A purposeful approach to ESG.

Pension Insurance Corporation Group Limited
Environmental, Social and Governance Report March 2022

Our Environmental, Social and Governance ("ESG") approach

Commitment.

Contents

Pension Insurance Corporation plc is registered in England and Wales under company number 05706720. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority (FRN 454345). Its registered office is at 14 Cornhill, London EC3V 3ND.

With a purposeful business based on the creation of long-term value, PIC is inherently focused on maximising social value within our business and our investments.

This report, which complements our recently published Taskforce on Climate-Related Financial Disclosures ("TCFD") document, as well as the Environmental, Social and Governance ("ESG") section of the PIC Group Annual Report and Accounts 2021, outlines how our focus on our purpose and long-term value creation underpins our approach to ESG factors.

This includes the key outcomes of our purpose, our commitment to excellence in customer service, the steps we are taking at a corporate level and within the portfolio to manage our ESG and carbon exposure, how we seek to generate social value through our investments, and the importance we place on having a good workplace culture. Our perspective is that the greater the levels of social value we create through our investment strategy and with our development partners, the higher the likelihood that our investments will support our pension payments over the coming decades.

As we have noted in our 2021 Annual Report and Accounts, since September 2020, PIC has invested around £500 million in urban regeneration projects in the UK, working very closely with local councils to meet the needs of local communities, for example helping to alleviate local homelessness in our work with Bromley Council.

Finally, we also discuss some of our ESG-compliant investments in social housing, renewable energy, student accommodation and urban regeneration, including breaking out the number of people across the UK who have been housed as a result of our investment in social housing.

We welcome the opportunity to present this report and, as the business continues to grow, look forward to investing and creating social value across the UK."

Tracy Blackwell

Chief Executive Officer of PIC

Purpose, culture and values.

Our purpose

The purpose of PIC is to pay the pensions of our current and future policyholders.
Pensions for our growing policyholder base are backed by a purposeful investment strategy. This strategy prioritises the management of key risks, including Environmental, Social and Governance ("ESG"), as integral to paying the pensions of our policyholders over the coming decades.

Investments with a lasting impact on current and future generations in areas including renewable energy, social housing and national infrastructure are socially beneficial outcomes of our focus on our purpose. Excellence in customer service and balanced stakeholder relationships are fundamental to our approach.

PIC's ESG-compliant investments.

ESG assets (%)

Social housing	29%
Renewable energy	12%
Education	26%
Not for profit	7%
Utilities	26%

For more information see our ESG section of the **Annual Report and Accounts 2021**

Invested in social housing

2021	2020
£3.2bn	£3.0bn

Invested in student accommodation

2021	2020
£1.6bn	£1.2bn

Invested in urban regeneration

2021	2020
£500m	£130m

Invested in renewable energy

2021	2020
£1.3bn	£1.3bn

Environment.

Our climate strategy statistics[1]

- **PIC has committed to being carbon neutral as a business by 2025, and by being Net Zero within its investment portfolio by 2050.**
- **PIC reduced its Scope 1 and 2 emissions by 16% during 2021.**
- **PIC's single office in central London uses electricity provided by a renewable energy supplier.**
- **We are committing to decreasing our investment portfolio's average carbon intensity (t CO_2/$mm revenue) by 50% by 2030 from 2019 levels. We have set an interim target of decreasing the average carbon intensity of our investments in publicly listed credit by 25% from 2019 levels by 2025[2].**
- **The weighted average carbon intensity of our investment portfolio is 204 t CO_2/$mm revenue, a figure which covers 83% of our investments.**
- **PIC's public corporate credit portfolio's temperature alignment is currently 2.37°C, with 60% of corporate exposure (by market value) on a trajectory of 2°C or below[3].**

1 See 2021 TCFD report for more detail on metrics and targets www.pensioncorporation.com/about-us/tcfd/
2 This will consider the quality and consistency of available data
3 Temperature alignment is the projected temperature rise by 2100 from pre-industrial levels within PIC's publicly listed credit investments

Commitments

We are progressing ambitious plans to improve the environmental performance of our own business as well as reducing the environmental impact within our portfolio.

Our climate goals reflect this:

- PIC has committed to be Net Zero by 2050 across all sources of emissions, including within its investment portfolio, which backs the pension payments to our 282,900 policyholders.
- Whilst we have a long-term outlook, we must set short-term targets in order to reach our goals and manage the transition. We have set an interim target of achieving carbon neutrality within our own operations, under Scope 1 and 2 emissions, by 2025, in line with the Association of British Insurers ("ABI") Climate Change Roadmap.

Collective action is crucial to achieving these goals, including engaging with the companies that we invest in and collaborating with sustainability bodies, industry groups and wider sector initiatives to drive action. We are active contributors to policymaker discussions and industry bodies aiming to further push the climate agenda within the Insurance industry.

2050
Net Zero carbon emissions targets

16%
reduction in scope 1 & 2 emissions

Net Zero Asset Owner Alliance

PIC is proud to be a member of the UN-convened Net Zero Asset Owner Alliance ("NZAOA"), an international group of 69 institutional investors representing c.$10 trillion assets under management committed to making Net Zero a reality within their portfolios by 2050.

Asset owners have a unique role in the global economy, financial systems and our ability to drive decarbonisation and climate-resilience through our investment mandates.

PIC's progress in decarbonising its portfolio to date means that it has joined the NZAOA's Inaugural 2025 Target Setting Protocol, rather than the later 2030 protocol. The protocol commits members to publishing interim carbon-reduction targets every five years.

The response by Government and asset owners to climate change is one of the defining issues of our age. PIC recognises the urgency of curbing global warming in line with the Paris Agreement and we are proud to join with other institutional investors through the NZAOA to help that effort. We fundamentally believe that achieving Net Zero is the right thing to do both for society and for our policyholders as we fulfil our purpose over the coming decades.

Companies which actively demonstrate their commitment to sustainability are better placed to maintain secure long-term cash flows. As a long-term business we want to support the Government in managing this long-term goal, benefitting our policyholders, employees, wider society and other stakeholders."

Tracy Blackwell
Chief Executive Officer of PIC

Our Environmental, Social and Governance approach
Environment continued

Industry collaboration
PIC recognises that asset owner and wider financial services companies working together is critical to driving genuine progress and avoiding the worst impacts of climate change. Along with being supporters of the Task Force on Climate-Related Financial Disclosures ("TCFD") , we are members of several industry groups driving action, as well as active participants in public debate on related issues.

UN Principles for Responsible Investment ("UNPRI")
PIC is a signatory to the United Nations' Principles for Responsible Investment ("UNPRI"), as are all of PIC's key external asset managers who help manage the main public credit portfolio. As a signatory to the UNPRI we commit to enact the following six principles, recognising that the large majority of our investments are in credit.

