

United Utilities Pension Scheme

Statement of Investment Principles

December 2023

1. Introduction

- 1.1 The Trustee of the United Utilities Pension Scheme (“the Scheme”) has drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments and to provide details of the Scheme’s investment arrangements.
- 1.2 In preparing this Statement the Trustee has consulted the Sponsor Company.
- 1.3 The Scheme is a hybrid scheme consisting of Defined Benefit and Defined Contribution benefits.
- 1.4 In relation to Defined Benefit investments, the Trustee has established an Investment Sub-Committee (“ISC”). It has delegated responsibility for operational matters, including regular investment monitoring and the appointment and termination of investment managers to the ISC. Any decisions regarding the Scheme’s investment strategy are undertaken by the Trustee after receiving advice from the ISC.
- 1.5 The Trustee has also established a Defined Contribution Sub-Committee (“DCSC”) to consider member communications, investment, and governance matters for benefits which are Defined Contribution in nature.
- 1.6 The Trustee has also established a Joint Working Group (“JWG”). The JWG is a joint Trustee and Company Committee. Its role is to provide a framework to achieve an effective, integrated investment and funding strategy for the Defined Benefit element of the Scheme. The aim of the JWG is to achieve these goals whilst maintaining a decision structure where the Trustee Board (via the ISC) retains appropriate control over the investment of the Scheme’s assets. The JWG will also discuss matters concerning the Defined Contribution element of the Scheme as the need arises.

2. Process For Choosing Investments

- 2.1 The process for choosing investments is as follows:
 - Identify appropriate investment objectives
 - Agree the level of risk consistent with meeting the objectives set
 - Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk
 - Throughout, consider relevant environmental, social, and governance (ESG) matters.
- 2.2 In considering the appropriate investments for the Scheme the Trustee has obtained and considered the written advice of its Investment Consultant, Mercer Limited (“Mercer”), whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee’s opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

3.1 Defined Benefits

3.1.1 The Trustee's objective is to invest the Scheme's assets in the best interests of the members and beneficiaries and with regard to the Sponsor Company's interests, 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 them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee's Primary objectives are as follows:

- To maintain a Scheme 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 Scheme's liabilities.
- To ensure that it can meet its obligation to the beneficiaries of the Scheme.
- To pay due regard to the Sponsor Company's interest in the size and incidence of contribution payments, and to avoid volatility in the contribution rate.
- To achieve a return on the assets which is compatible with the level of risk considered appropriate. Further detail of the risk management policy is set out in section 4.
- Avoid volatility in the pension assets relative to the liability recognised in the Sponsor Company's balance sheet.
- To maintain a 100% interest rate and inflation hedge (as measured on a Technical Provisions basis) on the residual liabilities not covered by the Scheme's bulk annuity insurance contract.
- Remove other material risks, e.g. longevity and other market asset risks, when it is affordable to do so.

3.2 Defined Contribution

3.2.1 The Trustee's objective is to provide adequate investment options/arrangements to members to choose and invest.

3.2.2 This includes due consideration of:

- Risk and return characteristics
- ESG factors
- Value for members.

3.2.3 Detailed information on the objectives of the default investment strategy is included later in this Statement.

4. Risk Management and Measurement

4.1 Defined Benefits

4.1.1 The Trustee considers a range of potentially financially material factors to which the Scheme is exposed over the anticipated time horizon for which the assets will be held. These factors are outlined below and in section 10.

4.1.2 In deciding to take investment risk relative to the liabilities, the Trustee has carefully considered the following possible consequences:

- The assets might not achieve the excess return relative to the liabilities anticipated over the longer term. This would result in deterioration of the Scheme's financial position and consequently higher contributions than currently expected from the Sponsor Company.
- The relative value of the assets and liabilities will be more volatile over the short term than if investment risk had not been taken. This will increase the likelihood of there being a shortfall of assets relative to the liabilities in the event of discontinuance of the Scheme.
- This volatility in the relative value of assets and liabilities may also increase the short-term volatility of the Sponsor Company's contribution rate set at successive actuarial valuations, depending on the approach to funding adopted.
- The risk that the bulk annuity insurance provider may default on their obligations (as contracted). Before entering into the contract with the insurer, the Trustee obtained and carefully considered professional advice regarding the financial strength of the insurer and concluded that the risk was acceptably low.

