UK Stewardship Code Application 2023.

Pension Insurance Corporation PLC (PIC)

Contents

At PIC, our purpose is to pay the pensions of our current and future policyholders. Our purposeful investment strategy, designed to ensure we are able to fulfil our purpose over the coming decades, means our portfolio provides sustainable benefits to all of our stakeholders, including wider society. We integrate Environmental, Social, and Governance (ESG) risks into every investment decision, in order to be effective stewards of the infrastructure and other assets we own. This not only promotes ESG-positive activity in the economy but also mitigates the ESG risk inherent to our investments.

Stewardship is defined by the Financial Reporting Council (FRC) as the "responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society". At PIC we are fully signed up to this definition of stewardship and we see it not only as a way of doing the right thing but also as an effective risk management tool. This application evidences how we promote the principles of the UK Stewardship Code 2020 in the period 1st January to 31 December 2022.

In addition to our ongoing stewardship work within the portfolio, we are also cognisant of our wider corporate responsibilities, and we continue to make strides in areas such as Diversity & Inclusion, including partnering with Women in Banking and Finance, and the Group for Autism, Insurance, Investment and Neurodiversity (GAIN). This is in addition to our long-term partnerships with AMP for actuarial mentoring, #10000BlackInterns, and LGBT Great.

We've also partnered with Red Start Educate, which gives primary school children from a wide range of socioeconomic backgrounds a head start on their financial futures. In addition to this, during 2022 we attained the Investors in People award, increasing our benchmark to Silver.

Whilst we have made good progress in the ESG and stewardship space, there is more to be done. We will continue to strive for improvement in our stewardship practices, a cornerstone of our ability to fulfil our purpose.

YE22 | **2025** | **2030** | **2040** | **2050**

Stewardship

Highest emitting corporate credit holdings flagged and being engaged with

Stewardship policy published

Engage with companies directly on becoming Net Zero aligned

Intensify engagements with non Net Zero aligned entities

Active member of NZ AOA engagement track

Annually provide our managers with a list of companies we want engaged on

Joined UN PRI collaborative engagement

Two year engagement plan launched

Five year engagement plan launched

Evaluate engagement success/failures and take action where needed

Tracy Blackwell
Chief Executive Officer, Pension Insurance Corporation

Forward.

Principle 1

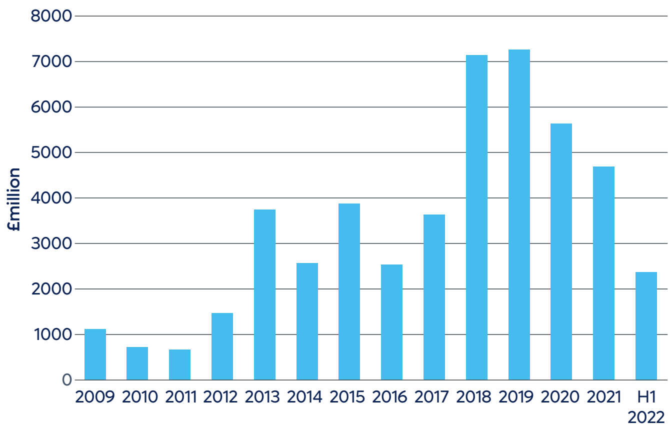
Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

PIC's Business Model: Creating Long-term Value

Since our inception in 2006 we have become a leading player in the Pension Risk Transfer (PRT) market and at YE22 we had over £41bn worth of investments on our balance sheet.

£41bn	302,200	99.6%
Portfolio	Policyholders	Policyholder satisfaction

Volume of DB annuity transactions

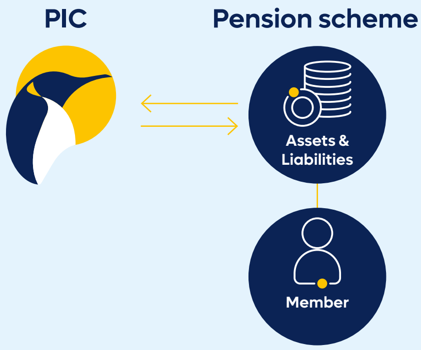


Our purpose is to pay the pensions of our current and future policyholders. We do this by:

- Insuring UK defined benefit pension funds through either a pension insurance "buy-in" or "buy-out", 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 pension obligations over future decades.

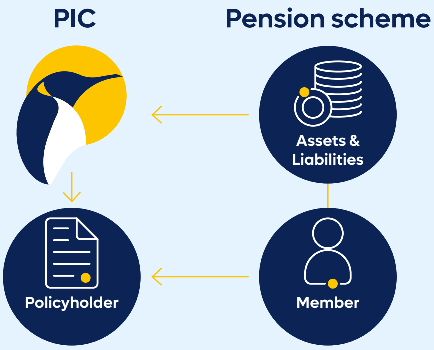
What is a pension insurance buy-in?

- The pension scheme purchases a bulk annuity insurance policy to cover its obligations to a subset of the scheme members. The insurance policy is held as an asset of the pension scheme
- A buy-in is a perfectly matching investment for the insured liabilities
- A buy-in removes the pension scheme's longevity, market interest rate, inflation and other risks, as these are transferred to PIC
- PIC has no direct relationship with pension scheme members, whose benefits continue to be managed by the trustees



What is a pension insurance buyout?

- A buyout removes pension assets and liabilities from a pension scheme and employer's balance sheet. It is a full settlement of the scheme and employer's obligations to the scheme members
- PIC issues individual annuity insurance policies to the members of the pension scheme as a direct replacement for their claim on the pension scheme
- Typically, the pension scheme is wound up and assets pass across to PIC
- The scheme members become policyholders of PIC



During 2022 PIC reviewed its strategic objectives and added a new objective focused on being a responsible corporate citizen. It is crucial for us to align our actions with our values in pursuit of our purpose. This commitment extends beyond fulfilling pension obligations. We are dedicated to providing our policyholders with exceptional service, clear communications, and helpful engagement. Moreover, we take into account the broader societal implications of our activities, considering all aspects of Environment, Social and Governance ("ESG").

Investments with a lasting impact on current and future generations in areas including renewable energy, social housing and national infrastructure are some of the socially beneficial outcomes of our investments. We carefully manage these investments to ensure that they continue to deliver positive impactful outcomes while helping us meet the needs of our policyholders.

In line with our purpose, we have climate-related targets which are published in our annual report and accounts and are as follows:

Carbon neutral as a business by

2025

We have committed to being carbon neutral as a business by 2025

Net Zero across all emissions by

2050

We have committed to being Net Zero across all emissions by 2050

Reduced Scope 1 and 2 emissions intensity by

18%

During 2022 PIC reduced its Scope 1 and 2 carbon emissions per Full Time Employee ("FTE") by 18%

Target

50%

decrease by 2030 from 2019 levels

PIC is committed to decreasing the investment portfolio's average carbon intensity (tons CO_2/£m revenue) by 50% by 2030 from 2019 levels

Target

25%

decrease by 2025 from 2019 levels

PIC set an interim target of decreasing the average carbon intensity of investments in publicly-listed corporate credit by 25% from 2019 levels by 2025

Weighted Average Carbon Intensity ("WACI")

175

tons CO_2e/£m revenue

weighted average carbon intensity of investment portfolio

The weighted average carbon intensity of PIC's portfolio represents 78% of investments and this is a 14% decrease compared to 2021

Temperature alignment of

2.08°C

for public corporate credit portfolio

PIC's public corporate credit portfolio is aligned to a 2.08°C temperature rise, with 70% of reporting corporates on a trajectory of 2°C or below

Excellence in customer service and balanced stakeholder relationships are fundamental to our approach. The key outcomes of our purpose are highlighted below. These guide our stewardship process, investment strategy and day to day decision making.

Key outcomes of our purpose

Policyholders
Pensions for life; excellence in customer service

Employees
Stimulating, fair, and rewarding workplace

Key suppliers
Partnership model of engagement

Capital providers
Growing store of value expected to provide secure, long-term returns

Society
Active engagement in public debates around purposeful, long-term investment in the economy and stakeholder capitalism

Economy
Significant investments in urban regeneration, social housing, and areas that balance intergenerational equity

Environment
Increasing investments into renewable energy, with concurrent reduction in exposure to carbon-producing industries

Investment Beliefs

At PIC, we value the importance of sound stewardship, using it as a tool to deliver on our purposes 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 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.

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 cash flows 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 ensure compliance with our Stewardship Policy. Where PIC does have equity ownership, we endeavour to engage in voting activity and will increasingly do so as our equity ownership grows over time. These concepts are explained in more detail and evidenced later in this document.

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. Approximately 25% of our portfolio is held within sectors we call 'sustainable assets' which include socially progressive sectors such as social housing loans, Build to Rent and urban regeneration projects.

ESG integration is considered during our investment process for all investments (corporate credit, sovereign and US municipal bonds) and privately sourced debt (such as housing associations, build environment and other private placements).

In summary, we have a securely matched asset and liability profile which benefits our policyholders, and the society they live in, by:

- Adopting a primary focus on credit risk management which maintains a high level of security for our policyholder benefits.
- Selecting assets with good risk return profiles demonstrating an efficient use of capital.
- Establishing PIC's liability profile as long-term and predictable. This enables the business to invest in long-term illiquid assets, such as social housing, renewable energy, and infrastructure.
- Having a conservative default assumption which minimises risk exposure.
- Engraining a strong focus on ESG across all our investment processes, with a particular focus on reducing the environmental impact of our portfolio and investing in socially progressive assets such as social housing loans.

Case Study: Investing with Purpose

As risk-averse investors, our strategy prioritises the management of key risks, including Environmental, Social and Governance. Matching assets and liabilities means we also have to find cashflows in years with low levels of listed bond issuance. As a consequence, 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, such as:

- Social Housing
- Regulated Utilities
- Education
- Healthcare
- Renewable Energy
- Not for Profit
- Green or sustainable buildings including Build-to-Rent
- Sustainable Transport
- Urban Regeneration

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 ESG credentials.

PIC's total investments in sustainable assets

Housing Associations/Social Housing	**21%**
Regulated Utilities (Water, Electric and Gas)	**21%**
Education	**18%**
Healthcare	**12%**
Renewable Energy	**10%**
Municipals (education, health, social activities, local authorities)	**7%**
Not for profit	**5%**
Green or Sustainable buildings including Build-To-Rent	**3%**
Sustainable Transport	**2%**
Project Finance (funding sustainable initiatives)	**1%**

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.

Our values, listed below, are as central to our ethos today as they were the day we were founded.

These are:

Doing the right thing

Integrity is fundamental to the way we operate. We ensure our customers understand the information that we share. We are straightforward to deal with and do what we say we'll do.

Striving to be the best

We provide sector leading expertise, operating at a level of excellence in everything we do. We strive to be the best and deliver a consistently high-quality offering. We work hard to maintain and build on our credibility and track record.

Providing security

We're committed to managing risk and providing long-term stability and financial security for our customers. We appreciate the need for, and the value of, our regulatory framework. We recognise the importance of assurance work in delivering policyholder security.

Embracing new ideas

We pride ourselves on doing things differently. We go beyond existing ways of thinking to come up with innovative, personalised solutions and flexible ways to deliver them. We identify innovative solutions to problems and challenges. We are willing to do things differently.

Being a team

We respect and value our people, are interested in their perspectives and opinions and care about their development and engagement. We create a motivating and flexible environment for all our employees.

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.

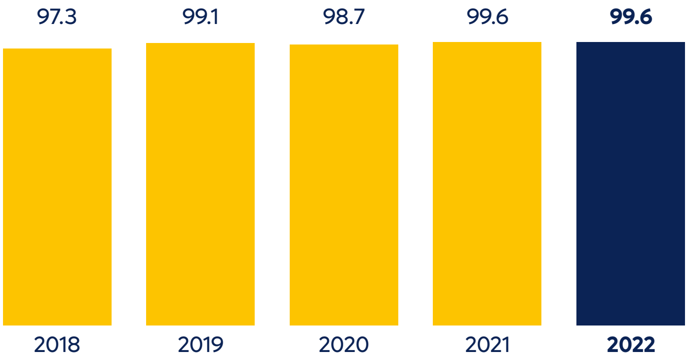
Case Study: Industry-leading Policyholder Events

Our policyholder events are a key feature of our customer service offering and are recognised throughout the industry. We are the only insurance company in our sector to hold such events because we believe in meeting the people whose pensions we look after. PIC employees are required to attend at least one event every two years and that applies to everyone from our graduates right up to our Board members. Attending these informal lunches and Policyholder Days helps to keep our customer service ethos central, connecting day-to-day roles to the Company purpose in a meaningful and tangible way for our employees.

