Pension Insurance Corporation plc

Climate Report (TCFD) 2023.

Contents

This report was created in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). We have set out how we have complied with these recommendations in the TCFD Progress Section.

Our 2023 reporting suite

You can find out more about our activities, financial performance, sustainability strategy and our progress to becoming a Net Zero business by 2050 on our website and in our reporting suite.

To access the full reporting suite visit **pensioncorporation.com**

Annual Report

In our Annual Report and Accounts, we outline our approach to sustainable business. We comment on how our commercial activities contribute to positive social outcomes. We report in detail the steps we've taken to ensure high standards and quality of governance practices.

Sustainability Report

Our Sustainability report dives deeper into our sustainability strategy and how this complements our overall corporate objectives of being a long term sustainable business and a responsible corporate citizen. It details the progress made on new sustainability initiatives and how we strive to further embed Sustainability across all our processes.

Climate Report (TCFD)

Our Climate Report (TCFD) outlines how PIC reports against the 11 Taskforce for Climate Related Disclosure ("TCFD") guidelines. The report discusses our climate related governance, strategy, risk management and decarbonisation targets and metrics.

Transition Plan

PIC's Transition Plan is written in line with the Transition Plan Taskforce ("TPT") guidelines. The report details our objectives to contribute to a global transition towards a low carbon economy an includes the related business and investment actions we plan on taking to achieve its Net Zero goals.

PIC Company Annual Report

The PIC company report outlines our 2023 results on a company basis.

Investor Results Presentation

The Investor Results Presentation provides an overview of the Company's performance in 2023.

Introductory letter from CIO

Decarbonisation represents one of the main economic megatrends of the current investment cycle. Its impact is likely to be felt across all asset classes, and PIC is actively positioning itself to play a part in this journey."

Rob Groves
Chief Investment Officer

I am delighted to introduce PIC's 2023 Task Force on Climate-related Financial Disclosures ("TCFD") Report. This report describes our approach to managing climate-related risks and opportunities, highlighting our activities and achievements over the year, alongside our climate-related governance structures, policies, and plans.

Climate change and the Net Zero transition present significant risks and opportunities for our business.

The indicators of climate shifts impacting the macro environment continue to grow. 2023 has been the hottest year since records began and included the hottest day ever recorded. The real-world socioeconomic effects of climate change are already being felt, with climate-related investment risks materialising. Lloyds of London estimated that climate-related insurance claims will surpass $100 billion in 2023, with some insurers fearing that this will become the 'new normal' if the planet continues its warming trajectory.[1]

In addition to these physical impacts of climate change, we believe decarbonisation represents one of the main economic megatrends of the current investment cycle. Its impact is likely to be felt across all asset classes and in some cases this impact is already being felt in market values. PIC is actively positioning itself to play a part in this journey. Whilst certain sectors and asset classes are likely to face significant challenges as this trend plays out, we also believe there are meaningful opportunities from the transition.

We are taking advantage of such opportunities in our portfolio by investing directly in clean energy systems of the future, such as our renewable energy assets totalling over £1 billion.

As an investor with the purpose of paying the pensions of our current and future policyholders, we are forward-looking by nature. Incorporating climate risks and opportunities is fundamental to our investment strategy to deliver consistent long-term cash flows. We consider this part and parcel of sound investment management.

Our successes in 2023

The finance sector has a critical role to play in funding the climate transition, backed by increasingly supportive policy. 2023 has seen us continue to develop our investment approach to ensure we are able to play that role. Alongside this TCFD report, we have published our first Climate Transition Plan, setting out how we are accelerating the lower carbon economy and mitigating potential risks along the way.

We are also proud of our focus this year on supporting the real estate sector in becoming more environmentally friendly.

We have enhanced our scorecard for assessing the environmental, social and governance characteristics of developments that we invest in. This ensures that the real estate assets that we invest in are fit for purpose in a changing climate and regulatory environment.

Progressing our stewardship activity on climate has been another area of focus. I'm pleased that we have continued to increase the number of engagement activities on climate-related matters, both on investments managed in-house and those led by our external managers. I'm also proud that PIC became a signatory of the UK Stewardship Code in 2023, testament to our ongoing commitment to the highest standards of stewardship across the business.

Lastly, our approach to climate governance has continued to develop as we have expanded climate-related responsibilities across the organisation. We have launched our Sustainability Champions initiative, which will see a group of colleagues focus on bringing ESG and climate best practice into all areas of our business. These changes should spearhead climate integration across the Company.

I hope you enjoy this report, which expands on PIC's journey towards Net Zero and our management of the real-world impacts of climate change.

Rob Groves
Chief Investment Officer

1. Lloyd's of London warns insurers climate-related pain is still to come, The Financial Times, 22/10/23.

TCFD recommendations

The information in this report has been disclosed in line with the TCFD disclosure recommendations. We consider the disclosures to be fully compliant with the TCFD recommendations and therefore with the requirements under Chapter 2 of the FCA's ESG sourcebook. We have also considered the Asset Owner and All Sector guidance in developing this disclosure. The table below provides page references for each of the TCFD recommended disclosures:

Governance		
Disclose the organisation's governance around climate-related risks and opportunities.	Describe the Board's oversight of climate-related risks and opportunities.	P7 – Our new model for oversight and accountability
	Describe management's role in assessing and managing climate-related risks and opportunities.	P8 – Our new model for oversight and accountability
Strategy		
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning, where such information is material.	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term.	P25 – PIC's Enterprise Risk Management Approach
	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	P11 – Overview of our sustainability strategy
	Describe the resilience of the organisation's strategy, taking into consideration the different climate-related scenarios, including a 2°C or lower scenario.	P20 – Building a long-term sustainable business
Risk Management		
Describe how the organisation identifies, assess, and manages climate-related risks.	Describe the organisation's processes for identifying and assessing climate-related risks.	P24 – PIC's Enterprise Risk Management Approach
	Describe the organisations processes for managing climate-related risks.	P29 – PIC's Enterprise Risk Management Approach
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	P24 – PIC's Enterprise Risk Management Approach
Metrics and Targets		
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	P31 – Metrics and Targets
	Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ("GHG") emissions, and the related risks.	P31 – Metrics and Targets
	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	P31 – Metrics and Targets

Governance.

Robust governance provides the foundations on which we build and deliver our climate strategy.

Our new model for oversight and accountability

We are proud to report on the progress PIC has made in the governance of, and accountability for, sustainability and climate risks and opportunities in 2023. We have evolved our approach, reallocating responsibility for these risks to board committees, with the Board maintaining ultimate oversight.

PIC has made major developments in 2023 in how responsibility and accountability for sustainability and climate risks and opportunities are allocated. Our governance structure, which this section of our report covers in more detail, is at the heart of this and has evolved significantly since last year.

We recognise that climate change is likely to affect many areas of our business, and it is critical that sustainability and climate-related responsibilities, knowledge and experience are not siloed within one team or department. We have focussed on expanding our knowledge and skills, both at senior leadership level and more broadly across the organisation, and dispersing responsibility among a wider group of individuals and teams. One highlight has been the introduction of our new Sustainability Champions initiative to support the embedding of sustainability and climate risks and opportunities across the business.

To reflect these operational changes in the management of sustainability and climate risks and opportunities across PIC, we have also redistributed the oversight of these risks from the ESG Board Committees to PIC's permanent Board Committees. The Committees report up to the Board, which maintains oversight of all risks and opportunities facing the business.

PIC's Executive Committee have responsibility for sustainability and climate-related topics, on which they report up to the board. This ensures that climate is a central consideration during the day-to-day running of the business and considered during usual operations.

Climate change is one of the greatest challenges faced today. The continued success of our business – and protecting the pensions that we are responsible for – depends on PIC's thorough understanding of the risks that the climate challenge poses. With this in mind, we are pleased to have enhanced our governance and accountability over climate risks to ensure PIC delivers long-term value for our stakeholders and does the right thing for the planet and our future."

David Weymouth
Chairman, PIC

Our new model for oversight and accountability continued

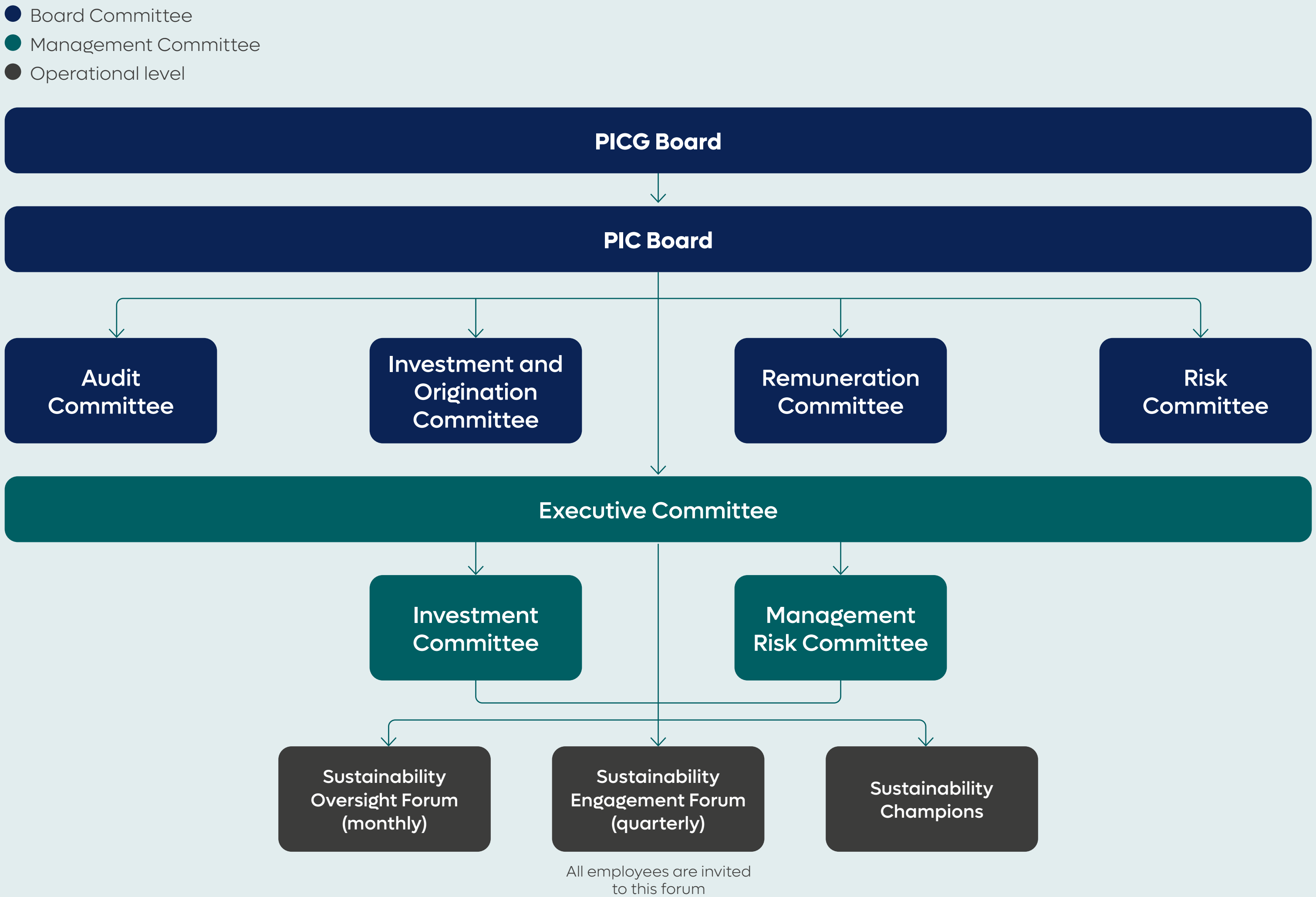
Elevating oversight of sustainability and climate risks and opportunities

We are continuing to cement board responsibility for sustainability and climate matters, ensuring that there is high level oversight and understanding of risks and opportunities facing the business today and in the future.

The beginning of this journey was the establishment of PIC's ESG Board Committee in mid-2021. This Committee had a remit to embed the governance of ESG and climate-related issues within the Board and its various committees over a span of two years. Forming the ESG Board Committee enabled us to move quickly to cascade our approach to ESG through the organisation while we continued to develop further knowledge and expertise.

The ESG Board Committee was a successful initiative, serving its purpose and playing a central role in the development of our sustainability strategy. Building on the achievements of that Committee, this year we have distributed the responsibilities among permanent Board committees. We also took this opportunity to ensure operational responsibility for climate-related issues are embedded at the management level. This is in line with our approach to governance and oversight of other risks that PIC faces. Our climate governance structure is shown in the diagram and explained in more detail below.

Governance of climate risks and opportunities



Note: Certain Board and Management committees have not been included in this diagram as they do not have a direct role in managing PIC's climate-related risks and opportunities. Full detail of PIC's Board committees can be found in the PIC Annual Report.

Our new model for oversight and accountability continued

The PIC Board

- **Sustainability and climate strategy:** The Board is responsible for the approval of the sustainability strategy, as recommended by the Executive Committee. The Board have oversight of sustainability related activities and will consider sustainability matters as they arise, or half-yearly at a minimum.
- **Sustainability and climate risk:** The Board oversees the identification and mitigation of climate-related risks. Where relevant, this is delegated to Board committees for specific risk areas. For example, the Board delegates the risk framework elements of climate risk management to the Board Risk Committee, including the identification and mitigation of climate risks.

Board Risk Committee

- **Sustainability and climate strategy:** the Board Risk Committee oversees the identification of emerging risks and trends, including climate-related risks, and consideration of how these risks may impact PIC.
- **Sustainability and climate risk:** the Board Risk Committee oversees the incorporation of climate risks into the Risk Management Framework and the Company's risk strategy, including the approval of PIC's ESG risk appetite and the Climate Risk policy.

