Pension Protection Fund

2022/23

Responsible Investment Report

Best UK Pension Fund (joint winner) – IPE Awards, December 2022

About the PPF:

Protecting people's futures

Our purpose is to protect the future of millions of people throughout the UK who belong to defined benefit (DB) pension schemes. Should an employer sponsoring one of these schemes fail, we're ready to help.

We do this by charging pension schemes a levy, investing levies and other capital sustainably, then paying the members of schemes we protect as required.

Our work has a real impact on people's lives. So whatever we do, we strive to do it well, with integrity and members' futures in mind.

The PPF in numbers

as at 31 March 2023

9.6 million
DB scheme members protected

5,000+
DB pension schemes protected

295,528
PPF members in payment or deferred

£32.5 billion
of assets under management

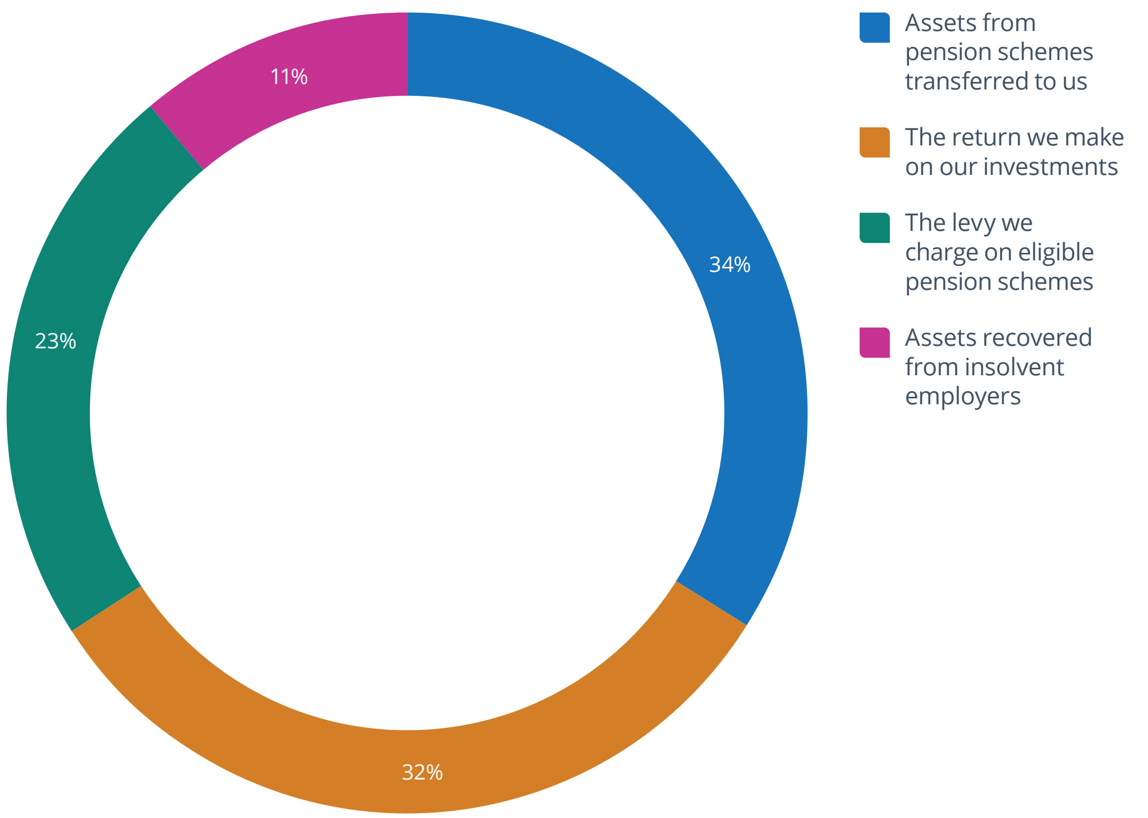
How we are funded

When an employer becomes insolvent and its pension scheme cannot afford to pay the pensions promised, we compensate scheme members for the pensions they have lost. We raise the money we need to pay PPF benefits and the cost of running the PPF in four ways:

How we invest

We hold £32.5 billion in our investment portfolio (31 March 2023). This amount is managed in a broadly 50/50 split by internal and external investment teams. We invest across public and private markets, seeking to capture both capital growth and reliable income generation to meet pension commitments. See page 18 for more detail on where we are invested.

Split of funding sources



Key figures

Year	PPF reserves	Funding ratio	Assets under management	Return of growth assets	PPF levy collected	PPF benefits paid	Actuarial liabilities
2023	£12.1bn	156%	£32.5bn	1.9%	£386m	£1.2bn	£20.3bn
2022	£11.7bn	137.9%	£39bn	7.6%	£476m	£1.1bn	£27.4bn

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Message from our Chair

At the PPF, we believe we are in a unique position to help drive change in the pensions industry. As we outlined in our sustainability strategy earlier this year, our overall ambition is to catalyse the growth of a sustainable pensions industry.

Kate Jones
Chair

As part of our established approach to responsible investment, we embed material environmental, social and corporate governance (ESG) considerations across our investments. Over the last year, we continued to develop risk disclosure management in this area across our portfolio and challenge our external investment managers to deliver high-quality ESG reporting.

We want to contribute to the global transition to Net Zero through our portfolio and engagement activities. This year we created a new Climate Watchlist to address the companies contributing to over 70 per cent of our material financed emissions.

We recognise that we can have a much greater voice in influencing change by working together with other large investors. This year we participated in several industry collaborations, including Find It, Fix It, Prevent It, addressing modern slavery within businesses and their supply chains, and Climate Action 100+, the largest-ever investor engagement initiative on climate change.

Through continuing to work closely with our asset managers and partners, and by sharing our learnings with the wider industry, we aim to ensure a better future for all.

> "We recognise that we can have a much greater voice in influencing change by working together with other large investors."

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Pushing ourselves further

We want the PPF to be known for best practice in sustainability. One of the four goals we set ourselves in our sustainability strategy is to demonstrate excellence in responsible investment. We believe that by acting as a responsible asset owner, we can protect and enhance the value of our investments.

This year we enhanced our voting guidelines with additional expectations for climate strategy and management, and used our voice to deliver positive change by voting at 99.4 per cent of shareholder meetings where we were eligible to vote.

We will continue to do all that we do in a responsible and transparent manner, while delivering for our members and stakeholders.

Oliver Morley
Chief Executive

Key highlights of the year

Over the year, we continued to develop ESG risk disclosure management across our portfolio. We implemented our Climate Watchlist to set disclosure targets as well as prioritising voting and engagement activities, and continued to establish an internal ESG oversight framework for internally-managed credit portfolios.

Putting good stewardship at the heart of what we do

- Accepted by the Financial Reporting Council (FRC) as a 2022 signatory to the UK Stewardship Code – our second consecutive year as a signatory
- Created a steering group to govern and oversee our new Sustainability Strategy
- Provided ongoing ESG training and education to upskill our Board, Executive Committee and Investment team
- Established a working group to consider how the recommendations of the Department for Work and Pensions' Departmental Review of the PPF could inform our future strategy

Managing and monitoring ESG factors to safeguard our members' financial futures

- Continued to challenge external asset managers to deliver high-quality quarterly ESG reporting
- Developed monthly internal ESG reporting for our short-term Strategic Cash desk
- Obtained valuable ESG and climate disclosures from our Private Markets managers participating in the eFront ESG Outreach reporting pilot 60 per cent of our own managers that were contacted in the pilot phase reported portfolio company data – four times higher than the overall response rate **60%**

Encouraging our investments to contribute to a fairer, sustainable future

- Created a new Climate Watchlist to focus on the companies contributing to over 70 per cent of our material financed emissions **>70%**
- Engaged with 686 (196 in 2021/22) companies on specific issues and objectives[1] **686**
- Participated in several collective engagement initiatives, including the Institutional Investors Group on Climate Change's (IIGCC) new Net Zero Engagement Initiative and Find It, Fix It, Prevent It addressing modern slavery

Using our voice to deliver positive change

- Voted at over 4,500 (99.4 per cent) shareholder meetings where we were eligible to vote[2] **>4,500**
- Enhanced our voting guidelines with additional expectations for companies' climate strategy and management
- Engaged regulators on the recent Liability-Driven Investment (LDI) funding crisis

Awards and recognition 2022/23

IPE Awards 2022 – Best UK Pension Fund (joint winner)
The judges highlighted our "steady performance, with Environmental, Social, and Governance (ESG) at the heart of our investment strategy".

Pensions for Purpose Paris Alignment Awards 2022
We were shortlisted for 'Best Climate Change Member Communication' and 'Best Climate Change Policy Statement'.

CIO Industry Innovation Awards 2022
Our Chief Investment Officer (CIO) Barry Kenneth won the award for Efforts in ESG. The awards recognise asset owners driving change and enhancing institutional fund performance.

1 For our segregated equities. The significant year-on-year rise in company engagement is due to the increase in mandates covered by EOS, our stewardship services provider.

2 For our aggregated listed equities (across both segregated and pooled funds).

Strengthening our stewardship commitment

Our Responsible Investment strategy puts ESG integration at its heart, reflecting the fact that our investments can be influenced by environmental and social factors. We view stewardship as one of the most powerful ways we can drive companies to transform, generating real-world impact.

Barry Kenneth
Chief Investment Officer

"The development of our Climate Watchlist is a huge step forward for us to focus our efforts on our most emitting investments."

The past 18 months have been challenging for everyone in the industry, with the onset of the war in Ukraine, the LDI crisis in Autumn 2022 and persistent high inflation resulting in a cost-of-living crisis not seen in decades. Among all of this, the integration of ESG and climate change remains at the core of our stewardship strategy.

The companies and external investment managers we engage with often describe the concept of being on a journey with regards to stewardship and sustainability. This analogy is particularly pertinent when I consider the sentiment globally towards sustainability. Following several years of progress, the industry is now experiencing push-back on the value of integrating ESG into the investment process from certain parties around the world. In other words, the sustainability journey that responsible investors such as ourselves are on, has become bumpier.

Despite the change in attitudes, we continue to recognise the value of strong stewardship and ESG integration as part of the wider investment process. The focus on understanding long-term material risks and opportunities has continued unabated, with improved data accessibility, reporting and analysis across the portfolio.

I've always firmly believed in understanding our risks, and doing so using evidence-based data. This belief is shared across the investment team and has helped us to improve our understanding of ESG data and make more informed decisions about the portfolio, especially in our unlisted investments where pre-investment due diligence is even more critical.

For this reason, we are supportive of innovations looking to streamline and standardise the asks from ESG reporting, such as eFront's ESG Outreach project. This pilot has already delivered actual emissions data for a number of our portfolio companies. The sooner we can use our day-to-day systems to access emissions data for our private markets holdings, the more confidence we can have in making investment decisions informed by our portfolio alignment positioning. We have also continued the progress on ESG integration across our internally managed portfolio, rolling out improved ESG reporting to our short-term Strategic Cash desk, which will form the basis of further reporting improvement for other desks.

The development of our Climate Watchlist is a huge step forward for us to focus our efforts on our most emitting investments. Having seen the progress this has made in our utilisation of external data, I am excited about what could be possible in future years.

In December 2022, I was honoured to receive the CIO Asset Owner Industry Innovation Award for Efforts in ESG. This award recognises asset owners driving change within their allocation approaches and enhancing institutional fund performance. I and the whole PPF investment team will continue to find ways to lead on stewardship best practice across every investment we hold, both now and in the future.

Our progress at a glance

How we advanced our plans in 2022/23

Stewardship

We said we would… / **So we…**

Continue to collaborate to drive positive societal and environmental action among investment market participants

- Participated in several industry initiatives involving a range of organisations that include regulators, asset owners and asset managers
  See page 34
- Chaired a sub-group of the Taskforce on Social Factors led by the Department for Work and Pensions
  See page 35
- Participated in the FCA Vote Reporting Group, aiming to improve the quality of disclosure-linked proxy voting activities
  See page 35

Develop a holistic Sustainability Strategy as part of the PPF's 2022–2025 Strategic Plan

- Began embedding our sustainability considerations across the organisation, led by our six sustainability working groups
  See page 10
- Continue our work to report on and reduce the PPF's own operational environmental impact
  See page 10

Climate change

We said we would… / **So we…**

Use the findings from our Paris Portfolio Alignment Project to develop a strategy to engage with companies identified as our highest priority engagement targets for carbon emissions

- Created a Climate Watchlist of 87 companies that represent over 70 per cent of our financed emissions
  See page 30
- Are establishing a targeted engagement action plans for each company on the Climate Watchlist
  See page 30

Work with our asset managers, especially in real assets, to better understand risks relating to climate change

- Worked on standardising emissions measurement in our Real Estate book
  See page 19
- Continued to work with our Timber & Farmland managers to improve data reporting
  See page 20

Continue to integrate 1.5°C global warming limits across our investment, analysis and reporting activities, including pre-investment due diligence

- Continued to integrate Climate Value At Risk analysis, now covering 55 per cent of our portfolio
  See page 35
- Started to take account of Scope 3 emissions in our portfolio
  See page 35

Reporting

We said we would… / **So we…**

Continue to work with our private assets managers on the eFront ESG Outreach pilot to improve ESG data disclosure in unlisted markets

- Engaged our external private managers to encourage data submission to eFront, achieving a response rate four times higher than the pilot project overall
  See page 27

Continue to work with our managers to improve their ESG and stewardship disclosures in line with our own evolving reporting requirements and industry-led standardisation initiatives

- Engaged extensively with managers with a focus on reporting, engagement and using their voice for positive sustainability/ESG outcomes, resulting in improvements among 'liquid'[1] portfolios
  See page 20
- Standardising the emissions measurement in the Real Estate Book
  See page 19

Engage with our managers, issuers and public policymakers to explore ways to improve the level and quality of ESG data disclosure for credit and private markets

- Collaborated with our external consultant to enhance our Real Estate portfolio's Paris alignment methodology
  See page 19
- Participated in the PRI reporting project to create a due diligence questionnaire (DDQ) for private debt
  See page 26
- Engaged Sovereign Debt managers to improve ESG reporting and practices
  See page 25

1 'Liquids' refers to Global Credit, Public Equity, Absolute Return, Emerging Market Debt and Strategic Cash.

Our purpose and governance

What we stand for

Our purpose is to deliver the best financial results for our members. We believe this goes hand in hand with responsible investing for two reasons:

1. Good corporate governance and management of ESG risks is a strong indicator of how an organisation manages risk as a whole.

2. Exercising our ownership rights is not only a key part of being a responsible owner but also helps safeguard sustainable returns in the long term.

Our RI Framework puts these core beliefs into practice.

Read about our responsible investment (RI) strategy and our RI Framework to learn more about our beliefs, aims and approach to being a responsible investor.

How our purpose and values feed into effective stewardship

Our organisation's values

At the PPF, we lead by example and demonstrate our values from the top down. We believe that establishing the right values, culture and accountability is key to delivering the best outcomes for our stakeholders.

Our 'ICARE' values (see overleaf) define how we conduct business across the organisation. They are integrated into every employee's performance development review and annual goals, as well as at a directorate and overall organisation level.

Taking action

Following the launch of the PPF's Sustainability Strategy, Claire Curtin, Head of ESG & Sustainability, has taken on the role of overseeing implementation of sustainability internally. This combined role facilitates a cohesive approach to sustainability stewardship internally within the PPF and externally through our investment strategy. It has already helped us to improve consistency in our expectations of portfolio companies and our suppliers.

> "Good corporate governance and management of ESG risks is a strong indicator of how an organisation manages risk as a whole."

Our approach to Responsible Investment (RI) and stewardship

Our RI Framework puts our core beliefs into practice:

RI Framework

- Governance & accountability
- Strategic direction & policy
- Risk management
- Metrics & transparency

Priorities

- **Climate change**
  - Climate & sustainability policies & strategies
  - Climate stewardship
  - Climate risk assessments & sustainability reporting
  - Climate opportunities
- **Stewardship**
  - Engaging with fund managers
  - Engaging with issuers
  - Voting of shares
  - Collaborative engagement & public policy
- **Reporting**
  - Internal ESG Dashboards
  - Investment Committee & Board reporting
  - External RI reporting
  - External Climate reporting

OUR PURPOSE AND GOVERNANCE CONTINUED

Whenever we make investment decisions and consider our investment strategy, we also apply these values. The table below shows how we translate these five values into performing our duty as a responsible investor.

Our values	Our investment approach
Integrity Doing the right thing	We consider all material ESG risks when we assess investment opportunities
Collaboration Working as one	We work collaboratively with peer organisations and partners
Accountability Owning our actions and their outcomes	We enact our shareholder rights and push our fund managers to deliver best practice on ESG risk management and transparency
Respect Valuing every voice	We encourage our fund managers and other stakeholders to deepen Diversity and Inclusion (D&I) practices
Excellence Being our best	We're never complacent – we strive to grow our RI practices and set new standards

OUR PURPOSE AND GOVERNANCE CONTINUED

Our governance structure and activities

Strong governance, with clear oversight, responsibility and accountability, is key to delivering on our RI strategy as well as our overall long-term investment objectives. Teams at every level of our governance structure have continued to integrate ESG factors into portfolio investments. Whilst challenges lay ahead of us, particularly around data in alternative asset classes, appetite for further improvement remains high.

Function	Roles & responsibilities	Taking action: RI activities in 2022/23			
PPF Board	Highest governing body with oversight for RI and stewardship activities (including climate-related)	Approved new voting guidelines in March 2023 (see Appendix E)	Delivered ongoing training and education to upskill our Board, Executive Committee and Investment team	Approved the Sustainability Strategy covering all aspects of the PPF's operations and formation of Sustainability Strategy Group	Established working group to consider how the recommendations of the DWP could inform future strategy
Investment Committee	Responsible for developing and maintaining the PPF's RI and stewardship principles and policies (including climate-related ones)	Approved the adoption and implementation of our Climate Watchlist	Reviewed and approved our RI policies including the stewardship policy and updated voting guidelines	Joined in-house teach-ins during the year, providing insight into the implementation of our policies	Approved the restructuring of the investment portfolio separating fund requirement for current members and future claims
Investment team	Led by the CIO, responsible for ensuring adherence to the RI Framework, stewardship principles and associated policies across all asset classes whether internally or externally managed	Worked with ESG & Sustainability Team to develop monthly internal fund ESG reporting for our short-term credit & strategic cash desk	Implemented a significant restructuring of the portfolio	Provided monthly ESG updates to the Investment Committee	Portfolio managers participated in quarterly ESG external manager meetings
ESG & Sustainability team	Part of the Investment team, helping to oversee implementation of the RI Framework, monitor investments for ESG risks and opportunities, engage with portfolio managers, external managers and our stewardship services provider	Updated our voting guidelines during the year, to reflect higher expectations on specific issues of importance	Provided updates in the daily Investment team meetings on ESG issues and trends throughout the year	Reviewed all managers and stewardship providers at least annually	Chaired the newly established Sustainability Strategy Group (under the ESG team's expanded remit to focus on the PPF's own sustainability practices)
Asset Managers and Stewardship Services Provider	Follows the PPF's RI Framework and stewardship policy, undertakes ESG integration and issuer engagement then reports transparently and accordingly	**Asset managers**		**Service providers**	
		Good level of participation in the eFront disclosure pilot project for private assets	Improved the quality of disclosure for our ESG quarterly reporting template over the year, including for alternative asset classes	Aligned the annual RI reporting structure to our March financial year saving significant time on reporting our annual data	Worked with the PPF to implement our Climate Watchlist

OUR PURPOSE AND GOVERNANCE CONTINUED

Key governance actions this year

Reviewing our principles and policies

Our Board has committed to the Investment Committee reviewing our Statement of Investment Principles (SIP) and all responsible investment policies annually to ensure they stay relevant and ambitious.

During the year, the Investment Committee reviewed our SIP, our Climate Change Policy, our Stewardship Policy and our Minimum Standards Policy. The committee also approved our new voting guidelines. All policies are available on our website.

Launching our sustainability strategy

This year saw the publication of the PPF's sustainability strategy, another critical development to help ensure the Fund's longevity, enable us to lead by example and catalyse the growth of a more sustainable pensions industry.

The PPF Board has ultimate oversight, with the authority to approve and amend the strategy as deemed necessary. A dedicated Sustainability Strategy Group was established in 2022 to drive the strategy's development and implementation, which is chaired by our Head of ESG & Sustainability. A number of internal working groups have also been set up to identify priority areas (for example, organisational emissions, climate risk management, diversity & inclusion, employee engagement & community impact, responsible investment, and sustainable procurement) that are material to the PPF's business. These groups will ensure we embed sustainability in every decision-making process.

We determined four key Sustainability Goals by integrating the resources from SASB Materiality Map for Asset Management/Insurance, The Five Capitals framework for sustainability and our own ICARE Values. Each goal addresses specific ESG business risks that we feel are material to our organisation. We have established internal KPIs to measure our progress against these and ensure accountability. We also considered the UN Sustainable Development Goals (SDGs) and were able to map seven SDGs under the PPF's four key goals.