We were pleased to be able to reintroduce our popular face-to-face events during 2022, while continuing to host virtual sessions for those that prefer to engage with PIC from the comfort of their homes. In total, PIC has welcomed more than 25,000 policyholders to these free events since 2011, right across the country. Policyholders enjoy meeting up with former colleagues, alongside some hospitality and, at our full-day session in London in 2022, enjoyed a motivational talk from our guest speaker Sir Steve Redgrave. PIC executives and employees were also on hand to provide an update on the Company and answer any questions that our customers may have about how their pensions are safeguarded. More information about these events and how they are used to gather policyholder feedback is provided in the section covering Principle 6.

Outcome Examples: Policyholder Satisfaction

We secure our policyholders' pensions for their lifetimes. We believe that transparency and accountability are key to meeting client needs over the long term. Policyholders are asked to provide a satisfaction rating for PIC's customer service. This metric shows the percentage of customers surveyed who gave PIC a satisfied or very satisfied rating.



We monitor this percentage to ensure we continue to deliver outstanding policyholder service. We are pleased that our score remains high which evidences the excellent quality of service we are delivering to our policyholders.

We gather feedback from our policyholders on an annual basis, and from employees, not least through the Investors in People award process (PIC has once again attained Silver in 2022). Our policyholders value clear communication and we hold the Platinum Crystal Mark from the Plain English Campaign. PIC are four times Institute of Customer Service Award (ICS) winners and holders of the ICS ServiceMark with Distinction.

ServiceMark with Distinction Accredited from Dec '20 to Dec '23 The Institute of Customer Service

Crystal Mark 20064 Clarity approved by Plain English Campaign

The Institute of Customer Service UK Customer Satisfaction Awards 2021 WINNER

Case Study: The Purpose of Finance

In 2016, PIC founded a project called the Purpose of Finance with the aim of facilitating debate from a position of support on how best to repair the disconnect between society and the financial services industry. The project brings together policymakers, regulators, people who work in financial services and others to tackle this deep-rooted problem.

This includes a wide-ranging debate about how financial institutions can focus on and be accountable for their purpose. Since the project's inception, PIC has released numerous Purpose of Finance papers including:

- The Purpose of Finance
- The Purpose of Asset Management
- The Purpose of Stock Exchanges

Purpose of Finance podcast topics include:

- How Can We Re-Shape Financial Markets to Create Fairer Capitalism?
- The Long-term Consequences of Short-term Thinking
- The Changing World of Stock Markets

Manuel Badillo, PIC policyholder, and his wife Lesley

Before my pension transferred to PIC, I didn't have a clue about who was looking after it. The situation has completely changed since PIC became responsible. PIC keeps us well informed and is very good at explaining everything to us, including how they are safeguarding our pensions and how the investments they make support them. When you are my age, you want to be informed about these things!

My wife and I have been regular attendees of the PIC policyholder events – the 2022 London Policyholder Day was our fourth. We've always been very impressed with them and enjoy finding out what the company has been doing. It's a very enjoyable day, but importantly it's a very informative day as well. One of the best parts of the day for us is meeting people that we used to know and work with, as well as making new friends with people that were part of the same scheme. I used to run the sports and social clubs at EMI, so it is great to be able to continue the community feel during these events. We also love hearing from the guest speakers who provide helpful and inspirational stories that stay with us long after the event.

PIC is a very good company. They seem to be very sustainable in their approach to looking after our pensions and looking after the investments as well. The investments are very worthwhile, like the one in Newham where they are building 161 flats with social and affordable housing being included. There's a great need for it, so it's lovely to see that's what the investments are in and that we can actually see that there's good being done with our pension fund money to help those who desperately need it. The fact that you are helping the younger generation is fantastic because they are our future. If I were to describe PIC in three words, I would use fantastic, reliable and very helpful.

Manuel Badillo

Former member of the EMI Group Pension fund and proud PIC policyholder since 2014

PIC stands out positively as a business due to its strong focus on values and ability to connect with policyholders.

Investors in People Report, 2022

Principle 2

Signatories' governance, resources and incentives support stewardship.

Regulatory Environment

PIC operates under the regulatory supervision of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) as well as their respective rulebook and handbook, including Solvency II requirements. Specifically in relation to ESG, PIC must comply with:

- The FCA's ESG Sourcebook, which sets out rules and guidance concerning a firm's approach to ESG matters and the disclosure of climate related financial information consistent with TCFD;
- The FCA's Policy Statement 19/13: Improving shareholder engagement and increasing transparency around stewardship (PS 19/13); and
- The PRA's Supervisory Statement: Enhancing banks' and insurers' approaches to managing the financial risks from climate change (SS3/19) and the PRA's Dear CEO letter of July 2020 on managing climate-related financial risks.

We regularly engage with our regulators on industry related consultations and in 2022 our ESG focused engagements revolved around our TCFD reporting and the scope of oversight on ESG of our Board-level ESG Committee. In addition to that, 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 a part of the 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 SII regulation from allocating larger amounts of investment into these areas. Some ESG-specific issues were raised around:

- Sustainability linked loans where the coupon changes depending on performance against ESG targets;
- Renewable deals with potential for early prepayment; and
- Infrastructure investments in developing countries backed by guarantees.

Engaging with the PRA on this topic is important to us as it will allow us to shape the regulatory landscape in a way that makes it easier to fulfil our purpose. It will potentially widen our investment universe and allow us to target our investments in a more socially progressive, climate-friendly manner whilst maintaining security for our policyholders.

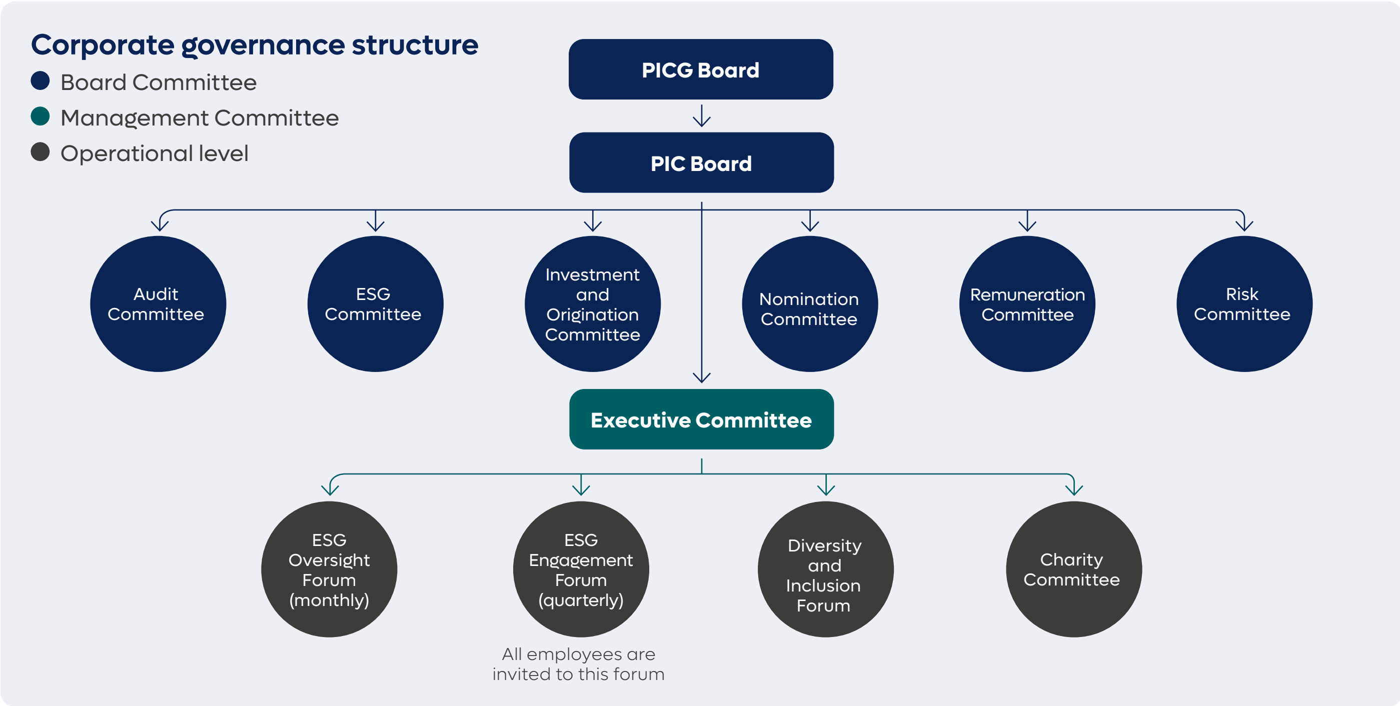
Internal Governance Structure

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 opposite.

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.



Governance of Stewardship at PIC

The Board recognises that ESG factors are 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 ESG at the top of the organisation, PIC can better navigate the risks and opportunities that arise from ESG factors and build a more sustainable and resilient business.

The Board

Due to growing appreciation for the materiality of ESG on investments and business, Responsible Investing has become a reoccurring topic on the agenda of the Board and Board-level committees. In 2022, the Board received an update on PIC's ESG Strategic positions as well as were presented with, and gave approval for, PIC's standalone ESG and Stewardship policies as well as PIC's Sustainability Strategy. PIC's proposed portfolio Transition Timeline of actions to achieve Net-Zero was presented to the Board's Investment and Origination Committee and received support. PIC's Climate Risk Appetite statements were presented to the Board Risk Committee and were approved.

PIC's overall approach to ESG is set by the Board and then overseen by the Board-level ESG Committee, described in the following section. The Board has delegated the day-to-day implementation of PIC's ESG Strategy to various senior management figures within the firm. ESG in investments is the responsibility of the Chief Investment Officer and Head of Responsible Investing while accountability for Climate Risk sits with the Chief Risk Officer.

The Board-level ESG Committee

During 2022, the ESG Committee's focus has been to monitor ongoing delivery against the objectives and targets for our main priority areas:

- Supporting PIC in developing its ESG Capabilities so as to position itself as a standard bearer within the industry;
- Reviewing, challenging and providing input into PIC's Stewardship activities including engagement strategy covered in detail in the section on Principle 9;
- Agreeing the principles for the standalone Stewardship and ESG Policies and ensuring these principles are enacted throughout the company;
- Delivering on our climate commitments of becoming carbon neutral as a business by 2025 and Net-Zero across all emissions by 2050;
- Disclosing our progress towards such goals through support and publication of our Task Force on Climate-related Financial Disclosures (TCFD) report; and
- Supporting the development of PIC's entity-level Sustainability Strategy, which was approved by the Board in September 2022.

The Committee has recognised 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. In February, the Committee attended a deep dive session, facilitated by Sustainalytics, on integrating ESG and corporate governance factors into investment processes, as well as to gain further insight into ESG risk ratings.

The ESG Committee is chaired by PIC's Chairman, David Weymouth, who took over the role from our previous Chairman, Jon Asbitt, in Q4 2022. The Committee meets at a minimum on a quarterly basis. The Committee members are the Chairs of PIC's Board-level sub-committees including the Chairs of the Audit, Investment and Origination, Nomination, Remuneration, and Risk Committees.

David Weymouth

PICG & PIC Director Chairman of the Board

Date of appointment

David was appointed to the Board in October 2022 and became Chair in December 2022.

David has prominent experience within financial services and is a firm supporter of ESG. He played an instrumental role in ensuring proper governance and oversight of ESG at Fidelity, where he was a Non-Executive Director for over 7 years. More recently, and prior to arriving at PIC, David was the Chairman of OneSavings Bank whose mission is to provide fair financial solutions to all in order to help customers, colleagues and communities prosper.

Sally Bridgeland

PIC Director Independent Non-Executive Director

Date of appointment

Sally was appointed to the Board in January 2021.

