PIC

Stewardship Report 2023.

Pension Insurance Corporation PLC (PIC)

Application to the FRC UK Stewardship Code

Contents

As we reflect on another year of purposeful investment and stewardship at PIC, it is with great pride that I present our second annual Stewardship Report, covering activities carried out in the year ending 31st December 2023.

In a world where the role of investors is increasingly scrutinised for its impact beyond financial returns, the centrality of our purpose – to pay the pensions of our current and future policyholders – creates significant social value, not least through the long-term investments we make in the UK's economy.

Our £11.4 billion investment in sustainable assets underpins our belief that responsible investing not only helps us achieve our purpose, but is a strategic opportunity to create positive change. From affordable homes to clean transport and social infrastructure, our portfolio is testament to the ways in which we are helping alleviate pressing societal and environmental challenges.

At PIC, stewardship is not merely a buzzword, it's ingrained in our DNA. We recognise that our role as long-term investors extends far beyond financial transactions – it's about responsible allocation, management, and oversight of capital to foster long-term value for all stakeholders. By integrating Environmental, Social, and Governance (ESG) factors into every investment decision and actively engaging with issuers on key concerns, we not only mitigate risks but also promote sustainable benefits for the economy, the environment, and society as a whole.

While we've made significant strides in sustainability and stewardship in the past few years, we acknowledge that there's always room for improvement in this fast-changing area. We will continue to build on our undoubted expertise in this area, for stewardship isn't just about helping fulfil our purpose – it's also about shaping a brighter, more sustainable future for generations to come.

In this report, you'll find illustrative examples of how we've applied our stewardship approach over the past year, creating significant social value. It's clear that a focus on a clear purpose over the long-term can help shape a future where financial prosperity coexists harmoniously with social and environmental wellbeing.

Rob Groves
Chief Investment Officer, Pension Insurance Corporation plc

Foreword.

Principle 1.

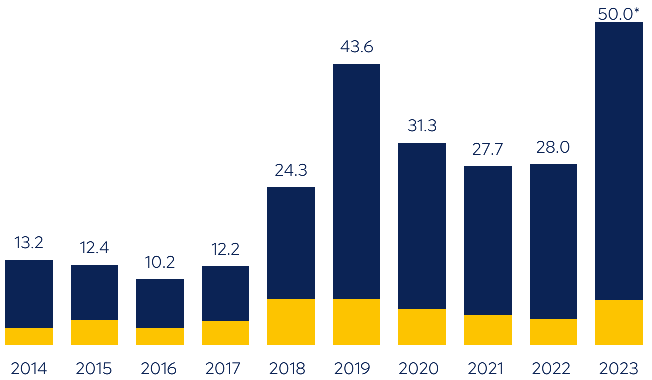
Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

PIC's business model: Creating long-term value

We are a leading player in the pension risk transfer (PRT) market. At the end of 2023 we had over £46.8 billion worth of investments on our balance sheet, with £29 billion invested in the UK.

Financial investments	Number of policyholders	Policyholder satisfaction
£46.8bn	339,900	99.3%
2022: £41.2bn	2022: 302,200	2022: 99.6%

Buy-in and buyout volumes since 2014 (£ billion)



* PIC estimate
Source: Hymans Robertson and Company estimate

2023 was a record year for the pension risk transfer (PRT) market in terms of total size of the market, individual transaction size, and the number of transactions completed worth £1 billion or more.

In 2023 PIC completed a £6.2 billion buy-in with two pension schemes sponsored by UK insurer RSA in the largest ever PRT transaction, covering the pensions of 40,000 members.

Our purpose is to pay the pensions of our current and future policyholders. We do this by:

- Insuring UK defined benefit pension funds through either a pension insurance "buy-in" or "buyout", growing our policyholder base and asset portfolio;
- Delivering excellent customer service for trustees, policyholders, and other stakeholders; and
- Ensuring that assets are invested and managed in a way that leads to sustainable benefits for the economy, the environment, society, and all of our wider stakeholders, in order to be able to pay our pension obligations over future decades.

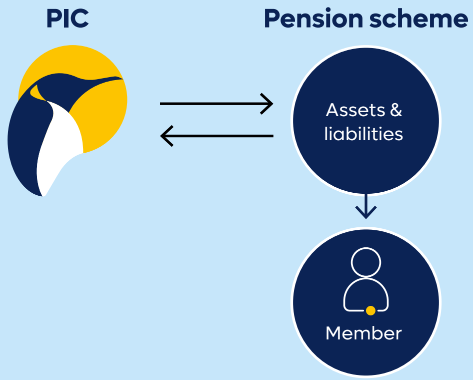
Our clients include:

Cadbury, SSE, BHS, RSA, TotalEnergies, SIEMENS

Explanation of a buy-in and buyout

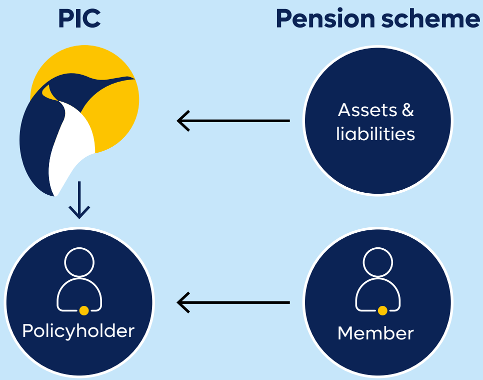
What is a buy-in?

Pension insurance buy-in
An insurance policy bought by trustees that cover some or all of the scheme's future pension payments. It is held as an asset of the scheme, which remains in place. PIC makes regular payments to the scheme to cover the benefits secured – the administration responsibilities stay with the trustees.



What is a buyout?

Pension insurance buyout
An insurance policy bought by trustees that covers all the scheme's future pension payments. The scheme is wound up, individual PIC policies are issued to the members, and we pay their benefits directly to them. We also take on the future administration.



PIC generates long-term social value

Our business sits across two sectors – the PRT and investment industries. Pension fund members of defined benefit (DB) schemes transfer to insurers like PIC and become our policyholders following a buyout. Alternatively, pension scheme trustees can secure their pension payments to members through a buy-in contract with an insurer.

PIC makes long-term investments in order to generate cashflows that match our pensioner liabilities over future decades. Our portfolio is primarily invested in publicly-available fixed-income assets, including government debt and corporate debt.

A significant percentage, however, is invested in secure, long-term, privately-sourced debt, which helps us match pension payments at specific maturities when public debt is not available.

We have invested in sectors with a lasting impact on current and future generations, including urban regeneration, social housing and higher education, which all provide socially beneficial outcomes. We carefully manage these investments to ensure that they continue to deliver positive social outcomes.

We invest in areas[1], such as:

Built environment[2]

c.£5.9bn

Student accommodation

c.£1.3bn

Social and affordable housing

c.£2.8bn

We have now invested an estimated £5.9 billion[1] in the built environment to date, which includes over £2.8 billion[1] in social housing and circa £1.3 billion[1] in student accommodation. In total we have invested £13 billion right across the UK economy, creating significant social value, for example we currently have more than 1000 people working on our construction sites.

This type of investment will continue to be a focus for the business as we increasingly work with regional authorities to help them regenerate their areas, providing housing, jobs, and skill development.

[1] Amount invested to date is estimated based on available historic data.
[2] Built environment is inclusive of student accommodation and social and affordable housing.

Case study: Social and economic value of some of PIC's investments

The chart below summarises the total amount of direct investments made by PIC between 2012 and 2022 in certain sectors of the UK. The values invested are the total values since 2012 into that specific sector, and the number of investments is the number of projects invested into the specified sector. The chart also estimates the economic impact of those investments in concrete terms.

Overall, PIC invested over £11.7 billion in direct investments across nearly 200 different projects in the UK over the last decade. In addition, a further 26 investments outside the UK with a combined value of £1.5 billion have been made in that same period. Housing (which includes social and affordable housing, and build-to-rent projects) is by far the biggest sector with 67 investments seeing PIC lend £3.7 billion in capital representing nearly a third of direct investments made by PIC.

To understand the value of PIC's day-to-day activity at a regional level, and the social and economic value of PIC's business in concrete terms explore the 'Social and Economic Value of Finance' report that we commissioned specifically by New Financial.

	Value	Number	
Housing	£3.7bn	67	PIC's investment into housing can directly be attributed to the development of **54,000** homes across the UK, enough to accommodate **130,000** people. This is equivalent to the population of **Solihull** in the West Midlands.
Education	£2.8bn	46	PIC's investment into the Education sector can directly be attributed to the development of **14,000** student rooms at universities across the UK, enough to house the entire student population of the University of Hull, or the undergraduate student population at the universities of Bath, Loughborough or York.
Infrastructure	£2.2bn	40	PIC's investment of £2.2 billion in 40 different infrastructure projects across the UK includes £675 million in 18 water projects; £560 million in eight transport investments; £210 million in seven gas and electricity projects; and £800 million in six urban regeneration or commercial real estate projects.
Renewable energy[1]	£1.5bn	17	PIC's direct share of financing on UK renewable energy projects provides enough energy to power an estimated **85,000** homes, equivalent to a city the size of **Aberdeen**. This reduces carbon emissions by around **24,000** tons a year.
Build-to-rent[2]	£525m	5	PIC has invested heavily in build-to-rent in the past few years and has directly financed the development of **2,300** flats, employing **2,500** people directly in construction, and helping to kickstart urban regeneration projects.

Source: New Financial estimates based on analysis of data from PIC.

[1] Renewable energy includes five solar power investments in Spain.

[2] Build-to-rent investments are also counted under housing.

Northern Ireland

£155m

Last year PIC invested in two projects in Northern Ireland to help finance the development of nearly 3,000 new social and affordable homes. The firm invested £100 million with Apex Housing Association to help build around 1,500 new homes, focusing on family accommodation and energy-efficient buildings. Apex, which is based in Belfast, manages 7,000 homes across Northern Ireland.

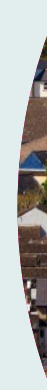
And PIC also invested £55 million with Clanmill, a housing association based in Londonderry that provides homes for 10,800 people across the region, as part of £100 million fundraising to help build 400 new homes by 2026.

Wales

£230m

Over the past decade PIC has invested £230 million in four separate social and affordable housing projects in Wales. Two of these investments were with Pobl (£35 million in 2013 and £65 million in 2020), the largest housing association in Wales that is based in Newport and has more than 17,000 homes under management. The investment will help Pobl build 10,000 new affordable homes by 2030, with a target to build homes that are 40% more energy efficient than average.

In 2017, PIC provided £93 million in funding to the Welsh Housing Partnership, a group of four housing associations backed by the Welsh Government. And in 2021 it invested £38 million in Wales and West Housing, which operates 12,000 homes across Wales with a focus on housing for older people and supported housing, to help fund the development of 2,500 new homes.



The map below highlights a selection of social and affordable housing investments made by PIC since 2012 across the UK. PIC has invested over £3.7 billion in 67 housing projects over the past decade and has contributed directly to the construction and development of 54,000 homes, enough to accommodate 130,000 people. This is equivalent to the population of Solihull in the West Midlands.

Scotland

£90m

PIC has invested in two social and affordable housing projects in Scotland with a combined value of £90 million. In 2019, PIC invested £40m in debt issued by Eildon Housing Association, one of Scotland's largest housing associations based in Selkirk that manages 2,500 homes. The investment supports the construction of 750 new homes. And last year, PIC invested a further £50 million with Caledonia Housing Association, based in Dundee, to help finance the construction of more than 500 energy-efficient new homes.

England

£3.2bn

Over the past decade, PIC has invested more than £3.2 billion in 59 different housing projects across England. There are too many individual investments to record here but we have marked many of the locations on the map to give an indication of the footprint across the country. Some notable investments include:

- **North Star Housing:** in 2020 PIC invested £80 million to refinance and help develop 600 new homes for North Star Housing, which operates 4,000 homes in the Tees Valley, Yorkshire, and Durham.
- **Livin Housing:** in 2019 PIC invested £65 million to help develop 450 homes in the North East with Livin Housing.
- **Greatwell Homes:** PIC invested £40 million in 2019 to help develop 600 homes in the East Midlands.
- **Accord Housing:** in 2018 PIC invested £100 million to help fund the construction of 1,500 homes in the West Midlands.
- **Senior Living:** last year PIC set up a joint venture with Octopus Real Estate aiming to invest £200 million in building ten retirement communities across the UK with homes for around 2,000 older residents. The first project near St Albans was launched late last year.
- **London Borough of Newham:** in 2022 PIC invested £83 million to help finance the development of 161 homes on a brownfield site near London City Airport, with up to half of the homes being designated as affordable.
- **Raven Trust:** PIC invested £130 million in 2022 to help the Raven Trust, which manages over 7,000 homes in Surrey and Sussex, build a further 630 homes by 2026.

Investment beliefs

At PIC, we value the importance of sound stewardship, using it as a tool to deliver on our purpose and create long-term sustainable returns. Our investment strategy is achieved through sound risk management and excellence in asset and liability matching which drives our investment strategy. All assets, particularly those covering regulatory capital requirements, are invested to ensure appropriate level of security, quality and liquidity of the overall portfolio. This in turn leads to sustainable benefits for the economy, the environment, society as well as our stakeholders.

The long-term nature of our pension liabilities also requires us to consider sustainability and climate risks over that same time span.

We recognise that asset owners have a responsibility to drive long-term change through responsible business and investment practices. Through our expanded governance and accountability structure, we are ensuring that sustainability is incorporated across PIC's operating model.

Our sustainability strategy is focused on four main pillars:

- Long-term sustainable business.
- Being a responsible investor.
- Protecting the environment.
- Making communities sustainable, safe and inclusive.

PIC's sustainability strategy

Long-term sustainable business

Focus areas:

- Policyholder security and service.
- Robust governance process.
- Detailed and transparent reporting.
- A culture that is inclusive.
- Long-term alignment of stakeholders.

Making communities sustainable, safe and inclusive

Focus areas:

- Investing across the UK in assets to provide essential services.
- Helping turn brownfield assets into greener alternatives.
- Providing local employment and skill development opportunities.
- Financial and non-financial charity support.

Creating long-term value as we fulfil our purpose

Being a responsible investor

Focus areas:

- ESG integration.
- Stewardship and engagement.
- Active participation in ESG industry initiatives.
- Sharing knowledge through insightful publications.
- Investing in sustainable assets and mapping the impact created.

Protecting the environment

Focus areas:

- Transition to Net Zero.
- Meeting our carbon commitments.
- Biodiversity impact of our real assets.

Further information on the PIC sustainability strategy can be found in our **Sustainability Report**, including the Target Operating Model for implementation of this strategy.

Our standalone Stewardship Policy is aligned with our purpose, investment process, and business philosophy. Throughout the investment process, PIC is focused on making good quality long-term investments, which minimise defaults and generate the inflation-linked, predictable long-term cashflows required to pay our policyholders' pensions. PIC's Stewardship Policy applies to all of our investments whilst recognising that the large majority of the investment portfolio is invested in fixed income. We believe that as bondholders we can exert influence over management of issuing companies and engage with them as necessary to help drive positive change.

PIC's investment portfolio is predominantly invested in high-quality assets that provide secure, long-term cashflows, including UK government bonds, investment-grade bonds, loans and cash. At the end of 2023, 24% of our portfolio was held within sectors we refer to as 'sustainable assets' which include socially valuable sectors such as housing associations, education, and regulated utilities. We define 'sustainable assets' as investments in companies whose business model is meaningfully linked to solving one or more of the UN SDGs and which can demonstrate positive sustainability credentials.

Case study: Investing with purpose

As risk-averse investors, our strategy prioritises the management of key risks. Fundamental to this is matching assets and liabilities across the cashflow profile of the business. We source these from both the public and private investment grade credit markets and therefore, PIC is a significant investor in secure long-term private debt, sourcing, and creating, assets to best match PIC's liabilities at maturities when publicly-available debt is limited. This allows PIC to form partnerships with long-term borrowers and deploy capital in projects which have significant social value.

Investments in sustainable assets

2020:
24%
(£12.1 billion)
of total portfolio
£49.9 billion

2022:
25%
(£10.3 billion)
of total portfolio
£41.2 billion

2021:
27%
(£13.8 billion)
of total portfolio
£51.4 billion

2023:
24%
(£11.4 billion)
of total portfolio
£46.8 billion

Housing associations/social housing	**21%**
Renewable energy	**9%**
Education	**16%**
Non for profit	**5%**
Healthcare	**8%**
Municipals	**7%**
Sustainable transport (rail)	**2%**
Project finance (funding sustainable initiatives)	**1%**
Green or sustainable buildings including build-to-rent	**5%**
Regulated utilities (water, electric and gas)	**25%**
Circular economy	**1%**

"Our £11.4 billion invested in sustainable assets evidences how PIC's portfolio provides the cashflows we need to pay our policyholders' pensions over future decades, and creates significant social value right across the UK. Some of PIC's new investment into sustainable assets include affordable homes, clean transport, and social infrastructure."

Rob Groves
PIC's Chief Investment Officer

Culture

We value all our stakeholders and work hard to provide exceptional service to all our customers (policyholders, trustees and sponsors). We listen to them and pride ourselves on our responsiveness to their requirements.

PIC has long been a market leader in how we engage with, and the level of customer service we offer to, our policyholders. PIC holds the Institute of Customer Service's ("ICS") ServiceMark with Distinction, one of only 20 companies in the country with these awards and was the first company in our sector to attain the Crystal Mark, Platinum, from Plain English Campaign, for our policyholder communications.

PIC recognises that its employees are its most valuable assets. Our customer-focused culture underpins both our financial and sustainability strategic success. At the end of 2023, we launched our new core values of adaptability, resilience, and loyalty. Our people welcome challenge and are encouraged to meet their full potential within a safe and rewarding environment. Our 90% employee engagement score and low employee turnover of just 9.9% during 2023 attest to this approach.

Focusing on the things that matter

Purpose: to pay the pensions of our current and future policyholders

Clear and communicated strategic objectives

Values you live

Underpinned by an authentic culture

Our values

Resilient

Adaptable

Loyal

Resilient

No matter what comes our way, we can handle it. We do this by managing risk to provide long-term stability and financial security for our customers. Our strong, conservatively managed balance sheet and low-risk portfolio ensure resilience against difficult economic events.

Adaptable

PIC is capable of thriving in a changing environment, doing things differently and evolving our business with innovative solutions and in line with client needs. We listen carefully and are not afraid to learn and challenge ourselves, and we go beyond existing ways of thinking to come up with innovative, personalised solutions.

Loyal

Our policyholders are our customers for life, which is why our strong ethos around doing the right thing is so important to us. We invest in building lasting relationships, proving ourselves to be dependable and dedicated. We know the benefit of working together as a team. We respect, value, reward and nurture our people.

The above are attributes of our culture and are key to enhancing stewardship at PIC as they drive our overall business strategy and collaborative behaviour. We demonstrate such values within our responsible investing overlay within all investment processes as well as focusing on excelling in client service.