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

Net Zero Asset Owner Alliance ("NZAOA")
Created in recognition that institutional investors collectively have an important role to play in fostering the energy transition the world needs. Members have committed:

1. To transitioning their investment portfolios to Net Zero Greenhouse Gas ("GHG") emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial levels
2. To establishing intermediate targets every five years
3. To regularly report on progress. The Alliance is convened by United Nations Environment Programme ("UNEP") and UNPRI

UN Sustainable Development Goals ("SDGs")
Also known as the Global Goals, the UN SDGs were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people can enjoy peace and prosperity. The 17 SDGs are integrated; they recognise that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability. In terms of climate initiatives, PIC focuses on:

Association of British Insurers ("ABI") Climate Change Roadmap
Developed by the ABI in partnership with Boston Consulting Group, the Climate Change Roadmap has set industry targets to address climate change and help the UK reach Net Zero by 2050. The ABI plan has several consumer-facing elements alongside a host of behind-the-scenes suggestions on investment and underwriting. The roadmap is reviewed and refreshed every year in line with scientific evidence to ensure it stays in line with the Government strategy to reach Net Zero by 2050.

Purpose of Finance
The Purpose of Finance is a project led by PIC that aims to facilitate a debate, from a position of support, about how best to repair the disconnect between society and the financial services industry, which is of profound importance to the UK. The project brings together policymakers, regulators, people who work in financial services and others to tackle this deep-rooted problem. This includes a wide-ranging debate about how financial institutions can focus on, and then be regulated to, their purpose.

Strategy
Climate is embedded into our overall strategy and we are cognisant that we will have an increasing part to play in the economy with the continued de-risking and large projected flow of assets and liabilities out of defined benefit pension schemes and into companies like ours.

PIC's investment strategy reflects the conviction that certain industries, such as oil, will be under increasing stress due to the shift in the energy mix to more sustainable and renewable sources. We have already taken significant measures to reduce the carbon intensity of our portfolio by switching assets into companies and projects which contribute to the transition towards a less carbon-intensive economy.

The transition of our investment strategy is driven by:

1. The undeniable negative consequence that climate change is having on the world, including all sectors which we are directly or indirectly exposed
2. The potential economic impact caused by a rapid transition away from carbon fuel that is now influencing government policy in the UK and around the world
3. A tipping in the relative market balance towards investments in greener sectors and technologies
4. The feasibility and cost of exiting specific positions matched to future liabilities

Corporate actions

We understand that climate risk is not just an investment concern but impacts every business, including ours. At a corporate level, we are reducing our environmental impact including Scope 1 and 2 Greenhouse Gas Emissions. We are pleased to confirm that 100% of our energy used is now provided by a renewable energy supplier, a major contributor under Scope 2 emissions.

We also believe that a series of small changes and behaviour adaptations are crucial to reaching our ambitious targets. These help foster climate awareness across the firm and improve our environmental performance, and have been positively received by our employees – they include:

- Removal of single-use plastic utensils in kitchen
- Switching individual rubbish bins for communal bins and installing a number of recycling bins in strategic locations across each floor
- Enabling 'follow-me' printing to encourage staff to reduce printing to essential printing only. A follow-me printer means staff need to actively swipe their employee passes at centralised printers and select what they want to print. Anything not printed within 12 hours gets deleted, meaning that unnecessary printing is minimised
- Use of Navigator paper for printing, because it is more environmentally friendly, chlorine free and Forest Stewardship Council ("FRC") certified. Navigator paper is made with two thirds of the energy requirement coming from biomass (i.e. not fossil fuels); by recycling any waste water from the production process; and by the management of specific forests and replanting of trees.
- Offering employees a Cycle to Work scheme
- Using energy-efficient LED lights throughout our office space
- Installing Passive Infrared Sensors ("PIR") for lighting on each floor. PIR sensors turn lights off after a certain time and only come back on when motion is detected
- Providing energy efficient laptops to all staff
- Switching off air conditioning at evenings and weekends
- Refurbishing our office in 2018 to install double glazed windows and energy efficient insulation
- Limiting staff air travel to strictly necessary – even before the pandemic – and where travel is necessary we opt to offset emissions through the applicable airline scheme.

Financing renewable leader's transition

An example of an on-going engagement and the development of a strong relationship with a high emitting company who had ambitious transitions plans was with Orsted. The relationship started in June 2018 as Orsted announced that it had decided to initiate a sale process for its carbon-intensive Danish power distribution and residential customer businesses, as well as its city light business. This followed a strategic review which refocussed the company exclusively on renewable energy and offshore wind in particular, where it aimed to become a global leader. Orsted intended to grow installed capacity by expanding into existing and new markets, however, the company needed the backing of institutional investors, like PIC, in order to achieve meaningful scale.

Orsted's new strategic focus aligned with discussions being held internally at PIC about the future of carbon-intensive industries and their place in a long-term investment strategy, specifically designed to fulfil our purpose over decades. In practice this meant moving away from carbon-intensive assets in favour of low-carbon investments that have more social value in a decarbonizing world. PIC was an early investor into Orsted's transition by funding two of their largest UK offshore wind farms. PIC also supported Orsted directly through the purchase of CPI-linked bonds. PIC has so far invested over £350 million directly or indirectly into Orsted since 2018, continuing to enjoy a close relationship with the company and supporting it in maintaining its market-leading position as a renewable energy powerhouse.

PIC has so far invested over £350 million directly or indirectly into Orsted since 2018."

Our environmental, social and governance approach
Environment continued

Investment restrictions
We have also applied two sector restrictions on our investment universe:

- Coal extraction and burning and tar sands: No new purchases in companies that derive more than 10% of turnover from coal extraction and burning and tar sands. We aim to divest from all of our holdings in these areas by 2025 and have nearly achieved this target already.
- Oil: Exclude companies within exploration and production, drilling and field services. No new purchases in companies in these sectors. A company may on occasion be considered for investment if it can demonstrate an ambitious commitment and clear strategy to transitioning its business model towards clean energy.

Taken together, these considerations have a double bottom line impact: a positive impact on climate change and helping us meet our investment objective.

Purposeful investing
Our outlook has always been that the best way to secure future cash flows is by investing in assets that have lots of social value, and these assets have lower risk over the long term as they make sense for society. In this way ESG thinking has always been integrated into our investment process as we assess the suitability of the long-term cash flows we need to back future pension payments.