Sally is Director and Chair of Impax Asset Management, a specialist asset manager, investing in the opportunities arising from the transition to a more sustainable global economy. She has recently won the FTSE AIM Non-Executive Director award for her position within Impax. She is an ESG veteran with a wealth of experience in embedding ESG within the culture and practices of the various prominent financial institutions she has served.

Sound risk management is fundamental to meeting our obligations to our policyholders now and in the future. The risks which come from climate change and the transition to sustainable energy use cut across our operations and investments. We will continue to evolve our approach to monitoring and managing climate risk as the industry's understanding of risk develops.

Sally Bridgeland

Chair of Board Risk Committee and member of Board ESG Committee at PIC

During 2022, we reviewed our strategic objectives to ensure that they reflected our culture and values as we seek to fulfil our purpose of securely paying our policyholders in a sustainable manner. Subsequently, the Board approved an evolution of PIC's strategic objectives as per the diagram below:

2022 Strategic Objectives

- Financial Strength and Cost Efficiency
- Returns
- Reputation and Conduct
- Growth and Focus

→

2023 Strategic Objectives

- Secure and Sustainable Business
- Responsible Corporate Citizen
- Long-term Value Growth

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.

The ESG Oversight Forum

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

The ESG Engagement Forum

The quarterly ESG engagement forum is an all-staff meeting. It serves as a platform to inform the rest of the organisation about critical ESG matters, including updates on stewardship progress. This forum not only provides a space for sharing updates but also plays a vital role in fostering ESG awareness throughout the entire organisation.

Ongoing Training

In 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. We have planned to have 3 formal ESG training sessions by an external provider in 2023. One will be to the full Board, one to the Executive Committee and one to ESG Champions across the business to ‘train the trainer’.

In addition, our Head of Responsible Investing provides on-going training on ESG Integration and Engagements with the Investment team and hosts a quarterly all-employee ESG teach-in to ensure ESG is embedded within our culture. Stewardship topics are included in this teach-in, as explained further on.

Case Study: Governance in Action – Establishing PIC’s Transition Timeline

In 2022, PIC developed a Transition Timeline to ensure that we meet our climate commitments. The ESG Oversight Forum, alongside the Investment Team, was responsible for ensuring various parts of the portfolio were included in the Transition Timeline proposed activities. The group shared relevant quantitative metrics which formed baseline parameters for our public credit holdings, which are now used when considering the climate implications of investment decisions. These include metrics on an investment’s carbon intensity, implied temperature rises or downward trends, as well as forward-looking metrics such as a company’s alignment to the Paris Agreement and carbon transition scores. For our private sector holdings, we have focused our strategy on enhancing the robustness of our carbon estimates and attaining a higher quality level of data. The timeframe for executing the timeline was supported by the Board level ESG Committee and approved by the Board’s Investment and Origination Committee.

Transition Timeline table on the next page.

Transition Timeline

YE22 | 2025 | 2030 | 2040 | 2050

Carbon reduction Commitments

- Carbon neutral PIC Scope 1 & 2 by 2025
- Reduce corporate credit portfolio emissions by 25%* by 2025
- Reduce corporate credit portfolio emissions by 50% (NZ AOA)* by 2030
- Reduce PIC's total (Scope 1, 2 & 3) emissions by 50% (ABI)* by 2030
- Net Zero by 2050 through all emissions

Activities

Decarbonise the portfolio

- Measured carbon footprint of listed credit and c.50% of private assets
- Portfolio management actions consider climate parameters
- Stricter carbon parameters applied on all new purchases
- Published annual TCFD report
- Carbon parameters applied on all new purchases and assets transferred-in
- Aiming to decrease carbon intensity 75% from 2019 levels
- Consider selective divestment from high emitters who have not responded to our engagement efforts and are not credibly aligned to achieve Net Zero
- Established a Net Zero Transition working group
- Increase private sector carbon data coverage
- Consider a company's downward trend in reducing carbon intensity when making investment decisions
- Aim for 90% portfolio to be Net Zero aligned (plan & progress)
- Board level governance with input into transition timeline
- Aim to increase quality of data used and average data quality score
- Adjust sector limits for high intensity sectors. Decrease exposure to comply
- Aim for 100% corporate credit portfolio to be Paris Aligned
- Strict coal exclusions and will divest in companies that have >10% direct revenue exposure from coal by 2025

Stewardship

- Highest emitting corporate credit holdings flagged and being engaged with
- Stewardship policy published
- Engage with companies directly on becoming Net Zero Aligned
- Intensify engagements with non Net Zero aligned entities
- Active member of NZ AOA engagement track
- Annually provide our managers with a list of companies we want engaged on
- Joined UN PRI collaborative engagement
- Two year engagement plan launched
- Five year engagement plan launched
- Evaluate engagement success/ failures and take action where needed

Financing the transition

- Apply high ESG standards across property investments and working with a third party specialist where needed to do so
- £1.5bn invested in renewables since 2012
- Continue to invest in climate positive investments within the portfolio

*emission reduction use 2019 levels as baseline. Only includes assets with data coverage

Activity & Outcome Example: Net-Zero Discussions at the ESG Oversight Forum

PIC has committed to be Net-Zero by 2050 across all sources of emissions, including within its investment portfolio which backs pension payments to the company's policyholders. PIC has also set interim targets of reducing its portfolio emissions by 2030 in line with the ABI'S Climate Change Roadmap.

At the same time, PIC has become a member of the UN-convened Net-Zero Asset Owner Alliance (AOA), an international group of institutional investors committed to making Net-Zero a reality within their portfolios by 2050.

To carry through its commitments, PIC's ESG oversight Forum, whose members are senior representatives from various parts of the business, gave some real thought and had in-depth discussions on what activities would be required across the business. Activities were split between 'Decarbonising the portfolio', 'Stewardship actions' and 'Financing the transition'. Those three sections formed the core of our Transition Timeline. A key part of the Net-Zero strategy is to actively engage with companies if they are deemed to be emitting a large amount of greenhouse gas emissions and work with them to reduce their emissions over time. It was decided that such engagements should be done both via our external managers and by PIC credit analysts directly in order to enhance our influence.

The Chair of the ESG Oversight Forum brought the Transition Timeline to various members of the Investment Team before presenting to the Board's ESG Committee for review and the Board's Investment & Origination Committee for approval.

The Responsible Investing Team

PIC hired a Head of Responsible Investing in January 2021 to coordinate ESG and stewardship efforts across the business and integrate stewardship into the overall investment strategy. Later in 2021 the team hired a Responsible Investment Manager to support the Head of the team and in 2022 that person's role was refined to focus specifically on stewardship and engagement activities. In 2022 the team was strengthened by the hire of another team member who is mandated to focus on our climate strategy and coordination of PIC's transition to Net-Zero. The team now comprises of three full time individuals and is fully embedded within the Investment Team. PIC has also named an ESG Champion in all major business functions to embed ESG within our culture and every-day processes. This demonstrates PIC's dedication of resources towards Responsible Investing including Stewardship, in addition to the application of ESG matters falling within the remit of each business function's business as usual.

In 2022, we engaged a specialist external consultant to help refine our climate metric methodology to make it more robust and aligned with industry best practice. We also hired the same consultant company (although different subject matter experts) to help articulate our Stewardship Framework and Engagement Strategy as well as deliver our stewardship aims.

The team members 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 and Net Zero consulting.

The team have named Stewardship as one of their priorities for 2023 and received Board level support on that. Some of their plans include driving forward PIC's Engagement Strategy, as outlined in Principle 9, including selecting topics on which to focus engagements, establishing a list of companies to engage with, setting appropriate objectives and measurable desired outcomes. The team also plan to update and enhance PIC's Stewardship Policy as well as other external reporting on our Stewardship actions.

Cléo Fitzsimons

Head of Responsible Investing

Cléo is responsible for integrating ESG into the investment process, assessing ESG opportunities, embedding ESG into the overall investment strategy and ensuring PIC is an active member of the sustainable financial industry.

Cléo has 12 years investment experience. Prior to joining PIC in 2021, she spent 10yrs 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.

Case Study: Appointing Specialist Buro Happold for ESG Assessment and Engagement with our Built Environment Developers

One of the major contributors to the UK's carbon footprint and hence one of the biggest challenges to reaching Net-Zero is the country's built environment. PIC have a c.£1.74bn worth of direct real estate investments and the value of this section of the portfolio is reliant on its ability to adapt to the changing environmental conditions and ultimately contribute to a low carbon economy. 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.

To support our Net-Zero commitment, in 2022 we worked 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 retrospectively assess our existing portfolio assets in this sector to ensure they are aligned with our enhanced standards.

We have set minimum ESG Baseline Credentials that go above and beyond current regulatory standards. The key environmental metrics we measure include climate change, ground flooding, construction, energy in-use and embodied carbon.

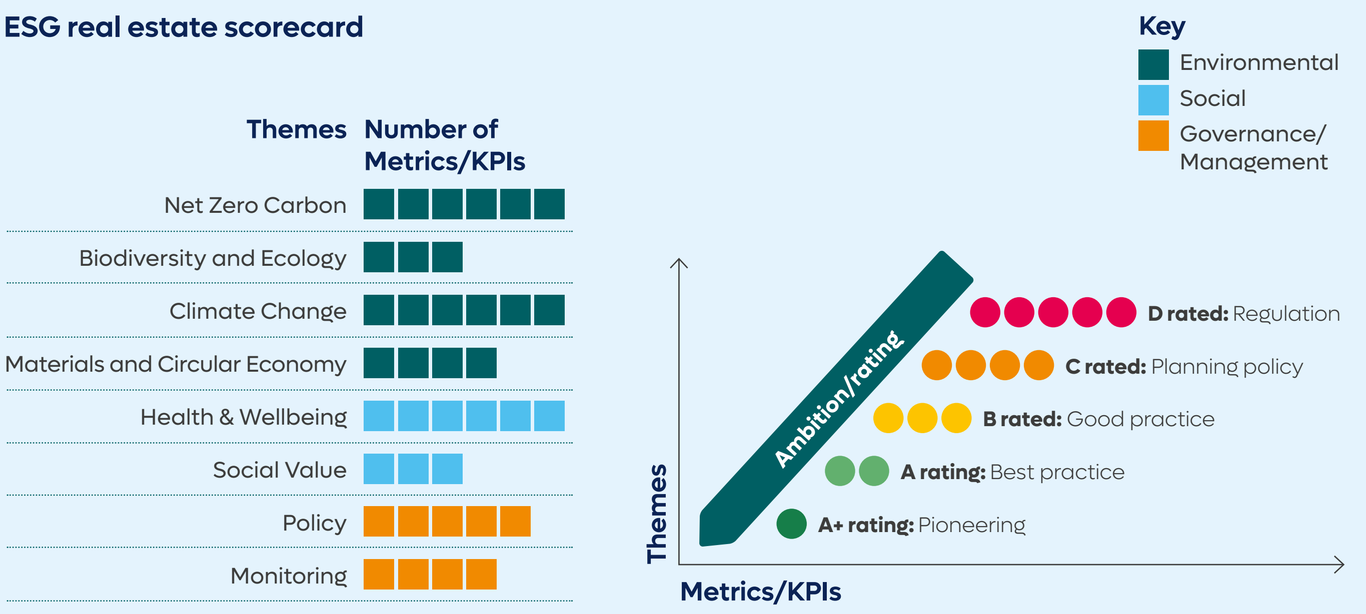
Through our due diligence process we allocate a Net-Zero carbon rating to each project using relevant KPIs such as:

- Embodied emissions;
- Net-Zero carbon in construction;
- Offsetting;
- EPC rating of building;
- Percentage carbon reduction;
- Modelling undertaken;
- Percentage demand from electricity;
- On-site energy generation; and
- Renewable energy procurement

The Net-Zero carbon rating is then combined with a range of other ESG rating themes to form an overall ESG rating for the project. So far, we have assessed the majority of our existing real estate investments and we are planning on engaging closely with our partners to ensure that all our investments achieve a minimum baseline score of B, which is two ratings below the top score of A+ as depicted in the following graph.

Importantly, where a developer or asset falls short of our standards, we identify these are specific target engagement topics and aim on working with the developer or management company to increase performance.

ESG real estate scorecard



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 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 as objective to own the approach to climate risk management and embed this in the organization.