Strategic objectives

Our three strategic objectives guide the business as we fulfil our purpose. The highlights of our ambitions are:

To continue building a secure and sustainable business

To carry on leading as a responsible corporate citizen

To keep on driving long-term value growth

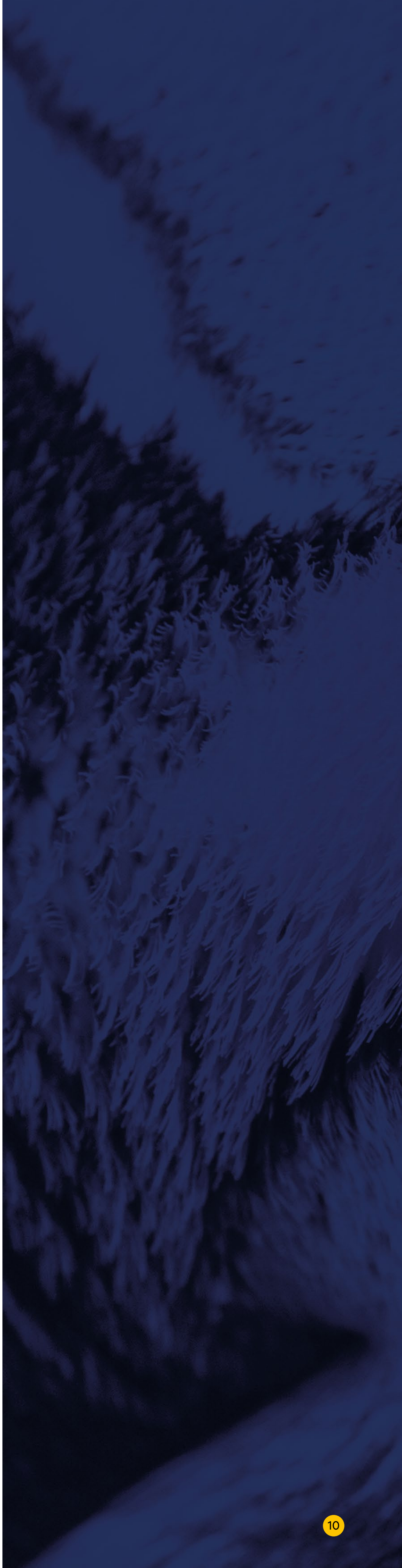
Zooming in on the second objective, 'To carry on leading as a responsible corporate citizen', we prioritise ensuring that our behaviours reflect our values, including within our stewardship and engagement activities. By actively engaging with our stakeholders in a constructive and empathetic manner, we not only mitigate business risks but also enhance our reputation and ultimately improve returns. Our culture and values serve as a guiding framework for our stewardship activities. We prioritise providing our policyholders with the highest levels of service, clear communications, and the right outcomes, all while actively considering the broader societal impact of our activities through a sustainability lens.

Performance in 2023

- Provided excellent customer service to our policyholders; 99.3% of our policyholders expressed overall satisfaction with our service levels.
- Rolled out PIC's updated values to better support our purpose and culture.
- Became a signatory to the Financial Reporting Council's UK Stewardship Code.
- Developed the work of the Purposeful Finance Commission, chaired by our CEO, which seeks to understand the barriers to regenerating the UK's towns and cities (see more in the case study in Principle 4).
- Chaired the Business Advisory Council of the Regulatory Reform Group, which seeks to help individual regulators work more closely with regulators in related sectors, in order to help remove unintended blockages to economic growth.
- Implemented plans for delivering on Consumer Duty, alongside establishing a Board-level Customer Committee.
- PIC won the Customer Commitment Award from the Institute of Customer Service and received an accreditation uplift in Investors in People, to Silver.

Our focus in 2024

- Continue to provide excellent customer service and engage with our policyholders through a 2024 events programme.
- Continue to make progress towards our environmental targets as we work towards achieving Net Zero status.
- Work with local government on their urban regeneration plans and how to overcome barriers to investment through the Purposeful Finance Commission.
- Work across political parties at a national level to help central government understand the barriers to investment in the economy, and present solutions.
- Relocate PIC's offices to accommodate the growth of the business and help meet our sustainability ambitions.



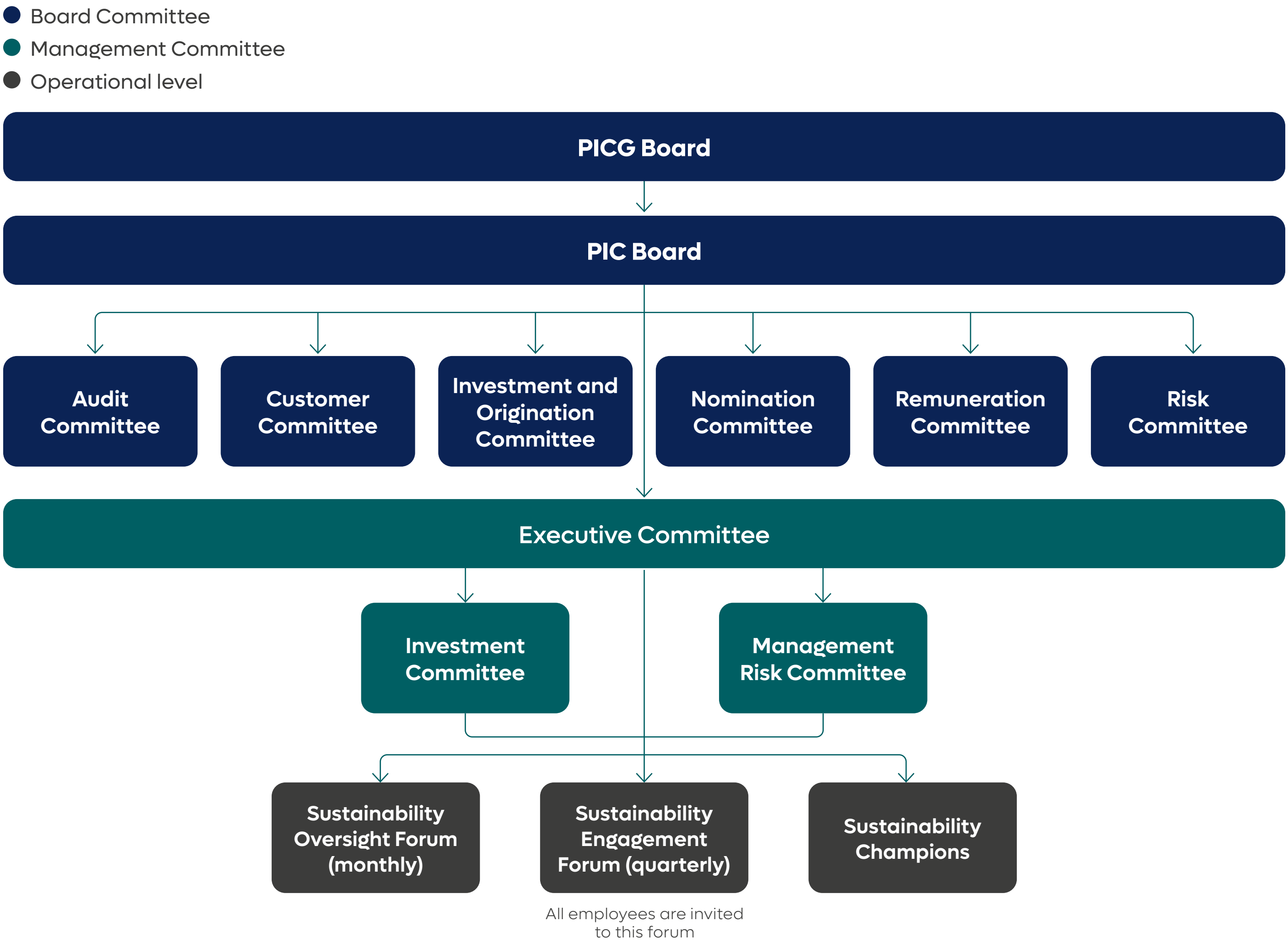
Principle 2.

Signatories' governance, resources and incentives support stewardship.

Internal governance structure

PIC supports stewardship through its strong internal governance structure. PIC's Board has ultimate responsibility for PIC's responsible investing and stewardship activities.

The Board has delegated certain aspects of its responsibilities to its six Board Committees which work closely together and assist in providing effective stewardship, oversight and leadership. These committees are shown on the diagram below:



Members of the Committees are appointed by the Board. In addition to the Board Committees, there are also a number of management and operating committees that assist senior management with business management and oversight of PIC in relation to:

- The day-to-day management of the business;
- Investment matters;
- Risk management frameworks; and
- All new business deals and interaction with policyholders including Treating Customers Fairly outcomes and overall conduct.

The Board's primary focus is to deliver on PIC's purpose. The Board promotes the long-term sustainable success of the Group within a framework of prudent and effective controls which enable risks to be assessed and managed. The Board ensures that the culture and values of PIC are aligned so that it is successful in achieving its purpose, whilst at the same time generating value for shareholders and contributing to wider society.

Our three strategic objectives highlight our ambition for long-term value growth, ensuring that we behave as a responsible corporate citizen in pursuit of this ambition, and provide a secure and sustainable business for our stakeholders.

Governance of stewardship at PIC

The Board recognises that sustainability is critical for the success of the organisation and should be taken into account when making strategic decisions. Our chosen approach to governance ensures that priority and attention is given to these factors by senior leaders within PIC. By recognising the importance of sustainability at the top of the organisation, PIC can navigate better the risks and opportunities that arise and build a more sustainable and resilient business.

The Board

PIC established a Board ESG Committee in mid-2021 as a temporary Committee with a remit to focus on sustainability, to embed governance of ESG in the Board, its committees, and the whole organisation. The Committee completed its work with the formal confirmation of responsibilities for the Board, the Board committees and the Executive Committee. By ensuring clarity of responsibility at the board level and its permanent sub-committees, PIC ensures that sustainability matters are truly embedded into the Board agenda as well as given due time to discuss specific relevant matters within sub-committees.

This is evidenced through:

- Review and approval of the updated Sustainability Policy;
- Quarterly discussions on the portfolio's decarbonisation trajectory, ESG integration and stewardship progress at the Investment and Origination Committee (IOC);
- Review and approval of the updated Stewardship Policy at the IOC;
- Review and endorsement of PIC's inaugural Transition Plan at the IOC;
- Review of climate risk metrics and risk appetite frameworks at the Board Risk Committee;
- Review and approval of our first Climate Risk Policy at the Board Risk Committee; and
- In-depth review of Task Force on Climate Related Financial Disclosure and Sustainability Reports at the Audit Committee.

The Board has delegated the day-to-day implementation of PIC's sustainability strategy to various senior management figures within the firm. Executive leadership of sustainability matters sits with PIC's Chief Strategy Officer who drives and monitors PIC's progress in respect of its overall sustainability strategy. The Chief Investment Officer is responsible for considering ESG factors within investments and overseeing the progression of our stewardship and engagement strategy, while accountability for Climate Risk sits with the Chief Risk Officer. In total, seven Executive Committee members have specific sustainability related objectives with specific KPIs where relevant. The Head of Sustainability sets the strategic direction for PIC's overall sustainability strategy and ensures alignment with PIC's corporate strategy and helps ensure sustainability standards set by the Board/Executive Committee (ExCo) are met.

"The focus on sustainability and the transition to Net Zero presents a seismic shift in the way our industry operates. There are significant opportunities for value creation through exposure to emerging climate-related technologies and industries that offer the potential for long-term growth. At the same time, a more comprehensive understanding of the risks posed by climate and ESG-related factors enables us to refine our approach to mitigating downside risk. The Board and its committees will play an important role in this, and I'm proud to take responsibility for ensuring this is central to the Board agenda."

Arno Kitts
Board level Sustainability Champion

The Sustainability Oversight Forum

The Sustainability Oversight Forum was formed in 2021 with the goal of further embedding sustainability within the business and ensuring oversight was distributed across functions. The forum provides a monthly platform for senior stakeholders to discuss all issues – whether corporate or investment related – that have a sustainability angle, including but not limited to our stewardship activities. The Forum is chaired by our Head of Sustainability and is composed of senior employees including the Chief Investment Officer and Chief Strategy Officer. It allows its members to delve deeper into the complexities of sustainability issues, exchange ideas and insights, and develop strategies to address them.

Stewardship topics discussed at the Forum in 2023 included fostering meaningful dialogue with high emitters, introducing the UK Stewardship Code and explaining its relevance and importance for the industry and discussing our engagement with the UK water utilities sector. Notably, our focus on the water utilities sector has been outlined in more detail in the provided case study in Principle 10, showcasing our commitment to understanding and positively impacting this critical sector.

The Sustainability Engagement Forum

The quarterly Sustainability Engagement Forum is an all-staff meeting structured as Continuous Professional Development (CPD) Sustainability Training. It serves as a platform to inform the rest of the organisation about important sustainability matters, including updates on stewardship progress. This Forum not only provides a space for sharing updates but also plays a vital role in fostering sustainability awareness throughout the entire organisation.

Examples of topics that included stewardship covered in 2023 were:

- Introduction to stewardship and engagement and practical application of PIC's engagement strategy.
- Overview and updates on the UN PRI: Advance collaborative engagement initiative on human rights and social issues in the supply chains, of which PIC is a member.
- ESG in the News: Spotlight on the growing anti-ESG movement in the US and the backlash from pension schemes in response to BP's reversal on climate pledges.
- Engagement case studies, such as interactions with companies regarding coal as a percentage of revenues and our manager's engagement with US companies on paid sick leave policies.

The Forum is open to all and on average 140 employees (c.28% of PIC employees) attended and participated each quarter in 2023.

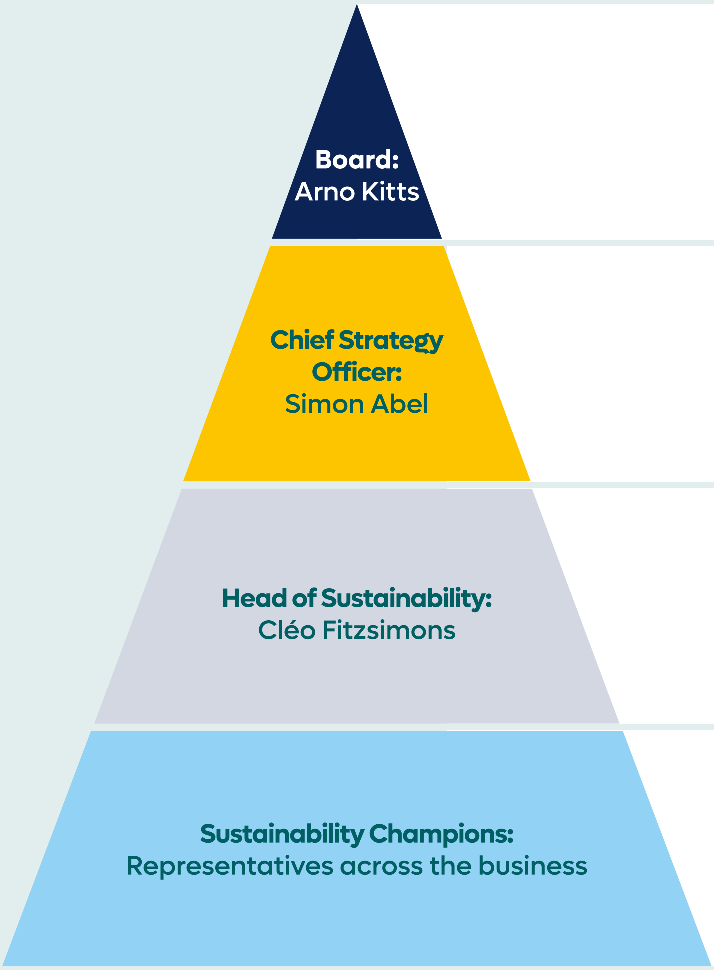
Comprehensive sustainability representation across all levels at PIC

New for 2023 is that PIC has appointed sustainability representatives across the business. Arno Kitts – PIC Non-Executive Director and Chair of the Investment and Origination Committee – has been appointed as Board level Sustainability Champion and Simon Abel – PIC's Chief Strategy Officer – has taken executive leadership on sustainability matters. Cléo Fitzsimons has been promoted from Head of Responsible Investing to Head of Sustainability and takes on corporate level sustainability responsibilities in addition to her focus on the investment portfolio.

Finally, a Sustainability Champions initiative was launched which consists of 15 individuals from across the organisation of various levels of seniority. The initiative's aim is to build momentum and help drive sustainable change within the organisation. Formal sustainability training is offered to our champions along with opportunities to bring external best-practice into PIC within their respective business areas.

Sustainability representation

At various seniority levels and across the business



Board-level Sustainability Champion

- Act to ensure that sustainability matters are considered by the Board.
- Escalate any concerns about the company's sustainability related activities to senior management and the Chairman.
- Help Exco Sustainability Lead embed sustainability matters into the Company's culture and policies as well as ensure appropriate external engagement of such matters and reporting from executives to the Board.

Executive Committee Sustainability Lead

- Take Exco leadership for sustainability matters.
- Drive and monitor progress for PIC's overall sustainability strategy.
- Promote/communicate PIC's sustainability capabilities across all stakeholder groups.

Head of Sustainability

- Set strategic direction for PIC's overall sustainability strategy and ensure alignment with PIC's corporate strategy.
- Help ensure sustainability standards set by the Board/Exco Committee are met.
- Coordinate and oversee the two main streams of PIC's Sustainability TOM: 1) Responsible Investing; and 2) Long-Term Sustainable Business.

Sustainability Champions

- Build momentum and help drive sustainable change within the organisation.
- Assist Business Function Executive Committee members to embed sustainability within BAU.
- Bring outside best practice information on sustainability within PIC and help spread it across the organisation.

"I'm excited to be a Sustainability Champion at PIC. The pension scheme trustees – and their advisors – that we engage with are increasingly interested in how we manage climate risk and sustainability issues. In some cases, this is becoming a differentiator when determining which insurer to transact with.

I will be working to ensure that our climate and sustainability focus is aligned with what our clients are focussed on and looking to pass on what I learn to the rest of my Team, as part of our efforts to embed the importance of sustainability across PIC. On a personal level, I'm motivated by being able to play a part in the climate transition and the creation of social value, for example through helping finance the UK's social housing needs."

Peter Cole
Sustainability Champion, Origination

Ongoing training

To ensure our Board and employees are up to date on the latest industry developments we undertake continual training on the topics of ESG and stewardship.

In September 2023, the Board and ExCo members attended a deep dive session on the growing significance of sustainability topics, the importance of managing and mitigating any negative impacts PIC's portfolio may have on people and the planet, as well as the risks and opportunities that the Company faces directly from climate change and wider sustainability themes.

Two additional training sessions were organised for our employee Sustainability Champions on how to embed sustainability as business as usual (BAU).

In addition, our Head of Sustainability provides on-going training on ESG integration and engagements with the Investment team in addition to the quarterly all-employee Sustainability Engagement Forum. Stewardship topics are included in these teach-ins, as explained above in the section on Sustainability Engagement Forum.

Our employees across all levels from Board to apprentices have cumulatively undertaken over 600 hours of CPD Sustainability training in 2023.

The Responsible Investing team

Our Responsible Investing team consists of three full time individuals. The team is led by our Head of Sustainability, and she is accompanied by an Investment Stewardship Manager, and a Responsible Investment Climate Lead. During 2023 an apprentice supported the Responsible Investing team to help with the team's day-to-day activities.

The Investment Stewardship Manager is a full-time resource overseeing PIC's stewardship initiatives. She has been in her role since Q2 2023. The current incumbent has a wealth of experience spanning 13 years in the insurance and pensions sector. With a background in Investment Risk and Investment Strategy, she has a proven track record in managing stakeholder relationships effectively and navigating intricate regulatory landscapes. She is also a CFA charterholder. In her role, she is tasked with advancing PIC's engagement strategy, providing oversight to external managers' engagement activities, and actively participating in collaborative engagement initiatives. Beyond these responsibilities, she serves as a Subject Matter Expert (SME) for other members of the Investments team. Her expertise empowers them with valuable insights on various engagement themes, enabling them to conduct impactful engagements directly with the companies they work with or cover.

The team's Climate Lead focuses on our climate strategy and coordination of PIC's transition to Net Zero. He frequently lends expertise to address climate-specific engagement questions. For instance, we leverage his knowledge when it comes to assessing the credibility of companies' decarbonisation strategies and to ensure we're asking companies the right questions when we engage with them on climate-related topics.

The team members therefore come from diverse academic and professional backgrounds with specialisms ranging across asset & wealth management, actuarial, ESG integration in public and private markets, Responsible Investing policy development, impact investing, Net Zero consulting and further rich expertise.

Cléo Fitzsimons

Head of Sustainability at PIC

Cléo Fitzsimons is Head of Sustainability at PIC. Cléo is responsible for integrating ESG into the investment process, assessing related opportunities, embedding sustainability into the overall corporate strategy and ensuring PIC is an active member of the sustainable financial industry.

