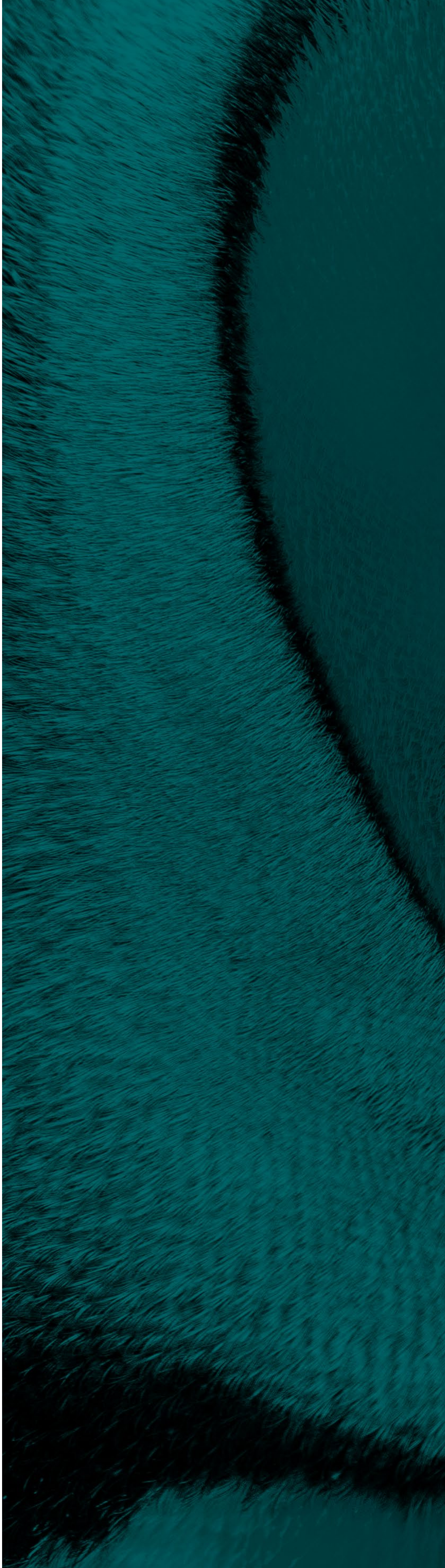
Responsible Investment Approach.

Pension Insurance Corporation Group Limited
December 2023



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Contents.

Our Philosophy.

Given the purpose of Pension Insurance Corporation plc ("PIC") is to pay the pensions of our current and future policyholders, it is our responsibility to protect our portfolio from the impacts of both financial and non-financial risks. We recognise issues such as climate change, human rights, and corruption can have very real social and financial implications over all time horizons.

Considering ESG risks and opportunities have always been an inherent part of PIC's investment process when assessing the suitability of long-term investments, and are a natural consequence of a focus on our purpose. Investing in a sustainable manner, which encompasses ESG factors, helps ensure we are able to fulfil that purpose.

PIC is a signatory to the United Nations' Principles of Responsible Investment ('UN PRI'), as are all of PIC's key external asset managers. As a signatory to the UNPRI we commit to enact the following six principles, recognising that we invest in fixed income, and do not own equities:

1. to incorporate ESG issues into investment analysis and decision-making processes;
2. to be active owners and incorporate ESG issues into our ownership policies and practices;
3. to seek appropriate disclosure on ESG issues by the entities in which we invest;
4. to promote acceptance and implementation of the Principles within the investment industry;
5. to work together to enhance effectiveness in implementing the Principles; and
6. to report on activities and progress towards implementing the Principles.

PIC is a signatory to the Asset Owners Net Zero Alliance and has committed to becoming Net Zero by 2050, along with interim targets along the way. More about our climate commitments can be found in our annual **Task Force on Climate Related Financial Disclosures (TCFD)** publication. PIC has also successfully been approved as a signatory to the UK Stewardship Code. More insight into our approach to Stewardship can be found within our **UK Stewardship Code Application**.

Oversight of ESG risks at PIC

PIC's approach to long-term value creation is incorporated into the Group's Sustainability Strategy and overseen at Board level.

The Board has delegated the day-to-day implementation of PIC's Sustainability Strategy to various senior management figures within the firm including an Executive Committee Sustainability Champion (PIC's Chief Strategy Officer). ESG in investments including stewardship activities is the responsibility of the Chief Investment Officer and Head of Sustainability, while accountability for Climate Risk sits with the Chief Risk Officer.

