Phoenix

Investment Position Statement on Freshwater Scarcity

December 2025

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Summary

We recognise that healthy natural systems are essential for economic growth and resilience, and human wellbeing. In setting out our position statement on freshwater scarcity, we highlight that the world's freshwater resources are under threat but that we can play a role in global efforts to reverse this decline, helping to support investment and societal outcomes for our customers and shareholders.

What can undermine economic resilience can also undermine investment returns and so we see declines in freshwater availability as a potentially significant risk factor for investors. There are several drivers of freshwater scarcity and stress, linking across climate change, land and freshwater ecosystem use change, pollution and overexploitation of water resources, representing potential physical, transition, reputational and systemic risks within our investment portfolios.

Phoenix Group is committed to identifying, assessing and mitigating exposure to freshwater scarcity and stress, subject to data and tools availability. We also recognise that the transition to more efficient use of freshwater resources and the restoration of freshwater ecosystems may present investment opportunities across both public and private markets.

Introduction

Water and the effective management of water resources are critical for economic development and human well-being. Agricultural production and food manufacture, energy generation, data centre cooling, resource extraction and many other economic activities all rely on freshwater resources to maintain output and meet growing end-market demand.

Yet, overextraction, water pollution and conversion of natural freshwater river and wetland systems are pushing the global economy towards a crisis of water scarcity and reduced ecological integrity[1]. The emerging crisis threatens to undermine future growth, strand business assets and increase the risk of potential longer-term economic and financial system destabilisation.

There is also an important social and human component to the crisis in water scarcity. In 2025, it is estimated that **over half** of the world's population could be living in areas of water scarcity[2] and **72%** are water insecure[3], affecting public health and livelihood outcomes especially within the most vulnerable communities. Looking forward, the United Nations estimate that there will be a **40%** shortfall in freshwater supply at current rates of consumption by 2030[1], with the UK facing a potential **30%** shortfall by 2050[4].

The challenge of increasing water scarcity is significantly interconnected with climate and land-use change. Healthy functioning wetlands, for example, not only provide freshwater resources but also provide one of the largest natural stores of carbon[5], making them a vital part of climate change mitigation. Converting wetlands for economic development not only reduces freshwater availability but also releases CO_2 to the atmosphere and depletes a natural source of carbon sequestration. Furthermore, many countries significantly rely on 'green water' – water that originates from the transpiration of trees in forests – explicitly linking the challenges of water scarcity with land-use change and tropical deforestation. See Phoenix Group's position statement on tropical deforestation here.

Implications for our investment portfolios

Shortages of water resources are already apparent and impacting businesses and municipal districts, forcing increasingly challenging decisions for water management and rights of access. CDP data highlights that **1 in 5** companies report significant water risks in their supply chains with a combined **US$77 billion**

[1] Nature and Biodiversity: Global freshwater demand will exceed supply 40% by 2030, experts warn, EcoWatch, WEF, 2023
[2] Water scarcity, UNICEF
[3] Visualizing the global population by water security levels, WEF, 2023
[4] Future water resources, UK Parliament, 2025
[5] The role of wetlands in capturing carbon emissions, Live to plant, 2025

exposed to water-related supply chain risks[6]. While corporate engagement on this topic is improving, we recognise that water-related risks and opportunities may not be efficiently priced by financial markets and could have financially material implications across our investment portfolios.

Without effective action it is anticipated that some businesses, municipalities and even entire nations may face elevated physical risks from rising water stress as well as increasing transition risks from policy and regulatory measures needed to adapt to a new water scarce reality. Consequently, these risks can manifest in financial losses from disrupted business operations and even stranded assets, impacting securities pricing and volatility. In time, these risks may become systemic, affecting sectors, value chains, countries and regions with implications for monetary and fiscal health of local and national economies and in turn the value of investments linked to issuers within and across these systems. Recent estimates indicate that **7% - 9%** of global GDP could be at risk from rising water scarcity[7].

Our ambition

We are committed to further developing our understanding of the investment risks and opportunities on this important topic, supporting outcomes for our customers' and shareholders' investment returns as well as the health of natural world they live and retire within.

Water scarcity and the way that the world responds to it will likely have significant implications for our investment portfolios and our investment strategy going forward. This is, however, a complex issue that brings together political, environmental, regulatory, social, human and technological factors. Aside from the complexity, additional challenges exist in relation to data availability and quality at a geospatially specific level required to inform investment decisions.

Our aim is to continue to assess investment portfolios for potential exposure to water scarcity and stress as well as the related physical and transition risks. We aim to utilise outputs from our analysis to identify appropriate actions for risk mitigation and in the longer-term integrate water-related risks and opportunities into our investment strategy as data and tools improve.

In the future we anticipate that higher quality data will become available supporting further in-depth portfolio exposure and risk assessment.