Cléo has 14 years investment experience. Prior to joining PIC in 2021, she spent 10 years in the Asset & Wealth Management industry at Schroders. She holds a dual Masters degree from the London School of Economics and ESADE business school in Barcelona and a First Class Honours business undergraduate degree from Concordia University in Montréal. Cléo is a Fellow of the Chartered Institute for Securities & Investments (CISI) and holds the Investment Management Certificate awarded by the CFA institute.

The wider team

Responsibility for stewardship and engagement activity is not limited to the Responsible Investing team. As mentioned above, PIC has also named Sustainability Champions in all major business functions to embed sustainability within our culture and every-day processes. This demonstrates PIC's dedication of resources towards Responsible Investing, in addition to the application of sustainability matters falling within the remit of each function's business as usual.

In the area of stewardship and engagement, 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. Our analysts consider material sustainability risks and opportunities alongside other factors and liaise with our Responsible Investing team on their findings. Additionally, all members of the Credit Research team hold performance objectives tied to stewardship and engagement. This includes actively engaging with issuers that have high ESG risk and logging all engagements in our proprietary engagement platform.

Specifically, in the area of built environment, we continue working with Buro Happold, a specialist-built environment consultant, to perform due diligence and engage with our property developers to strengthen the environmental aspects of our design and construction standards. Together, we bolstered our due diligence process and have created a proprietary two-stage, in-depth ESG due diligence assessment that we use to benchmark all incoming real asset investments against. We are also using the scorecards to assess retrospectively our existing portfolio assets in this sector to ensure they are aligned with our enhanced standards (see more detail in Principle 7). PIC is committed to helping the property sector transition to be more environmentally friendly as we consider this a forward-looking investment opportunity and the right thing to do for our society.

Every member of the Investments team is expected to consider ESG factors when reviewing an investment opportunity. This commitment ensures that our analysis is forward-looking, taking into consideration the risks associated with potential investments over extended periods, often spanning many decades. This forward-thinking approach aligns with our dedication to responsible investment practices and the long-term sustainability of our portfolio.

Incentivising stewardship

Rob Groves, the Chief Investment Officer at PIC, has objectives to ensure the integration of ESG factors alongside financial factors in the investment decision making process. This is measured through Key Performance Indicators (KPIs) such as:

- Meeting Net Zero commitments and transition strategy actions; and
- Establishing ESG Integration frameworks for all asset and sub-asset classes.

Giles Fairhead, the Chief Risk Officer at PIC, has an objective to own the approach to climate risk management and embed this in the organisation.

In total, seven members of the Executive Committee have performance objectives linked to sustainability with specific KPIs included where relevant. Sustainability, and more specifically stewardship-related objectives, are also incorporated into specific team objectives. For instance, the Credit Research team has the following stewardship related objectives:

- Build knowledge of sustainability-specific issues within our respective sectors so that we can have quality engagements on such topics with issuers.
- Where we have access to management, ensure all transactions with High ESG risk scores are engaged with during the year.
- Ensure that all discussions with management on ESG factors are logged into our engagement platform.
- Collaborate with the Responsible Investing team on advancing PIC's Engagement strategy.

We ensured that sustainability is incorporated within objectives, and we are reviewing the best way of bringing that into the remuneration framework.

Assessing the effectiveness of our chosen governance structures and processes

We firmly believe that our current governance structure, which includes representation from all seniority levels across the firm, ranging from Board members to dedicated employees responsible for the day-to-day operations, ensures the effectiveness required for sustainable business practices. This multi-level representation fosters a comprehensive approach to decision-making, drawing on diverse perspectives and experiences. Our commitment to good governance is reflected in the strong score received during the latest UN PRI assessment process for 2023: 4 out of 5 for 'Policy Governance and Strategy'.

PIC is a signatory to the UN Principles of Responsible Investment and has been since early 2020. PIC takes pride in the genuine actioning of the principles, and this has been recognised through our 4 Star, and well above mean, assessment in the latest 2023 Assessment process.

Specific areas of note related to governance and stewardship were:

- The right responsible investment policies in place and publicly disclosed.
- Senior level accountability.
- Stewardship strategy and stewardship code signatory.
- Climate change commitments and disclosures.

The assessment also identified areas for improvement, highlighting the need to enhance transparency by including more detail on engagements performed, a step we are actively planning to take. Additionally, there is growing recognition of the necessity to go beyond climate considerations to include wider biodiversity concerns. Furthermore, the assessment underscores the importance of refining our escalation policy as our engagement strategy continues to evolve and mature.

PRI Principles for Responsible Investment

Principle 3.

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

As a specialist insurance company focused on insuring the pensions of defined benefit pension scheme members in the UK, PIC doesn't manage clients' money. Instead, PIC's clients and beneficiaries include:

Policyholders whose pensions PIC takes on board

Pension trustees

Wider society through our sustainable investments in the economy

While rare, our routine business activities occasionally encounter potential conflicts of interests. These conflicts can stem from various relationships, such as those with our shareholders, clients, or suppliers, introducing biases that could influence our decision-making process. Examples include:

- Personal dealing in shares where PIC employees have access to insider information such as potential new pension risk transfer transactions;
- One of our employees having a personal relationship with one of the counterparties we work with – either a supplier, a contractor, a service provider or an employee of a company which is considering a pension risk transfer to PIC;
- PIC's interactions with pension scheme trustees where a NED holds positions on Boards of several pension related firms giving rise to potential conflict of fiduciary responsibility;
- PIC targeting a company for engagement where the company is also considering a pension risk transfer to PIC or has another commercial relationship with PIC; and
- PIC's investment in the same private deal from both equity and debt perspectives or supporting different equity sponsors in the same transaction (for further details, refer to the case study).

PIC's Conflicts of Interest Policy

PIC has a Conflicts of Interest Policy in place to manage the risks of conflicts. The Policy provides guidance and procedures for identifying, monitoring and managing conflicts of interest. The Policy promotes the highest standard of integrity and requires employees to disclose their interests at least annually so that conflicts or potential conflicts can be identified and appropriate steps are put in place to mitigate them. It reminds all staff of their duty to act in the best interest of the Company and its Policyholders and reminds them to be alert to situations that may give rise to an actual or perceived conflict. The Conflicts of Interest Policy undergoes a thorough review at least once a year to ensure its relevance and effectiveness. Additionally, all employees are mandated to undergo compulsory training, conducted annually, covering this Policy alongside other relevant policies such as Gifts and Hospitality and Whistleblowing.

The Policy mandates the disclosure of any conflicts of interest at the commencement of each senior committee meeting, including Board and Board Committees. This is included as a standard item on the agenda for every meeting.

The Legal team also manage a 'Restricted List' of company names that is sent around to all PIC employees and forbids any personal account trading on companies on that list without a special circumstance waiver being sought out.

If there is a conflict of interest with an external stakeholder, PIC manages this conflict from the very beginning of any process. Once a potential conflict of interest is identified, the General Counsel and Deputy General Counsel assess the risk caused by the conflict and, depending on the severity, put in place mitigating actions. These can range from ensuring the conflicted party is not a decision maker or influencer to removing the conflicted party within PIC from the process.

Stewardship-specific conflicts of interest

Due to the nature of PIC's business, we believe the potential for conflicts of interest in the area of stewardship is lower. Despite this, we acknowledge that certain situations may present conflict possibilities. For instance:

- When engaging with a private issuer to use our influence and promote better ESG practices, we may also be bidding on credit being issued. Given the dynamics of the market, our Investments team could be conflicted between potentially having challenging stewardship discussions and being selected as a lender in the issuance.
- Similarly, when PIC engages with a company sponsoring one of our existing pension schemes or is a prospective sponsor, potential conflicts may arise due to the tension between PIC's engagement objectives and our interest in winning new business.

In the former case we rely on the fact that our engagement strategy is predetermined and approved by the Board, ensuring that our investment management processes, including engagement, remain unaffected by these relationships. There is sufficient transparency so that the Responsible Investing team can challenge other members of the Investments team if the right questions are not being asked of the issuing company. The Responsible Investing team encourage ethical decision-making among all team members by emphasising the importance of prioritising disciplined ESG risk assessment relative to short-term financial gains.

In the latter example, we would rely on two key elements to manage potential conflict. Firstly, there is a clear distinction between Responsible Investing and Origination teams who report to different Executive Committee members in PIC's organisational structure. Secondly, our engagement strategy is predetermined and approved by the Board, ensuring that our investment management processes, including engagement, remain unaffected by these relationships. We openly communicate our engagement approach with the sponsor, demonstrating our dedication to managing conflicts responsibly.

Examples of conflicts in 2023

In 2023 we had no new conflicts of interest related to stewardship and engagement activity requiring disclosure.

Principle 4.

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Given our sector of the industry, and the resulting business models for PIC and our peers, the consistency and reliability of cashflows is critical to ensure we can fulfil our purpose of paying our policyholders' pensions. As such, the key market-wide and systemic risks we have identified for our business are as follows:

Market risk. This includes general market volatility and more specifically interest rate risk which is the main driver of returns on fixed-income securities and therefore affects the financial position of insurance companies and pension funds.

Longevity risk. Risks associated with the pension related liability payments that companies make being greater than expected due to policyholders living longer than expected.

Regulatory and political environment. Risk associated with the regulatory and political environments in which PIC and its peers operate.

Climate change. The potential for adverse consequences arising from the impacts of climate change, including physical risks arising from climate driven events, and transitional risks arising from the process of adjustment to a low-carbon economy.

These are key risks that can cause increased volatility and uncertainty which destabilises markets and directly affects our asset-liability modelling. We find climate risk particularly difficult to respond to given its relative novelty. The true magnitude of consequences from climate risk are still unknown despite scientific forecasts and various scenarios which can be tested.

We have taken strong measures to mitigate these risks while working with industry peers to promote well-functioning, more stable and increasingly transparent markets. Our strategy for managing these four risks is set out below.

Market risk

The global economic outlook has continued to be volatile in 2023, with rising interest rates to combat inflation and growing geopolitical risks, particularly the continued Russian invasion of Ukraine and the conflict between Israel and Hamas. A swift regulatory response assisted in preventing significant global contagion from a US banking sector crisis earlier in 2023. Uncertainties remain regarding the trajectory of major world economies, leading to continued market volatility.

PIC's risk management approach has, as always, been central to our resilience. We had no direct exposure to the US failed banks given our preference for highly regulated and globally systemic important banks. Meanwhile, our hedging strategy, implemented in line with our risk appetite framework has shielded our balance sheet from much of the market volatility.

The majority of our portfolio is invested in low-risk investment grade corporate debt and UK Government bonds. 91% of the portfolio, including gilts and government bonds, was rated investment grade (FY2022: 91%).

We continue to have limited exposure to consumer cyclical industries, and 51.1% (FY2022: 50.2%) of the portfolio was invested in financial, utilities and non-cyclical consumer industries. In our view, these sectors are well placed to cope in an economic downturn as we seek to protect value and the cashflows which pay our policyholders' pensions. However, it is important to note that, as long-term buy and hold investors, we invest with the whole economic cycle in mind. This means that over a time horizon of decades we expect to see several recessions, so we select new investments and risk manage the portfolio with these potential future downturns in mind.

As we look ahead to 2024, we are preparing for another busy and potentially volatile year. There are upcoming elections in many countries, including the US and UK, which may occur in quick succession and geopolitical risks look set to remain elevated bringing continued market volatility and a chance of unexpected market and operational events.

Our focus for 2024 will be to continue enhancing our approach and risk management framework to oversee and support a growing business in uncertain times, which will also include significant regulatory reform. We will also carry out a series of market and operational stress tests to ensure that our business continues to be resilient to adverse events.

Longevity risk

People living longer than expected can pose a risk for companies within the pension industry, as they may need to pay out benefits for a more extended period than initially anticipated. There has been increased uncertainty in relation to life expectancy following the Covid-19 pandemic. Mortality rates in the population have been higher compared to mortality rates in 2019. As well as the direct impacts of the pandemic, other factors may be contributing to higher mortality. For example, pressures on the NHS and social care service and the cost-of-living crisis have driven a decrease in views of life expectancy in the UK, but with higher levels of uncertainty around estimates of life expectancy.

PIC generally seeks to transfer longevity risk via reinsurance contracts. This reduces the risk to PIC of policyholders living longer than expected as any increase in liabilities is shared between PIC and the reinsurers. It also means that PIC does not benefit as much from reductions in life expectancy. Where PIC has retained longevity risk, this is weighted more heavily to younger policyholders. PIC also holds capital to protect the business against potential increases in longevity.

PIC incorporates ESG criteria into both the tendering process for reinsurers and contract agreements. Our expectations are that reinsurers align with our own responsible investment and stewardship approach.

Regulatory and political environment

PIC operates under the regulatory supervision of the Prudential Regulation Authority (PRA) and its rulebook, including Solvency II requirements. Specifically in relation to sustainability, PIC must consider the expectations of:

- The PRA's Supervisory Statement: Enhancing banks' and insurers' approaches to managing the financial risks from climate change (SS3/19);
- The PRA's Dear CEO letter from July 2020 on managing climate-related financial risks;
- The PRA's Dear CEO letter from October 2022 on the PRA supervision of climate-related financial risk;
- Section 54 of the Modern Slavery Act 2015 which requires PIC to publish an annual statement setting out the steps we take to prevent modern slavery in our business and our supply chains; and
- The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 which require PIC to report annually on our gender pay gap.

We regularly engage with our regulators and policymakers on industry-wide topics such as Solvency II, wider pension reforms, the landscape for UK investments, Consumer Duty, and industry related consultations.

Engaging with the PRA is particularly important to us as it allows us to shape the regulatory landscape in a way that makes it easier to fulfil our purpose. It can potentially widen our investment universe by broadening asset eligibility for the Matching Adjustment (MA) as a part of Solvency II reforms. This would help us and our peers in the industry direct larger amounts of investment into new areas allowing considerable social value creation and climate-friendly investments whilst maintaining security of cashflows in order to pay the pensions of our policyholders over future decades.

Unlocking our full investment capacity requires addressing factors such as increasing the supply of opportunities, simplifying the investment process, and improving financial attractiveness. To address these, we have actively provided feedback on various pertinent Solvency II consultations, directly influencing insurers' capital allocations. Notable engagements include: CP12/23 – Review of Solvency II: Adapting to the UK insurance market and CP19/23 – Review of Solvency II: Reform of the Matching Adjustment. In addition, we have participated in the UK Investment Flexibility Subject Expert Group. The objective of the group was to provide feedback to the PRA on the plans to broaden asset eligibility for the Matching Adjustment (MA) as part of Solvency II reform. The discussions and feedback focused on issues around cashflow predictability which prevents certain types of investments from receiving beneficial MA treatment. This prevents insurers subject to Solvency II regulation from allocating larger amounts of investment into these areas which affect, among others, investment in Sustainability Linked Bonds with either a step up or a step-down coupon structures.

Following the feedback including from insurers like PIC, in September 2023 the PRA issued its first substantive consultation on the details of its proposed changes to the MA. This confirmed relaxation of requirements specifically around the fixity of cashflows by allowing eligibility for assets that are 'highly predictable' instead subject to a few additional considerations and gave the industry additional detail and an assertion of the direction of travel from the PRA.

We don't expect any immediate changes in firms' investment approaches at this point. However, we view the changes as a positive outcome of our participation in multiple consultations on the topic which we hope over time will lead to increased investment in socially beneficial projects.

In addition to the PRA, the Financial Conduct Authority (FCA) also plays a crucial role in our regulatory environment by safeguarding the interests of our policyholders and supervising market conduct. The implementation of the FCA's Consumer Duty rules, effective from 31 July 2023, has been a significant focus for us. As part of PIC's preparation for Consumer Duty, in June 2023 the Board approved the creation of a Board Customer Committee and its terms of reference. The Board Customer Committee, with delegated authority from the Board, provides oversight and advice on implementing, prioritising, delivering, and embedding the Consumer Duty requirements into the Company's processes and business activities. It also oversees the Company's progress against its delivery plans and offers advice and challenges to embed and maintain a culture focused on delivering good outcomes for customers. The Committee is chaired by PIC's Consumer Duty Champion Stuart King.

Tracy Blackwell
Chair of the Purposeful Finance Comission and CEO of Pension Insurance Corporation plc

Purposeful Finance Commission: Helping local governments overcome barriers to regenerating the UK's towns and cities

The Purposeful Finance Commission ('PFC') is an independent organisation chaired by our CEO, Tracy Blackwell. It comprises leading combined authority figures, local government leads, and investors who have come together to identify, understand and overcome the barriers that communities across the country face in bringing forward long-term regeneration projects, and in accessing long-term institutional investment.

The PFC conducted extensive research and consultations with various stakeholders, including local authority representatives, investors, developers, and civil servants, culminating in the report 'Investment and Infrastructure.' The report identified several complex, interconnected barriers that were standing in the way of local authorities' ability to bring forward urban regeneration projects and attract the long-term institutional investors who would fund these developments. Four of these major barriers are:

- **Lack of capacity:** Many local authorities lack the capacity to develop proposals for long-term investors due to resource constraints, hindering their ability to attract private capital for regeneration projects and missing the opportunity to save money in the long run.
- **Competitive funding structures:** Funding arrangements for local governments are fragmented and competitive, diverting resources from relationship-building with private sector partners and complicating investment processes.
- **Complex planning process:** The planning process for regeneration projects is complex and time-consuming, taking up significant resources and delaying project implementation.
- **Lack of quality investment data:** Inadequate data on investment levels in UK regions hampers understanding and decision-making, making it difficult to address investment gaps and assess outcomes.

The report lists eight recommendations which if implemented would help local government overcome barriers to urban regeneration, attract institutional investment, and create significant social value. These include establishing a 'pipeline fund' designed to address planning delays by increasing capacity and expertise in local authority regeneration teams; establishing a central public register for distinguishing and tracking public and private investments; provide greater national certainty for local authorities to bring forward long-term regional regeneration plans etc.

Please read the full report **here**.

Climate change

Climate change continues to be an area of priority for PIC, the public, insurers, and regulators alike. Physical risks emerging from the impacts of climate change may lead to increasingly acute weather catastrophes, longer term changes to resource availability and societal changes. These in turn could lead to potential reductions in the value and availability of assets PIC and its peers invest in, and disruption to operations and counterparties. PIC is also exposed to transitional risks associated with climate change such as not being able to keep pace with a shifting environment and policymakers rendering our organisational processes and strategy outdated or obsolete.

THE NET-ZERO ASSET OWNER ALLIANCE

Mitigating climate change and associated risks was one of the key drivers to making our commitment to Net Zero. An important part of our transition plan that should enable us to meet our stated climate commitments is to engage with companies on the topic of climate and influence their behaviour so that it aligns with a Net-Zero world. We have committed to engaging with at least 20 of our investee companies a year with a focus on companies that will be likely to have the largest real-world decarbonisation impact. This is consistent with the Net-Zero Asset Owner Alliance Target Setting Protocol, an industry initiative we are members of. In 2023, we went beyond this number and had climate specific engagements with 74 portfolio companies within high-emitting sectors such as energy, utilities and basic materials.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

We support the Task Force on Climate Related Financial Disclosures (TCFD) and published our first TCFD report in 2021. We agree with the TCFD that financial markets need clear, comprehensive, high-quality information on the impacts of climate change. This includes the risks and opportunities presented by rising temperatures, climate-related policy, and emerging technologies in changing worlds. The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information.

TPT Transition Plan Taskforce

In 2023, we are proud to have developed our first Climate Transition Plan which was published alongside our year end reporting in March 2024 and can be found **here**, detailing our targets and actions to transition towards a lower-carbon economy. This has been drafted in line with the disclosure framework from the Transition Plan Taskforce. The Transition Plan has been developed alongside the relevant business functions to ensure the delivery of the plan is embedded within the business.