Investment & Origination Committee

- **Sustainability and climate strategy:** The Investment and Origination Committee oversees the portfolio's progress towards Net Zero and the continuous development of PIC's climate strategy within the investment portfolio.
- **Sustainability and climate risk:** The Investment and Origination Committee oversees the management and mitigation of sustainability and climate risks in PIC's investment portfolio.
- **Stewardship:** The Committee is responsible for the approval of PIC's Stewardship Policy, which determines how we oversee the capital that we invest.

Audit Committee

- The Audit Committee is responsible for approving this TCFD report for publication and recommending approval of the Sustainability Report to the Board for publication.

Remuneration Committee

- The Remuneration Committee is responsible for approving Group Culture and Values goals and the consideration of incentives linked to climate and ESG objectives.

Board-level Sustainability Champion – Arno Kitts, Board Director

As part of this new governance framework, a new Board level Sustainability Champion, Arno Kitts, has been appointed by the Nomination Committee. This role includes:

- Acting to ensure that sustainability matters are considered by the Board.
- Escalating any concerns about the Company's sustainability related activities to senior management and the Chairman.
- Helping the Executive Committee Sustainability Lead embed sustainability matters into the Company's culture and policies.

The transition to Net Zero presents a seismic shift in the way our industry operates. There are significant investment opportunities in the Net Zero transition, including financing necessary infrastructure and climate-related technologies that offer the potential for stable long-term cashflows. At the same time, a more comprehensive understanding of the risks posed by sustainability and climate-related factors enables us to refine our approach to mitigating downside risk. The Board and its Committees will play a central role in this, and I'm proud to take responsibility for ensuring this is central to the Board agenda."

Arno Kitts
PIC Board Director and Sustainability Champion

Our new model for oversight and accountability continued

Management committee roles and responsibilities

Alongside the roles and responsibilities of the Board and Board committees, we have also clarified the roles and responsibilities of Management Committees with respect to climate-related issues.

Executive Committee

- **Sustainability and climate strategy:** The Executive Committee has responsibility for the development of the Group sustainability strategy, which is presented to the Board for approval. Once the strategy is approved at Board level, the Executive Committee and its members are responsible for implementing the strategy, led by the Chief Strategy Officer.
- **Climate and sustainability policies:** The Executive Committee owns PIC's Sustainability policy and ensures it is appropriately implemented through the organisation. When relevant, specific Board Committees may be engaged for support and guidance in the development and approval of policies related to their areas of focus.
- **Developments in sustainability and climate:** The Executive Committee members continuously review current and emerging ESG trends, international standards, and legislative requirements. This knowledge is used to assess how these may impact on the Group's strategy, operations, and reputation. In response, they determine necessary actions related to the Group's climate and ESG policies and objectives as required.

Investment Committee

- **Climate impact of investments:** The Investment Committee ensures portfolio climate impact is taken into consideration in investment processes, with support from the Responsible Investing Team. The Investment Committee has a specific focus on ensuring investment decisions are aligned with PIC's decarbonisation targets and transition plan.
- **Climate risk:** The Investment Committee receives climate metrics on at least a semi-annual basis to support decision making, particularly with respect to managing climate-related risks in the investment portfolio.

Management Risk Committee

- **Climate risk:** The Management Risk Committee is responsible for developing the Climate Change Risk Policy, risk preferences and risk appetites and submitting this to the Board Risk Committee for review and approval.

Sustainability Oversight Forum

- The Sustainability Oversight Forum meets each month and has responsibility for management review of sustainability topics. This Forum serves to review and challenge sustainability and climate-related decisions before they are progressed to Management level committees.

Case study:

Oversight and accountability for our climate scenario analysis

An example of our new model for oversight and accountability of climate risk is the process that was carried out to deliver our climate scenario analysis. Further detail on the analysis itself can be found on **page 20**.

The scenarios and assumptions were developed by the Responsible Investing team with support and oversight from the Enterprise Risk Management team and the Actuarial Assurance Function.

The impact of these scenarios on the solvency balance sheet were then calculated by PIC's Stress and Scenario Testing team. This reflects the approach of considering the quantification of climate risk as part of team's business-as-usual role.

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

Our new model for oversight and accountability continued

Embedding individual accountability for climate risks and opportunities

We have implemented several business level initiatives to ensure a coordinated approach to climate-related strategy, action, and reporting across our organisation:

- Clarified the roles and responsibilities of management committees with respect to climate risks and opportunities;
- Included sustainability related objectives in relevant Executive Committee members business objectives for 2024; and
- Implemented a Sustainability Champions initiative within the business.

The Chief Strategy Officer ("CSO") holds Executive Committee responsibility for embedding sustainability within the organisation, assisted by the Head of Sustainability, who is responsible for the development and delivery of the sustainability strategy.

Company-wide Sustainability Champions

An exciting part of this next phase of PIC's sustainability and climate journey is the appointment of 15 new Sustainability Champions across seniority levels of the organisation. The objective of this initiative is to ensure that sustainability and climate-related activities are part of the bedrock of all our operational activities.

The following roles and responsibilities are part of this initiative:

Sustainability Champions – 15 individuals from across the business

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

We also continue to provide business-wide training to encourage everyone to consider how climate and sustainability related issues affect their roles, through the quarterly Sustainability Engagement Forum. In 2023, four forum sessions were held including one which focused on understanding climate risk in our capital framework.

Executive Committee Chief Strategy Officer and Sustainability Lead – Simon Abel

- Takes Executive Committee leadership for sustainability matters.
- Drives and monitors progress for PIC's overall sustainability strategy.
- Promotes and communicates PIC's sustainability capabilities across stakeholder groups.

Head of Sustainability – Cleo Fitzsimons

- Sets the strategic direction for PIC's overall sustainability strategy and ensures alignment with PIC's corporate strategy.
- Helps ensure sustainability standards set by the Board and Executive Committee are met.
- Coordinates and oversees the two main streams of PIC's sustainability approaches: responsible investing and maintaining PIC's position as a long-term sustainable business.

I'm excited by this opportunity to become a Sustainability Champion at PIC. The pension scheme trustees – and their advisors – that we engage with are increasingly interested in how we manage sustainability and climate risk. In some cases, this is becoming a differentiator when determining which insurer to transact with. I will be working to ensure that our climate and sustainability focus is aligned with what our clients are focused on and looking to pass on what I learn to the rest of my Team, as part of our efforts to embed the importance of sustainability across PIC. On a personal level, I'm motivated by being able to play a part in the climate transition and in the social value created by our business, for example through financing increased supply of social housing. Of course, climate risks are also important for our business to ensure the security of the pensions we have to pay over the coming decades."

Peter Cole, Sustainability Champion, Origination

Strategy.

Our strategy to deliver decarbonisation and Net Zero across our operations and investment portfolio is aligned with global efforts to address the climate challenge. Responding to climate risk is core to our business strategy, enabling us to pay the pensions of our policyholders and create long-term social value.

Overview of our sustainability strategy

We continue to build our understanding of climate-related factors into our strategic decision-making process. Our firm-wide sustainability strategy aims to create long-term value as we fulfil our purpose and lead to sustainable benefits for the economy, the environment, and all our stakeholders.

The long-term nature of our pension liabilities also requires us to consider sustainability and climate risks over that same time span. For our business, we would consider short term risks to be those that arise over one year, medium term risks to be those that arise over one to five years, and long-term risks to be those that arise over five+ years. We consider sustainability and climate risks over all relevant timescales and our sustainability strategy is designed to account for these. These timescales are aligned with those used for the broader risks to which PIC is exposed in our risk management processes.

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

Our sustainability strategy is focused on four main pillars:
- Long-term sustainable business
- Being a responsible investor
- Protecting the environment
- Making communities sustainable, safe and inclusive

PIC's sustainability strategy

Creating long-term value as we fulfil our purpose

Long-term sustainable business
Focus areas:
- Policyholder security and service
- Robust governance process
- Detailed and transparent reporting
- A culture that is inclusive
- Long-term alignment of stakeholders

Making communities sustainable, safe and inclusive
Focus areas:
- Investing across the UK in assets to provide essential services
- Helping turn brownfield assets into greener alternatives
- Providing local employment and skill development opportunities
- Financial and non-financial charity support

Being a responsible investor
Focus areas:
- ESG integration
- Stewardship and engagement
- Active participation in ESG industry initiatives
- Sharing knowledge through insightful publications
- Investing in Sustainable Assets and mapping the impact created

Protecting the environment
Focus areas:
- Supporting the economy wide transition to Net Zero
- Meeting our carbon commitments
- Biodiversity impact of our real assets

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

PIC's responsible investment approach

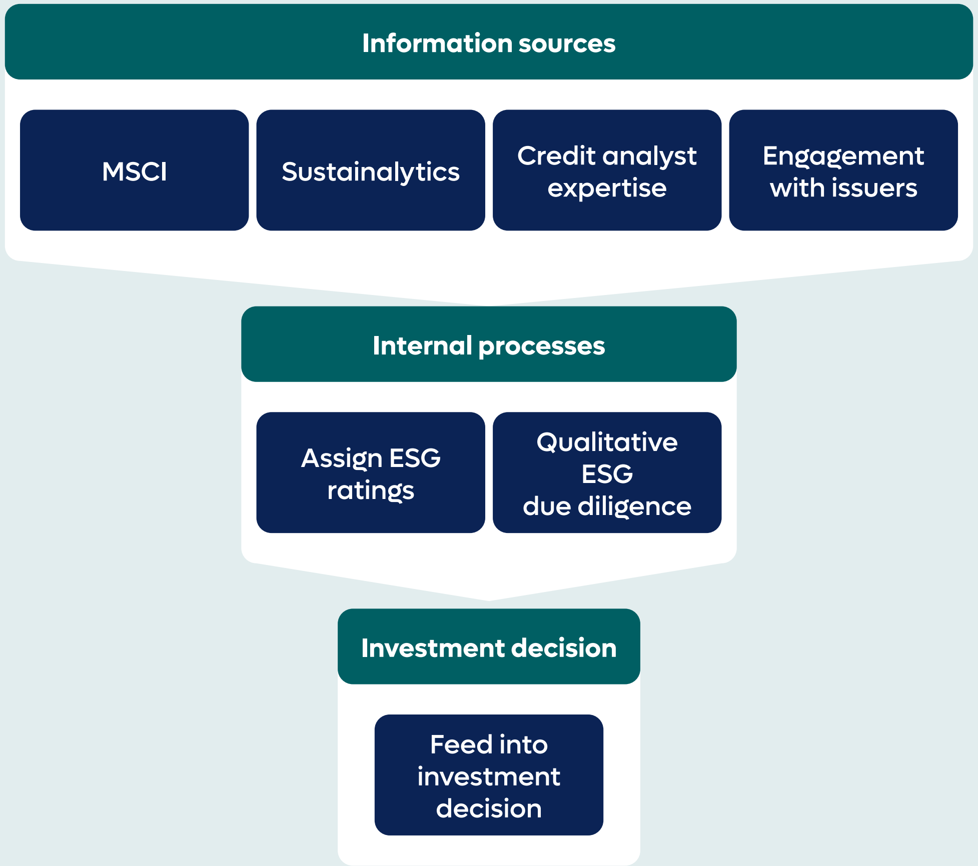
We have an investment portfolio of £46.8 billion, which is invested to provide stable long-term cashflows to pay the pensions of our policyholders. We will be paying these pensions for many years to come, and it is therefore clear that environmental factors, particularly climate change, should be a fundamental consideration in our investment approach.

We strategically integrate sustainability risks and opportunities into our investment decision making and approach, recognising that these factors play important roles in determining the long-term financial performance of investments. By incorporating these considerations into investment decision-making processes, we are proactively managing risks that could impact the value of our investments over an extended time horizon. This approach reflects a commitment to responsible and sustainable investing, recognising that securing the pensions of our policyholders requires a holistic assessment that extends beyond traditional financial metrics.

We believe our consideration of climate factors is fully aligned with the fulfilment of fiduciary responsibilities. As a steward of capital, we recognise that neglecting ESG considerations could expose the portfolio to additional investment risk, potentially compromising the security of our policyholders and shareholder returns. We are proud to have been accepted as a UK Stewardship Code signatory this year, reflecting our strong and authentic approach to Stewardship, including on climate topics.

Integrating sustainability considerations across internally managed investments

With the majority of PIC's public and private credit investments managed internally, we have developed a systematic process for integrating sustainability into our investment decisions.



PIC's responsible investment approach continued

Our information sources

We have a range of sources of information to support our assessment of sustainability and climate risks in our investment decisions:

- **MSCI Climate data** – we factor MSCI Climate Data into our investment decisions to assess how an investment's climate position is influenced by factors such as GHG emissions, commitments to decarbonise, as well as forecasted competitiveness in a low carbon economy.
- **Sustainalytics** – we also use the ESG risk sub-scores provided by Sustainalytics:
  - Sustainalytics rate industry risk with an 'Average Exposure Score', which is their view of the total ESG risks in that sector, and also produce an 'Average Manageable Risk Factor', which is their view of what portion, from the identified sector risk, can be managed. We refer to this as ESG Term Risk.
  - Sustainalytics also produce a 'Management' score that assesses how well the company manages the ESG risks that are deemed to be manageable. We refer to this as ESG Management Competency score.
- **Credit analyst expertise** – our credit analysts are experts in the sectors and issuers that they cover. They consider sustainability risks in their views on sectors and use their wide knowledge of those sectors to understand which issuers within sectors are leaders and laggards in managing and mitigating sustainability risk.
- **Engagement with issuers** – our credit analysts engage directly with underlying companies' management to assess their approach to sustainability and climate risks and opportunities, focusing on sustainability capabilities, competencies, and resilience. This direct engagement with companies is of particular importance in the private markets portfolio as public data is often hard to access, if available at all. This process includes getting responses from target investments to our general (all sector) sustainability questionnaire alongside sector-specific due diligence questionnaires. We have developed questionnaires for Consumer Goods, Real Estate, Student Accommodation, Infrastructure, Electricity and Gas Utilities, Water Utilities, Alternative Energy, Housing Associations, Education, and Not for Profit. These highlight sustainability specific risks or opportunities, including climate risks.