Our sustainability goals

Demonstrating excellence in responsible investment

- Looking after our assets

Financial Capital

Ensuring effective stakeholder engagement with integrity and respect

- Community impact
- Employee and stakeholder engagement

Human & Social Capital

Championing collaboration and leading by example

- Diversity & inclusion
- Business ethics

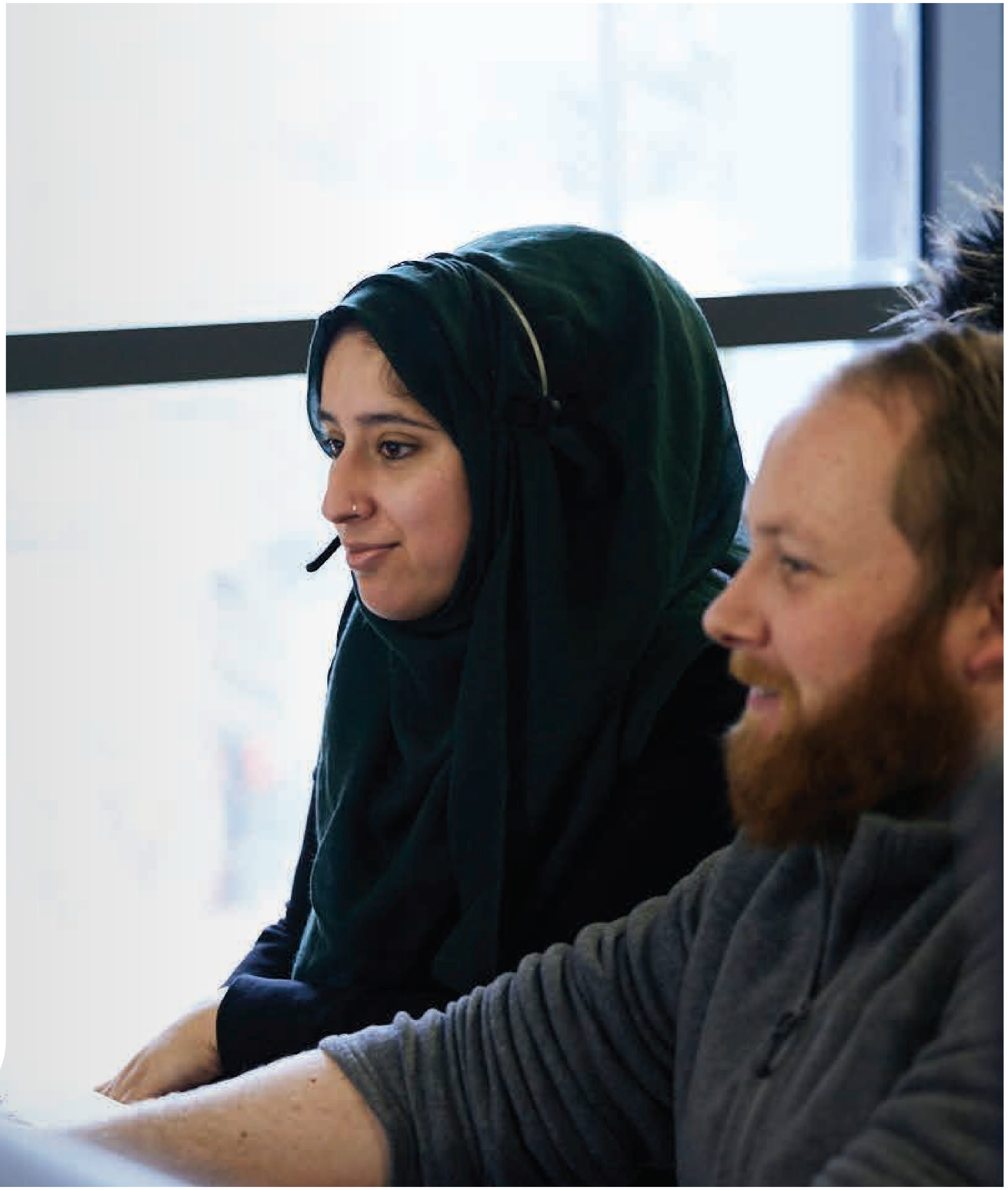
Social Capital

Being accountable for minimising our own environmental impacts

- Operations
- Supply chain

Natural & Manufactured Capital

4 QUALITY EDUCATION | 5 GENDER EQUALITY | 8 DECENT WORK AND ECONOMIC GROWTH | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 10 REDUCED INEQUALITIES | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 13 CLIMATE ACTION



OUR PURPOSE AND GOVERNANCE CONTINUED

Setting our 2023 voting guidelines

During the year under review, our Investment Committee approved the updates to our PPF voting guidelines. These provide clarity on our intentions for voting decisions around core stewardship issues during the Annual General Meeting (AGM) season. Developed by our ESG & Sustainability team, the guidelines leverage best practice, as demonstrated by our stewardship services provider EOS and closely align with its global voting guidelines.

Our key stewardship themes for 2023 are guided by our own organisational priorities. They continue to focus on: management of climate-related risks, modern slavery, board diversity in terms of gender and ethnicity, and executive committee diversity. The enhancements made for the 2023 AGM season reflect our increasing expectation of what we expect from our corporate issues on these key themes. The voting guidelines document can be seen in Appendix E.

The aim of these guidelines is not to duplicate EOS's own global voting guidelines. Rather, they provide stakeholders with a concise document outlining areas of focus that are material to us. On matters related to good governance such as board independence, competent leadership, and separation of the governance roles, we primarily look to leverage the deep expertise and recommendations of EOS.

Board ESG credentials

The composition of the PPF Board has always been crucial in stewarding value creation while also managing ESG risks. We have a Board member with particular ESG expertise, who is also a member of our Sustainability Strategy Group. The PPF Board is proactive and regularly updated by the ESG & Sustainability team on the latest developments and thinking around ESG, sustainability and climate risk management.

Reporting on RI and stewardship to our committees

Keeping every level of our governance structure informed of, and able to feed back on, our RI and stewardship activities is essential to monitoring our progress. Robust internal reporting ensures we remain aligned with agreed actions and principles and can spot any challenges or conflicts of interest at an early stage.

Every quarter, our Investment Committee Report provides the committee with a review of our RI policies, processes and policy review schedule. It also gives updates on stewardship, manager appointments and monitoring, as well as key quantitative metrics such as ESG scores of companies and carbon intensity of our investment portfolios by asset class. We provide monthly updates to our CIO and the Head of Investment Strategy on the management of our climate-related and other ESG risks. We also highlight portfolio-relevant information or events as they arise in our daily investment meetings.

> "The composition of the PPF Board has always been crucial in stewarding value creation while also managing ESG risks."

OUR PURPOSE AND GOVERNANCE CONTINUED

Developing our people

Resources and training

During the year, we have focused on continual development and training across the entire PPF organisation, including the Investment team on ESG matters and stewardship activities. Within the ESG & Sustainability team specifically, we hired a dedicated Stewardship Manager, providing a senior person with specialist experience to lead our strategy and activities in this area. The Stewardship Manager works closely with the rest of the ESG & Sustainability team to ensure best practice and that learning opportunities are leveraged. A Sustainability Analyst has also been appointed to focus on sustainability efforts across the PPF.

We also continue to work with an external specialist stewardship services provider, EOS, which has its own extensive, diverse and experienced stewardship team. We regularly review EOS and our chosen external asset managers to ensure they have the right expertise, policies, research capabilities and resources to carry out day-to-day ESG integration and stewardship activities on our behalf. See page 20 for more detail on how we assess our stewardship services provider and our asset managers within our appointment and monitoring processes.

Training sessions and teach-ins for the Investment team have been provided on an ongoing basis. Our Talent & Development department is fully supportive of our investment staff acquiring ESG-specific qualifications, including the CFA Certificate in ESG Investing and the recently-launched CFA Certificate in Climate and Investing.

A governance aim this year was to build internal knowledge and understanding at the PPF of sustainability, and especially climate issues through training and education. Two external speakers were invited to speak to the PPF Board about their experience and insights, followed by a panel discussion and Q&A. One speaker gave an overview from a non-financial services perspective and the other focused on how a listed asset manager is approaching sustainability and its commitment to supporting Net Zero.

A Board strategy away-day included deep-dive interactive workshops covering ESG materiality assessments, Net Zero target-setting and communicating sustainability issues to all stakeholders. Upskilling of the Investment team on climate has continued throughout the year. The ESG & Sustainability team presented the results of the Paris Portfolio Alignment Project, including baseline and subsequent progress. Executive Committee and Board members were also invited to attend.

Performance incentivisation

We set performance incentivisation for both employees and external agents. For all our staff, performance is measured against a balanced scorecard of objectives covering business-as-usual activities, initiatives, and behaviours, the latter of which accounts for a specific percentage of an employee's annual performance assessment. This includes a review of an employee's performance with reference to their core behaviours across our ICARE values (see page 8). We also have an investment directorate balanced scorecard with specific RI and stewardship KPIs that the Investment team is measured on, as well as a culture assessment.

"A governance aim this year was to build internal knowledge and understanding at the PPF of sustainability, and especially climate, issues through training and education."

OUR PURPOSE AND GOVERNANCE CONTINUED

Our commitment to industry-leading diversity

Creating an inclusive workplace remains our utmost priority so that every employee at the PPF feels valued and respected:

- With a year-on-year increase of employees from an ethnic minority background from 23.7 per cent in 2021 to 26.1 per cent in 2022, we have made progress towards our target to increase ethnic minority representation across the PPF to 30 per cent by December 2023.
- Our employee-led Race Action Group's reverse mentoring initiative enables employees – often senior leaders – to be mentored by colleagues from an ethnic minority background to build their awareness of the challenges faced by ethnic minority employees.
- We offer flexible working options, including hybrid and flexible working hours, promote a menopause-friendly organisation and encourage male allyship.
- We went beyond statutory requirements to report on our disability and long-term health condition pay gap for the first time. As a Disability Confident Leader, we have seen an increase in applicants disclosing disability or a health condition during the recruitment process.
- We prioritise understanding and openness about mental health issues at the PPF. In addition to mental health first aiders across the organisation, we equip our line managers with necessary skills to encourage honest dialogue with their team members through our mental health training.
- In partnership with Investment20/20, we encourage talented young professionals from all backgrounds to join the investment industry.

85%

of PPF employees say that the PPF is a diverse employer that supports inclusion

"I believe that the PPF is fully committed to diversity and inclusion, and I am confident that will stay the case."

PPF member

Next steps:

- To meet the goals set out in our Diversity and Inclusion Strategy, we will strive to broaden representation across the PPF through our mentoring, internal development programmes and award-winning apprenticeship schemes.
- We will continue working to support change in our sector through the Diversity Project, an initiative that champions a more inclusive culture in the UK savings and investment industry.
- Our focus will remain on creating a pipeline of talents from ethnic backgrounds as well as from the local communities in which we operate.
- Throughout the year, we will review our current initiatives and support for mental health at the PPF. This will include assessing potential corporate mental health benchmarks and having appropriate policies and processes in place to support employees' mental well-being.

Taking action

Supporting asset manager diversity

As part of our Sustainability Strategy, we aim to encourage greater diversity across the pensions industry by influencing the organisations we partner and engage with. We also note a growing focus on diversity challenges by external bodies including the FCA and the DWP.

This year, for the second year running, we asked D&I related questions as part of our external asset manager operational due diligence process. We are using the responses to these questions (which are the same questions asked in our in-house manager selection and appointment process) to monitor their year-on-year progress on D&I. Now that we have two years of data, we have begun incorporating the findings into our asset manager assessments. We are not considering setting specific targets for asset managers at this stage, but we recognise that there needs to be much further progression on diversity throughout the asset management industry.

OUR PURPOSE AND GOVERNANCE CONTINUED

Reviewing our processes and assessing their effectiveness

Our stewardship programme is subject to internal and external review, and is ultimately overseen by our Investment Committee. Policies, approaches and outcomes are presented quarterly to this committee with action points recorded. Regulatory developments are monitored to ensure that emerging themes and potential regulatory expectations are evaluated. Externally, we participate in the Principles for Responsible Investment (PRI)'s annual transparency reporting and assessment process, which provides external validation of our RI and stewardship processes. We also confer with our peers and industry stakeholders regularly and share our practices through various forums. This year, the Department for Work and Pensions (DWP) instructed an independent review of the PPF, including its activities relating to responsible investment. Please see opposite for the outcome of this review.

Currently, the PPF Internal Assurance team does not explicitly review the work undertaken by the ESG & Sustainability team. However, in relation to external manager selection, pre-investment sign-off must be provided by the ESG & Sustainability team and this is then reviewed by the Operational Due Diligence team and the Asset & Liability Committee before any investment can be approved.

The ESG & Sustainability team undertakes an annual review of EOS's services, our principal external stewardship services provider. A summary of this review is then provided to the Investment Committee. A structured internal audit process in relation to stewardship was initiated in 2022, but was postponed due to the portfolio restructuring. This process will continue in 2023.

This Responsible Investment Report has been approved on behalf of the Board by the Chair of the Board and signed by the CEO following review by members of the Board and Executive Committee. It is informed by ongoing reporting throughout the year to the Board, Investment Committee, Asset and Liability Committee and monthly updates to the Chief Investment Officer and Head of Investment Strategy.

DWP review of the PPF

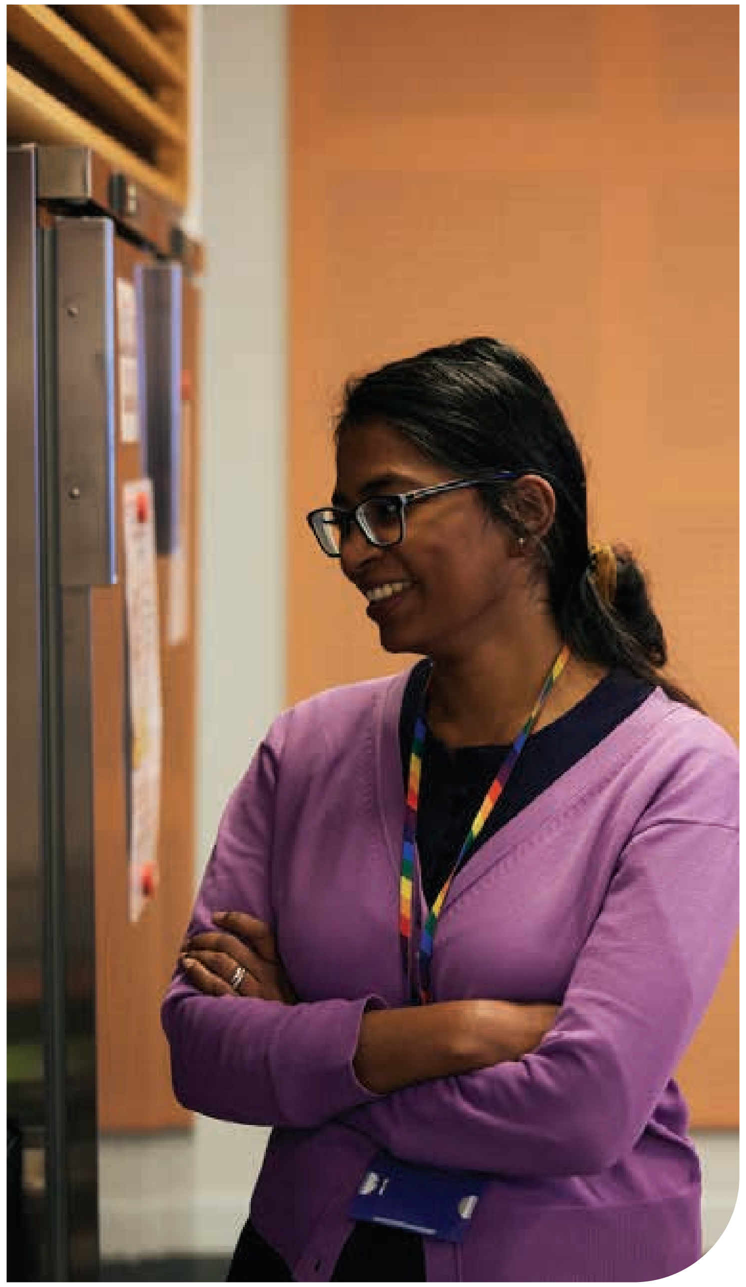
In December 2022, DWP published the findings of its departmental review of the PPF. Public bodies under the remit of government departments are often reviewed to provide assurance, ensure good governance, and challenge their continuing need and efficiency. We're pleased that this recent review by the DWP has been positive.

A recommendation made in the review is that the PPF should take a higher public profile and share more information on its approach to investment management, particularly in relation to its industry-leading commitment to responsible investing. We have established a working group to consider how the DWP's recommendations can inform future strategy.

You can read the full report at Departmental Review of the Pension Protection Fund (PPF).

> In conducting this review, I have found the PPF to be a well-run public body offering high standards of service and value for money to those who use it and pay for it. It is well-managed and well-governed and is highly regarded by the full range of its stakeholders.
>
> My recommendations are therefore limited in number, focusing on areas where there is an opportunity to enhance rather than a need to rectify. In particular, there is an opportunity for the PPF to share its good practice in certain areas more widely and an opportunity for the DWP and the PPF to consider whether it and its expertise can be used in other ways for public benefit.

Lesley Titcomb, CBE,
Lead reviewer of the DWP review of the PPF



OUR PURPOSE AND GOVERNANCE CONTINUED

Managing conflicts of interest

Conflicts of Interest policy

The PPF has a Conflicts of Interests Policy (see Appendix C) to identify where a conflict of interest may arise and how conflicts should be monitored and managed. We're committed to conducting business and our investment activities in the best interests of our beneficiaries, and have comprehensive controls across the organisation to prevent conflicts of interest from affecting them. We place individual accountability high up on our cultural agenda as one of our core values. All reasonable steps must be taken to prevent potential or actual conflicts of interest, or situations that might be perceived as giving rise to a conflict of interest. Under the policy, our staff are required to disclose any interest in any company, or other entity, in which the PPF has an ownership interest.

Recording conflicts

Details of conflicts and notifications are recorded in the Conflicts Register which is maintained by the Compliance & Ethics team. We also have other related policies such as a Code of Conduct and Conduct Rules Policy (for both employees and our suppliers), a Handling Non-Public Information Policy, and a Personal Account Dealing Policy. Our non-executive Board members may hold other director positions, or have connections with external asset managers. We share all Board members' outside interests on our website, and update any Board expenses quarterly on the website.

If there is a conflict of interest when making a specific decision, we include provisions for declaring interests at Board and committee meetings. For example, we approached our internal levy teams to inform them of our participation in the PRI's FTSE 350 modern slavery initiative in advance of engaging with companies. We did this as we were aware that some of the companies under assessment by the PRI initiative were PPF levy payers.

Externally-managed assets

Regarding stewardship of assets managed externally on our behalf, we expect our external agents to identify and manage any conflicts of interest in accordance with Principle 3 of the FRC's UK Stewardship Code 2020, putting the best interests of clients and beneficiaries first.

Conflicts of interest policies are reviewed as part of our appointment of any fund manager through our operational due diligence (ODD) assessments.

Our expectations are explicitly referenced within our investment management agreements and side letters (see Appendix D and G for example terms, including 1.4 and 1.8.4). This includes a quarterly requirement for external managers to confirm that they have adhered to our policies and expectations.

Conflicts are also considered by our stewardship services provider EOS when undertaking voting and engagement on our behalf. Although we reserve the right to amend any votes proposed by EOS – and also to review voting proposals ahead of AGMs – we are satisfied that EOS has suitable expertise, policies, research and resources to carry out daily stewardship activities on our behalf. Where conflicts of interest arise, we adopt an arm's length approach and aim not to influence or override EOS's voting decision.

EOS also takes steps to avoid conflicts of interest between us and any other clients, and between us and EOS or its affiliates, and comply with our Conflicts of Interest Policy. EOS notifies us as soon as possible of any conflict of interest, or potential conflict of interest of which it becomes aware or to which it may be subject, and the potential implications for the Board. Read more about how EOS approaches conflicts of interest here.

In practice, EOS has been highly transparent regarding potential conflicts of interest relating to its voting recommendations for companies that might be an EOS clients (or affiliated to a client of EOS or Federated Hermes). We did not have a situation during the year where we felt a conflict of interest had a negative impact on a decision involving PPF assets.

Taking action

The ODD team refreshed their due diligence for one of our existing private equity managers as part of the team's ongoing monitoring programme. Whilst on-site, the team identified a potential conflict of interest in relation to the compliance activities being undertaken by a member of the investment team. Weaknesses were also identified in the firm's anti-money laundering/know your client programme as it did not include a risk-based, dynamic re-screening protocol for the investor base. Both points were fed back to the manager while on-site and subsequently remediated through the transfer of CCO duties to the CFO and the introduction of an ongoing KYC/AML screening protocol.

OUR PURPOSE AND GOVERNANCE CONTINUED

Stakeholder engagement

Keeping our stakeholders updated

We're committed to regular reporting and transparency so that our members and other stakeholders such as levy payers can be aware of our progress and activities in all areas, including stewardship:

- We regularly update our website with our latest voting and engagement activities and our responses to industry and government consultations.
- We publish annual RI reports, and provide ESG and sustainability disclosure in our Annual Report and Accounts.
- We published our third dedicated Climate Change Report this year in line with Task Force on Climate-related Financial Disclosures (TCFD) requirements.
- Our Head of ESG & Sustainability, Stewardship Manager and other senior members of the investment team frequently speak at industry conferences and events.

More broadly, we actively seek our members' and stakeholders' views and feedback by methods including quantitative surveys, consultations, focus groups, one-to-one interviews and our Member Forum. We know that our stakeholders expect us to invest responsibly and we believe we have a duty to set the highest standards of practice.

Taking action

We met with our Member Forum, which includes PPF and FAS (Financial Assistance Scheme) members, in October 2022 to discuss topics including digital services and responsible investment. The session included updates on our approach to climate change and company engagement, and investment case studies to bring issues to life. Given the timing of the meeting, the LDI crisis was also a hot topic (we covered our response to this crisis in detail in our 2022/23 Annual Report). Feedback from the forum was shared with our Investment team and Leadership team.

Capturing levy payer feedback

We know that schemes don't choose to use our service, but this reinforces our ambition to listen carefully to what levy payers want, understand where we can do better, and then take action. In addition to our annual consultation on our levy approach, over the past three years we've introduced biannual structured forums for small and medium-sized enterprises (SMEs), along with ongoing informal meetings, surveys, focus groups and email newsletters to gather feedback and share information. These communication channels have been very valuable.

Taking action

In December 2022, following a six-week consultation on levy rules, we confirmed we will decrease the increments between levy bands in the year 2023/24 to significantly reduce volatility in levies. We will also integrate the new asset class information collected by The Pensions Regulator in 2023 into the levy. These proposals were strongly supported by stakeholders during the consultation.

We reduced the amount we aim to collect from £390 million in the 2022/23 levy year to £200 million in the 2023/24 levy year.

By reducing the levy by almost half, almost all schemes will pay less levy. Industry experts told us our proposals are sensible and welcome at a time when there are many financial pressures on employers.

Taking action

In January 2023, we launched our new intranet, Connect Online, which aims to improve employee engagement further by sharing news, comment, personal stories and praise. It is proving a valuable way of connecting people in our hybrid working model.

> "We know that our stakeholders expect us to invest responsibly and we believe we have a duty to set the highest standards of practice."

Engaging our employees

Employee engagement is key to the responsible management of human capital, and therefore forms part of our new Sustainability Strategy. We are proud to have high levels of employee engagement. In our most recent employee survey, 95 per cent of respondents agreed that the PPF makes a positive difference to the world we live in, and 87 per cent said they feel proud to work for the PPF.

OUR PURPOSE AND GOVERNANCE CONTINUED

Sustainability Community

To support our Sustainability Goal 'Ensuring effective stakeholder engagement with integrity and respect', we established a Sustainability Community networking hub on the PPF intranet in 2022. Open to all the PPF's employees, the Hub aims to inspire and educate on the values and importance of sustainability both at the PPF and within the broader community. The PPF's employees are encouraged to share their ideas and suggestions to minimise their impact on the environment. Employees can post their thoughts on various significant days – such as World Environment Day and Earth Day – and share tips on making positive environmental change (for example, using reusable coffee cups, sharing experience of installing solar panels or buying an electric vehicle).