We are working on improving our incentivisation of Stewardship in 2023 and this year members of the PIC Executive Committee have ESG Business Function objectives such as our Chief People Officer and Chief Strategy Officer, and where possible each relevant member is asked to specify detailed KPIs.

Staff are encouraged to attend the quarterly ESG engagement forum, which aims to inform the business about ESG issues including stewardship progress and updates. Examples of topics that included stewardship covered in 2022 are:

- Stewardship Policy in practice;
- ESG in the news including when a number of high-profile UK Stewardship Code signatories were removed (including 2 of our key asset managers);
- Engagement case study on a private placement covenant negotiations including ESG Requirements;
- PIC's Stewardship framework & 2-year ESG Engagement Strategy; and
- New ESG Engagement platform (covered in more detail in Principle 9).

The forum is open to all and the attendance counts towards CPD development hours. All staff are required to demonstrate their commitment to learning by completing at least 10 hours of CPD per year and over 100 employees attended and participated in the ESG engagement forum each quarter in 2022.

Diversity & Inclusion at PIC

A diverse workforce contributes to more successful outcomes through diversity of thought. Our approach to encouraging this is reflected through our values and culture and helps us deliver our purpose through continuous improvement and evolution. Employees at PIC can expect a safe, open, and transparent work environment. Our people are valued and recognised as individuals with the freedom to express and discuss issues that matter to them and society in an inclusive and informative way.

PIC's D&I Forum has three aims. These are to engage, educate and enable all employees to build and own an inclusive working environment. It does this through activities such as internal and external events, guest speakers and sponsorship of key diversity initiatives.

Engage

Demonstrate that PIC is a good corporate citizen by supporting worthwhile initiatives which align with our values and role model best practice as well as engaging with external partners who align with our values.

Educate

Educate, inform and inspire at all levels on how D&I contributes to a successful business, and promote PIC's D&I approach externally to attract talent.

Enable

Enable our current and future people to reach their full potential by providing opportunities and removing barriers.

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, PIC doesn't manage client's 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

Our regular business activities may give rise to potential conflicts of interests, in particular when PIC interacts with a Board of Trustees of a pension scheme which is looking to do business with PIC. The pension industry is a relatively small sub-sector of the wider Financial Services industry which can give rise to conflict surrounding fiduciary responsibility. For instance, a pension professional may have a Board or NED position on several pension related firms. These stewardship related conflicts of interest are managed through PIC's firm-wide Conflicts of Interest Policy.

PIC's Conflicts of Interest Policy

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 is reviewed at least annually.

Activity:

If there is a material conflict of interest with an external stakeholder, PIC will manage the conflict. This is particularly relevant where we are in contention for a new business opportunity where there may be a conflict with an existing shareholder or client. Managing the conflict may involve setting up special teams and sub-committees of the Board – such as illustrated in the upcoming outcome example.

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 Head of Legal 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 conflicting party within PIC from the process.

Outcome:

For example, on a recent potential new business transaction, it was identified early from the Directors' Interests that a PIC Board member was on the Board of the potential client's sponsoring company. To manage this conflict, PIC took the following actions:

- Set up an insider list for this company so only certain members of PIC would know the name of the client, to limit information flow which could otherwise get back to the Board member;
- Ensured all summary papers on new business pipeline that go to the Board were written so that the scheme remained unidentifiable;
- Put in place arrangements with the Company Secretary to ensure no papers that identify, or risk identifying, the company went to the Board;
- Notified the Board member that due to the conflict they would not be involved in any discussion on the scheme or company; and
- Spoke to the General Counsel at the other company to ensure they were aware of the conflict and agree that the Board member should not participate in discussions at PIC relating to that matter.

The above actions reflect the process that has now been adopted by PIC to manage conflicts of interest of a similar nature. There is an 'insider list' that is carefully managed by the Legal team for each potential new business transaction and every person on the list is kept updated on any new names added to the list, and is responsible for respecting and helping enable the process.

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.

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 cash flows 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 are Market risk and Climate risk.

These are key risks that can cause increased volatility and uncertainty which destabilises markets and directly affects our asset-liability modelling. Market and Climate risks both have wide spreading reach across all sectors we invest in. 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. Our strategy for managing these two risks is set out as follows.

Market Risk

The global economic outlook deteriorated through 2022 due to high inflation and low growth rates. Central banks globally are increasing interest rates to combat inflation, which is exacerbated by energy and food price shocks. Geopolitical risks are high across the globe, and in particular the Russian invasion of Ukraine continues, which has worsened Europe's energy security.

The impacts of these conditions on PIC as well as our peers in the Pension Risk Transfer (PRT) market can be both positive and negative. On the negative side, the current market conditions have resulted in higher risk of credit downgrades and defaults generally, although we have a defensively positioned portfolio. On the positive side, rising gilt yields improve the funding position of pension schemes which accelerates their ability to move to buyout – a positive for our new business prospecting. Higher yields also improve insurance and pension firms' solvency positions, hence offering further security to our policyholders.

We constantly monitor market conditions and have risk appetite limits set for PIC's exposure to market risks. This year, in the current high-risk environment, we have performed an in-depth analysis to assess the following:

- How our public credit holdings may respond in a recessionary environment;
- The potential solvency impact of our business in the event of a UK sovereign downgrade; and
- Our private credit exposure under the revised weaker macroeconomic outlook.

PIC ensures it holds excess capital to protect the business against market movements, downgrades and defaults, and we continue to refine our methodology for calculating the amount of capital to hold. In fact, in 2022 our Solvency ratio increased from 168% to 225% as at YE.

Case Study: LDI Crisis

Both interest and exchange rates have been volatile throughout 2022, particularly during September and October, when markets experienced significant movements due to the release of the UK government's 'mini-budget'. The resulting turmoil in Gilt markets, also referred to as the 'LDI crisis', tested the ability of defined benefit (DB) pension funds to meet their short-term financial obligations. The higher Gilt yields impacted the price of these assets meaning margins were called on any levered positions – a standard practice among pension schemes using Liability Driven Investment (LDI) strategies. The sheer speed of these yield and price moves however forced investors into an uncomfortable position as they were squeezed for liquidity. This drove investors to sell any asset which could provide quick cash and the flood of asset sales caused prices to fall further forcing schemes to have to sell even more assets – leading to an unprecedented spiral – until the Bank of England intervened to purchase Gilts and steady the markets.

Whilst we weren't directly exposed to the LDI funds at the heart of the crisis – which were very much a product used by DB schemes – we do use derivatives to help us more closely match our assets to our future pension cashflows. As a result, PIC was required to post liquid assets as collateral. Given we held sufficient liquidity, this allowed us to withstand shocks well and we were able to manage these operational challenges. As a result, PIC managed through the market disruption well, confirming that our existing operational capabilities are sufficiently robust.

We monitor our liquidity position on a weekly basis, and more frequently if market conditions warrant it. Following the LDI crisis, PIC undertook a "lessons learned" exercise and established an action plan to further increase PIC's business resilience to these types of shocks. Some of the lessons learnt were regarding management actions, and what additional actions could take place if a similar situation arises, how to obtain better management information, and how to maintain operational resilience to ensure optimal collateral management. PIC didn't breach any liquidity limits during the LDI crisis.

Climate Risk

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.

Mitigating Climate Change and associated risks was therefore 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 highest emitting companies a year, which is a commitment also given by all the members of the Net-Zero Asset Owner Alliance, an industry initiative we are members of. In 2022, we went beyond this number and had climate specific engagements with 35 portfolio companies within high emitting sectors such as Utilities, Basic Materials, Industrials & Energy.

PIC is one of 10 founding members of the Associate of British Insurer (ABI)'s Climate Change Roadmap working group, which aims to influence how our section of the industry can tackle climate change. The group has four thematic pillars 1) meeting Net Zero by 2050, 2) unleashing investment capacity, 3) sustainable industry operations, 4) helping society adapt. PIC has actively participated in the group by sharing how we are thinking about the transition to a low carbon world from the lens of a Bulk Purchase Annuity provider and how we are attempting to navigate decarbonising our portfolio and investing into climate solutions within a Matching Adjustment portfolio. As recommended by the group, we are using our position as investors to promote Net Zero across the full scope of our emissions. As an example, we recognise that quality climate data is missing within private markets and we have therefore made this our primary 'E' focused requests when engaging with private market investees and often a contractual requirement when agreeing private placement terms.

We feel that we have been effective in identifying two key market and systemic risks and have taken strong initial measures to mitigating these while working with industry peers to promote well-functioning, more stable and increasingly transparent markets.

Case Study: Working Alongside Another Investor to Incorporate ESG Objectives and Climate Reporting into a Private Lending Covenant

In October 2022, PIC completed a £102 million debt financing deal to support the delivery of new rolling stock to Corelink Rail Infrastructure Ltd, which included two new electric multiple unit fleets and one new diesel multiple unit fleet. The two new electric rail fleets are being built to help the UK's rail system transition towards an energy efficiency rail service, as the optimised fleet of electric trains will produce significantly lower levels of noise and exhaust gas pollution.

PIC worked closely with another large investor to agree on a comprehensive list of ESG criteria and requested that Corelink commit to ongoing reporting on these. The ESG criteria were linked with the sustainability metric disclosures required through SFDR reporting. Although PIC is not in scope of SFRD, the other investor was, and PIC felt that it should help promote reporting aligned to an industry accepted framework to help promote standardisation within the industry. This engagement resulted in the company agreeing to the new reporting requirements and both investors will now be able to better track the environmental and social impact of the asset.

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 ESG 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 3 categories and are highlighted in the table below. For example, PIC's Stewardship Policy is a Level 2 policy under the Level 1 Investment Policy:

Level 1 / 2 Policies	Level 3 Policies	Procedures
• 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 of 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)	• 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	• 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 ESG 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 Investment Policy and ESG 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: Stewardship Policy

In 2022 we published our first Stewardship Policy designed to set out PIC's approach to stewardship within its investment portfolio. This includes responsible allocation, management and oversight of capital to create long-term value as we fulfil our purpose, leading to sustainable benefits for the economy, the environment, society and all our stakeholders. The policy is updated on an annual basis, or more frequently if required, and any changes to policies are approved by the Board's Investment and Origination Committee. The policy can be found on our website **here**. The policy falls within the same review and governance process as detailed on the previous page.

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 2022, the Compliance team requested that PIC's Responsible Investing team provide evidence on how it planned on monitoring its progress towards climate change commitments. The Responsible Investing team were able to demonstrate its data-led approach as support for and progression towards its climate change commitments which were in line with industry best practices and TCFD disclosure recommendations.

Risk (Internal)

PIC's Risk Function reports the extent to which the risk management framework is operating satisfactorily and coordinated the risk management training program for PIC staff. PIC's Risk team have during 2022 successfully included climate change risk into the wider risk framework and received board level support for this from the Board Risk Committee. They are now working on developing climate risk appetite statements and climate risk metrics to monitor exposure levels.

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 2022, the Head of Responsible Investing provided a teach-in for key members of the Actuarial team to updated them on PIC's ESG positioning and further embed ESG within the business function.

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.

The Internal Audit team play a key role in assuring our ESG & stewardship activities as described in more detail as follows.

Case Study: Internal Audit of Responsible Investing

During 2022, PIC's Internal Audit team along with external subject matter experts from Grant Thornton completed a review of PIC's Responsible Investing department. The objective of this audit was to provide independent assurance that PIC's climate change and ESG strategy is progressing in the embedding of climate commitments through all business areas and that it is on target to achieve its short-term and longer-term environmental targets. The team's approach included an assessment of the accuracy of performance monitoring against internal environmental targets, and against standards set by the United Nations Principles for Responsible Investment (UNPRI), and the Net-Zero Asset Owner Alliance (NZ AOA). It also reviewed stewardship and engagement claims made given one of PIC's key drivers to attaining Net-Zero will be by using its influence on investee companies to align portfolio companies to Net-Zero.

