



Pension Insurance Corporation Group Limited

Sustainability Report 2023.



Contents

2	Introduction
3	PIC at a glance
5	Industry initiatives
6	Sustainability timeline
7	Sustainability strategy
9	Embedding sustainability in all our processes
11	People
13	Employee engagement
14	Working with our charity partners
15	Sustainable Assets
18	Social and economic value of some of PIC's investments
20	Environment
23	Responsible investing
30	Stewardship and engagement
31	PIC's engagement strategy
33	Engagement areas of focus

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 and Accounts

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 Financial 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 and 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.



Introduction



Simon Abel
Chief Strategy &
ExCo Sustainability Lead



We promote transparency and the information contained in this report as well as the rest of our reporting suite demonstrates this.

See our [Reporting Suite](#)

At PIC, sustainability is fundamental to the delivery of our purpose to pay our policyholders now and for decades to come. Our sustainability strategy dives deeper into our corporate strategic objectives of: to continue building a secure and sustainable business; to carry on leading as a responsible corporate citizen; and to keep on driving long-term value growth. It has four distinct pillars which ensure alignment of our corporate strategy and actions to our purpose:

- 1) Long-term sustainable business
- 2) Being a responsible investor
- 3) Protecting the environment
- 4) Making communities sustainable, safe and inclusive

This year we are proud of a number of achievements:

- We have surpassed our 2025 portfolio decarbonisation target.
- We have distributed sustainability responsibilities across the Board and Executive Committee ("ExCo") and appointed a Board level and an Executive level Sustainability lead as well as having launched a Sustainability Champions programme constituting of 15 individuals of various seniorities across the business.
- We have been accepted as signatories to the UK Stewardship Code.
- We have rolled out a Sustainability Target Operating Model across the organisation.
- Our employees across all levels from Board to apprentices have cumulatively undertaken over 600 hours of Continuous Professional Development ("CPD") sustainability training this year.

Our Responsible Investing team consists of three full-time individuals. The team is led by our Head of Sustainability, and she is accompanied by a Responsible Investment Climate Lead and an Investment Stewardship Manager. Sustainability is considered in all aspects of activities and we have made strong strides forward this year in embedding sustainability as business-as-usual ("BAU") across the business.

Our portfolio includes £11.4 billion of Sustainable Assets, which are those assets assessed as having a positive impact on the communities in which the company operates and the environment. We continue to channel money towards sustainable solutions such as clean transport, infrastructure and green buildings. This year, we enhanced efforts to measure the social value created by our built environment assets and more information can be found on [page 26](#) of this report.

PIC is a people business, and our employees are our most valuable asset. Our customer-focused culture underpins both our financial and sustainability strategic success. Our core values are adaptability, resilience and loyalty. Our people welcome challenge and are encouraged to meet their full potential within a safe and rewarding environment. Our 90% employee engagement score and low 9.9% employee turnover attest to this approach. Our 99.3% policyholder satisfaction score reflects our continued dedication to our policyholders and we are delighted to have once again won the Customer Commitment Award at the Institute of Customer Service Awards.

Simon Abel
Chief Strategy &
ExCo Sustainability Lead



PIC at a glance

PIC is a specialist insurer and a leader in the UK pension risk transfer market because of our focus on our purpose.

For over a decade, PIC has been a significant investor in areas like social housing, renewable energy and the UK's universities. These investments, which are typically sourced privately, provide the cash flows we need to match our liabilities at maturities when publicly available debt is scarce.

Our purpose...

PIC's purpose is to pay the pensions of our current and future policyholders.

...delivers on... our strategic objectives



To continue building a secure and sustainable business



To carry on leading as a responsible corporate citizen



To keep on driving long-term value growth

...which helps to form... our values



Resilient

No matter what comes our way, we can handle it.



Adaptable

PIC is capable of thriving in a changing environment.



Loyal

We invest in building lasting relationships.

...and shapes our culture

Our customers are our priority.

We value all our stakeholders and work hard to provide exceptional service to them all, including policyholders, trustees and corporate sponsors. We listen and are responsive to their requirements.

Our people are our most valuable asset.

Their skills, dedication and commitment to our customers run through the organisation and we actively invest in ensuring our work environment is conducive to our collective ambitions as we evolve.



PIC at a glance continued

PIC generates long-term social value...

Our business covers the pension risk transfer and investment industries. Pension fund members of defined benefit ("DB") schemes transfer to insurers like PIC and become our policyholders following a buyout. Alternatively, pension scheme trustees can secure their pension payments to members through a buy-in contract with an insurer.

PIC makes long-term investments, which generate cash flows that match our pensioner liabilities. Our portfolio is primarily invested in publicly available fixed income assets, including government debt and corporate debt. In addition, we invest in secure, long-term, privately sourced debt to match pension payments at maturities in future decades, for example when public debt is not available.