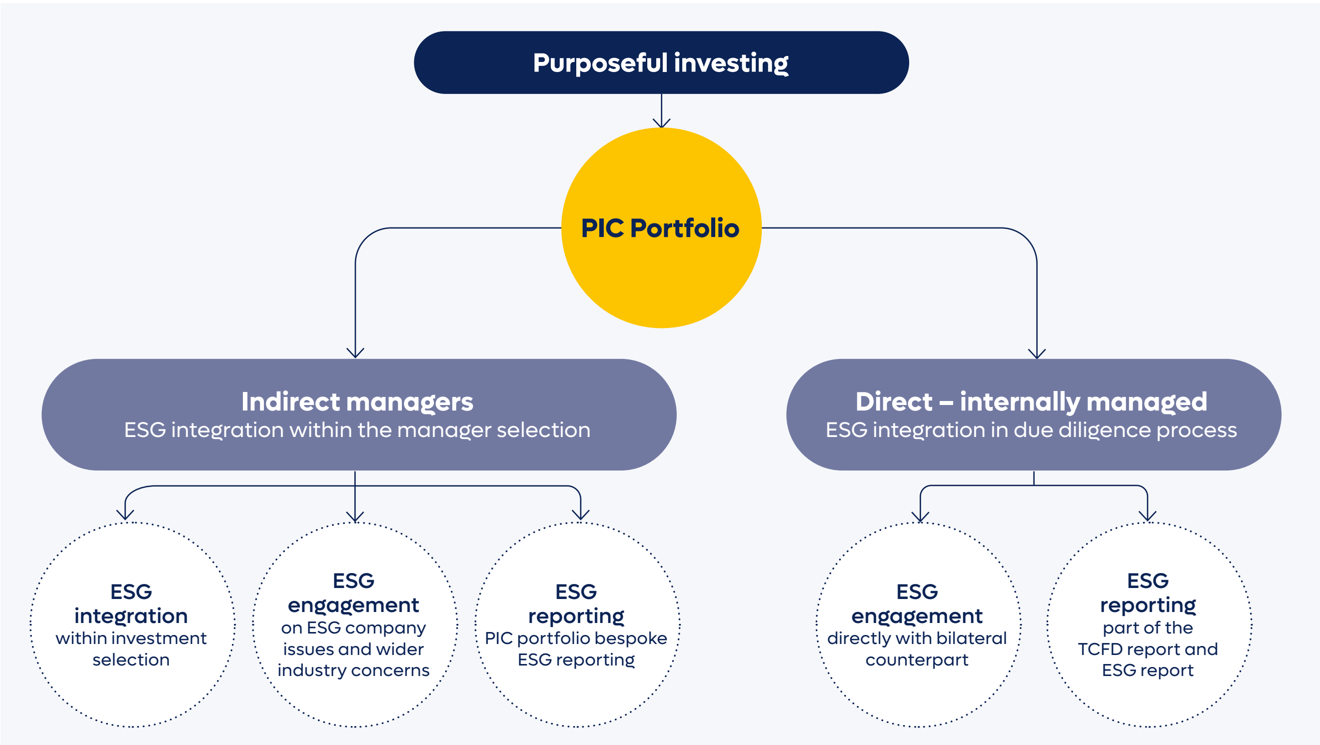
We believe companies that demonstrate positive sustainability characteristics are better placed to maintain sustainable cash flows and service their debt over the long term.

These characteristics include whether they recognise responsibilities to key stakeholders beyond customers, such as employees, suppliers, society and the environment. In order to meet these responsibilities, it is crucial that they have a long-term focus.

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

Due diligence
We seek climate disclosure from bond issuers and external managers in order to integrate these considerations into our due diligence and investment decision making processes. The potential impacts of climate change are incorporated into the due diligence across all of our investments – for example the likelihood of increased flooding risk for our property investments. We also include climate risk in our external manager scorecards, testing whether they embed climate risk into the investment processes for their funds, and establishing how climate risk is overseen at an entity level.

Stewardship and engagement
ESG engagement describes the interaction between investors and issuers. Given our very long-term investment horizon, it is important that we work with companies to improve their sustainability practices, helping to ensure they maintain strong industry positioning, healthy credit ratings and stable cash flows.



High environmental standards in the design of our Build-to-Rent developments

PIC's investments in urban regeneration projects are setting new and improved standards in environmentally considerate design and construction.

Each of our private rental sector investments have to meet minimum "ESG Baseline Credentials" which we use to screen all of our potential property investments, which go further than the current regulatory standards.

This high level of environmental standards is central to PIC's design during both the construction and operational phases of our Build-to-Rent projects, such as the £130m Manchester New Victoria scheme, the £90m development 'The Wiltern' in Ealing, West London and the £80m redevelopment of 'Bowback House' a vacant office block and brownfield site located in central Milton Keynes.

For example, 99.5% of waste at the New Victoria development will be recycled, reused, or disposed of in more environmentally-friendly ways than landfill. A typical construction project would dispose of 8-10% of waste created through landfill.

This is one of the first developments to be designed to achieve maximum water usage of 100 litres per person per day, which is 25% more efficient than current building regulations require. In addition, all electricity used at the development site during construction is procured through renewable energy suppliers. Finally, virtually all the water used on site is collected, filtered and transformed back into drinkable quality water.

We have also incorporated physical climate risk mitigation into the development. A key Victorian culvert on the River Irk – a major plank of central Manchester's flood defences – has been given enhanced protection as part of the development.

The Bowback House development will use Air Source Heat Pumps for hot water and green electricity for heating which includes solar panels and is targeting a 4* Homes Quality Mark rating, a minimum gold WiredScore rating and all apartments to achieve a minimum Energy Performance Certificate ("EPC") rating of 'B'.

These types of initiatives within construction projects are increasingly helping the transition to a Net Zero economy.

In-house managed investments

We manage two parts of our portfolio internally: risk-free assets and non risk-free, which are largely privately-sourced debt investments. Our risk-free assets are principally UK gilts, where our ability to engage on ESG factors is limited. However, ESG factors are fundamental considerations for our privately-sourced debt investments due to their long-term nature and illiquidity.

We engage with the management of our privately-sourced debt investments to understand their ESG risks and help them with their potential long-term disruptions, as well as encouraging better governance and transparency in reporting. This engagement includes how the borrower approaches issues related to climate change, as well as other social and governance factors such as how to balance the needs of all stakeholders. This includes their employees and society and the composition of the borrower's board and senior management team and its ability to develop and execute short- and long-range plans. Our long-term relationship with these borrowers allows us to engage with them extremely closely to understand their overall sustainability efforts. A great example of where we can have influence on the environmental impact of an asset over its lifetime is within some of our property investments.