> "Sustainability is about our impact – on society, our communities and the environment. Together, we can make a real difference to people's lives."

Taking action

We are currently in the process of integrating our recently-published Sustainability Strategy into our senior managers' Statements of Responsibilities. An update will be provided on this process in next year's Responsible Investment Report and our published SM&CR report.

Implementing the SM&CR regime

The FCA's Senior Managers and Certification Regime (SM&CR) is the system that regulated financial organisations use to define their managerial responsibilities and encourage staff at all levels to take personal responsibility for their actions. We publish and implement our own version of the SM&CR to hold ourselves to a high standard across everything we do (as detailed on page 8, our ICARE values set the foundation for how our staff behave and adhere to the conduct rules).

We first published our version of the SM&CR in 2019. It's since become an integral part of our organisation and how we conduct ourselves. For example, it has helped to highlight exactly who and what senior managers are accountable to and for. As a result, it is easy to find that information and work effectively on processes across the organisation.

One area covered is ESG. Our CIO has overall responsibility for ensuring the implementation of our ESG strategy (with stewardship a key priority of this) within our investments. SM&CR, and our adoption of it, has helped to clarify and enhance personal accountability and responsibility for ESG and underlined the importance of a clear and effective governance structure for this area.

Our investment approach and incorporating ESG

Our investment objectives

The PPF portfolio is currently managed to achieve two long-term objectives:

- Grow assets at cash + 1.5 per cent annualised over the long term.
- Allocate a risk budget to assets in our investment universe as efficiently as possible, while ensuring that the interest rate and inflation risks within our liabilities are fully hedged through our LDI strategy.

The Board sets a risk budget for the Investment team, which drives the process for determining our Strategic Asset Allocation (SAA). The non-LDI (growth) part of our portfolio is a diversified portfolio of public and private assets with allocations that are optimised against our agreed risk budget. This approach is taken to ensure that we can pay cashflows to our members as they fall due.

Restructuring our investment approach

Following the publication of our funding strategy review in September 2022, and the shift in market dynamics, we completed a detailed review of our SAA. Our new funding framework, which went live on 1 April 2023 (just after the period we are reporting on), separates the funding requirements for current members from those of future claims. In response to this, we've established a new investment framework. This splits our investment portfolio into two in order to align with the separate funding requirements and deliver the required returns:

Matching portfolio – The objective of this portfolio is to be a fully-funded annuity portfolio for current members. It can use a limited amount of leverage to manage interest rate and inflation risk, but this is expected to diminish over time. The Matching portfolio contains Government Bonds, Derivatives, Cash and HAIL (UK Credit) assets.[1]

Growth portfolio – This primarily focuses on protecting our claims reserves and conservatively building up additional reserves for future claims. A secondary objective is to fund the purchase of physical assets in the Matching portfolio. The Growth portfolio contains Listed Equity, Emerging Market Debt (EMD), Investment Grade (IG) Credit, Absolute Return, Private Equity, Real Estate, Alternative Credit, Infrastructure, and Timberland & Farmland.

We will continue to use a well-managed, conservative LDI strategy to ensure that interest rate and inflation risks within our liabilities are fully hedged.

Changes to Strategic Asset Allocation (SAA)

Our SAA asset allocation was also revised this year to reflect additional risk considerations and minimise the risk of reserves eroding over the medium term. Main SAA changes were:

- An increase in Short Dated Corporate Bonds, UK Credit, Private Equity and Infrastructure.
- A decrease in Listed Equity, EMD, Absolute Return and Government Bonds.

The ESG & Sustainability team continues to work with all asset classes to ensure our stewardship approach is fully integrated into all portfolios.

How the fund is managed

We manage just over half of our assets[2] (UK LDI hedging strategies, hybrid assets and strategic cash) in-house through a team of portfolio managers. The remainder is managed by external fund managers across a range of vehicles, including segregated accounts, pooled funds, closed-end funds, co-investments and passive instruments.

As well as investing in public market assets, we take advantage of the long-term nature of the fund by accessing illiquidity premia through private markets. We take a considered approach when implementing exposures to asset classes, some of which are non-traditional, to ensure that we optimise our risk budget.

Geographically, nearly two-thirds of the portfolio is invested in UK assets, which is largely driven by our internally-managed UK LDI and Credit assets as well as our externally-managed UK Real Estate and Infrastructure allocations. The next largest regional allocations are to North America and Europe ex-UK.

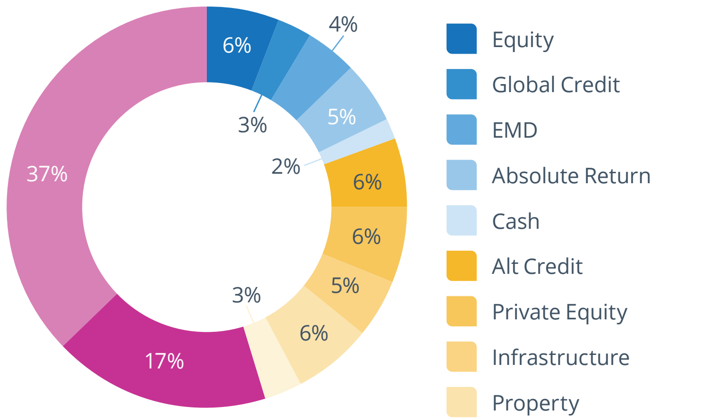
Measuring our performance

We measure the performance of our investment portfolio over five-year rolling periods which we consider to be an appropriate investment time horizon to deliver the cashflows required for our members. This long-term perspective also aligns well with our stewardship expectations, as we recognise that engagements with companies and other issuers can take a number of years to bear fruit.

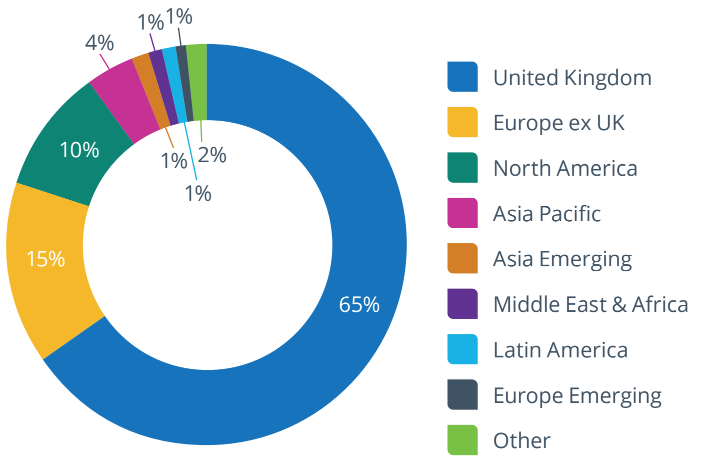
Considering the needs of beneficiaries in our stewardship process and activities

As mentioned, we have built our responsible investment and stewardship processes to safeguard sustainable returns in the long term, in line with the long-term nature of our liabilities and our investment horizon. We also consider other stakeholders such as our levy payers when striving to generate these returns in a sustainable manner, and consult with our levy payers on an ongoing basis regarding our funding strategy as discussed on page 16.

Split of asset allocation[3]



Split of geographical breakdown



1 HAIL: HAIL/Hybrid assets – Investments which possess attributes of both liability hedging and growth assets.
2 Investments that possess attributes of both liability hedging and growth assets.
3 The newly created Matching portfolio will consist of the Gilts portfolio and part of the UK Credit portfolio.

OUR INVESTMENT APPROACH AND INCORPORATING ESG CONTINUED

Our approach to ESG integration

Embedding ESG considerations across the portfolio

In line with our RI strategy, detailed in our first RI report and on our website, we embed material ESG considerations right across our investments and our work with external managers, from manager selection through to ongoing monitoring and reporting. We also engage with underlying issuers in our portfolios and use our voting powers to advocate for strong ESG practices.

Increasing our internal access to portfolio data

We regularly review the services of MSCI, our main ESG data provider, which is rapidly expanding its breadth and depth of analysis, especially for climate-related analysis. Much of this expansion feeds directly into Aladdin and FactSet, our main portfolio management systems, so we can run comprehensive ESG assessments for our listed Equity and Credit portfolios on the fly. We have broader ESG data and scores available through our portfolio management systems for 70 per cent of the Fund's net asset value (NAV), accounting for almost all of our listed holdings.

We have more recently acquired access to MSCI's Implied Temperature Rise (ITR) data. This indicates whether companies align with the global goal of keeping average temperature rises this century to well below 2 degrees Celsius (2°C) to prevent the worst effects of global warming.

Taking action

During the year, we implemented ESG reporting across our internal Strategic Cash assets. These reports are used by the relevant desk manager to analyse individual holdings and report the funds' position to the Investment Committee. We use MSCI data to provide an analysis of the individual holdings in the fund and then overlay this with qualitative internal analysis of outliers flagged by MSCI. A summary of the monthly analysis is provided along with detailed data sets for the manager to evaluate. The desk manager was involved in the creation of the report template, with training provided on the MSCI scoring methodology.

Standardising emissions reporting for Real Estate

Last year, we started asking our external Real Estate managers to report carbon emissions data at the fund level. We quickly realised that each manager reports emissions using different methods assumptions and estimations.

We decided this year to request that managers report emissions at the asset level using metrics recommended by the Partnership for Carbon Accounting Financials (PCAF), a global initiative supported by key financial institutions that aims to standardise global emissions accounting across all asset classes.

Our Real Estate managers had some difficulty providing all the asset-level information required to enable true aggregation, but over 60 per cent (by asset value) were able to report PCAF Quality Scores for the emissions they calculate.

We are very pleased that we took this first step toward standardisation, which should lead to more useful and better quality analysis. We look forward to working with our Real Estate managers, communicating the benefits of PCAF metrics and generating the required information to aggregate emissions accurately across our Real Estate holdings.

Setting exclusions

We insist on a high level of responsible conduct from our underlying issuers, and seek to avoid investing in issuers that contravene international conventions or norms for controversial activities that are ratified into UK law – for example, the production of specific controversial weapons. We implement this through a small exclusion list, which is applied across the Fund as far as is practically possible.

Engagement and voting

As outlined in our full Stewardship Policy, we strive to extend our stewardship activities across our entire investment portfolio. We amend our approach depending upon the asset class or strategy, how directly we're invested in it and the level of control we can leverage. We believe in engagement as a path for verifiable and tangible impact regarding material stewardship issues. We're strong advocates for supporting companies, governments and other issuers in building and sustaining good governance and progressing their practices on environmental and social matters. In order to incentivise issuers, we are committed to transparent voting following a robust assessment and review of the practices of a company. More on our approach to voting is on page 36 onwards.

Leading on RI standards

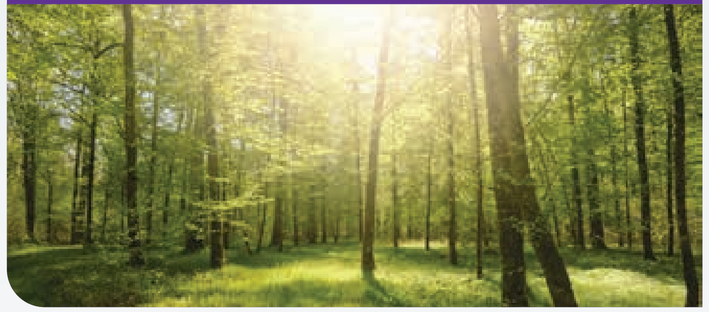
Given our size and the global reach of our assets under management, we have the opportunity to encourage RI improvements in our investment portfolio across the world. We see this as an area where we can influence and help set new standards for the asset management industry, particularly in private markets with less-developed stewardship practices.

Listed equities have the best-established stewardship practices. But – as shown on page 18 – they only make up a relatively small part of our total portfolio. In asset classes where good stewardship isn't fully established, we aim to identify and encourage the most thorough and efficient approaches. Our regular review meetings with our asset managers often include partnership and education around these approaches and emerging developments.

We expect our external managers to influence issuers, regardless of asset class, and update us on their actions. This includes engagement, taking part in collaborative initiatives, and being transparent about voting where we have ballots. We regularly carry out in-depth reviews of our external managers' activities to assess how they're engaging on our behalf. We particularly scrutinise their stewardship, especially in relation to our key themes such as climate change, human and labour rights, D&I board governance and executive remuneration (see page 28).

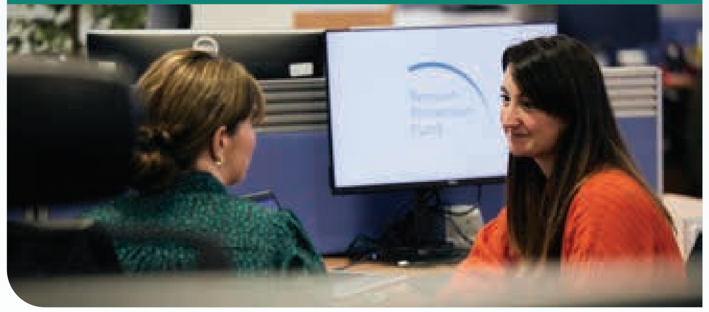
Our key themes

Environment
- Climate change
- Natural resource stewardship
- Pollution, waste and circular economy

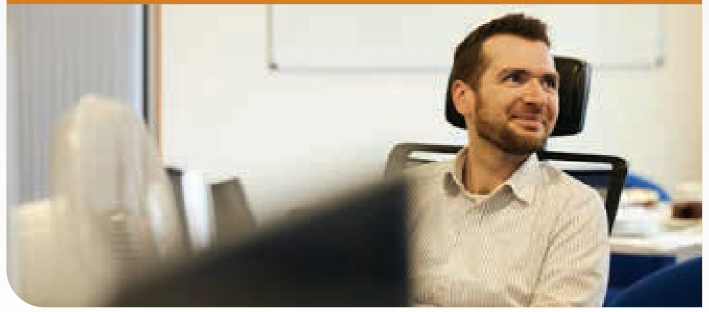


Social
- Wider societal impacts
- Human capital management
- Human and labour rights

Strategy, risk and communication
- Risk management
- Corporate reporting
- Business purpose and strategy



Governance
- Shareholder protection and rights
- Executive remuneration
- Board effectiveness



OUR INVESTMENT APPROACH AND INCORPORATING ESG CONTINUED

Ensuring our external agents are aligned with our approach

External agents (such as third-party asset managers and our specialist stewardship services provider EOS) are critical to helping us manage our investment portfolio efficiently and responsibly. We continually monitor these agents' practices in order to keep improving the quality and coverage of their stewardship activities and ensure consistency with our own investment beliefs, policies and guidelines.

Holistic oversight of our external agents is carried out across the Investment team, ESG & Sustainability team, Operational Due Diligence (ODD) team and the Commercial Services team, ensuring robust analysis in the manager selection process and throughout the life of our relationship with a manager.

Oversight of our stewardship services provider

We have chosen to outsource stewardship activities for our segregated listed issuers to EOS, part of Federated Hermes, to ensure that our shares are voted cost-efficiently and companies are engaged with where ESG concerns arise. Our 2020/21 RI Report provided more detail on our selection process for these services. We carry out oversight of EOS's engagement services for both our segregated and direct investments. EOS also provides voting recommendations to us for our segregated equities in line with its published corporate governance principles. However, we are always in control of the vote and have the ability to exercise our voting rights in segregated holdings in line with our own policy and principles.

Taking action

We monitor EOS's activities through regular emails and phone calls, more formal quarterly client meetings, and have fed back extensively on the usability of its client portal over the last year. We also participate in EOS's semi-annual client advisory council meetings.

During the year we met with EOS to discuss improvements to its controversies service. We also agreed to adjust their annual engagement reporting schedule to align with the PPF financial year-end. This means we no longer need to aggregate engagement data from different reporting years internally, creating significant efficiencies for our team.

Oversight of our external investment managers

We apply robust RI requirements that all our external managers must meet prior to investment (and on an ongoing basis), to ensure we are fully aligned. We will not appoint or allocate more capital to managers that fall short of these standards. See page 21 for further detail on our manager appointment process, including our minimum requirements and case studies of how we have engaged with managers prior to funding.

We require disclosure of all existing and potential managers' policies, ESG integration and stewardship processes and reporting to ensure they meet our evolving expectations (see Appendix H). Quarterly stewardship reporting is required from all public markets managers, and the quality of this reporting feeds into our ongoing monitoring and ratings process. We also expect our Private Markets managers to provide this reporting, albeit less frequently.

Our external managers are also reviewed by our dedicated ODD team on a scheduled basis. The ESG & Sustainability team works closely with the ODD team to ensure that ESG considerations are fed into the review process. We screen for reputational risks associated with personnel and request updates on their firm's D&I metrics in our annual ODD questionnaire, which is sent to all external managers. The ODD team also reviews managers' policies in key areas such as ethics, business continuity, disaster recovery and money laundering.

Internal ESG disclosure scoring model of our external managers

We have a thorough internal process to monitor and track progress of all our external managers regarding ESG, with a focus on the bespoke ESG disclosure and reporting they provide for funds we hold with them. We identify laggards and leaders within each asset class, and we score managers by asset class accordingly from one to three:

- Funds that score '1' do not meet our minimum requirements and will not be considered for further funding if they do not show improvement. Funds with this score are usually legacy holdings of funds in wind-down.
- Funds that score '2' meet our minimum requirements and are broadly satisfactory in their ESG practices and reporting.
- Funds that score '3' are leaders in the asset class and showcase excellence.

External managers are reviewed quarterly. We report the distribution for the quarter to our Investment Committee and our Head of ESG & Sustainability raises any identified risks.

The ESG & Sustainability team and the relevant internal portfolio manager attend quarterly calls with external Liquids managers (the manager provides ESG reporting in advance of the call). In the call, we engage with managers on their overall ESG efforts, we exchange views, and we raise requests with them. We have seen a big evolution in ESG reporting across our Liquids managers. The first round of reporting we received in 2021 included basic analysis of the fund's ESG profile and a few climate metrics. By the end of Q1 2023 – thanks partly to engagement and the bespoke reporting templates we provided to managers – we were receiving detailed reporting about each fund's ESG profile and outlook, stewardship and due diligence, carbon analysis and climate stress testing and alignment.

Below are the average scores within our Liquids portfolios by each asset class:

Internal ESG & Stewardship Disclosure Score for external managers of liquid assets (1 = lowest 3 = highest)

	Weighted average score in 2022	Weighted average score in 2023
Public Equity	2.6	2.2
Absolute Return	2.1	2.2
Global Credit	2.8	3.0
Emerging Debt	2.2	2.7

Across asset classes, our external managers have accelerated their overall ESG disclosure and at least one manager's score has been upgraded, with the rest remaining stable except for Public Equity. The higher average score reflects improvements in engagement efforts and climate analysis. See the case study on Emerging Debt on page 25.

The reason for Public Equity's lower overall score is not because managers' reporting has deteriorated but because in some cases the manager's reporting hasn't improved sufficiently to maintain a score of three. We have engaged extensively with two managers that have been lagging – particularly in their stewardship reporting – and have started seeing some improvement as a result. We will consider upgrading these managers if they demonstrate consistent ESG performance.

We also monitor our Private Market managers using the same scoring system, and are pleased to see that most of them have started to provide information as part of the eFront ESG Outreach pilot project to improve ESG disclosure within private asset classes (see page 21). We have upgraded the score of those private market managers that have started to provide disclosure through eFront and we are engaging with remaining non-respondents to provide greater transparency.

Internal ESG & Stewardship Disclosure Score for external managers of private assets (1 = lowest 3 = highest)

Private Markets	Weighted average score in 2022	Weighted average score in 2023
Alternative Credit	1.6	1.9
Private Equity	2.3	2.5
Infrastructure	2.5	2.5
Property	2.7	2.7
Timberland and Farmland	2.6	2.6

Our approach to engagement

Engagement with issuers is a fundamental pillar of our RI strategy and the approach by which we believe we can effect greatest change. We'll always look to exhaust the engagement process before considering divestment from a holding.

How we engage

We engage with issuers in a number of ways: directly, through our external agents, or through collaboration initiatives – when we consider it is in our beneficiaries' long-term interests to do so. We expect boards of investee companies to show responsibility, integrity, and independence. In cases where a company board deviates from principles of good practice, it should explain its reasons for so doing.

We prioritise engagement on those themes of greatest importance to us. As part of this, we work closely with our stewardship services provider EOS to define focus areas and provide feedback on them. More detail on our engagement approach was provided in our 2020/21 RI report and on our website.

However, there's still a big need to boost transparency around engagement, especially in asset classes such as Sovereign Debt and Private Assets, both of which have great potential for positive impact. Over the past year, we've continued to encourage improvements in these areas and supported our managers to engage with relevant issuers in their portfolios.

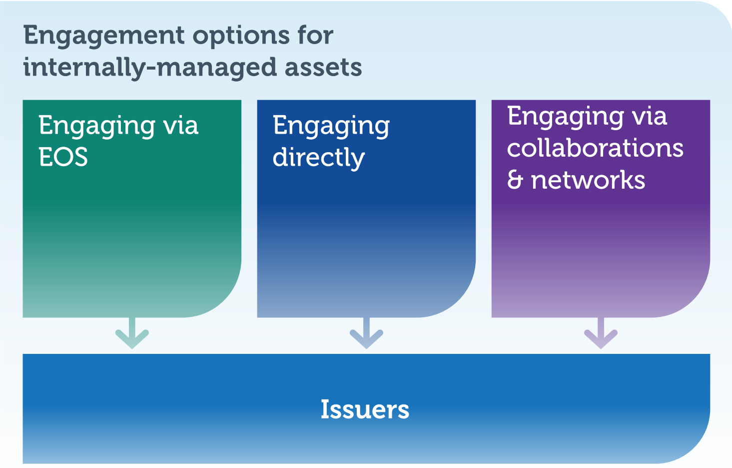
> "We prioritise engagement on those themes of greatest importance to us. As part of this, we work closely with our stewardship services provider EOS to define focus areas."