In the meantime, we aim to:

- Continue to develop our portfolio assessment methods for water-related impacts, dependencies, risks and opportunities where relevant across asset classes
- Integrate water risk within investment due diligence, portfolio monitoring and stewardship activities
- Regularly review available data and tools that support exposure, risk and opportunity assessments
- Engage our asset management partners on the topic and communicate expectations regarding exposure, risk and opportunity management relating to the assets they manage on our behalf
- Participate and actively contribute within collaborative investor initiatives focusing on investor solutions to identifying and managing risks and opportunities related to water scarcity and stress

[6] Stewardship at the source: Global water report 2023, CDP, 2023

[7] Navigating troubled waters: A briefing for directors of financial institutions, CDP, 2024

Adapting to a water scarce world is not just a matter for the financial sector and will take a significant and coordinated effort from across multiple different stakeholder groups. Our integration of water within investment decision making is with this broader range of stakeholders in mind. We recognise that we have a role in calling for policy and regulatory measures that drive increased investment in water infrastructure and efficient water use across the global economy. We also have a role in setting clear expectations of our asset management partners, investee companies and data providers in taking action to support better mitigation of and adaptation to water stress.

Scope

Our objectives on water risk and opportunity management apply to investment portfolios across all asset classes and geographies where water risks are identified as potentially financially material and where Phoenix Group is deemed to have control or influence. With an estimated **50%** of the water footprint of high-income developed economies deemed unsustainable because they originate from areas of high water stress[8], we recognise the importance of value chain analysis in exposure and risk assessment activities. Our work will continue to explore data and tools availability that provide potential solutions for increased supply chain transparency, and exposure and risk assessment.

We continue to develop a proprietary methodological approach to assessing investment portfolio exposure to water-related risks, incorporating three principle impact pressures. These are set out in the following table:

IPBES* impact pressure	Production process impact
Exploitation of natural resources	Water withdrawal and use (including water treated and returned to source)
Water pollution	Toxic, hazardous and waste emissions to freshwater resources
Freshwater ecosystem change	Landscape developments that impact riverine and wetland freshwater systems

**The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. The IPBES identified the five direct pressures driving biodiversity loss as: i) changing use of freshwater ecosystems, sea and land, ii) direct exploitation of natural resources, iii) climate change, iv) pollution and v) invasive non-native species.*

In consideration of risks associated with water scarcity and water stress we consider investee company and issuer exposure and risk from the standpoint that all three pressures contribute to reduction in available freshwater resources and increasing water stress.

Implementation

We have already begun to conduct assessments of investment portfolios for water-related risks and we will continue to update our assessment methodology as data quality and coverage improves. Further information on the assessment approach taken can be found in our Taskforce for Nature-related Financial Disclosures ('TNFD') aligned disclosures within our Annual Report and Accounts and we will continue to update progress on our implementation within future year-end reporting.

Where assets are managed on our behalf, by external third-party asset managers, we expect our asset management partners to identify and manage financially material sustainability risks. To monitor

[8] Towards fair water footprints: Briefing note on the water footprints of the Global North and dependency on water use in the Global South, Water Witness International, 2023

progression on water risk management specifically, we are engaging asset managers to collect information regarding their approach to water risk management and how this is being embedded within investment processes across relevant investment strategies.

Looking forward, our aim is to deepen our understanding of our investment managers' approaches to identifying and managing water-related risk in our portfolios. We will evolve and communicate our expectations of our investment management partners and monitor alignment with those expectations. Where progress towards this objective is insufficient and represents a potentially material issue across investment portfolios we will look to elevate water as a priority topic within our ongoing engagement with managers.

Recognising that nature loss and climate change are closely interconnected, we are committed to integrating nature factors, including water usage and risk management as well as controversial cases of water pollution, into our climate-led company engagement programme.

Water is also a potentially material issue for our investments managed directly by our internal asset management teams. Integration of potentially material financial risks linked to nature-related factors is ongoing and water use and scarcity as a risk factor is included, for example, within our credit ESG integration framework. While at an early stage we aim to continue to identify and embed relevant nature-related factors within credit due diligence, research and portfolio monitoring activities.

Excluding companies from our investment portfolios where they are engaged in production and business practices that are not aligned to our Investment Exclusions Policy is an option that may be implemented to manage investment risk. We continue to review the business practices of our investee companies in relation to nature-related factors, which includes water withdrawal and use, water pollution and impacts on freshwater ecosystems. No exclusions related to impacts or dependencies on water have been put in place to date.

Our current expectations of investee companies for water use exposure and risk management are captured more broadly within our existing company expectations for nature as set out in our expectations of companies on key sustainability issues.

In addition to risk management, we recognise that the transition to more efficient use of freshwater resources and the restoration of freshwater ecosystems will present investment opportunities across both public and private markets. Our aim is to assess opportunities for investment where a clear value proposition for our customers and shareholders can be determined.

Review

Review of our position on freshwater ecosystems, and water scarcity and stress will be carried out triennially or where material changes to regulations occur in key investment jurisdictions and/or where the science and academic research and data points to material changes in the severity of systemic risks linked to this topic.

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