The outcome of the report was positive and constructive with an overall rating of 'moderate improvements required'. The report did however recognise from the outset that PIC was at the relative infancy of its ESG journey and some climate change and ESG controls have not been fully established and were in the process of being developed. In the assessment of the integrity of reporting against targets, the Internal Audit team identified areas for further improvement that were considered by the Responsible Investing team as part of the 2022 TCFD and GHG reporting cycle. The proposed improvements included the assessment for potential formulae enhancements in reporting Partnership for Carbon Accounting Financials (PCAF) and GHG metrics and adopting a standardised reporting approach for Scope 1, 2 & 3 reporting. As at the end of 2022, these areas of improvements were all addressed and this can be evidenced in our 2022 TCFD report which is now published.

The Internal Audit team performed a review of the statements in this Stewardship Code Application and have concluded they are materially accurate and are supported with sufficient evidence.

Assurance over Stewardship Activities and Reporting

On a quarterly basis, a member of the Responsible Investing team 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. The logged engagements from the platform help feed into annual reporting such as our ESG report, Annual Report and TCFD reports. All three of these reports undergo a governance process which ensures that information provided is accurate and can be evidenced.

Our TCFD report, which was reviewed by our external auditors during the annual audit, lists our climate related company engagements on page 10. This disclosure demonstrates how PIC identifies, assesses and manages climate related risks – which is a disclosure requirement within both TCFD and the FCA's ESG Handbook.

The governance around this UK Stewardship Code Application is also a newly formed process which we established in order to provide assurance to the FRC 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 Responsible Investing. Following this, it was sent to the Corporate Affairs team and our Legal team for feedback. The ESG Oversight Forum members were sent a final version for comment. Meanwhile, the Internal Audit team performed their review of the report including matching claims and case studies with evidence.

External Audit

The work of the External Auditor provides further independent assurance on the internal control environment, as described in its reporting to the Audit Committee. 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 15 years, with a tendering process completed in 2016. The Audit Committee annually reviews the performance of the External Auditor, which in 2022 for the first time included within scope the reviewing our annual TCFD report. KPMG found a few areas where disclosures could be improved and Responsible Investing addressed and improved these in the final report.

External Consultancy Support

We have also engaged with third party industry specialists to help us with our ESG and climate work. In particular, we engaged the help of a consultant with experience helping industry peers with their stewardship reporting and policies. This allowed us to gain industry insight, align our actions with industry best practice, and ensure that our stewardship reporting was fair and balanced.

Case Study: ESG Data Quality Control

In 2022, we continued our efforts to understand the total impact of our business, including calculating the Scope 3 carbon emissions of our investment portfolio. We worked with an independent third party on a consulting basis to estimate the carbon intensity of 78% of our total portfolio.

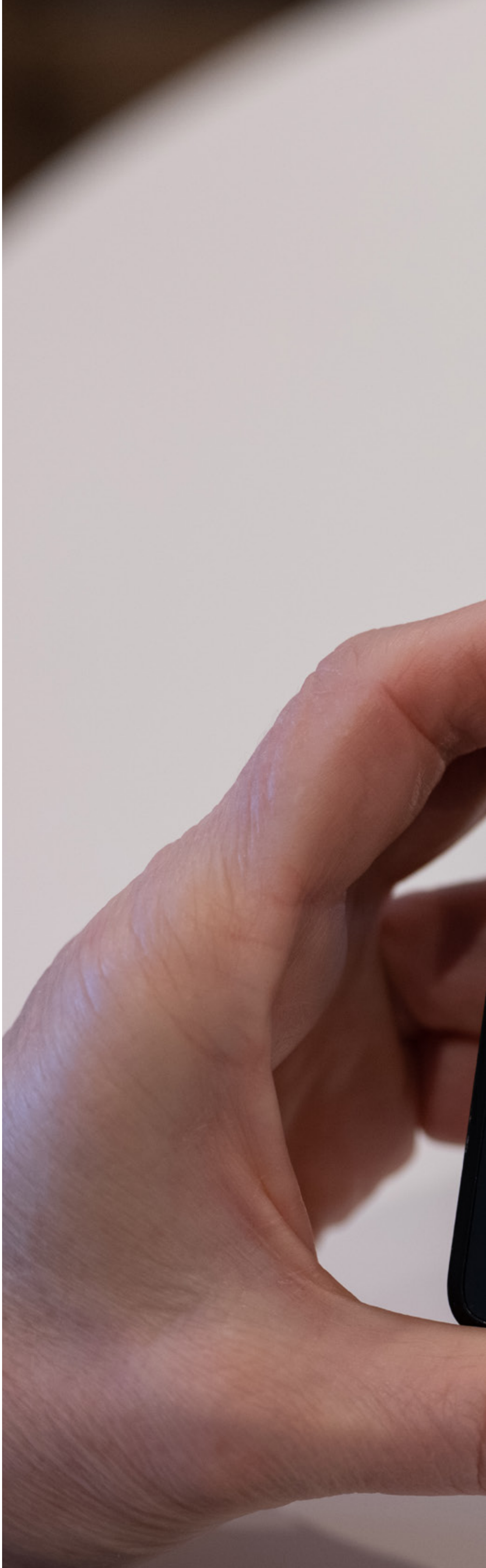
Where possible, we have adjusted our private markets emissions calculation methodology to align with the Partnership for Carbon Accounting Financials (PCAF) so that we adhere with industry best practice. PCAF also provides guidance on data quality scoring per asset class, facilitating data transparency and encouraging improvements to data quality in the medium and long term.

It is important that we have high quality climate data on our portfolio as this not only allows us to accurately monitor 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.

High quality data is essential to ensuring emissions are accurately calculated and are therefore a useful metric for key decision-makers. Our own reporting is reliant on our investee companies accurately sharing their emission calculations.

We support the call for increased data transparency and encourage others to do the same. For example, for our private market investments into housing associations, we continue to request that Housing Associations disclose all data in accordance with the voluntary Good Economy Sustainability Reporting Standards for Social Housing.

For our public credit holdings, we source our Climate data from MSCI and ESG Data from Sustainalytics. During 2022, we requested further information from both data providers regarding the data we received and challenged them on some of the underlying calculations and assumptions. It is important for us that we fully understand the methodology used by third party data providers and that we are comfortable and confident in their approach. In one specific case, we requested clarity from MSCI on their definition and calculation of a company's EVIC to ensure it was in-line with the definition used by PCAF so that we could confidently use the MSCI data within our PCAF methodology.



We set targets against what we can measure. This is why we have invested in measuring the footprint of our investment portfolio and our own operations. Climate and wider ESG considerations are embedded into our investment decision making process, and we seek specific climate data on the underlying assets we invest in.

We focus on the quality, robustness and comparability of the data in which we base these decisions, and we are committed to working with the industry to improve the availability and quality of climate related data.

Rob Groves

Chief Investment Officer, PIC

Principle 6

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

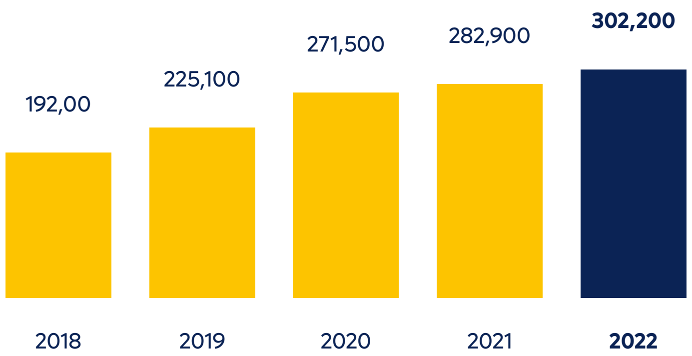
PIC provides tailored pension insurance buyouts and buy-ins to the trustees and sponsors of UK defined benefit pension schemes. A key part of fulfilling PIC's purpose is balancing the needs and requirements of all our stakeholders. Our main clients and beneficiaries are:

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

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 2022, we had 302,200 policyholders insured. Virtually all our policyholders are based in the UK and the map on the following page, which is included in our ESG report, helps illustrates PIC's social and economic reach across the UK.

Total number of policyholders insured[1]



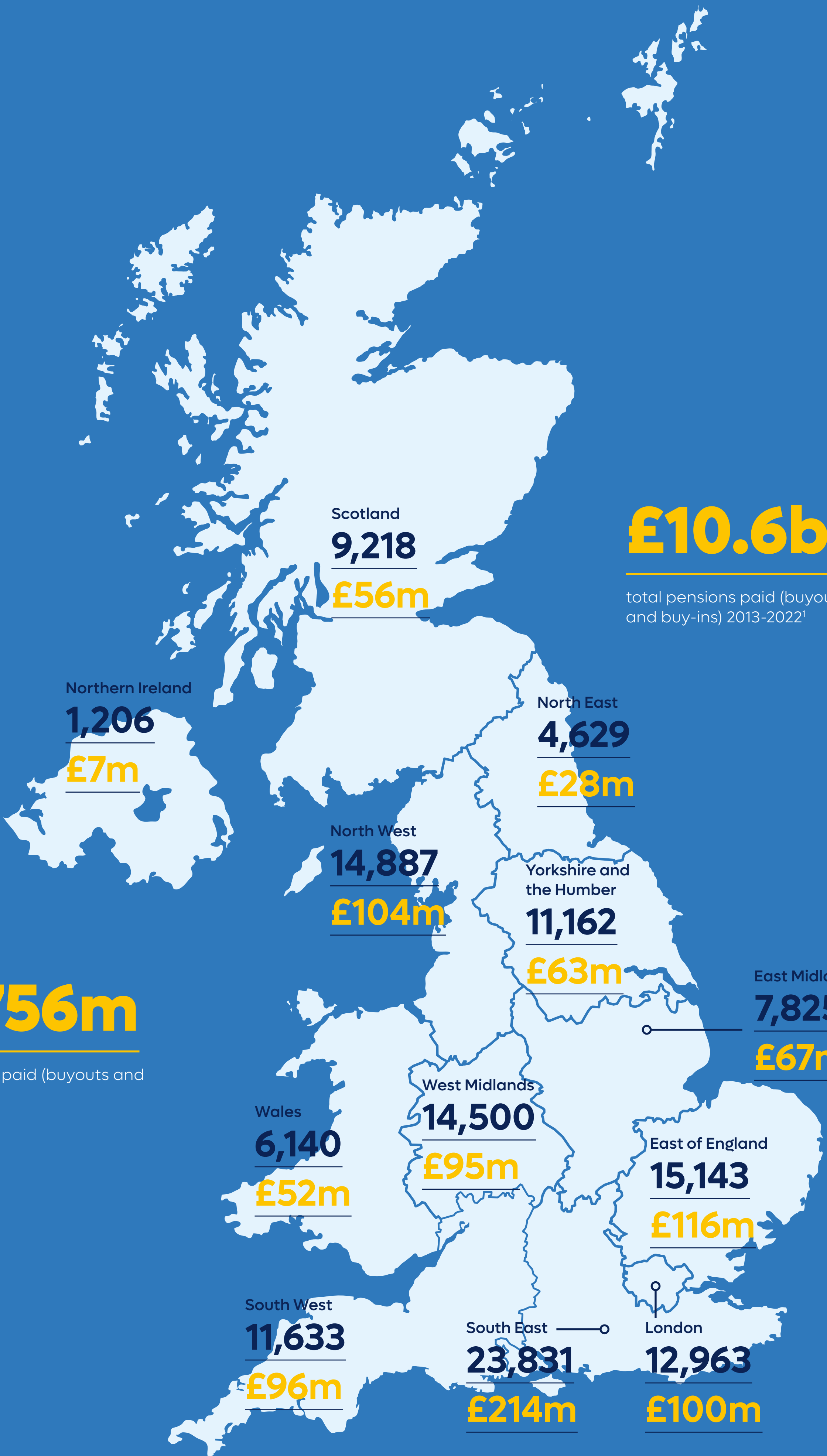
1. Cumulative figures.

The map opposite shows the value of the pension payments we make to our direct policyholders (44% of our total number of policyholders). These payments are broken down by the countries of the UK and the nine English regions.

Pensions paid over 10 years (buyouts and buy-ins) 2013–2022[1]

East Midlands	**£574m**
East of England	**£1,343m**
London	**£1,187m**
North East	**£336m**
North West	**£1,074m**
Northern Ireland	**£71m**
Scotland	**£612m**
South East	**£2,377m**
South West	**£1,009m**
Wales	**£394m**
West Midlands	**£995m**
Yorkshire and the Humber	**£602m**

Key
Number of policyholders 2022
Pensions paid (buyouts) 2022



£10.6bn

total pensions paid (buyouts and buy-ins) 2013-2022[1]

£1,756m

total pensions paid (buyouts and buy-ins) 2022

1. Total paid to policyholders from 2013 onwards. Amounts paid before 2022 have been adjusted for inflation.

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 – we therefore work hard to build a relationship of trust between us.