Outsourced investments

For our publicly-listed credit investments, we work closely with our four key asset managers to ensure that important ESG topics such as climate-related risk (both company-specific and industry-wide) are actively managed with companies. Our managers are involved in thematic ESG research which helps identify important emerging or prominent climate topics and recognise sector leaders and laggards. This thematic research, together with findings from engagements, complements our forward-looking analysis and helps us ensure our portfolio is correctly positioned for any long-term industry changes. ESG-related issues are a standing agenda item at our regular meetings and managers are expected to formally report on them quarterly.

During 2021 we directly or indirectly engaged with the following companies on specific climate topics:

Year	2021
High emitters	11
Company names	National Grid, Royal Dutch Shell, Rio Tinto, UK Power Networks, BHP Group, Glencore, Anglo American, SSE, Engie, Thames Water, Bazalgette
Industries	Metals & Mining, Multi Utilities, Oil and Gas, Materials
Topics	Net Zero ambitions, climate change target setting, climate proposals, phase down, TCFD reporting, "just" transition strategy, renewables, hydrogen, electrification, Electric Vehicle infrastructure, carbon capture, decarbonising heat and environmental targets, green framework feedback

Our environmental, social and governance approach
Environment continued

PIC's renewable energy investments

PIC has contributed to numerous projects across both wind and solar renewable asset classes in the UK and EU. The total energy output of each project we have is displayed below and the equivalent number of estimated cups of tea made from boiling a kettle calculated[1].

North East

Energy output (KWh annual)	306m
Cups of tea (millions)	9,800

Yorkshire & The Humber

Energy output (KWh annual)	10.7bn
Cups of tea (millions)	341,040

South West

Energy output (KWh annual)	1.4bn
Cups of tea (millions)	45,665

East Anglia

Energy output (KWh annual)	3.5bn
Cups of tea (millions)	112,560

1. Based on an assumption of 0.03125kWh per cup, covering 89% of PIC's alternative investments.
2. PIC's investments in wind and solar across the UK generated an additional 130 million kWh per year across the UK, equivalent to 4,164 million cups of tea. PIC has, in addition, invested over £700m in Spanish solar energy generating a further 2bn KWh per year across Spain, equivalent to 66m cups of tea.

7 AFFORDABLE AND CLEAN ENERGY

PIC is making progress towards **Sustainable Development Goal (SDG) 7: Affordable and Clean Energy** and is proud of its renewable energy investments, having invested in solar and wind projects across the UK and Spain.

Progress.

Social.

Creating social value through our purposeful investment strategy

In order to pay the pensions of our current and future policyholders decades into the future, we view the long-term social value created by the business and within the portfolio, as a core part of fulfilling our purpose. The greater the socially beneficial outcomes generated, the higher the likelihood of the long-term stability needed to back future pension payments. PIC's approach to policyholder service, our investment strategy, and employee engagement all bear this out.

Engaging with our policyholders

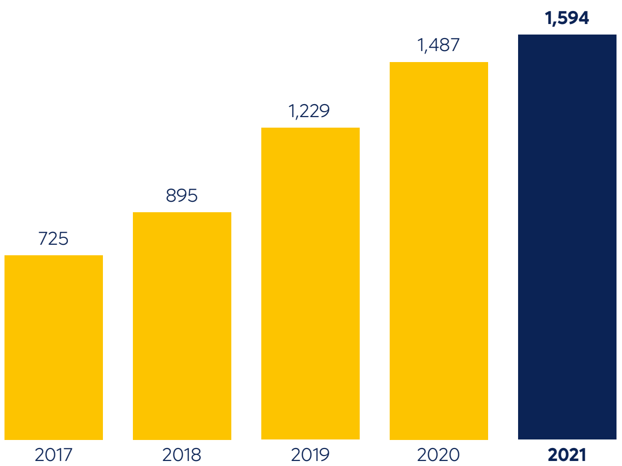
We are proud to be the only insurance company in our sector to hold policyholder events, which allow us to meet the people whose pensions we look after. These events are part of the PIC culture and are in keeping with our purpose and values. Despite ongoing uncertainty and restrictions caused by the pandemic, we decided to once again host a virtual event, so our policyholders remain informed about PIC and how we secure their pensions. We look forward to resuming our popular face-to-face events during 2022, circumstances allowing, while keeping the online version to reach those policyholders that are unable to attend in person.

1,500 policyholders registered for the 2021 event, which included presentations from our senior leadership team, led by our CEO, Tracy Blackwell. We were pleased to answer questions on a wide range of topics, including how we approach ESG considerations within our investment process.

We know from our policyholders that one of the things they value from our in-person policyholder days is the sense of community that these events bring. We therefore invited policyholders to share some of their own inspirational stories with the wider group, highlighting the positive and fulfilling experiences many of our members enjoy.

Total pensions paid to policyholders (£m)

PIC paid £1.594 million to policyholders in 2021.



PIC is a company you can trust. They are professional, serious, clear. Clarity of communication is excellent."

PIC policyholder, 2021

PIC has real integrity. Tracy Blackwell comes across really well and PIC is professional with smart people. They seem to genuinely care about their policyholders. I hope to live a long life, so outside of my wife and children, PIC is the other most important thing in my life!"

PIC policyholder, 2021

All staff I spoke to were competent, knowledgeable and helpful. Even in this current Covid-19 environment it was easy to get to speak to a real person."

PIC policyholder, 2021

Very good service and I cannot fault them at all. I would recommend them to all my family and friends."

PIC policyholder, 2021

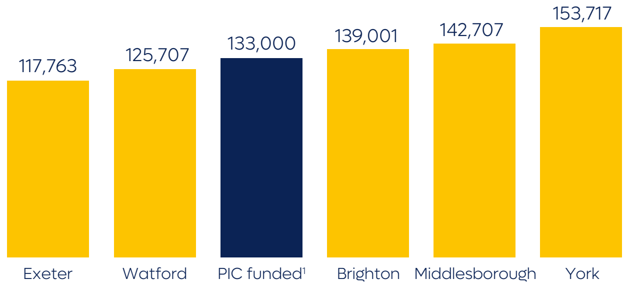
Our direct investments

PIC has been a significant investor for over a decade in secure, long-term, privately-sourced debt, such as social housing, renewable energy and the UK's universities. These investments provide the cash flows we need to match our liabilities in maturities when publicly available debt is simply not available. Borrowers benefit from the flexibility in funding we are able to offer, for example, deferred drawdown and bespoke terms. These investments have socially beneficial outcomes through the transfer of intergenerational equity, providing much needed investment into key sectors that benefit society now and into the future.