The Trustee has taken advice on these issues from its Investment Consultant and the Scheme Actuary. It has also held related discussions with the Sponsor Company.

4.1.3 The degree of investment risk the Trustee is willing to take also depends on the financial position of the Scheme. The Trustee will monitor the funding level of the Scheme and its liability profile, with a view to altering the investment objectives, risk tolerance and/or return target should there be a significant change in either.

4.1.4 There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities. The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more volatility in the Scheme's funding position. The Trustee has taken advice on the matter and, in light of the objectives noted previously, considered carefully the implications of adopting different levels of risk.
- Bearing in mind the above factors, and after taking advice from the Investment Consultant and Scheme Actuary, the Trustee has chosen to target a low risk investment strategy, comprised of fixed income assets and a bulk annuity insurance policy, which is expected to maintain a fully funded position on the Technical Provisions basis.

- The Trustee believes that the arrangements adopted represent a satisfactory trade-off between target return (net of all costs) and investment risk after taking into account the resources available to implement and monitor them.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio.
- Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee meets with the Scheme's investment managers, bulk annuity insurance provider, and receives regular reports from these parties and the Investment Consultant.
- The safe custody of the Scheme's assets is delegated to professional custodians, either directly or via the use of pooled vehicles.

4.1.5 Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered, in particular whether the current risk profile remains appropriate.

4.2 **Defined Contribution**

4.2.1 The Trustee has considered risk from a number of perspectives. These are as follows:

- The risk that the investment return achieved on a member's account over the member's working life will not keep pace with price and wage inflation.
- The risk that investment market movements in the period immediately prior to retirement lead to a substantial reduction in the anticipated level of retirement benefits.
- The risk that the investment vehicles in which monies are invested under-perform the expectation of the Trustee.
- The risk that the investment profile of the default investment option is unsuitable for the requirements of some members.

4.2.2 The Trustee, having taken expert advice, believes that the decision to offer the funds made available to members is appropriate to meet the Trustee's objective as set out in 3.2 and will minimise the risks identified in 4.2.1.

5. **Defined Benefit Investment Strategy**

5.1 The Trustee has adopted a strategy with the aim of generating sufficient investment returns to achieve the Scheme's investment objectives in Section 3.

5.2 The Trustee has invested a proportion of the Plan's assets in a bulk annuity contract with an insurer. The investment strategy documented below relates to the residual invested assets.

5.3 The investment strategy takes account of:

- The maturity profile of the Scheme in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners allowing for the bulk annuity policy;
- The Technical Provisions liability valuation basis; and
- The expected strength of covenant of the Sponsor Company.

5.4 The target asset class strategic exposure (excluding annuities) is as follows:

Asset Class	Manager	Strategic Target Exposure (%)
Hedge Portfolio	Insight	52
Investment Grade Global Buy and Maintain Credit	Insight	24
Senior Private Debt	Mercer	24
Total		100

5.5 The managers have discretion over the investment of the Scheme's assets, subject to the restrictions detailed in the SIP and in the respective Investment Management Agreements and related guidelines in place between the Trustee and the investment manager.

5.6 The assets of the Scheme are predominantly invested on regulated markets. Investment may be made in securities and instruments that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), such investments will normally only be made as part of a specific mandate where such instruments are permitted, and/or with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management.

5.7 Specific considerations for the individual mandates are outlined below.

5.8 **Insight Hedge Portfolio**

Investment objective: The Hedge Portfolio is designed to protect the Scheme from changes in the value of the Scheme's projected liabilities resulting from changes in interest rates and inflation.

Within the Hedge Portfolio, Insight may hold fixed and index-linked gilts, repurchase transactions, total return swaps on fixed and index-linked gilts, interest rate and inflation swaps, futures, Network Rail bonds, and cash (short term deposits and shares in a liquidity fund).

Together with the corporate bonds held in the Insight Buy and Maintain credit portfolio, the target is to hedge c. 100% of the Scheme's interest rate and inflation exposure on a Technical Provisions basis on the residual liabilities that are not covered by the bulk annuity insurance contract.

Insight also manage a Currency Hedge Portfolio and a Global Interest Rate Hedge Portfolio for the Scheme. The objectives of these portfolios are, respectively, to remove the foreign currency exposures that arise from the Scheme's holdings of non-sterling assets and to remove the foreign currency interest rate exposures that arise from the Scheme's holdings of non-sterling corporate bonds.

