group's obligations to its beneficiaries can be met;*
- *To achieve an asset return above the return from gilts over the longer term, whilst recognising the need to balance risk control and return generation;*
- *To ensure consistency between the Group's investment strategy and the return assumptions used by the Group Actuary;*
- *To pay due regard to the Company's interests in the size and incidence of employer contribution payments, and to avoid volatility in the contribution rate;*
- *To maintain a 100% interest rate and inflation hedge (as measured on a Gilts + 0.02% p.a. basis) on the residual liabilities not covered by the Group's bulk annuity insurance contract. Gilts + 0.02% p.a. is aligned with the "reinvestment rate" used in the dynamic discount rate as per the 2024 valuation assumptions and was derived based on the long-term expected return on the Group assets as at the valuation date.*

Statement of Investment Principles (SIP)

The Trustee takes advice from its investment consultant, Mercer Limited ("Mercer") on the preparation of the SIP. The SIP was reviewed and updated during the year, and the revised SIP was published in March 2025 (the SIP can be found at https://www.unitedutilities.com/corporate/careers/pensions/information-library/). The revisions to the SIP related to the following changes:

- A small change to the hedging basis referenced in the objectives section (see previous page) to reflect the outcomes of the Group’s triennial actuarial valuation as at 31 March 2024.

- The addition of the Trustee’s stewardship priorities, which are used to identify and report on “significant votes” and to prioritise engagement activities.

Responsible Investment Policy

The SIP includes the Trustee’s overarching policy on environmental, social, and governance (ESG) considerations, stewardship, and climate change. This policy sets out the Trustee’s beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. This was reviewed as part of the Trustee’s review of the SIP during the year.

To establish these beliefs and produce this policy, the Trustee undertakes regular training which covers ESG factors, stewardship and climate change. Following an initial beliefs survey in 2019 and an updated survey in 2021, the Trustee carried out a further beliefs survey in April 2024, which included consideration of emerging themes such as biodiversity. While the survey results did not lead to any changes to the Trustee’s broad policy, the review allowed the Trustee Board to shape the future training plan and ensured that our policies and processes remain up-to-date.

The Trustee keeps the ESG policies in the SIP under regular review (as a minimum this takes place annually) and will continue to undertake a beliefs survey at least every three years to ensure the policies remain appropriate.

The Trustee has put in place an ESG Sub-Group to assist the Trustee Board and its Sub-Committees in relation to ESG matters. Decisions on overall policy and strategy sit with the full Trustee Board.

ESG Policy and Engagement Activity During the Year

The following work was undertaken during the year to 31 March 2025 relating to the Trustee’s activity on ESG matters, engagement, and broader stewardship. This summary also documents how the Trustee’s engagement policies were followed and implemented.

Activity	Date	Details
Employer engagement	8 April 2024	ESG matters are important in relation to the sponsoring employer, as these issues can impact the overall covenant strength, and may also highlight specific risks for the Trustee to be aware of. The ESG Sub-Group therefore met with a representative of the employer’s sustainability team to seek to understand how the company assesses, manages, and mitigates ESG risks and opportunities.
ESG Sub-Group training	8 April 2024 and 26 July 2024	Part of the role of the ESG Sub-Group is to identify emerging risks and opportunities relating to ESG topics. To assist with this, the ESG Sub-Group received training on: - Non-investment related areas that are expected to be impacted by ESG factors (notably mortality and sponsor covenant). - The role of engagement, including the approach taken by the Group’s investment manager.
Climate Change reporting under the Taskforce on Climate-Related Financial	17 September 2024	The Trustee reviewed the Group’s second Climate Change report under the TCFD framework at the September Board meeting. This included reviewing and documenting the following: - Trustee governance of climate related issues