Asset class	Owner of engagement	Integration and stewardship approach
Primarily internally-managed assets		
Liability Driven Investment (LDI)	• PPF	• We engage with borrowers, primarily during reissuance or refinancing. We have less influence with sovereign debt, although we engage on market-level issues like LIBOR, RPI, and gilt issuance
UK Public Credit & Strategic Cash	• PPF • EOS	• We engage with borrowers, more so around reissuance or refinancing • EOS also covers these portfolios for engagement services
UK Private Credit	• PPF • External managers	• We engage with borrowers, more so around reissuance or refinancing • We engage with our external managers on their activities
Primarily externally-managed assets		
Listed Equities	• EOS • External managers	• We reflect any concerns from our assessments in our voting and engagement approach • Managers can exert influences on companies through voting and engaging with company management. Approaches will differ depending on whether managers follow high-influence, systematic or active strategies • External manager monitoring. We also use intelligence from EOS's engagements to inform our oversight of our managers' activities
Listed Credit: Corporate, sovereign, emerging markets (EM)	• External managers	• Managers can engage with borrowers, more so around reissuance or refinancing – less influence with sovereign debt • We monitor external managers' own engagement practices and activities
Absolute Return	• External managers	• Managers can engage, but with limited influence in strategies with shorter holding periods • We monitor external managers' own engagement practices and activities
Real Estate	• External managers	• Managers with full control of assets can engage with tenants and local community • We monitor external managers' own engagement practices and activities
Private Equity and Infrastructure	• External managers • EOS	• Managers can engage with companies or assets in primary funds, or with operating companies in infrastructure, especially if they have board seats. We monitor external managers' own engagement practices and activities • EOS engages on our listed infrastructure holdings
Alternative Credit	• External managers	• Managers can have ongoing dialogue with borrowers, but have limited control over management. We monitor external managers' own engagement practices and activities
Secondaries/ Fund of Funds	• External managers	• We monitor external managers' own engagement practices and activities

OUR APPROACH TO ENGAGEMENT CONTINUED

Engagement approach for assets we manage internally

As explained earlier, we manage approximately half of our assets by value internally, all of which are in various types of fixed income. Industry-wide, engagement with fixed-income issuers is at an early stage of development, partly due to investors' limited influence in many areas. However, engagement is developing and its importance is becoming increasingly appreciated. We take a variety of approaches to engagement in this area, largely depending on the size of our investment, maturity of the fixed-income asset and whether the issuer is corporate or sovereign/quasi-sovereign.



Engagement in our UK LDI assets

One of our aims is to improve the efficiency and functioning of markets through collaboration with stakeholders and policymakers on important issues. As a major participant in the UK Government Gilt market within our LDI assets, we regularly engage with the UK Debt Management Office (DMO) and HM Treasury on a range of issues. This involves taking part in annual consultations, forums and investor roundtables. For example, during the LDI crisis in autumn 2022, we engaged closely with government, regulators and other bodies to share our perspective on managing leveraged LDI effectively – see opposite.

CASE STUDY

Sharing best practice on leveraged LDI

Most pension schemes use a leveraged LDI strategy that allows them to offset the interest-rate exposure of their liabilities while still being able to invest in return-generating growth assets. The downside of using a leveraged strategy is when yields rise, pension schemes have to find additional assets to post as margin.

In the summer/autumn of 2022, yields rose rapidly and some pension schemes found they were running short of assets that they could post as margin, and were faced with a choice of being forced sellers of other assets to raise cash or lose their leveraged LDI exposure. This episode highlighted the importance of having a level of leverage, overall investment strategy/asset allocation, and governance process that are mutually supportive – and a process that allows decisions to be made in a timely manner with clarity around responsibilities.

The direct impact of the situation on the PPF was limited. We were never in any danger of being forced to sell any of our assets and could have weathered further substantial rises in interest rates, and our reserves remained steady.

This outcome is a validation of our decision to manage our LDI strategy in-house, which meant we had a real-time view of our position and were able to react very quickly as conditions changed. We also have an excellent in-house investment operations team, who oversaw the timely transfer of the extra security we had to pledge, and made sure that the information we had about our portfolio was up to date at all times.

As a result of our handling of the market crisis and deep understanding of the market, the PPF LDI team made itself available to regulators and other bodies to educate and inform trustees about what we consider best-practice governance, and how decisions around investment strategy/use of leverage/governance need to be interlinked.

The interaction our LDI team had with the market on the LDI crisis included:

- engagement with the Bank of England and The Pensions Regulator to provide market intelligence to help them be better informed in their responses, and to offer quick feedback on their interventions;
- engagement with the UK DMO to assist in understanding the impact of the changing market environment on how it can fund the government's annual borrowing requirement;
- gave evidence to the UK Parliament Work & Pensions Select Committee, providing details of how the PPF manages leverage in our LDI strategy and what we consider best practice;
- spoke at a virtual industry event (Pension Playpen webcast) while the market turmoil was still playing out to help inform trustees as to what we think best practice in governance of leveraged strategies looks like;
- spoke on a panel at the Pensions and Lifetime Savings Association (PLSA) conference, again on the theme of the interrelatedness of leverage management, investment strategy and governance; and
- engaged with financial and pensions media to ensure broader public understanding of the dynamics of LDI mandates and their impact on the Gilts market.

Outcome: The PPF welcomed the opportunity to share our perspectives and practices on managing an LDI portfolio effectively. Earlier this year the Bank of England published a paper outlining minimum levels of resilience expected of LDI funds.

OUR APPROACH TO ENGAGEMENT CONTINUED

Engagement in our UK Credit and Strategic Cash assets

We take a nuanced approach to engagement within our UK Credit assets, given that part of the book is invested in public credit and part in private credit. These are generally longer duration assets, so differ from our Strategic Cash book which is much shorter in duration.

As largely listed instruments, our Public UK Credit and Strategic Cash books have reasonable ESG and carbon data coverage within our portfolio management systems. We can use these systems to monitor the portfolios regularly, along with assessments from open-source initiatives. For example, being an investor member of Climate Action 100+ has helped us understand and engage with European energy corporates on their transition plans when reviewing their debt instruments for inclusion in our portfolio.

Our UK Credit and Cash assets are also under the remit of our external stewardship services provider EOS, who engage with debt issuers on our behalf. The EOS platform allows us to monitor the progress of all engagements with an issuer (regardless of where we hold it in the capital structure).

Our private credit assets are typically held for the long term and often have very little secondary market liquidity. This makes ESG due diligence assessments, issuer engagement, and getting the right covenants in place pre-investment absolutely critical.

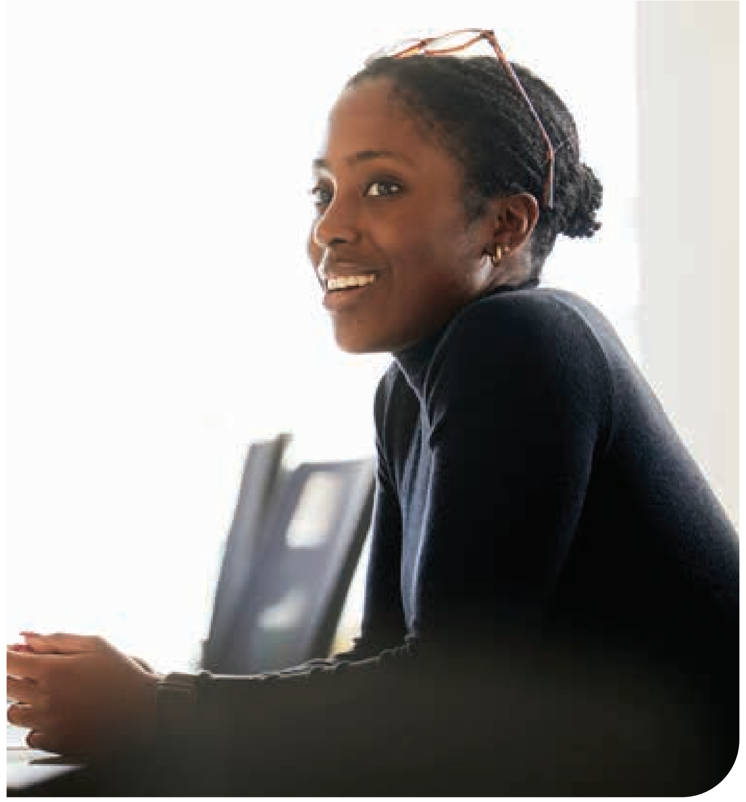
Rising interest rates and the higher cost of borrowing have reduced issuance of new credit. Overall, this has resulted in higher quality issuances coming to the private market, with entities that operate in regulated sectors faring best. Where necessary, over the last year, we have continued to decline deals in private credit where there are governance concerns around an issuer.

> "Our private credit assets are typically held for the long term and often have very little secondary market liquidity."

Taking action

The topic of quality affordable housing in the UK came to the fore this year with concerns around mould, health and safety, and poor general maintenance of accommodation all receiving significant media coverage.

We have engaged with our external Real Estate managers to understand whether action plans are in place to address these issues and the extent to which they have been incorporated into business. We have also engaged with the UK Regulator of Social Housing to understand its efforts in enforcing accommodation standards, mindful of its other mandate to ensure financial viability. This matter will require ongoing engagement. We will continue to report on progress as more information becomes available.



Internal credit issuer engagements

Sector: Automotives
Asset Class: Strategic Cash (short-term debt)
Issue: Electric vehicles strategy and public policy advocacy

Background: Engagement by EOS took place with a large German automotives company regarding its level of ambition and lack of intermediate targets for the company's electric vehicle strategy. Its support for certain industry bodies whose lobbying activities are at odds with the goals of the Paris Agreement was also highlighted as an area of concern.

Action: This has been a multi-year engagement, involving site visits, investor-day participation and multiple in-person and virtual meetings with company representative, including the supervisory board chair and the head of external affairs and sustainability executives. In addition, questions were submitted to the Board at Annual General Meetings in 2020, 2021 and 2022. The company was urged to engage with a group of investors proposing a shareholder resolution requesting increased disclosure on the company's direct and indirect lobbying. Examples of industry best practice and guidance reports were also shared.

Outcome and next steps: The company has significantly increased its ambition regarding electric vehicles. This includes publishing ambitious EV sales targets, and setting emissions reductions targets that take account of the supply chain and end-of-use phase.

In April 2022, the company announced: "To ensure that our government affairs activities and our engagement through the company's memberships are consistent with the long-term goals of the Paris Climate Agreement, we are constantly reviewing these engagements" and that "we will provide more information on the company's individual government affairs activities so that our stakeholders can better understand our efforts to achieve carbon neutrality". In May 2022, its first Group Climate Engagement Report was published, despite falling short of expectations.

Next steps will include providing feedback on the inaugural report and future emissions strategy. Encouraging stronger disclosure on the company's transition strategy in relation to stakeholders and mitigation plans also feature in our Climate engagement roadmap.

Sector: Financial Services
Asset Class: UK Credit (HAIL assets)
Issue: Climate transition planning

Background: A large US bank has faced numerous challenges in recent years in relation to its conduct and culture. In addition to engaging on these, EOS has also engaged on the bank's commitment to climate action, given its weak position in comparison to its US peers, calling on the company to produce a credible transition plan across its financing activities.

Action: During meetings, concerns have been raised in relation to the quality of disclosure provided around emissions financing activities across the bank. Although the company has been open to engagement, progress on disclosure has not met expectations and the perception that the organisation is following its peers, rather than taking a lead has not diminished.

Outcome and next steps: As a result of this weak perception of intent in relation to managing financed emissions, a vote was made in favour of a shareholder proposal requesting a policy consistent with the International Energy Agency's Net Zero Emission by 2050 scenario. Engagement with the company is ongoing.

> "The company was urged to engage with a group of investors proposing a shareholder resolution requesting increased disclosure on the company's direct and indirect lobbying."

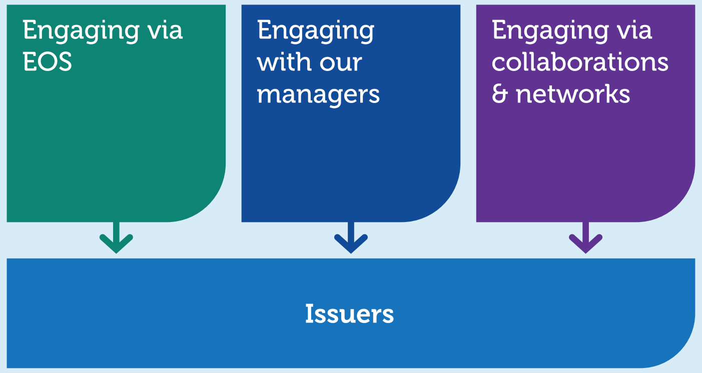
OUR APPROACH TO ENGAGEMENT CONTINUED

Engagement approach for assets managed externally

We take a multi-pronged approach to engagement for our externally-managed assets, driven by the following factors:

- We allocate across many asset classes using a range of external fund managers with whom we engage directly and instruct to engage with issuers on our behalf.
- Our asset allocation to Public Equities is much lower than most pension schemes, however we employ a passive strategy for some of this, so we engage an external stewardship services provider, EOS, to carry out direct, issuer-level engagement where possible, for greater efficiency.
- Our Equity index is a highly diversified, alternatively weighted index (comprising around 3,000 names). We therefore look to leverage collaborations engaging entire sectors or across companies on systemic issues (for example, climate change or modern slavery).

Engagement options for externally-managed assets



How we engage with listed equity issuers

Engagement with our Public Equity issuers depends on the mandate construction. For segregated equity portfolios, EOS engages on our behalf, and we have full access to the EOS database and reports for monitoring the progress of these engagements, as well as the opportunity to join specific meetings where possible. See page 36 for how we engage with our issuers and progress on our listed equities engagement.

For pooled equity funds, the relevant external manager will engage on our behalf, so our engagement efforts focus on the manager itself. Our quarterly ESG reports from these managers provide detail and allow for our oversight of their engagements, progress and outcomes – see the following examples.

Equity issuer engagements

Sector: Transport
Asset Class: Equities
Issue: Worker rights in the US

Background: One of our external asset managers recognises that human capital issues represent significant risk to companies' operations. In 2022 it held a series of engagements with companies and signed investor letters directed at companies that lacked paid sick leave and could benefit from providing it.

Later in the year, the manager honed in on the rail sector where hundreds of thousands of railway workers were in the midst of negotiating contract terms with the largest railway companies in the US to improve working conditions. Those negotiations fell flat. This was relevant to us as investors as the industrial unrest nearly led to a nationwide strike that would have crippled the US's supply chain and posed a material systemic risk.

Action: Since the government-mediated deal excluded sick leave, the asset manager took charge by writing a letter to the four largest railway carriers in the US (three of which the PPF has holdings in). The manager aggregated close to 150 investors per letter, representing around US$1 trillion in additional assets under management, to be signatories. The letter specified the importance of paid sick leave in the face of post-pandemic labour dynamics as well the types of disclosures investors would find helpful, such as the types of benefits available, employee eligibility criteria, and others. The manager corresponded with two of the rail companies and has maintained an ongoing dialogue.

Outcome and next steps: Eventually, one by one, the rail companies that the manager contacted resumed workforce negotiations. These led to deals being struck by three out of the four railways (the three that the PPF holds), leading to thousands of railway workers obtaining paid sick leave as a benefit. The manager intends to continue engaging with the holdout railway carrier to understand how worker conditions can be improved so that future strikes and service disruptions are less likely.

Sector: Consumer & Luxury Goods
Asset Class: Equities
Issue: Marketing standards and diversity

Background: A company within an external manager's portfolio was involved in controversies around inappropriate marketing of its brands.

The manager sought clear remediation as to how the company intended to improve internal controls to ensure its brands comply with expected standards. This included clear reporting on the approval process for marketing campaigns and products; and clear reporting on how diversity of people within the approval process would be achieved.

Action: The asset manager engaged multiple time during the year and has developed the request as the issue progressed to better understand the role they were recruiting for (titled 'Future Brands Safety Officer'), in response to the controversy. The manager has requested clarification as to what this role will entail. In addition, the manager has also raised concerns about the ability of the high-profile celebrity who chairs the company's Sustainability Committee to have effective oversight, given her poor historical attendance.

Outcome and next steps: The company has been proactive in providing information to the manager and noted that executive remuneration targets will also factor in the issue. However, the explanation for the root cause of the controversy – a lack of diversity in the campaign approval process – is not considered to be sufficient in justification. The manager will therefore continue to push for tighter internal controls that still leave brands sufficient creative freedom. Increased disclosure on diversity KPIs as part of the company's internal controls process is being sought. Further dialogue is expected and escalation will be considered if remediation proves insufficient.

> "We're pleased that all of our managers in the Investment Grade Credit asset class regularly report their stewardship progress to us and that the depth of disclosure has improved over the year."

How we engage with publicly-listed debt and other securities

Investment Grade (IG) Credit – As noted last year, our managers have made significant progress in engagement practices. We're pleased that all of our managers in this asset class regularly report their stewardship progress to us and that the depth of disclosure has improved over the year. We see engagement with debt issuers as a longer-term focus, given their ongoing need to reissue debt, which is well suited to our investment profile.

IG credit issuer engagements

Sector: Consumer Discretionary
Asset Class: Investment Grade Credit
Issue: Climate, deforestation and human capital

Background: A manager spoke to a credit issuer to better understand the controls it has in place for business practices including agricultural emissions in context of its Net Zero plans, deforestation, and human and labour rights.

Action: The manager met with the issuer's Head of Sustainability who was able to address a recent labour rights dispute regarding unfair payment for seasonal foreign workers in UK farms. They explained that the issuer has identified the source of concern and is collaborating with industry associations to investigate, and plans to construct a corrective course of action. On agricultural emissions, the company said it is focusing on soy and palm oil for its Net Zero deforestation goal as its cocoa and beef usage is limited.

Outcome: The manager welcomed the prompt and sufficient response to the labour rights controversy and enhancement in the issuer's due diligence. The issuer is also working with other members of the Modern Slavery Intelligence Network and the British Retail Consortium on ways to deliver systemic change to address labour rights disputes in the food and agricultural sector. The company is also exploring issuing a sustainability-linked bond where investor payments would be linked to public targets, such as Scope 3 emissions, zero deforestation, food waste, or packaging.

OUR APPROACH TO ENGAGEMENT CONTINUED

Sovereign Debt – Debt issued by governments is a fundamental asset class for many asset owners as well as being a pillar of a well-functioning economy. In emerging market debt (EMD), successful engagement with governments often requires a concerted effort over a long period of time. However, debt investors are vital for pressing governments on a range of topics, including transitioning to clean energy and stopping deforestation.

We welcome the evolution of tools and data sets that deepen the ability of investors to measure climate-related and other ESG risks presented by sovereign bonds. We strongly encourage our managers to contribute knowledge and resources to drive this progress further.

Sovereign issuer engagements

Asset class: Sovereign Debt
Issue: African frontier market

Background: An African frontier market saw a steep increase in Sovereign Debt levels under its previous administration, pushing public and external debt ratios to 120 per cent of GDP and resulting in a still unresolved debt default. Constitutional provisions were in place to subject any new borrowing to parliamentary approval but were not honoured by the authorities due to the lack of a supportive legal framework. The country also scores weakly on corruption and this has worsened in recent years.

Action: One of our external managers wanted to emphasise to the country's authorities the importance of public oversight on borrowing and urged a revamp of legislation in this area in order to make the country a more attractive long-term proposition to investors. The manager held meetings with the country's finance ministry and central bank authorities in 2020 and 2022. The first meeting was used to urge action on the debt situation, including an improved legal framework. Although little progress was initially made, a new administration took office in 2021, and introduced various reforms and agreed a loan programme with the IMF. Meeting the Ministry of Finance in 2022 enabled additional discussion and assurances on a bill for loan approval governance.

Outcome: Following the discussion in 2022 and the proposed legislative changes, the manager was comfortable introducing exposure to the country's Sovereign Debt to the portfolio. The manager continues to monitor the parliamentary bill's progress.

Absolute Return – For our Absolute Return mandates, we have so far predominantly monitored our physical investments (leaving derivatives or synthetic instruments aside for now). The two areas of most relevance are positions in long/short equity or credit and event-driven strategies, where our managers have engaged directly with corporate issuers.

Absolute Return engagements

Asset Class: Credit
Sector: Health Care Providers
Issue: Allegations of residents' mistreatment

Background: The Health Care Provider's bonds and stocks sold off following the release of a book detailing the treatment of residents.

Action: Such price dislocation raised our external manager's interest and they investigated the situation. After analysis, the view was that the company's bonds were well collateralised but that the equity holders were likely to be wiped out in a necessary restructuring. As a result, the manager looked into building a long bond, short equity position. However, it was noted that investing in such a troubled company could not be made without addressing the treatment of residents and the company's governance concerns. Once a management change was implemented, our manager met with the CEO and CFO to understand their plans for addressing the historical poor treatment of residents and to stress that this was the cornerstone to a successful turnaround. The company's new management was very receptive. Our manager was also comforted by the fact that a state-owned bank was involved, meaning that the restructuring would receive both additional political commitment and heightened scrutiny.

Outcome: Since the scandal, the financial restructuring has been agreed and new procedures have been put in place to improve the quality and oversight of the company's services.

OUR APPROACH TO ENGAGEMENT CONTINUED

How we engage with private markets and unlisted assets
Given the diverse nature of private markets, we take a nuanced approach to engagement within these asset classes. We have continued to work with our managers in this space to increase their stewardship and engagement processes.

Although progress is not always positive, we have been able to identify the leaders and laggards within our portfolio, which helps us assess future investment opportunities more effectively. We look to our appointed managers to drive improvement in the companies and managers in which they invest. We encourage managers to provide us with information on progress and demonstrate to companies the value of more stringent sustainability practices.

Our interactions with general partners (GPs) and expectations of how they engage with portfolio companies will differ from our expectations of our secondary managers, and how they engage with underlying GPs. In terms of control, we have greater expectations around stewardship where GPs hold board seats or controlling stakes in companies.

Private Equity – Private Equity managers have a central role to play in the energy transition, given their ability to invest in and support businesses across the energy value chain. For example, this year one of our managers identified methane emissions regulation as a key risk to its natural resources portfolio companies – particularly given the new Inflation Reduction Act (IRA), which stipulates that methane emissions reported in 2024 by the US oil and gas industry will be subject to tax.

The manager proactively engaged portfolio companies on ways to reduce the financial risk associated with these emissions. In 2022, many of its portfolio companies undertook an analysis to quantify the financial impact of the IRA tax had it already been in place. Thanks to a concerted effort, the majority of companies had already achieved significant reductions in methane emissions through measures such as replacing pneumatic devices, improving vapour recovery or deploying advanced emissions monitoring. As a result, upstream methane intensity has decreased 67 per cent since 2020, including a 46 per cent decrease over the past year, reducing the potential impact of the new tax.

Looking ahead, the manager believes the greatest opportunity to reduce methane emissions (and improve emissions measurement) involves cutting-edge measuring and monitoring technologies. The manager and its portfolio companies continue to evaluate monitoring solutions as the technology advances and the economics of adopting it improve.

Private Debt – Our Private Debt managers are less likely to have significant control or leverage with underlying issuers. However, we still expect them to engage where they do have access to management.

Private market engagements

Asset class: Private credit
Issue: Reaching sustainability and inclusion targets

Background: One manager is demonstrating ESG excellence and is exercising its power as a credit investor by introducing ratchets on credit margins to some portfolio companies. These have included a fintech platform that provides retail wealth management platforms to major financial institutions.