Managing our climate risk exposure

We have made further developments to our process to manage PIC's exposure to climate risk. We have performed a quantitative climate change scenario analysis on our investment portfolio. This was designed to understand the impact of three climate scenarios on PIC's balance sheet. The scenarios were based on those designed by the Bank of England for the Climate Biennial Exploratory Scenario (CBES). Further detail on the methodology and results of this scenario analysis can be found in our **TCFD report**.

ABI

PIC has been actively engaged in addressing systemic risks affecting our bulk annuity business. We are one of 10 founding members of the Association of British Insurer (ABI)'s Climate Change Roadmap working group, which focuses on collaborative member action to help halve emissions by 2030 and reach Net Zero by 2050. We aim to influence our sector's approach to climate change across four pillars:

1. **Meeting Net Zero by 2050;**
2. **Unleashing investment capacity;**
3. **Ensuring sustainable industry operations; and**
4. **Helping society adapt.**

The roadmap focused primarily on the insurance sector's role in supporting the delivery of the UK's Net Zero strategy and meeting its carbon budgets and sought to identify where ABI members are taking action and where further action is needed.

Through collaborative efforts with policymakers, regulators, and industry partners, we aim to drive impactful change. The ABI Climate Change working group focuses on identifying actions for the UK Government and regulators to maximise industry impact while providing essential long-term savings products. The group committed to transparently reporting on new risks to achieving 2050 goals and advocate for necessary actions from key stakeholders. Additionally, in the transition planning, the group highlighted areas where policy decisions are needed to achieve targets.

The roadmap will be reviewed and refreshed each year to ensure that it remains consistent with scientific evidence on GHGs, biodiversity, and nature conservation, and that it helps deliver the UK Government's Net Zero strategy. PIC actively contributes by sharing our perspective as a Bulk Purchase Annuity provider, navigating portfolio decarbonisation, and investing in climate solutions.

Case study: Engaging with policymakers on retrofitting owner-occupier homes

Owner-occupied residential sector contributes around 15%[1] of overall UK emissions and over a third[2] of the capital's carbon emissions. However, the pace of retrofitting energy-efficient measures in domestic housing lags due to barriers in regulation, finance, sector capacity, and consumer drive. This spans energy-saving measures such as fitting double-glazed windows or insulation. Through PIC's participation in BusinessLDN group we've provided input on an action plan focusing on retrofitting owner-occupier homes. We have participated in the discussion and shared our own findings and expertise as a substantial investor in the residential space.

The resulting 10-point action plan sets out the measures needed to make it easier for homeowners to decarbonise their properties including:

- Reviewing Stamp Duty Land Tax (SDLT), exploring tax adjustment linked to energy efficiency and EPC rating of the property;
- New ways of funding and financing energy efficient home improvements, and
- Addressing skills gaps in the retrofit home-services industry to overcome further barriers.

The group shared the results with London Councils and the GLA, all of whom strongly endorsed the group's efforts. The BusinessLDN group intends to continue campaigning with the aim to influence policymakers on the points of the action plan, transforming the UK's building stock, which stands as one of the most inefficient and oldest in Europe.

Case study: Supporting sustainability reporting standards for social housing

PIC was one of the founding members and is a continued supporter of the Sustainability Reporting Standards for Social Housing (SRS). The SRS are a set of sustainability related standards including E, S and G topics which Social Housing providers who support the SRS are required to report against on an annual basis. Standardised reporting helps promote transparency within the Housing Association industry and allows for easier comparability between providers. This in turn helps advance the industry in an aligned fashion with regards to sustainability initiatives and best practice.

Sustainability *for* Housing

[1] RICS, 'Retrofitting to decarbonise UK existing housing stock'.
[2] BusinessLDN, 'Retrofitting London's Owner-occupier Homes'.

Principle 5.

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Policy framework

PIC has a detailed Policy Framework Overview which is described below. Policies, including our sustainability and stewardship policies, initially receive Board level approval when first established or if changed and then are reviewed and updated on an annual or biennial basis as required. Policies may also be reviewed on an ad-hoc basis from time to time due to externalities such as changes in regulation. PIC's policies fall into three categories and are highlighted in the table below. For example, PIC's Stewardship Policy is a Level 2 policy under the Level 1 Sustainability Policy:

Level 1 / 2 Policies

- High level requirements of the Board and Executive Committee relating to the key aspects of PIC's business.
- Each policy will be overseen by the Board or ExCo at committee or nominated sub-committee level, and will apply to the whole company.
- The aim is to limit the number of policies to around 10 – 12 at Board level (Level 1) and 20 – 25 at Exco level (Level 2).

Level 3 Policies

- More detailed, active documents, setting out how specific Level 1 and Level 2 policy requirements should actually be implemented.
- Each Level 3 policy will be managed at either company or business unit level, with oversight allocated to a nominated ExCo member.
- More than one Level 3 policy could cover each higher level policy.

Procedures

- Prepared by individual business units setting out how they will carry out their work to implement and evidence the Level 1 / 2 / 3 policies.
- Each procedure document will be overseen by the relevant business unit head or a nominated senior member of staff.
- Procedures will include MI reporting and audit requirements.

Policy review and sign off

Level 1

The approval of each Level 1 policy is the responsibility of the PIC Board and approval may be delegated to a nominated Board sub-committee. Each Level 1 policy is monitored by a nominated member of ExCo, including a formal review of the policy requirements and how these have been implemented in practice. Any recommendations for changes are directed to the Board or relevant Board sub-committee. An example of our Level 1 policy is our Sustainability Policy.

Level 2

Level 2 policies are prepared and maintained under the oversight of nominated ExCo members and submitted to ExCo for approval. As with Level 1 policies, the responsible ExCo member will carry out a regular review of each Level 2 policy in line with the schedule agreed for that policy and provide a report to ExCo. An example of a Level 2 policy is our Stewardship Policy, which stems down from the Sustainability Policy.

Level 3

For Level 3 policies, the responsible ExCo member arranges for a senior member of PIC staff in their Business Unit with suitable knowledge and experience to carry out an independent review of these documents, to ensure that they comply with the associated Level 1 and Level 2 policies. The responsible ExCo member will inform ExCo of any material issues or changes in the Level 3 policies and has the authority to approve the Level 3 policy. An example of a Level 3 policy is our Conflicts of Interest Policy which stems down from our Compliance Policy (L2) and Assurance Functions Policy (L1).

Case study: Sustainability and stewardship policies review

In 2023, we revisited and updated both our level 1 Sustainability Policy, outlining PIC's commitment to sustainability matters, and our level 2 Stewardship Policy, detailing our approach to stewardship within our investment portfolio. The updates ensure that the policies remain up-to-date and aligned with the latest industry standards. Notable changes included:

- Updates made to comply with the rapidly evolving regulatory environment in the area of sustainability;
- Addition of references highlighting our status as signatories to the UK Stewardship Code; and
- Updated governance section to align with redistributed responsibilities in sustainability and stewardship among senior committees.

The policies are updated on a biennial basis, or more frequently if required to ensure they continue to be aligned with PIC's objectives around investment stewardship and sustainability more broadly. Any changes to the Sustainability and Stewardship Policies are approved by the Board and the Board's Investment and Origination Committee respectively, following the review and governance process as detailed above.

The Stewardship Policy is available publicly and can be found on our website **here**.

Internal and external assurance

PIC has made significant efforts to enhance stewardship through sound assurance, both internally and externally. PIC's Assurance Functions Policy (Level 1) sets out the Board's requirements for the four assurance functions: Compliance, Risk, Actuarial and Internal Audit.

PIC's CEO ensures that each Assurance Function has the necessary authority, resources, expertise, and access to all relevant information and to all relevant staff to discharge its responsibilities. The Board requires the CEO and the Heads of the four Assurance Functions to develop an Integrated Assurance Programme. This ensures that the responsibilities of the Assurance Functions to review the activities of the functional business areas of the Company are carried out in a co-ordinated and efficient manner.

The CEO and the Heads of each of the Assurance Functions also provide annual reports to the Board which set out PIC's performance against the objectives of this policy and key outcomes from the individual functional reviews and the integrated Assurance Programme, together with an assessment of the effectiveness of each of the functions.

In line with industry best practice, PIC operates a "Three Lines of Defence" model within which risk management responsibilities are split between the First Line business units, the Second Line functions (Risk, Compliance and the Actuarial Assurance Function) and the Third Line (Internal Audit). Within this model, in the context of Risk Management:

- First Line business units are responsible for carrying out risk management in their day-to-day activities, in line with the requirements of this policy.
- The Second and Third-Line functions are responsible for designing, implementing and embedding the Risk Management Framework itself and for providing assurance to management and the Board that the business is operating within the Risk Management Framework.

The differing levels of assurance, help us ensure that our ESG and stewardship reporting is fair, balanced, and understandable.

Compliance (internal)

PIC's internal Compliance Function advises the Board on the requirements of all relevant laws, regulations and administrative provisions, including those prescribed in the FCA Handbook and PRA Rulebook, and how these are addressed in the operations of the Company. It also helps create and manage a programme of compliance training for all staff and prepares and reports on the extent to which the Company's compliance activities are operating satisfactorily.

In 2023, the Compliance team have conducted a review focusing on 'S' element of ESG. The review considered PIC's position within a range of relevant 'social' contexts – for example, human rights and modern slavery, its social purpose approach, external engagement and charity practices, how it may substantiate claims it makes that have a 'social' impact etc. The review found PIC has several operational practices across its business functions to proactively monitor and manage activity against its sustainability strategy.

Risk (internal)

PIC's Risk Function reports the extent to which the risk management framework is operating satisfactorily and coordinates the risk management training program for PIC staff. In 2023, PIC established a Climate Change Risk Policy, highlighting climate change as a cross-cutting risk across the business, with the potential to lead to other risks crystalising due to physical risks from climate-driven events, and transition risks from the process of adjusting to a low-carbon economy. This Climate Change Risk Policy provides the framework to identify, analyse, mitigate, and monitor climate risk on a regular basis, and report this to relevant Executive and Board level committees, in line with PIC's risk management system. The policy's primary focus is on assurance of our process for managing climate-related risks and their impact on our operations.

Case study: Oversight and accountability for our climate scenario analysis

An example of various teams working together is the process that was carried out to deliver our climate scenario analysis during 2023. The scenarios were based on those designed by the Bank of England for the Climate Biennial Exploratory Scenario (CBES). Further detail on the analysis itself can be found in our TCFD report.

The scenarios and assumptions were developed by the Responsible Investing team with support and oversight from the Enterprise Risk Management team and the Actuarial Assurance Function. They were designed to understand the impact of three climate scenarios on PIC's solvency balance sheet which was calculated by PIC's Stress and Scenario Testing team. This reflects the approach of considering the quantification of climate risk as part of team's business-as-usual role.

The scenarios and underlying assumptions were then reviewed by key members of the Sustainability Oversight Forum to challenge and validate those assumptions. The results of the scenario analysis were then reviewed by the Actuarial Assurance Function and approved by the Board Risk Committee, in line with the usual governance process for stress and scenario testing.

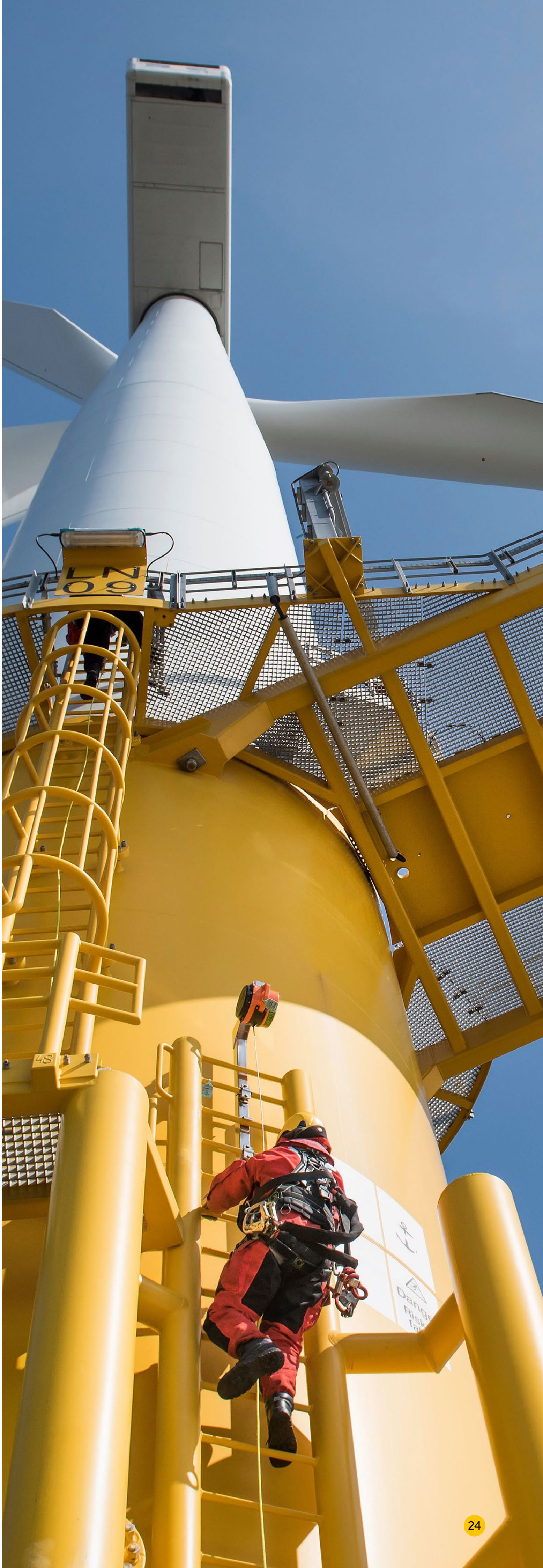
Actuarial (internal)

PIC maintains a permanent and effective Actuarial Function, which oversees the calculation of technical provisions, including the independent review and any recommendations for the consideration and approval of the Board in relation to any methodologies, models or data used. The Actuarial Function also reviews PIC's overall underwriting policy, including the sufficiency of premiums charged and adequacy of PIC's reinsurance arrangements.

In 2023, the Head of Sustainability initiated discussions on ESG considerations in reinsurance with the Assets and Liabilities Matching (ALM) team. While we recognise that ESG capabilities in this sector may be less developed compared to the rest of the financial industry, we see this as the next significant area of focus. We are committed to contributing to this advancement by actively engaging with reinsurers we partner with by exploring their ESG strategy to drive positive change in their business activities.

Internal Audit (internal)

PIC's Internal Audit Function assesses the extent to which the internal control system is operating satisfactorily and undertakes consulting and advisory services related to governance, risk management and controls for PIC's business.



Case Study: Assurance over stewardship activities and reporting

On a quarterly basis, the investment Stewardship Manager updates our ESG Engagement Platform with the engagements undertaken by our key third-party managers. The Engagement Platform is also updated on an on-going basis by PIC credit analysts whenever they have an ESG related discussion with an investee company. The logged engagements are documented with an audit trail. The summary information about our engagement activity from the platform contributes to our annual reporting, including our Sustainability Report, Annual Report and TCFD report, as well as internal reporting to senior Board and ExCo-level committees. All three external reports adhere to robust governance procedures, including reviews by relevant ExCo members and approval or recommendation for Board approval by the Audit Committee. This ensures the accuracy and verifiability of the provided information.

The governance around this UK Stewardship Code Application is a process which we established last year to ensure that what we present to the FRC is accurate and substantiated and that the application reflects genuine actions which took place and can be evidenced. Once a draft application was complete, it was reviewed by the Head of Sustainability. Following this, it was sent to key senior stakeholders including PIC'S Chief Investment Officer, Chief Strategy Officer, one of the Non-Executive Directors who is also PIC's Board Sustainability Champion as well as Corporate Affairs and Legal teams for feedback and sign-off. The ExCo members were sent a final version for approval after which the submission has also been approved by PIC's Board.

In 2023, Internal Audit performed work to validate the factual accuracy of the application by reviewing content against supporting evidence. In 2024 Internal Audit again performed a review, this time assessing the effectiveness and sustainability of management's controls over production of the application. Internal Audit's involvement in our first two UK Stewardship Code applications has helped strengthen what is a nascent process for PIC. Going forward, we will thoughtfully consider the appropriate assurance needed to ensure high standards of reporting are delivered.

External audit

The work of the External Auditor provides observations regarding the matters related to internal control to the Audit Committee, in connection with and to the extent required for the purpose of the financial statement audit. Furthermore, the Audit Committee reviews and monitors the effectiveness, independence and objectivity of the statutory auditor and considers the relationship with the Group as part of its assessment, including provision of non-audit services.

KPMG has been the auditor for the Group for the last 17 years, with a tendering process completed in 2016.

The Audit Committee annually reviews the performance of the External Auditor. For the 2022 year-end, the scope of the financial audit included consideration of the consistency of PIC's TCFD report (as part of other information) with the financial statements. This was the first year that this consideration was in scope of the financial audit. For the 2023 year-end, as well as consideration of consistency with the financial statements, KPMG were also engaged to provide limited third-party assurance over a subset of the metrics disclosed in the TCFD report. KPMG signed an unqualified assurance opinion on a subset of the metrics disclosed in the TCFD report.

Case study: Assurance over our climate reporting

It is important that we have high quality climate data on our portfolio as this not only allows us to accurately monitor and report on the climate risk that we are exposed to, but it also allows us to make our engagement as efficient as possible as we can actively engage with our highest polluting companies.

We have developed our climate reporting processes over the course of 2023, with a number of significant updates to enhance the clarity and credibility of the TCFD report:

- **Enhanced controls** – we have enhanced our internal controls to validate the metrics that are disclosed in our TCFD report.
- **Basis of reporting** – we have published our Basis of Reporting, which can be found **here**. This details the approach we have taken to calculate the metrics included in our TCFD report.
- **Independent assurance** – KPMG have provided limited third-party assurance over a subset of the metrics in the TCFD report. The KPMG assurance report, which was prepared under ISAE 3000 and ISAE 3410, is available in the Appendix to the TCFD report.
- **Internal audit** – Internal Audit also carried out an audit on the governance and controls on a subset of the metrics in the TCFD report.

The following controls were implemented during 2023 for additional validation and quality assurance of the climate metrics:

- **Validating accuracy of input data** – asset input data is reconciled with the financial reporting processes. Emissions input data is spot checked against alternative sources, such as underlying company reports.
- **Validating completeness of input data** – the asset data reconciliation highlighted above also acts as a control on the completeness of that data. Checks are carried out on the emissions data to confirm all data applicable to our portfolio is included in the modelling.
- **Replication calculations** – for material data sources, we independently calculate the metrics as a control on the automated calculation.
- **Review and challenge of results** – the results are reviewed and challenged, independently of their calculation.
- **Review and challenge of analysis of change** – an analysis of change is produced, breaking down the movements in the key metrics from year to year. This analysis is reviewed and challenged by senior stakeholders.

The above controls identified outliers in the data received from one of our third-party providers. We challenged the provider to improve the quality of the data, and where clear errors remained excluded the data from our reporting.

Internal Audit verified the execution and governance of these controls as part of the year-end reporting process, with no material findings that impacted the accuracy of the metrics.

KPMG carried out a limited assurance engagement over the metrics in the TCFD report. Their work included:

- Conducting interviews with PIC's management to obtain an understanding of the key processes, systems and controls in place over the preparation of the metrics.
- Selected limited substantive testing across the input data used to calculate the metrics to the corresponding supporting documentation, including PIC's internal IT system and third-party sources where applicable.
- Considering the appropriateness of the carbon conversion factor calculations and other unit conversion factor calculations used by reference to widely recognised and established conversion factors.
- Reperforming a selection of the carbon conversion factor calculations and other unit conversion factor calculations.
- Recalculating the intensity metric, dividing total emissions by market value data, as provided by PIC finance teams.
- Performing walkthroughs and conducting interviews with PIC's management to understand any manual overrides to the input data used to calculate the Selected Information.
- Reading the narrative within the Report with regard to the Basis of Reporting, and for consistency with our findings.