Our internal processes

The above information is considered by the analysts and investment teams as part of the investment process. As part of this process, we have developed a new internal ESG rating methodology, which is applied across our internally managed holdings. Our credit research team attribute internal investments an ESG score, with analysis included in ratings documentation and shared with the Investment Committee.

As well as the ESG ratings, analysts and investment teams qualitatively consider ESG related risks in each investment they are rating. Whilst the ESG rating process is based on a quantitative approach, a qualitative overlay can be applied to incorporate industry specialist insight to factor into the final rating.

Investment decision

Both the ESG rating and qualitative due diligence are included in investment papers that are considered by the Investment Committee. These combined evaluations play a pivotal role in informing both whether or not we invest, and the timeframes over which we are willing to lend. Where we consider the sustainability or climate risk to be material but still acceptable for investment, we may reduce the investment timeframe.

Sustainability in our outsourced investment portfolio

Sustainability and climate risk are considered early in our process when selecting external managers who help us manage a portion of our portfolio. Managers' sustainability capabilities, resources, and track record are assessed during our manager selection and investment period. We have a bespoke ESG due diligence questionnaire for investment managers and their funds that we require prospective partners to complete at the beginning of engagements. We are proud that all our key external managers are highly ranked by UN Principles for Responsible Investment and signatories to the UK Stewardship Code.

It is critical that our portfolios are run by managers that we can verify as good stewards of our capital. Our managers conduct stewardship actions on our behalf; therefore, we must be confident that they will represent our views. Our Investment Management Agreements ("IMAs") clearly state our objectives regarding climate and sustainability. A dedicated member of the Public Credit team oversees the implementation of these IMAs and engages with key external managers on climate-related issues on a regular basis to ensure this is being put into practice.

Additionally, we continue to develop relationships with managers in private credit and our Shareholder funds. Monthly meetings between relevant PIC teams and managers cover reviews of portfolios and the investment universe. Several of our managers submit customised quarterly reports, including climate disclosure summaries. Where relevant, we request follow-up calls with managers' analysts to delve deeper into high-risk topics identified in their reports.

PIC's responsible investment approach continued

Stewardship and engagement across all our investments

PIC characterises stewardship as the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. This commitment aligns with the Financial Reporting Council's definition of stewardship and results in sustainable benefits for all our stakeholders.

Our stewardship and engagement approach is applied to the portfolio we manage directly and via our Investment Management Agreements with the managers responsible for our external portfolio, as outlined above.

The success of our engagement strategy relies on our ability to measure progress year-on-year and we have established a platform that will monitor the impact of our stewardship over time using a selection of key metrics. Given the nature of our engagements, and the businesses or organisations that we engage with, we would not expect to see immediate results. However, for engagements specifically focussed on the low-carbon transition, we intend to use the following metrics to determine the success of our engagements when appropriate:

- Monitoring the change in carbon intensity over time and understand the key drivers of any changes.
- Monitoring changes in MSCI's Implied Temperature Rise as it is forward looking and considers targets that an organisation has set.
- Qualitative monitoring of decarbonisation commitments.

PIC has increased engagement across the portfolio, and we are continuing to apply influence on specific issues as set out in our two-year engagement strategy. So far, we have engaged with 74 firms either directly or via managers.

Focus areas for PIC's ESG engagement

Environmental focus:

- **Public and private credit:** Working with internal and external managers, we focus on climate engagements with our highest emitting investments. We encourage companies to commit to align their operations with the Paris Agreement and Net Zero, aiming to secure decarbonisation targets, strategies, and climate metric disclosures.
- **Real estate assets**: In our real estate asset investments, we encourage developers to maintain high environmental standards related to construction and operational phases, and have developed a proprietary rating approach, with the goal of improving scores for underperforming assets. Areas we focus on include embodied emissions, waste generated, water usage, flood risk, EPC ratings and operational energy use.

Social focus:

- **Public and private credit:** Working with internal and external managers, we focus on companies demonstrating their alignment with International Labour Organisation standards or country specific equivalents, including Modern Slavery and human rights in the supply chain.
- **Real estate assets:** We encourage developers to focus on enhancing social value across areas including affordability, and ensuring community needs are met through engagement during development and operational phases of the building. Our goal is to improve scores based on our in-house ratings system.

Governance focus:

- **Public and private credit:** Working with internal and external managers, we focus on companies demonstrating strong governance structures within their operations and maintaining up to date policies related to health and safety, wellbeing, diversity and inclusion, anti-bribery and money laundering. We also review overall governance strategy.
- **Real estate assets:** We look to ensure that developers maintain relevant policies related to governance, sustainable procurement, health and safety, diversity, anti-bribery and money laundering. We require evidence of these, with our goal to improve our in-house rating system and achievement of sustainable building certificates.

Stewardship Escalation Policy

Our escalation policy acts as a backstop when engagement or influence activities are no longer effective. This is applied when issuers do not make improvements in line with our expectations, despite multiple engagement efforts, within an 18 month engagement period. We require our asset managers to proactively escalate any sustainability concerns and report back any new information or evidence to PIC. We will also consider raising issues in collaboration with groups such as the ABI's Climate Change group or Net Zero Asset Owners Alliance ("NZAOA") engagement groups. Divestment will be considered as a last resort, as we believe divestment in isolation will not solve the global, long-term climate change challenges we face.

PIC's responsible investment approach continued

FRC UK Stewardship Code

PIC is a signatory to the UK Stewardship Code. The Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. To become a signatory, organisations must demonstrate stewardship over the previous 12 months through the responsible allocation, management and oversight of capital which creates long-term value for beneficiaries and leads to sustainable benefits for the economy, the environment and society. Signatories are required to report annually on their stewardship policies, processes, activities, and outcomes. Those on the list have met the standard of reporting required by the Code.

The Code comprises a set of 12 Principles for asset owners supported by reporting expectations which indicate the information that organisations should publicly report to become a signatory. There are four main sections:

- Purpose and Governance
- Investment Approach
- Engagement
- Exercising Rights and Responsibilities

There are now 277 signatories to the Code, representing £44.6 trillion assets under management. Signatories to the UK Stewardship Code include asset managers, asset owners and their service providers.

Case study:

Stewardship with UK water companies

The UK water sector has faced considerable challenges related to environmental performance and corporate governance, leading to environmental and societal harm. Addressing cultural and governance issues, as well as aging infrastructure and potential water supply constraints due to climate change and population growth require the companies' immediate focus, with both cultural change and capital investment needed. The funding will continue to come from long-term investors like PIC, mainly financed by debt although fresh equity will be required. The companies proposed to increase their spend to £96 billion over the next regulatory period running from 2025-2030 to improve infrastructure, this is a 60% increase on the current regulatory period.

As part of a collaborative engagement led by Royal London Asset Management, we are working with companies in the sector to help them transition to more sustainable operations. The initiative is dedicated to driving change in the UK water utilities sector by focusing on issues such as:

- **Climate Change Adaptation:** Evaluating companies' strategies in addressing climate change risks, encompassing measures to secure an ample water supply for a growing population and mitigate instances of water pollution due to heightened flood risk.
- **Biodiversity:** Scrutinising the initiatives undertaken by each company to enhance biodiversity in both terrestrial and aquatic ecosystems. This involves assessing the presence of a comprehensive Biodiversity Action Plan with ambitious targets and commitments, as well as transparency in disclosing biodiversity net gain.
- **Affordability:** Identifying solutions to enhance companies' performance without imposing significant financial burdens on customers, particularly during economic challenges such as the current cost of living crisis.
- **Antimicrobial Resistance ("AMR"):** Acknowledging AMR as a potential risk and recognising it as a more ambitious target within the evaluation framework.

PIC's responsible investment approach continued

2023 stewardship achievements

PIC was successful in joining as a signatory of the UK Stewardship Code.

We have progressed our two-year Engagement Strategy launched in 2022. As a part of the strategy, we conducted and documented 74 environment focused engagements with issuers on sustainability matters, taking the findings into consideration as we aim to improve the practices at these companies.

We have reviewed and updated our standalone Stewardship policy, which outlines our approach to stewardship. This update aligns with the latest industry best practices.

We expanded the Responsible Investing team, increasing its capacity to three full-time members, with the inclusion of an Investment Stewardship Manager.

We continued and enhanced the use of our online sustainability engagement platform to record and monitor engagement activities, allowing our team to track engagements and review our findings. All discussions related to sustainability matters – verbal or email – with management at investee companies are logged into the system.

We have set clear engagement expectations with our external managers to ensure that they represent PIC's perspective on climate-related issues within our investments, while also strengthening social engagement initiatives.

All PIC's credit analysts have undergone engagement training including training on the use of the engagement platform. They actively engage directly with underlying companies on sustainability matters.

We joined a new collaborative engagement initiative to work with the UK water utilities sector. The initiative aims to support companies in achieving more sustainable operations in this vital sector.

Protecting the environment

Our Climate Transition Plan

In 2023, we developed our Climate Transition Plan outlining the specific measures we intend to implement to meet 2025, 2030, and 2050 decarbonisation targets. This plan is designed to support the shift toward a lower-carbon economy and fulfil our commitments to reduce carbon emissions. This plan builds on the Transition Timeline that we disclosed in our **2022 TCFD report**.

Given the nature of our business, our investment portfolio is the area most exposed to climate risk and also presents the most significant opportunity to support the transition to Net Zero. We are focusing on the following levers to decarbonise our investment portfolio:

1. **Stewardship and engagement**
   We will use our influence – both direct and via managers – to encourage our current borrowers to move forward with their own decarbonisation journey, thereby contributing to PIC achieving our goals.
2. **Use our influence beyond our direct value chain**
   Acknowledging that the success of PIC in achieving portfolio decarbonisation targets hinges on wider economic transformations, we are committed to leveraging our influence. This involves actively advocating for systemic change by engaging with regulators, policymakers, and actively participating in industry initiatives like the ABI Climate Change Working Group.
3. **Forward looking investment strategy**
   We will seek to capitalise on opportunities for investments in the low-carbon transition, strategically integrating them into our portfolio. This should bolster the progress towards our targets during the expansion of our investment portfolio. Additionally, we acknowledge that the low-carbon transition may introduce heightened risks to specific investments and sectors. Consequently, our investment strategy is designed to account for and mitigate such climate-related risks.
4. **Strategic divestment where necessary**
   In cases where our engagement efforts fail to yield the desired impact or the risks associated with specific investments escalate, we will contemplate divesting from the implicated borrowers. This course of action is envisioned as a last resort, employed only when deemed necessary.

As part of our strategy to advance our decarbonisation objectives, we have assessed the possible risks associated with our transition plan, and have defined three broad risk areas that we consider material:

- **Delivery risks:** These include risks related to our Transition Plan not delivering the outcomes we expect or that we are unable to deliver the plan. This could mean that we are insufficiently prepared for a transition to a low-GHG emissions economy, which could impact our ability to pay the pensions of our policyholders.
- **Strategic risks:** These include risks related to the outcomes of our Transition Plan being insufficient to prepare for the global transition to a low-GHG emissions economy, impacting our ability to pay the pensions of our policyholders.
- **External risks:** These include impacts and unintended consequences of our Transition Plan on other sustainability-related matters, such as the natural environment, or on our stakeholders, including our workforce, customers, suppliers, and shareholders.

As part of developing our transition plan, we have identified and disclosed the explicit and implicit assumptions inherent in our plan, and considered qualitative scenarios where those assumptions prove incorrect because of the above risks. The plan details the adjustments we would make to our strategy in these scenarios to ensure we remain on track to meet our decarbonisation targets. Further detail can be found in the Transition Plan.

Forward looking investment case studies:

Streem

UN SDG 13: Climate Action

In August 2023, PIC invested €45m in a freight and railcar leasing company Streem Group. This investment represents an ongoing commitment to invest across transportation assets that support greater cost efficiencies and less carbon intensive operations. Streem Group is one of the leading players in freight transportation with more than 46,000 railcars and 80,000 containers in its fleet globally. PIC's investment will contribute to UN SDG 13: Climate Action by supporting Streem's ongoing global decarbonisation strategy, as they aim to reduce the carbon intensity of their operations. We are also supporting the global shift of freight traffic from road to rail, helping decarbonise the world's logistics chain. Based on UK government estimates, transporting goods by truck is approximately four times as carbon intensive, per kilometre travelled, as transporting goods by rail.

Portsmouth Water

UN SDG 6: Clean Water and Sanitation

In March 2023, PIC invested £50m into a Portsmouth Water private placement which included covenants linked to specific Sustainability KPIs. The proceeds from Portsmouth Water's capital raise are earmarked for the construction of the new Havant Thicket Reservoir, the first reservoir built in the UK since 1991, which will address the significant water resource challenge faced by much of the South East of England and protect unique natural habitats. As well as protecting some of the area's rare river habitats, it will also provide a new green, leisure facility for local communities.

Although the tranche of the debt that PIC invested into had fixed cash flows and sustainability reporting covenants, the majority of the capital raise was structured as a 'sustainability-linked' loan which will require Portsmouth water to report to investors its progress on meeting specific, well thought-out and ambitious targets related to five KPIs:

1. Water leakages
2. Interruptions to supply
3. Carbon reduction
4. Biodiversity
5. Affordability

Protecting the environment continued

Reducing the environmental impact of our own operations

We are also taking measures to reduce the emissions from the operations of our own business. We continue to focus on increasing recycling rates and reducing energy consumption in our operations. As part of the Sustainability Champions programme, in 2024 we will be bringing forward:

- Department level initiatives, to be owned and progressed by each champion in their own department.
- Business-wide initiatives, to be owned by the Head of Sustainability and progressed and promoted by all champions in collaboration.