The Head of Sustainability chairs a Sustainability Oversight Forum which meets on a monthly basis and includes representatives from various business functions including 3 members of the Executive Committee.

ESG Integration.

PIC defines Environmental, Social & Governance (ESG) integration as the investment analysis of ESG factors alongside financial factors in the investment decision-making process.

It explicitly and systematically includes the analysis of a range of risks and opportunities related to ESG drivers. In principle, this leads to a broader assessment of the environment in which companies operate and their performance in managing different stakeholders, giving a fuller understanding of risks over the long-term than traditional financial analysis alone. These ESG-related risks may vary by country, by industry and by characteristics specific to that issuer.

PIC's purpose is to pay the pensions of its policyholders. As an asset owner needing to pay liabilities out for many decades, we employ a rigorous credit process for our assets, and work with external managers that share our values.

We believe that organisations which demonstrate positive sustainability characteristics are better placed to maintain cash-flows and service their debt over the long term. These characteristics include whether they recognise responsibilities to key stakeholders beyond customers, such as employees, suppliers, society and the environment. To meet these responsibilities, it is crucial that they have a long-term focus.

Our approach has always been to have our expert credit analysts do the detailed risk analysis for credit-investment decisions, because they have the deepest knowledge of specific issuers. Analysts consider material ESG risks and opportunities alongside other factors and liaise with our Responsible Investing team on their findings. Every member of the Investment team is expected to consider ESG factors when reviewing an investment opportunity. This means our analysis is forward-looking and takes into consideration the risk to potential investments over many decades.

ESG Integration Drivers.

PIC integrates ESG factors into the investment teams' decision-making as we believe they are an integral part of the credit assessment of any holding.

We believe that ESG assessments can highlight future potential risks and opportunities which are not always fully captured by typical credit ratings or traditional balance sheet and income statement analysis. Often, this is because of the longer-term timeframes considered in ESG assessments, which is a very important consideration for PIC as a long-term investor.

In the context of Fixed Income investing this means looking at those ESG aspects of an issuer's operations that may influence its ability to meet its financial obligations and considering the timeframe over which PIC would be prepared to lend to that issuer.

Reputational Risk

We also recognise that in some instances lending to an issuer may cause reputational risk to PIC; this entity may cause wider issues for PIC such as potential new clients or new funders of the business withdrawing their support or interest. This reputational risk is covered by our internal "Reputational Risk framework" and applied on a case-by-case basis. The Reputational Risk Framework is applied first at the Credit Committee and Sustainability Oversight Forum levels and escalated to Investment Committee level where appropriate.

A recent example of an investment opportunity which was rejected on reputational and governance grounds was a prominent sport club looking to raise capital against one of its assets. Although the investment case was attractive, the club's majority shareholder had direct ties to two countries under United Nations sanctions and/or condemnation. PIC discussed this case at various committees and the decision was made not to pursue with the opportunity.

Materiality

The ESG assessments of Investment Grade bonds usually result in flagging 'High Risk' areas of concern. These areas are reviewed prior to investing and then on a semi-annual basis at the Strategic Investment Committee meeting. ESG assessments performed on private market debt investments are an important part of our due diligence process and involve primary data collection and engagements directly with the investee organisation. ESG risks & opportunities uncovered during the due diligence process of our private market investments tend to be more material than with public corporate credit, given relatively less public disclosure and usually less shareholder pressure for higher ESG standards. This can often influence our investment decision or pricing.

Scope

When we integrate ESG risks and opportunities into our portfolio it is important that the process we use is suitable for the assets we invest in. The majority of our portfolio is invested in investment grade debt within the public and the private markets. The PIC portfolio also has real assets, funds and a large amount in developed market sovereign debt.

ESG Integration Approach.

We consider a company that creates negative externalities, whether social, environmental or governance, is, all else equal, a worse long-term investment than a company that does not.

We assess these considerations in terms of financial materiality i.e. is this something that increases the probability or severity of capital loss or ratings deterioration.

For example, we believe that transition and physical risks related to climate change are financially material risks to consider and we have embedded those risks into our Risk Management Frameworks and Policies.