5.9 Mercer - Senior Private Debt

Investment objective: To outperform SONIA by 4% p.a., net of management fees, over the life of the investment.

Mercer is responsible for constructing and monitoring a diversified portfolio of underlying senior private debt managers and may invest in various forms of private debt including corporate debt and infrastructure debt.

Insight are responsible for hedging the non-Sterling currency exposure arising from investments in non-sterling denominated assets back to Sterling on a quarterly basis.

The Strategic Target Exposure of 24% is driven by the existing allocation at the time of writing, but the Senior Private Debt assets are expected to run-off by c. 2028 and so this allocation is expected to decrease over time, with the LDI and Buy & Maintain Credit allocation expected to increase.

5.10 Insight Investment Grade Buy & Maintain Credit Portfolio

Investment objective: To seek to capture the credit risk premium available in credit markets through investing in globally diversified portfolios of predominately investment grade bonds and to seek to maintain the value of these portfolios through:

- Investing in securities with a view to holding such securities until maturity;
- Avoiding investments in securities which the manager believes are likely to default or experience a significant deterioration in credit quality; and
- Minimising trading activity and the associated costs.

5.11 L&G Bulk Annuity Policy

An annuity policy has been secured to cover a portion of the liabilities. The objective of the policy is to meet the liabilities of all members covered by the policy.

5.12 Rebalancing and Cashflow Policy for Defined Benefit Assets

Reflecting the Trustee's desire to mitigate transaction costs and forced trading, there is no formulaic rebalancing within the Defined Benefit assets, although the asset allocation is reviewed on at least a quarterly basis and any cashflows over and above those required to meet benefit outgo are used to maintain the strategic benchmark allocation.

As required, cash to meet benefit outgo and expenses will be sourced from:

- Available investment income and principal at maturity dates in the Insight Buy and Maintain Credit portfolio.
- Available distributions from the Mercer Senior Private Debt mandate.
- Annuity income from L&G, designed to exactly cover a specified portion of member benefits.

These are paid directly into the Trustee Bank Account as they arise.

6. Defined Contribution Investment Strategy

Default investment option

6.1 The Trustee offers a default option ("Retirement Flexible Income Lifestyle") which includes lifestyling arrangements to de-risk investments to an asset allocation designed to be appropriate for a typical member who intends to remain invested after retirement, drawing their benefits flexibly over time.

6.2 The aims of the default option, and the ways in which the Trustee seeks to achieve these aims, are detailed below:

- To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk.

The default option's growth phase invests in equities and other growth-seeking assets through diversified growth funds. These investments are expected to provide equity-like growth over the long term with some downside protection and some

protection against inflation erosion. Both actively managed and passively managed funds are used.

- To provide a strategy that reduces investment risk for members as they approach retirement.

As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over the 10-year period to a member's selected retirement date. Investments are switched from higher-risk growth-seeking assets to assets aiming for income and stable growth through retirement, along with an allowance for tax-free cash benefits through an allocation to money market investments.

- To provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to draw down their benefits flexibly over time.

At the member's selected retirement date, assets invested in the default investment option will be invested in a diversified portfolio, including allocations to equities and alternative asset classes (through diversified growth funds), government and corporate bonds, and money market investments.

6.3 Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default option, the Trustee has explicitly considered the trade-off between risk and expected returns.

6.4 Assets in the default investment option are invested in the best interests of members and beneficiaries, taking into account the profile of members. In particular, the Trustee considered detailed membership profiling analysis in order to inform decisions regarding the default investment option. Based on this understanding of the membership, a default investment option that targets flexible withdrawal of benefits (typically via a drawdown arrangement) is considered appropriate. Members are supported by clear communications regarding the aims of the default and the access to alternative approaches.

6.5 The investment managers have full discretion (within the constraints of their mandates) on the extent to which environmental, social and governance considerations are taken into account in the selection, retention and realisation of investments. The Trustee's policies regarding such issues are detailed later in this Statement. The default investment option includes an allocation to global equities that have a particular focus on incorporating environmental, social, and governance considerations within the portfolio. Companies that fail to meet certain standards in relation to adapting to a lower carbon world and / or corporate governance may be excluded from the fund.

6.6 Taking into account the demographics of the Scheme's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believe that the current default investment option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

Default investment option – Policy on Illiquid Assets

6.7 Assets in the default investment option are invested in daily traded pooled funds. These are commingled investment vehicles which are managed by various investment firms.