Our operations case study:

22 Ropemaker Office Relocation

In 2023, we announced our plans to move to a new office and we are putting in measures to maximise the sustainability of this new office space. We are applying our proprietary ESG Due Diligence scorecard that we use for our real estate investments to the fit out of this new office to ensure we drive the same standards in our office as we expect in our investments. The design of the new building focuses on a range of sustainability factors including minimising carbon emissions, reducing waste, fostering biodiversity, and adding local social value.

The building was planned, designed, and constructed with sustainability and longevity at the heart. It was the first large scale commercial building in London to be certified 'Outstanding' at design under the Building Research Establishment Environmental Assessment Methodology (BREEAM) 2018 new construction accreditation scheme, and is on track to achieve this accolade now the building is complete. Working with building managers, all service providers (Mechanical, Electrical and Plumbing; Cleaning, Security, etc.) will require tenderers to go through a three-stage process: pre-qualification questionnaire, request for proposal and presentation, during which they will be asked questions on sustainability policies, sustainability training and commitment to London Living Wage. The building has also secured a 100% natural renewable energy contract.

There will remain some residual carbon emissions in our operations following the move to a new office and we will purchase high quality carbon removal credits to account for these. This year we developed our carbon offset strategy, in partnership with CUR8. We have purchased carbon offset credits for our 2023 and 2022 air travel emissions, with carbon removal projects designed to align with the Oxford Principles for Net Zero Aligned Carbon Offsetting. Further details on our carbon offsetting strategy and the projects selected can be found in on **page 22** of our Sustainability Report.

Building a long-term sustainable business

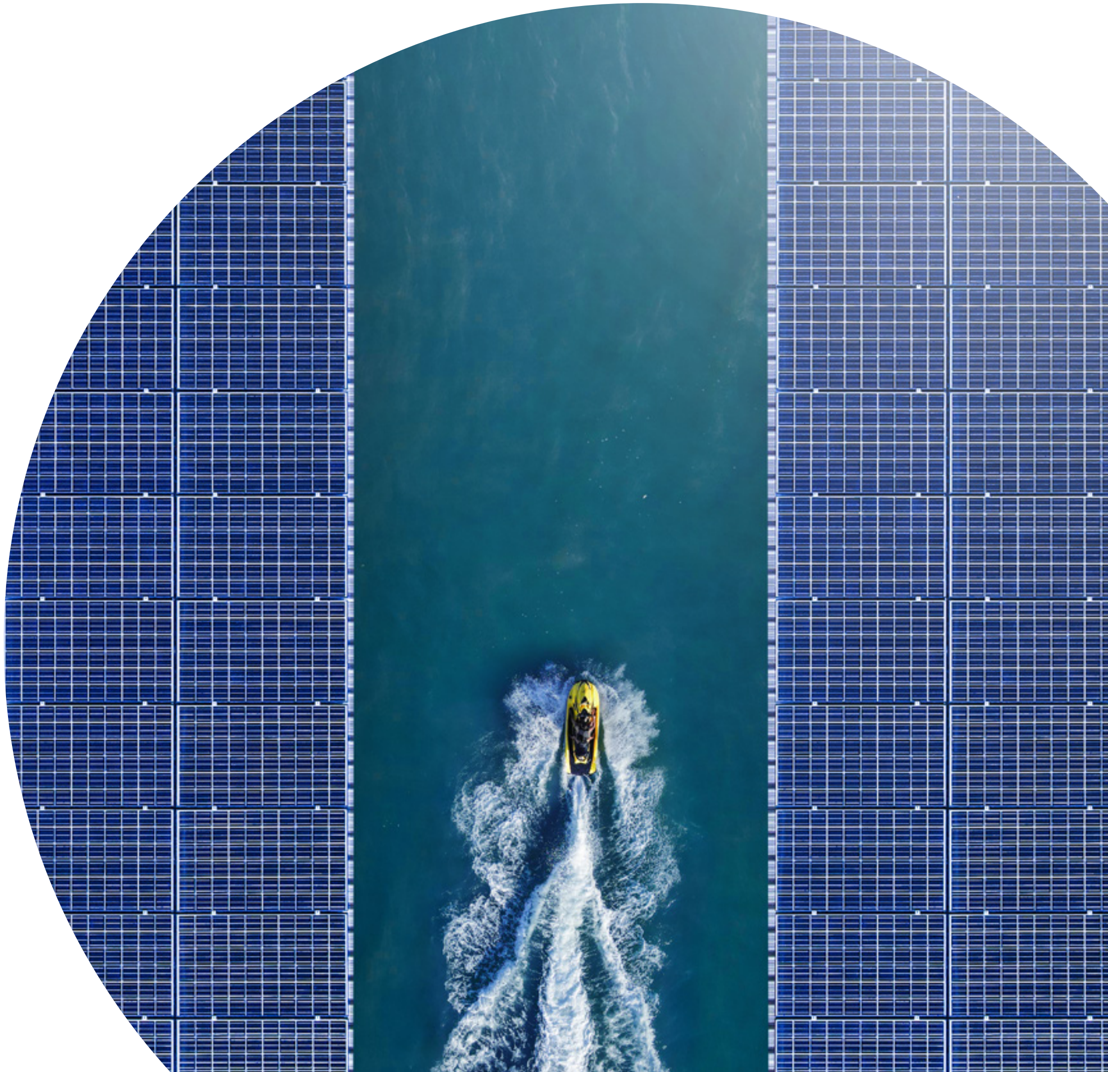
PIC takes a long-term view to making and holding our investments. Paying attention to changing trends and shifts in demand due to climate-related topics is crucial to this. We are also committed to leveraging opportunities within the low-carbon transition to enhance our investment portfolio and achieve our targets. As we integrate these investment opportunities into our strategy, we also recognise the potential heightened risks introduced to specific sectors due to evolving understanding of climate risks.

We seek to proactively address and mitigate climate-related risks in our investment portfolio. Mitigating these risks is essential not only for the sustainability of our portfolio returns, but also in line with our commitment to climate responsibility. The details that follow describe how we are putting this into practice within our investment portfolio.

PIC's approach to investment restrictions

Reducing risk in our investment strategy is central to building a sustainable business. We have put in place several restrictions and exclusions on our investment portfolio on sectors that are likely to undergo significant changes as we move towards a low carbon economy:

- **Coal extraction and burning, and Tar Sands –** coal and Tar Sands are becoming an increasingly unfavoured source of energy due to their impact on the environment. As a result, we have committed to making no new purchases in companies that derive more than 10% of their turnover from coal extraction and burning, and Tar Sands. We have also committed to divest from all holdings breaching the 10% limit in these areas by 2025, unless the respective borrower has a credible plan in place to achieve the target in a reasonable time frame by 2025. So far, we have made strong progress towards achieving this target, engaging with the companies in our portfolio to understand their plans to reduce coal usage over time.
- **Oil –** as with coal, the long-term demand outlook for oil is uncertain as energy markets undergo meaningful structural changes. Whilst oil will remain in the energy mix for longer than coal, we have a cautious approach to long-term investment in the sector. We will make no new purchases of companies who exclusively focus on upstream activities. We aim to divest from these holdings over time. PIC will continue to invest in major integrated oil companies where such companies have decarbonisation commitments that are aligned with PIC's and have a credible strategy to deliver them. We believe such companies have an important role to play in the transition to a low carbon economy. Our cautious approach also includes concentration and duration limits for specific subsectors and a low allocation overall. Currently this sector represents <1% of PIC's portfolio.



Building a long-term sustainable business continued

Conducting climate scenario analysis

There are two key types of risk associated with climate change: the risks that arise as the economy moves from a carbon-intensive one to net zero emissions, known as transition risks; and risks associated with an increase in global temperatures, known as physical risks. In 2023, we performed a quantitative climate scenario analysis, assessing the impact of different climate scenarios on the balance sheet. The focus of this exercise was the impact of various climate-related scenarios on our credit portfolio, and specifically credit rating downgrades.

This assessment was based on the Climate Biennial Exploratory Scenario ("CBES") exercise, developed by the Bank of England ("BoE"), which uses three climate scenarios and projections for a range of macroeconomic, financial, transition risk, and physical risk variables. The scenarios that were developed by the BoE, based on Network for Greening the Financial System ("NGFS") scenarios, were as follows:

- **Early action –** gradual implementation of ambitious climate policy leads to Net Zero by 2050 and successfully limiting climate change to 1.8°C warming. The required adjustment creates a temporary headwind to growth and dissipates once a significant proportion of the transition has occurred.
- **Late action –** the implementation of climate policy is delayed to the 2030s leading to a sudden and disorderly transition that successfully limits climate change to 1.8°C warming by 2050 but causes material short-term market disruption.
- **No additional action –** no further action is taken on climate change, leading to increased physical impacts of climate change and warming of 3.3°C by 2050. There are permanent impacts on living and working conditions, GDP growth is permanently lower and macroeconomic uncertainty increases.

These scenarios were designed by the BoE to reflect different levels of transition and physical risk, with the No Additional Action scenario resulting in the highest physical risk, and the Late Action scenario resulting in the highest transition risk for our portfolio. Climate change will impact each sector of our portfolio differently, but we have identified real estate, electricity supply, water collection, and gas and steam as the sectors most likely to experience a material impact from climate change as areas of focus for this exercise. For these sectors, we used the variables provided for the CBES scenarios to estimate the change in corporate bond spreads for each scenario. We also used historic data to estimate the increase in downgrades that would occur based on these changes in spreads. This analysis allows us to estimate the impact on PIC's solvency ratio (noting that we have not considered the impacts of management actions PIC could take in these circumstances).

Based on this approach and the underlying variables provided by the BoE, the table to the right shows the estimated impact on the number of downgrades by sector in 2050 under each climate scenario, beyond the estimated amount we would expect on average. Note that we would expect some downgrades in a business-as-usual scenario, and we have modelled the impact of additional downgrades as a result of the climate scenario.

Estimate downgrades by sector – 2050

Sector	Early Action	Late Action	No Action
Real estate	🟡	🟠	🔴
Electricity supply	🟡	🟠	🔴
Water collection	🟡	🟠	🔴
Gas and steam	🟠	🔴	🔴
Non-financials (not including above sectors)	🟡	🟠	🔴
Financials	🟠	🟠	🔴

Key

🔴 High relative number of additional downgrades expected.

🟠 Medium relative number of additional downgrades expected.

🟡 Minimal relative number of additional downgrades expected.

Based on these estimated increases in downgrades, we also calculated the impacts on our solvency ratio, assuming our investment portfolio remains fixed and management actions are taken to minimise the impact:

Estimated impact on solvency ratio

Scenario	2031	2040	2050
Early Action	🟡	🟡	🟡
Late Action	🟡	🔴	🟠
No Action	🟡	🟠	🟠

Key

🔴 Pronounced relative impact on solvency.

🟠 Moderate relative impact on solvency.

🟡 Minimal relative impact on solvency.

On the analysis conducted, the scenario of most risk to PIC is a disorderly transition, where the scenario implies a significant market disruption in the 2030s under the premise that significant investment and policy behaviour moves quickly towards decarbonisation. Whilst the scenario implies a market crisis in 2031, this impacts PIC over time as credit rating downgrades may take time to emerge (given delayed impacts on balance sheets), meaning the largest impact on PIC is in 2040. The impact then falls as the economy recovers to 2050.

Whilst this analysis indicates that a disorderly transition is the scenario of most risk to PIC in the timescales that have been modelled, we recognise that taking no action to mitigate climate change is likely to be a more damaging scenario for the economy as a whole. The reason for this apparent discrepancy between the risk to PIC and the risk to the overall economy is the timescales over which impacts are being modelled. In the disorderly transition scenario, whilst there is a greater impact during the transition, the long-term effect is positive as climate change has been mitigated. However, in a no additional action scenario, physical risk gets increasingly severe over time, as global temperatures continue to increase. This cannot be captured in a modelling exercise only projecting impacts to 2050, but is likely to be significantly more damaging in the long term.

The results above should be used with caution, as they are based on scenarios that may or may not occur and have been calibrated using standardised methodology. There are also significant assumptions and limitations in projecting the economic impacts of those scenarios given this work considers the impact of credit worthiness and credit ratings only. We are continuing to develop our climate scenario analysis capabilities to ensure the information is as accurate as possible and can be useful to drive decision-making, and this exercise has provided some additional developments to consider.

Our sustainability strategy in action: ESG assessment for our real estate portfolio

Real estate is one area of focus in our investment portfolio and our approach to investing in and managing this asset class incorporates elements from every area of our climate and sustainability strategy.

There have been meaningful developments in the assessment of real estate ESG factors in recent years, and we have continued to evolve our approach accordingly. This year, we have continued to develop our proprietary in-house ESG assessment for real estate, launching the second version of our framework in 2023. This framework covers 65 ESG related KPIs across eight themes and supports the delivery of our sustainability strategy through our real estate investments.

Our responsible investment approach

We take a holistic view of sustainability across our investments, using our ESG assessment tool. Where we own or consider owning real estate assets:

- We use the assessment to ensure the developments we invest in are aligned with our commitment to sustainability.
- We work with developers and managers to improve sustainability practices and their ESG scores over time.

Protecting the environment

We track a range of environmental KPIs. The environmental themes we assess include, but are not limited to:

- Climate change, focusing on assessments of climate-related risks to the investment.
- Materials and circular economy, focusing on the sustainability, recyclability and renewable aspects of the materials used.