There are many broad approaches to implementation of our ESG integration process, and we are conscious that for PIC any assessment needs to be comparable for public and private debt. Also, we appreciate that our approach will develop over time as our knowledge and expertise increases and data becomes more readily available and of better quality. Although comparable, our approach varies depending on the asset being invested into, this is explained in the following paragraphs.

PIC's ESG Assessment for Corporate Bonds

Our ESG assessment of Corporate Bonds is used as an important additional piece of information alongside our credit analysis and the traditional credit rating when making a decision about whether to buy or hold a bond and over what term to lend.

Where possible, we use third party ESG data vendors to provide relevant ESG data. Our added value comes from interpreting and analysing this data in the context of our portfolio, and in light of our analysis determining what duration we would be comfortable taking.

The theory behind our investment process is below:

1. The higher ESG risk a company's industry is exposed to, the more material the ESG risks are if not managed properly in the long term;
2. The better the management practices towards identified ESG risks, the more likely a company is to maintain a strong balance sheet over the long term.

In practice this means interpreting the data we receive through vendors or via primary data collection to identify the ESG factors we believe are the most financially material and creating a proprietary measure to assess those companies' resilience to ESG risk through the effective management of these.

Sustainalytics[1] has been carefully selected as our data provider of choice for public corporate credit, given its focus on the downside risks of a company, which is most aligned with a credit investor's investment perspective.

- Sustainalytics rate industry risk with an "Average Exposure Score" which is their view of the total ESG risks in that sector and also produce an "Average Manageable Risk Factor" which is their view of what portion, from the identified sector risk, can be managed. We call this ESG Term Risk.
- Sustainalytics then produce a "Management" score that assesses how well the company manages the ESG risks that are deemed to be manageable. We call this ESG Management Competency score.

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An example of a High Risk company rated by Sustainalytics[2] is below:

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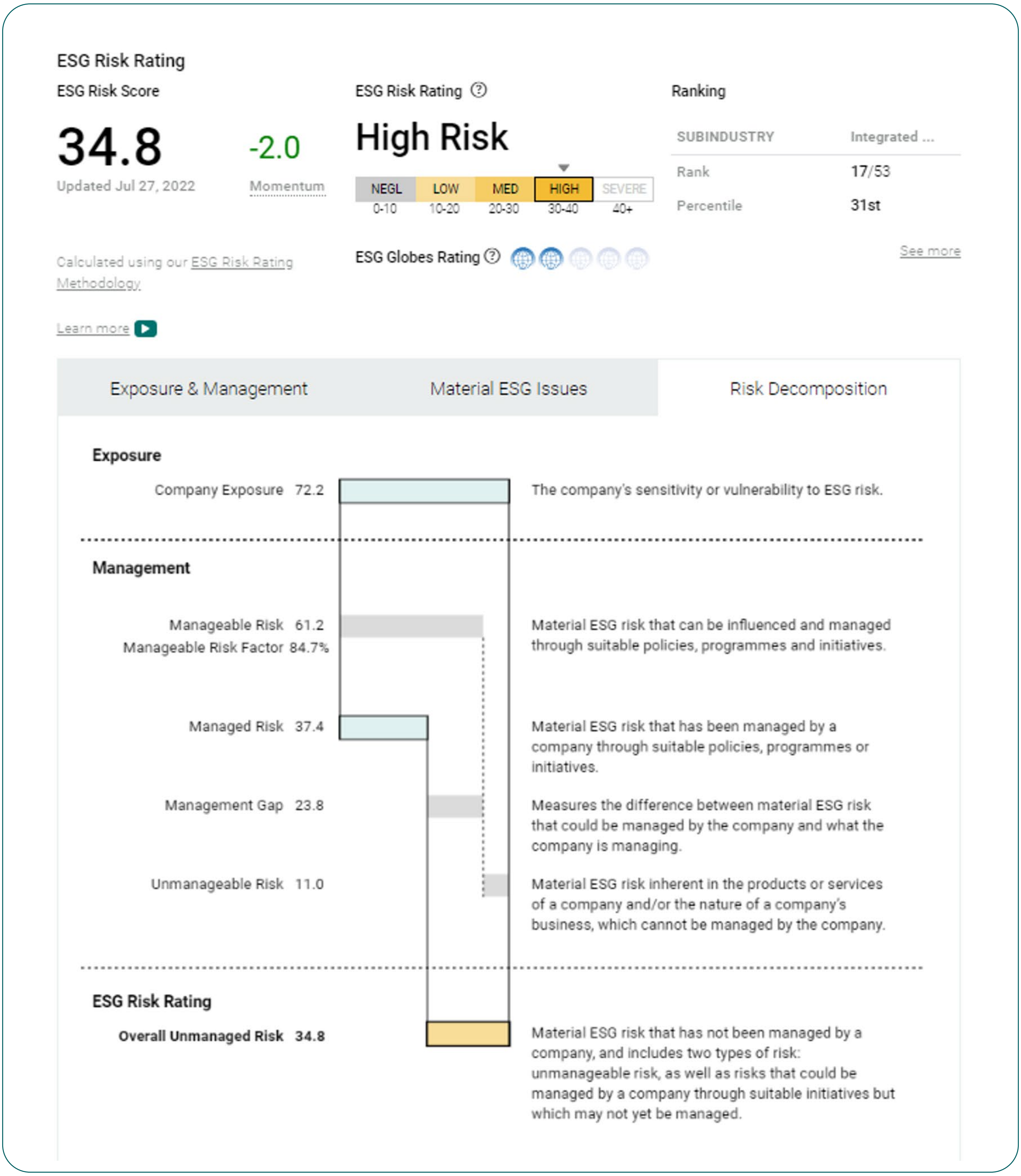