We take care of our customers...



Total number of policyholders

339,900



Policyholder satisfaction

99.3%



Number of schemes insured

273

and we invest in areas¹ such as:



Built environment²

c.£5.9bn



Student accommodation

c.£1.3bn



Social and affordable housing

c.£2.8bn

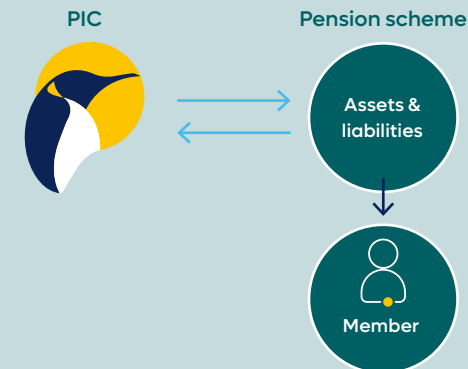
1. Amount invested to date is estimated based on available historic data.

2. Built environment is inclusive of student accommodation and social and affordable housing.

Explanation of a buy-in and buyout

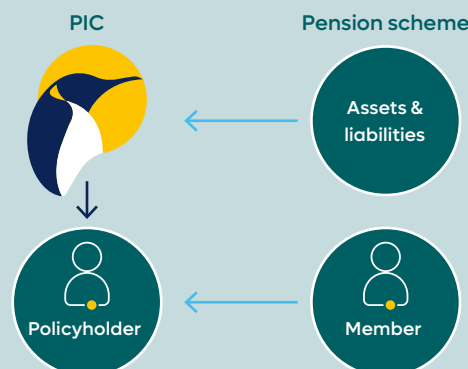
What is a buy-in? Pension insurance buy-in

An insurance policy bought by trustees that cover some or all of the scheme's future pension payments. It is held as an asset of the scheme, which remains in place. PIC makes regular payments to the scheme to cover the benefits secured – the administration responsibilities stay with the trustees.



What is a buyout? Pension insurance buyout

An insurance policy bought by trustees that covers all the scheme's future pension payments. The scheme is wound up, individual PIC policies are issued to the members, and we pay their benefits directly to them. We also take on the future administration.





Industry initiatives

Our sustainability related industry involvement



Principles for
Responsible
Investment

PIC is a signatory to the United Nations' Principles for Responsible Investment ("UNPRI"), as are all of PIC's key external asset managers who help manage the main public credit portfolio. As a signatory to the UNPRI, we commit to enact its six principles of responsible investing.



Also known as the Global Goals, the UN Sustainable Development Goals ("SDGs") were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people can enjoy peace and prosperity. PIC's Sustainable Assets touch on a number of these goals, and examples of these can be found throughout the report.



Sustainability Principles Charter for the Bulk Purchase Annuity ("BPA") process

PIC is a founding signatory of the Sustainability Principles Charter for the BPA process. The four key principles of the Charter are:

1. Transparency
2. Decision making
3. Reporting and Engagement
4. Collaboration.

For more information on the Charter visit:

www.accountingsustainability.org/sustainability-principles-charter.html



THE PURPOSE
OF FINANCE
IN ASSOCIATION WITH PIC

Purpose of Finance:

PIC founded a project called the Purpose of Finance with the aim of facilitating debate from a position of support on how best to repair the disconnect between society and the financial services industry. The project brings together policymakers, regulators, people who work in financial services and others to tackle this deep-rooted problem. PIC has released numerous Purpose of Finance papers and podcasts which can be found on our website.

THE NET-ZERO ASSET OWNER ALLIANCE

Created in recognition that institutional investors collectively have an important role to play in fostering the energy transition the world needs. Members have committed:

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



ABI

Developed by the Association of British Insurers ("ABI") in partnership with Boston Consulting Group, the Climate Change Roadmap has set industry targets to address climate change and help the UK reach Net Zero by 2050. PIC is one of the founding members of the ABI Climate Change Work Group which helps facilitate implementation of the Roadmap by the industry.



We publicly support the Task Force on Climate-Related Financial Disclosures and published our first TCFD report in 2021. We agree with the TCFD that financial markets need clear, comprehensive, high-quality information on the impacts of climate change. This includes the risks and opportunities presented by rising temperatures, climate-related policy and emerging technologies in changing worlds. The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information.



