

## 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 2024.

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 the Gilts + 0.25% p.a. basis) on the residual liabilities not covered by the Group’s bulk annuity insurance contract.*

### 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 2024 (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:

- The purchase of a bulk annuity insurance policy, to enhance security for members.
- The adoption of a revised investment strategy for the residual assets not invested in the bulk annuity. This included the implementation of a corporate bond mandate with an

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explicit “net zero” emissions target, managed by an investment manager that has made a climate impact pledge.

### Policy on Environmental, Social, and Governance (ESG) matters, Stewardship and Climate Change

The SIP includes the Trustee’s overarching policy on 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 in December 2023.

In order to establish these beliefs and produce this policy, the Trustee undertakes training provided by the Group’s advisers which covers ESG factors, stewardship and climate change. Following an initial beliefs survey in 2019, in 2021 the Trustee carried out a further beliefs survey, designed to assist the Trustee with reviewing and updating its policies in this area.

Subsequent to the Group year-end covered by this statement, in April and May 2024 the Trustee completed an updated beliefs survey, including new areas such as biodiversity and nature.

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.

### ESG Policy and Engagement Activity During the Year

The following work was undertaken during the year to 31 March 2024 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
Taskforce on Climate Related Financial Disclosures (TCFD) reporting	June 2023	<p>The Trustee prepared the Group’s first Climate Change report under the TCFD framework during June. This included reviewing and documenting the following:</p> <ul style="list-style-type: none"><li>- Trustee governance of climate related issues</li><li>- The Group’s strategy around managing climate related risks and opportunities, including consideration of scenario analysis</li><li>- Climate-related risk management practices</li><li>- Metrics and targets, such as absolute greenhouse gas emissions, carbon footprint, portfolio temperature alignment, and data quality.</li></ul> <p>Further information can be found in the Group’s annual TCFD report, available at <a href="https://www.unitedutilities.com/corporate/careers/pensions/information-library/">https://www.unitedutilities.com/corporate/careers/pensions/information-library/</a></p>
Insurer selection	Series of meetings during Q2 2023	<p>ESG factors, with a particular focus on climate change, formed a substantive part of the insurer selection process when the Trustee sought to purchase a bulk annuity policy to secure a portion of the Group’s liabilities.</p> <p>The insurer’s management of climate change risks formed a key element of the decision-making criteria, and the Trustee commissioned professional advice on how each potential insurer’s climate change policies aligned with those of the Group.</p>
Investment mandate selection	September 2023 (implemented)	<p>Following the purchase of a bulk annuity policy in July 2023, the Group’s residual asset portfolio reduced in size, meaning that a Group-specific investment mandate (known as a “segregated” approach) was no longer</p>

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Activity	Date	Details
	February 2024)	<p>viable. Therefore, the Trustee was required to identify a suitable pooled fund solution.</p> <p>In doing so, the Trustee used ESG factors as a significant part of the selection process, and selected a pooled fund that explicitly implements climate related guidelines and targets within the investment process (the LGIM Future World Net Zero Buy and Maintain Credit (2033-2042) Fund).</p>
Training Day	19 September 2023	<p>The Trustee sets aside a full day annually for training.</p> <p>At the 2023 training day the Trustee Directors completed training on climate change, which included a focus on TCFD reporting, how climate risks (and opportunities) may impact the Group, and the role that stewardship can play.</p> <p>The Trustee Directors also received training on diversity, equity, and inclusion, which is another material ESG related theme.</p>
Investment manager meeting	25 January 2024	<p>The Trustee met with the Group’s investment manager, at a meeting dedicated to engagement with the managers, outside of “business as usual” activity. At the meeting, the manager discussed how they integrate ESG factors in their process and portfolio.</p> <p>Specifically, for the <b>Liability Driven Investment (LDI) portfolio</b>, which invests primarily in UK Government bonds (gilts):</p> <ul style="list-style-type: none"> <li>- The investment manager is able to invest in “green gilts” and carries out active engagement with the Treasury, Debt Management Office, and related working parties on sustainability topics.</li> <li>- The manager also assesses the ESG policies of the counterparty banks used to trade derivative contracts, and engages directly with the banks on ESG matters.</li> </ul> <p>In respect of <b>Buy &amp; Maintain corporate bonds</b>, the Trustee has selected pooled funds that formally embed alignment to a net zero objective. Here, the investment manager discussed:</p> <ul style="list-style-type: none"> <li>- Its engagement approach to working with bond issuers on ESG matters, including case studies and examples of where ESG factors had influenced investment decisions.</li> <li>- How the manager intends to reach net zero greenhouse gas emissions, including the metrics used to monitor progress.</li> </ul> <p>New investment opportunities in this area were also reviewed, including the use of “green bonds” in bond mandates, which the investment manager has the freedom to invest in.</p> <p>The ISC articulated to the investment managers its objectives as regards engagement as part of these meetings.</p>
ESG Sub-Group training	December 2023	<p>The Trustee has put in place an ESG Sub-Group to assist the Trustee Board and its Sub-Committees in relation to ESG matters.</p> <p>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 Board received training on biodiversity and nature capital at its December 2023 meeting.</p>
Member infographic	February 2024	<p>The Trustee prepared an “infographic” communication for our members, which summarises the annual TCFD 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.</p>