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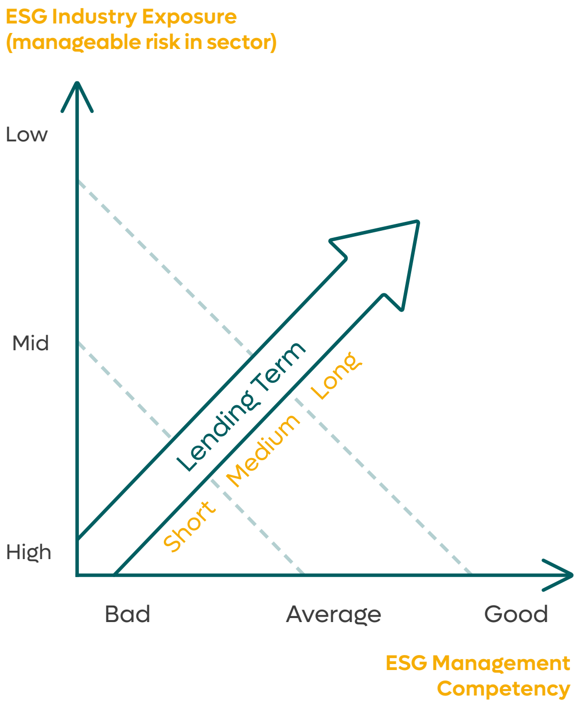
PIC's ESG Assessment for Corporate Bonds cont.

We then plot, where possible, the ESG Industry Exposure Risk on the Y axis and Management's ESG Competency on the X axis. Our lending term is then influenced on where on the graph our corporate is plotted.

PIC's Proprietary ESG Assessment at a glance



The credit analyst will look to use this information as part of the overall decision for the creditworthiness of the company and the term for which we are prepared to lend to them.

We attempt to apply this interpretation of ESG risks to all our bonds and other lending opportunities – however it is not always possible given time sensitivities, time availability and resource. Our aim is to continue to apply this process in practice and adapt the process as we progress to make it most suitable for our evolving investment portfolio.

Further data sources

The principle of analysing the ESG term risk and ESG management can be enhanced by adding additional data sources. We also integrate MSCI Climate Data to our investment universe and apply a set of Climate related parameters to flag investments which should be avoided given their climate position. This climate position is influenced by things such as their GHG emissions, their commitments to decarbonize as well as their forecasted competitiveness in a low carbon economy. Please see our most recent TCFD report for more detail.

Assets Managed by External Managers

PIC integrates ESG into our externally managed portfolio in the following way:

- An initial sustainability due diligence exercise is performed when considering a manager to partner with. This includes an assessment of managers at the firm level, to understand if sustainability is a central part of their culture and capabilities. We only choose to partner with managers who demonstrate strong credentials in terms of sustainability and stewardship and can demonstrate a track record of doing so. It is important that our managers are responsible stewards of their clients' capital, as our reputation can be directly linked with their actions.
- Given we have specific mandates with each manager, the application of ESG criteria will vary between them. Each of our managers have their own in-house ESG integration and stewardship framework which is used when establishing our investment universe.
- Once holdings are in the portfolio, we monitor their ESG risk profile over time and ask managers to comment on any controversies and include forward-looking thoughts on ESG matters.
- Our managers each provide us with bespoke ESG reports covering topics such as ESG ratings, controversies, and engagement activities.