- 6.8 The Trustee considers illiquid assets as assets of a type which cannot easily or quickly be sold or exchanged for cash; including where such assets are invested as a component of a daily-dealing multi-asset fund.
- 6.9 The Scheme's default investment option does not include any direct allocation to illiquid investments. The Scheme has indirect exposure to illiquid assets within the default option through its investment in multi-asset diversified growth funds, where the investment managers have the discretion to include modest allocations to less liquid assets in their strategy. At the total default strategy level, this is not expected to be more than 2% at any point of the lifestyle investment strategy and relates primarily to physical property investments within one of the underlying funds.
- 6.10 The Trustee is comfortable indirectly investing in a small proportion of the default option in illiquid assets, to gain access to the potential for higher returns and the benefits of diversification that illiquid assets can offer. While these benefits are recognised, the Trustee is also aware of the risks of investment in illiquid assets. Given the potential for valuations of illiquid assets to not reflect their true value at a given time as well as liquidity constraints and investment platform compatibility; the Trustee considers *direct* investment into an illiquid asset fund, such as a Long Term Asset Fund ("LTAF"), as not currently appropriate, although this is kept under review.
- 6.11 In selecting investments for the default option the Trustee uses both qualitative and quantitative analysis to consider the expected impact of different strategic allocations. For any investment, the Trustee carefully considers whether it provides value for members, taking account of the return potential and associated risks. It is the Trustee's policy to review the allocation of the default investment strategy on at least a triennial basis, including the policy on illiquid assets.

Alternatives to the default investment option

- 6.12 The Scheme offers alternative lifestyle investment options which target different retirement benefits than that targeted by the default investment option, namely full cash withdrawal and annuity purchase (including an allowance for tax free cash of 25%).
- 6.13 In addition, a range of self-select funds are offered to members.

7. Day-to-Day Management of the Defined Contribution Assets

- 7.1 The funds in which members with Defined Contribution benefits may invest their personal accounts are accessed through an investment platform provided by Aegon Workplace Investing ("Aegon"). The platform is accessed through a direct (long-term) insurance contract between the Trustee and Aegon.
- 7.2 Through the Aegon arrangement, members have the choice from a range of investment options. The fund range offered is primarily passively managed with some actively managed fund options.
- 7.3 The Trustee delegates the day-to-day management of the assets to a number of investment managers. The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.
- 7.4 The Trustee has determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

- 7.5 The Trustee regularly reviews the continuing suitability of the Scheme's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time. However any such adjustments would be done to reduce the likelihood of the Scheme's dependency on the Sponsor Company over time.
- 7.6 Each of the appointed managers has been set a specific benchmark and performance objective by the Trustee. The Trustee acknowledges that a number of these managers do not manage the portfolio with regard to the benchmark and therefore performance is likely to be volatile relative to the benchmark.
- 7.7 Details of the funds and appointed managers are set out below.

Blended Funds

Fund	Component Funds
Higher Growth	23% LGIM Future World Global Equity Fund (GBP Hedged) 23% LGIM Future World Global Equity Fund 22% BlackRock Global Minimum Volatility Index 3% BlackRock Emerging Markets Equity Index 30% United Utilities Diversified Growth Fund
Medium Growth (default growth phase fund)	16% LGIM Future World Global Equity Fund (GBP Hedged) 16% LGIM Future World Global Equity Fund 16% BlackRock Global Minimum Volatility Index 2% BlackRock Emerging Markets Equity Index 50% United Utilities Diversified Growth Fund
Lower Growth	10% LGIM Future World Global Equity Fund (GBP Hedged) 10% LGIM Future World Global Equity Fund 9% BlackRock Global Minimum Volatility Index 1% BlackRock Emerging Markets Equity Index 30% United Utilities Diversified Growth Fund 20% DC Aquila Corporate Bond All Stocks Index Fund 20% DC Aquila Up to 5 years Index Linked Gilt Index Fund
Defensive Fund	37.5% DC Aquila Corporate Bond All Stocks Index Fund 37.5% DC Aquila Up to 5 years Index Linked Gilt Index Fund 25% DC Cash Fund
Blended Bond *	50% DC Aquila Corporate Bond All Stocks Index 50% DC Aquila Up to 5 years Index Linked Gilt Index

* Closed to new contributions.