Building a long-term sustainable business

Mitigating risks now and those expected to emerge in the future is a crucial factor in ensuring success for our business. We look at a range of KPIs to support this including:

- Assessing the likelihood of flooding and potential severity of damage and impact on valuation.
- Compliance with relevant building and safety standards, including fire risk.

Sustainable, safe, and inclusive communities

We focus on areas that are important to communities and promote inclusivity. KPIs we track include:

- Social value creation: including factors related to local procurement, and community engagement.
- Supporting vulnerable tenants and providing accessible, inclusive premises.

Sustainability real estate scorecard

We have established strong ESG criteria within the framework of our investment process for PIC's growing real estate portfolio. We have created, along with a third-party specialist consultant, a proprietary rating system to assess ESG credentials across PIC's real estate portfolio. The standards within our approach go beyond the regulatory minimum and assess assets according to 65 key performance indicators ("KPIs") spread across eight ESG related themes:

Environmental

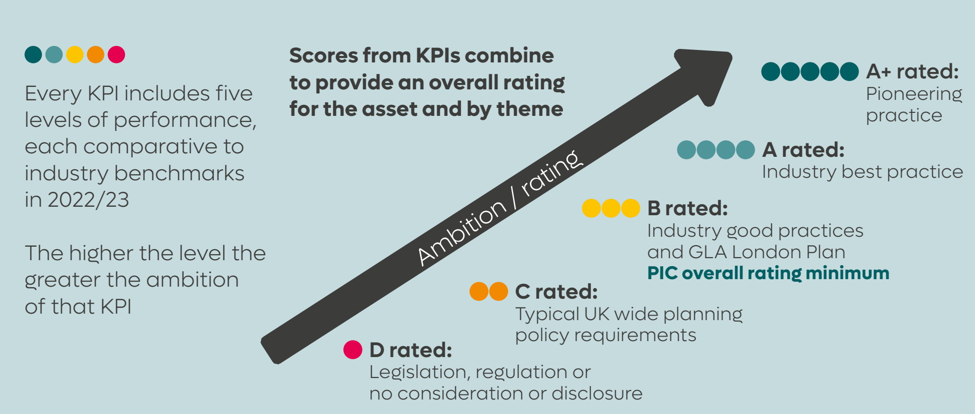
- Net zero carbon
- Biodiversity and ecology
- Climate change
- Materials and circular economy

Social

- Health & wellbeing
- Social value

Governance

- Monitoring
- Policy



The assessment framework also sets minimum standards that real estate investments must achieve. Following the initial process, we work with developers at various points of the investment period to improve their scores, using the scoring system to identify areas for developers to focus on during the construction phase of projects. Following our engagements, suppliers have moved forwards with recommendations including embodied carbon analysis calculations, urban greening factor calculations, and committing to sourcing a certain proportion of contractors from the area local to the development.

Our sustainability strategy in action: ESG assessment for our real estate portfolio continued

Real estate asset case study:

Hawks Road Development

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

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

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

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

Risk Management.

Risk management and the implementation of a strategy that enhances climate resilience through sustainable investments supports our purpose of paying the pensions of our current and future policyholders. PIC continued to integrate climate change risks into our risk management approach throughout 2023.

PIC's Enterprise Risk Management approach

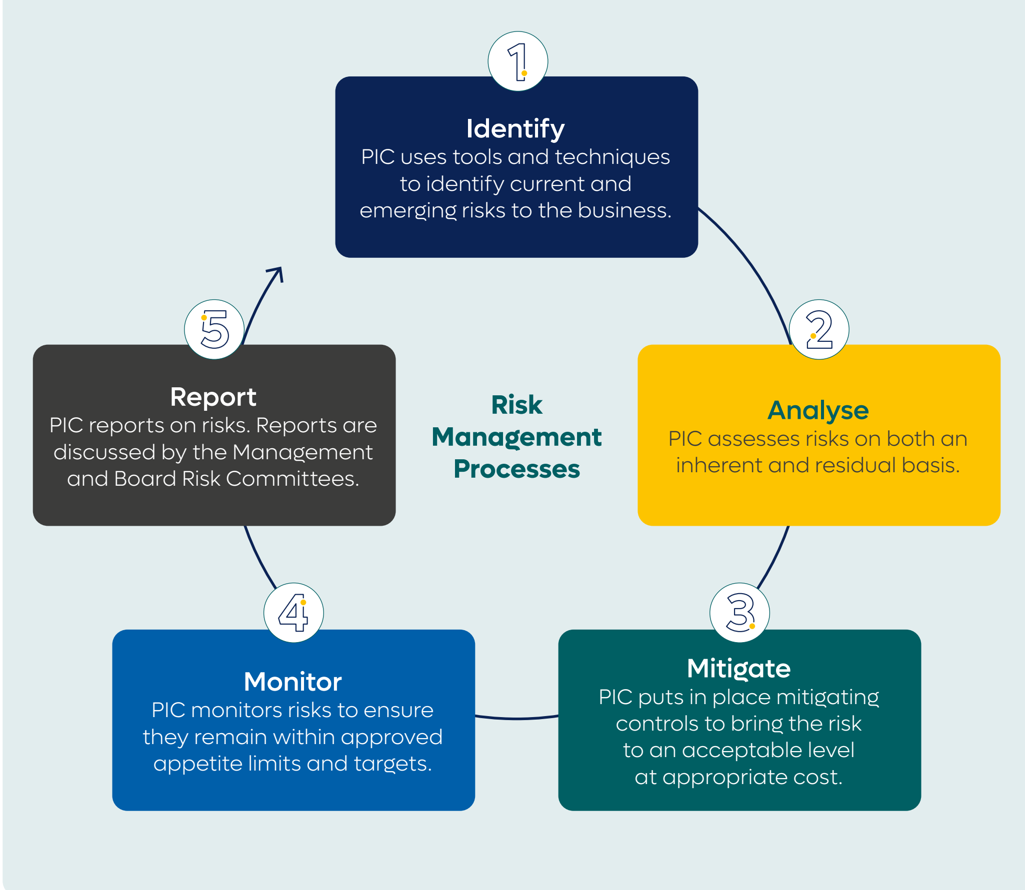
Within the Strategy chapter of this report (**pages 10 to 22**), we have described our Net Zero initiatives and sustainability goals aimed at managing and mitigating climate-related risks. The implementation of a robust sustainability strategy, in conjunction with our established risk management practices, enables us to effectively navigate the challenges posed by both the physical and transitional aspects of climate change.

Risk management is integrated into the business via the Enterprise Risk Management ("ERM") Framework. This consists of our Governance Framework, Risk Policy Framework, Risk Processes and Risk Appetite Framework:

- The Governance Framework sets out PIC's risk management responsibilities.
- The Risk Policy Framework sets, embeds and monitors the standards applied to each risk area.
- The Risk Processes are the techniques and tools used to identify, assess, mitigate, monitor, and report risk throughout PIC.
- The Risk Appetite Framework sets the level of risk the Board is willing to take, in which areas, and how performance against risk appetite will be measured.

This framework establishes a consistent approach to identifying, managing, and reporting all risks. Within this, climate change is recognised as a cross-cutting risk that could drive other risk events and impacts across our current risk profile. Our stance towards managing climate change risks prioritises resilience across a spectrum of potential climate-related outcomes, contributing to achieving PIC's strategic objectives.

Enterprise Risk Management system



"Effective risk management is essential for fulfilling our commitments to policyholders, both now and in the future. The challenges arising from climate change and the shift toward a low carbon economy cut across our operations and investments. We remain committed to refining our methods for monitoring and addressing climate risk, adapting our approach in tandem with the industry's evolving understanding of these risks."

Sally Bridgeland
Chair of the Board Risk Committee PIC

PIC's Enterprise Risk Management approach continued

In applying the risk management system for climate change-related risks, we employ various methodologies tailored to each phase as detailed below:

1 **Identification:**
We conduct climate risk assessments to identify potential climate risk exposures and immediate actions for managing these risks. This involves for example leveraging analysis from third-party sources and performing due diligence on assets under consideration for investment.

2 **Analysis:**
We use our risk management processes to analyse the climate risks we are exposed to, such as the Own Risk and Solvency Assessment process and the Risk and Controls Self Assessment process. We also carry out detailed climate risk analysis on a case-by-case basis in our investment process. This analysis also helps us identify climate-related risks in the first step.

3 **Mitigation:**
In addition to making short-term adjustments to our portfolio, we establish long-term objectives and action plans aligned with our Net Zero targets and transition plan. This process considers engagement and divestment actions, and it acknowledges our recent short-term measures, such as introducing covenants and evaluating new private assets.

4 5 **Monitoring and Reporting:**
We have introduced risk appetite metrics to support us in monitoring our position against our transition plan and the transition to a low carbon economy, which we will continue to review and refine. We consistently monitor and report on our risk management activity, providing qualitative reports through appropriate governance channels, including our Sustainability Oversight Forum, Management Risk Committee and Board Risk Committee (more information is included in the Governance chapter of this report on **page 6**). This ensures that actions align with best practices and contribute to achieving PIC's business goals. Further detail on the monitoring and reporting of climate-related risks is included in the Metrics and Targets section of this report.

PIC's Risk Taxonomy

We consider climate change a cross-cutting risk, which has the potential to drive risk events across multiple areas of PIC's business. When we first identified climate change as a cross-cutting risk in 2022, we conducted a qualitative risk assessment to identify the potential impact of climate change on each of the risks in PIC's Risk Taxonomy. The Risk Taxonomy is defined by the Board and is reviewed annually. In 2023, we refreshed elements of this assessment, which is shown below:

Lead Taxonomy Risks	Sub Taxonomy risks	Impact of Physical Risk	Impact of Transition Risk
Solvency	Market, concentration, counterparty	Significant	Significant
Liquidity	Asset liquidity, collateral	Significant	Significant
Operational	People and resources, processes, physical infrastructure, systems and technology	Moderate	Low
Legal and regulatory	Legal, regulatory compliance	Low	Moderate
Conduct	Culture, market interactions	Low	Moderate
Strategy	Business strategy, implementation, reputation	Moderate	Moderate

The impacts in the above table should be considered in the context of climate risks only.

PIC's Enterprise Risk Management approach continued

In 2023, we further considered ways in which physical and transition risk could drive the risks in the taxonomy for those areas where we assess the potential risk to be significant.

Lead Taxonomy Risks	Sub Taxonomy risks	Potential impact of Physical Risk	Potential impact of Transition Risk
Solvency	Market, credit	Actual or expected impacts of physical climate change could lead to reduced asset values. Possible drivers include: • Direct damage to our real estate investments resulting in loss of value or reduced attractiveness. • High cost or lack of availability of insurance for investments because of increasing likelihood and severity of physical climate risk events. • Disruption to operations and/or supply chains of investments through increasingly frequent and severe climate risk events.	Actual or expected impacts of the transition to a low-carbon economy could lead to reduced asset values. Possible drivers include: • Changes in consumer demand leading to assets becoming stranded. • Changes in regulation leading to certain sectors or businesses becoming less profitable or creditworthy than expected. • Increased building regulation and standards leading to a need for additional investment in existing real estate assets.
	Counterparty	Physical climate change could negatively impact our counterparties (such as derivative counterparties or reinsurers) in similar ways to those highlighted in the Market risk section above. In addition, reinsurers usually have a diverse portfolio of products which can expose them to physical climate risk e.g. increasing natural catastrophe claims.	Transition risk could negatively impact our counterparties in similar ways to those highlighted in the market risk section above.
Liquidity	Asset liquidity	Increased likelihood of acute physical climate risk events could lead to a reduction in PIC's ability to liquidate an asset (without significant cost) if the asset or sector is significantly impacted by physical climate risk.	If assets begin to become stranded as a result of a transition to a low-carbon economy, this is likely to reduce liquidity in similar assets that are reliant on the continuing use of fossil fuels.
	Collateral	Not considered to be a significant risk, although macroeconomic volatility driven from climate-related issues may act to impact PIC's derivative counterparties, and the collateral flows that support derivative arrangements.	

This consideration of how physical and transition risks could impact PIC led us to focus our climate scenario analysis being solvency impacts from market/credit risk, as highlighted on **page 20**. This is particularly focused on credit rating downgrades as this has the most significant impact on PIC.

PIC's Enterprise Risk Management approach continued

Defining physical and transitional climate risk

Physical climate risks relate to the direct consequences of climate change, which can be either acute, driven by specific events, or chronic, arising from long-term shifts in climate patterns. These risks can impact organisations financially through direct asset damage and indirect effects such as supply chain disruptions. Changes in water availability, sourcing, and quality, as well as issues like food security and extreme temperature fluctuations, can further affect an organisation's financial performance, influencing its premises, operations, supply chain, transportation needs, and employee safety.

Transition risks encompass the risks associated with the shift towards a lower-carbon economy, involving substantial alterations in policies, regulations, technologies, and market dynamics to address climate change mitigation and adaptation requirements. Depending on the nature, pace, and emphasis of these changes, organisations may face varying degrees of financial and reputational risk.

Given the nature of these risks, physical climate risk is less likely to materialise in the short term and we view it as a longer-term risk. Transition risk could materialise over the medium term given the possible timescales of the shift to a lower-carbon economy. However, in the case of both physical and transition risk, we also actively consider the possibility that financial markets price in this risk in advance of the risk itself materialising. This is increasingly possible as the pathway that the global economy is likely to take becomes less uncertain and advances in climate science improve our understanding of future physical risks. For example, if it became clear that no transition to a lower-carbon economy was taking place, and advances in climate science allowed accurate predictions of the implications of that for physical risk, we would expect asset prices to reflect that increased physical risk.