We are pleased to share that KPMG concluded that during the course of their work nothing came to their attention that caused them to believe that the metrics were not prepared, in all material aspects, in accordance with our disclosed Basis of Reporting.

Principle 6.

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

PIC provides tailored pension insurance buyouts and buy-ins to the trustees and sponsors of UK defined benefit pension schemes. A key part of fulfilling PIC's purpose is balancing the needs and requirements of all our stakeholders. Our main clients and beneficiaries are:

- The retail-level policyholders whose pensions we provide; and
- Institutional trustees and sponsors of UK defined benefit pension schemes who look to transfer their members' benefits to the protection of the insurance regulatory framework.

The table below summarises what our two groups of main stakeholders care about the most when working with us.

Stakeholder	What matters to them	Why we engage
Policyholders	• Security of their pension benefits. • Efficient pension payment process. • Transparent, easy-to-understand communications. • Accountable senior management. • Responsive customer service team, focused on the right outcomes. • Being associated with a company that creates significant social value.	• Our policyholders are at the heart of our purpose, but it is their schemes' trustees which sign the initial transaction. We understand that and work hard to establish an ongoing relationship built on exceptional customer service and the right customer outcomes.
Defined benefit pension scheme trustees and sponsors	• Flexibility and innovative thinking to help them achieve their de-risking goals. • Long-term partnership approach. • A provider that understands the importance of social value creation. • Ability to transact in difficult markets. • Efficient and thorough transition process. • Robust and secure systems and processes.	• Trustees are responsible for securing their scheme members' benefits. Ultimately, it is their decision whether to conclude a buyout or buy-in with PIC.

PIC's policyholders

PIC secures UK defined benefit pension schemes, moving the pension promise into the security of the insurance regulatory framework, helping pensioners get their full benefits in a more secure environment. At year-end 2023, we had insured the benefits of 339,900 pension scheme members.

Across the people whose pensions we look after, we have a mix of older, current pensioners and younger deferred members. The typical average age of members in a scheme we insure is around 70. Virtually all our policyholders are based in the UK and the map on the following page, which is included in our Annual Report, helps illustrate PIC's social and economic reach across the UK.

Total number of policyholders

339,900

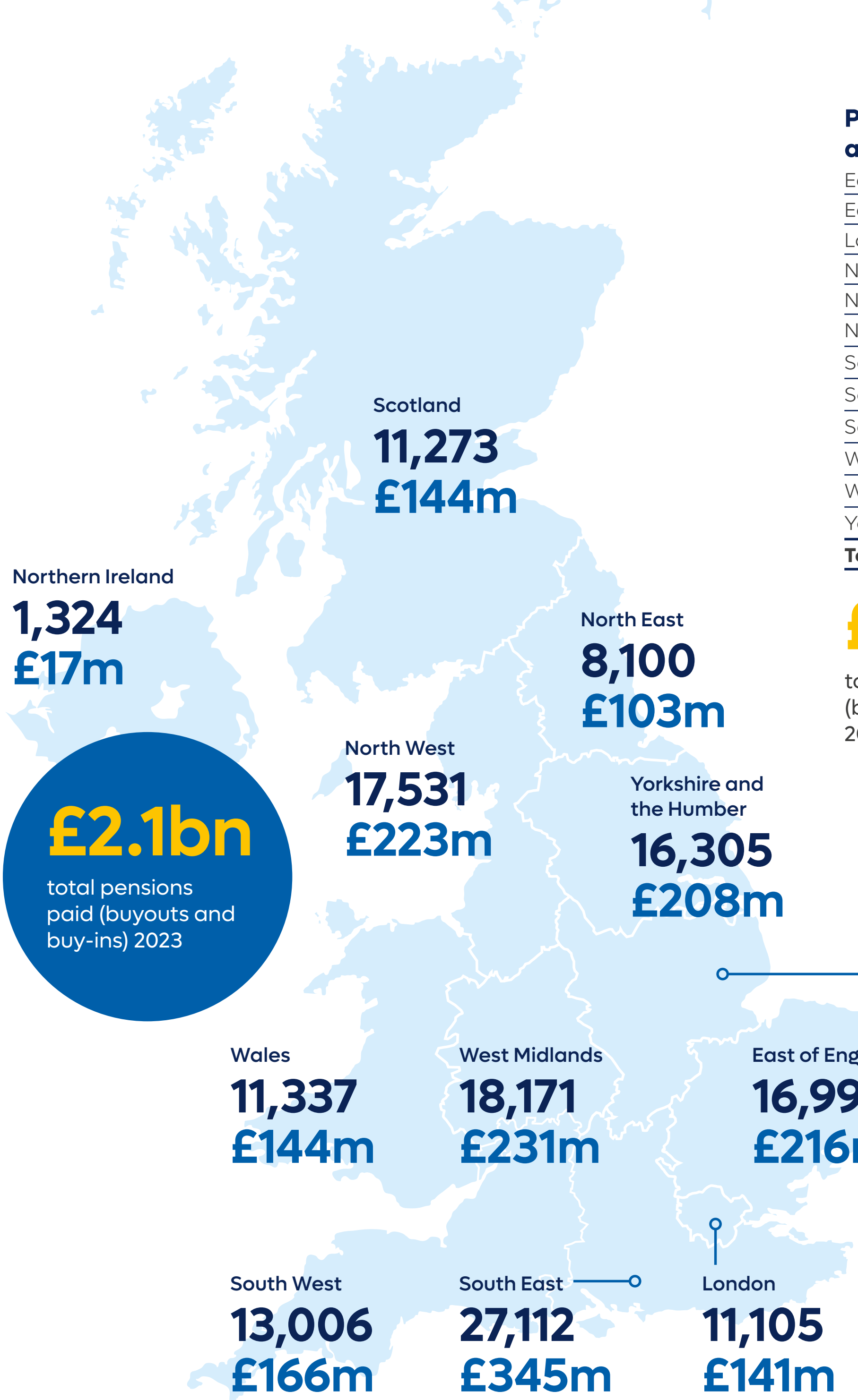
Policyholder satisfaction

99.3%

Number of schemes insured

273

The map below shows the value of the pension payments we have made to our policyholders from the total pensions paid of £2.1 billion. These current payments are broken down by the countries of the UK and nine English regions. PIC has insured more than 270 pension schemes, with a combined value of more than £58 billion, and the benefits of almost 450,000 of their members.



East Midlands
10,514
£134m

Pensions paid (buyouts and buy-ins) 2013–2023[1]

East Midlands	**£760m**
East of England	**£1,683m**
London	**£1,438m**
North East	**£470m**
North West	**£1,396m**
Northern Ireland	**£95m**
Scotland	**£812m**
South East	**£2,941m**
South West	**£1,267m**
Wales	**£575m**
West Midlands	**£1,318m**
Yorkshire and the Humber	**£865m**
Total	**£13.6bn**

£13.6bn

total pensions paid (buyouts and buy-ins) 2013-2023[1]

Key

- Number of direct policyholders 2023
- Pensions paid (buyouts and buy-ins) 2023[2]

[1] Total paid to policyholders from 2013 onwards. Amounts paid before 2023 have been adjusted for inflation.
[2] Regional distribution of payments is estimated based on the split of policyholders across the country.

Everything we do is designed to pay our policyholders' pensions. Pension scheme members are welcomed as our direct policyholders following a buyout transaction agreed by the trustees of their pension scheme.

PIC has long been a market leader in how we engage with, and the level of customer service we offer to, our policyholders. PIC holds the Institute of Customer Service's ("ICS") ServiceMark with Distinction, one of only 20 companies in the country to do so, and was the first company in our sector to attain the Crystal Mark, Platinum, from Plain English Campaign, for our policyholder communications.

During the year the Board spent considerable time reviewing the customer journey for policyholders with vulnerable circumstances, and more generally how we ensure good outcomes for all of our policyholders, in the run up to the implementation of the Consumer Duty. This included the creation of a Board Customer Committee which met three times in 2023.

In November we were pleased to attain the gold standard for accessible and inclusive customer service – an ISO accreditation and BSI Kitemark (ISO 22458), one of very few companies in the country to hold this accreditation.

This was awarded partly on the basis of our incorporation of market-leading Artificial Intelligence ('AI') voice analytics in our call centre. This technology alerts our call centre employees to indicators of vulnerability and customer dissatisfaction, helping us achieve better customer outcomes.

We hold events every year, where our policyholders can meet with, and question, PIC's senior management.

Every event allows us to directly engage with our policyholders. They include:

A mixture of entirely free online and in-person events across the UK, packed full of interesting and helpful information. Topics include the management of pensions and the investment of funds earmarked for future pension payments;

Updates from our senior leadership team such as from our CEO and CIO;

Celebrity guest speakers such as Matt Dawson and Dr Sarah Jarvis and a choice of complimentary services at our Policyholder Days.

Where policyholders seek additional information on the investments that back their pensions and the stewardship activity we conduct, they can find this on our website and in the Sustainability and Stewardship Reports that are available publicly.

Activity example: seeking beneficiary views – policyholder events

We secure our policyholders' pensions for their lifetimes. Policyholders are our key stakeholder group, despite the fact that they do not sign the initial transaction terms – therefore, we work hard to build a relationship of trust between us.

Pensions are a complex subject for most of our members, so PIC wants all communications with our policyholders to be as simple as possible and considered best in class. We need to ensure clarity in all information provided and that options are easy to understand, so that our policyholders can make the best decisions about their finances and get good outcomes.

With many of the communications we send out, we also include a member satisfaction survey, encouraging policyholders to give their views on the service they receive, the ease with which they deal with us as well as general Net Promoter Score (NPS) and satisfaction questions. There is also a shorter telephone survey at the end of each call we answer. Verbatim feedback from these surveys, and from complaints, is considered whenever an operational change is being made.

Another way we seek beneficiary views is by holding policyholder events. These events are held across the country and online and give policyholders the opportunity to ask senior management directly about any concerns they might have. Over the years, there have been questions on a range of diverse subjects, including our customer service, markets and investments, our views on political situations, the difference between being a policyholder of an insurance company and a pension scheme member, sustainability and many others. PIC is proud to be the only insurance company in our sector to hold such policyholder events. These events are part of PIC's heritage and are in keeping with our purpose and values as covered in Principle 1.

PIC gathers beneficiaries' views and feedback at its policyholder events, through surveys, and directly asking policyholders for feedback. Through these methods we learn what matters to them. Policyholders care that their pensions are secure and delivered on time, that communications are transparent and easy to understand, that PIC maintains great customer service and customer outcomes, and that our investments that back their pensions are socially valuable. Taking this information on board, we have ensured that we continue to prioritise our strong customer service as well as communicate the socially beneficial impact of our investment portfolio via our Annual and Sustainability Reports, on our website and within the presentations at Policyholder events.

During 2023 we have consulted with our policyholders on new tone of voice and designs for our communications with them. This involved qualitative market research sessions with 30 of our policyholders. Our new tone of voice, developed following this research, is friendlier and clearer. Our new design supports easier navigation, reading and use of our communications, with signposting to further information and support.

To evidence the effectiveness of our chosen method, we can cite the following achievements for 2023:

- Securing benefits for 339,900 policyholders, accompanied by an impressive customer satisfaction rating of 99.3%.
- All policyholder communications are Crystal Marked by the Plain English Campaign, ensuring clarity and accessibility.
- Our customer service team is dedicated and responsive, leading to the attainment of the gold standard for accessible and inclusive service to customers with vulnerable circumstances (BS ISO 22458).
- We were re-accredited with the Institute of Customer Service's Service Mark with Distinction.

"I became a PIC policyholder via my EDS pension scheme. I was an EDS pension holder from 1994 and, as my retirement was imminent, I was concerned about the transfer of my benefits to another provider. However, the transition could not have gone better.

All written correspondence was clear and concise. Telephone interaction was courteous and professional, with excellent customer service provided.

I was fortunate enough to attend a recent policyholder event at the Balmoral Hotel in Edinburgh. I had concerns that it would be very corporate with lots of financial jargon. However, the event was the opposite. It was fun and informative in equal measure. I had a really interesting afternoon finding out more about PIC and how they invest in the development of renewable energy and providing social housing for local communities. I feel these are really forward-thinking projects which will help future generations as well as pay the pensions of their current and future policyholders.

I have more than one pension provider and, without doubt, PIC have been the easiest and most efficient organisation I have ever dealt with. I cannot thank you enough for the help and assistance you provided during my transition to retirement."

Customer testimonial

Richard Hunter
EDS

PIC's assets

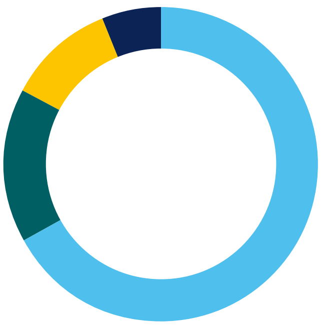
PIC's total investment portfolio as at 31 December 2023 stood at £46.8 billion. Due to the nature of our business, we fully bear the risk of the investments we make by guaranteeing the level of payments to the policyholders whose pensions we insure. As we are responsible for paying people's pensions for the rest of their lives and we have a mix of younger deferred members and older pensioners in payment, we have a long investment horizon that extends beyond 30 years. Our business model and insurance regulations require us to match our assets with our liabilities, so we hold investments to maturity that meet those expected cashflow requirements for the entire duration beyond 30 years. To achieve this, we consider it appropriate to invest in a mix of Government bonds, public and private debt to support our liabilities.

PIC's investment portfolio is broken down by asset class and geography in the charts below:

Financial investments by asset class (31 December 2023)

	2023	2022
Debt securities – Gilts and Governments Bonds	**36.2%**	32.0%
Debt securities – corporate	**33.4%**	36.9%
Debt securities – private investments	**17.8%**	16.0%
Equity release mortgages	**2.4%**	2.5%
Mortgage backed and other asset backed securities	**0.6%**	0.6%
Participation in investment schemes	**8.7%**	9.8%
Deposits with credit institutions	**0.9%**	2.2%

Geographical split of PIC's Investment Portfolio



UK	**67%**
US	**16%**
Europe	**11%**
Rest of the world	**6%**

Given our very long-term investment horizon, and our conservative risk profile, a meaningful percentage of the portfolio is invested in what is known as productive assets. These investments are chosen not only for their ability to generate financial returns but also for their potential to help alleviate pressing societal and environmental challenges. These investments are generally found within private markets and often characterised by their tangible contributions to society, low risk profile, and capacity to generate inflation-linked cashflows. Examples of such investments include urban regeneration projects, social infrastructure initiatives, renewable energy, and education facilities.

These types of investments have the advantage of providing us with stable and secure cashflows to match specific liability payments at maturities decades into the future, when publicly listed debt is not available. Under the insurance regulatory framework, Solvency II, we are obliged to cashflow match all our future projected pension payments by the month, so sourcing these types of cashflows is crucial to us fulfilling our purpose.

During 2023 we invested £1.6 billion in UK infrastructure, including a £50 million investment to fund the UK's first water reservoir since 1991, and we invested £268 million in our second Government Property Agency regional hub, following our investment in First Street, Manchester in August 2022. In October 2023 we also welcomed the first residents to New Vic, our private rental sector development in central Manchester, which was 75% occupied already as at the time of writing.

Information on our purposeful investments and sustainable assets is available on our website to both our policyholders (beneficiaries) and trustees (clients).

Pension scheme trustees

While our policyholders are central to our business, the clients in our business model are the pension scheme trustees looking to move their members' benefits to the protection of the insurance regulatory framework. Because each deal is unique, speaking directly with trustees, or their selected advisers, is the communication method we feel most effectively allows us to understand their specific needs and how we should tailor our transfer proposal to them. We understand through these channels that some of the most important factors for them in assessing a potential risk transfer partner are robust financial fundamentals, operational expertise, and overall policyholder satisfaction. We have taken this feedback on board and made sure to continue prioritising our customer service and building strong one-to-one relationships with each group of trustees and advisors within the pension community.

Good sustainability credentials are also criteria increasingly focused on by trustees and our Head of Sustainability is often invited to speak at annual trustee review meetings. ESG related questions from trustees have often centred around ESG integration and our approach to climate change and responsible investing. Also, increasingly, we have been asked about our stewardship approach such as our priority engagement topics and specific case studies around demonstrating our engagement activity, which lets us know that this subject is growing in importance amongst pension scheme trustees.

In 2023 we have increased our efforts to understand what our current and prospective trustees care about specifically in the area of stewardship. Our Responsible Investing team has worked with our Origination team to establish stewardship-related questions and brought these into discussions with Trustees:

- How familiar are you with our stewardship initiatives and efforts? Have you ever actively engaged with or sought information about our stewardship activities?
- Is the fact that we are signatories to the UK Stewardship Code helpful for you to demonstrate that you're meeting the DWP requirements around stewardship introduced in 2022?
- Do you believe our stewardship activities align with your values as well as stewardship priorities and themes relevant to your pension scheme? Are there any specific ESG or sustainability issues you would like to see us prioritise in our stewardship efforts? (Examples include climate change, biodiversity and modern slavery).
- Are there any changes or enhancements to our stewardship approach we should consider (i.e. membership in industry-specific ESG or stewardship organisations, changes to ensure our engagements are more effective and/or transparent)? Is there any additional information you need for reporting on stewardship which we don't currently provide?

We have not received any feedback from our trustees necessitating a change in our stewardship approach.

Our experience revealed a significant variance in expertise on ESG topics among trustees, with many smaller schemes lacking internal expertise in this area. However, we recognise that trustees often rely on advisor assessments, who in turn are providing us with valuable insights into industry trends. As a result, we have directed our efforts towards engaging with advisors to gain a better understanding of trustees' priorities. We found that during 2023, our ranking improved on several advisors' scorecards owing to a number of factors:

- We were successful in becoming a signatory to the UK Stewardship Code.
- We are members of several industry organisations such as: the Good Economy's Sustainability for Social Housing approach (founding member) and a founding signatory to the A4S Sustainability Principles Charter for the BPA process.
- Increased transparency on our stewardship activities including engagements.
- Enhanced climate stress testing capabilities.

We will continue our direct conversations with current and prospective trustees as well as their advisors to monitor if their requirements change over time.

Investment managers following stewardship and investment policies

We work with a limited number of third-party asset managers in relation to certain asset classes within our portfolio. Each manager operates under a unique Investment Management Agreement (IMA), which reflects our investment policy and specific investment objectives. Our managers are also required to be UN PRI signatories, are asked to provide us with bespoke ESG reporting and adhere to our Stewardship Policy.

We hold our managers accountable through regular meetings with them. In 2023 the Responsible Investing team asked two of our largest managers to modify their stewardship reporting, which they implemented.

Furthermore, we provided further clarity on our internal exclusions policy, particularly concerning the oil and gas sector, and our managers have since integrated these updates. In addition to the Responsible Investing team, a dedicated member of the Public Credit team oversees the implementation of these IMAs. They engage with key external managers on sustainability-related issues regularly to ensure that the agreed upon standards are being effectively implemented.

Throughout 2023 our external managers have followed our Stewardship and Investment Policies. They also provided us with the information we require on ESG and engagements. We are satisfied with the quality of our managers' ESG reporting.

Principle 7.

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

The consideration of ESG factors within investments has been an inherent part of our process from early on. PIC defines 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. For both directly and indirectly (via managers) managed investments we ensure that ESG factors are considered. This means that from the initial due diligence phase or manager selection, relevant ESG questions are asked, and responses assessed.

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.

Prioritised issues when assessing investments

Our top priority sustainability considerations through our investment process are assessed on a materiality basis depending on sectors, as highlighted within our private markets ESG sector specific questionnaires which are used in our due diligence process (described further below). We also have prioritised higher level sustainability topics such as Net Zero commitments and Climate data disclosures. Sustainability considerations evolve with time, for instance, discussions around climate data reporting have evolved into discussions on the quality of the data and format in which it is reported.