Other Funds

Funds open to new contributions

DC Aquila (30/70) Currency Hedged Global Equity Index Fund
DC Aquila (50/50) Global Equity Index Fund
DC Aquila Emerging Markets Equity Index Fund
LGIM Future World Global Equity Fund
United Utilities Shariah Global Equity Fund
United Utilities Ethical UK Equity Fund
United Utilities Property Fund
United Utilities Diversified Growth Fund
DC Cash Fund
LGIM Pre-Retirement (through a lifestyle strategy)
DC Aquila Up to 5 years Index Linked Gilt Index (through a lifestyle strategy)

Funds closed to new contributions

DC Aquila UK Equity Index Fund
DC Aquila US Equity Index Fund
DC Aquila European Equity Index Fund
DC Aquila Japanese Equity Index Fund
DC Aquila Over 15 Year Gilt Index Fund
DC Aquila Over 5 Year Index-Linked Gilt Index Fund
DC Aquila Over 15 Years Corporate Bond Index Fund
United Utilities Corporate Bond Fund
United Utilities Global Emerging Market Equity Fund

- 7.8 In the event of a change in investment manager, the Trustee may appoint a transition manager to facilitate the required asset transfer.

Both Defined Benefit and Defined Contribution Sections

8. Additional Assets

- 8.1 Under the terms of the trust deed the Trustee is responsible for the investment of additional voluntary contributions (“AVC”) paid by members as well as contributions paid under the variable pay option. Members have the choice of the full range of fund options outlined in the Defined Contribution Section of the SIP. In addition, legacy AVCs are invested in a Clerical Medical policy, which is closed to new contributions.

9. Environmental, Social and Governance (ESG) Considerations

- 9.1 The Trustee believes that ESG issues can have a financially material impact on investment outcomes, and that good stewardship can create and preserve value for companies and markets as a whole, hence having the potential to benefit Scheme members in the long term. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.
- 9.2 The Trustee accordingly considers these issues in the context of anticipated time horizon over which the assets will be held.
- 9.3 The Trustee has undertaken ESG training facilitated by its advisers. As part of this training the Trustee carried out an ESG beliefs survey in order to assist with developing a policy in this regard. Alongside the ESG investment policies detailed here, the Trustee maintains an ESG Policy which covers broader matters alongside those that relate to investments.
- 9.4 The Trustee does not directly manage its investments; the investment managers and annuity provider have full discretion to buy and sell investments within the various portfolios, within the guidelines of their mandates. ESG considerations are however taken into account in the selection, retention and realisation of investments in the following ways:
- The Trustee has arranged for ESG related exclusions to be implemented within a number of investment mandates, across both the Defined Benefit and Defined Contribution Sections, consistent with mitigating material ESG risks and enhancing the resilience of the Scheme to ESG risks including climate change.
 - The Trustee considers the ESG research ratings published by its investment advisors, Mercer, when monitoring the Scheme’s investment managers’ capabilities. These ratings are reported quarterly and also considered as part of any new selection of investment funds.
 - In annual meetings with the Scheme’s investment managers, ESG issues are discussed and the manager is expected to discuss voting and engagement activities carried out on behalf of the Trustee for mandates where this is relevant.
- 9.5 The Scheme’s voting rights (which relate almost entirely to the Defined Contribution assets, as there are no equity investments in the Defined Benefit assets) are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

- 9.6 Equity managers registered with the appropriate regulator are expected to report on their adherence to the UK Stewardship Code, and to disclose their voting and engagement records to the Trustee, on an annual basis.
- 9.7 In the context of non-financial factors and members' views and beliefs, in the Defined Contribution Section the Trustee has made available to Scheme members an ethical investment fund and a Sharia-compliant investment fund for those members with beliefs in this regard. The ethical fund is passively managed against an index which explicitly incorporates ethical considerations in the selection of its constituents. The Sharia-compliant fund is passively managed against an index of global companies engaged in Shariah compliant activities.
- 9.8 The Trustee periodically engages with members via surveys, to understand the views of Scheme members in relation to ESG matters, among other topics.
- 9.9 The Trustee does not currently take into account any other non-financial factors (i.e. matters relating to the ethical and other views, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