Internally Managed Private Credit Assets

We integrate ESG and stewardship into our privately sourced credit in the following way:

- For private debt into listed companies, we use data from our various data sources such as Sustainalytics, Bloomberg, Credit Sights, rating agencies and the company's public sustainability reports to analyse exposure to ESG risks.
- For our private debt investments into unlisted organisations, we liaise directly with the issuer to determine their ESG position and attribute an in-house risk score. The process typically runs in the following way:
  - **a.** Where possible we send sector specific ESG questionnaires which assess individual factors which are deemed as most material to the sector.
  - **b.** We apply our in-house ESG risk assessment framework and assign a Low/ Medium/High ESG Issuer Score. Absent any unusual events, we review this rating on an annual basis as part of our ongoing monitoring.
  - **c.** We engage with each organisation on responses given, and work with them on setting targets where we feel material ESG risks have been identified and not sufficiently addressed.
  - **d.** We record our engagements on our proprietary ESG Engagement Platform so that these can be tracked and monitored over time.

Developed Market Sovereign Bonds

As a low-risk insurance investor who is required by regulation to tightly cashflow match our liabilities, a large portion of our portfolio is invested into Developed Market sovereign bonds. Nevertheless, the ESG position of such bonds is assessed in a similar manner to our other public credit exposure.

We receive ESG country risk data from Sustainalytics and incorporate this into our country & sector limits framework. Depending on the level of ESG risk of a country, an adjustment is made to the level of exposure we can have in that sovereign's issuances by tightening the concentration limit allocated to that country.

Real Estate Assets

We have established strong ESG criteria within the framework of our investment process for PIC's growing real estate portfolio. Under the strategic and technical direction of PIC's Built Environment and Responsible Investing teams, we have created, along with a third-party specialist consultant, a proprietary rating system to assess ESG credentials across PIC's real estate portfolio.

The standards within our approach go beyond the regulatory minimum and assess assets according to 65 evenly weighted KPIs spread across 8 ESG related themes which are tailored for each asset class:

Environmental

- Net Zero Carbon
- Biodiversity & Ecology
- Climate Change
- Materials & Circular Economy

Social

- Health & wellbeing
- Social Value

Governance

- Monitoring
- Policy

Every KPI includes five levels of performance, each comparative to industry benchmarks in 2022/23

Scores from KPI's combine to provide an overall rating for the asset and by theme