How integration of stewardship and investment differs for funds, asset classes and geographies

There are many broad approaches to implementation of our ESG integration and stewardship process, and we are conscious that, for PIC, any assessment needs to be comparable across public and private market investments. Although comparable, our approach varies depending on the asset class being invested into, as explained next.

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 continue holding) a bond and over what term to lend.

Where possible, we use third-party ESG data vendors such as MSCI and Sustainalytics 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 term we would be comfortable lending over.

The theory behind our investment process is outlined below:

- The higher ESG risk a company's industry is exposed to, the higher we would expect the companies' efforts to be in managing these risks.
- As a consequence, the better the management practices towards identified ESG risks, the less likely a company is to experience adverse impacts on its balance sheet due to ESG factors over the long-term.

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

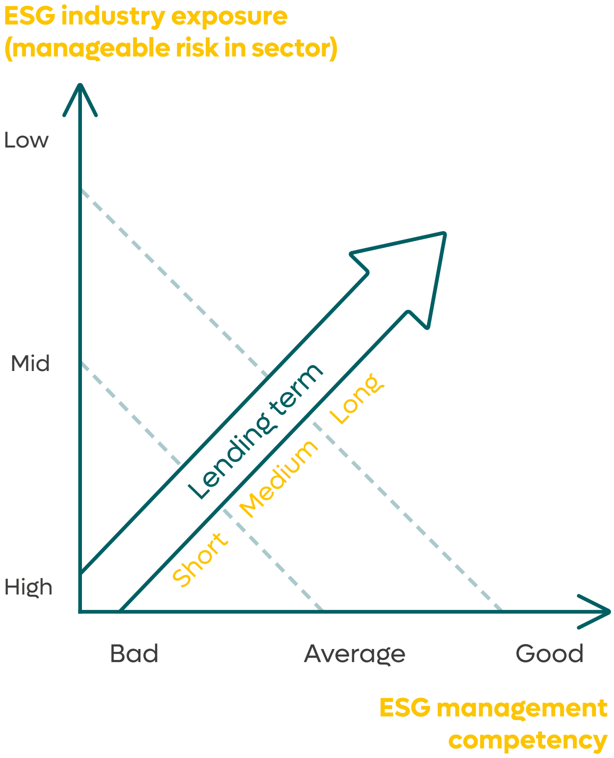
Sustainalytics[1] has been selected as our data provider of choice for public corporate credit, given its focus on the downside risks of a company, which is most aligned with a credit investor's investment perspective.

- 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.
- 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.

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.

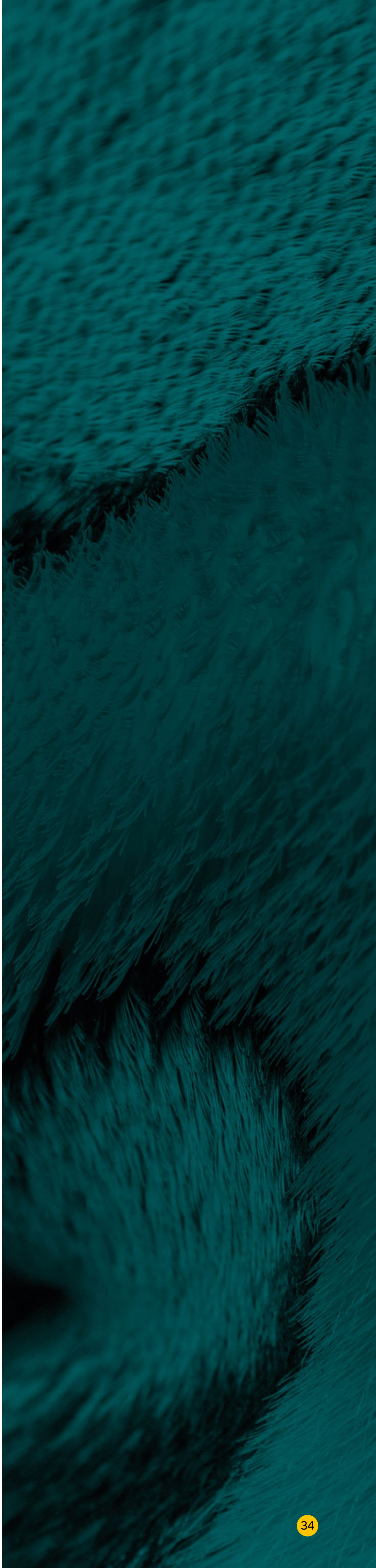
[1] Neither Sustainalytics nor its content providers are responsible for any damages or losses arising from any use of this information and use is subject to conditions available at https://www.sustainalytics.com/legal-disclaimers/.

PIC's proprietary ESG assessment at a glance



Where the assessment outlined above shows that a public credit investment holding has been deemed to be exposed to a high degree of ESG risk, coupled with a management's lack of ability or commitment to mitigating that risk, we would either refrain from investing in it or, in case of an existing holding, the company will be targeted for sustained engagement through one of our engagement channels (more detail in Principle 9).

The principle of analysing the ESG industry 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 decarbonise 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 and stewardship into our externally managed portfolios 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 substantiate a proven track record in these areas. It is important that our managers are responsible stewards of their clients' capital, as our reputation can be directly linked with their actions. We are proud that all our key external managers are highly ranked by UN Principles for Responsible Investment and signatories to the UK Stewardship Code.
- 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.
- Managers are asked to provide their own ESG assessment of identified ESG risks and evidence of any stewardship and engagement carried out with these companies.
- 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. We have outlined some case studies throughout this application that highlight some of the stewardship actions taken by our managers.

Internally managed private credit assets

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

- For private debt issued by 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 issued by 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 deemed as most material to the sector. Some questions are applicable to all sectors such as:

     'Have you set a Net Zero target and aligned your business strategy?' or 'Do you have policies in place to manage staff welfare in line with the UNGPs?'.

     Other questions are more sector specific such as for the water utilities sector: 'What certified environmental management systems are in place within your operation sites?' or 'What is the average monthly leakage as a proportion of total water supplied?'.

     While relevant questions for the consumer sector would be: 'Do you have KPIs to assess the community impact of your operations?' and 'How do you monitor supply chains and promote transparency within them?'.

  b. We apply our in-house ESG risk assessment framework and assign a Low/Medium/High ESG Issuer Score across our internally managed holdings with analysis included in ratings documentation and shared with the Investment Committee. Absent any unusual events, we review this rating on an annual basis as part of our ongoing monitoring. Our Credit Research team is responsible for establishing these internal ratings. In 2023, they collaborated closely with the Responsible Investing team to enhance the framework.

  c. We engage with organisations 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.

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 eight ESG related themes which are tailored for each type of property investment.

Environmental

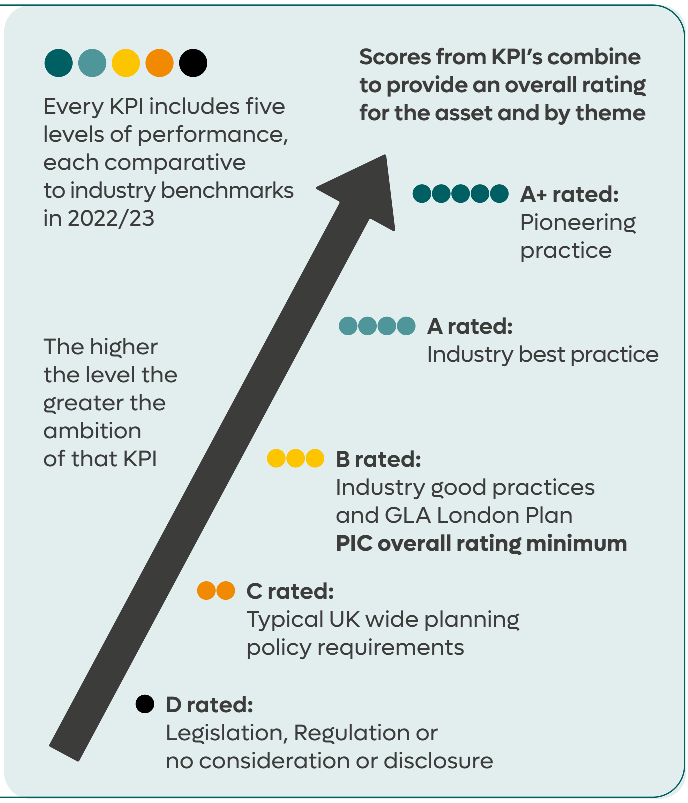
- Net Zero Carbon
- Biodiversity & Ecology
- Climate Change
- Materials & Circular Economy

Social

- Health & wellbeing
- Social Value

Governance

- Monitoring
- Policy



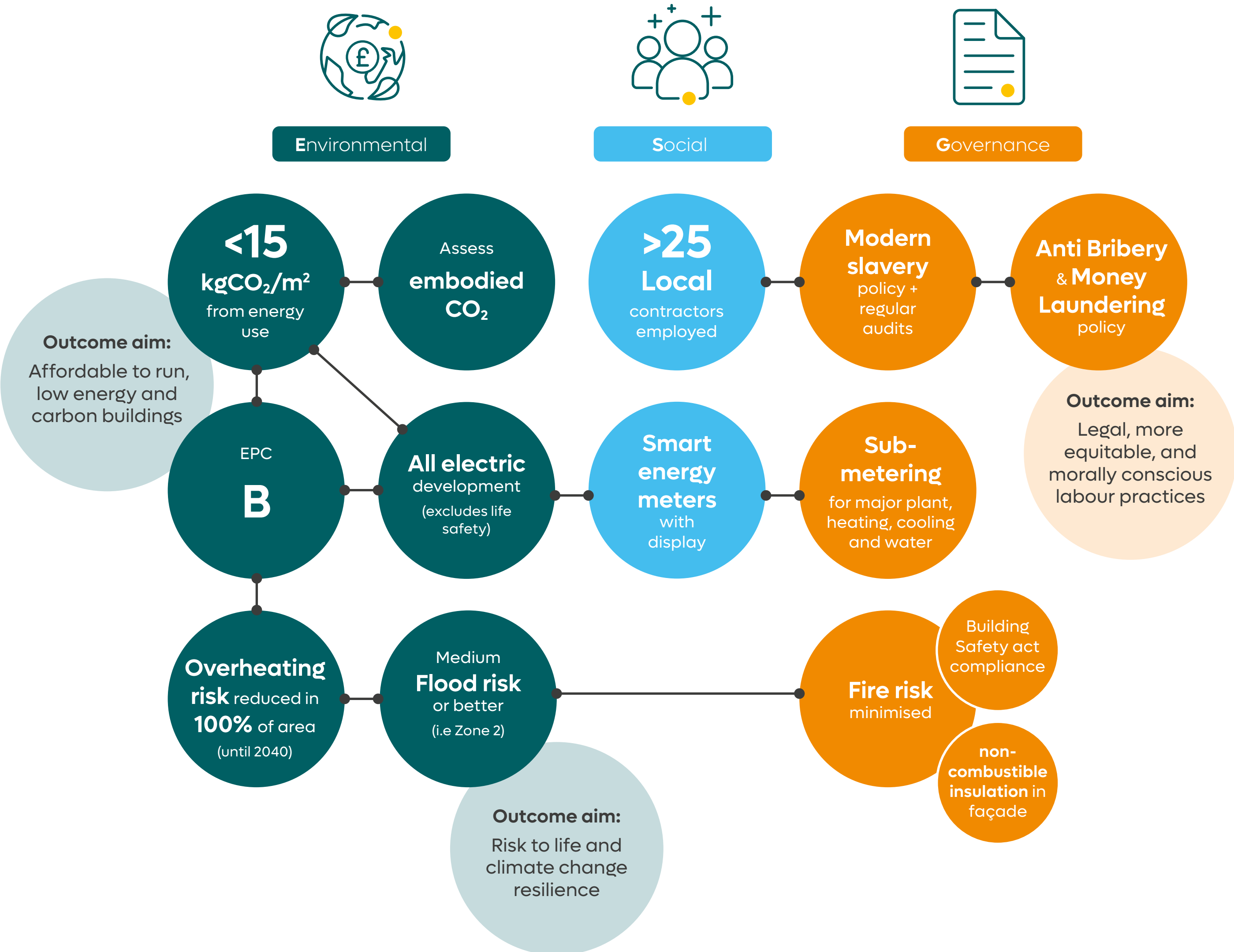
Our analysis goes into meaningful depth on ESG risks and opportunities in the built environment and identifies areas for further engagement. Where PIC can influence the design of a building, we ensure that we engage directly with the builders to incorporate industry leading environmental standards. New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

Case study: ESG assessment for our real estate portfolio

Real estate forms a growing proportion of our investment portfolio and our approach to investing in and managing this asset class incorporates elements from every area of our climate and sustainability strategy.

In 2023, we continued refining our proprietary in-house ESG assessment for real estate, launching the second version of our framework. This version establishes and enforces minimum standards, setting key performance indicators (KPIs) that new build development must either meet or commit to fulfilling before financial close. The following diagram shows the minimum KPIs applicable to new build assets across ESG pillars.

New build minimum standard



Following the initial assessment, we work with developers at various points of the investment duration to improve their scores, using the scoring system to identify areas for developers to focus on during the construction phase of projects.

Our final investment reports include the main ESG risk areas, with proposed actions to improve these and reduce associated risks. We attempt, where possible, to capture any desired improvements outside compulsory planning regulations within legal documentation.

Feedback received so far by developers is that our ESG framework is helpful and extensive, giving them inspiration for how they could include a wider range of ESG elements in their own strategies. Following our engagements, suppliers have moved forwards with recommendations including embodied carbon analysis calculations, urban greening factor calculations, and committing to sourcing a certain proportion of contractors locally.

Case study: Engaging in real estate – Hawks Road Development

PIC is investing in the development of a 100% affordable scheme, comprising 125 high quality affordable rent and shared ownership homes, located on the Hawks Road in Kingston upon Thames, Surrey. It will provide 44 apartments to be rented at London Affordable Rent (LAR) levels and 81 apartments available for shared ownership, with on-site amenities for residents including a play space. The LAR homes will be set at rents that the Mayor of London views as 'genuinely affordable' and will be let to local residents who are most in need. The shared ownership homes will provide an opportunity for many medium-income households to get on the housing ladder by purchasing a property, something which has proved difficult through traditional routes, despite many having stable employment. The development will be Net Zero carbon in line with Greater London Authority definition, emitting >70% less carbon emissions from energy use of typical building development.

An in-depth review was undertaken prior to investment as part of PIC's detailed ESG due diligence. Through the process and with developer engagement (London Square), a series of scheme changes were agreed, and the scheme scored a 'B' on PIC's proprietary rating framework. These changes included:

- A holistic review of the building's energy strategy was undertaken. This considered the sources of heating and hot water, as well as the overheating risk. The scheme is situated next to a noisy road, therefore window opening at night in the summer to cool the flats down could result in disturbed sleep for tenants.
- To ensure energy bills are not higher than a typical home of that size, PIC requested an energy cost analysis be undertaken, as well as requiring that all dwellings meet a minimum EPC B rating. Smart-metering will be included in dwellings including for cooling, heating and electricity use, so tenants can understand their energy costs and reduce where needed.
- To enhance fire safety, an additional second staircase was added.

As an affordable housing scheme, the social impacts of the development in construction and in-use are highly important. London Square has committed to use 15% local labour 25% locally-sourced materials, helping to support the local economy. Additionally, 950sqm of new green space will be provided, featuring communal gardens, playground, courtyards, lawns, which will be open to the existing and new community.

Funds

PIC primarily invests directly rather than through funds, although there is some minor fund exposure where shareholder equity is invested 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.

One notable example of the effectiveness of our manager assessment process happened when it prompted an improvement by one of our managers. Through the assessment, we identified a specific area where enhancement was needed. Subsequently, upon our recommendation, the managers agreed to conduct carbon mapping for the fund we were invested in.

Another example involved our desire for the manager to apply an exclusion on coal. While the manager couldn't implement this exclusion for the entire fund, they allowed us to create a separately managed Socially Responsible Investment (SRI) 'sleeve' within the portfolio. This 'sleeve' enables us to apply our preferred ethical or sustainability criteria to a portion of the portfolio, ensuring alignment with our investment principles.

We continue to develop relationships with managers in our shareholder funds and the plan for 2024 is to enhance oversight of ESG capabilities and continue our engagement with these managers.

Differing geographies

We understand that ESG integration and stewardship will often have different requirements for different geographies. For instance, in the US, recent rollbacks of sustainability commitments and instances of ESG backlash have necessitated a tailored approach to engagement for both us and our managers. Similarly, engaging in emerging markets also requires a customised approach, and our manager for these markets, JP Morgan Asset Management (JPMAM), employs proprietary emerging markets country scores to navigate these challenges. Their scoring process and local knowledge on various emerging markets companies has helped us identify certain risks which we have then applied to some of our private market debt investments in other geographies.

PIC's Country Risk Framework also explicitly considers ESG factors for all countries which directly influences our investment portfolio via concentration limits. We rely on data from Sustainalytics for this assessment and monitor any changes in scores quarter on quarter. Countries that score poorly on ESG represent higher risk and receive a lower limit than they would if based purely on the Sovereign credit rating.

Processes used to integrate stewardship and investment

We feel strongly that investing in a sustainable manner is the only way that we can ensure we fulfil our purpose over the long-term. The process for stewardship and purposeful investing for our directly and indirectly managed assets has been outlined in the figure below.

Responsible Investor

PIC Portfolio

ESG integration	Social value	Stewardship & engagement	Industry participant	Climate change
Within all investment processes including manager selection	Investments into sustainable assets that create socially beneficial outcomes for people and our planet	UK Stewardship Code signatory, Standalone Stewardship Policy, Engagement strategy	UN PRI signatory, Net Zero Asset Owners Alliance member, ABI Climate Change Working Group participant	decarbonisation to Net Zero, TCFD reporting, Climate risk management and climate scenario testing

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.

The Responsible Investing team is available to support all other members of the Investments team and act as subject matter experts in sustainability and more specifically climate risk and stewardship approaches. We see stewardship as crucial to help PIC fulfil their 'buy and hold' strategy by working with companies to be sustainable over the long-term so that they minimise risks and retain their credit worthiness over our investment period.

More specifically, our Responsible Investing team plays a pivotal role in several key processes:

- Collaborating with credit analysts to update and refine sector-specific ESG questionnaires. Each credit analyst leads the process for their respective sector, while the Stewardship Manager ensures consistency and shares best practices across sectors. Additionally, the team keeps abreast of industry developments to ensure comprehensive coverage in the questionnaires.
- Facilitating regular teach-ins on specific topics such as Climate Change and assessing companies' transition plans. These sessions provide valuable insights and updates for the investment team, enhancing their understanding of pertinent ESG issues.
- Sharing information sourced from industry channels on relevant topics to enhance the quality of our direct engagements. By leveraging external expertise and resources, we strengthen our engagements and stay informed about industry best practices.

Stewardship driving investment decisions

The case studies below demonstrate how stewardship has informed monitoring and acquisition decisions at PIC.

Case study: Coal restrictions leading to engagement and divestment

In 2023, we conducted a regular thorough review of portfolio holdings exceeding our 10% revenue threshold from coal-related activities as specified in our Investment Management Agreements (IMAs). Our process for engaging with companies that do not comply with our coal and tar sands investment restrictions includes the following steps:

1. Engage directly in-person or over the phone with those companies who could credibly make the 2025 deadline and continue to encourage dismantling or divesting of coal assets.
2. Sell any holdings whereby the company management was not willing to engage on the topic of decreasing their coal holdings.
3. Sell any holdings that do not have a credible plan to meet our threshold.

Given decarbonisation actions taken in previous years, we entered 2023 with only a handful of portfolio holdings which had coal exposure breaching our threshold. Throughout the year we engaged with several companies, with the majority demonstrating credible plans to align with our 2025 target. In many cases these companies have already reduced or eliminated their coal exposure. We will continue to monitor these holdings annually to ensure satisfactory progress of their plans. Additionally, while remaining committed to divestment if necessary, we are actively engaging with companies that are not aligned with our goal of reducing coal usage by 2025. As part of our ongoing efforts, we are reviewing identified positions targeted for divestment by the end of 2025 and using future divestment as an escalation tactic, while also providing feedback and support to facilitate their transition away from coal-related activities.