FRC UK Stewardship Code

PIC is proud to have been accepted in 2023 for the first time as a signatory to the UK Stewardship Code. The UK Stewardship Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. The Code applies to asset owners, asset managers and service providers. Those that are admitted as signatories are able to provide evidence annually on how they adhere to the high standards of the 12 principles of good stewardship practice. [UK Stewardship Code \(frc.org.uk\)](https://www.frc.org.uk/uk-stewardship-code)



Sustainability Reporting Standards for Social Housing

PIC was one of the founding members and is a continued supporter of the Sustainability Reporting Standards for Social Housing ("SRS"). The SRS are a set of sustainability related standards including environmental, social and governance ("ESG") topics which social housing providers who support the SRS are required to report against on an annual basis. Standardised reporting helps promote transparency within the Housing Association industry and allows for easier comparability between providers. This in turn helps advance the industry in an aligned fashion with regards to sustainability initiatives and best practice. [About Sustainability for Housing](#)



Sustainability timeline

Industry initiatives	Portfolio	Reporting and impact	Sustainability governance and policies:
2022			
Engagement platform is built to record and monitor PIC's engagement activity and outcomes with our direct deal counterparties	Proprietary ESG toolkit for private market investment due diligence is developed	PIC's year-end portfolio of sustainable assets represents c.25% (£10.3 billion)	Established a Net Zero transition working group
PIC joins the UN PRI Advance collaborative engagement on Human Rights	ESG requirements included in selected direct lending investment covenants		First Sustainability Policy is approved by the Board and published
PIC maps its Sustainable Assets to the UN Sustainable Development Goals	Partnership formed with Buro Happold, a third party ESG specialist to help deep dive into our Real Asset pipeline and portfolio		We publish our first standalone Stewardship Policy
	We establish and apply ESG Baseline Credentials across all our Real Asset investments		
	Invested a significant amount into renewable energy since 2012		
2023 update			
Seventh year of sponsoring the Actuarial Mentoring Programme, a mentoring scheme for female actuaries, run in conjunction with the Institute of Faculty and Actuaries	New ESG internal rating methodology	Enhanced transparency on our stewardship actions found in our Stewardship Report and online	The Responsible Investing team now has three full-time individuals
Seventh year of Purpose of Finance Project which tackles the disconnect between the financial services industry and society	ESG dashboard on Power BI enhanced to include multiple data sources and increase accuracy	Total pensions paid to date £2.1 billion	Redistribution of sustainability related responsibilities across Board and Management committees
Successfully accepted as signatory to the FRC UK Stewardship Code	Semi-automation of Climate Metrics to facilitate TCFD reporting for PIC and our buy-in trustees	Over £250,000 given to charities	Board and Exco level Sustainability Champions appointed
Continued the #10,000 black intern programme		Year-end Sustainable Assets represent 24% of our total portfolio (£46.8 billion)	Sustainability Champions initiative launched across the organisation with individuals of various seniorities
Responded to a number of regulator consultations including one on sustainability governance and incentives		Basis of reporting document published alongside TCFD to improve transparency on metric methodology	Third Party Assurance received on our TCFD climate metrics
PIC is a founding signatory to the A4S Sustainability Principles Charter for the BPA Process		Published PIC's Transition Plan alongside our Climate Report (TCFD)	Board approval and publishing of Climate Risk Policy
		Over 600hrs of CPD qualifying sustainability training taken by PIC employees from Board to apprentice level	
		Partnership with carbon removal company CUR8 to offset 2023 and prior year Air Travel emissions through a diversified portfolio of carbon removal projects	



Sustainability strategy

Our sustainability strategy's overarching objective is to create long-term social value as we fulfil our purpose, leading to sustainable benefits for the economy, the environment and society.

Our strategy impacts all our stakeholders, including the people who rely on us. A secondary drive in pursuing this strategy is to give our policyholders, employees, and others a sense of community and engagement as we all continue to transition to a more green and sustainable way of working. The strategy has four distinct pillars which, together with our Sustainability Target Operating Model, focuses on delving deeper into our corporate strategic objectives. The focus of each pillar is:

1) Long-term sustainable business

2) Being a responsible investor

3) Protecting the environment

4) Making communities sustainable, safe and inclusive





Sustainability strategy continued

Our key stakeholders and some of their drivers for sustainability





Embedding sustainability in all our processes



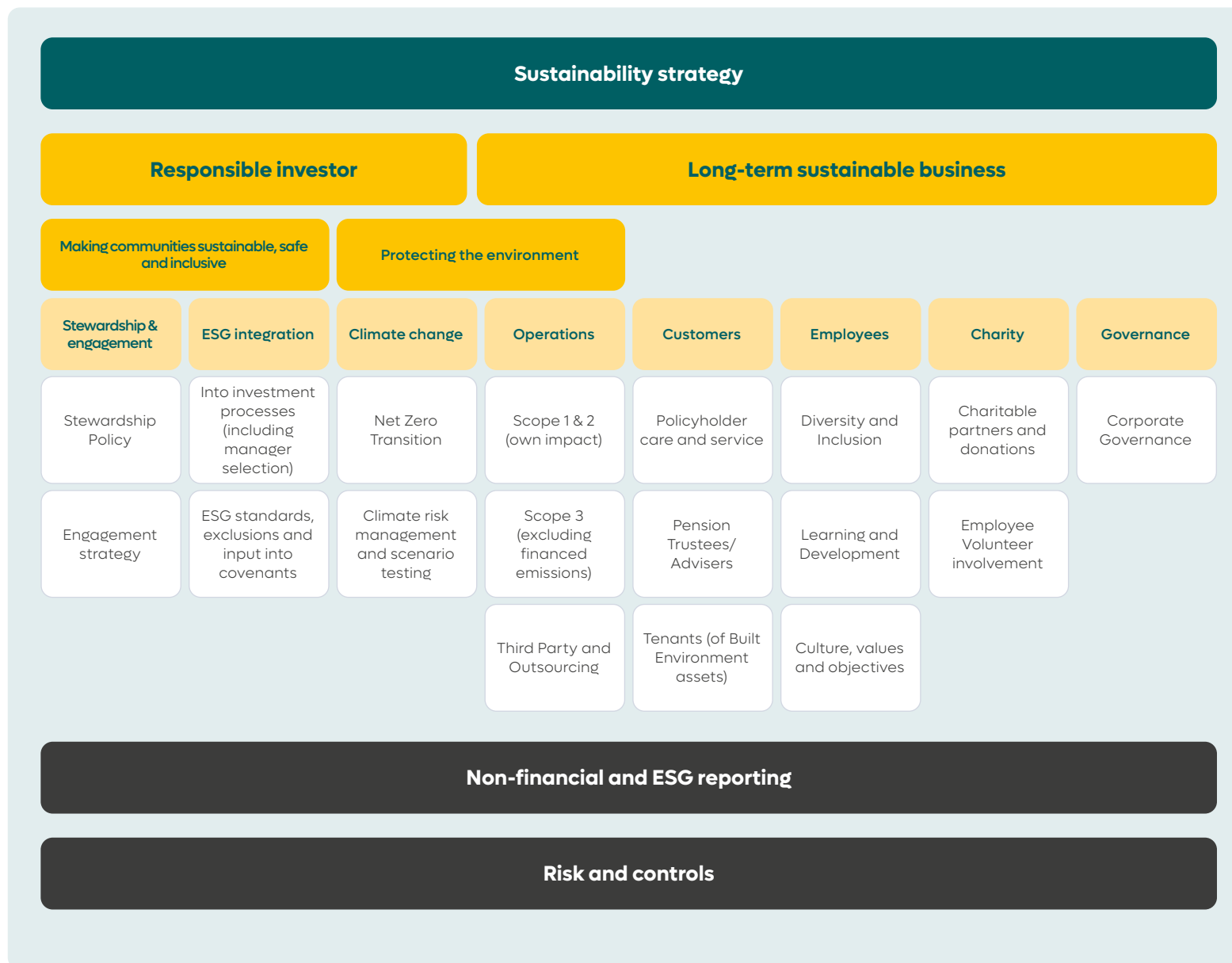
Sustainability Target Operating Model:

To meet our sustainability strategy objectives, we recognise that sustainability needs to be embedded into our business-as-usual activities and processes. A Sustainability Target Operating Model ("TOM") was established which defines and differentiates the sustainability responsibilities across the business. The TOM has two main components:

1) Responsible investing activities

2) Corporate level sustainability activities

As shown in the illustration on the right, each component branches out into respective focus areas for the business, which can be tied back to one of the four pillars of the sustainability strategy. Members of the Executive Committee and/or senior managers have been allocated responsibilities for each branch within their business function. Specific sustainability related objectives have been agreed with a number of relevant ExCo members and these have been embedded into 2024 objective setting.





Embedding sustainability in all our processes continued

Sustainability of our suppliers

PIC's business model is built on finding suppliers to help us deliver high-quality business services; PIC's suppliers are key to helping us fulfil our purpose over the long term. Therefore, we expect our suppliers to uphold and adhere to standards that align to our own policies and values.

In 2023 we drafted a Supplier Code of Conduct and produced a supplier ESG Due Diligence process and questionnaire. We plan to roll these out during 2024. The Supplier Code of Conduct supports and works to enhance PIC's culture and values regarding business ethics, through issues such as corruption, bribery, conflicts of interest, ESG and modern slavery, amongst others. The Code sets out standards of business conduct suppliers are expected to follow when providing services or products to PIC.

Our ESG Due Diligence questionnaire asks Environmental, Social and Governance specific questions of corporate activity and requires evidence to be provided when affirmative responses given such as carbon emissions data or published policies. The results of our questionnaire will be tabulated and an overall 'score' attributed to the supplier. ESG scores will be considered carefully alongside our other Due Diligence documentation when making ultimate supplier decisions.