Funding housing associations

Through our investments in over 20 housing associations throughout the UK, PIC has housed c.133,000[1] people. This is equivalent to a town the size of Watford. PIC made its first housing association investment in 2012, and has invested more than £3.2 billion in the sector in total.

Population of cities in United Kingdom



Source: www.worldpopulationreview.com/countries/cities/united-kingdom

Using regeneration leases to boost local housing

PIC is at the forefront of funding projects through innovative financial structures called Regeneration Leases. These structures provide local councils with much needed investments that help actively manage the financial and social implications of an area's housing shortfall.

The Regeneration Lease model offers benefits to all stakeholders through their lifecycle, for example, through increased employment and significant spend in the local economy in the short-term during construction, as well as providing a stock of well-maintained, environmentally friendly properties for decades to come, which councils have the option to purchase at the end of the lease.

Regeneration Leases provide PIC with long-term, inflation-linked cash flows which will be used to pay the pensions of its policyholders over coming decades.

1. Data in relation to the number of units for each organisation is publicly available from the private registered provider of social housing stock and rents in England 2020 to 2021. The figure is an estimate of the number of units we have financed as a proportion of our investment. To estimate the number of people housed (at 2 people per dwelling) this figure is then multiplied by two.

Investing £130 million in the North West of England

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

Working in close partnership with regeneration specialist Peel L&P and Wirral Metropolitan Borough Council ("WMBC"), PIC is the sole investor for the development of a build-to-rent scheme, comprising 500 one- and two-bedroom apartments, with an affordable housing component of 100 homes. Rents on the affordable units will be a maximum of 80% of open market value, delivering significant social impact. The deal closed in January 2022.

The council has worked closely with both Peel L&P and PIC to bring forward this project, which will be delivering jobs and affordable housing for people in Wirral. It is also another key moment in the continuing wider regeneration in the borough, tying in with the work well underway in Birkenhead to drive forward the town's renaissance and showing the increasing confidence of investors in the plans for Wirral's future."

Councillor Tony Jones,
Chair of Wirral Council's Economy,
Regeneration & Development Committee

Investing in student accommodation for the London School of Economics and Political Science ("LSE")

In December 2021, PIC invested £129 million in the LSE to fund the development of a 676-bed student residence in Southwark, London.

The newly constructed student accommodation will be located on Glengall Road, Southwark, and provide additional housing primarily for postgraduate students of the LSE. It will comprise a 15-storey hall of residence, as well as communal spaces, a gym, three roof terraces, a cinema room and two courtyard gardens. The rooms will be marketed at a discount to other options in the LSE's residential portfolio and over a third of the rooms in the residence will specifically benefit from the London Plan's affordable student housing requirements, enabling access to good quality housing for lower income students.

One of the priorities in LSE's 2030 strategy is to develop the LSE for everyone. For Residential Services this means guaranteeing an offer of accommodation to all first-year students. The Glengall Road development takes us a significant step towards that goal by providing 676 affordable rooms for our graduate students."

Ian Spencer
LSE Director of Residential Services

Education and student accommodation

PIC is an experienced investor in universities, supporting development plans for over 30 universities and student accommodation investments.

PIC's in-house investment team has considerable experience in both sourcing assets and managing the risks associated with assets which we aim to buy and hold for the long-term. Our student accommodation deals have helped to fund over 12,000 student rooms in total across the UK.

Top 3 regions with a PIC presence in the education and student accommodation sector

Region	Number of rooms funded by PIC (students housed)
East Anglia	**2,072**
Wales	**2,029**
London	**1,711**

Our Environmental, Social and Governance approach
Social continued

Employee engagement
PIC conducts an annual employee engagement survey to help us understand how deeply our values and culture are embedded throughout the organisation and to gather feedback from employees about their experience of working at PIC.

Employees answered questions relating to areas such as customer experience, strategic direction and culture. With over 90% of employees taking part in the 2021 survey, the scores demonstrate how our focus on customer care and purpose is an integral part of the Company culture and ethos.

I believe strongly in the goals and objectives of PIC
91%

PIC is truly customer oriented
92%

I am optimistic about the future at PIC
92%

I am proud to work for PIC
90%

Rewarding our employees
We want our employees to be appropriately rewarded for their outstanding work, and PIC offers competitive remuneration packages and a generous range of benefits. These include:

- competitive pension contributions;
- private medical cover;
- travel insurance;
- season ticket loans;
- access to 24/7 mental health support through an employee assistance programme;
- Cycle to Work scheme and a dedicated secure cycle space at our London office; and
- death in service benefit.

In order to build a sense of ownership in the business and incentivise individuals to grow the business in the right way, we operate a Save as You Earn ("SAYE") scheme. The scheme has been in place since 2013 and allows employees to build up blocks of shares in the Company. The scheme is open to all employees on an annual basis. This is unusual for a private company, but we believe it lays the foundations for a sustainable and successful Company with employees able to share in the long-term value creation of the business.

As well as organisational memberships, PIC is part of other initiatives such as #10000BlackInterns, a programme initially aimed at recruiting 1,000 black students or recent graduates into paid internships within the asset management industry. This initiative has since expanded to 10,000 interns over the next five years and will also cover other sectors. We have also sponsored the Social Capital Network, another mentoring and networking scheme for young BAME professionals. Both of these initiatives are aimed at improving longer term the levels of BAME employees in senior front-office roles. We are focused on early careers talent and have launched our PIC Academy. This will enable PIC to develop long-term, diverse talent pipelines.

Diversity and inclusion ("D&I") at PIC

Diversity of thought is critical to PIC's success, helping us to deliver our purpose in an innovative way. PIC demonstrably values individuals regardless of background or experience. It is important for us that our people can discuss cultural and other issues that are important to them in a respectful and engaging way.

PIC has a Diversity and Inclusion Forum that meets regularly to discuss and implement activities including internal events, guest speakers and sponsorship of key diversity initiatives. The Forum has three aims:

Engage – Demonstrate that PIC is a good corporate citizen by supporting worthwhile initiatives which align with our values and role model best practice

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

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

In 2021, PIC continued its membership with LGBT Great, with CEO Tracy Blackwell being recognised as one of the Top 100 Executive Allies within the industry for the second year in a row. PIC ran events to support LGBT history month, and Pride month, including a session on allyship.

PIC continued to sponsor the Actuarial Mentoring Programme for a fourth year. This scheme, of which PIC is the founding sponsor, is in partnership with the Institute and Faculty of Actuaries. Our focus in 2021 has been on early careers talent with the launch of our PIC Academy. This will enable PIC to develop long-term, diverse talent pipelines. We were one of the first companies to support #10000BlackInterns, offering two internships in 2021, one of which has now become permanent. We are looking to offer eight internships for summer 2022. We also created an Apprenticeship Programme, offering 11 apprenticeships for 18 months. This programme provides apprentices with an opportunity to gain experience in financial services whilst attaining a qualification.