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Activity	Date	Details
Disclosures (TCFD) framework		- The Group's strategy around managing climate related risks and opportunities, including consideration of scenario analysis - Climate-related risk management practices - Metrics and targets, such as absolute greenhouse gas emissions, carbon footprint, portfolio temperature alignment, and data quality. Further information can be found in the annual climate change report, available at https://www.unitedutilities.com/corporate/careers/pensions/information-library/
Investment manager meetings	12 June 2024, 9 December 2024 and 22 January 2025	The Trustee, via the Investment Sub-Committee (ISC), met with the Group's investment manager three times during the year. ESG risks and opportunities formed a substantive part of the agenda (the December meeting was dedicated entirely to ESG matters), including consideration of: - Engagement with the companies and governments who issue the securities in which the Group invests. This covered engagement with the UK Government's Debt Management Office on green gilts, and the manager's sector focus on 20 "climate critical" sectors. - The investment manager's pathway to achieving net zero greenhouse gas emissions. - At the Trustee's request, the manager also discussed its approach to ESG in the context of counterparty bank selection for the Group's liability driven investment portfolio. A case study was presented whereby the investment manager had decided to restrict the use of a certain bank owing to governance concerns. The ISC articulated to the investment manager its objectives as regards stewardship as part of these meetings.
Insurer monitoring	26 July 2024 & 22 January 2025	The Trustee purchased a bulk annuity insurance policy (a "buy-in") in July 2023, insuring a portion of the Group's liabilities. The insurer's management of ESG risks formed a key part of the decision-making criteria and has remained a focus in the Trustee's continued engagement with the insurer. At the 26 July 2024 ESG Sub-Group meeting, the insurer's climate scenario analysis was reviewed in order to assess the robustness of the insurer in a range of potential future scenarios. Additionally, the Trustee met with the insurer on 22 January 2025. Topics of interest included details of direct investments that the insurer has made in clean energy projects, using the assets backing the Group's policy, and the approach taken to achieving net zero emissions by 2050.
Training Day	3 October 2024	The Trustee sets aside a full day annually for training. At the 2024 training day the Trustee Directors completed training on ESG issues including climate change, which included a focus on fiduciary duty in the context of these matters.
ESG Policy review	Q4 2024	The Group's ESG Policy was reviewed during the year, at the 10 October 2024 ESG Sub-Group meeting. The Policy was subsequently approved by the Trustee at the 9 December 2024 Trustee Board meeting. There were no substantial changes to our overall approach – the main amendment to the Policy included adding information on how the Trustee monitors the Group's bulk annuity provider in relation to ESG issues, including climate change.

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Activity	Date	Details
Member infographic	Q1 2025	The Trustee prepared an "infographic" communication for our members, which summarises the annual climate change report, and the wider ESG and engagement activity conducted by the Trustee on members' behalf. The Trustee welcomes feedback from members and a number of channels are available for members to get in touch.
ESG and engagement monitoring	Quarterly throughout the year	The Group's investment performance report is reviewed by the Trustee each quarter and includes research ratings from the investment adviser that take into account ESG capabilities of the manager. Any deterioration in ratings would be considered as a prompt to review a mandate. No such deterioration was experienced during the year. In 2024, the Trustee added further ESG monitoring to the quarterly reporting through the inclusion of significant engagements carried out by the Group's investment manager on the Trustee's behalf, aligned to the Trustee's three priority stewardship themes (climate change, labour practices and standards, and corporate governance). The Trustee also maintains a risk register which includes ESG risks. An annual detailed review of the risk register is completed (during the year, the annual review took place in November 2024), and the Board and Sub-Committees review the relevant risks at quarterly meetings. The Trustee has put in place an addendum to the risk register entirely focused on ESG and Climate Change, in order to ensure appropriate risk identification, monitoring, and management is in place.

Voting Activity During the Year

The Trustee has delegated any voting rights to the investment manager and does not use the direct services of a proxy voter.

However, in practice, as the Group's investment strategy includes investment in only liability driven investments and fixed income assets, with no equity exposure, it is extremely rare for voting rights to be held. As such there has been no notable voting activity during the period.

Engagement Activities

The Group does not invest in equities or similar assets that have voting rights attached. However, the Trustee expects its investment manager to engage with issuers of bonds and other counterparties, where the Group has exposure to these parties in the investment portfolio.

The Trustee has set its stewardship priorities as follows:

- Climate change
- Labour practices and standards
- Corporate governance, for example board quality and shareholder / bondholder rights.

These priorities have been set based on their financial materiality as regards long-term returns and risks.

The following disclosures provide examples of engagement activities undertaken by the investment manager, Legal & General Investment Management (LGIM) on these priorities.