Governance of sustainability

PIC's ESG Board Committee was initially established in mid-2021 as a temporary Committee with a remit to focus on sustainability. It also aimed to embed governance of ESG in the Board and its committees, so in order to complete this task, the Committee's responsibilities have been distributed between PIC's Board, the Board committees and the Executive Committee. By redistributing responsibility across the full

Board and its permanent Committees, PIC ensures that sustainability matters are truly embedded into the Board agenda as well as given due time to discuss specific relevant matters. This is evidenced through quarterly discussions on the portfolio's decarbonization trajectory, ESG integration and Stewardship at the Investment and Origination Committee ("IOC"); the review of climate risk metrics and risk appetite frameworks at the Board Risk Committee and Management Risk Committees; and in-depth review of our Climate and Sustainability reports at the Audit Committee.

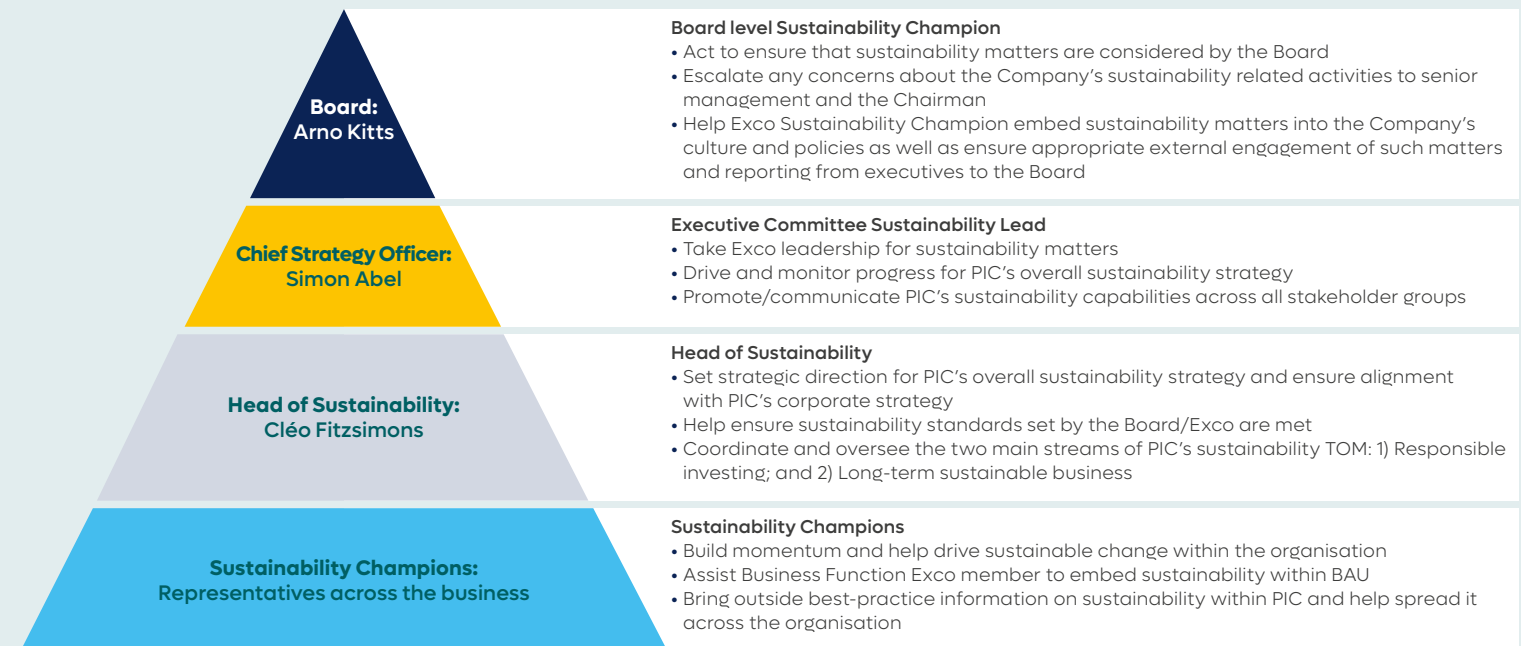
Sustainability representation

New for 2023 is that PIC has appointed sustainability representatives across the business. Arno Kitts – PIC Non-Executive Director and Chair of the Investment and Origination Committee – has been appointed as Board level Sustainability Champion and Simon Abel – PIC's Chief Strategy Officer – has taken Executive leadership on Sustainability matters. Cléo Fitzsimons has been promoted from Head of Responsible Investing to Head of Sustainability and takes on corporate level sustainability responsibilities in addition to her focus on the investment portfolio.