The higher the level the greater the ambition of that KPI

Ambition / rating

A+ rated: Pioneering practice

A rated: Industry best practice

B rated: Industry good practices and GLA London Plan

PIC overall rating minimum

C rated: Typical UK wide planning policy requirements

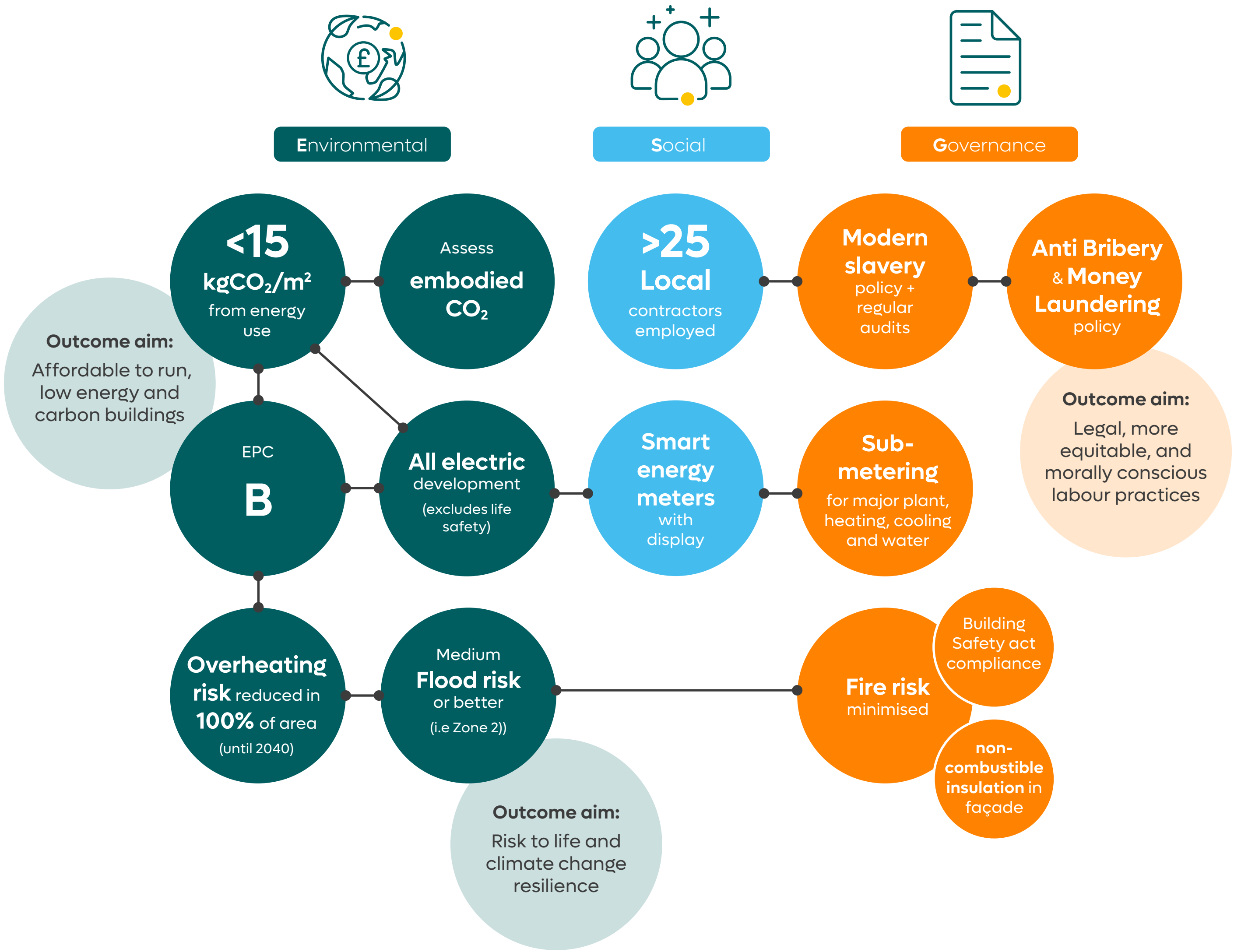
D rated: Legislation, Regulation or no consideration or disclosure

Our analysis goes into meaningful depth on ESG risks and opportunities in the built environment and identifies areas for further engagement. Where PIC can influence the design of a building, we ensure that we engage directly with the developers to incorporate industry leading environmental standards. New developments must achieve an average aggregate rating of 'B' across framework before being recommended for investment[3].

In early 2023, minimum standards were developed and implemented. These set red lines on a handful of KPIs that new build development must achieve or commit to meet, prior to financial close. The diagram on the next page shows the minimum KPIs applicable to new build assets across ESG pillars.

[3] Applicable to development schemes of new build properties where PIC is making meaningful equity and/or debt investment and has influence over the design features of the construction and fit-out (to be confirmed by PIC Built Env Team)

New Build Minimum Standard



Funds

PIC primarily invests directly rather than through funds, although there is some minor fund exposure to achieve diversification. Where we do invest in funds, we integrate ESG and stewardship into our investment process through a proprietary ESG Manager Scorecard where both the manager and the strategy are assessed and attributed a score between 1 and 5.

Managers are engaged with at least annually on the topic of ESG, however more emphasis is put on these topics within conversations with poorly rating managers.

Stewardship & Engagement.

ESG engagement describes the interaction between investors and issuers. Given our very long-term investment horizon, it is in our interest to work with companies to ensure more sustainable practices so that they maintain strong industry positioning, healthy credit ratings and stable cash flows over time.

We enact engagements with investee companies through four main channels:

Engagement Channels

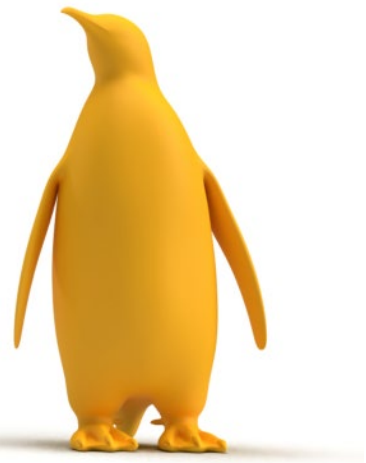
1. Direct by Credit Analysts
2. Via Key External Managers
3. Selected Third Parties for Speciality Asset Classes
4. Collaborative Engagement Initiatives

For our direct investments, we engage directly with organisations both at the point of capital raise and during the tenure of the investment on various material ESG issues.