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Stewardship Priority	Climate change
Company / entity	Engagement with the US Securities and Exchange Commission (SEC)
Issue	The Group’s portfolio includes bonds issued in sterling by global companies, including US companies. LGIM have therefore been carrying out engagement with the US Securities and Exchange Commission (SEC) regarding its Climate Disclosure Rule. The SEC adopted rule changes requiring companies to disclose certain climate-related information, ranging from greenhouse gas emissions to expected climate risks and transition plans. However, the SEC’s Climate Disclosure Rule has faced legal and regulatory pushback since its adoption in March 2024, including several lawsuits challenging the rule. In response to this the SEC issued a “stay order” while these cases are heard (meaning the rule was temporarily paused). In addition to these legal challenges, the rule may also face the threat of a Congressional Review Act vote in US Congress, which is a tool that can be used to overturn certain federal agency actions, such as the adoption of the Climate Disclosure Rule.
Engagement Undertaken	LGIM support the Climate Disclosure Rule and have therefore been concerned about the pushback on this in the US. With the support of the Environmental Defense Fund, LGIM met with US policymakers to express their views relating to the Congressional Review Act vote and communicated investor perspectives on the importance of the Climate Disclosure Rule. LGIM emphasised this rule’s value in improving information to help investors make decisions and also its importance in the competitiveness of US markets (given global investors’ expectations around climate disclosures).
Outcome / next steps	Unfortunately, in March 2025, the US SEC announced that it had voted to end its defence of the final rules on the enhancement and standardisation of climate-related disclosures for investors. This followed opposition to the climate rules from congressional leaders, some trade associations, state attorneys general, and other business entities. While disappointing, this is a good example of how long-term engagement can be, often without immediate “quick wins”. LGIM continue to engage with the relevant bodies and believe that there is significant value in this form of direct regulatory engagement to communicate their stewardship priorities with policy decision-makers and advocate for change.

Stewardship Priority	Labour practices and standards
Company	Tesco
Issue	For several years, LGIM has been working with food retailers including Tesco regarding their practices around paying the real living wage to employees, contractors, and supply chain workers. LGIM have a policy whereby they will vote against the annual report of those companies that fail to disclose their living wage strategy by 2025. Tesco are one of the largest supermarkets in the UK, employing 300,000 employees directly and c. 1 million in the wider supply chain. LGIM report that while Tesco are paying their own employees a living wage, many contractors and supply chain workers are still paid below living wage.
Engagement Undertaken	LGIM's engagement strategy has been long-running, including: • 2015: LGIM Joined ShareAction's Good Work Coalition to encourage UK companies to become accredited living wage employers. • 2022: LGIM Joined Platform for Living Wage Financials to encourage and monitor investee companies to pay living wage—including supply chain. • 2023: LGIM launched their income inequality campaign among 15 largest food retailers globally, including Tesco. The campaign sets minimum expectations to pay a living wage for employees and supply chain workers. • 2024: LGIM held two engagement meetings with Tesco, including one at its headquarters. Topics discussed included initiatives to tackle pay issues. LGIM encouraged Tesco to improve its disclosures as well as to be bold and lead in this area by setting out a formal policy on paying a living wage. LGIM were pleased to hear during the second meeting that the retailer had listened and that improvements to disclosure would be made.
Outcome / next steps	While LGIM will continue to engage actively with Tesco on this topic, the manager notes that in recent years good progress has been made including an increase to compensation levels for employees and the intention to improve future disclosures.

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Stewardship Priorities	Corporate governance and climate change
Company	Multiple UK water companies
Issue	LGIM hold a number of water company bonds within the Group's portfolio, and as a major lender in the UK corporate bond market, LGIM believe they have a duty to push for change in the industry, where appropriate. More broadly, LGIM has engaged with their peers, Ofwat and the UK Government Department for Environment, Food & Rural Affairs (DEFRA), on the formation of long-term solutions for the UK water industry.
Engagement Undertaken	As part of their engagement strategy for the water industry, LGIM have taken the following actions: • During the year a key area of engagement related to Thames Water and governance standards. Following the announcement by Thames Water shareholders that they considered certain draft regulatory proposals as "uninvestable", LGIM joined three meetings of a bondholder forum at the Investment Association (seeking to engage with Ofwat and the Government) and joined a group of Thames Water bondholders engaging with Thames Water, Ofwat and Government departments on behalf of the bondholders. • In August 2024 LGIM attended a roundtable meeting with Ofwat to express their views directly. LGIM then arranged a follow-up call with Ofwat in September 2024 to discuss market perceptions around the water industry in the UK, and to express the importance of understanding the concerns of the broad financial sector when considering their next moves. • Recognising the role that Government plays in the water sector, and in light of the new labour Government coming into power in 2024, LGIM engaged with representatives of DEFRA, in respect of the UK water sector, with specific consideration of bondholders, and helped to connect DEFRA with UK investor trade body the Investment Association, and with credit rating agency Moody's. • LGIM engaged further with the Environment Secretary and Financial Secretary to the UK Treasury in September 2024. • Finally, LGIM have joined a collaborative working group led by the Investor Forum, focussed on short, medium and long-term concerns with the UK water system. Exploratory meetings have been held with a number of water companies where LGIM have voiced investor concerns.
Outcome / next steps	LGIM notes that their engagement work is ongoing and they intend to continue to engage with their peers, Ofwat and DEFRA on the formation of long-term solutions for the UK water industry.