Finally, a Sustainability Champions initiative was launched in November 2023 which consists of 15 individuals from across the organisation and of various seniorities. The initiative's aim is to build momentum and help drive sustainable change within the organisation. Formal sustainability training is offered to our champions along with opportunities to bring external best practice into PIC within their respective business areas.

Sustainability representation

At various seniority levels and across the business





People



PIC has a culture that we are proud of, one that we have nurtured and that has evolved as the Company has grown to be a leader in a dynamic and important industry.

Dara McCann
Chief People Officer

Focusing on the things that matter – purpose, culture and values.

When you speak to a PIC employee about what they like about working in our company the same things come up. The friendliness of fellow colleagues, the openness of the leadership team, the appetite for growth and ambition to make a difference, and the opportunity to work for a purposeful company in a meaningful industry. It always boils down to three things: purpose, culture and values.

PIC has a culture that we are proud of, one that we have nurtured and that has evolved as the Company has grown to be a leader in a dynamic and important industry. An industry that is responsible for channelling billions of pounds into the UK economy and one which our diverse and talented employees are proud to work in. At PIC, our purpose has always been the anchor. Our purpose serves as a guide to where we are heading, aids decisions about what we need to focus on and provides a sense-check on the things we are doing as a company, ultimately serving as a reminder of why we matter.

At the end of 2023, we launched our new values: resilient, adaptable and loyal. These values represent how we enact our purpose and the underlying principles of our culture, or PIC's way of doing things, and synthesise them into simple and straightforward 'rules of behaviour'.

The Company continues to grow at pace and during 2023 we welcomed 146 new joiners, significantly expanding most teams across the organisation to allow for the increasing market demand for pension risk transfer solutions. In addition, we have enhanced the employee benefits package to ensure our valued and skilled employee base are appropriately rewarded and their wellbeing prioritised.

Diversity, equity and inclusion ("DE&I") is an area of continued focus, driven by the DE&I Forum, a group made up of employee and leadership team representatives. PIC's view is that a diverse workplace strengthens and enhances every aspect of our business – from decisions taken by the Executive Committee, to ensuring fair customer outcomes and in providing a positive and inclusive place for all employees to thrive. Our pioneering Actuarial Mentoring Programme, continued support of the 10,000 interns programme and participation in the London apprentices scheme are some of the initiatives we've been proud to be part of this year. We continue to be committed to investing in and valuing the contribution our employees make so they have a workplace they can thrive in and our employee engagement scores are a good reflection of what working life at PIC is like.

Dara McCann
Chief People Officer





People continued

Focusing on the things that matter

Purpose: To pay the pensions of our current and future policyholders

Clear and communicated strategic objectives

Values you live

Underpinned by an authentic culture

Our previous values



Providing security



Embracing new ideas



Being a team



Striving to be the best



Doing the right thing

Our new values

Resilient



Resilient

No matter what comes our way, we can handle it. We do this by managing risk to provide long-term stability and financial security for our customers. Our strong, conservatively managed balance sheet and low-risk portfolio ensure resilience against difficult economic events.

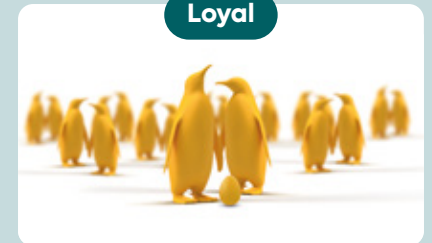
Adaptable



Adaptable

PIC is capable of thriving in a changing environment, doing things differently and evolving our business with innovative solutions and in line with client needs. We listen carefully and are not afraid to learn and challenge ourselves, and we go beyond existing ways of thinking to come up with innovative, personalised solutions.

Loyal



Loyal

Our policyholders are our customers for life, which is why our strong ethos around doing the right thing is so important to us. We invest in building lasting relationships, proving ourselves to be dependable and dedicated. We know the benefit of working together as a team. We respect, value, reward and nurture our people.



Employee engagement



Employee engagement is the extent to which employees feel connected to and motivated by the work that they do.

Our employees are at the heart of our business and we value their views and experience of what life at PIC is like. PIC has a comprehensive employee engagement programme in place to effectively collect the insights of the people that make us the success we are. This includes a formal annual employee engagement survey, monthly town halls designed to provide employees with key updates from across the business, and regular opportunities at all-staff events for employees to ask questions of their leadership team on any subject, from strategy, operations, career development, or even employee-run clubs.