Pensions are a complex subject for most of our members, therefore PIC wants all communications with our policyholders to be best in class. We need to ensure we lay out all information and options clearly, so our policyholders can make the best decisions about their finances.

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 also 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, ESG 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 the PIC culture and are in keeping with our purpose and values as covered in Principle 1.

PIC makes strong efforts to gather 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 delivered on time, that our investments are socially valuable, and that PIC maintains great customer service and customer outcomes, alongside a transparent resolution system when a dispute arises, or complaint is received. 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 ESG reports and within the presentations at Policyholder events.

Key 2022 policyholder outcomes:

Evidencing the effectiveness of our methods, PIC has been recognised for its focus on customer service through several industry highlights:

- PIC was re-accredited with the Institute of Customer Service (www.instituteofcustomerservice.com) ServiceMark with Distinction. ServiceMark is a national standard, independently recognising an organisation's achievement in customer service and its commitment to upholding those standards. ServiceMark with Distinction is the highest level achievable with the Institute – to put this into context PIC are one of only 20 companies[1] in the UK to achieve this accolade.
- Institute of Customer Service feedback based on policyholder feedback places PIC as the most highly rated insurer in the country for customer service.
- Awarded Investors in People – Silver.
- Shortlisted for two Institute of Customer Service Awards.

PIC has shown that it is committed to improving its customer service offering and customer outcomes… PIC's strong ethos of serving their customers is the reasons that they continue to demonstrate leadership.

Jo Causon

CEO of the Institute of Customer Service, ServiceMark with Distinction assessment

PIC's Assets

PIC's total investment portfolio as at 31 December 2022 stood at £41bn. Due to the nature of our business, we fully take on the risk of the investments we make by guaranteeing the level of payments to the policyholders whose pensions we insure. As a long-term buy and hold investor with average liability duration of 12.2 years (as at 30 of June 2022), we invest in a mix of public credit and privately sourced debt to back 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 2022)

Debt securities – Government	**32.0%**
Debt securities – Corporate	**36.9%**
Debt securities – Private investments	**16.0%**
Equity release mortgages	**2.5%**
Mortgage backed and other asset backed securities	**0.6%**
Participation in investment schemes	**9.8%**
Deposits with credit institutions	**2.2%**

Corporate securities and private investments split by country/region of issuance

Country	**Market value 2022 (£m)**	Market value 2021 (£m)	**2022 %**	2021 %
UK	**9,794**	14,058	**45.3**	50.9
US	**6,666**	8,013	**30.8**	29.0
Europe (ex UK)	**3,500**	3,797	**16.2**	13.7
Rest of world	**1,668**	1,780	**7.7**	6.4
Total	**21,628**	27,648	**100**	100

[1] Source: **https://www.instituteofcustomerservice.com/membership/members/?_member_list_accreditations=1&_member_list_distinction=1**

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 assets are generally found within private markets and often characterised by being asset backed, relatively low risk and providing inflation-linked cashflows. Examples of these are debt investments with local authorities, social infrastructure, renewable energy, and education facilities.

These types of investments have the advantage of providing us with stable and secure cash flows 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 cash flow match all our future projected pension payments by the month, so sourcing these types of cash flows is crucial to us fulfilling our purpose.

At the same time, the profile of these types of investments has the added benefit of creating significant social value. For example, we currently have more than 1,000 people working on our construction sites across the UK, including at our £130 million development in the Wirrall; we've funded enough social housing since our inception in 2006 to accommodate more than 130,000 people, equivalent to the population of Watford; and we hold our built environment developers to very high standards on ESG grounds. This can be shown through our proprietary ESG rating system developed with specialist Buro Happold and applied to our Real Assets portfolio, such as our Manchester First Street development.

Our £200 million Build-to-Rent project in the centre of Birmingham, announced in November 2022, will create over 300 new jobs. We also have plans with the developer, Court Collaboration, to create a student academy, which is intended to allow hundreds of local students to develop their skills and knowledge with the aim of improving their future employment prospects. The programme will include work placements and on-site course opportunities and experience.

We constantly evolve the composition of the portfolio and new sectors for this year include the development of a retirement community in St Albans, a joint venture with Octopus Real Estates and Elysian Residences, as well a £102 million investment in new rolling stock to support the West Midlands rail franchise.

Some other examples of PIC's private investments are presented opposite:

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

Investing £130 million in the North West of England

UK's largest urban regeneration project and a key part of the levelling up agenda.

Funding emergency accommodation in Bromley

PIC's £67 million investment in an innovative affordable housing deal with the London Borough of Bromley.

Manchester New Victoria Build-to-Rent development

PIC invested £130 million in the Company's first private rental sector ('PRS') project, New Victoria, in central Manchester.

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. We understand through discussions with Trustees 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. Good ESG credentials is also a criterion increasingly focused on and our Head of Responsible Investing is often invited to speak at annual Trustee review meetings. ESG related questions from Trustees and pursuing discussions have often centred around ESG Integration and our approach to Climate Change, however we have also been asked about our Stewardship approach such as our priority engagement topics.

PIC treats each deal as unique, acknowledging each as the start of a lifelong relationship. Transferring pension risk from company balance sheets to specialist companies like PIC allows the company to focus on their main line of business. 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. The feedback we have received so far demonstrates that this method has been effective and our personal relationships are a valued piece of our service.

Indeed, apart from providing financial security through comprehensive risk management, the Trustees have fed back that they place value on PIC's approach not being transactional. Trustees value that we offer good customer service and that we are easy to do business with. 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.

Other qualities Trustees have told us they value in working with us:

- **Our people**

  PIC employs highly skilled individuals who work to deliver a common purpose, supported by a culture of innovation and a strong set of values. PIC has always invested heavily in making our workplace an attractive and rewarding place to work. We succeed by employing high quality individuals and then providing the support mechanisms to allow them to grow. We feel that by fostering a collaborative people-focused culture, this will be reflected in the service they provide to policyholders and trustee clients.

- **Our strong and honest reputation**

  PIC prides itself on its reputation. Our reputation means that our policyholders, clients, employees and partners, current and future, can be sure that they will be dealing with a company grounded in strong values, delivering value for its stakeholders. We have spent 15 years building a reputation of honesty and are pleased this is being reflected in the service we provide and feedback we receive.

Investment Managers Following Stewardship & Investment Policies

We work with a few key asset managers in managing a portion of our assets. Our managers each have specific Investment Management Agreements with us, which reflect our investment policy, and specific investment objectives we have mandated them with. Our managers are also required to be UN PRI signatories and are asked to provide us with bespoke ESG quarterly reporting and adhere to our Stewardship Policy.

During 2022 our external managers have followed our Stewardship and Investment Policies. They also generally provided us with the information we require on ESG and engagement and, after some iteration and collaboration, we are now satisfied with our managers' ESG reporting. Where we find the reporting is not meeting our expectations, we engage with our managers to work towards a resolution, as outlined in the JP Morgan case study under Principle 8.

Principle 7

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

Prioritised Issues when Assessing Investments

ESG factors are given early consideration in our investment process and are an intrinsic component of our thorough due diligence. Whether we manage investments directly or indirectly (through managers), we ensure that ESG factors are factored in. This means that from the initial due diligence phase or manager selection, relevant ESG questions are asked, and responses assessed.

Our top priority ESG 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 ESG topics such as Net Zero commitments and Climate data disclosures. ESG 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 being invested into, as explained below.

Corporate Bonds

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

Where possible, we use third-party ESG data vendors 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 duration we would be comfortable taking.

The theory behind our investment process is below:

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

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.

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).

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 demonstrate a track record of doing so. It is important that our managers are responsible stewards of their clients' capital, as our reputation can be directly linked with their actions.
- Given we have specific mandates with each manager, the application of ESG criteria will vary between them. Each of our managers have their own in-house ESG integration and stewardship framework which is used when establishing our investment universe.
- 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, such as the Schroders coal case study noted below in Principle 8, 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 into listed companies, we use data from our various data sources such as Sustainalytics, Bloomberg, Credit Sights, rating agencies and the company's public sustainability reports to analyse exposure to ESG risks.
- For our private debt investments into unlisted organisations, we liaise directly with the issuer to determine their ESG position and attribute an in-house risk score. The process typically runs in the following way:
  - a) Where possible we send sector specific ESG questionnaires which assess individual factors 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. Absent any unusual events, we review this rating on an annual basis as part of our ongoing monitoring. Our internal ratings are established by our Credit Research team who are working on further enhancing our framework and will progress this in 2023.
  - c) We engage with each organisation on responses given, and work with them on setting targets where we feel material ESG risks have been identified and not sufficiently addressed. Most of our private market companies are receptive to our ESG questioning and open to furthering the discussion through engagement.
  - d) We record our engagements on our proprietary ESG Engagement Platform so that these can be tracked and monitored over time. Members of the Responsible Investing, Public Credit, Credit Research and Debt Origination teams can access the platform at any time and are the main users of the information given they perform our direct engagements. Our engagement statistics and any particularly interesting case studies are communicated to the wider investment team at the monthly ESG Oversight Forum and to all PIC employees at the quarterly ESG Engagement Forum.

Real Estate Assets

PIC's real estate portfolio is growing rapidly, and we see this as an opportune moment to establish strong stewardship within the foundation of our investment process in this asset class. We have created, along with a third-party specialist consultant Buro Happold, a proprietary rating system to assess ESG credentials across PIC's real estate portfolio. The standards within our approach go beyond the regulatory minimum, as described in the Buro Happold case study (outlined in more detail in our response on Principle 2).

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 very high environmental standards.

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.

Differing Geographies

We understand that ESG integration and stewardship will often have different requirements for different geographies. One such example is the proprietary Emerging Markets country scores we receive from JP Morgan, who manage an Emerging Markets debt portfolio for us. 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.

Furthermore, our Country Risk Framework 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 based purely on the Sovereign credit rating.

While Spain is not generally considered to be an emerging market, we have applied the principles learned from JP Morgan's management of our Emerging Markets debt portfolio to a potential investment into a Spanish football club's stadium. We decided not to proceed with this investment specifically due to the limitations of the club's governance process, which our Investment Committee were not comfortable with.

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	ESG reporting	Stewardship and Engagement	Industry participant:	Climate Change
Within all investment processes including within manager selection	Manager bespoke quarterly ESG reporting, yearly PIC ESG report, TCFD, UN PRI transparency report, Net Zero Progress Report	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

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 2022, we tightened the wording specifically around coal exclusion within our Investment Management Agreements (IMAs) and performed an intensive review of any portfolio holdings that broke our 10% revenue threshold. We have put the following process in place for our managers to engage with a company that does not comply with our coal and tar sands investment restrictions:

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 assets whereby the company management was not willing to engage on the topic of decreasing their coal holdings
3. Sell any assets that do not have a credible plan to meet our threshold

Given decarbonisation actions taken in previous years, we entered 2022 with only a handful of portfolio holdings which had coal exposure breaching our threshold. From those companies, we have engaged with four over the course of last year. All except one have credible plans in place that should align them with our 2025 target, and in many cases the company no longer has any coal exposure. We will keep these holdings in the portfolio and review them each year to ensure satisfactory progress of their plans. Additionally, we are committed to engaging with companies that are not aligned with our goal of reducing coal usage by 2025.

Case Study:
Coal Policy in Action

We were presented with the opportunity to invest in a Comision Federal de Electricidad Bond issued by the government in Mexico. As part of our due diligence, we consulted our partner analyst JP Morgan to assess the bond. Even though the bond's revenue exposure from coal was below our 10% parameter, we decided not to invest as the company did not have ambitious or proactive plans to decarbonise any further and did not align with our decarbonisation investment objectives.

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 2022, 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 managers have remained A+ or equivalent star rating UN PRI signatories.