#10000BlackInterns campaign

When I heard about what was then the #1000BlackInterns campaign – and is now the #10000BlackInterns campaign – I was really excited to explore what was on offer. I applied immediately, luckily securing a position as an intern in the investment team, which started in July 2021.

It was strange to start an internship following a prolonged Covid-19 national lockdown, with people coming into the office two to three days a week, and many colleagues still working from home. However, I'd heard a lot about the positive culture at PIC and quickly got to experience this first-hand. Colleagues were helpful, friendly and inclusive. I was given interesting, challenging work and really enjoyed the collaborative atmosphere.

Despite the original internship being designed to last two months, the team asked me to stay on and created a full-time position for me as Graduate Portfolio Analyst. Saying yes was the easiest decision I ever made, even though it meant turning down another internship at a different financial services firm. My experience at PIC has been overwhelmingly positive and it feels great to be working for a company with purpose that cares about delivering on its promises to customers and employees.

I applied immediately, luckily securing a position as an intern in the investment team, which started in July 2021."

Dan Charles
Graduate Portfolio Analyst

Governance.

The Board's commitment to ESG

Section 172 considerations

We believe the greater the socially beneficial outcomes of an investment, the higher the likelihood of long-term stability, needed to back future pension payments. The PIC Board approved our ESG strategy which integrates ESG risks into investment decisions and impacts how we operate as a company, for our employees, and the wider community.

Promote the long-term success of the Company and the interests of PIC's policyholders

Investments with a lasting impact on current and future generations in areas including renewable energy, social housing, and national infrastructure are socially beneficial outcomes of our focus on our purpose. We recognise that issues such as human rights, climate change, and corruption can have very real financial implications over the medium to long term. PIC has published its Modern Slavery Statement, which can be found on our website.

The interests of the Company's employees and the wider community

We are transparent on our gender pay gap, which is reported annually, and have made strong efforts towards diversity and inclusion this year. We are focused on balancing gender through recruitment and have an active target of 30% of CVs to be from women. PIC is a member of LGBT Great, with CEO Tracy Blackwell being recognised as one of the Top 100 Executive Allies within the industry for the second year running. We also run an Aspiring Managers Programme, which has a 50/50 gender split, and continued to sponsor the Actuarial Mentoring Programme for a fourth year which is designed to increase the number of female actuaries across the industry. PIC is a member of the #10000BlackInterns programme, and this year we offered one of the interns a full-time position following their experience. We also launched the PIC Academy, which will enable us to develop long-term, diverse talent pipelines.

PIC also has an active charity committee which ensures that charitable actions and giving are part of our firm culture. All employees are encouraged to take up to two volunteer days a year for such activities and a number of charity events are organised throughout the year in addition to a corporate matched giving scheme.

Outcomes and actions

The Board approved PIC's ESG strategy as it was in the best interests of the Company, its employees, and the wider community.

PIC's approach to long-term value creation is incorporated into the Group's ESG strategy and overseen by the Board-level ESG Committee.

The ESG Committee is chaired by PIC's Chairman, Jon Aisbitt, and meets at a minimum on a quarterly basis. The Committee members are the Chairs of PIC's Board-level sub-committees including the Chairs of the Audit, Investment and Origination, Nomination, Remuneration, and Risk Committees.

Responsibilities of the ESG Committee

The Board has delegated to the ESG Committee the responsibility for overseeing the following key areas:

Strategy, policy and disclosures

- Ensuring the Group embeds the risks from ESG and climate change considerations in its governance arrangements, financial risk management practice investment processes, and overall strategy.
- Overseeing the establishment of a strong foundation for the evolution of ESG and climate change considerations in light of the Group's Net Zero commitment.
- Ensuring that the Group monitors and reviews current and emerging ESG trends, relevant international standards and legislative requirements, to enable the Group to set appropriate strategic goals and associated targets related to ESG matters.
- Ensuring that the information the Group provides in respect of ESG to its stakeholders is clear, transparent and appropriate.
- The ESG Committee will work closely with the Board and its other Committees to oversee the identification and mitigation of risks relating to ESG, as well as opportunities related to ESG matters.

Governance

- The ESG Committee reviews its terms of reference annually and recommends these to the Board for approval.
- The ESG Committee also has a planned cycle of activities to ensure that it has addressed its responsibilities throughout the financial year. The cycle is updated annually.

The ESG Committee delegates day-to-day implementation of ESG considerations within the business to the Executive Committee, which includes the Chief Executive Officer and Chief Financial Officer. Accountability for ESG in investments sits with the Chief Investment Officer, with the Chief Risk Officer having special responsibility for risks related to climate change.

Three members of the Executive Committee also sit on the management-led ESG Forum comprised of ten members in total, which meets monthly to ensure integration of ESG across the business. The Head of Responsible Investment, who chairs this Forum, coordinates ESG integration efforts across the business and embedding ESG into the overall investment strategy. The Head of Responsible Investment also updates the Executive Committee and Board-level ESG Committee at minimum quarterly intervals.

Climate risk management

Mitigating risks is at the very heart of our investment process, and this includes those associated with climate change. Our Risk Committee regularly discusses climate-related risk and risk policies that include climate and scenario testing. Climate risk has also been incorporated into PIC's corporate risk taxonomy and covers physical, transition and liability risks.

Importantly, our risk strategy is developed so that we are able to withstand the physical and transition risks associated with climate change and meet our ESG objectives while maintaining the financial strength of our balance sheet.

For our systems and processes, we include adaptation or operation disruption caused by physical and transition risk associated with climate change in our risk analysis.

For the assets we invest in, we seek to manage the level of transition risk and minimise the physical risk. For example, we assess the effect of climate change on timely receipt of expected cash flows from investments, third-parties and collateral arrangement; and the cost of maintaining the balance against the excess cost of obtaining additional liquidity, in both base and stress scenarios.

Corporate stakeholder engagement on climate-related risk

We understand that climate change is a global concern shared by our employees and policyholders. We aim to maintain clear communication on how climate change is factored into our business strategy, the way in which climate change risks are managed across the business and our approach to achieving our ESG commitments. We frequently assess stakeholder sentiment related to climate change and work hard to ensure we meet stakeholders' ESG-related expectations and deliver positive climate outcomes. We have an internal working group specifically mandated to making ESG and climate part of business-as-usual ("BAU") activities and members are representatives from each of PIC's business functions.