Action: In this example, the manager was able to introduce ESG-linked margin ratchets that were symmetrical (upward and downward) to ensure the company continued its progress on more inclusive sustainability and maintained ambitious targets. The manager has put two ESG KPIs in place:

- Percentage of female professionals: To reach 47 per cent by year-end 2022 and 50 per cent by year-end 2023.
- Sustainability indicators: Group carbon emissions to be reduced by c.10 per cent per year over the next three years; percentage of assets under administration focused on ESG strategies to reach 32 per cent by year-end 2022 and 56 per cent by year-end 2023.

These KPIs will reduce margins by 5bps if both KPIs are met, thereby reducing the company's cost of borrowing or raise margins by 5bps if neither KPI is met, thereby increasing the cost of borrowing.

Taking action

During the year, Sanjay Mistry, Head of Alternative Credit at the PPF, joined the UN-supported Principles for Responsible Investment (PRI) project, in conjunction with the Alternative Credit Council, to design a ESG Due Diligence Questionnaire (DDQ) for private credit investments. This DDQ aims to help investors better understand and evaluate private debt managers' approaches to responsible investment. The document was published in July 2023 and Sanjay participated in the presentation of the document at the launch event.

Real estate – One of our property managers is responsible for the day-to-day management of a European (inc. UK) property portfolio. As part of this role, they oversee the properties' sustainability profile. In 2021, the manager launched a pilot with Smartvatten, a provider of remote water-monitoring devices. The pilot covered the implementation of water-monitoring devices in 10 assets across various locations and sectors over a 12-month period. The devices have provided the fund with real-time insight into water usage at the properties and have helped with detecting water leaks. Following the success of the pilot, the manager has instructed Smartvatten to roll out the device across the whole property portfolio. Some of the manager's other European funds and clients are considering using the same system.

Infrastructure – We are invested in an Infrastructure fund that has three core investments all focused within Europe. It is engaging with all of its portfolio companies (including the ones that we hold with them), asking them to: devise a roadmap for aligning with Net Zero; complete a detailed climate change impact assessment; and put in place key measures to achieve strong governance of climate-related risks and opportunities. Only one remaining company in the fund is still to set targets. Eighty-four per cent of energy generated in the fund is from renewable sources. Apart from climate change, the manager is also engaging all holdings on health and safety, diversity, governance, and employee engagement. We receive detailed reporting on progress in all these areas.

OUR APPROACH TO ENGAGEMENT CONTINUED

Forestry – Forestry is one of the few viable nature-based investment solutions in the journey towards a Net Zero carbon world. Well-managed forests can also increase biodiversity and are more resilient to climate change. We are pleased to see that almost all our assets continue to be certified to the highest international standards (FSC and/or PEFC). The small percentage that is not certified is allocated to new planting sites – and the manager is expecting the area to be certified when planting is completed – or where ownership restrictions prevent such certification. As well as certification statistics, we ask our managers to report carbon sequestration data (all have reported to us). Since there is no standardised methodology on this yet, we are still unable to fully aggregate the data. However, we have been working with an external consultant to establish an assessment methodology for this asset class.

Taking action

Leveraging existing positions and manager relationships to optimise future investment exposure is a key part of our portfolio management process. This year, we ensured that a restructuring of one of our existing hardwood forestry assets met with our investment and ESG requirements.

The Tasmanian Forestry Trust is a mature 170,000-hectare hardwood plantation in Australia. We were able to secure long-term direct exposure to this important asset by forming and leading a consortium of three pension funds to enable a buy-out. In this way we were able to meet the liquidity requirements of existing investors.

eFront ESG Outreach pilot project

Asset Class: Private Assets
Issue: Improve ESG reporting in private markets

Background: We have been closely involved in a pilot project led by one of our data solution providers eFront (part of BlackRock) to address the lack of ESG and climate-related data and reporting from private companies. We joined the pilot as a limited partner (LP) in late-2021, working with a selection of private equity and credit general partners (GPs) managing funds with vintage years from 2015 to collect relevant ESG and climate metrics on underlying portfolio companies.

Action: We have played an active role in the eFront ESG LP working group to guide the project. Initial outreach to private equity and credit GPs was made by the eFront coordinators. We then wrote to our selected private markets GPs directly and asked our internal heads of each desk to discuss the project during their review meetings with the GPs and encourage participation.

Outcome: With our encouragement, 60 per cent of our selected GPs that were contacted in the pilot reported portfolio company data – four times higher than the overall response rate. eFront was also able to offer LPs the option to fill some data gaps with sector estimates. As a result, emissions data (whether actual or estimated) was available for just over 90 per cent of our portfolio companies in those funds that responded to the pilot.

We anticipate this initiative will go a long way to improving the process for private market data collection, especially among smaller managers that haven't yet built out their own reporting functionality. The ultimate aim is to open the product up to over 2,500 private market managers, reaching over 70,000 private companies.

Next steps: The 2023 update has been significantly expanded across the eFront platform and increased eightfold for the PPF's GPs. This project has been a useful learning process for our internal investment teams. Being able to discuss what is important to other LPs will help guide our development in private market investing. One realisation is that GPs – the professionals who run a private markets fund day-to-day – need to increase their understanding of the importance of timely ESG data. Currently the significant lag in data distribution is at odds with Sustainable Finance Disclosure Regulation (SFDR) disclosure requirements for managers. This in an area that the LP working group and eFront intend to focus on this year.

eFront

OUR APPROACH TO ENGAGEMENT CONTINUED

Partnering with our external managers

We engage deeply with our external asset managers both during our initial selection process and on an ongoing basis to ensure they can meet our high standards on stewardship and ESG integration. Throughout our relationship with managers, we encourage constant improvement in their approaches to managing ESG and climate-related risks. We also use insights from our stewardship services provider, EOS, in its engagement with issuers on material ESG issues to inform our conversations with managers about their own engagement in these areas.

Our manager selection process

Our initial manager selection process includes an ESG Questionnaire. This is a scored mandatory list of questions that prospective asset managers must answer on a pass/fail basis in order to progress through the tender process. The ESG Questionnaire comprises several sections including: Governance & Alignment; Diversity & Inclusion; RI Policy & Strategy; ESG Incorporation; Integration & Risk Management; Stewardship & Active Ownership; and Reporting. Appendix F shows a sample list of questions within the Stewardship section of the questionnaire. See the box on the right for our minimum requirements of managers regarding stewardship and ESG.

> "Throughout our relationship with managers, we encourage constant improvement in their approaches to managing ESG and climate-related risks."

Our minimum ESG and stewardship requirements of external managers

- Should be an active signatory to the Principles for Responsible Investment (PRI) or considering becoming a signatory.
- Must provide evidence of a Responsible Investment (RI) policy and implementation of ESG considerations within investment decision-making and active ownership that covers the proposed fund or mandate; or must have a commitment to implement such a policy no later than 12 months from the PPF's initial investment.
- Must accommodate inclusion of the PPF's standard ESG and RI clauses within the fund terms (or provide a marked-up version with any minor amendments sought by the manager's counsel) and be able to apply the PPF's exclusion lists, as appropriate.
- Must provide fund-specific ESG reporting.
- Must have a Diversity & Inclusion policy with clear implementation within relevant internal management processes.
- Must complete the PPF's ESG Questionnaire, with no significant risks or issues flagged by the PPF ESG & Sustainability team.

Taking action

In 2022, one of our external equity managers lost its signatory status to the FRC Stewardship Code, having failed to meet the FRC's disclosure requirements. We discussed this with the manager, both to emphasise the importance we place on managers meeting the FRC's standards, and to understand where the failings occurred and how the issues would be remedied. The manager talked us through the feedback they received and their plan to address this feedback.

Ongoing collaboration with external managers

In addition to general oversight, we also look to work with asset managers on specific issues. This could be involvement in a wider industry project, or directly in relation to an underlying asset – see case study below.

CASE STUDY

Partnering with an external manager on a direct company engagement

Sector: Financials
Asset class: Equities
Issue: Climate transition and sustainable financing

Background: Portfolio climate analysis flagged an Indonesian bank for its important role in capital financing in environmentally critical areas. We wanted more information on the bank's climate transition strategy and to discuss its short- to medium-term goals on sustainable financing.

Action: The PPF and one of its external equity managers held a call with the bank to gain insight into the company's strategies on climate transition. We also wanted to encourage the bank to expand its sustainable financing policies in alignment with Indonesia's commitment to limit global warming in accordance with the Paris Agreement. The exploratory call helped to gauge the bank's approach to sustainable financing. We were pleased to hear about its process for integrating sustainability factors and certifications into its underwriting process, its sustainable financing programmes and growth targets attached to strategies. Areas of disclosure weakness were discussed and a request made to submit data to the climate change questionnaire provided by CDP, the global disclosure system provider. It was also recommended that the bank set emissions targets ahead of its planned 2026 schedule where possible.

Outcome: The call was extremely useful for the PPF, providing access that we may have not been able to achieve alone and allowing us to gauge the bank's appetite for dialogue on this issue. Areas for future discussion have been agreed in collaboration with the equity manager and we hope to have a follow-up meeting with the company before the end of 2023, once the CDP annual database has been updated.

OUR APPROACH TO ENGAGEMENT CONTINUED

CASE STUDY

Emerging Market Debt Sustainability dialogue with sovereign issuers

It has been the norm so far that dialogue with sovereign entities tends to only be financial and budget related, however the landscape is slowly changing.

For example, one of our EMD managers has been able to engage with emerging and frontier market issuers on a range of areas including stronger democracy and lower corruption, gender equality, and financial inclusion (including credit financing for women, banking for rural communities, and female participation in the labour force). It has also discussed renewable energy implementation plans, land ownership equality, water stress and water rights, and corruption within state-owned enterprises. The sovereign engagements have started with introductory conversations and relationship building, but we expect to see more specific outcomes in the long term.

After we successfully engaged with the manager, they started reporting to us on their engagement efforts. In acknowledgement of this, we upgraded the manager's ESG disclosure score (see page 20) from '2' to '3' for these enhanced engagements.

We are seeing improvements in engagements across the Sovereign EMD asset class and we will be reporting further progress in coming years.

"After managers are appointed, our ODD team continue to work closely with them to ensure they continue to meet our requirements and identify any gaps or challenges that arise."

Our pre-funding and appointment process

As mentioned, our stewardship expectations are integrated into all legal contracts. See Appendix G for examples of clauses. After managers are appointed, our ODD team continue to work closely with them to ensure they continue to meet our requirements and identify any gaps or challenges that arise.

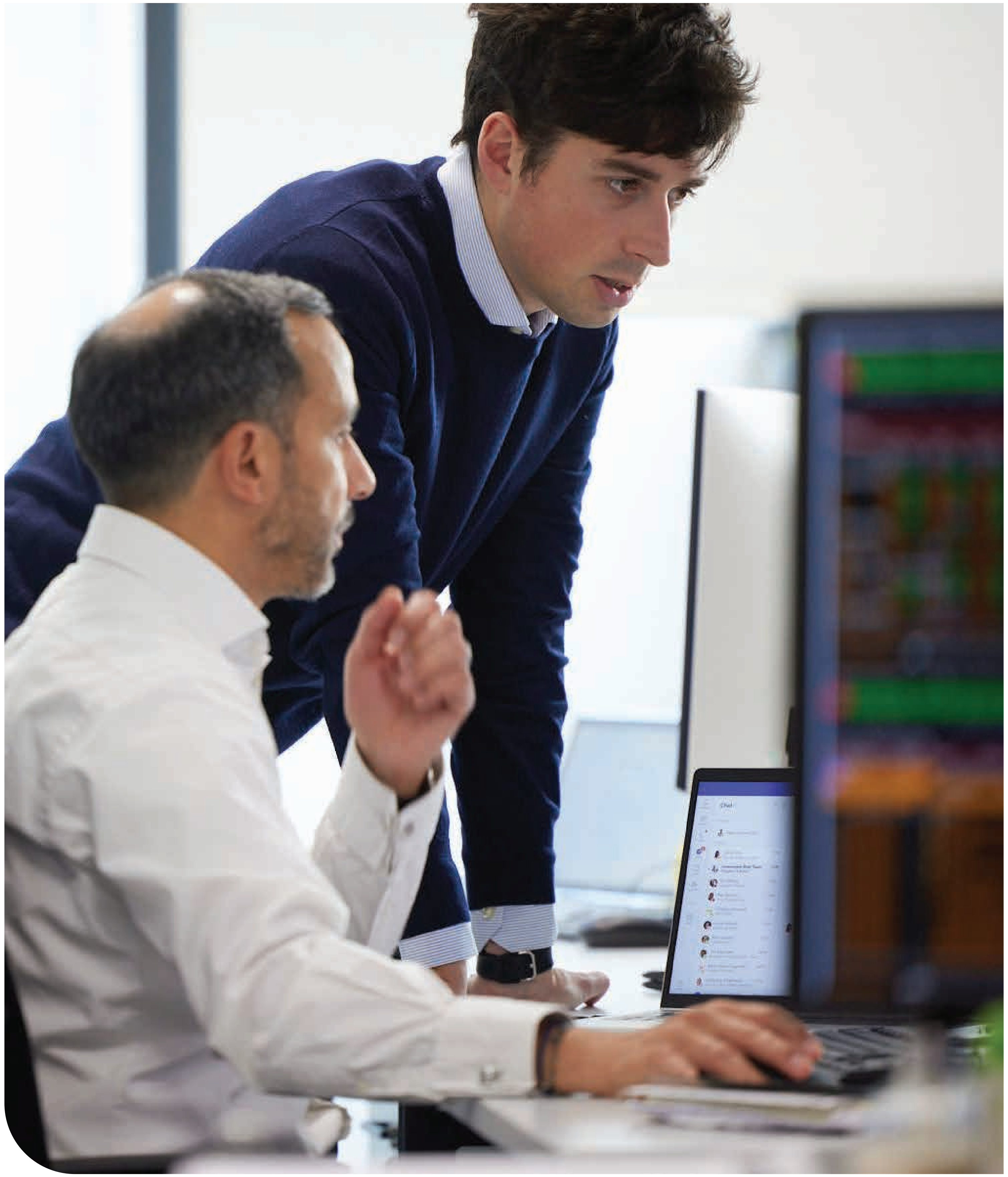
Examples of our ODD team working with external managers

Example 1: Ensuring operational standards

The ODD team conducted an operational due diligence assessment on a new Alternative Credit manager appointed in 2019. A number of recommendations and enhancements were suggested and subsequently made prior to investment. In 2022, the ODD team engaged with the manager to enhance and develop several areas of the business ahead of a new commitment. In an on-site review, the ODD team identified several risks in relation to the manager's information security, a lack of suitable insurance for digital risks and key person risk in a critical back-office support function. Following our feedback, the manager acquired a cyber-specific insurance policy, remediated the information security weaknesses, and subsequently hired a capable individual to eliminate the key person risk.

Example 2: Conflict of interest identification

The ODD team refreshed its due diligence on an existing Private Equity manager as part of its ongoing manager monitoring programme. While on-site, the team identified that the manager was using expert networks (external topic experts) but didn't have an appropriate policy in place to mitigate and appropriately manage any potential or perceived conflicts of interest. The ODD team raised their concerns with the manager and the risk was subsequently remediated through the implementation of a suitable policy.



OUR APPROACH TO ENGAGEMENT CONTINUED

Working with our investments to deliver climate goals

Creating our Climate Watchlist

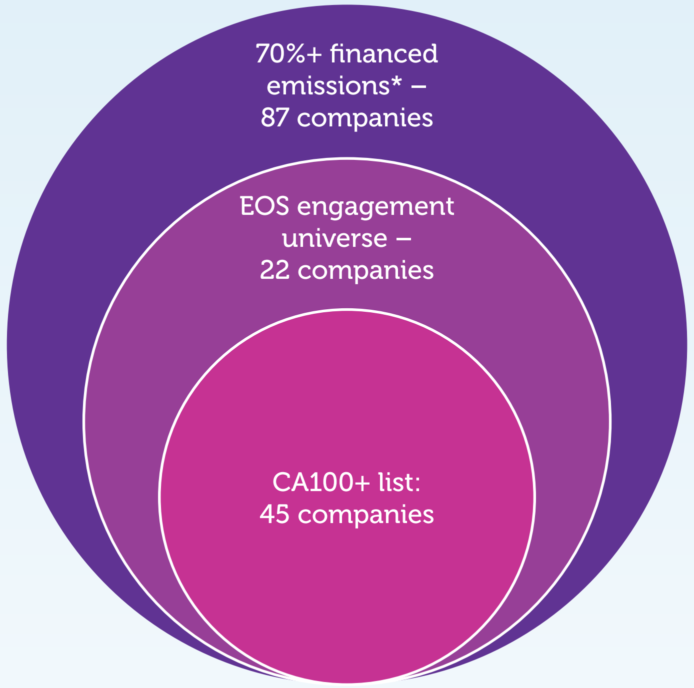
This year, in line with the IIGCC's Net Zero Stewardship Toolkit's guidelines, we identified our Climate Watchlist: 87 companies in material sectors that collectively are responsible for over 70 per cent of the financed Scope 1 and 2 emissions associated with our public markets investments. Significant work has been done to ensure the use case for the Climate Watchlist is robust and will enable us to make better decisions as to where to focus our engagement activities.

Of these 87 companies – which are predominantly based in the US and Asia Pacific – there are already established engagement strategies for 45 companies through the Climate Action 100+ (CA100+) investor initiative. A further 22 are targeted for engagement by EOS, our stewardship services provider. We are now identifying the best options for engaging with the remainder, whether directly or through collaborations – for example, via our external asset managers.

Our Net Zero engagement process

1. Undertake portfolio alignment analysis, set alignment goals and develop a stewardship prioritisation framework
2. Set Net Zero alignment criteria, alignment levels and time bound engagement objectives
3. Develop an engagement strategy for priority companies
4. Achieve asset owner and manager alignment, engagement and transparency
5. Establish a baseline engagement and voting policy, and escalation approach

Breakdown of Climate Watchlist engagement



* Using Scope 1+2 emissions.

In addition to engagement, we have recently developed an escalation strategy for the Climate Watchlist that can be deployed when engagements are either failing or progressing too slowly. Financed emissions analysis of the PPF portfolio will be undertaken at least annually to ensure our Climate Watchlist always holds the most relevant names.

Page 38 provides more detail on the voting activities and progress related to climate issues.

> "The creation of our Climate Watchlist is a significant achievement, enabling us to hone in on the companies that will have a real impact on emissions reductions of the portfolio."

Daniel Jarman
Stewardship Manager

OUR APPROACH TO ENGAGEMENT CONTINUED

Engaging through our stewardship services provider

As explained earlier in this report, we use an external stewardship services provider, EOS, to engage and vote across our segregated Equity mandates and also engage with Public UK Credit and Cash assets. Our Stewardship Policy details how we work with EOS, its four-step engagement milestone process to drive change at companies (see right), and the full list of themes considered.

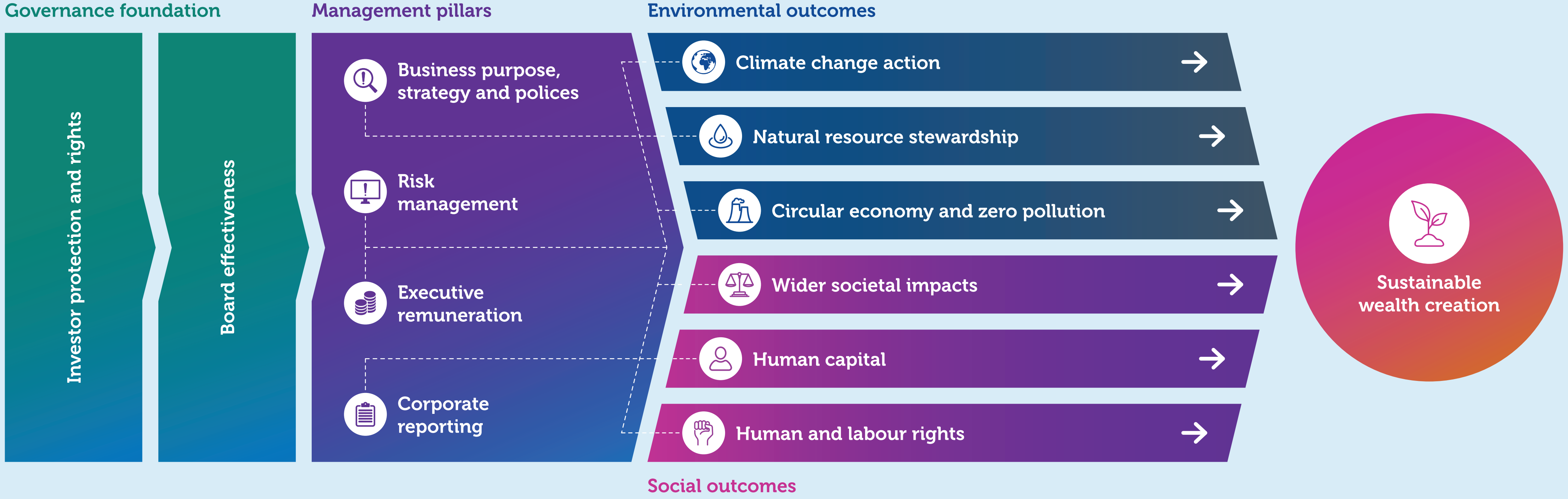
Latest activity and themes

EOS focuses its stewardship activities on the issues that it believes have the greatest potential to deliver long-term sustainable wealth creation for investors and positive environmental and societal outcomes. Currently it is focused on six outcomes: environmentally, these are Climate Change Action, Natural Resource Stewardship, and Circular Economy & Zero Pollution. Societally, its focus is on Wider Societal Impacts, Human Capital, and Human & Labour Rights – see right.

These six outcomes will be priorities for EOS. However, it also continues to maintain a comprehensive engagement plan covering a broad range of other themes that generally lead to wider positive societal outcomes. These include: seeking to avoid the emergence of 'superbugs' through anti-microbial resistance; increasing resource efficiency through the circular economy; and reducing all forms of harmful pollution.

> "EOS focuses its stewardship activities on the issues that it believes have greatest potential to deliver long-term sustainable wealth creation for investors and positive environmental and societal outcomes."

Engagement themes: Our stewardship process to achieve long-term sustainable returns on investment



Summary of the EOS engagement milestone process

Engagement with investee companies happens in stages, following specific milestones. Engagement can often take place over a multi-year period, so milestones track progress that are related to objectives set at the beginning of our interactions, which can vary depending on the types of issues raised.