For our indirect holdings we work closely with our managers to ensure that important ESG topics – both company specific and industry wide – are engaged on with companies. We communicate our engagement expectations with managers in advance and then set out our engagement plan for the year ahead. The plan includes a focus list of companies to engage with on specific topics such as climate change mitigation and also wider themes such as social issues in supply chains for high risk sectors.

PIC is proud to have been accepted as a signatory to the Financial Reporting Council (FRC)'s UK Stewardship Code and our application can be found on our website (**see here**) and theirs.

PIC is also involved in collaborative engagements including ones lead by industry initiatives such as the UN PRI and the Net Zero Asset Owners Alliance. In addition, we engage with policymakers on industry wide topics such as Solvency II, wider pension reforms, and how to help local authorities overcome the barriers to local regeneration.



PIC's engagement strategy, which received Board-level support, is currently rolled out over two years between 2023-2025.

The strategy outlines the following priority areas for engagement which vary depending on the engagement channel:

	External Managers	PIC Direct	External Consultants (Buro Happold)	Collaborative
Asset Class	Public Credit	Public Credit & Private Debt	Real Assets	Public Credit & Private Debt
PIC Teams	Public Credit & Responsible Investing	Public Credit, Debt Origination & Responsible Investing	Real Assets, Investment Strategy, Responsible Investing	Responsible Investing
Environmental				
Topic	Climate engagements with our highest emitting public credit investments	Various – including climate data reporting and alignment to Net Zero	E factors within the Built Environment	N/A
Desired Outcome	The company to be receptive and open about committing to align their operations towards the Paris Agreement and Net Zero		The developer maintaining high standards towards the environmental impact of the construction and operational phases. Successful outcome demonstrated through increase in Buro Happold proprietary rating score	N/A
Example KPIs	Public disclosure of: • Climate commitments including Net Zero • Decarbonisation targets • Carbon metric disclosure • Climate strategy		Embodied emissions, EPC ratings, building regulations missions, % energy demand from non-fossil fuels, water usage, waste generated	N/A
Social				
Topic	Modern Slavery, labour standards & human rights in the supply chain (Manufacturing focus)	Modern Slavery, labour standards & human rights in the supply chain	S factors within the built environment	UN PRI – lad engagement on: Human Rights within Mining, Utilities and Renewable sectors
Desired Outcome	Companies demonstrating alignment between their operations and International Labour Organisation (ILO) standards or a country specific equivalent and performing adequate independent auditing		Developers enhancing social value themes such as affordability, socio economic needs of the community and community engagement within the development and operational aspects of the building. Successful outcome to increase proprietary rating score	The company to fully implement the UN Global Principles, align their political engagement with their responsibility to respect human rights and deepen progress on the most severe human rights issues in their operations and across their value chains
Example KPIs	Public disclosure of: • Modern slavery policy/statement • Independent audit review		Affordability rate, community engagement, support for vulnerable tenants	Published Human Rights Code of Conduct. number of Human Rights controversies, third party rating on 'S' factors of the company (if listed), Internal audit reviews
Governance				
Topic	Internal governance within the company		G factors within the built environment	N/A
Desired Outcome	Companies demonstrating strong governance structures within its operations and are maintaining up to date policies relevant to governance		Developers are ensuring they maintain up to date and relevant policies relating to governance, sustainable procurement, health and safety, diversity and inclusion and anti-bribery and money laundering. Successful outcome demonstrated through increase in Buro Happold proprietary rating score	N/A
Example KPIs	Public disclosure policies relating to: • Health and Safety & Wellbeing • Diversity and inclusion policy: • Building Safety; and • Anti Bribery and Money Laundering • Governance strategy		Evidence of policies related to: • Sustainable procurement; • Modern Slavery, • Health, Safety & Wellbeing: • Diversity and inclusion policy; • Building Safety; and • Anti Bribery and Money Laundering Evidence of affective building monitoring including energy meters and green building certificates.	N/A

We have a standalone **Stewardship Policy** which has been approved at our Board level and is published on our website as well as our successful **UK Stewardship Code Application**.

