United Utilities Pension Scheme

Defined Contribution (DC) Section
Climate Change Report 2024

Our second Climate Change report

Last year we published our second Climate Change report. The Trustee believes that managing the risks relating to climate change is important, as these risks could have a significant impact on the Scheme. The transition to a low-carbon world also presents attractive investment opportunities.

What does the report cover?

Governance: How we include climate change issues in our decision-making, and the roles played by our sub-committees, advisers, and investment managers.

Strategy: How climate risks and opportunities impact the Scheme and its strategy. This includes details of how different scenarios for global warming may affect the DC funds.

Risk Management: How we identify and mitigate climate-related risks, and how we aim to access opportunities.

Metrics and Targets: How we measure climate-related metrics, such as the carbon footprint of the Scheme's investments. We also detail our targets to drive improvements over time (see details to the right).

The report also sets out the specific actions and activities carried out during the year, and what we have planned for 2025 and beyond.

Why take action?

"Any scheme that does not consider climate change is ignoring a major risk to pension savings and missing out on investment opportunities… essentially failing to act prudently in a world facing a climate emergency." The Pensions Regulator.

Scheme metrics

We use measurable metrics to allow us to:

Identify issues – For example, by highlighting funds with a relatively high carbon footprint

Track progress – To chart the progress of the Scheme over time, seeking ongoing improvements

What metrics does the report show?

1.Total Emissions
The amount of carbon dioxide and other greenhouse gases the Scheme is responsible for financing.

2. Carbon Footprint
The amount of carbon dioxide and other greenhouse gases emitted, normalised to allow for the investment size, so we can compare different portfolios / funds easily.

3. Science Based Targets (SBT)
The % of companies/issuers of securities in our investment funds that have set net zero targets validated by an independent body, the SBT initiative.

4. Implied Temperature Rise (ITR)
A measure of how aligned the Scheme investments are relative to the Paris Agreement's 1.5°C target.

5. Data Quality
The proportion of the Scheme's investments for which there is high-quality climate-related data.

How are we doing? DC Section Update (year to 31 March 2024)

For the Scheme's "popular" investment options, including the default fund most members invest in, we are pleased to report that over the year:

- ✓ We made further progress on reducing the Carbon Footprint – as we have a specific target for this metric, an update is provided in the column to the right.
- ✓ Companies with Science Based Targets improved from 32% to 40% (in 2022, the figure was only 8%, highlighting good levels of improvement over the last 3 years).
- ✓ Implied Temperature Rise fell from 2.3°C - 2.9°C to 2.1°C - 2.7°C.
- ➢ Data quality continues to improve, with good data being either reported or available as an estimate for over 85% of these funds.

The Scheme's Targets

We have a firm ambition to **reach a "net zero" emissions target by 2050** for listed equity and credit assets, as we believe this is in the best interests of our members, our communities, and society.

As a milestone along the way, we have set **an interim target of achieving a 50% reduction in scope 1 & 2 emissions*** for listed equity and credit assets by 2030, as measured by carbon footprint, relative to the position at 31 March 2023.

****Scope 1:** Emissions from a company's direct activity (e.g. running company vehicles).*
***Scope 2:** Emissions a company causes indirectly (e.g. electricity bought for heating and cooling buildings).*

Over the year to 31 March 2024, the DC Section achieved a further **9%** reduction in Carbon Footprint, which followed a **39%** reduction the prior year, putting us in a strong position to meet our targets.

Emissions in the real world

The reduction in total emissions for the DC Section's popular investment options since we started our reporting (31 March 2022), up to 31 March 2024, is broadly equivalent to:

738 homes' energy use for one year, or

1282 petrol-powered cars driven for a year

Source: Greenhouse Gas Equivalencies Calculator (November 2024), United States Environmental Protection Agency.

What's next? Key Actions for 2025

Transition to net zero: We are mapping out our journey to net zero and analysing our investments to look at where we can make the biggest improvements to the risks we face.

DC review: The Trustee has started the triennial review of the DC investments. Climate change issues, including looking at attractive investment opportunities, form a key part of this work.

Governance: We have an ongoing programme of risk management, governance, and training to ensure the Scheme is managing its risks, keeping policies up-to-date, and maintaining knowledge of developments around climate change.