Case study: Assessment of ESG risks in action – 30-year US gas pipeline deal

We were presented with an attractive opportunity involving a 30-year US gas distribution investment. The asset initially demonstrated robust credit quality, relying on the distribution of gas to both residential and commercial clients. Additionally, the company's business case outlined how the pipelines, once no longer used for gas, could be adapted to distribute Hydrogen.

Action:

The relevant investment analyst engaged with our Responsible Investing team to evaluate how this opportunity aligned with our commitment to transitioning to a low-carbon economy. We had an open conversation and also sought input from the analyst at our external manager overseeing the transaction to gain additional insights. Our discussion highlighted several concerns. Firstly, we were uncomfortable with the 30-year gas exposure, considering anticipated changes in the energy sector. Although the US currently lags behind in climate initiatives, we acknowledged that this could change quickly, particularly in light of the Inflation Reduction Act.

Furthermore, PIC's investment team doubted if US distribution would fare better than exploration and production, anticipating similar challenges in both areas. We felt it likely that gas will continue to be required to some extent beyond 2050, especially in industry where carbon capture and storage solutions will be available and economic. However, we remained cautious about the long-term feasibility of gas or hydrogen for residential and commercial heating, particularly given the uncertainty surrounding hydrogen technology.

Outcome:

After thorough assessment, we concluded that a shorter-term investment could be viable under specific circumstances, such as in regions with limited alternative energy sources. However, we determined that a 30-year commitment was excessively risky. Consequently, we opted not to pursue the investment opportunity.

Principle 8.

Signatories monitor and hold to account managers and/or service providers.

Holding our external managers to account

PIC requires high standards of its external asset managers as explained in sections below.

UNPRI

Activity:

PIC has been a signatory to the United Nations' Principles for Responsible Investment ("UN PRI") since 2019 and as part of this commitment in 2023, PIC has continued to require all key external asset managers who help manage the main public credit portfolio to be members of the UN PRI.

Outcome:

All our key external asset managers remained members of the UN PRI in 2023 and demonstrated strong adherence to its principles, as reflected in the managers' 4/5 star rating in UN PRI assessment.

Reporting

Activity:

We require quarterly bespoke reporting from our managers, and this includes climate disclosures as well as disclosures on their engagements. We have worked closely with our managers in 2023 to ensure the reporting they did for us was thorough and relevant. On occasion we have asked our managers for follow up calls with their analysts on certain high risk or controversial areas they have reported on.

Outcome:

Some examples of the discussions that came out of our reporting requests are listed below:

- We had an in-depth discussion with our external managers regarding our coal exposures. Specifically, we discussed how our engagements with the companies that still had exposure to coal were progressing and whether these companies were on track to meet our 2025 threshold of no more than 10% of revenues being derived from coal.
- We discussed social engagements on hot topics such as cost of living crisis and inadequate sick and family leave policies in the US. The manager shared how they identified high-risk sectors and companies for social engagements on these topics and how they set expectations for effective engagement. This included UK and European supermarket holdings and retail and service companies in the US.
- One of our managers hosted a session where they presented their materiality assessment framework for human rights issues.

Annual review of external managers

Activity:

In 2023, PIC's Investment and Origination Committee (IOC) conducted its annual review of PIC's external managers responsible for managing portfolios backing liabilities against each mandate and the service provided to the Group. As part of this assessment, the level of ESG integration in their portfolios was evaluated along with their stewardship capabilities.

Outcome:

The IOC were content that each manager was diversified enough in their respective mandates and the mandates given played to each manager's strengths.

All managers have been receptive to our 'stewardship specific' requests and continue to drive engagement with the companies we have asked them to focus on. The engagement actions completed by our asset managers and the case studies they were able to provide to us as evidence are used throughout this application to the UK Stewardship Code.

Third-party management

PIC's business model relies on various outsourced services providers to deliver a large proportion of its critical functions ranging from investment management to policy administration.

As PIC has grown, the number of suppliers that PIC uses has increased. To protect our customers and the wider business, it is critical that PIC effectively monitors its suppliers. This helps us to manage operational risk and ensure services are delivered in an efficient manner, and in accordance with FCA and PRA guidelines.

Our business model hinges on establishing partnerships with suppliers to deliver high-quality services, underpinning our long-term objectives.

Consequently, we expect our suppliers to adhere to standards that align with our own policies and values. PIC has an Outsourcing and Third-Party Management Policy which defines the minimum requirements for the selection and appointment of suppliers. These criteria ensure that only approved suppliers, meeting standards relating to conduct, governance, location, and more, are engaged to undertake work on behalf of PIC. This helps ensure that suppliers can best meet PIC's needs and that PIC are confident in the supplier we are choosing to partner with.

Activity: Selection and review of service providers and outsourcers

Before engaging a new or existing supplier to perform a service or an outsourced function, the relevant business unit must complete a:

1. 'Know Your Customer' form about the supplier; and
2. Profile and Tiering Risk Questionnaire which risk rates the suppliers of particular service.

In 2023, we implemented a new third-party management system called Prevalent. This system has greatly simplified the review process by automating many aspects of supplier assessment. The rollout began in Q4 2023 and is ongoing throughout 2024. Additionally, we have introduced an ESG questionnaire as part of our due diligence procedures earlier in 2024 which is a significant improvement to our supplier evaluation framework. Furthermore, we conduct additional checks related to data privacy and security as applicable, ensuring thorough due diligence during supplier onboarding process.

Activity: Monitoring of third-party service providers and outsources

Once a supplier is appointed, PIC has structured monitoring procedures in place. The head of the relevant business unit is responsible for ensuring that there is appropriate competence and ability within PIC to assess whether the services are being delivered according to the contract.

While PIC may outsource processes, services or tasks, PIC recognises that the responsibility for carrying out its outsourced functions and for the governance and oversight of the outsourcer in relation to those functions remains with PIC.

The head of the business unit using the service provider or outsourcer is the person deemed accountable and responsible for the outsourced functions and for ensuring that the procedures in place to monitor those functions or activities are fit for purpose and properly executed. PIC's third-party management team is responsible for ensuring that the monitoring is being conducted appropriately and that such monitoring mechanisms are included in the contract. A named individual within the relevant business unit with sufficient skill and knowledge is responsible for the day-to-day management of the arrangements with each service provide and outsourcer.

Material contracts will contain details of the Key Performance Indicators (KPIs) the supplier must meet, and detail around the consequences of those KPIs not being met.

Supplier Code of Conduct

In 2023 we drafted a Supplier Code of Conduct and produced a supplier ESG Due Diligence process and questionnaire. We plan to roll these out during 2024. The Supplier Code of Conduct supports and works to enhance PIC's culture and values regarding business ethics, through issues such as corruption, bribery, fraud, tax evasion, conflicts of interest, ESG and modern slavery, amongst others. The Code sets out standards of business conduct suppliers are expected to follow when providing services or products to PIC.

Our ESG Due Diligence Questionnaire asks Environmental, Social and Governance specific questions of corporate activity and requires evidence to be provided when affirmative responses given such as carbon emissions data or published policies. The results of our Questionnaire are tabulated, and an overall 'score' attributed to the supplier. ESG scores are considered carefully alongside our other due diligence documentation when making ultimate supplier decisions.

Principle 9.

Signatories engage with issuers to maintain or enhance the value of assets.

PIC is a buy-and-hold investor with long-term liabilities, and to make sure our business model remains viable we engage with issuers to ensure more sustainable practices are undertaken within the issuers' firms.

Engagement describes the interaction between investors and issuers. Engagements are conducted to influence or identify the need to influence corporate behaviour and enhance sustainability related disclosure. PIC wants to ensure we (and our managers on our behalf) use our influence to help companies in which we invest improve aspects of their environmental, social and governance performance. PIC actively engages with investee companies across public credit and private debt investments on material sustainability issues.

Active engagement is of central importance to our business as it helps our strategic objectives of driving long-term value growth and is a core pillar of our stewardship approach. It drives our ESG strategy to help ensure that ESG-related risks are mitigated where possible and opportunities uncovered. Engagement is done for two main reasons at PIC:

1. **Fact finding:** to understand the company, its stakeholders and performance. To inform our investment decision as part of regular due diligence. This engagement is usually centred around fact-finding through detailed and specific questioning.
2. **Purposeful dialogue:** with a specific and targeted objective to influence and achieve a change in corporate behaviour. This is a two-way dialogue meaning we do not talk at companies, we talk with them.

Our engagements encourage open and honest dialogue so that a long-term relationship can be better maintained which helps us see out our buy-and-hold investment strategy needed to pay our policyholders.

PIC's Engagement Strategy

In November 2022, PIC finalised its first engagement strategy to be rolled out over two years between 2023 and 2025. The strategy sets out PIC's approach to engagement across different asset classes.

PIC received Board-level support for our two-year engagement strategy which is undertaken through four distinct engagement channels:

Engagement channels

1. Direct by credit analysts
2. Via key external managers
3. Selected third- parties for specialty asset classes
4. Collaborative engagement initiatives

For our direct investments, we engage with organisations at the point of capital raise, during refinancing or as a part of our active monitoring. Given the long-term nature of many of our investments, particularly those in buy-and-hold private debt, we recognise that we have the most influence during the agreement of terms stage. We also use amendment/waiver/consent requests (where applicable) to negotiate inclusion of ESG covenants.

Activity example: Negotiating improved sustainability disclosure

When investing in private debt, we use the origination process, or subsequent amendment/waiver/consent requests, as opportunities to incorporate improved sustainability disclosure as a covenant requirement within the associated documentation. The covenant will typically require issuers to provide key KPIs or to answer questions on a broad range of ESG topics, that can include the issuer's environmental targets and strategies, greenhouse gas emissions, climate risk assessments, customer safety measures, and governance practices. In 2023, we successfully negotiated improved disclosure with two issuers in the student accommodation and social housing sectors.

For our indirect holdings, we work closely with our external managers to ensure that important sustainability 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. Managers are expected to report back to PIC on their engagement actions on either a quarterly or half-yearly basis depending on the manager through their regular ESG reporting.

We're leveraging insights gained through various engagement channels, such as learning from our external managers and the outcomes derived from collaborative engagement initiatives. These valuable learnings are then integrated into our direct engagements, allowing us to enhance and refine our approaches for more effective interactions with companies.

PIC will review its engagement strategy on an annual basis. The current two-year engagement strategy will be used to help inform and develop our five-year engagement strategy which will run from 2025 – 2030.

Engagement Areas of Focus

Environmental engagements

One of our priority areas of focus for engagement is on environmental issues, including climate change and biodiversity. Environmental related topics discussed both via managers and directly by PIC during 2023 were:

- Climate alignment and strategy.
- Decarbonising and minimising emissions.
- Net-Zero and climate-relevant commitments.
- Transition plans and timeframes to meet climate commitments.
- Climate risk and oversight.
- Disclosures and reporting of carbon emissions metrics.
- Transparency around year-on-year progress against climate commitments.
- Carbon efficiency of real estate assets.
- Circular economy.
- Pollution and waste.

PIC has set itself engagement targets in line with the NZ AOA to engage with at least 20 companies a year, focussing on real-world decarbonisation. Details of our engagements are published yearly in our Climate Report (TCFD). In 2023 we surpassed this target by having engaged either directly or via our managers with 74 companies on climate and environmental issues.

Social engagements

Another priority engagement area for PIC is on selected social issues. We have published a public statement on Modern Slavery and have an internal policy on the matter – both approved at Board level. We ensure we can evidence how we are enacting those commitments. Therefore, some of our key social engagement topics include:

- Modern slavery and forced labour.
- Fair labour practices, including safe working conditions.
- Human rights issues including in the supply chains.
- Human capital and promoting employee wellbeing.

In 2023 PIC engaged with 40 companies on at least one social topic.

Governance engagements

Ensuring robust governance practices within investee companies is crucial for mitigating long-term investment risks. We firmly believe that effective governance lays the foundation for addressing other significant ESG issues. We recognise the importance of engaging with investee companies on critical governance topics, such as:

- Board diversity and inclusion.
- Establishment of ESG or sustainability policies.
- Executive remuneration.
- Individual responsibility for sustainability.

In 2023 PIC engaged with 23 companies on at least one governance topic.

A brief description of how these different areas of engagement are managed through our different channels has been outlined on the next page.

External managers

PIC's two main external managers of the public credit portfolio are Schroders and JPMAM, and we leverage their scale, ESG expertise and stewardship resources to effectively engage, where relevant, with companies on our behalf. At the start of 2023, we shared our priority topics and issues we expect both our managers to engage on over the course of the year.

For our environmental engagements, we focus on those companies that lie within the high carbon emitting sectors and in particular those companies that are not yet Net Zero aligned or reporting necessary climate data. Additionally, as outlined in Principle 7, we have implemented investment restrictions regarding the percentage of revenues derived from coal activities. We ask our managers to actively engage with companies that surpass this threshold and we ask them to communicate our intention to divest from companies failing to reduce their percentage of revenue from coal activities by 2025.

Our environmental Key Performance Indicators (KPIs) include public commitments to Net Zero targets, publication of a climate strategy, and the disclosure of carbon emissions. Where companies do not meet our KPIs we have asked our managers to engage with them on our behalf to work towards these objectives.

For social engagements, we discuss our priority social topics with our external managers and identify which sectors are most at risk. For example, our managers have prioritised manufacturing, materials and utilities sectors as a 'high risk' for human rights abuse given its reliance on supply chains and emerging market exposure. In 2023 our managers have also increasingly engaged with companies in the tech sector on human rights issues such as data privacy, cyber security and responsible use of AI.

Our social KPIs include the full disclosure of a Modern Slavery policy/statement and independent audit of Modern Slavery risk within the supply chain. PIC aims for companies to demonstrate alignment between their operations and International Labour Organisation (ILO) standards (or a country specific equivalent) and adequate independent auditing.

Engagement channels

PIC's engagement channels are summarised in the table below, which also displays the nuances between our KPIs, desired outcomes and timeframes for the engagement:

	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	Credit Research, PIC Capital & Responsible Investing	PIC Capital and Responsible Investing	Responsible Investing and Credit Research
Environmental				
Topic	Climate engagements with our highest emitting public credit investments	Various – including climate data reporting and alignment to Net Zero	Environmental 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 emissions, % 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	Social factors within the built environment	UN PRI – led 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		Governance 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; • Anti Bribery and Money Laundering; and • 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 effective building monitoring including energy meters and green building certificates.	N/A

Measuring our engagement progress

A key part of our engagement strategy is to measure progress year-on-year of our portfolio companies. Continuous monitoring allows us to understand which of our investee engagements are showing progress in line with our desired outcomes and this helps us identify those issuers that continue to lag or are unresponsive to engagement.

PIC developed an online ESG engagement platform, which acts as a database for logging engagement records across the year and keeps track of progress against the relevant KPIs and our desired outcomes. The platform is located on our server and is an 'online tool' that can be accessed by Credit Analysts from the Public Credit, Credit Research and Debt Origination teams as well as the Responsible Investing team.

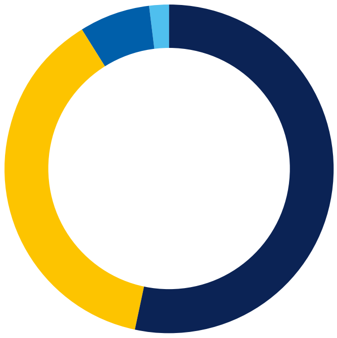
During 2023 we engaged with 99 firms through our diverse engagement channels on a range of sustainability topics. Our primary focus has been meaningful dialogue with top emitters, but we've also amplified our social engagements, recognising the importance of balancing environmental (E) and social (S) goals to promote a Just Transition towards a low-carbon economy. The chart below displays the breakdown of our engagements by the area of focus. (Please note that the split is based on the instances of engagement, as some companies are engaged with on multiple topics).

Engagement focus breakdown

Climate Change	**38%**
Natural Capital	**15%**
Human Rights	**18%**
Human Capital	**12%**
Corporate Governance	**11%**
Diversity, Equity & Inclusion	**6%**

Over 60% of our engagements were conducted by PIC'S external managers, while the rest were done directly by our analysts as displayed in the chart below:

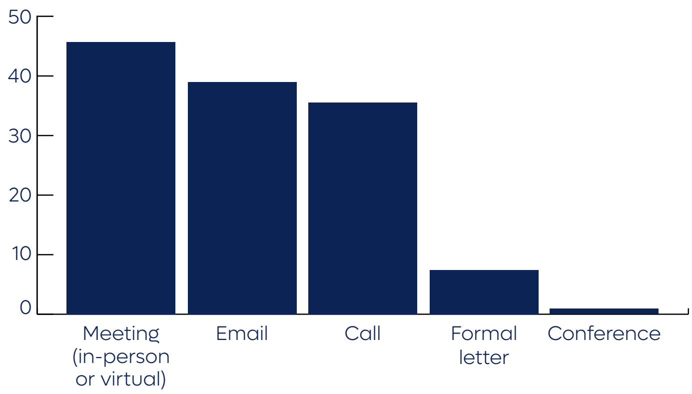
Number of engagements



Schroders	**55**
Internal	**39**
JP Morgan	**7**
Collaborative	**2**

The graph below shows the breakdown of engagement methods throughout the year. At PIC, in-person or virtual meetings are our preferred form of engagement method, considering them to be the most authentic. This preference holds true for both direct engagements and engagements via managers. Analysts have predominantly used this method across their interactions during 2023.

Number of interactions



We are satisfied with our progress in the area of stewardship during 2023. However, PIC recognises the importance of continually improving the quality of our interactions with investee companies. We understand that different types of engagements serve different purposes and have varying levels of depth. We are committed to increasing the share of more in-depth challenging conversations characterised by clear purpose and objective in mind as opposed to higher level information gathering engagements. Our Head of Sustainability has direct engagement related targets to that effect.

While information gathering remains essential for our risk management, enabling us to comprehensively assess our investee companies, we aim to go beyond high-level insights. We acknowledge that sometimes challenging discussions are required to drive meaningful changes in companies' sustainability practices and risk management strategies.

Engagement across different asset classes and geographies

Due to the different nature of our asset classes, it is often necessary to engage with the underlying investment companies or stakeholders in different ways. As described above, our methods for public credit engagement differ from those for private debt and real assets engagement. For instance, in our public credit engagements, we often rely on our managers to use their influence to advocate for sustainability practices or alternatively try to reach large corporations through collaborative engagement initiatives, while in private debt and real assets engagements, we may engage directly with investee companies to negotiate sustainability criteria in deal documentation or to address specific ESG concerns. For our real estate assets we strive to engage directly with the developers and contractors leveraging the expertise and resource of specialist firms, such as Buro Happold.

Our engagement process across different asset classes becomes more targeted and bespoke as our expertise in this area develops. Our engagement process for different asset classes will have different desired outcomes, KPIs etc. The key differences between asset classes have been outlined in the table on page 45.

PIC primarily invests directly rather than through funds, although there is some minor fund exposure where shareholders' equity is invested to achieve diversification. For these funds we engage directly with fund managers on ESG topics both at the manager level and the fund strategy level. Our engagements are either fact finding through questionnaires we send to all of our managers which asks for climate data, or in-person/virtual when assessing a new investment or performing a yearly review. The engagements tend to be of higher level and more focused around ESG integration into the strategy rather than stock specific.

Generally, due to the nature of our business and investments, and given the fact that the vast majority of our direct engagements are UK based, we have not adapted our direct engagement approach for other geographies. However, our managers, who look after our US and Emerging Markets investments, have adapted their engagement approach to different geographies where needed. A good example of this is JPMAM who hold both Emerging Markets corporate and sovereign holdings on our behalf. We have discussed with them the challenges of engaging with issuers in that part of the world, in particular sovereigns. JPMAM's global reach and presence on the ground has helped gain access to these investees and start discussions although even they admit it is challenging. Their approach has had to be one of fostering relationships based on trust and having discussions on a topic rather than asking direct questions.