OUR APPROACH TO ENGAGEMENT CONTINUED

Our issuer engagement progress and outcomes

Progress and outcomes from EOS-overseen assets

In 2022/23, EOS engaged with 686 companies that we invest in (196 in 2021/22) on 1,098 objectives and 2,928 broader ESG strategy, risk and communication issues and objectives. Its holistic approach to engagement means that it typically engages with companies on more than one topic simultaneously. The significant rise in companies is due to the increase in our mandates covered by EOS, since the end of the 2021/22 financial year.

Engagement by theme

A summary of the issues and objectives on which EOS engaged with companies in 2022/23 is shown below.

Engagement progress in 2022/23

As shown on the previous page, EOS carries out engagement through a four-step 'milestone' process. This begins by raising a concern that EOS follows up diligently until it achieves a measurable outcome. The process can span quarters or even years.

EOS had another strong year of delivering engagement objectives. During the year, progress on 577 of the outstanding objectives moved forward at least one milestone in the EOS process. The chart on the top right describes how much progress has been made in achieving the milestones set for each engagement theme.

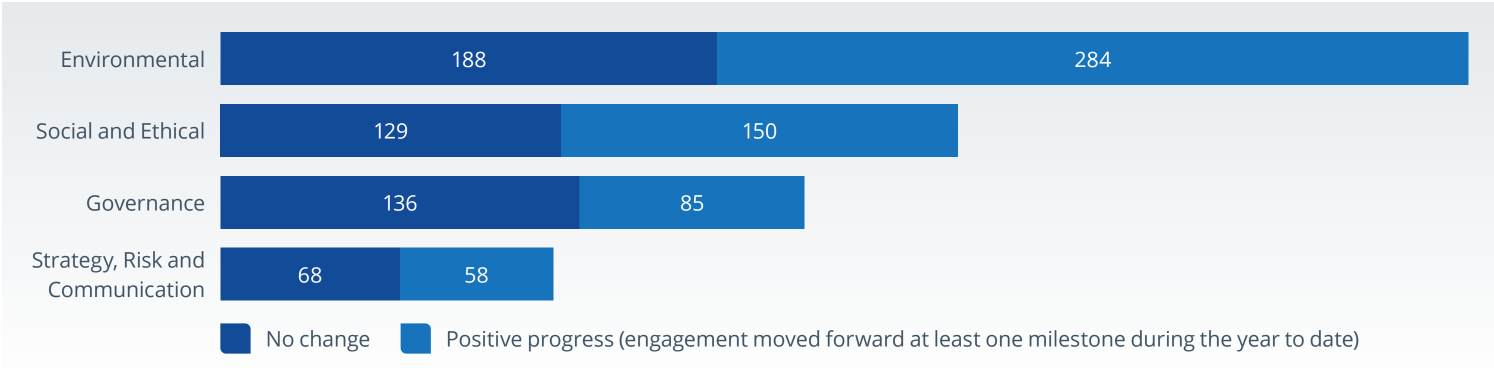
During the year, 159 objectives were marked as complete and 36 objectives had progress during the year but have since been discontinued. 294 were new objectives established during the year. Of the 521 objectives without progress during the year, 88 were discontinued and 11 were deemed to have completed the objective. The remaining 422 objectives stayed at the same milestone stage.

Engagement in UK Public Credit and Strategic Cash

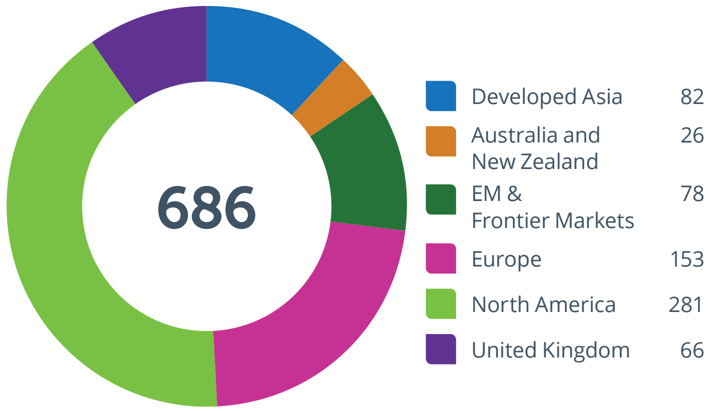
Of the 686 companies engaged by EOS during the year, 67 companies were held in our in-house UK Credit and Strategic Cash portfolios and over 80 per cent of these were acted upon specifically during this time period.

Engagement progress

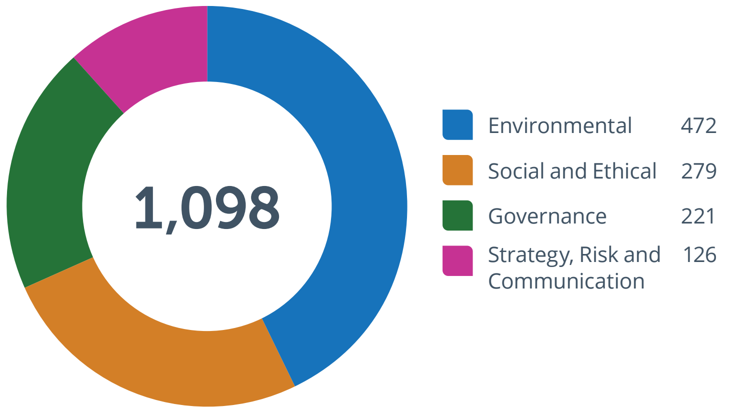
We made solid progress in delivering objectives across regions and themes. At least one milestone was moved forwards for about **53%** of our objectives during the year. The following chart describes how much progress has been made in achieving the milestones set for each engagement.



EOS engaged with 686 companies on our behalf in the following regions



ESG objectives by theme



> "During the year, 159 objectives were marked as complete and 577 objectives progressed to the next milestone or above. 294 were new objectives established during the year."

OUR APPROACH TO ENGAGEMENT CONTINUED

Examples of EOS corporate engagement on our behalf during the year

CASE STUDY

US food processing/commodities trading company

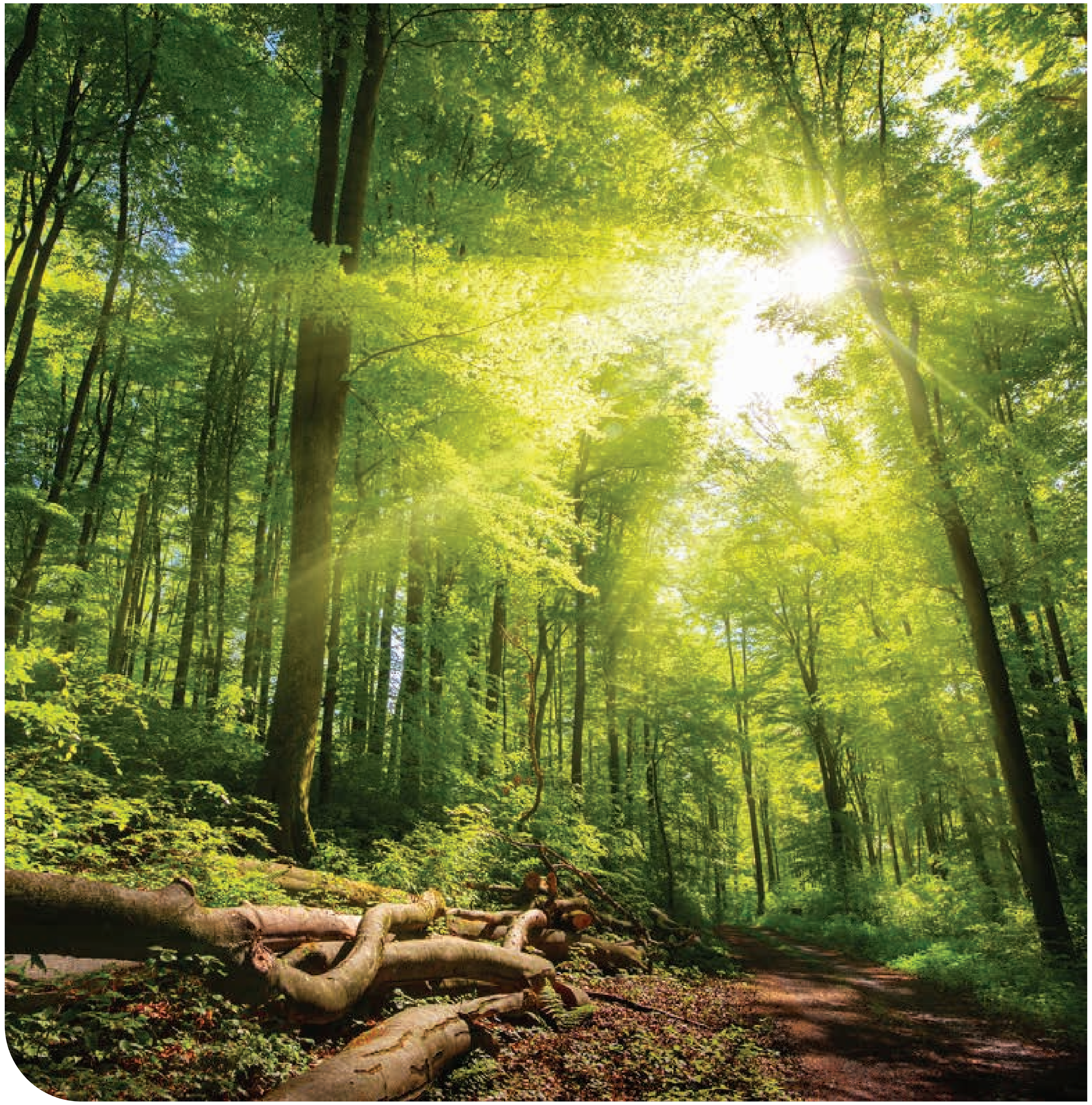
Asset class: Equities
Objective: Challenge deforestation targets

Action: During Earth Week 2022, an American multinational food processing and commodities trading corporation published a commitment to achieving 100 per cent deforestation-free global supply chains by 2025 – five years earlier than its previous 2030 target.

In an August 2022 engagement with the chief sustainability officer and investor relations representative, the company again reiterated its accelerated no-deforestation goal. This has been supported by advancements in technology, combining satellite technology with farmer updates.

Given that industry targets for zero deforestation were missed in 2020 (although the company itself did not have a 2020 goal), EOS asked the company in Q1 2023 how confident it was that it could meet its new 2025 target. The company said it was confident that the current timeline was possible due to developments in satellite imagery that can now show forest clearing in real time. EOS encouraged the company to remain focused on traceability and supply-chain due diligence. It was also noted that the current targets for sustainable agriculture were not sufficiently ambitious, as they focus on a small proportion of wheat production in the US. The company was encouraged to scale up its targets and its approach to include other regions and commodities. EOS also asked for more clarity on how the company encourages farmers to transition to regenerative agriculture, and how it tracks the outcomes on carbon, water, biodiversity and other indicators.

Outcome: In March 2023, the company confirmed that it had engaged 1.2 million acres of farming land in regenerative agriculture practices and announced a seven-year agreement with PepsiCo to engage a further 2 million acres, among other partnerships.



CASE STUDY

US chemicals company

Asset class: Equities
Issue: Board diversity

Action: In 2020, EOS raised the issue of board gender diversity with a major chemical company. The company indicated that it was seeking to refresh the board over time, with diversity being one of several criteria. In 2021, board diversity continued to fall short of expectations.

Through engagement with the company, EOS learned it was not in a period of active board refreshment, but was being purposeful about adding female directors to the board, which was welcomed. In Q1 2022, EOS wrote to the company providing its US corporate governance principles and conveying our expectations with respect to board diversity.

Outcome: In the company's 2022 proxy, EOS was pleased to read about the nomination of a female director to the board, bringing gender diversity to above 30 per cent. The company also provided information on its enterprise-wide focus on diversity, equity & inclusion (DEI) and publication of gender, race and ethnicity data on a dedicated DEI webpage.

OUR APPROACH TO ENGAGEMENT CONTINUED

Engaging with issuers through investor collaboration

Acting collaboratively with other investors to address industry, regulatory or company-specific issues has become a core pillar of our stewardship approach, given the scale, influence and efficiency it can deliver. As part of our efforts to maximise the collective voice of the investment industry, we are members of initiatives and engagements around a number of themes that are important to us.

Given there are so many industry initiatives to address environmental and social challenges, we prioritise support for projects in markets where we're already active or where we can see rules are being developed to improve a market's functionality and reduce systemic risks. We discuss this more on page 35.

> "Acting collaboratively with other investors to address industry, regulatory or company-specific issues has become a core pillar of our stewardship approach."

For example, on climate change, we actively participate in the programmes run by the Institutional Investors Group on Climate Change (IIGCC) – see right – and have contributed to key projects during the year under review. We also work closely with UK policymakers and market stakeholders, such as the Pensions and Lifetime Savings Association (PLSA), the UK Debt Management Office and the Department for Work and Pensions. We are involved with a range of investor organisations to help drive industrial and legislative change to encourage higher levels of stewardship and greater disclosure of ESG risks across the investment industry or within specific sectors.

The PPF is a member of the following initiatives

- We've been a signatory to the **Principles for Responsible Investment (PRI)** since 2007; our Head of Alternative Credit sits on the PRI's Private Credit Committee (our Head of ESG & Sustainability concluded a four-year term on the Infrastructure Advisory Committee in January 2023) and we're members of its Collaboration platform.
- The **Occupational Pensions Stewardship Council (OPSC)** was created by the DWP to promote and facilitate high standards of stewardship of pensions assets. The council provides UK pension schemes with a forum for sharing experience, best practice and research, and providing practical support. It also enables opportunities for schemes to collaborate on stewardship activities such as shareholder resolutions, climate change and corporate governance.
- As an investor member of the **IIGCC**, we've been an active member of its Net Zero Stewardship Toolkit, the Asset Owner Working Group and Proxy Advisory Working Group. We also participate in its collective responses to consultations.
- We encourage greater disclosure of environmental impact by companies, governments and other institutions by supporting organisations such as the **global disclosure systems provider CDP**.

Key industry collaborations during the year

Find it, Fix it, Prevent it – This group focuses on modern slavery within businesses and their supply chains. Developed by CCLA, a leading manager of charitable assets, and supported by a coalition of investor bodies, academics and non-governmental organisations (NGOs), the initiative is designed to harness the power of the investment community on a key issue. For the year under review, the initiative's focus industry was the construction sector. Investor members collaboratively engaged with UK-listed construction companies on modern slavery risks, including the PPF which is the lead investor for a FTSE 100 construction company.

The aim of the project is to highlight issues to the sector in question, better understand the challenges modern slavery poses to the industry, share best practice and explore potential remedies.

PRI Votes on Slavery – We were a continuing member of the Votes on Slavery initiative for its 2022 campaign, run by the PRI. This initiative focused on FTSE 350 companies that lacked disclosure compliant with UK modern slavery legislation. Of the 44 companies highlighted, 41 became compliant during the course of 2022, with the remaining three due to disclose after the year-end.

We monitored progress through the 2023 voting season and were prepared to use our votes to signal concern on non-compliance where necessary. We will continue to support this campaign as modern slavery is a key theme in our 2023 voting guidelines.

Climate Action 100+ – The PPF is a signatory to Climate Action 100+, the largest-ever investor engagement initiative on climate change. Involving around 700 investors in 33 markets, who collectively hold half of the world's assets under management, it aims to put pressure on the world's largest greenhouse gas emitters, responsible for approximately 80 per cent of global industrial emissions. Largely as a result of Climate Action 100+, 75 per cent (52 per cent in 2021) of targeted companies have made Net Zero commitments and 91 per cent (72 per cent in 2021) now report in line with TCFD recommendations. The majority of these companies feature in our passive portfolio.

Engagement through Climate Action 100+ has informed analysis of company progress when voting at AGMs. It also contributes to our own Climate Watchlist of high-emitting companies.

CCLA Mental Health project – This project analysed and ranked corporate disclosure on mental health policies and practices. During the year under review, the project focused on a list of global companies that scored poorly in its index. We led engagement on five of these companies, which are based in the US, Europe and Asia. We achieved dialogue with two of the companies contacted. As a relatively new engagement initiative, we are monitoring company progress in this area.

Collaborations for the coming year

We expect the majority of the campaigns above to continue over the next year. In addition, the PPF joined the following collaborations in 2023:

Science-Based Targets (SBT) Campaign – The CDP SBT Campaign was launched in October 2022, attracting support from 318 financial institutions and multinational firms, including the PPF, representing $37 trillion in assets and spending.

The campaign called on over 1,060 of the world's highest-impact businesses to set emissions goals in line with the Paris Agreement. The 2022–23 campaign resulted in 77 targeted companies[1], joining the ranks of 5,100+ companies committed to using SBTs to align their business with the Paris Agreement. They represent 0.2 gigatonnes in CO_2e emissions and $2.9 billion in market capitalisation, which is respectively 3 per cent and 12 per cent of the 2022 CDP corporate database.

IIGCC's Net Zero Engagement initiative (NZEI) – We joined the IIGCC's Net Zero Engagement initiative (NZEI) launched in spring 2023. This collaborative programme aims to scale up and accelerate climate-related corporate engagement, supporting investors to align more of their investment portfolio with the goals of the Paris Agreement.

1 As of end of May 2023.

OUR APPROACH TO ENGAGEMENT CONTINUED

Considering and promoting well-functioning markets

Collaborating to promote and improve market-wide risks

As a responsible asset owner, we feel it is important to understand and seek to mitigate risks that arise from systemic market-wide issues. Systemic issues relevant to ESG include climate change, biodiversity, disclosure and reporting. These risks are identified by our ESG, Legal and Risk & Compliance teams, and our Strategy & Policy team. They are also discussed as part of our monthly 'ESG dashboard' meetings with our Chief Investment Officer and Head of Investment Strategy.

As mentioned in the previous section, we believe our involvement in key industry initiatives and collaborations, and tracking market consultations help us to identify and consider market-wide or systemic risks relating to ESG.

Last year we reported on our innovative project to assess the implied temperature rise (ITR) of our portfolio relative to the goals of the 2015 Paris Agreement. Subsequent analysis has helped us become better informed about our position and how different parts of our portfolio might be contributing to climate change. This project has progressed during the year, allowing us now to track how our portfolio alignment has progressed across a number of time periods, and we have already seen good progress. For example, we have seen the percentage of the Fund categorised as 'Not Aligned' to the Paris Agreement decline by 11 per cent while the percentage classified as 'Aligned' increased by 7 per cent between December 2020 and 2022. More detail on this project is provided in our 2022/23 Climate Change report.

Key activities in policy engagement over the year

Regulatory standards and guidance around ESG issues are rapidly evolving. We follow these developments closely and look to contribute to their progress wherever possible. We engage with key policymakers and regulators globally on public policy that promotes and enables smooth market functioning. We carry out this engagement directly, through our stewardship services provider EOS, or through bodies such as the PRI and IIGCC.

Please see our LDI crisis case study on our engagement with policymakers and regulators on page 22.

Our direct policy engagement during the year:

FCA Vote Reporting Working Group – This comprises a range of market participants with knowledge and interest in developing a more comprehensive and standardised vote disclosure regime. Industry-wide engagement has taken place over the year. We are a member of one of three working groups focused on quality of vote rationales. The group's findings and recommendations are being consulted on and a paper will be published in due course.

DWP Taskforce on Social Factors – Following the DWP's 2021 consultation on consideration of social risks and opportunities by occupational pension schemes (to which we responded), a taskforce of asset owners and industry participants was established to develop a guidance document for trustees to consider social factors within their investment portfolios. We are one of three sub-group chairs leading the initiative. It is expected that the taskforce's findings will be published at the end of 2023/early 2024.

Our policy engagement through EOS

Europe – EOS, our stewardship services provider, submitted a response to a consultation by the European Financial Reporting Advisory Group on the EU Sustainability Reporting Standards. The response focused on the need for the standards to include transparency on the lobbying activities of companies, particularly indirect lobbying conducted by industry associations.

Asia – As a member of the Asian Corporate Governance Association, EOS attended a virtual delegation meeting in Japan with Japan's Financial Services Agency, the Japan Exchange Group, the Ministry of Economy, Trade and Industry and the Japanese Institute of Certified Public Accountants. EOS outlined policy expectations for shareholder rights and corporate governance best practice.

United States – In the US, EOS submitted a letter to the Securities and Exchange Commission (SEC) in response to its proposed climate disclosure rules announced in March 2022. EOS welcomed the SEC's efforts to require company reporting to include material ESG factors and consider disclosure rules on climate change, including the requirement to disclose Scope 1 and 2 emissions, and material upstream and downstream Scope 3 emissions.

Our policy engagement through IIGCC

This year, we also reviewed and supported the IIGCC's response to the FCA's consultation on sustainability disclosure requirements and investment labels. The consultation set out a package of recommended measures to build confidence and to help consumers navigate the sustainable investment products market and make better informed decisions about them.

Escalation and exercising shareholder rights

Company engagement is our principal tool for fostering greater social or environmental responsibility among the companies and other assets in which we invest. We primarily look to engage companies in a constructive, confidential manner. If this does not achieve the hoped-for outcome, we turn to escalation, including voting.

How we approach escalation and voting

When we escalate issues

Escalation is an essential tool in the stewardship toolkit. Where private engagement with a company is not progressing at a sufficient pace, there are a range of potential escalation strategies that we, or our external agents, can employ. These include:

- collaborating with other investors or campaign groups;
- issuing a public statement and/or publicly pre-declaring vote intentions; and
- filing a shareholder resolution.

Voting against board recommendations is an important tool we can use when necessary as part of a thoughtful escalation. However, we or our manager would try to engage with the company at board or management level to discuss the issue in advance.

Where we feel engagement has not been fruitful over a reasonable period of time, we may vote against management on one or more resolutions, such as reports and accounts or the election of individual board members responsible for poor governance, environmental or social performance.

Ultimately, selective divestment may be the outcome of a failed engagement if the severity of the issue is sufficiently material.

Our voting approach for listed equities

The PPF sees voting as an essential tool from a stewardship perspective in supporting engagement and enforcing shareholder rights.

We commit to voting every share we hold, except when its cost is prohibitive or it is not possible to do so due to operational reasons (for example, due to share-blocking markets or overly complex power of attorney requirements). Generally, we aim to align with the voting policy of our appointed stewardship services provider EOS, but we still review voting recommendations for significant votes or high-profile ballots.

EOS, which acts as our voting overlay provider for segregated mandates, provides daily updates relating to forthcoming shareholder meetings at which we are entitled to vote. Starting last year, we now have direct oversight of the voting execution across all our listed equity mandates. These are assessed alongside our Climate Watchlist of companies to determine which shareholder meetings and resolutions need to be reviewed by us internally. Our segregated mandates are instructed through the EOS voting service, and our pooled funds have been set up to enable split voting for our allocation of shares. Together, this allows us to exercise our voting power and ensure much greater consistency in our strategy, especially for particularly important companies and issues.