Setting our climate risk appetite

Incorporating climate change risks into PIC's Risk Appetite Framework enables the organisation to consistently identify, analyse, mitigate, monitor, and report risk in a manner consistent with the Board's preference and appetite. This integration ensures that climate risks and opportunities considered in daily decision-making processes of the business.

Beyond reviewing PIC's risk appetite statements and incorporating climate-related considerations for the most significant ones, we have established distinct climate-specific preferences and appetite statements for both physical and transition risk. This approach supports the recognition of the cross-cutting nature of these risks within PIC's Risk Framework.

High level risk	Climate change
Risk definition	The likelihood of unfavourable outcomes stemming from the effects of climate change, encompassing both physical risks resulting from climate-driven events and transition risks arising from the adjustment process to a low-carbon economy.
Risk preference	Minimise
Risk appetite statement	PIC has limited tolerance for the consequences associated with climate change risk. Our objective is to navigate our operations and portfolio with a focus on diminishing climate change risk while sustaining returns from our core activities. Committed to aligning with the goals of the 2015 Paris Agreement, PIC is dedicated to undertaking measures to decarbonise our portfolio and decrease our GHG emissions, aligning with our Net Zero commitments.

Granular risk	Physical climate change	Transitional climate change
Risk definition	The likelihood of unfavourable outcomes resulting from acute (event-driven) and chronic (long-term shifts in climate patterns) risks linked to climate change.	The possibility of negative outcomes stemming from the transition process toward a low-carbon economy, driven by factors such as policy changes, technological innovation, market influences, and reputational considerations.
Risk preference	Minimise	Accept
Risk appetite statement	PIC maintains a restricted tolerance for the repercussions associated with physical climate change risk. Our objective is to mitigate exposure to physical climate change risk by employing strategies like regional due diligence, informed lending decisions, and the acquisition of insurance.	PIC possesses a constrained inclination toward adverse transition risks while actively embracing the opportunities presented by the climate change transition. Our goal is to oversee and manage exposure to transition risks by staying vigilant regarding evolving policies and regulations. Additionally, we pursue divestment in specific sectors and companies to steer clear of stranded assets.

PIC's Enterprise Risk Management approach continued

Climate risk analysis

Having identified the physical and transition risks to which PIC is exposed and determined our risk appetites, we analysed these risks to assess the possible impacts on our business. When analysing climate risk, the long-term uncertainties and developments around timing and channels of climate risk should be considered, as well as the linkages to other risks impacted by climate risk.

PIC analyses climate risk through the following risk management processes:

- Own Risk and Solvency Assessment ("ORSA") – an annual process to consider the potential impact of risks on PIC's business, through qualitative and quantitative scenario analysis. Climate change risk is considered in this process.
- Risk and Control Self-Assessment ("RCSA") – a qualitative process to consider the potential impact of non-quantifiable risks on PIC's business.
- Investment Due-Diligence – given we consider the investment portfolio to be the most material area of climate risk exposure, climate risk is analysed in detail within our investment process.

The Risk team are involved in the analysis of climate change risk across the investment portfolio and other areas.

Climate risk analysis as part of investment due diligence

Asset class	Information sources	Approach
Real assets	• Built Environment ESG Due Diligence scorecard • Third party flood risk assessments	Given the scale of our real estate investments, we analyse the climate risk exposure in detail as part of our due diligence. This is primarily driven by our Built Environment ESG Due Diligence scorecard, which is discussed further on **page 21**. For investments where specific climate risks are relevant, additional in-depth due diligence is performed to ensure those risks can be appropriately mitigated, typically using third party expertise.
Private credit	• Internal and External Credit Analyst sector and issuer expertise • Qualitative analysis on a case-by-case basis	In our public and private credit portfolios, we analyse climate risk at both a sector and issuer level. At a sector level, we consider the sectors most exposed to physical and transition risks in detail, such as oil and gas, and where appropriate set portfolio wide concentration and duration limits on such sectors. At an issuer level, we consider the specific investment and qualitatively analyse the likely impact of physical climate change and the low-carbon transition on the investment, feeding this analysis into the investment decision making process. Sustainability analysis is included in all investment papers that are presented to the Investment Committee for approval.
Public credit	• Internal and External Credit Analyst sector and issuer expertise • MSCI Climate data • Sustainalytics ESG and Country risk ratings	

Case study:

Analysis of climate litigation risks

Through our emerging risk process, we have identified a rise in climate change litigation cases in recent years, both against governments and against businesses with operations linked to climate-related impacts. This could pose an issue for a range of companies and organisations.

This year we conducted a high-level desktop analysis of how climate change litigation could impact PIC and the potential risk management actions that could be taken. Three types of litigation strategies were included in our analysis:

1. **Governmental:** challenging the climate ambitions or legal obligations of governments or supranational organisations regarding climate.
2. **Corporate:** challenging companies' behaviour regarding climate change, including ambitions, plans, activities, and decision making.
3. **Compensation:** defendant seeking financial compensation due to climate change-related harms.

These litigation strategies could impact PIC either directly, if PIC is subject to litigation attempts, or indirectly, if the wider economy is impacted by litigation attempts on governments or other industry players.

Our assessment of the current landscape places the current risks to PIC from litigation as being low, given the low likelihood that such litigation attempts are successful in the short-medium term. As such, climate litigation remains as an emerging risk to PIC. However, this is an area that we will continue to monitor closely given the rapidly evolving landscape of climate litigation.

PIC's Enterprise Risk Management approach continued

Mitigating climate-related risks

Mitigating the risks arising from climate change is crucial for us to meet our purpose of paying the pensions of our current and future policyholders. At PIC, we have initiated several measures to reduce the potential impact of these risks, with a selection of the most material measures outlined below.

Taxonomy risks	Climate risk driver	Risk mitigation actions
Market risk	Physical risk	• Formulating and executing our engagement strategy and stewardship initiatives. • Implementing improved climate risk assessment incorporating sustainability sector scorecards and formal evaluation of flood and other climate-related risks in real estate investments.
	Transition risk	• Setting interim decarbonisation goals for 2030 aligned with our overarching Net Zero target, incorporating metrics and investment decisions that reinforce the Net Zero strategy. • Executing our engagement strategy and stewardship initiatives in line with our policies. • Implementing improved climate risk assessment incorporating sustainability sector scorecards and formal evaluation of flood and other climate-related risks in real estate investments.
Concentration risk	Transition risk	• Setting concentration limits on sectors that we consider as having significant transition risk exposure. • Sustainability factors considered in setting wider concentration risk appetite metrics.
Asset liquidity	Physical and Transition risk	• Implementing improved climate risk assessment incorporating sustainability sector scorecards and formal evaluation of flood and other climate-related risks in real estate investments.
Reputational risk	Transition risk	• Collaborate with industry bodies to identify and address climate risk sources, and actively participate in relevant market initiatives and forums. • Maintain engagement with key stakeholders to monitor exposures related to climate considerations.
Legal and regulatory risk	Transition risk	• Ongoing review of climate and sustainability obligations in the UK and globally through established horizon scanning processes, with regular reporting to the Board Risk Committee.
Physical infrastructure risk	Physical risk	• Improvements to business continuity and operational resilience frameworks to incorporate considerations for climate-related risks.

Metrics and Targets.

In this section, we explain the metrics used for assessing the climate risk our business is exposed to and the targets we have set towards mitigating these risks. The metrics and targets cover both our investment portfolio and internal operations.

Progress on our climate targets

We remain committed to our four corporate and portfolio targets, aligning with a maximum temperature rise of 1.5°C above pre-industrial levels as per the Paris Agreement. These targets are shown in the table on the right:

We have continued to develop the measurement and monitoring of climate-related metrics in 2023. These metrics support us in embedding climate change considerations into our investment decision-making process and managing the impact of climate risk. Our decarbonisation targets commit us to maintaining a high level of ambition managing the impact of climate risk and in our contribution to the economy wide Net Zero transition."

Rob Groves
Chief Investment Officer

Our decarbonisation targets

Target	Baseline	Target	FY22	FY23	FY23 %progress from baseline to target	Comments
Achieve carbon neutrality in our operations by year-end 2025.[1]	N/a	Carbon neutral	284 tCO_2e	259 tCO_2e	N/a	
Achieve a 25% reduction in Weighted Average Carbon Intensity (WACI) of our public corporate credit assets by 2025 on a 2019 baseline.[2]	289 tCO_2e / \$m revenue	216 tCO_2e / \$m revenue	203 tCO_2e / \$m revenue	189 tCO_2e / \$m revenue	Target achieved	We achieved our 2025 target in 2022, and have continued to reduce this WACI in 2023.
Achieve a 50% reduction in WACI of our portfolio by 2030 on a 2019 baseline.[3]	289 tCO_2e / \$m revenue[4]	144 tCO_2e / \$m revenue	175 tCO_2e / \$m revenue	169 As tCO_2e / \$m revenue	83%	We have made further progress towards our 2030 target in 2023 and are confident in meeting the target in advance of the deadline.

Achieve Net Zero carbon across the whole business by 2050.
While we are still at the entry phase of this journey, the actions and results detailed in this report show we are making headway towards this goal.

1 Based on our Scope 1 and 2 emissions. Given the target is carbon neutrality, no baseline figure is relevant for this target.

2 When we calculated the baseline for our Public Corporate Credit WACI in 2019, this was based on data from MSCI. Since 2019, we have improved our data coverage by onboarding further data sources, some of which cover public corporate credit. However, in order to ensure we are comparing like-for-like with the original scope of our target, we are only considering the assets covered by MSCI for the 25% reduction in WACI.

3 This includes all assets where standard emissions measurement methodologies and data are available.

4 In 2019 and 2020, the only data available to PIC was that related to Public Corporate Credit assets, meaning the WACI for the whole portfolio was in line with the WACI for the Public Corporate Credit portfolio.

Developing our climate reporting

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

- **Basis of Reporting** – we have published our **Basis of Reporting**. This details the approach we have taken to calculate the metrics included in this section of the report.
- **Independent assurance** – KPMG has provided independent limited assurance over selected information with the Metrics and Targets chapter of this report, marked with a As. The independent assurance report has been issued in accordance with International Standard on Assurance Engagements (UK) 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE (UK) 3000) and the International Standard on Assurance Engagements 3410 Assurance of Greenhouse Gas Statements (ISAE 3410). The full limited assurance report can be found in Appendix B.

Operational metrics

We have calculated the emissions associated with our operations (Scope 1 and 2), based on the UK Government GHG Conversion Factors for Company Reporting. Our Scope 1 and 2 emissions have been calculated in line with the GHG protocol.

As occupants of a leased building, our influence over emission and energy-saving measures within our facilities is constrained. Nevertheless, where possible, we have implemented initiatives to mitigate the environmental impact of our operations. These measures include the installation of LEDs and Passive Infrared Sensors throughout our offices, as well as the use of energy-efficient laptops.

As a result of these measures, our operational energy use has fallen by 14% in 2023, with a resulting fall of 9% in our operational emissions. This is despite an 23% growth in headcount, and our emissions intensity per FTE has fallen by 26%.

Operational metrics

Metric	Unit	2022 (restated)[1]	2023	% change from 2022 to 2023
Total energy consumption	kWh	1,479,280	1,271,958	(14)%
Scope 1 emissions (from gas combustion)	tCO_2e	36.0	32.2	(11)%
Scope 2 emissions (from electricity use) (location-based)	tCO_2e	247.9	226.9	(8)%
Scope 2 emissions (from electricity use) (market-based)	tCO_2e	450.2	400.1	(11)%
Total Scope 1 and Scope 2 emissions	tCO_2e	283.9	259.1	(9)%
Emissions intensity (floor area)	tCO_2e / m^2	0.06	0.05	(9)%
Emissions intensity (FTE)	tCO_2e / FTE	0.68	0.51	(26)%

1 We have restated prior year figures. For Scope 1 emissions, at YE22 gas use was estimated based on the Real Estate Environmental Benchmark from the Better Buildings Partnership. However, actual data was available for gas use in 2022 and we have therefore restated based on this data. For Scope 2 emissions, the energy use data used as at YE22 did not include PIC's full electricity use in 2022 and we have restated to account for this.

In 2024, we intend to move into new office premises at 22 Ropemaker in the City of London. The building has been designed to high environmental specifications and we anticipate that the new premises will have a significant positive impact on our operational carbon footprint, which will be reported in our our future TCFD reports. More information on our new office is included on **page 18** in the Strategy chapter of this report.

Investment portfolio

We monitor and disclose several metrics to support climate risk management in our investment portfolio. The following table provides a summary of these metrics. Appendix 1 contains further tables that include metrics specifically calculated for our Matching Adjustment fund which directly backs our policyholder liabilities, metrics using different base currencies, and metrics based on the Scope 3 emissions of the issuers in our portfolio.

The following sections contain more detailed information and a granular breakdown for each metric in turn.