Reporting

Activity

We require quarterly bespoke reporting from our managers, and this includes climate disclosures. We have worked closely with our managers in 2022 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 Schroders Energy Sector analyst 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.
- Climate Transition Plans – how to assess their credibility and how we should go about setting our own.
- How to account for sovereign emissions as part of our own financed emissions.
- Our risk appetite for social bonds being issued by countries with poor human rights records.

Annual Review of External Managers

Activity

In 2022, PIC's Investment and Origination Committee (IOC) considered the annual review of PIC's external managers who manage portfolios that back liabilities against each mandate and the service provided to the Group.

Outcome

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

Case Study: On-going Dialogue with JP Morgan Regarding ESG & Stewardship Reporting

Our managers are asked to provide us with bespoke quarterly ESG Reporting which includes stewardship actions undertaken with any of our portfolio companies during the quarter. We discussed closely with JP Morgan, who manages our Emerging Market (EM) Debt portfolio, on what such reporting should include. Given the portfolio is a mix of EM sovereign and corporate holdings, the reporting and engagement process was not as straightforward as with other managers. We wanted to better understand how JP Morgan engaged with EM holdings and our relationship manager organised a one-on-one meeting with JP Morgan's Global Head of Stewardship. Through this meeting we were able to gain better insight into JP Morgan's engagement strategy and understand how a more centralised approach would be adopted going forward.

We communicated our engagement priorities, as discussed and outlined under Principle 9, to JP Morgan and asked to be updated on a quarterly basis within the regular reporting cycle. Getting to a place where the engagement reporting was in line with our expectations involved an iterative and collaborative process with JP Morgan, and we followed up with our relationship manager when the reporting initially fell short of our expectations. They were able to provide us with a few excellent in-depth examples such as an engagement with a Mexican state-owned oil company, however that company wasn't part of a list of companies we had originally requested. At year end, after continued dialogue with JP Morgan, they provided us with the exact reporting we required, together with a list of 10 holdings they had engaged on, the topic discussed, and outcomes reached. We have been clear on our expectations for 2023 and look forward to more detailed stewardship reporting going forward.

Third Party Management

PIC's business model relies on various service providers and outsourcers to deliver a large proportion of its critical functions 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.

PIC has a Procurement and Outsourcing Policy which defines the minimum requirements for the selection and appointment of suppliers and ensures that only approved suppliers undertake work on PIC's behalf. This helps ensure that suppliers can best meet PIC's needs.

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. Service and supplier risk assessment form.

Additional forms related to data privacy and security are completed, as applicable, and further background checks are conducted as part of PIC's due diligence for its onboarding process. PIC is currently working on introducing ESG questions into the tender process for all suppliers and inputting ESG clauses into future contracts with suppliers.

Outcome

In 2022 we have incorporated certain environmental commitments in agreement with our legal panel. Those included, for example:

- Complying with all applicable environmental laws and regulations;
- Taking all reasonable steps to reach science-based target to reduce emissions; and
- Maintaining and regularly reviewing the internal environmental policy.

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.

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 it is in our interest to engage with issuers to ensure more sustainable practices are undertaken within the issuers' firms.

ESG engagement describes the interaction between investors and issuers. PIC has implemented active engagement with investee companies across public credit and private debt investments on material sustainability issues.

Active engagement is at the heart of our business and is a core pillar of our Stewardship Policy. 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. Dialogue for investment purposes: 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 achieve a change in corporate behaviour. This is a two-way dialogue meaning we do not talk at companies, we talk with them.

Our engagement approach has been carefully crafted around our purpose of paying our policyholders. It encourages 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 fulfil that purpose.

PIC's Engagement Strategy

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

PIC received Board-level support from the ESG Committee 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 direct investments (e.g. housing associations, education facilities and other private market investments), PIC will engage where possible directly with organisations both at the point of capital raise and during the tenure of the investment on various ESG-related issues material to PIC. In-person engagements are preferred as we feel these are the most authentic. When undertaking direct engagements, PIC analysts are most likely to use this engagement method.

For indirect holdings, PIC works closely with external managers to set engagement expectations and targets. Managers are expected to report back to PIC on their engagement actions on either a quarterly or half yearly basis depending on the manager. PIC prefers its managers to engage in-person or through a virtual meeting, however, we appreciate this is not always possible. For larger scale engagements on certain topics, such as modern slavery, we support a written method of engagement to begin the process and expect this to be followed up by in-person or virtual meetings. Our larger scale engagements are generally done via our managers. 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 5-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, as we see this as a key area of risk for our business. Environmental related topics discussed both via managers and directly by PIC during 2022 are:

- 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 of its highest emitters on a yearly basis. Details of our engagements are published yearly in our TCFD report. In 2022 we surpassed this target by having engaged either directly or via our managers with 35 of our highest emitters.

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 – 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
- Labour standards
- Human rights
- Human capital

A brief description of how these different areas of engagement are managed through our different channels has been outlined below.

External Managers

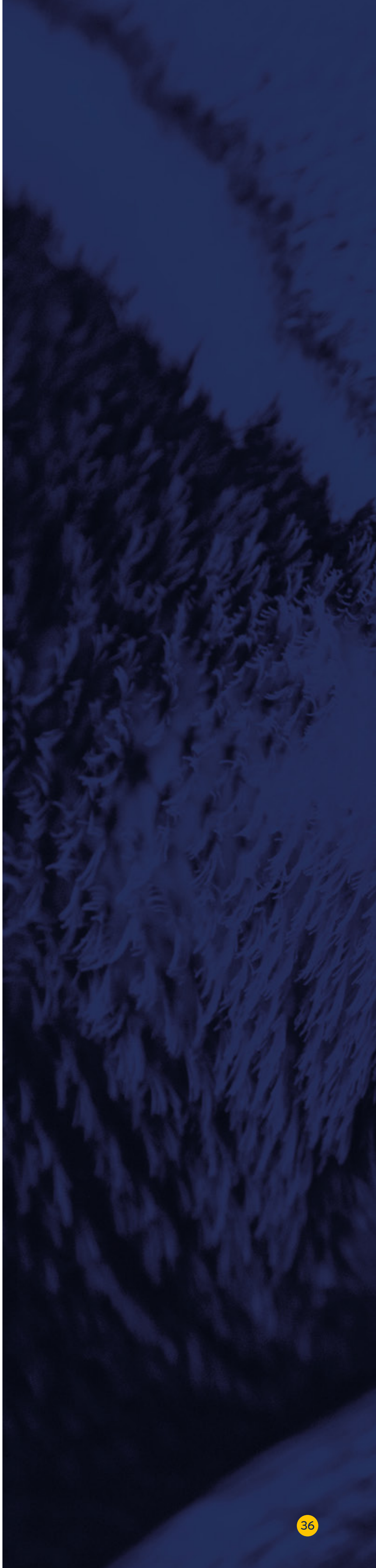
PIC's two main external managers of the public credit portfolio are Schroders and JPMorgan, and we leverage their scale, ESG expertise and stewardship resources to effectively engage with companies on our behalf. At the start of 2022, PIC shared a focus list of companies for environmental and social engagements with both managers.

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. PIC makes its focus list of 20 based on its carbon intensity data, as provided by MSCI.

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, we have identified the Manufacturing industry as a 'high risk' sector for Human Trafficking and Human Rights abuse given its reliance on supply chains and Emerging Market exposure. We have looked through our manufacturing sector exposure and highlighted meaningful portfolio holdings which also have had recent 'Social' related controversies as identified by Sustainalytics.

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	Public Credit, Debt Origination & Responsible Investing	Real Assets, Investment Strategy, Responsible Investing	Responsible Investing
		Environmental		
Topic	Climate engagements with our highest emitting public credit investments	Various - including climate data reporting and alignment to Net Zero	E factors within the Built Environment	N/A
Desired Outcome	The company to be receptive and open about committing to align their operations towards the Paris Agreement and Net Zero		The developer maintaining high standards towards the environmental impact of the construction and operational phases. Successful outcome demonstrated through increase in Buro Happold proprietary rating score	N/A
Example KPIs	Public disclosure of: • Climate commitments including Net Zero • Decarbonisation targets • Carbon metric disclosure • Climate strategy		Embodied emissions, EPC ratings, building regulations 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	S 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		G factors within the built environment	N/A
Desired Outcome	Companies demonstrating strong governance structures within its operations and are maintaining up to date policies relevant to governance		Developers are ensuring they maintain up to date and relevant policies relating to governance, sustainable procurement, health and safety, diversity and inclusion and anti-bribery and money laundering. Successful outcome demonstrated through increase in Buro Happold proprietary rating score	N/A
Example KPIs	Public disclosure policies relating to: • Health and Safety & Wellbeing; • Diversity and inclusion policy; • Building Safety; and • Anti Bribery and Money Laundering • Governance strategy		Evidence of policies related to: • Sustainable procurement; • Modern Slavery; • Health, Safety & Wellbeing; • Diversity and inclusion policy; • Building Safety; and • Anti Bribery and Money Laundering Evidence of effective building monitoring including energy meters and green building certificates.	N/A

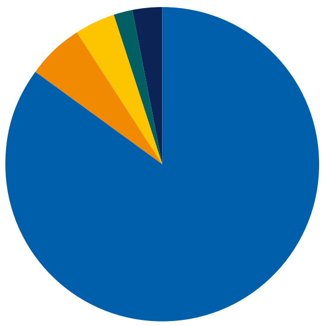
Measuring our Engagement Progress

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.

In 2022, PIC developed its first central 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 PIC Credit Analyst from the Public Credit, Credit Research and Debt Origination teams as well as the Responsible Investing team.

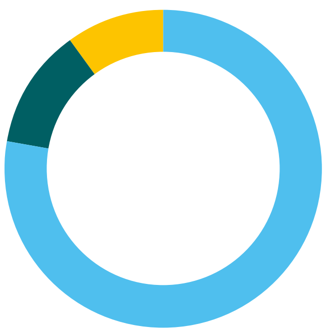
Despite the platform only being built mid-way through the year, in 2022 we recorded a total of 80 engagements with issuers on ESG. The chart below displays the breakdown of these by ESG focus. A significant proportion of engagements were predominately environmentally focused, in line with PIC's NZ AOA commitments to engage with our highest emitters.

Engagement focus breakdown (2022)



E	85%
S	6%
E+S	4%
S+G	2%
E+S+G	3%

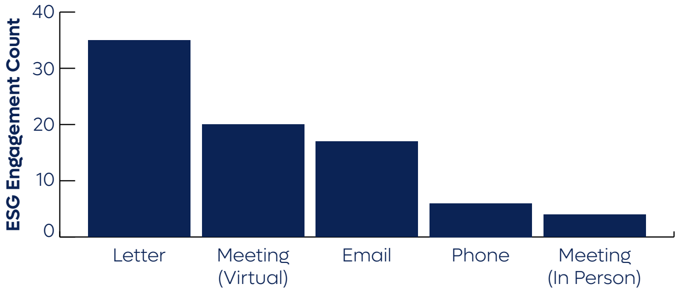
Most engagements were conducted by PIC'S external managers as displayed in the chart below:



Schroders = 64	78.05%
JPM = 10	12.2%
Internal = 8	9.76%

Note that our direct engagements were only recorded from Q4 2022 and will continue going forward.

The graph below shows the breakdown of engagement types across the year.



Following the engagement results from 2022, PIC plans to increase the proportion of socially focused engagements significantly in 2023.

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 public credit engagement is largely outsourced to our external managers, where our private debt and real assets are engaged with differently and more directly.

While we outsource our engagement on public credit to our external managers, we have a more direct approach with our real estate assets. Where possible we prefer to have as direct and engagement approach as possible whilst leveraging the expertise and resource of specialist firms, such as Buro Happold. Our engagement process across different asset classes will become 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 above.

PIC primarily invests directly rather than through funds, although there is some minor fund exposure where shareholder 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 EM investments, have adapted their engagement approach to different geographies where needed. A good example of this is JP Morgan who hold both EM 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. JP Morgan'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 2022 is outlined in the following case studies.