2023 Employee Survey highlights

93%

PIC is truly customer oriented
(2022: 91%)

97%

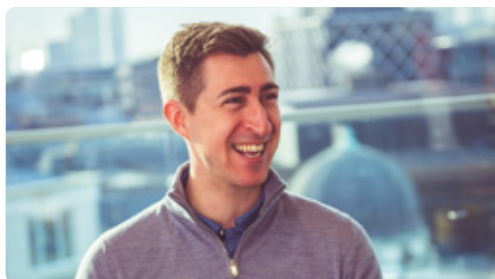
I believe strongly in the goals and objectives of PIC (2022: 93%)

92%

I am proud to work for PIC
(2022: 89%)

91%

I am optimistic about the future at PIC (2022: 88%)



Ashley Roberts

Rewarding our employees

As one of the leading employers in the pension risk transfer market, PIC offers competitive remuneration packages and a generous range of benefits. For example, PIC is one of a limited number of private companies that offers its people a chance to participate in a company Save as You Earn ("SAYE") scheme. The PIC SAYE scheme has been in place since 2013 and provides employees with an opportunity to purchase shares following a set savings period. SAYE schemes allow individuals to have a sense of ownership in the business and benefit from the company's long-term success. The scheme is open to all permanent employees and sets the foundations for a successful and sustainable company with employees able to share in the long-term value creation of the business.

During 2023, we introduced several enhancements to our compensation and benefits, including to the employee pension scheme, to private medical and travel insurance and the introduction of critical illness cover.



Case study:

Helping our employees navigate the pension landscape.

Over the summer, PIC held a campaign called Pension Power, which aimed to educate employees about all aspects of their pension. I took part in many of the activities including the focus groups, the talk by Claer Barrett, the FT's pension expert and the five-day challenge. I found the whole campaign extremely valuable. I am 43 and have three pensions (it turns out!) and prior to Pension Power, I had no idea about what I should be doing with my pension, when I should be looking at it and what it means. This campaign helped me with all of that.

The five-day challenge was a particular highlight. It sent me a small task to do every day and enabled me to get on top of my pension admin in an easy way.



In August 2022 I joined PIC as the Vulnerable Customer Officer within the Pensions Operations team. It's been a really interesting time and I love working for a company that is at the forefront of excellence in customer care. What's really great is that PIC isn't just interested in the welfare of our customers, but PIC genuinely cares about its employees too."

Ashley Roberts
Vulnerable Customer Officer

Now I can actually see my pensions, look into what my options are and see how much I have in my accounts. Simply that, for me, was huge as I got a tangible outcome from it.

I think all employers have a duty to educate in this way and PIC has been proactive in this. There is generally a lot of jargon associated with pensions, but this campaign broke it down for me and made it easier for me to understand the basic things about my pension and what it realistically means for me.

PIC's purpose is to pay the pensions of our current and future policyholders and it's rewarding to know that we're making a difference for those individuals, as a lot of them really do rely on their pensions. The one thing that really stands out for me at PIC is the people. There are a lot of people that are really passionate about the work they do, and you can tell that they care. There is a real sense of cohesion and working together like you're one big team which is great.



Working with our charity partners

PIC is proud of our 2023 partnership with Independent Age and Rethink Mental Illness. We have also supported a number of employee-led initiatives through matched funding. PIC's Charity Committee, which is entirely volunteer-led, organises a series of fundraising activities that take place throughout the year including the infamous PIC Treasure Hunt, an employee and third party event that attracts well over 440 participants on a fancy dress treasure hunt around the City of London.

In addition, PIC continued its second year of partnership with RedSTART Educate, a financial education charity that delivers continuous educational, interactive and fun workshops to primary school children from Reception to Year 6. Their workshops and school-based activities are complemented by an app which rewards students for completing mental maths challenges, allowing them to accrue interest on their rewards and spend the tokens earned in a real-world environment.

PIC volunteers run RedSTART workshops at Coleridge Primary School, facilitating eight sessions during 2023.

Total donations to charities

£250,000

Other charitable initiatives:

- Employee participation in fundraising sports events such as the London Marathon, Royal Parks Half Marathon and RideLondon30
- London to Australia step challenge
- Charity quiz
- RedSTART educational workshops
- Jumble sale
- Charity lunch & learns
- PIC Run Club used shoe collection for Charity JogOn Again



Independent Age UK

Independent Age UK is a charity founded over 150 years ago offering advice and support for people in old age. It operates throughout the UK and provides advice and support across a range of areas including money, housing, health, personal life, support and care, and future planning. Its guides and factsheets are downloadable for free via the link below.



[www.independentage.org/
get-advice/advice-guides-
factsheets-leaflets](https://www.independentage.org/get-advice/advice-guides-factsheets-leaflets)





Sustainable Assets



Our £11.4 billion in Sustainable Assets evidences that PIC's investment portfolio can not only pay policyholder pensions in a reliable manner, but also in a way that creates social value in the communities in which they live. Some of PIC's new investment into Sustainable Assets include affordable homes, clean transport and social infrastructure."

