



STEWARDSHIP POLICY

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Stewardship

1.1 Introduction

This Stewardship Policy is designed to set out PIC's approach to stewardship within its investment portfolio including the responsible allocation, management and oversight of capital to create long-term value as we fulfil our purpose, leading to sustainable benefits for the economy, the environment, society and all our stakeholders which is in line with the Financial Reporting Council's stewardship definition.

The following sections set out:

- PIC's approach to stewardship
- Engagement
- Escalation
- Conflicts of Interest
- Reporting

1.2 PIC's approach to Stewardship

PIC's purpose is to pay the pensions of its current and future policyholders. PIC does this through sound risk management and excellence in asset and liability management.

This Stewardship Policy is aligned with PIC's purpose, investment process, and business philosophy. Throughout the investment process, PIC is focussed on making good quality long term investments, which minimise defaults and generate the inflation-linked, predictable long-term cash flows required to pay our policyholders' pensions. PIC's Stewardship Policy applies to all of its investments while recognizing that the large majority of the investment portfolio is invested in fixed income. We believe that as bondholders we can exert influence over management of issuing companies and will engage with them as necessary to ensure compliance with this policy. Where PIC does have equity ownership, it endeavours to engage in voting activity and will increasingly do so as its equity ownership grows over time.

The [PIC ESG Investment Approach document](#) sets out PIC's approach to ESG risk, integration (direct and indirectly managed investments) and exclusions.

ESG integration is considered during our investment process for all investments (corporate credit, sovereign and US municipal bonds) and privately sourced debt (such as housing associations, equity release mortgages and other bilateral investments).

PIC is a signatory to the United Nations' Principles for Responsible Investment ("UNPRI"), as are all of PIC's key external asset managers helping manage the main public credit. As a signatory to the UNPRI PIC is committed to enacting the following six principles, recognising that it invests mostly in credit rather than equities:

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

PIC's stewardship activities are undertaken directly for internally managed assets and via our managers for those assets that are externally managed. For externally managed investments, PIC works closely with external managers to conduct dialogue with investee companies. Our external managers have significant resources and scale focusing on ESG risk areas on our behalf and PIC currently receives quarterly ESG updates from each external manager covering ESG risk, engagements and portfolio performance.

This Stewardship Policy therefore applies across all our direct public credit and private debt investments.

For our direct investments, PIC will undertake, where possible, direct engagements with issuers and has joined collaborative engagements with other investors through its memberships of the Association of British Insurers ("ABI") Climate Change and Net Zero Asset Owners Alliance ("NZ AOA") groups, as well as the Good Economy's Social Housing.

1.3 Engagement

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

PIC has implemented active engagement with investee companies across public credit and private debt investments on material sustainability issues. This is an integral part of our ESG strategy to help ensure long term ESG risks, such as climate and social risks, are accounted for within the issuer's operations which may influence its ability to meet its financial obligations.

For direct investments (e.g. housing associations, equity release mortgages and other bilateral investments), PIC will engage where possible directly with organisations both at the point of capital raise and during the tenure of the investment on various ESG-related issues material to PIC.

For indirect holdings, PIC aims to work closely with external managers and voices any particular concerns to be engaged on. The key external managers who help manage the public credit portfolio are also involved in thematic ESG research which helps identify important emerging or prominent topics and recognise sector leaders and laggards. These are reported directly to PIC through quarterly engagement meetings. Larger-scale industry engagements with identified laggards are done by our managers. This research, together with findings from engagements, complements PIC's forward-looking analysis and helps us ensure our portfolio is correctly positioned for any long-term industry changes.

PIC has set itself engagement targets in line with the NZ AOA to engage with at least 20 of its highest emitters on a yearly basis. We will report on these target engagements in our annual TCFD report.

Engagements are tracked internally and raised issues monitored for progress. The Responsible Investment team identify any concerns that should be a particular focus for engagement and keep these under regular review.

1.4 Escalation

If improvements by issuers are not made despite multiple engagement efforts within a period of 18 months, PIC and its asset managers will then consider forms of escalation. Escalation is relevant to both internally and externally managed investments.

It is PIC's expectation that its asset managers will escalate the ESG concern in a proactive and effective way and they are mandated to report back any new information or evidence to PIC.

Possible escalation activity may include collaboration with groups such as the ABI's Climate Change group or NZ AOA engagement groups. Divestment will be considered as a last resort if escalation has not been successful.

1.5 Conflicts of Interest

PIC has a Conflicts of Interest Policy, which all employees must comply with in connection with any stewardship activities.