JP Morgan Engagement on Exposure to the Xinjiang Uyghur Autonomous Region (External Manager)

Activity

In November 2022, PIC received concerns from one of our investors on our exposure to the Xinjiang Uyghur Autonomous Region (XUAR). This is a region that has received allegations of forced labour and human right violations[2]. PIC decided to investigate this matter further as we felt it was important to understand how our investments were exposed to an area connected to high human rights controversies. PIC requested JPMorgan to calculate the portfolio exposure to XUAR, focusing on those holdings with operations in Asia and therefore a higher chance of direct exposure to the region. Following this, we set up a meeting with JPMorgan to discuss our direct and indirect portfolio exposure to the region and receive ESG comments from the analysts.

Outcome

It was confirmed that PIC had a small direct exposure to XUAR identified via a multinational motor vehicle manufacturer which operates a plant in the region via its supply chain.

JPMorgan, on PIC's behalf, engaged directly with the automobile manufacturer, who confirmed that it had an explicit commitment to no forced labour within its supply chain and had implemented human rights due diligence efforts, including site audits. At the time of the engagement, approximately 60 Uyghurs worked at the manufacturing site in Xinjiang. All employees were hired directly and not hired via a state-sponsored labour transfer program. The Uyghur employees had been at the site since its establishment in 2013, before allegations of forced labour in the region began to surface. PIC decided to retain the investment but requested that JP Morgan monitor the situation closely.

In the case of bond investments with revenues that originate from the XUAR region (indirect exposure), it was confirmed that there were 12 small emerging positions within the PIC portfolio, with the largest weight equivalent to < 0.15% of PIC's total Assets. In all case the percentage of revenues linked to the XUAR was deemed to be low (<2% of issuer revenues). Given these exposure levels, PIC decided to hold and monitor the positions.

Engagement on ESG with Stellar, a Student Accommodation Asset Following an Amendment, Waiver or Consent (AWC) Request (PIC Direct)

Activity

In July 2022, PIC received a covenant waiver request from a student accommodation provider with which we have a long-standing relationship. PIC engaged with the provider on various financial aspects and specifically saw this as an opportunity to use our influence to request disclosure around ESG metrics.

Outcome

PIC agreed to the waiver request, subject to the provider improving its ESG reporting, with the requirement to complete PIC's specific ESG student accommodation questionnaire on an annual basis. The provider agreed to PIC's ESG terms. This is the first instance where PIC actively requested improved ESG reporting as part of a covenant re-negotiation process. Since then, we have looked to actively include ESG criteria within initial covenant agreements with new investees and in any AWC negotiations.

[2] Policy Brief: Uyghurs for sale: 'Re-education, forced labour and surveillance beyond Xinjiang, ASPI, 2020.

Engagement with London Borough of Newham on Environmental Performance Data and Energy Efficiency (PIC Direct)

Activity

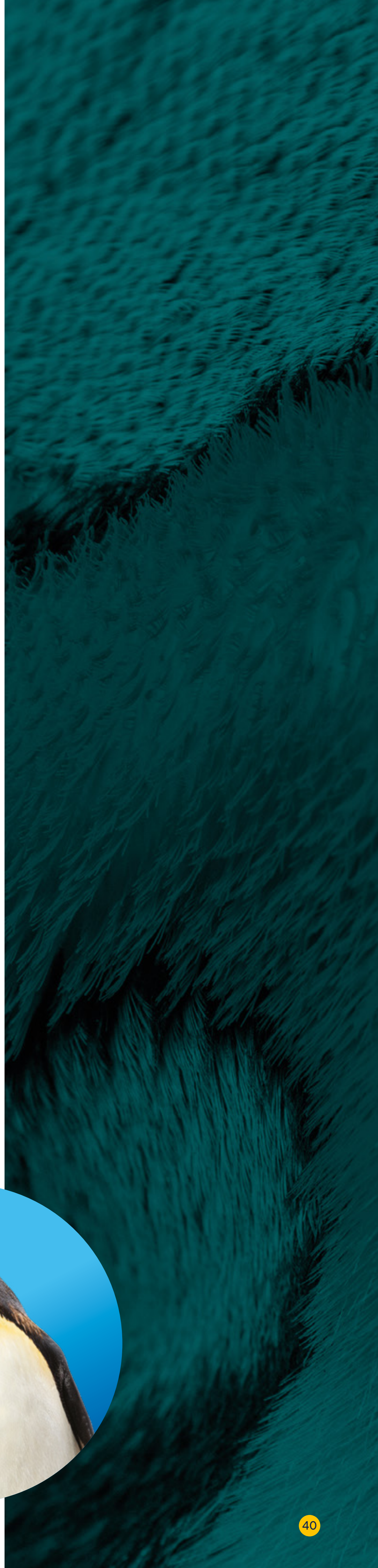
In March 2022, PIC has made a £83 million investment in partnership with the London Borough of Newham ('LBN') to fund the construction of 161 homes, as part of LBN's housing strategy, which seeks to actively manage the financial and social implications of the area's housing shortfall. The investment funded the regeneration of a brownfield, industrial site near London City Airport to permanently re-home local families, with up to 50% of the properties intended to be affordable housing, generating considerable social value.

A key part of this investment was including PIC's recently developed first green lease clause. The clause aims to maintain high ESG standards across our real asset investments, for example, by guaranteeing access to essential information for continuous monitoring of the building's environmental performance throughout the entire duration of the lease. Additionally, the clause includes provisions that allow PIC to implement necessary improvements to the building over time. The green lease clause was formed in conjunction with PIC's external lawyers and requires the borrower to provide:

- Energy performance certificates,
- Environmental performance data[3],
- Access to the property to assess environmental performance,
- The ability to propose and implement works to improve the energy efficiency of the buildings over the term of the lease.

Outcome

PIC was able to include its green lease clause within its lease document for Newham development, setting a precedent for incorporating similar clauses in all future long-income investments. This will help us ensure that the assets are aligned to PIC's high ESG standards and allow the optionality to improve the buildings over time to ensure they remain 'best in class'.



[3] Environmental performance includes the consumption of energy and associated generation of greenhouse gas emissions, the consumption of water, waste generation and management, and any other environmental impact arising from the use or operation of the Property.

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.

NZ 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.

ABI Climate Change Working Group

PIC is a member of the ABI's climate change working group and is an active contributor to this group. In particular, PIC has contributed to the ABI's Climate Change Roadmap publishing, which focuses on collaborative member action to help halve emissions by 2030 and reach Net Zero by 2050. The Climate Change Roadmap was developed by ten leading insurance and long-term savings companies, including PIC, that together held over £1.26tn in invested assets.

The group has four thematic pillars:

1. Meeting Net Zero by 2050;
2. Unleashing investment capacity;
3. 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.

In addition, the roadmap intended to:

- Set out the commitments our sector is making to tackle climate change;
- Confirm how we will make further progress and how we can measure its impact;
- Allow ABI members to understand what good practice on climate change and environmental sustainability looks like;
- Identify where collective action across the sector and collaboration with policymakers, regulators, other sectors and industry partners can drive further change;
- Identify actions the UK Government and UK regulators can take to maximise the impact of industry action and enable us to do more while continuing to provide essential insurance and long-term savings products that keep society financially resilient;
- Allow scrutiny of our approach and enable the many stakeholders we work with to identify where we could make stronger commitments or take more action.

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. This collaborative engagement led directly to the creation of the ABI's climate change roadmap which will help the industry decarbonise its investment portfolios.

UN PRI Advance Collaborative Engagement

PIC is a signatory to the UN PRI and in September 2022, as part of PIC's engagement strategy, it 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;
- 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 will primarily seek change through investors' use of influence with portfolio companies.

Within the initiative, the PRI will support a range of activities, including investor collaborative engagement with companies, along with potential further escalation where needed. The PRI will also support investor engagement with policymakers and other stakeholders to make progress on the overall goal.

Engagement has started with 40 companies in the metals & mining and renewables sector, of which PIC is invested in several. The initiative was officially launched on the 1st December 2022 and PIC was allocated, along with 6 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.

PIC had not previously been a part of a collaborative engagement group with a social focus. PIC feels it can have more successful and meaningful engagements with publicly listed investee companies as part of the investor lead UN PRI Advance initiative for human right and social issues.

The PRI expect that activities such as sending investor letters and holding company engagement meetings will form part of the engagement. Ultimately, it is the responsibility of the Lead and Collaborating Investors to develop an engagement strategy that is suitably ambitious and effective to drive change around the objectives of the initiative.

As we progress with our newfound collaborations we hope that these will lead to positive engagements and outcomes over the course of 2023.

Principle 11

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

Stewardship Escalation Policy

PIC knows that it is important to escalate stewardship activities where influence is not proving effective. In our Stewardship Policy we address this topic. The policy specifies that if improvements by issuers are not made despite multiple engagement efforts within a period of 18 months, PIC and its asset managers will then consider forms of escalation. We require that our asset managers escalate the ESG concern in a proactive and effective way and they are mandated to report back any new information or evidence to PIC. PIC will also consider escalating a matter by collaboration with groups such as the ABI's Climate Change group or Net Zero Asset Owners Alliance engagement groups.

Divestment is only considered by PIC if escalation has not been successful, given we believe divestment only offloads the problem rather than rectifying it.

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. An example case study has been outlined below.

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 as described in the case study on the built environment below.

Case Study: Schroders Escalating Engagements with Oil and Gas Companies

Schroders manage a large portion of our public credit portfolio and hold material equity holdings in many companies where we own their debt.

A robust decarbonisation trajectory at large oil and gas companies is critical to achieving net zero ambitions. PIC and Schroders have a long history of engaging with such companies on their transition plans, given the considerable contribution these companies can make to emissions reduction, through their own operations and the products they sell.

One such key engagement target is Shell, with a large proportion of discussions focused on climate change. Initially, Schroders sent a letter to the chair of the board and CEO setting out our net zero expectations. This letter requested:

- An ambition to achieve net zero emissions by 2050 or sooner.
- A detailed transition plan setting out how the company intends to meet its emission targets.
- A robust approach towards a just transition.

Following this, a meeting was held with the chair of the board to discuss a number of climate-related issues including scope 3 emissions and low carbon technologies and we encouraged the company to hasten and increase low carbon investments.

Climate-related engagements have also been undertaken with ExxonMobil, with climate-related engagements dating back a number of years. Like Shell, ExxonMobil were initially sent a letter outlining our net zero expectations.

Pre-declaring climate votes in 2022

In 2022, we wanted to see more ambition and transparency from Shell and ExxonMobil in their climate transition plans. In this spirit, Schroders voted in favour of shareholder resolutions seeking to ensure the companies set more ambitious targets to achieve net zero greenhouse gas emissions by 2050 or sooner across all scopes of the business.

In May, Schroders pre-declared their votes in these companies where we have substantial debt holdings ahead of the upcoming annual general meetings, allowing expectations to be more clearly communicated. These votes reflect our aspiration for these companies to show more ambition and transparency in their transition to net zero.

In December, Schroders followed up with these companies to request further dialogue on their climate transition plans. These companies will continue to be engaged with throughout 2023 in order to monitor their progress against the targets they have set as well as their transition plans.

Case Study:
Escalation in the Built Environment

One of our recent projects involved working with a property developer to forward fund a residential development. As part of our ESG assessment framework completed by Buro Happold, one of our fundamental environmental requirements is a minimum EPC rating B for all properties we acquire. However, after assessing the properties offered by the developer, we found that they did not always meet this requirement.

To address this issue, we escalated the matter to the developer and clearly communicated that we would not be able to proceed with the deal unless the energy efficiency was amended to meet the minimum B criteria.

As a result of our engagement, the developer began exploring alternative solutions to improve the energy efficiency of their properties. After a series of discussions and re-modelling work, the developer committed to install solar panels and connect these to the properties which were not meeting the B requirement. This enabled the scheme to meet our minimum criteria, and we were able to progress further with the consideration of this specific deal.

Overall, this engagement with the developer was successful in achieving our sustainability goals, while also helping the developer find a practical and effective solution to meet our requirements.

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 mandatory completion of PIC's ESG questionnaire for a student accommodation portfolio company.
- PIC contractually requires all new direct property investments to be targeting EPC of B or above for their housing stock.
- PIC requires all new property investments where we are lead investors 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 Responsible Investing
fitzsimons@pensioncorporation.com

Victoria Ruleva
Investment Stewardship Manager
ruleva@pensioncorporation.com

PENSION INSURANCE CORPORATION PLC
14 Cornhill, London EC3V 3ND

pensioncorporation.com