To ensure we participate in important shareholder meetings, we manage a watchlist of companies. This includes companies that are: on our Climate Watchlist; flagged on our United Nations Global Compact controversies watchlist; are being engaged by the PPF as part of either a collective or individual engagement; or represent a significant holding as a percentage of our portfolio.

This watchlist is loaded onto EOS's voting platform (or our external managers' for pooled split-votes), which allows regular automated reports to be produced for each voting environment. This process aims to give us sufficient time to review the shareholder documentation and ensure our voting intentions are implemented.

We are able to amend voting instructions directly on the relevant manager/EOS voting platform. Where we disagree with a manager's intended voting instructions, resulting in the re-vote of our ballots, we will discuss the meeting with the manager or engagement provider as appropriate.

Recognising the importance of voting our entire shareholding at certain contentious shareholder meetings, we are able to recall lent stock when considered appropriate. This ensures the full weight of our holding is reflected at the meeting. During the year under review, no shares were recalled for the purpose of voting, although it was considered.

How we voted over the year

The following tables and charts in this section detail our voting activity for the period 1 April 2022 to 31 March 2023.

Voting statistics April 2022 – March 2023

How many meetings did we vote at?	4,664
How many resolutions did we vote on?	53,791
What % of resolutions did we vote on for which we were eligible?	99.4%
Of the resolutions on which we voted, what % did we vote with management?	82.4%
Of the resolutions on which we voted, what % did we vote against management?	17.6%
Of the resolutions on which we voted, what % did we abstain from voting?	0.9%
Of the meetings at which we voted, what % did we vote at least once against management?	68.0%

Taking action

We look to be guided by best practice so our voting principles closely align with our stewardship services provider EOS's global voting guidelines. For example in 2023, for climate-related voting guidelines we increased the thresholds for the following measures:

Transition Pathway Initiative Management Quality score: All European and Australian companies in all sectors scoring below Level 4; all coal, oil, gas, utilities and automotive companies below Level 4 (vs. Level 3 for autos 2022); below Level 3 for all remaining sectors/companies in US and Asia and Emerging Markets.

Climate Action 100+ Benchmark: Companies that have no medium-term targets in place as identified by indicator 3 of the Climate Action 100+ Benchmark.

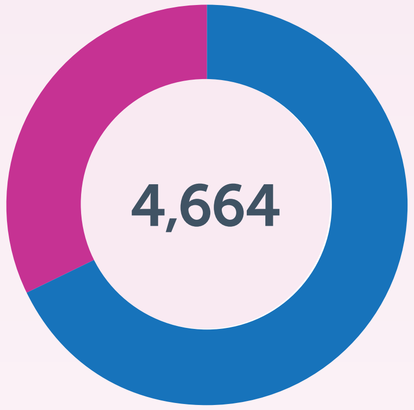
If a company falls below the set criteria noted above, we can review the shareholder meeting and determine how to vote on a case-by-case basis.

Our full voting guidelines can be found in Appendix E.

ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

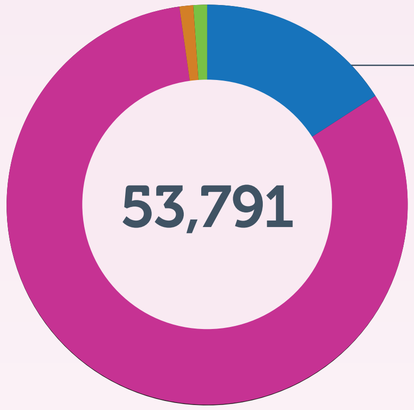
Voting activity 2022/23

Meeting with at least one vote against management



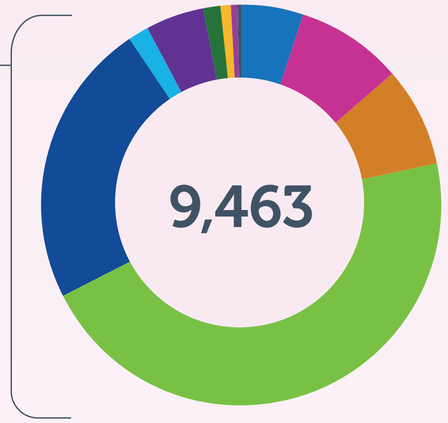
- Meetings with at least one vote against management 68%
- Meetings with management 32%

How we voted 2022/23



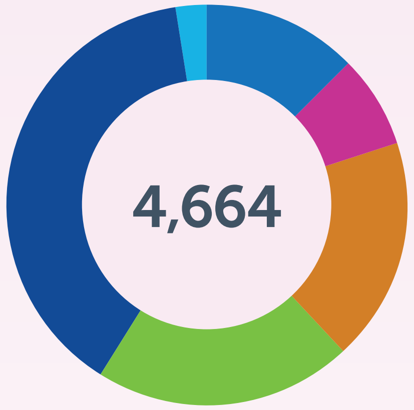
- Against management 16%
- With management 82%
- Abstain 1%
- Withhold 1%

Vote against management by issue



- Audit + Accounts 498
- Amend Articles 807
- Capital Structure + Dividends 763
- Board Structure 4,335
- Remuneration 2,173
- Other 158
- Shareholder Resolution Governance 454
- Shareholder Resolution Social & Ethical 131
- Shareholder Resolution Environment 79
- Investment/M&A 58
- Poison Pill/Anti-Takeover Device 7

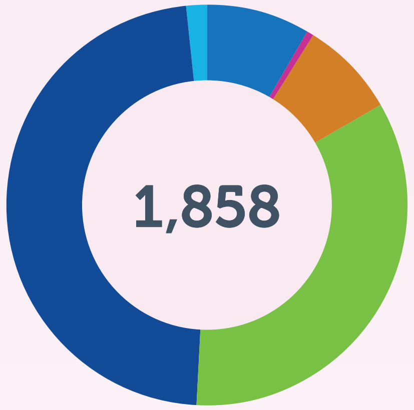
Regional breakdown of votes



- Europe 13%
- United Kingdom 7%
- Developed Asia 18%
- North America 21%
- EM and Frontier Markets 39%
- Australia & New Zealand 2%

Shareholder resolutions

Votes on shareholder resolutions per region



- Europe 9%
- United Kingdom 1%
- Developed Asia 8%
- North America 34%
- EM and Frontier Markets 48%
- Australia & New Zealand 2%

Report Category	ISS Category	Abstain	Against Management	With Management	Grand Total
Governance	Corporate Governance	1	85	15	101
Other	Miscellaneous	0	19	174	193
Environmental and Social	E&S Blended	0	10	30	40
Climate & Environment	Environmental	0	85	69	154
Compensation	Compensation	0	35	35	70
Social Proposal	Social	3	163	47	213
Routine Business	Audit Related	4	0	197	201
Directors' Related	Director Related	3	59	69	131
Economic Issues	Non-Routine Business	0	11	11	22
Directors' Related	Director Election	15	176	472	663
Routine Business	Company Articles	0	8	22	30
Routine Business	Routine Business	0	6	34	40
Grand Total		**26**	**657**	**1,175**	**1,858**

ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

The pie charts present our global approach to voting throughout the year under review.

Every year shareholders, including activists, propose resolutions at company annual meetings. Resolutions span a broad range of issues, from climate change to human rights to data privacy. The 2022 voting season was an active one with the majority of shareholder meetings taking place from March through to May each year. There was no doubt that 2022 was busier due to the high volume of ESG shareholder resolutions requiring a vote decision.

Against the backdrop of the COVID-19 pandemic, the 2022 voting season witnessed an increased focus on shareholder rights. Virtual-only shareholder meetings and a push for robust minority shareholder rights came into focus. Proposals to adopt 'one share, one vote' share class principles were prevalent along with proposals to allow proxy access.

Changes of this nature show the developed understanding of investors in leveraging their rights as shareholders.

During the season we noted the numerous post-pandemic Say-On-Pay proposals and corporate governance agenda items covering board elections that required consideration. Additionally, the significant increase in Say-On-Climate resolutions required a case-by-case analysis of the specifics surrounding the company.

The 2022 proxy season also saw an increase in anti-ESG proposals by shareholders. A notable example was the 'civil rights and non-discrimination' proposal, which was proposed at several US companies to conduct civil rights audits. Whilst these proposals seem to promote diversity and equal opportunity, closer consideration showed that the proposals argued that 'anti-racist' programmes are discriminatory against employees deemed non-diverse. These proposals actually aimed to frustrate companies' efforts to promote civil rights and social justice.

ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

Voting on climate issues

As noted above, 2022 saw the start of 'anti-ESG' sentiment making its way into shareholder meetings. Despite this, our approach to voting on climate issues was maintained.

2022 was the second year we saw 'Say on Climate'(SoC) resolutions proposed by management on the agenda. Across primary financial markets in Europe, the number of proposals increased by more than 50 per cent compared to 2021. The highest number of SoC proposals came from UK companies, principally insurers and financials, utilities and mining companies.

Given the emergence of SoC resolutions in 2021, we expected companies to have reviewed and taken on board investor expectations in terms of climate reporting and strategy, leading to a raising of the bar in 2022. This did not happen, in our opinion, resulting in the PPF voting against over half of SoC management resolutions in 2022 – a reversal of the 78 per cent level of support in 2021. We voted against management where we felt that there was inadequate disclosure, poor management of climate-related risks or insufficiently ambitious targets.

SoC votes in 2021 were mostly proposed by companies with emissions reduction targets trajectories aligned with the Paris Agreement, whereas 2022 saw companies with less-aligned pathways seeking approval. For example, Australian energy company Woodside Petroleum received a 49 per cent vote against its SoC resolution, with the PPF amongst shareholders who voted against it. See also the case study on Glencore (right).

From a shareholder proposal perspective, 2022 saw the highest number of shareholder resolutions proposed on company agendas globally across a range of issues (not just climate-related). Our most common reasons for supporting climate proposals were insufficient targets or action on climate change from the company. As expected, US companies received the majority of proposals, with a notable year-on-year increase in the number of proposals. This is primarily due to the SEC's new approach to 'economic relevance' and 'ordinary business exceptions' that could be used by companies to omit proposals from the ballot. However, the increase in volume did not lead to an increase in support, most likely due to lower quality proposals making it onto the agenda.

In Europe, ESG-related shareholder proposals that gained traction were generally limited to those proposed by key activist groups such as Follow This and ShareAction. Follow This targeted 'big oil' companies aiming to get them to adopt Paris-aligned emissions strategies. ShareAction proposed social-related resolutions at Sainsbury's and Unilever in addition to a resolution at Credit Suisse related to the financing of fossil fuel assets.

Glencore – Vote Against 'Say on Climate' Proposal

Glencore plc is a Swiss multinational commodity trading and mining company. Although the company has made positive moves in terms of tightening medium-term greenhouse gas emissions targets and reducing Scope 1, 2 and 3 emissions targets, we continue to be concerned by the high level of emissions from coal production. These would need to reduce around 70 per cent by 2030 to be aligned with the Paris Agreement to keep global warming to 1.5°C above pre-industrial levels. Given this short timespan, the company's continued investment in coal production is also a major concern. In line with our voting policy that companies should be strategically aligned to the Paris Agreement, we voted against Glencore's SoC proposal.

24%

of shareholders that voted did not support the company's SoC proposal.

Engagement is ongoing through EOS to work with the company to reduce emissions.

Dollar Tree – Vote for shareholder proposal on emissions reduction targets

Dollar Tree Inc. is an American multi-price-point chain of discount stores. For its June 2022 AGM, a shareholder proposal was made requiring the company to set reduction targets for greenhouse gas emissions aligned with the Paris Agreement. The company's current strategy, targets and disclosure fall short of alignment with the Paris goals. As we expect companies to be strategically aligned to the Paris Agreement, we voted for the proposal.

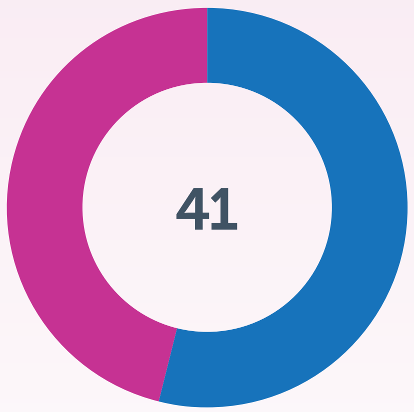
55%

of shareholders supported the shareholder proposal.

The company has recently committed to:

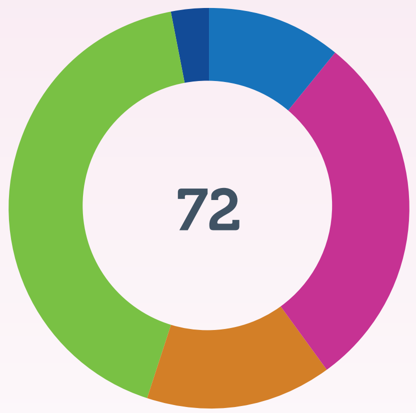
"Set our ambition to achieve Net Zero Scope 1, 2 and 3 emissions by 2050 and to announce 1.5 degree-aligned near-term Scope 1, 2 and 3 emissions reduction targets on or before 30 June 2024."

Say on Climate: How we voted in 2022



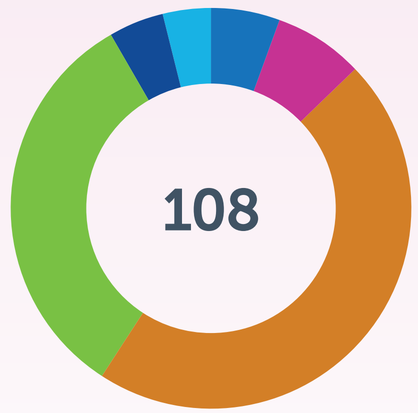
Against management	54%
With management	46%

Shareholder resolutions on climate: Votes against management by rationale



Lack of Disclosure/Reporting Analysis	11%
Insufficient action on climate change	29%
Lack of strategy/policies/plan aligned with current commitments	15%
Insufficient targets and/or climate plan/strategy/policies	42%
Misalignment with current ambitions	3%

Votes on shareholder resolutions by climate theme



Climate Action Plan	6%
Climate Change Action	7%
Report on Climate Change	46%
GHG Emissions	32%
Renewable Energy	5%
Restriction of Fossil Fuel Financing	4%

ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

Our criteria for significant votes

Along with guidance from the PLSA around significant votes, we also use our own criteria to flag material votes that we need to scrutinise carefully. We have created a voting watchlist of companies for which we get particular coverage from EOS (see below). We also have an agreed timeline for action to execute votes proactively for significant and material positions in our portfolio. After deciding our voting intentions, we access the voting platforms of our asset managers for any pooled mandates and submit vote instructions.

Our voting watchlist includes:

- Companies where we own over 1 per cent of equity.
- Companies that we hold directly (which we escalate to our CIO for a voting decision).
- Companies with specific issues of concern (for example, practices that are non-compliant with the UN Global Compact).
- Votes related to a specific initiative in which we're involved (for example, companies on the Climate Action 100+ list).

Each quarter, our segregated voting and engagement reports are uploaded to our website. We currently do not publish resolution-specific vote reporting. However, we will respond directly to individual requests from members and other stakeholders if a request for this information is made following a vote.

Taking action

We noted last year that we had started to review the best way of disclosing individual company votes on our website. This process, despite taking longer than expected, has moved forward significantly and we hope to have a solution in place before the end of the current financial year.

Summary of some of our significant vote outcomes

Date of vote	Company name and significance	Resolution	For/Against management	Reasoning for voting decision	Vote outcome	Outcome and next steps
7 July 22	J Sainsbury – Sector significant vote	Proposal on Living Wage accreditation	Against (supported shareholder proposal)	Although the practices of the company exceed many competitors, support for the resolution will have a signalling effect across the sector to raise standard of pay.	17% of investors voted for the shareholder proposal	Engagement with the company, through EOS, is ongoing on the issue of Living Wage accreditation and ensuring standards of pay and human rights in the supply chain.
29 April 22	Credit Suisse – High profile holding	Director discharge – 2.1	Against	Given the controversies faced by the company and the evidence of insufficient governance and risk controls, discharging the directors via this resolution was not considered appropriate for the year in question.	60% voted against	The company has been heavily engaged by EOS at board level. The company has now been acquired by UBS.
11 May 22	Phillips 66 – High emitter	5 and 6	Against (supported shareholder proposals)	A vote supporting the shareholder proposal was warranted given the company's slow progress on emissions reduction strategy and disclosure.	49.85% of investors voted for the shareholder proposal	At the 2023 AGM, climate concerns were escalated by voting against the board chair. There is an ongoing engagement programme through EOS with board level dialogue being achieved.
16 June 22	Informa plc – market laggard in terms of best practice	14 – Approve remuneration report	Against	Adjustments to performance targets resulted in an increased incentive award payout for directors. Also pension contributions far exceed those for other employees.	71% voted against	Engagement was via our asset manager. Pension contributions are to be reduced for 2023 onwards.

ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

Exercising our rights in other assets

Our rights as a provider of fixed income debt to a company differ markedly from those as an equity shareholder. We find that achieving large-scale change among fixed income issuers can often be more effectively managed through industry-led initiatives rather than as a single investor.

The majority of investments for private equity, debt and infrastructure are made through Limited Partnership arrangements. These do not provide voting right in the same way that public assets do. Where appropriate, we seek to have representation on a Limited Partnership Advisory Committees (LPAC), giving us approval rights on specific issues such as amending contractual terms and approving the appointment of other committee members. In private market closed-ended funds managed externally, we have found that it is almost impossible to change retrospectively any contracts or side letter terms that were signed historically. Therefore, we look to obtain sufficient recourse in our side letters, so that if we determine that we no longer wish to remain invested in a portfolio company due to an unmitigable risk, we have the option to transfer out of the fund.

We have developed a fully integrated approach to the assessment and oversight of our potential and ongoing fixed income investments. For example, in UK private credit, where data can be less readily available, we rely heavily on our internal due diligence process. This involves significant engagement with management of private companies. ESG considerations, in addition to commercial and risk-related analysis, are evaluated and concerns are addressed within the process. Ultimately, if we are not comfortable with the terms of a deal, we will not participate. However, we will often seek to propose amendments to the terms of the agreement to ensure that any requests we have are incorporated into the deal and – where appropriate – the future structure of the company. As part of the ongoing management of fixed income assets, we will often continue to seek positive change after entering into an agreement.

When investing in liquid alternatives through external investment vehicles, no voting rights are attached to the underlying assets. However, we can vote on issues relating to the fund itself. In these circumstances we will vote directly with input from the portfolio manager and ESG & Sustainability team.

CASE STUDY

Russian investment exposure

Sector: Personal Goods
Asset Class: Private Equity
Issue: Russian investment exposure

Background: As part of the LPAC, we were presented with a potential investment involving a company that received a minority of revenue from sales in Russia. Although it was fully compliant with US/EU regulations, a meeting was held to discuss LPAC views and share potential concerns and sensitivities.

Action: Our LPAC member discussed the issue internally and as a result the conclusion was reached that the investment opportunity should not be pursued. At the LPAC meeting our view was shared.

Outcome: The ultimate conclusion of the LPAC overall was that it was uncomfortable with the potential reputational risks associated with this business with Russia and the potential resulting reporting and anti-money laundering/know-your-client requirements. Further negotiations are ongoing to carve out this revenue stream from the potential purchase.

Our aspirations for the coming year

We will continue to engage with our external asset managers, issuers and other stakeholders to keep advancing standards so that we can all fully understand and manage the risks we face. We will continue to develop our internal stewardship oversight and reporting capabilities, to maximise the resilience of our portfolio to material ESG and climate-related risks.

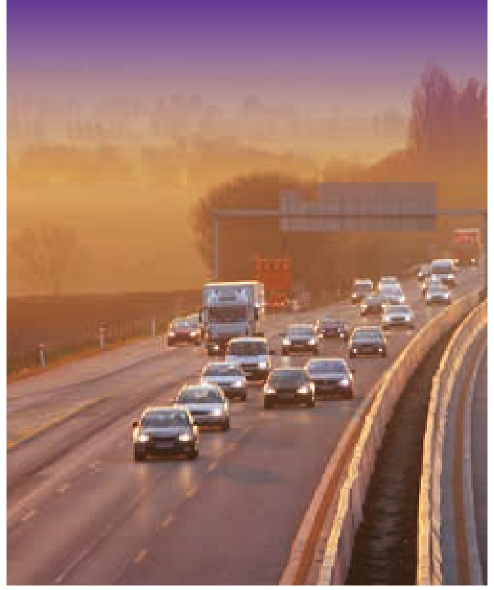
Continue to work with our managers to improve their ESG and stewardship disclosures in line with our own evolving reporting requirements and industry-led standardisation initiatives.

Leverage our sustainability strategy's key goals to ensure we are fostering a more sustainable and inclusive pensions industry in all our activities.

Increase the PPF's involvement in collective engagement initiatives across private and public markets.

Undertake detailed analysis of our bank counterparty sustainability profiles.

Continue to work with our Alternatives managers and on the eFront Outreach project to improve ESG data disclosure in unlisted markets.



Ensure at least 80 per cent of our Climate Watchlist companies are making disclosures on emissions, with a view to standardising how this is reported.

Enhance Investment Committee reporting that utilises bottom-up manager and asset ESG reporting.

Undertake an ESG service provider review to ensure our providers remain fit for purpose.

Provide greater transparency on our website of our proxy voting behaviour.

Extend our portfolio ESG reporting to cover all public credit portfolios.

Appendices

Appendix A

Our ESG & Sustainability team

- Claire Curtin, Head of ESG and Sustainability.
- Daniel Jarman, Stewardship Manager.
- Amina Mimi, Sustainability Analyst.
- Anna Paschaloglou, ESG Data Analyst.

Appendix B

Meeting the FRC's Stewardship Code

As a signatory to the Financial Reporting Council (FRC)'s UK Stewardship Code, our report is seeking to meet the reporting expectations set out by the Code's 12 principles. The table on the right aims to provide a guide on our compliance with the Code and where each principle is discussed within this report.