We are looking to ensure that any resources or third-parties we use to support us are aligned with our ESG objectives. ESG and climate questions are being incorporated into new supplier proposals and in our reviews of current suppliers.

PIC has been developing its Climate Risk Framework over the past two years. A Climate Change Roadmap has been constructed which sets out the pathway for developing and enhancing PIC's approach to climate risk and we continue to evolve our framework to incorporate emerging climate risks.

ESG responsibilities of the Board

The Board maintains a formal schedule of matters specifically reserved for its decision, to ensure there is a clear division of responsibilities between the Board and the running of the business, which is reviewed on an annual basis. These reserved matters include the Group's strategic aims; objectives and commercial strategy; governance and regulatory compliance; structure and capital; financial reporting and controls; internal controls and risk management; major capital commitments; major contracts and agreements; shareholder engagement; remuneration of the Board and senior executives; material corporate transactions; and any changes to this schedule of reserved matters.

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

Delegation

The Board has delegated certain aspects of its responsibilities to its six Board Committees to assist in providing effective oversight and leadership:

- the Audit Committee;
- the Risk Committee;
- the Nomination Committee;
- the Remuneration Committee;
- the Investment and Origination Committee; and
- the Environmental, Social and Governance Committee.

The terms of reference for each of its Committees were approved by the Board and are reviewed annually.

The individual Committee reports are set out in the PIC Group Annual Report on pages 98 to 118.

The Investment and Origination Committee considers matters specific to PIC. The five remaining Committees consider matters concerning both PICG and PIC, as per the delegations in their terms of reference. Members of the Committees are appointed by the Board on recommendation of the Nomination Committee in consultation with the Committee Chairs.

In addition to the Board Committees, there are also a number of management and operating committees that assist senior management with business management and oversight of the Group in relation to: the day-to-day management of the business; investment matters; risk management frameworks and input into the development of the risk strategy; projects and major change initiatives to maximise PIC's project investment return; and all new business deals and interaction with policyholders, including Treating Customers Fairly outcomes and overall conduct.

Our Environmental, Social and Governance approach
Governance continued

Board and Committee meetings
The Board meets formally on a regular basis and attends to various matters by way of written resolutions. There is also regular communication and interaction with management, including monthly updates. Prior to each meeting, the Chairman and Company Secretary ensure that the Directors receive accurate, clear and timely information, to facilitate focussed, robust and informed discussions and to aid the decision-making process.

Board meetings follow a clear agenda that is agreed in advance by the Chairman, in conjunction with the CEO and Company Secretary. At each meeting the Board receives updates from the CEO and CFO, as well as from other members of the senior management. These reports cover how the Group is executing the business plan, policyholder administration, including details of how we meet our obligation to treat policyholders fairly, the new business pipeline and associated investments, and Risk's review of current and emerging risks. The Chairs of each Board Committee also report back to the Board on each Committee's recent activities. The Board is in regular dialogue with senior management outside of formal meetings and, in addition to regular matters, the Board and Committees also discuss other topics that require their attention.

Metrics
We look at the impact of our own emissions as well as those of our investment portfolio. Disclosing relevant and transparent metrics and setting meaningful targets to address Scope 1-3 emissions is essential to ensuring progress is made and monitored.

We are reducing our total energy consumption and carbon emissions (Scope 1 and 2) at our offices. This is being effected through a series of cumulative actions and bigger changes. For example, all the energy used in our office is now provided by a renewable energy supplier.

In order to understand our total impact, we are making efforts to map carbon emissions across our investment portfolio (Scope 3) with the assistance of third-parties such as MSCI and the application of our own methodology for our privately-sourced debt investments. Details on our carbon metrics can be found within our recently published TCFD report www.pensioncorporation.com/about-us/tcfd/.

2025

PIC has committed to being carbon neutral as a business by 2025

50%

PIC is committing to decreasing its investment portfolio's average carbon intensity by 50% by 2030 from 2019 levels

Integrating physical and transition risks for key sectors in our investment portfolio

Sector focus - building and infrastructure:
Physical risks
We assess acute physical risk such as storms, floods and wildfires which can cause significant damage to infrastructure assets, in addition to making them unusable for temporary or extended periods of time.

We also assess chronic physical risks such as how increasing sea levels, colder winters and warmer summers, heatwaves and droughts will take their toll on infrastructure assets. For example, roads will be worn out more quickly and will need more maintenance and repair, and railroad tracks could succumb from heat exposure and expand or shrink with extreme cold making trains unable to pass.

Resource scarcity issues such as water or energy supply would cause major delays to construction work which can have a knock-on impact for other stakeholders such as local communities. Airports and railways may not be able to operate effectively as they need energy to operate and this could have a knock on effect on supply chains.

Transition risks
Regulation change on carbon tax and energy efficiency could mean carbon intensive assets become 'stranded'. While this is already being seen in the oil and gas industry, the construction industry is also considered a high emitting industry and would be significantly affected by the imposition of a carbon tax, causing the cost of building infrastructure to become more expensive which would impact both investors and end users as the additional cost may be pushed down the value chain. Should regulation change sufficiently, certain infrastructure projects are likely to not become viable anymore and may stop construction or functioning.

We also consider sentiment change a transition risk. As the UK moves towards becoming Net Zero and the population increasingly values green reputation, the carbon intensive nature of certain infrastructure assets such as airlines and airports may be affected. These could also be negatively affected by people's willingness to cut their own personal carbon footprint and travel less abroad.

Targets

Corporate level targets

We understand the importance of setting meaningful goals and demonstrating progress year-on-year. Due to the sustainability efforts enacted across our business, we have managed to reduce our total Scope 1 and 2 CO_2E emissions by 16% in 2021. We have committed to the target of being carbon neutral as a business by 2025 and by being Net Zero within our portfolio by 2050.

Portfolio level targets

In line with various industry initiatives we are involved with, we have committed to decreasing our portfolio average carbon intensity (on a Scope 1 and 2 basis) by 50% by 2030. We have therefore set ourselves an interim target, in line with guidance from the Net Zero Asset Owner Alliance target setting protocol, of decreasing our public corporate credit portfolio (worth £18.6 billion at FY2021) average carbon intensity by 25% from 2019 levels by 2025. We will endeavour to decrease this section of the portfolio by another 25% (from 2019 levels) in the following five year period – in line with achieving our 50% reduction commitment over a decade.

Governance

- The ESG Committee reviews its terms of reference annually and recommends these to the Board for approval.
- The ESG Committee also has a planned cycle of activities to ensure that it has addressed its responsibilities throughout the financial year. The cycle is updated annually.

Activities during the year

At its first meeting in December 2021, the ESG Committee received reports from the Investments and Risk functions.