We also consider the WACI for our Public Corporate Credit portfolio, on which our 2025 decarbonisation target is based. As noted previously, when we calculated our 2019 baseline for the 25% reduction target, we used all assets, excluding sovereign bonds, for which data was available from MSCI as the definition of Public Corporate Credit assets. We have maintained this approach for consistency with the baseline, noting that this includes different assets to those included in the Debt securities – Corporate asset class on the following pages. The below graph shows the WACI for our Public Corporate Credit portfolio:

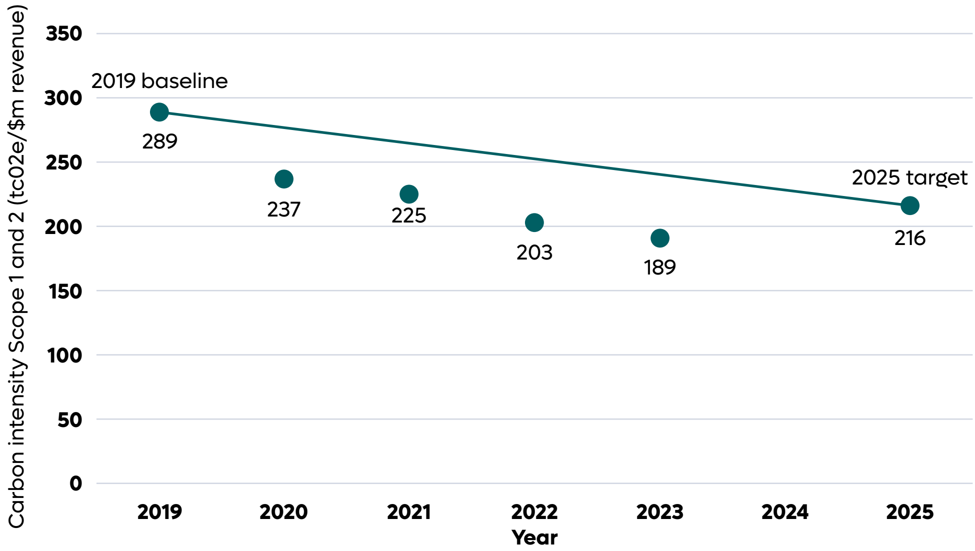
Metrics for our investment portfolio

Metric	Unit	FY22	FY23	% change from 2022 to 2023	% of portfolio for which data is available	% of emissions data that is from actual company reported data
Financed emissions (Scope 1 and 2)	tCO_2e	2,515,706	2,830,252 As	13%	55%	94%
Carbon footprint (Scope 1 and 2)	tCO_2e / £m invested	103	111 As	8%	55%	94%
Weighted Average Carbon Intensity (WACI) (Scope 1 and 2)	tCO_2e / $m revenue	175	169 As	(3)%	75%	65%
Implied Temperature Rise	°C	2.1	1.9	(10)%	29%	N/a
Science Based Targets exposure[1]	% of portfolio (by market value)	22%	20%	(17)%	N/a	N/a

1 This represents the percentage of our portfolio by market value that has set a science based target or has publicly committed to do so. This is an updated definition from previous years and the YE22 number has been updated for comparison.

As 2023 data subject to independent Limited Assurance under ISAE (UK) 3000 and ISAE 3410. The limited assurance report provided by KPMG can be found in Appendix B (insert As icon) 2023 data subject to independent Limited Assurance under ISAE (UK) 3000 and ISAE 3410. The limited assurance report provided by KPMG can be found in Appendix B.

PIC Public Corporate Credit WACI



Investment portfolio continued

Financed emissions and carbon footprint breakdown

Financed emissions represents the absolute emissions, in tonnes of CO_2 equivalent, which can be attributed to PIC's investment portfolio, based on methodologies from the Partnership for Carbon Accounting for Financials (PCAF). PCAF establishes the proportion of emissions attributed to PIC for a range of asset classes. Where no PCAF attribution factor is available, we have developed our own methodology which is aligned in principle with the PCAF approach. Full detail on our methodology can be found in the Basis of Reporting.

Financed emissions is an important metric to understand the total emissions which could be considered to arise from our investment portfolio and understand the relative scale of our challenge in reaching Net Zero. However, given the recent and expected future growth in our investment portfolio, we would expect financed emissions to increase in the medium term. We therefore also consider the carbon footprint of our portfolio, defined as financed emissions per £m invested. This allows for growth in the value of our portfolio.

A breakdown of both our financed emissions and carbon footprint by asset class can be found below:

Financed emissions and carbon footprint breakdown

Asset class	Market value (£m) (FY23)	Financed emissions (Scope 1 and 2) (FY23)	Carbon footprint (Scope 1 and 2) (FY23)	Data coverage (%)
Debt securities – Government	16,959	1,782,347	149 As	70%
Debt securities – Corporate	15,625	943,253	90 As	67%
Debt securities – Private investments	8,353	87,468	48 As	20%
Mortgage backed and other asset backed securities[1]	1,386	16,841	15 As	82%
Investment properties	663	343	3 As	25%
Other[2]	4,526	N/A	N/A	N/A
Total	**47,512**	**2,830,252** As	**111** As	**55%**

1 Includes ERMs.

2 Includes cash and participation in investment schemes for which no emissions data is available.

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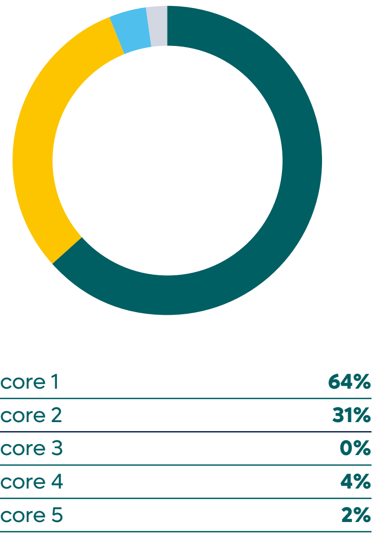
The below table also shows that Debt securities – Government are our most carbon intensive asset class on a Carbon footprint basis. This reflects the high carbon footprint of sovereign bonds. However, different approaches are required to determine the proportion of emissions that are included in PIC's financed emissions (and therefore in the carbon footprint), as developed by PCAF, given the difference between lending to governments and lending to companies. Full details of the approaches can be found in the Basis of Reporting. Comparisons between asset classes should therefore be made with caution.

PCAF also produces data quality scorecards for each asset class, to indicate the standard of the underlying emissions data on a scale of 1 (highest data quality) to 5 (lowest data quality). The scoring definition vary by asset class, with full detail available in PCAF's Financed Emissions Standard. The graph below shows the quality of the emissions data used in our Financed emissions calculation:

Split of PIC's investment portfolio's financed emissions of 2,830,252 As tCO_2e by PCAF data quality



Given the calculation of carbon footprint is based on the financed emissions calculation, the data quality for this metric is in line with that for financed emissions.

Investment portfolio continued

Weighted Average Carbon Intensity breakdown

The table presented below provides a detailed breakdown of the Weighted Average Carbon Intensity ("WACI") by sector. Our definition of carbon intensity is the GHG emissions per US$m of revenue generated. We use US$ as our standard revenue currency for our WACI to ensure comparability with our peers, but the WACI based on revenue in GBP can be found in Appendix 1.

We consider the WACI to be a useful metric, as standardising by revenue enables a meaningful comparison across different asset classes and economic sectors. Where a company has a higher carbon intensity, it has higher carbon emissions per US$ of revenue that the company makes, which is an indicator that this company is more exposed to transition risk. This approach also provides a clear indication of the progress made in decarbonising the portfolio over time. The key drivers of the decrease in WACI from YE22 to YE23 are:

- **Increase in company revenues** – the high levels of inflation seen in recent years have led to increases in company revenues that are not necessarily tied to increases in output, and therefore emissions. This leads to a reduction in carbon intensity and has contributed to approximately half of the decrease in portfolio WACI since YE22.
- **Changes in the portfolio** – when we write new business to take on the liabilities of defined benefit pension schemes, we purchase new assets to back those liabilities. We also manage the existing portfolio based on market conditions and opportunities. Both factors lead to changes in the portfolio composition over time, which has led to a reduction in WACI since YE22. This contributes approximately half of the decrease in the portfolio WACI.

Asset class	Market value (£m) (YE23)	WACI (YE23)	Data coverage (%)
Debt securities – Government	16,959	105 As	97%
Debt securities – Corporate	15,625	249 As	91%
Debt securities – Private investments	8,353	47 As	29%
Mortgage backed and other asset backed securities[1]	1,386	388 As	82%
Investment properties	663	49 As	25%
Other[2]	4,526	N/A	N/A
Total	**47,512**	**169** As	**75%**

1 Includes ERMs.

2 Includes cash and participation in investment schemes for which no emissions data is available.

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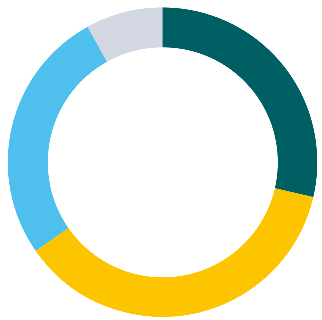
However, there are also some clear limitations with WACI as a metric:

- **Focus on Scope 1 and 2** – our target is based on the Scope 1 and 2 carbon intensity of companies in our portfolio. Whilst this is an important measure, Scope 3 emissions is also an important factor for some sectors, such as oil and gas. We consider and disclose the WACI based on Scope 3 emissions but have not set a target on this metric given the poor data quality at this stage.
- **Sensitivity to market conditions** – given the way the WACI is calculated, it is sensitive to market conditions. As highlighted above, we have seen decreases in the WACI of our portfolio in recent years driven by inflation, which does not represent any real-world emissions reduction. Similarly, the WACI has been affected by changes in interest rates leading to changes in relative market values of different asset classes, and changes in exchange rates affecting revenues in US$m for companies that are not based in the US. Whilst the WACI is a useful portfolio wide measure, it is critical to consider the impact of these factors when using the metric.

Revenue data is available for a higher proportion of our assets than the Enterprise Value Including Cash ("EVIC") (or equivalent), which is used in the financed emissions and Carbon footprint calculations. This leads to a higher coverage for WACI than the other metrics. For an asset where emissions, revenue, and EVIC data are available, the PCAF data quality score would be the same for both WACI and financed emissions, as it is based on the emissions data. However, given more assets are included in the WACI due to the availability of revenue data, the overall data quality for the WACI is as follows:

Split of PIC's investment portfolio's WACI of 169 As tCO_2e/\$m revenue by PCAF data quality



Score 1	29%
Score 2	37%
Score 3	0%
Score 4	27%
Score 5	8%

Investment portfolio continued

Implied temperature rise

While carbon intensity and financed emissions offer insights into current portfolio emissions, we also consider how emissions are anticipated to evolve. For instance, an oil and gas company investing heavily in renewable energy might diminish its reliance on carbon-intensive operations as part of a credible transition plan. Although the company may exhibit high emissions intensity in 2023, this does not present a comprehensive picture considering its commitment to transition. To account for this at a portfolio level, we consider the Implied Temperature Rise ("ITR") metric.

We evaluated the ITR of our corporate credit holdings, where data is available, using MSCI's model. This assessment is based on the issuer's most recently reported Scope 1 and 2 emissions and estimated Scope 3 emissions. The ITR considers both existing and anticipated future emissions, comparing them to Paris-aligned pathways for the specific economic sector and region of the issuer. If current and future expected emissions surpass the emissions allowed for in the 1.5°C pathway, the overshoot is translated into an ITR attributable to that company.

Due to the challenges in calculating this metric, our coverage is limited to a subset of our publicly listed portfolio by MSCI. Data is available for 69% of our public corporate credit portfolio.

For assets with available data, 48% of our exposure aligns with a <1.5°C world, with an additional 27% aligning with a <2°C world. This data informs our climate-related engagement strategy and activities (detailed on **pages 14-17**) to promote climate action and the Paris alignment within our portfolio companies. Currently, the weighted average ITR for assets with available data is 1.9°C, reflecting a decrease from our 2022 figure of 2.1°C.

Science based targets exposure

Another forward-looking metric that we consider is the proportion of companies in our portfolio that have set a Science Based Target. As with the Implied Temperature Rise, this is based on data from MSCI for our public corporate credit portfolio.

The Science Based Targets initiative ("SBTi") is a UN backed partnership that defines and promotes best practice in emissions reductions and net-zero targets, in line with climate science. It also independently validates that targets set by corporates are "science-based". This metric identifies the proportion of our portfolio, by market value, that has set a target that has been validated by SBTi.

This is a strong indicator of the commitment of a corporate to transitioning their business to Net Zero, in line with a 1.5°C pathway. This in turn indicates that they are actively managing their transition risk.

As with the implied temperature rise metric, the only data we currently have available is from MSCI for our public corporate credit portfolio. Based on this data, 20% of our portfolio by market value has committed to setting a science based target. This is a small decrease from 22% at FY22. The 20% of our portfolio represents 49% of the assets that are covered by MSCI.

Focus areas for 2024

PIC's future facing stewardship actions

- Continue to roll out of two-year engagement strategy and tracking progress against targets.
- Continue to set clear expectations with managers and monitor progress. Provide a 'focus' list of companies we want engaged with both on 'E' and 'S' issues.
- Continue training PIC Credit Analysts and other investment professionals to empower them to conduct their own high quality sustainability discussions with investees.
- Record engagements on our online sustainability engagement platform and continue to improve the platform.
- Apply to the UK Stewardship Code on an annual basis and publish our Stewardship report for transparency.
- Actively contribute to the UN PRI Advance collaborative engagement on Human Rights and the collaborative engagement with the UK water sector.
- Build PIC's own Human Rights Materiality Framework to assess our portfolio exposure and prioritise engagements.

Oversight and accountability

Given the developments we have implemented in our oversight and accountability model in 2023, we would not anticipate making significant changes to this over the next 12 months. However, we will aim to make the following progress:

- Continue to embed the Sustainability Champions programme, delivering on both departmental and organisation-wide initiatives.
- Continue to train our staff, through the Sustainability Champions programme and Sustainability Engagement Forum.

Risk management

As understanding of climate risk continues to develop, we will focus on the following improvements in the next 12 months:

- Continue to develop our assessment and analysis of physical risks from climate change including consideration of risk appetite metrics.
- As noted on **page 20**, we are planning to enhance our climate risk stress and scenario testing capabilities. We will in turn consider this analysis more explicitly in our risk management approach.
- Further embed climate change into PIC's Risk and Control Self-Assessment process.