	Stewardship code principle	Page reference
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	Pages 7 to 17
2	Signatories' governance, resources and incentives support stewardship	Pages 7 to 17 and 43
3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	Page 15, Appendices C and D
4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	Page 22 and 35
5	Signatories review their policies, assure their processes and assess the effectiveness of their activities	Pages 14 and 48
6	Signatories take account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them	Page 16
7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change to fulfil their responsibilities	Pages 18, 19 and 20
8	Signatories monitor and hold to account managers and/or service providers	Pages 20, 21, 24 and 28
9	Signatories engage with issuers to maintain or enhance the value of assets	Pages 21 to 33
10	Signatories, where necessary, participate in collaborative engagement to influence issuers	Pages 34 and 35
11	Signatories, where necessary, escalate stewardship activities to influence issuers	Pages 36 to 41
12	Signatories actively exercise their rights and responsibilities	Pages 36 to 41

APPENDICES CONTINUED

Appendix C

Our Conflicts of Interest policies

Our formal Conflicts of Interest and Code of Conduct policies set out principles and procedures for identifying, assessing and managing conflicts. These policies are reviewed at least annually by the Compliance & Ethics team and approved by the Executive Committee.

Register of conflicts and outside business interests

The Compliance and Ethics (C&E) team maintains a register of employees' conflicts and outside business interests, which they review at least once a year. We also share members' outside interests on our website.

Ongoing training

All employees receive training on Conflicts of Interest when they start and as part of ongoing development. They also sign to say they've read, understood and followed these policies every year.

Gifts and Hospitality policy

Our Gifts and Hospitality (G&H) policy requires all employees to request sign-off from their line manager and the C&E team before accepting gifts or hospitality over the value of £25.

The C&E team maintains a register of all gifts and hospitality that have been accepted and declined, with regular reviews to make sure these are within acceptable levels.

We also publish board member expenses quarterly on our website.

Personal accounts

Our Personal Account Dealing policy requires all transactions to be approved by line managers and the C&E team. If there's a conflict between the employee, member or the PPF's interests, we may create a list of restricted investments that our employees can't invest in.

Senior manager fitness and propriety checks

We have implemented a version of the FCA's Senior Managers Regime. As part of this regime, the C&E team meets annually with senior managers to discuss their roles and responsibilities. This includes assessing any potential conflicts and forms part of the annual assessment of their fitness and propriety to carry on their role.

Other checks, as part of this fitness and propriety assessment, include performance review (PDP) along with credit and background checks on a rolling three-year basis with self-assessments carried out every year.

Procurement processes

When procuring new suppliers, we are subject to the Public Contracts Regulations 2015. Our Commercial Services team makes sure new contracts follow the correct procurement process and are awarded fairly, based on objective criteria.

The Commercial Services team also maintains an ongoing assurance programme for all our suppliers.

The PPF operates a compliance programme that addresses regulatory compliance for a number of topics with which we have either chosen to comply or are required to comply with. The compliance programme monitors and regularly reviews these areas to make sure we have up-to-date policies and statements in place, and that we are meeting the standards expected of us.

Appendix D

Our IMA and side letter terms relating to conflicts

IMA – Conflicts of interest

The Manager and its Associates may, subject to the principle of Best Execution and without prior reference to the Board, effect transactions in which the Manager has, directly or indirectly, a material interest or relationship of any discretion with another party which may involve a potential conflict of interest with the Manager's duty to the Board. Without prejudice to the generality of the above:

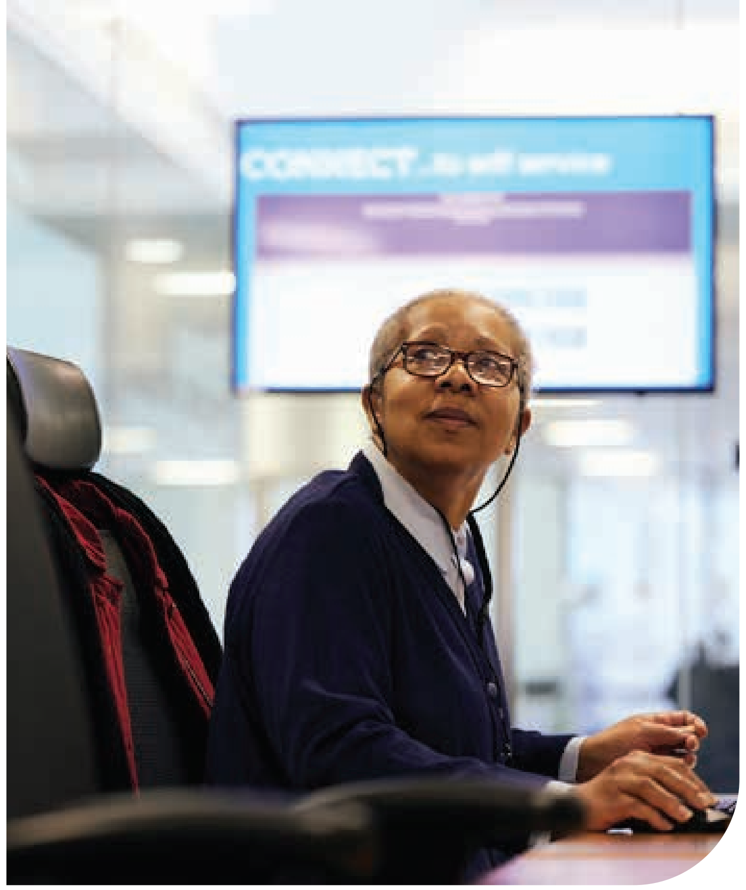
- in order to mitigate the risk of such conflicts of interest from constituting or giving rise to a material risk of damage to the interests of the Board, the Manager has implemented a conflicts of interest policy ('the Conflicts Policy') which identifies the circumstances which give rise to conflicts of interest and documents the procedures to be followed in order to manage such conflicts. Further information is available on the Manager's Conflicts Policy on request; the Board acknowledges that it has access to a copy of the Manager's Conflicts of Interest Statement within the Corporate Governance section of the Manager's website;
- where a conflict of interest is found to exist, any transaction effected by the Manager on behalf of the Board will be in the Board's best interest and on terms no less favourable to the Board than those which would have applied had there been no conflict;
- the Manager and its Associates shall make investment decisions having regard to the Portfolio's interest and shall have regard to their interests and the interests of their clients only in so far as is necessary to comply with the requirements of any financial regulatory authority;
- the Manager and its Associates may act as agent or principal in any transaction on behalf of the Board for the account of the Portfolio without prior reference to the Board provided that the terms obtained for the benefit of the Portfolio are at least as good as those generally available elsewhere;
- the Manager and its Associates are authorised in accordance with its duties under this Agreement to consider the advisability of including within the Portfolio or to effect transactions on behalf of the Portfolio in the ordinary shares of, and/or other Securities issued by the Manager or its Associates; and
- subject to the Aggregation of Deals Clause, the Manager and its Associates are authorised in any one transaction, or series of transactions, where it is in the best financial interests of the Board, to act for more than one portfolio or client collectively (including the Portfolio) without the written consent of the Board.

Side letter – Conflicts of interest

If the General Partner determines that a transaction with or by the Fund presents an actual or potential conflict of interest, the General Partner shall:

(a) disclose such conflict of interest to the Advisory Board and seek approval thereof prior to engaging in such transaction; and

(b) ensure that any such transaction is on an arm's-length basis on terms substantially similar to those which would otherwise be negotiated with an unaffiliated third party and the terms thereof are disclosed to the Advisory Board.



APPENDICES CONTINUED

Appendix E

Our voting guidelines 2023

Our voting principles

We are guided by the best practice as demonstrated by our stewardship provider, EOS, and our voting principles closely align with their global voting guidelines.

- **No abstentions:** We aim to take an active position on matters open to vote and aim to either vote in favour or against a resolution and only abstain in exceptional circumstances – for example, where our vote is conflicted, a resolution is to be withdrawn, or there is insufficient information upon which to base a decision.
- **Support for management:** We seek to be supportive of boards and to recommend votes in favour of proposals unless there is a good reason not to do so in accordance with our voting guidelines, global or regional governance standards or otherwise to protect long-term shareholder interests.
- **Consistency of voting:** We aspire to be consistent in our votes and positions in regards to specific companies or issues across our entire portfolio. We seek to provide clarity on our positions through our asset managers and designated stewardship services provider, in accordance with our RI Strategy and stewardship priorities. However, we recognise the limitations of investing across a range of mandates, especially the challenges of implementation within pooled funds at times, and we do this on a best efforts basis.
- **Engagement:** Engagement is a fundamental aspect of our RI strategy, which we apply across all asset classes. Within our Public Equity portfolio, we have identified a list of high-priority companies ('watchlist' companies) we'll endeavour to engage with prior to voting against a resolution, if there is a reasonable prospect that this will either generate further information to enable a better quality of voting decision or to change the approach taken by the company. We'll also seek to inform such companies of any anticipated votes against management, together with the reasons why, through our designated stewardship provider. For non-watchlist companies, we will inform companies on a best efforts basis.

On matters related to good governance such as board independence, competent leadership, separation of the roles of the governance roles, we leverage off the deep expertise and recommendations of our stewardship services provider EOS.

Key themes for 2023

With a specific focus on material issues, we identify key ESG matters that are of particular importance in a specific AGM season and highlight them through targeted engagement. Where we feel that companies are consistently unreceptive to engagement on certain issues, we will consider employing escalation techniques such as voting to oppose relevant board members or resolutions.

Climate change

Climate change is a key area of focus for us, and Net Zero stewardship is a fundamental part of our approach to management of climate-related risks. Read our Climate Change Policy for more details. Through our stewardship services provider and participation in collaborative initiatives, we expect tangible progress around Net Zero and work with both our managers and companies to encourage the transition to a low carbon economy.

In order to measurably track and encourage progress on climate, we utilise the management quality assessment of companies that are analysed by the Transition Pathway Initiative (TPI). We are also informed by the Climate Action 100+ Net Zero Benchmark for those companies included in this assessment. We also will be guided in our voting by the industry initiatives around Net Zero alignment for both asset owners and our asset managers.

For 2023, we have increased the thresholds for climate-related voting guidelines. In cases where a company fails to meet these expectations, a vote against management will be considered. Thresholds are noted below:

Transition Pathway Initiative: Management Quality score: All European and Australian companies in all sectors below Level 4 (new); all coal, oil, gas, utilities and automotive companies below Level 4 (vs. Level 3 for autos 2022); below Level 3 for all remaining sectors/companies in US and Asia and Emerging Markets;

Climate Action 100+ Benchmark: Companies that have no medium-term targets in place as identified by indicator 3 of the Climate Action 100+ Benchmark (new);

Coal: Companies identified as expanding coal-fired infrastructure by the Global Coal Exit List or companies that have significant dependence on coal without a sufficiently ambitious timeline and strategy for coal phaseout;

Deforestation: Companies that score below 10 on the Forest 500 ranking (assesses companies' disclosure and management of deforestation risks); Financial institutions that score 0 on the Forest 500 ranking.

Climate-related Shareholder Proposals: For Europe, we will be reviewing any shareholder proposals related to climate change internally.

Companies on the PPF's Climate Watchlist: Shareholder meetings at companies on our Climate Watchlist will also be reviewed internally by the ESG team. This process will allow additional analysis around the progress being made against our internally-set targets. A vote against management may be necessary if we consider there has been inadequate progress.

Assessing human rights laggards

For 2023, the guidelines have been refined to target laggards across several focus areas. We may recommend a vote against responsible directors if:

General failings: A company is in clear breach of its applicable regulatory responsibilities (for example, the UK's Modern Slavery Act), or has caused or contributed to egregious, adverse human rights impacts or controversies, without providing appropriate remedy. See more on Modern Slavery below.

Benchmark laggards: A company scores significantly lower than industry peers (bottom 15–20 per cent) within credible external benchmarks of companies on human rights, without providing a sufficient explanation or a commitment to improve:

- **Corporate Human Rights Benchmark 2022** – Ranks some of the world's largest companies on the policies, processes, and practices they have in place to systemise their human rights approach and respond to serious allegation.
- **Ranking Digital Rights Index 2022** – Ranks some of the world's largest technology companies on their commitments and policies affecting users' freedom of expression and privacy rights.
- **BankTrack Human Rights Benchmark 2022** – Ranks some of the world's largest banks on their progress towards fully implementing the UN Guiding Principles.
- **Know the Chain Index 2020/2021** – Ranks some of the world's largest companies on their current corporate practices to identify and eradicate forced labour risks in their supply chain.

Modern Slavery

Modern slavery continues to be a key focus in the UK. Given the systemic nature of modern slavery and the serious risk it poses to businesses and investors, we expect all UK businesses covered by the Modern Slavery Act to meet its reporting requirements. We also expect members of the FTSE 350 to lead in this area, and to take substantial action to address the prevalence of slavery within their supply chains.

The quality of reporting delivered under Section 54 of the Modern Slavery Act can be an important indicator as to how seriously senior management are taking this risk. It improves accountability and enables companies to identify the areas of their business most at risk. Companies that meet the reporting requirements and clearly disclose the areas of their businesses most susceptible to modern slavery benefit from increased investor confidence. Conversely, non-compliance with the Modern Slavery Act poses as a serious risk to long-term investors.

In 2023, we will continue as members of the PRI collaboration initiative Votes against Slavery. The purpose of this initiative is to engage with FTSE 350 companies around their public disclosure in compliance with the Modern Slavery Act, by writing to the board of each non-compliant FTSE 350 company with a targeted letter explaining the nature of non-compliance, and the steps needed to achieve compliance.

We will again consider withholding our support for the approval of the Annual Report and Accounts at any non-compliant company's next AGM, should the required changes to achieve compliance not happen prior to the AGM. All non-compliant companies have been contacted and details of perceived non-compliance communicated.

Diversity & Inclusion

Board diversity – We believe that board members should broadly reflect the diversity of society and that there is value in diversity of thought, skills and attributes. We will consider voting against relevant directors and/or the chair where we determine that board diversity (by gender, ethnicity, age, relevant skills and experience, or tenure) is below minimum thresholds and we determine the company is making insufficient progress on diversity. Thresholds may be set at a market level (for example, around gender and ethnicity) or may be applied globally (for example, around skills and experience).

APPENDICES CONTINUED

Building on existing voting criteria around gender diversity – In the UK we support the changes to the FCA's listing rules for board diversity and expect companies to disclose whether they comply – or, if not, why – with the following targets: at least 40 per cent of board seats and at least one senior board position (Chair, CEO, CFO or SID) held by a woman, and at least one board seat held by someone from an ethnic minority background.

In 2023, we consider the following to be minimum expectations and will likely oppose the chair or other responsible directors if not met:

- FTSE 350 boards to comprise at least 33 per cent women and executive teams to have at least one female member.
- FTSE 100 boards to have at least one member from an ethnic minority background (we will extend this to the FTSE 350 from 2024).
- Women to comprise at least 25 per cent (FTSE 100) or 20 per cent (FTSE 250) of the combined population of the executive committee and its direct reports.

In Japan, we are likely to vote against the nomination committee chair or board chair at TOPIX 100 companies if fewer than two directors are female. This builds on the prior 2022 guideline requiring 10 per cent of directors to be female. Below the TOPIX 100, the requirement will be at least one female director. In Malaysia, following the updated Corporate Governance Code, our minimum female representation at board level is being increased to 30 per cent. Previously 20 per cent of the board was required to be female.

Executive committee diversity – Following the introduction of executive committee/C-Suite diversity expectations in 2022, we have extended these requirements in the UK from the FTSE 100 to the FTSE 350 this year. Executive committees of companies within the FTSE 100 are now expected to comprise at least 25 per cent females and FTSE 250 executive committees to have at least 20 per cent female representation.

All other gender diversity targets introduced within the US, Australia, Denmark, France, Germany, Italy, Netherlands, Spain and Sweden will stay the same as for 2022.

Appendix F

Stewardship section of our ESG Questionnaire

Our ESG Questionnaire is a scored mandatory list of questions that prospective investment managers must answer on a pass/fail basis to progress through the tender process. Below is a sample list of questions within the Stewardship section of the questionnaire.

1. Are you a signatory or do you intend to apply for signatory status to the revised Stewardship Code in 2020, or other national stewardship codes? Yes/No

   a) If you are not a signatory to the Stewardship Code, please provide rationale.

2. Please explain how active ownership practices, such as company engagement, are integrated into investment decisions.
3. How do you set objectives, measure progress and report on the outcomes of your engagement with issuers on ESG issues?
4. How do you encourage better disclosure from corporates, especially regarding climate risks?
5. For what percentage of investments (by value, over the last year) have you undertaken engagement on climate change, environmental, social and governance issues?
   - If percentage > 0, please provide detail on processes (e.g. on monitoring processes, engagement strategy) by engagement topic.
   - Please provide recent examples of such engagement and your assessment of the effectiveness of your stewardship activities, e.g. instances of positive change at issuers versus the level of influence you had on the issuer.
   - If percentage = 0, please explain why engagement was not undertaken.
6. What escalation processes do you have in place for situations of continued underperformance on the engagement objective? Please give two recent examples of where this has occurred in practice.
7. Please also describe in detail your approach to voting shares, and whether your voting actions are determined internally or outsourced to a proxy voting agency. If the latter, do you ever override the agency's recommendations? Please give a recent example.
8. How do you approach ESG and climate-related ballot items in your voting decisions? Have you voted against management and/or filed or supported shareholder resolutions on ESG or climate issues? If so, please give an example of where you have done this, and your rationale for doing so.
9. How do you overcome challenges such as shareblocking markets or stock lending procedures when looking to exercise your votes?
10. What customisation do you offer to clients on voting decisions, can clients retain votes to determine in line with their own policies? Please also describe the fund-specific reporting on all voting that you provide.
11. Please describe what engagement activities you carry out from a policy, market-functioning or industry perspective.

Appendix G

Our standard RI external manager contract terms

1.1. The Fund Parties acknowledge the importance that the Board places on principles of corporate governance and responsible investment. The Fund Parties agree to give appropriate consideration to the relevant principles which may include the Principles for Responsible Investment, to which the Board is a signatory. The Fund Parties acknowledge that they have received, read and understood the Board's Statement of Investment Principles. The Fund Parties acknowledge the Board's need to consider long-term and systemic risk factors in order to manage risks which are relevant to its long-term investment horizon and its statutory responsibilities.

1.2 The Fund Parties will have a process for monitoring current or potential investments in relation to relevant long-term factors including ESG and climate-related concerns. The Fund Parties will ensure that their staff apply due care and diligence to implementing this monitoring process, including considering the extent to which such factors generate investment risks or opportunities.

1.3. The Fund Parties will, in accordance with the Board's commitment to responsible ownership set out in its Statement of Investment Principles, engage in such activities as are appropriate in the circumstances to monitor and influence the management of the issuing entities and other underlying assets, where such activity is considered by the Fund Parties to be likely to enhance the value of such securities and in the best financial interests of the Fund.

1.4. The Fund Parties will procure the exercise of any voting rights attached to the Portfolio investments on the Board's behalf, in accordance with the Fund Parties' voting policy and any market-specific guidelines approved by the Board. The Board reserves the right to rescind, upon one day's advance written notice, the Fund Parties' authority to make voting decisions for specific companies, issues or time periods. The Fund Parties will use best endeavours to facilitate such Board voting decisions to be implemented. The Fund Parties will have in place appropriate policies to manage any conflicts of interest in relation to voting matters and shall report at least quarterly on all votes involving companies where the Fund Parties or an affiliate has a contractual relationship or other material financial interest.

APPENDICES CONTINUED

1.5. The Board has put in place a responsible investment policy, addressing controversial weapons, company conduct and sovereign bond exposure detailed further below:

1.5.1. the Board will expect companies that are directly involved in the production of anti-personnel landmines, cluster weapons, chemical weapons and biological weapons and of essential components of these weapons to be excluded from its investment universe;

1.5.2. the Board will expect the Fund Parties to exclude from the investment universe sovereign bonds issued by countries subject to complete UN arms embargoes which the UK supports; and

1.5.3. the Fund Parties acknowledge the Board's interest in investee companies making all reasonable efforts to abide by the UN Global Compact and the OECD Guidelines for Multinational Enterprises and that the Board expects its managers to assess the significance of risks and opportunities in relation to their fund's investments. Such assessment may include, where applicable and appropriate, the consideration of the above guidelines. The Fund Parties will assist the Board as is reasonably necessary to manage reputational risk and/or investigations that may arise from individuals investments made where investee companies fail to abide by the above guidelines. Such assistance may include the sharing of the investment research or, in the extreme, divestment or future segregation of profit or loss relating to any investment for which material reputational issues arise.

1.6. In respect of clauses 1.5.1 and 1.5.2 above, the Fund Parties will be provided with a list of excluded companies and countries which may be updated by notice given in writing from time to time using the form specified in Annex A, signed in accordance with the Board's signing authorities. Such notifications may be sent via email containing a scanned PDF copy of the instruction, sent to the Fund Parties to confirm (or such other email account as is notified by the Fund Parties to the Board in writing).

1.7. In addition, the Board will provide the Fund Parties with an Excel document confirming the constituents of the Exclusion List as provided in the scanned PDF copy. Following receipt of such instruction, the Fund Parties shall use reasonable endeavours to effect such exclusions within a reasonable timeframe and will confirm to the Board that the portfolio has been brought in line with the requested exclusions. If it will become clear to the Fund Parties that for any reason it will not be possible to bring the portfolio in line with the requested exclusions, the Fund Parties will notify the Board.

1.8. The Fund Parties shall prepare and send to the Board and such other person or persons notified from time to time to the Fund Parties in writing on behalf of the Board as soon as reasonably practicable and in any event no later than eight (8) Business Days after the end of the relevant quarter, quarterly reports on:

1.8.1. compliance with the policies and standards set out in the Statement of Investment Principles and Principles for Responsible Investment, including any instances where those policies and standards were set aside in order to achieve investment objectives;

1.8.2. the key material ESG and climate-related concerns and relevant metrics associated with Portfolio investments and an explanation of how the Fund Parties have sought to identify, monitor and manage them;

1.8.3. the stewardship activities – including issuer engagement – during the reporting period, including evidence of the effectiveness of those activities; and

1.8.4. voting activities over the reporting period, including full disclosure of any votes and an explanation of any exercises of discretion under the Fund Parties' voting guidelines and conflicts of interest.

Appendix H

Our ESG review process

Our four-stage ESG review is an essential part of selecting and appointing managers that align with our principles.

RI criteria and ESG considerations as part of our investment process

Stage	1. Request for proposal/ identification	2. Selection/ due diligence	3. Appointment	4. Post funding
ESG requirement	Evidence of firm-level and strategy-level ESG policy; PRI support; and capabilities or resources for ESG integration	Ensure ESG processes are in place, appropriate industry guidelines are followed and reporting is available	Binding ESG and climate risk clauses inclusion in legal documentation (e.g. IMAs, side letters)	Ongoing monitoring and engagement with external managers, regular fund-level ESG, carbon and stewardship reporting; commitment to continuous improvement

Pension Protection Fund

Statement

We confirm that we have taken appropriate measures to ensure that our stewardship reporting is fair, balanced and understandable.

Oliver Morley,
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