Investment Restrictions.

Given the underlying nature of our investments, our very long-term time horizon and the tight parameters that regulate our industry, we must give careful consideration when applying sector exclusions.

We have nevertheless taken the view that investing in the following sectors is unsustainable and have imposed the below restrictions:

a. **Coal extraction & burning and Tar Sands:**
No new purchases in companies that derive more than 10% of turnover from coal extraction & burning and Tar Sands. We aim to divest from all of our holdings breaching the 10% limit in these areas by 2025.

b. **Oil sector:**
No new purchases of companies who exclusively focus on upstream activities. We aim to divest from these holdings over time. PIC will continue to invest in Major Integrated oil companies where such companies have decarbonisation commitments that are aligned with PIC's and have a credible strategy to deliver them. We believe such companies have an important role to play the transition to a low carbon economy.

c. **Controversial Weapons:**
We will never knowingly hold any security that is involved in the production of controversial weapons, anti-personnel landmines, chemical & biological weapons.

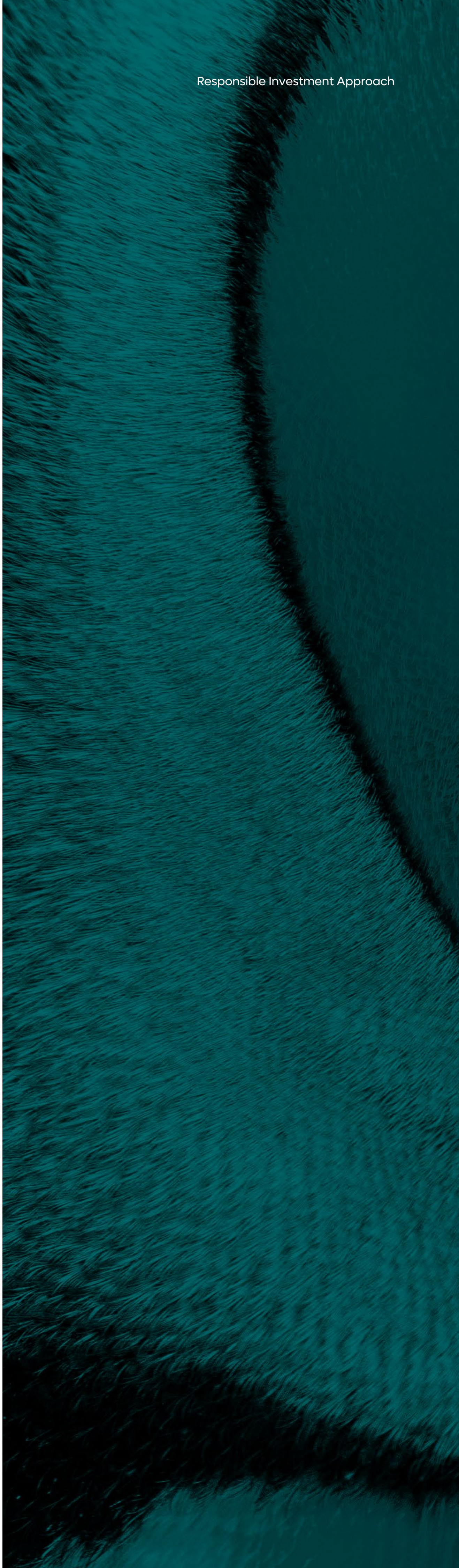
Other Responsible Investment Considerations.

Responsible Conduct

Whilst we encourage companies to move towards best practice, we accept that with large multinational companies there are occasionally ESG related controversies. Where these do occur, we seek evidence that the company has understood the cause of the issue and has been proactive in strengthening its management systems to ensure that probability of future controversies has been minimised.

Our approach to Climate Change

Asset owners such as PIC are well placed to play a core role in driving change, including through increased investment in assets that accelerate the transition to a Net Zero carbon economy, whilst maintaining a clear focus on the just transition. PIC supports the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations, which builds on our commitment to be Net Zero across all sources of emissions by 2050 and our own emissions by 2025, as well as our membership of the UN-convened Net Zero Asset Owners Alliance. Please see our most recent **TCFD** publication and information around our journey to **Net Zero**.



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