Our engagement across various asset classes over the course of 2023 is outlined in the following case studies.

PIC has committed to engaging with our highest emitting companies, aligning with the commitment shared by all members of the Net-Zero Asset Owner Alliance, an industry initiative of which we are members. This expectation has been communicated to our external managers responsible for engaging in the respective portions of our portfolio they oversee. One of our external managers, JPMAM, conducted engagements with three of our highest emitters within their portfolio – Saudi Electricity Company, TAQA and Qatar Gas Transport Company by sending letters to the Chairs of their Boards.

Case study: Abu Dhabi National Energy Company (TAQA)

Issue:

Ahead of COP28, United Arab Emirates (UAE) increased the ambition of its Nationally Determined Contributions (NDCs) as well as its National Energy Strategy, committing to triple renewable power-generation capacity and increasing the share of clean energy in the energy mix to 60%.

In order to understand how Abu Dhabi's energy and utility company, TAQA, would mitigate any potential resulting transition risks, JPMAM engaged the company. They sought to understand how the company plans to support the delivery of the UAE's new emissions reductions goals and renewable energy targets including whether it intended to have its own targets validated by the Science Based Target initiative (SBTI).

Action:

JPMAM engaged the company and questioned whether their stated emissions reduction targets (25% absolute reduction in Scope 1 and 2 emissions by 2030) were sufficient to meet the UAE's more ambitious goals. While the company indicated they were confident they would be able to meet UAE's goals, they were not able to currently commit to having their targets validated by the Science Based Target Initiative (SBTI). This was due to the company's own assessment that their small amount of coal exposure in Morocco, and their estimation that they would need to achieve a ~40% emissions reduction by 2030, would make it difficult for them to have their targets validated by SBTI.

In terms of its decarbonisation strategy, the company described its plans to decommission its legacy gas plants indicating this will largely happen by 2028. The company targets 30% of gross generation capacity coming from renewables by 2030, however, the acquisition of renewable energy developer Masdar meant they had already met the target at the time of engagement. In line with UAE targets anticipated to be applicable to the company, JPMAM encouraged the company to update its renewables capacity growth target, noting the national renewable energy ambitions.

The company indicated they plan to invest approximately USD 10 billion by 2030 in transmission and distribution networks to cater for growth in electrification. They also identified a list of high-level climate related risks and opportunities in the 2022 Sustainability Report. JPMAM encouraged them to provide more information including TCFD aligned scenario analysis to provide investors with a clearer sense of the materiality of the issues.

Outcome:

In September 2023 TAQA revised its growth targets aiming for 150 GW of gross power generation by 2030, with around 65% of its generation capacity coming from renewable power sources. The announcements included plans to invest USD 20 billion until 2030 towards power and water capacity expansion and transmission and distribution networks.

Case study: Saudi Electricity Company (SECO)

Issue:

Saudi Electricity Company (SECO) is the biggest producer of electricity in the Kingdom of Saudi Arabia (KSA) and has a monopoly on the transmission and distribution of electric power in the country. The KSA has pledged to reach Net Zero emissions by 2060, to have 50% of its electricity generated from renewable energy by 2030 and to completely displace liquid fuel for gas. JPMAM engaged with SECO to assess its positioning in order to understand how the company would mitigate transition risks associated with the national transition plans.

Action:

JPMAM sent a letter to the company in early 2023 and followed up with a meeting. The company explained that it is on track to meet its target to reduce its Scope 1 and 2 GHG emissions by 25% by 2025 (vs. a 2016 baseline). The manager noted the longer-term KSA national targets and recommended the company also consider setting credible medium – and longer-term emissions reductions. The company acknowledged JPMAM's feedback and its intention to enable the KSA's national targets.

The company has a directly owned generation capacity of 58 GW, centred on diesel – and gas-powered plants. The company intends to transition towards a cleaner energy mix by fully replacing liquid fuel with gas by 2030. JPMAM encouraged the company to set its own renewable energy capacity targets to align with the national vision. SECO is the sole transmission and distribution player in the country, and any new renewables projects must be integrated into the grid through it. The company plans to invest USD 3 billion by 2026 for 25 renewable interconnection projects growing the grid's renewable energy capacity to approximately 19 GW by 2025.

The company explained that it is working on the next issuance of its Sustainability Report. JPMAM recommended that the report be aligned with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) to provide investors with the necessary information to assess the climate-related risks the company faces.

Outcome and next steps:

The company's 2022 ESG report, published later in 2023, included an early attempt at TCFD-aligned reporting, which the manager welcomed. In order to continue to understand the transition risks facing the company, JPMAM will monitor the company's progress with regard to its own target setting and alignment of plans to support the country's decarbonisation ambition.

Case study: Engagement with Verizon on ethical AI

Issue:

Verizon Communications, an American telecommunications conglomerate with global reach, operates within an industry increasingly reliant on artificial intelligence (AI) technologies. Amid growing concerns surrounding the ethical implications of AI, the World Benchmarking Alliance (WBA) initiated collaborative engagement to address these issues by sending letters to various organisations including Verizon. As part of this effort our investment manager, Schroders, participated in discussions aimed at promoting responsible AI practices.

Action:

On January 26, 2023, our external manager Schroders took proactive steps by initiating a call with Verizon's ESG team to explore their approach to AI utilisation. The discussion revolved around understanding Verizon's existing safeguards against AI-related risks and the extent of available or prospective AI-related reporting. Schroders emphasised the importance of transparent disclosure regarding Verizon's AI strategy within its policy frameworks. Additionally, Schroders provided Verizon with insights from policy comparisons among peer firms, facilitating a broader perspective on industry standards.

Outcome:

During the engagement, Verizon confirmed their use of AI to enhance operational efficiency and decision-making processes, such as determining the most cost-effective way to build out a 5G network. Verizon articulated its core AI principles, incorporating a precautionary approach to user data collection and utilisation, which is built into AI governance and is referred to as "Step Zero". Schroders and the collaborative group reiterated the importance of transparent disclosure regarding Verizon's AI governance practices and encouraged the inclusion of these principles in policy disclosures.

Following the initial engagement, the investor group followed up with Verizon via email to underscore the importance of interim disclosure on AI-related practices. Subsequently, in August, Verizon affirmed its commitment to transparency by publishing its AI principles in its ESG report. This significant step towards ethical AI governance demonstrates Verizon's responsiveness to investor engagement and commitment to promoting responsible AI adoption.

Case study: Engagement with AT&T on Lead-Clad Telecommunications Cables

Issue:

In the earlier stages of telecommunications infrastructure development, lead sheathing for cables was a common practice, including within the operations of AT&T. However, concerns regarding the environmental and health implications of lead usage have escalated in recent years. In 2021, AT&T settled a lawsuit with environmentalists over allegations of lead leakage from cables contaminating a freshwater lake, paying a settlement of $1.5 million for cable removal. Despite an independent testing firm hired by AT&T finding no evidence of lead leakage, the issue continued to attract attention. In 2023, a prominent media agency released a report on the impact of lead cables, resulting in significant stock price declines for named companies.

Action:

On August 22, 2023, Schroders initiated a call with AT&T's ESG team to discuss the extent and implications of lead-clad cables within the company's infrastructure. The discussion focused on potential risks to employees, consumers, and the environment, as well as the financial implications of removal. Schroders sought to gain clarity on AT&T's policies and practices concerning lead cable management and employee safety protocols.

Outcome:

Insights from the engagement revealed that less than 10% of AT&T's extensive 2 million miles of copper cable have lead sheathing. The majority (~2/3) of lead cables are buried underground, with a smaller portion (~1/3) aerial and underwater. Estimates indicate that the cost of removing all lead cables would range between $2.3 to $4.5 billion. However, removals could be done as part of upgrades to existing infrastructure for 5G, for which AT&T could receive tax rebates. Some experts suggest that disturbing lead cables may not be the optimal approach, advocating for their undisturbed preservation. AT&T asserted that comprehensive training and practices are in place to safeguard employees, although specific details were not provided.

Schroders requested additional information from AT&T regarding training practices and lead-related policies and procedures to ensure transparency and diligence in addressing the issue. Given the extent of unionisation within AT&T, Schroders expressed confidence in the adequacy of the company's employee safety measures concerning lead exposure. The engagement reaffirmed Schroders' view that AT&T is actively addressing the lead cable issue, demonstrating a commitment to sustainable business practices.

Case study: Engaging with a developer on infrastructure remediation

In 2022 PIC invested £130 million in a new waterfront neighbourhood, Wirral Waters One ('WWO'), also known as Miller's Quay. This is the anchor project of Peel L&P's Wirral Waters, the UK's largest urban regeneration project and a key part of the levelling up agenda. The Wirral Waters scheme is a central Government supported project to redevelop a brownfield site into a new waterfront neighbourhood, creating up to 20,000 permanent jobs over the long-term, as part of the regeneration of Wirral, which sits within the Liverpool City Region.

Issue:

The dock wall at Miller's Quay was identified to have voids below the waterline, attributed to scour from propeller wash. Initial repairs were conducted in 2003/04 using concrete infills, but no further maintenance had been carried out since then. As a key component of infrastructure and interface between the Miller's Quay and the wider Wirral Waters development, the risk of collapse and the extent of damage needed to be assessed.

Action:

We worked with the developer to resolve these risks and the following actions were undertaken as a result of this engagement:

1. The developer commissioned an Asset Engineering Report utilising sonar and lidar surveys, supplemented by above-ground investigations, to evaluate the dock wall's condition.
2. Surveys revealed new void formation since the previous repairs and further erosion of existing voids, heightening the risk of collapse.
3. A repair specification with a minimum design life of 50 years was developed, ensuring alignment with the commencement of the Miller's Quay development works.
4. Peel, the Developer, appointed a Contractor to execute the repair works.
5. A specialist consultant was engaged for quality assurance checks throughout the repair process.

Outcome:

The successful completion of the dock wall repair project enabled the contractor to commence their works for Miller Quay development which were ongoing during 2023. It stands as a testament to the collaborative efforts of PIC and the developer. By addressing critical structural vulnerabilities, the project effectively mitigated the risk of collapse of Miller's Quay infrastructure, and simultaneously ensured the long-term integrity of the associated flood defence benefits crucial for both Wirral Waters and the Miller's Quay development. This achievement underscores PIC's unwavering commitment to sustainable urban regeneration and its pivotal role in realising the ambitious vision of the Wirral Waters project.

Principle 10.

Signatories, where necessary, participate in collaborative engagement to influence issuers.

PIC is a member of several relevant initiatives within the financial services industry, recognising that collective action is required to make meaningful change.

Net Zero Asset Owners Alliance (NZAOA)

As a member of the NZAOA, PIC participates in numerous work streams and group meetings. PIC attends and participates in the NZAOA Engagement Track monthly all members' call and attends the quarterly Net-Zero AOA all member webinars. This allows PIC to take collective action and share knowledge with other asset owners in meeting its decarbonisation and engagements goals.

Investor forum

During 2023, after careful consideration and several discussions with the Investor Forum, we made a decision to join the initiative. The Forum offers an effective mechanism for constructive dialogue with UK-listed companies on long-term strategic issues. We were drawn to this collaborative platform due to the quality of their engagements, the depth of the themes they explore and the learning opportunities they provide to stay updated on best practices for stewardship. We are looking forward to reporting our progress working with the initiative during 2024.

UN PRI Advance Collaborative Engagement

PIC is a signatory to the UN PRI and in September 2022, as part of PIC's engagement strategy, we decided to join the UN PRI led collaborative engagement program Advance: a stewardship initiative for human rights and social issues. This initiative is comprised of 120 investors whose objective is to engage on social and human rights related issues within mostly the metals and mining, utilities and renewables sectors.

The following three engagement expectations are defined by the UNPRI & Advance:

- Fully implement the UN Guiding Principles on Business and Human Rights (UNGPs) –the guardrail of corporate conduct on human rights;
- 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 chain.

We were particularly drawn to these social aspects of this collaborative engagement given the need for a 'just transition'. This is a new stewardship initiative where institutional investors work together to take action on human rights and social issues. The overall objective of the initiative is to advance human rights and positive outcomes for people through investor stewardship.

The initiative was officially launched on the 1 December 2022 and PIC was allocated, along with six other investors, Duke Energy as its focus company. PIC's holding in Duke is held within the portfolio managed by Schroders and this will enable engagements with Duke to be done both by PIC analysts and via our manager.

Case study: Collaborative engagement with Duke Energy

Duke Energy was selected for collaborative engagement as a part of the UN PRI Advance initiative due to its plans to expand its renewables portfolio, a move that, although welcomed from an environmental perspective, inherently carries significant human rights risks. This risk stems from the fact that the renewable energy infrastructure production often relies on resources extracted through forced labour, and mining of conflict minerals is frequently involved. Furthermore, Duke Energy scored poorly in the Renewable Energy and Human Rights Benchmark, which evaluates companies based on governance and policy commitments, as well as their approach to embedding respect for human rights, conducting due diligence, and providing remedies and grievance mechanisms.

Action:

In 2023, a call was conducted with Duke Energy to address these concerns. During the call, discussions focused on several key topics:

- Inquiry into Duke Energy's plans to establish a standalone Human Rights policy.
- Details regarding human rights due diligence to identify risks and specifically the human rights assessment already conducted by the company.
- Internal discussions on Duke's score in various human rights benchmarks, such as the World Benchmarking Alliance Social Transformation Benchmark and Business and Human Rights Resource Centre Renewable Energy & Human Rights Benchmark.
- Discussion on the company's approach to handling grievances.
- Duke's supplier code of conduct and plans to conduct risk assessment of the solar supply chains.

Outcome and next steps:

After our initial call with the company, the group of six investors met quarterly to review Duke's progress against discussed topics, exchange insights on industry best practices, and discuss strategy for future engagement. A follow-up discussion with the company occurred at the beginning of 2024. Duke Energy confirmed that they have updated their human rights policy and plan to conduct regular reviews of their supply chain, albeit currently focusing only on Duke's own operations and tier 1 suppliers. Additionally, Duke shared that a new grievance process has been implemented. While progress has been made, the group felt that it has been incremental. The collaborative engagement will continue in 2024, with a focus on conducting a deeper assessment of Duke Energy's supply chains to further mitigate human rights risks.

As a secondary benefit, companies have started to engage more with the World Benchmarking Alliance and Business and Human Rights surveys because companies see that those are being used by investors for information. Specifically, Utilities & Renewable companies are willing to disclose more as investors are using these benchmarks to inform engagements in the UN PRI Advance initiative. We hope that this collaborative engagement with Duke Energy is not only addressing specific concerns within the company but also contributing to a larger movement toward transparency and accountability in the industry.

Case study: Supporting Sustainability Reporting Standards for social housing

Sustainability *for* Housing

PIC was one of the founding members and is a continued supporter of the Sustainability Reporting Standards for social housing (SRS). The SRS are a set of sustainability related standards which social housing providers who support the SRS are required to report against on an annual basis.

PIC is a lender (often directly into their private debt issuance) to more than 60 housing providers across the UK and we feel that we have strong influence over this sector. Unlike listed companies mandated to disclose their carbon emissions, private entities like housing associations lack such regulatory obligations, impeding lenders' access to comprehensive data. Consequently, PIC together with other investors increasingly requires housing associations to voluntarily disclose their carbon emissions data to ensure transparency and accountability within their investment portfolios.

Action:

PIC collects data from the reporting of individual housing associations, and since inception of the SRS we encourage all reporting by housing associations to be aligned with it.

Housing associations have the option to choose between filling in a questionnaire provided by PIC or reporting directly in line with the Standard. We have updated our questionnaire to facilitate a smooth transition for housing associations into reporting in line with the Standard, as they are already providing much of the same information to us.

The metrics required by the Standard encompass a range of high-level themes such as climate change, biodiversity impact and strategy, resource management, affordability and security, building safety and quality, resident voice and support, structure and governance, board and trustees, staff wellbeing, and supply chains. Looking ahead, PIC anticipates housing associations to enhance their ESG disclosures, going beyond reporting their Scope 1 and 2 emissions but aligning their reporting with other relevant metrics within the Standard.

This standardised methodology helps housing associations report on a wide range of ESG metrics and increases the usefulness of reporting to lenders through consistent measurement and easier comparability. We believe that standardised reporting helps promote transparency within the housing association sector and this in turn helps drive the sector towards best practice in sustainability initiatives.

Principle 11.

Signatories, where necessary, escalate stewardship activities to influence issuers.

Stewardship Escalation Policy

Our escalation policy acts as a backstop when engagement or influence activities are no longer effective. This is applied when issuers do not make improvements in line with our expectations, despite multiple engagement efforts, within an 18 month engagement period. We require our asset managers to proactively escalate any sustainability concerns and report back any new information or evidence to PIC. We will also consider raising issues with collaboration with groups such as the ABI's Climate Change group, Net Zero Asset Owners Alliance (NZAOA) or the Investor Forum engagement groups.

Divestment will be considered as a last resort, as demonstrated in the case study below. We believe divestment in isolation will not solve the global, long-term challenges we face.

While we do not have voting rights, we employ asset managers who do, and who can therefore engage on our behalf from a shareholder perspective for companies where we invest in their debt.

Our approach to escalation varies depending on the channel of engagement. Where we have a direct relationship with a company or a developer, for example, in the real estate space, we request additional meetings with senior management or directors as a means of escalation.

Case study: Strategic divestment to mitigate coal exposure

During 2023, our team identified two large mining companies with global operations, each surpassing the 10% revenue threshold from coal extraction. We asked our investment manager to engage with these companies on behalf of both their other bond and shareholders, to understand these companies' plans to diversify away from coal. We communicated our intention to divest if the companies are not able to meet our thresholds. Despite our engagement efforts with these companies, it became evident that their revenue from coal activities would unlikely decrease below our threshold by the targeted year of 2025. Consequently, we made the strategic decision to divest from these positions to de-risk our portfolio.

This divestment action not only reduces our exposure to coal-related activities but also reinforces our commitment to driving meaningful change in the transition to a low-carbon economy. It highlights our willingness to take decisive steps to ensure that our investments align with our environmental objectives and underscores our dedication to responsible investing practices.

This proactive management of our coal exposure serves as a compelling example of our ongoing efforts to uphold our sustainability commitments and drive positive impact. Moving forward, we remain steadfast in our commitment to engaging with companies and actively managing our portfolio to achieve our decarbonisation targets by 2025.

Principle 12.

Signatories actively exercise their rights and responsibilities.

As a debt investor, PIC does not have any voting rights. PIC does, however, discuss key issues affecting investee companies with its asset managers, and expects its asset managers to raise any concerns we have with the relevant companies and to report back to us.

Whenever feasible, we leverage our influence as investors to include particular ESG requirements to be fulfilled in our investment terms and covenants, in both our private market investments and direct company relationships.

Outcomes:

- PIC negotiated a covenant for improved ESG disclosure with two issuers in the student accommodation and social housing sectors following waiver requests.
- PIC contractually requires all new direct property investments to be targeting majority EPC rating of B for their housing stock.
- PIC requires all new property investments where we are a lead investor to respond to our in-depth ESG due diligence questionnaires and provide supporting evidence for responses.
- PIC has successfully negotiated the inclusion of green lease clauses in our long leases with various local authorities. These clauses enable PIC to request information and data about the environmental performance of the building throughout the term of the lease. This data will allow PIC to assess the building's environmental impact and these clauses also allow PIC to suggest improvements and enhancement works to the tenants of these leases to improve the environmental performance of the building throughout the lease term.

Contact details

Cleo Fitzsimons
Head of Sustainability
fitzsimons@pensioncorporation.com

Victoria Ruleva
Investment Stewardship Manager
ruleva@pensioncorporation.com

PENSION INSURANCE CORPORATION PLC
14 Cornhill, London EC3V 3ND

pensioncorporation.com