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Activity	Date	Details
ESG workplan	At least quarterly throughout the year	During the year the Trustee maintained an ESG project plan, in order to ensure that all ESG related work was progressed appropriately. This assists the Trustee in its governance of ESG related matters.
ESG and engagement monitoring	Quarterly throughout the year	<p>The Group’s investment performance report is reviewed by the Trustee each quarter and includes ratings (both general and specific to ESG) from the investment adviser. Any deterioration in ESG ratings would be considered as a prompt to review an investment mandate. No such deterioration was experienced during the year.</p> <p>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).</p> <p>The Trustee 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 2023), 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.</p>

### 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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<b>Stewardship Priority</b>	Climate Change
<b>Company</b>	NextEra Energy (“NEE”)
<b>Issue</b>	<p>NEE is considered a leader in the development of renewables in the US.</p> <p>Prior to the passage of the Inflation Reduction Act (a subsidy programme for US production including measures to promote decarbonisation), LGIM engaged with NEE to seek to understand how the passage of the Act might impact the company’s development plans.</p> <p>NEE was heavily involved in lobbying for incentives to help accelerate the energy transition across the US and as a market leader in renewables in the US expects to maintain its share and grow with the market.</p> <p>There was a particular focus on Florida Power &amp; Light (“FP&amp;L”), Florida’s largest power utility company, which is wholly owned by NEE. FP&amp;L had only begun to deploy renewable assets in recent years. LGIM also wanted to understand how FP&amp;L plan to address the frequency and severity of storms within its hurricane-prone region, to mitigate climate related risks.</p>
<b>Engagement Undertaken</b>	<p>LGIM has met with NEE’s senior leadership over several years.</p> <p>The focus of the engagement discussions have been on the deployment of solar resources at FP&amp;L and the impact of various state and federal initiatives that would increase investment opportunities for its competitive contracted renewable development unit across the US.</p> <p>In November 2023, LGIM met with the company’s senior leadership including the Chief Executive Officer (CEO) and Chief Financial Officer of NEE, as well as the CEO and President of the FP&amp;L business. The meeting included discussion of net zero targets and progress.</p>
<b>Outcome</b>	<p>As a result of the engagement, LGIM now feel satisfied with NEE’s plans and view NEE as well positioned to achieve its “Real Zero” target by 2050 given continued deployment of solar in Florida.</p> <p>LGIM plan to monitor the company’s efforts to demonstrate the feasibility of emerging technologies which they have begun to trial (e.g. production of green hydrogen and blending of hydrogen in natural gas plants) to allow ultimate conversion to hydrogen fuelled plants. Also, LGIM will monitor trends in customer outages and duration.</p>

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<b>Stewardship Priority</b>	Labour practices and standards
<b>Company</b>	Tesco
<b>Issue</b>	<p>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.</p> <p>In 2022, LGIM introduced a new expectation in its published guidelines relating to income inequality. Under this policy, LGIM will vote against the annual report of those companies that fail to disclose their living wage strategy by 2025.</p>
<b>Engagement Undertaken</b>	<p>LGIM engaged with Tesco on multiple occasions on employee compensation issues. During the reporting period, LGIM conducted five engagements expressly on this topic, with the company’s Chairman, members of their Investor Relations team, and the Company Secretary function.</p> <p>Most recently, in early 2024 LGIM met Tesco’s supply chain procurement team to discuss the issues they face paying a living wage to supply chain workers.</p> <p>LGIM also seek to work collaboratively with other investors. For example, LGIM, together with other long term investors, published an investor statement on the UK cost of living crisis which sets out a list of actions for companies such as Tesco to address the impact of the cost of living crisis on their employees: prioritising support for their lowest paid employees by either increasing pay to match the real living wage, or to make one-off cost of living payments.</p>
<b>Outcome</b>	<p>While LGIM continue to engage actively with Tesco on this topic, the manager notes that in recent years progress has been made including an increase to compensation levels for employees.</p> <p>As such, they have not chosen to escalate the engagement yet but retain the option to do so if momentum is not maintained.</p>

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<b>Stewardship Priority</b>	Corporate Governance
<b>Company</b>	Meta Platforms Inc
<b>Issue</b>	<p>Meta (formerly known as Facebook) is a portfolio holding that faces governance risks associated with the Chief Executive controlling the majority of the company's voting power, as well as investor concerns over transparency and corporate reporting.</p> <p>Investment markets reacted unfavourably in 2022 due to investor governance concerns and the underlying corporate strategy that involved significant spending on its virtual Metaverse Research &amp; Development, in the face of growing macroeconomic uncertainty.</p>
<b>Engagement Undertaken</b>	<p>LGIM engaged with Meta's Investor Relations, Corporate Finance and Treasury Team during the year in relation to governance, transparency, accountability and corporate reporting.</p> <p>Most recently this has focused on investor rights and transparency. Notably, given Meta's ambitions to grow the debt balance (a potential concern for LGIM as an existing bond-holder), LGIM suggested that Meta should consider invoking a success / returns-based framework for capital expenditures that could be objectively measured by all stakeholders over time. LGIM also noted that there would be benefits from more frequent engagement with existing creditors to build credibility and better season their balance sheet policy and capital return policies, in order to provide more open dialogue with creditors in small group forums.</p>
<b>Outcome</b>	<p>Following the engagement, Meta's management has improved transparency, accountability and overall corporate reporting as it relates to its underlying core social media assets and its on-going virtual “Metaverse” initiative.</p> <p>LGIM plan to hold semi-annual sessions with Meta's Investor Relations and Treasury teams to continue and enhance this dialogue especially in relation to their planned increase in debt financing given the significance of the company, and LGIM's experience in the investment grade credit markets.</p>