Strategy

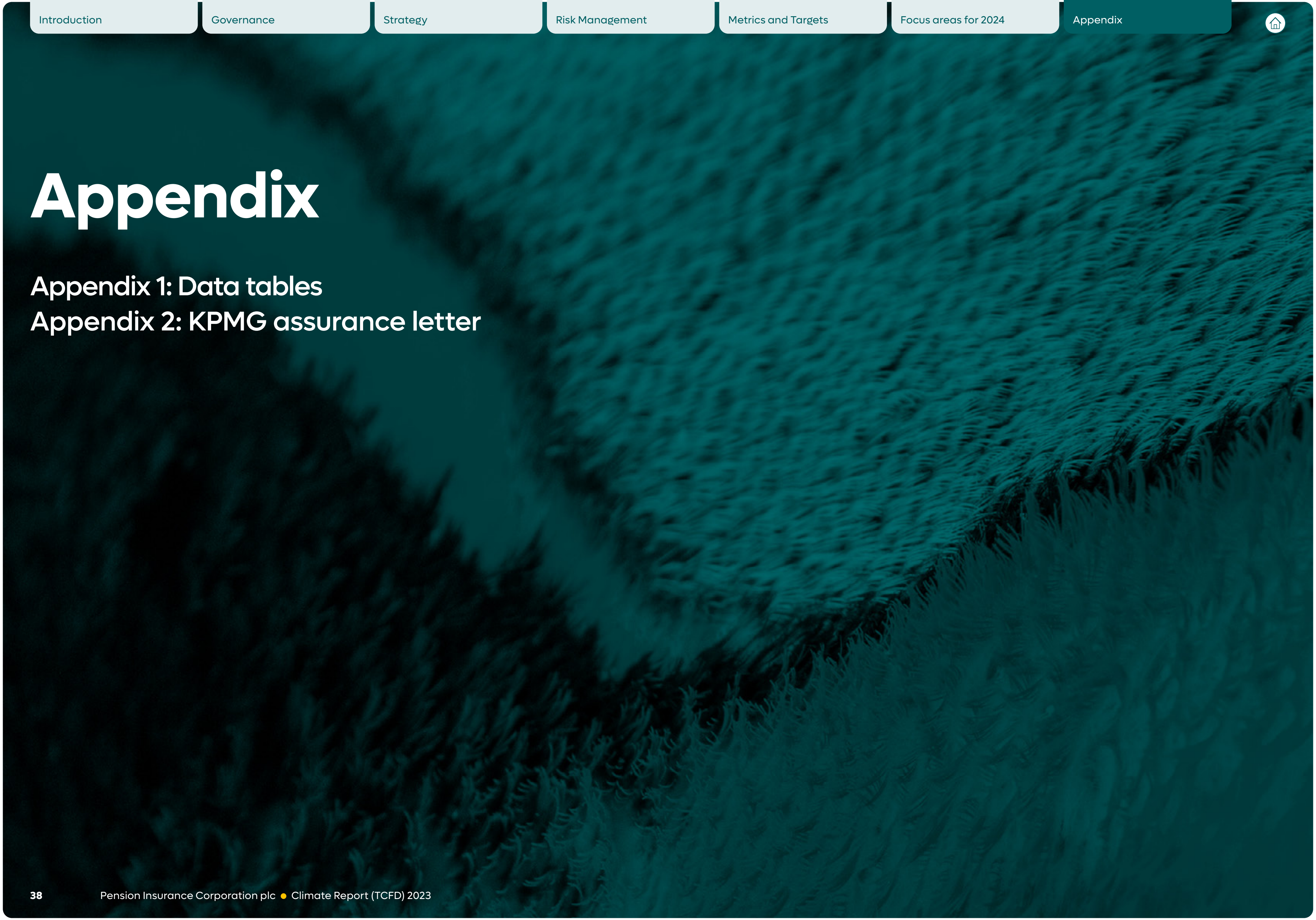
We expect our sustainability strategy to continue to develop, driven by increasing understanding of the climate risks to which we are exposed and increasing expectations of our stakeholders. We will aim to make the following progress over the next 12 months:

- Continue to review and challenge our existing sustainability strategy to ensure our ambition remains aligned with a 1.5°C world.
- Improve our scenario analysis capability, considering individual sector's and issuer's exposure to different climate scenarios in more detail.
- Continue the roll out of our Transition Plan and monitor progress against our decarbonisation targets.

Metrics and targets

We have made significant developments to our reporting process in 2023 to ensure our disclosures are robust and accurate, validated by the 3rd party limited assurance provided by KPMG. Over the next 12 months, we will focus on the following areas:

- Continue to increase the robustness of the reporting process, in particular developing and formalising our controls framework.
- Consider the inclusion of new data sources where available and appropriate.
- Continue to evaluate the appropriateness of our targets to ensure they are appropriate to manage our transition risk and support the transition to Net Zero.



Appendix

Appendix 1: Data tables
Appendix 2: KPMG assurance letter

Appendix 1: Data tables

Table 1: Whole portfolio metrics

Metric	Unit	FY22	FY23	FY23 % of portfolio for which data is available	FY23 % of emissions data that is from actual company reported data
Financed emissions (Scope 1 and 2)	tCO_2e	2,515,706	2,830,252 As	55%	94%
Financed emissions (Scope 3)	tCO_2e	4,495,997	4,786,265	23%	65%
Carbon footprint (Scope 1 and 2)	tCO_2e / £m invested	103	111 As	55%	94%
Carbon footprint (Scope 3)	tCO_2e / £m invested	423	450	23%	65%
Carbon footprint (Scope 1 and 2)	tCO_2e / $m invested	85	87	55%	94%
Carbon footprint (Scope 3)	tCO_2e / $m invested	352	353	23%	65%
Weighted Average Carbon Intensity (WACI) (Scope 1 and 2)	tCO_2e / $m revenue	175	169 As	75%	65%
Weighted Average Carbon Intensity (WACI) (Scope 3)	tCO_2e / $m revenue	877	563	32%	36%
Weighted Average Carbon Intensity (WACI) (Scope 1 and 2)	tCO_2e / £m revenue	211	209	75%	65%
Weighted Average Carbon Intensity (WACI) (Scope 3)	tCO_2e / £m revenue	1,055	696	32%	36%
Implied Temperature Rise	°C	2.1	1.9	29%	N/a
Science Based Targets exposure	% of portfolio (by market value)	22%	20%	N/a	N/a

Table 2: Matching adjustment portfolio metrics

Metric	Unit	FY22	FY23	FY23 % of portfolio for which data is available	FY23 % of emissions data that is from actual company reported data
Financed emissions (Scope 1 and 2)	tCO_2e	2,021,592	2,268,600	55%	93%
Financed emissions (Scope 3)	tCO_2e	4,387,879	4,718,262	28%	65%
Carbon footprint (Scope 1 and 2)	tCO_2e / £m invested	100	109	55%	93%
Carbon footprint (Scope 3)	tCO_2e / £m invested	425	449	28%	65%
Carbon footprint (Scope 1 and 2)	tCO_2e / $m invested	83	85	55%	93%
Carbon footprint (Scope 3)	tCO_2e / $m invested	353	352	28%	65%
Weighted Average Carbon Intensity (WACI) (Scope 1 and 2)	tCO_2e / $m revenue	182	177	79%	61%
Weighted Average Carbon Intensity (WACI) (Scope 3)	tCO_2e / $m revenue	886	563	38%	36%
Weighted Average Carbon Intensity (WACI) (Scope 1 and 2)	tCO_2e / £m revenue	219	218	79%	61%
Weighted Average Carbon Intensity (WACI) (Scope 3)	tCO_2e / £m revenue	1,065	696	38%	36%
Implied Temperature Rise	°C	2.1	1.9	35%	N/a
Science Based Targets exposure	% of portfolio (by market value)	22%	25%	N/a	N/a

As 2023 data subject to independent Limited Assurance under ISAE (UK) 3000 and ISAE 3410.
The limited assurance report provided by KPMG can be found in Appendix B.

Appendix 2: KPMG assurance letter

Independent Limited Assurance Report of KPMG LLP to Pension Insurance Corporation plc

KPMG LLP ("KPMG" or "we") were engaged by Pension Insurance Corporation plc ("PIC") to provide limited assurance over the Selected Information described below for the year ended 31 December 2023.

Our conclusion

Based on the work we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information has not been properly prepared, in all material respects, in accordance with the Basis of Reporting.

This conclusion is to be read in the context of the remainder of this report, in particular the inherent limitations explained below and this report's intended use.

Selected Information

The scope of our work includes only the information included within the Metrics and targets section ("the Report") of PIC's Task Force on Climate-related Financial Disclosures Report ("the TCFD Report") for the year ended 31 December 2023 marked with the symbol As ("the Selected Information"), also listed in Attachment A.

We have not performed any work, and do not express any conclusion, over any other information that may be included in the Report or displayed elsewhere on PIC's website for the current year or for previous periods unless otherwise indicated.

Reporting Criteria

The Reporting Criteria we used to form our judgements is the "PIC Climate Report (TCFD) – (Basis of Reporting)" as set out at **www.pensioncorporation.com/investors/pic-and-picg-financial-results-and-reports/results.year2023** ("the Basis of Reporting"). The Selected Information needs to be read together with the Basis of Reporting.

Inherent limitations

The nature of non-financial information; the absence of a significant body of established practice on which to draw; and the methods and precision used to determine non-financial information, allow for different, but acceptable evaluation and measurement techniques and can result in materially different measurements, affecting comparability between entities and over time. The Basis of Reporting has been developed to assist PIC to monitor and disclose their investment portfolio metrics. As a result, the Selected Information may not be suitable for another purpose.

For Scope 3 Category 15 GHG emissions there are also significant limitations in the availability and quality of GHG emissions data from third parties, resulting in PIC's reliance on proxy data in determining estimated Scope 3 Category 15 emissions. Over time better information may become available from third parties and the principles and methodologies used to measure and report Scope 3 Category 15 GHG emissions may change based on market practice and regulation.

Directors' responsibilities

The Directors of PIC are responsible for:

- designing, operating and maintaining internal controls relevant to the preparation and presentation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- selecting and/or developing objective Basis of Reporting;
- measuring and reporting the Selected Information in accordance with the Basis of Reporting; and
- the contents and statements contained within the Report and the Basis of Reporting.

Our responsibilities

Our responsibility is to plan and perform our work to obtain limited assurance about whether the Selected Information has been properly prepared, in all material respects, in accordance with the Basis of Reporting and to report to PIC in the form of an independent limited assurance conclusion based on the work performed and the evidence obtained.

Assurance standards applied

We conducted our work in accordance with International Standard on Assurance Engagements (UK) 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* ("ISAE (UK) 3000") issued by the Financial Reporting Council and, in respect of the greenhouse gas emissions information included within the Selected Information, in accordance with International Standard on Assurance Engagements 3410 *Assurance Engagements on Greenhouse Gas Statements* ("ISAE 3410"), issued by the International Auditing and Assurance Standards Board. Those standards require that we obtain sufficient, appropriate evidence on which to base our conclusion.

Independence, professional standards and quality management

We comply with the Institute of Chartered Accountants in England and Wales ("ICAEW") Code of Ethics, which includes independence, and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, that are at least as demanding as the applicable provisions of the IESBA Code of Ethics. The firm applies International Standard on Quality Management 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of work performed

A limited assurance engagement involves planning and performing procedures to obtain sufficient appropriate evidence to obtain a meaningful level of assurance over the Selected Information as a basis for our limited assurance conclusion. Planning the engagement involves assessing whether the Basis of Reporting are suitable for the purposes of our limited assurance engagement. The procedures selected depend on our judgement, on our understanding of the Selected Information and other engagement circumstances, and our consideration of areas where material misstatements are likely to arise.

Appendix 2: KPMG assurance letter continued

The procedures performed included:

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

The work performed in a limited assurance engagement varies in nature and timing from, and is less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

This report's intended use

Our report has been prepared for PIC solely in accordance with the terms of our engagement. We have consented to the publication of our report in PIC's TCFD Report for the purpose of PIC showing that it has obtained an independent assurance report in connection with the Selected Information.

Our report was designed to meet the agreed requirements of PIC determined by PIC's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than PIC for any purpose or in any context. Any party other than PIC who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

Joshua Olomolaiye
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL
26 March 2024

The maintenance and integrity of PIC's website is the responsibility of the Directors of PIC; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information, Basis of Reporting or Report presented on PIC's website since the date of our report.

Attachment A – Selected Information

The Underlying Selected Data that constitutes the Selected Information is listed below. The information in this Attachment needs to be read together with the limited assurance report and the Basis of Reporting.

Metric	Unit	Value
Financed emissions (Scope 1 and 2)	tCO_2e	2,830,252
Carbon footprint (Scope 1 and 2)	tCO_2e/£ invested	111
Weighted Average Carbon Intensity (WACI) (Scope 1 and 2)	tCO_2e/$ revenue	169

Carbon footprint (Scope 1 and 2) split by asset class:

Metric	Unit	Value
Debt securities – Government	tCO_2e/£ invested	149
Debt securities – Corporate	tCO_2e/£ invested	90
Debt securities – Private investments	tCO_2e/£ invested	48
Mortgage backed and other asset backed securities (including Equity Release Mortgages)	tCO_2e/£ invested	15
Investment Properties	tCO_2e/£ invested	3

Weighted Average Carbon Intensity (WACI) (Scope 1 and 2) split by asset class:

Metric	Unit	Value
Debt securities – Government	tCO_2e/$ revenue	105
Debt securities – Corporate	tCO_2e/$ revenue	249
Debt securities – Private investments	tCO_2e/$ revenue	47
Mortgage backed and other asset backed securities (including Equity Release Mortgages)	tCO_2e/$ revenue	388
Investment Properties	tCO_2e/$ revenue	49

PIC

Pension Insurance Corporation plc
14 Cornhill, London EC3V 3ND

www.pensioncorporation.com