10. Investment Manager Arrangements

Overview

- 10.1 The Scheme's investment managers and annuity provider are appointed based on their capabilities and suitability as regards meeting the Scheme's objectives.
- 10.2 The annuity provider does not have investment return related objectives, and the information below covers the residual assets excluding the bulk annuity policy.
- 10.3 The Trustee receives advice from its Investment Consultant in relation to forward-looking assessments of a manager's ability to achieve its performance objectives over a full market cycle. This view will be based on the Investment Consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment portfolio(s) that the Scheme invests in. The Consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee and are used in decisions around selection, retention and realisation of manager appointments.
- 10.4 If the investment objective for a particular investment manager's fund changes, the Trustee will review the fund appointment, with the Investment Consultant's assistance, to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.
- 10.5 Some appointments are actively managed and the managers are incentivised through performance targets. An appointment will be reviewed following periods of sustained underperformance or failure to meet the mandate objectives, and the Trustee has put in place quarterly monitoring to seek to manage this risk. The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) periodically.
- 10.6 Where the Trustee invests in pooled vehicles it accepts that there is no direct ability to specify the risk profile and return targets of the manager. However, appropriate mandates are selected to align with the overall investment strategy.

Investment Manager Remuneration

- 10.7 The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management. For liability hedging a fee is calculated based on the percentage of liabilities hedged. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee.
- 10.8 The Trustee reviews annually fee transparency and total expense ratio charges in respect of the Defined Benefit Section.
- 10.9 As part of the annual Defined Contribution Value for Money assessment, the Trustee reviews the charges and transaction costs within the Scheme's Defined Contribution arrangements, including benchmarking across appropriate comparators.
- 10.10 Investment managers are not remunerated based on portfolio turnover.
- 10.11 The bulk annuity provider is incentivised to achieve the objectives set for it and its associated obligations, both by the contractual documentation in place and the regulatory framework that it is subject to. The policy provider is remunerated by way of a premium calculated at the time of purchase of the policy.

Evaluating Investment Managers

- 10.12 Investment managers are aware that their continued appointment is based on their success in delivering the objectives of the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then it will look to replace the manager.
- 10.13 The Trustee meets with its investment managers, with the Investment Consultant also present, as deemed appropriate. During such meetings the Trustee is able to review the decisions made by the managers, including investment decisions, ESG considerations, voting history (in respect of equities) and engagement activity with investee companies, and can question such activities.
- 10.14 The Trustee considers the Investment Consultant's investment research and ESG research ratings within quarterly reporting. Through these ratings, the Trustee is able to assess for example how each investment manager embeds ESG into its investment process and how each manager's investment philosophy aligns with the Trustee's policies.

Time horizon and Duration of Appointments

- 10.15 The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception in respect of the Defined Benefit Section, and over 3 months, 1 year, 3 years and 5 years in respect of the Defined Contribution Section. The Trustee reviews the performance of the investments on an absolute basis and relative to defined benchmarks (over the relevant period) on a net of fees basis. The Trustee's focus is long-term performance but will put a manager "on watch" if there are short-term performance concerns.
- 10.16 If a manager is not meeting its performance objectives, over a sustained period of time, and after consideration of all relevant factors, the Trustee may take the decision to terminate the manager.
- 10.17 The Trustee is a long-term investor. Accordingly, it does not seek to change the investment arrangements on a frequent basis.

10.18 The majority of the funds invested in are open-ended with no set end date for the arrangement. The Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager; or
- The manager appointment has been reviewed and the Trustee has decided to terminate the manager.

10.19 The annuity policy is structured to meet all benefit obligations of the members that it covers and can therefore be considered illiquid and designed as a long term investment.

Portfolio turnover costs

10.20 The Trustee does not monitor portfolio turnover costs in respect of the Defined Benefit Section and has no set portfolio turnover targets; rather the Trustee assesses investment performance net of the impact of the costs of such activities.

10.21 For the Defined Contribution Section, transaction costs, which include portfolio turnover costs, are monitored and assessed within the annual Value for Money assessment. The Trustee has not set portfolio turnover targets; again the Trustee instead assesses investment performance net of the impact of the costs of such activities.

11. Compliance with this Statement

The Trustee monitors compliance with this Statement annually and The Trustee seeks information from the managers (at face to face meetings) that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

12. Review of this Statement

The Trustee will review this Statement annually and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments. In addition, the Trustee will obtain written confirmation from the investment managers that they have complied with its requirements.

Signed on behalf of the United Utilities Pensions Trustee Limited

Signed: Gary Dixon

Date: 16 January 2024

Name: Gary Dixon