In addition to these, the ESG Committee discussed the significant volume of work undertaken during the year in respect of ESG to improve the Group's strategic positioning, including the investment portfolio which had been rated as comprising over 85% low risk category assets and under 3% high or severe risk assets. During the year, extensive work had been carried out to improve the modelling capability of the group in respect of ESG and climate change scenarios. A Group-wide quarterly ESG Forum had also been established to drive collaboration across all functions to embed ESG into the Group's operations.

The ESG Committee also discussed the regulatory environment, including the outcomes and publications from COP26, noting the challenges that lay ahead for the Group and the sector as a whole. The ESG Committee stressed the importance of the Group's culture and purpose as key proponents of a successful ESG approach, with a strong and consistent tone from the Board and senior management which considers the social consequences of the shift to a Net Zero economy.

Areas of focus for 2022

The ESG Committee's priorities for 2022 will be to embed climate change risk within all aspects of the business, as well as its investment portfolio, and to articulate the Group's Net Zero transition strategy in line with the ABI and Net Zero Asset Owner Alliance. In early 2022, the ESG Committee approved the Group's TCFD report, and it will also be adopting a Stewardship Policy and making an application to become a signatory to the Stewardship Code. The ESG Committee will also receive regular training on ESG matters as part of its annual programme.

Board activities

The Board has led the business's ongoing response to the Covid-19 pandemic and in addition to the regular matters that the Board discusses at each meeting, there were several key strategic and operational topics the Board considered during regular and ad hoc Board meetings. The Board, in its considerations, took into account its obligations arising from s.172 of the Companies Act 2006. The key deliberations are listed opposite:

Strategy

- Approved the five-year business plan following the Board discussing various scenarios at its strategy day focusing on PIC's purpose, growth and long-term success.
- New business transactions above a defined threshold require Board approval, and the Board considered and approved a number of new business transactions during 2021.
- Discussed culture in the context of how it affects the Group's strategy.
- Approved the Group's new brand and corporate identity.
- Approved the Group's Net Zero commitment and signed up to the Net Zero Asset Owner Alliance.
- Considered the Group's pricing assumptions against investment outcomes.
- Approved the Credit Model Change application to the PRA.
- Continued to provide oversight of the Group-wide, comprehensive programme of change that has been instituted as part of the strategy to provide a robust platform for future growth for the business, and which focuses on key processes, people, management information and technology.

Risk management and Internal Model

- Carried out increased oversight and monitoring of PIC's liquidity and solvency positions, ensuring that it was robust and resilient to exceptional market conditions during the pandemic.
- Closely oversaw PIC's portfolio and received regular updates on any de-risking carried out by the Investments team.
- Closely oversaw PIC's operations with particular focus on administration services outsourced to Capita to ensure minimal impact on PIC's policyholders.
- Approved risk appetite with particular focus on capital risk, debt, hedging and pricing.
- Approved the Own Risk and Solvency Assessment.
- Provided oversight of the implementation of the Group's hedging strategy including the establishment of a specialist Capital Planning and Hedging Committee by management.
- Regular reports were made to the Board on the progress of regulatory stress and scenario testing to ensure the business remained resilient and robust in challenging times and there was no adverse impact on policyholders, workforce and other stakeholders.
- Continued its focus on conduct risk and vulnerable customers.
- Continued its focus on PIC's regulatory engagement.
- Approved the updated recovery and resolution plan.

Employees and remuneration

- Received regular updates from the CEO and Chief People Officer on resourcing and wellbeing of staff, working arrangements and adjustments made to PIC's offices and working in the post-pandemic world.
- Approved the launch of the Group's share schemes for the year as an important way for the Group to engage with its employees.
- An employee survey was completed with the Board discussing the results and what their significance is for the Group's culture and strategy as well as the future ways of working.
- Received a report on the gender pay gap.
- Approved annual remuneration parameters, Non-Executive Director and senior management remuneration, taking into account all stakeholders' interests and business priorities.

Financial reporting and controls

- Approved the full year Annual Report and Accounts.
- Reviewed and approved the integrated assurance plan and noted updates against the plan in reports from the Audit Committee.
- Monitored the Group's progress in respect of the implementation of IFRS 17.
- Approved the Whistleblowing Policy and reviewed the Whistleblowing report.
- Approved the Modern Slavery Statement.
- Reviewed the Annual Opinion from the Head of Internal Audit on the effectiveness of the Group controls, risk management and governance processes, and culture.

Corporate governance

- Approved the appointments of an additional independent Non-Executive Director and a Non-Executive Director on recommendation of the Nomination Committee to the PIC and PICG Boards.
- With assistance from the Nomination Committee, undertook a search for a new CFO to succeed Rob Sewell, and approved the appointment of Dom Veney as the new CFO.
- Discussed the composition of the Board and Committees, which resulted in changes to the Committees' membership.
- Considered the results of an internal Board effectiveness review in 2021 as disclosed in the PIC G Annual Report and Accounts.

Glossary

Carbon Neutrality
The focus on not increasing carbon emissions and of achieving carbon reduction through offsets.

Defined benefit ("DB") pension plan
An employer-sponsored retirement benefit plan where the benefits promised to the members of the plan are defined according to a formula typically based on factors such as salary history and duration of employment. Investment risk and portfolio management are entirely under the control of the trustees of the pension plan and not the employee or employer.

Derivatives
Derivatives are securities that derive their value from an underlying asset or benchmark. The Group uses derivatives to hedge out certain market risks, in particular inflation, interest rates and currency risks associated with both new and existing business.

Financial investments
Represents all assets actively managed or administered by or on behalf of the institution including those assets managed by third-parties.

Net Zero
The focus on actively reducing greenhouse gas emissions to the maximum possible level so that the residual emissions can be neutralized by carbon offsetting as a last resort. Offsetting is used to counteract remaining emissions after all reduction initiatives have been implemented.

PIC's internal model
A risk management system developed by PIC to analyse its overall risk position, to quantify risks and to determine the capital required to meet those risks. PIC has obtained appropriate approval from the PRA to use its internal model to calculate its solvency capital requirement under Solvency II.

Prudential Regulation Authority ("PRA")
The PRA is a part of the Bank of England and is responsible for the prudential regulation of deposit-taking institutions, insurers and major investment firms.

Scope 1 emissions
Emissions that are directly generated by the company.

Scope 2 emissions
Emissions that are created by the generation of the electricity or heat needed by the company to sell its main products or provide its main services (indirect emissions).

Scope 3 emissions
Emissions caused by the entire value chain (indirect emissions).

Temperature alignment
The projected temperature rise by 2100 from pre-industrial levels.

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