Rob Groves
Chief Investment Officer

We map the impact created by our Sustainable Assets to the United Nation Sustainable Development Goals ("UN SDGs").

A company's business model must be meaningfully linked to solving one or more of the UN SDGs as well as demonstrate positive ESG credentials to be considered a 'Sustainable Asset'.

We have asset class specific ESG approaches such as within our Built Environment portfolio, to help promote sustainable characteristics of our investments. Investing in Sustainable Assets is in line with our strategic priority of maintaining a purposeful investment strategy, helping create significant social value.

PIC distinguishes those assets it assesses as having a lasting positive impact on stakeholders such as the communities in which the company operates and the environment. We feel the word 'Sustainable' is appropriate for these assets as it considers the balance a company demonstrates between economic growth, environmental care and social well-being. PIC believes in a 'just transition' and focuses on achieving good social outcomes as well as good environmental outcomes. Where balance is compromised, we discuss each asset on a case-by-case basis at various forums and where appropriate add the company to a focus list for our engagement strategy.

In 2023, the proportion of our portfolio invested in Sustainable Assets fell. A contributor to that was the in-specie assets transferred over the course of the year.

Investment in Sustainable Assets

2020:

24%

(£12.1bn)
of total portfolio £49.9bn

2021:

27%

(£13.8bn)
of total portfolio £51.4bn

2022:

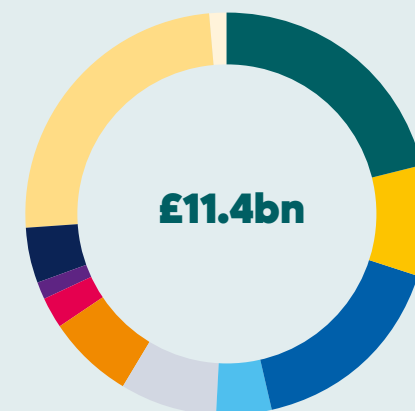
25%

(£10.3bn)
of total portfolio £41.2bn

2023:

24%

(£11.4bn) of total portfolio £46.8bn



Housing Associations/ Social Housing	21%
Renewable Energy	9%
Education	16%
Not for profit	5%
Healthcare	8%
Municipals	7%
Sustainable Transport (Rail)	2%

Project Finance (funding sustainable initiatives)	1%
Green or Sustainable buildings including Build-To-Rent	5%
Regulated Utilities (Water, Electric and Gas)	25%
Circular Economy	1%



Case study:

Portsmouth Water

In March 2023, PIC invested £50 million into a Portsmouth Water private placement which included covenants linked to specific sustainability KPIs. The proceeds from Portsmouth Water's capital raise are specifically earmarked for the construction of the new Havant Thicket Reservoir, the first reservoir to be built in the UK since 1991.

The Havant Thicket Reservoir, situated in southern Hampshire, is intended to address the significant water resource challenge faced by much of the Southeast of England and protect Hampshire's rare chalk streams. Portsmouth Water is in a position to help with this major challenge because of the large number of natural springs in the Havant area. These springs deliver a high-quality, sustainable supply of water all year round and are thought to be one of the largest individual sources of spring water in Europe.

In winter, and during periods of high rainfall, there is surplus water in these springs which flows straight out to sea. The purpose of the new reservoir is to store this excess water and use it to facilitate a bulk supply to Southern Water, another regulated water company operating in the Southeast of England. It will be the first new reservoir to be built in the Southeast since the 1970s.

The reservoir will provide 8.7 billion litres of raw water storage, retained by an earth embankment dam. It is expected to take six years to design, construct and commission. It will then enable supply of up to 21 million litres of water per day to Southern Water in periods of drought, reducing abstraction from the neighbouring River Itchen and the River Test, and protect the biodiversity of these unique environments. The reservoir will be built on the grassland site next to Havant Thicket, which sits in between Rowlands Castle, Leigh Park and Staunton Country Park in Havant. As well as protecting some of the county'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





Case study:

Stroom

In August 2023, PIC invested €45 million in freight and railcar leasing company Stroom Group, one of the leading players in freight transportation with more than 46,000 railcars and 80,000 containers in its fleet globally.

This investment represents an ongoing commitment to invest into clean transportation solutions that support greater cost efficiencies and less carbon intensive operations. The capital raise was aligned with Stroom's Green Financing Framework, a proprietary framework validated by a Sustainalytics Second Party opinion assessment for sustainability, transparency and governance. The Green Financing Framework has a clear use of proceeds to acquire new company assets that are classified as 'green' with specific definitions of what can be included in that classification. Stroom has also committed to providing investors on an annual basis with an impact report evidencing the environmental outcomes and metrics of the company.

PIC's investment will help create positive climate action by:

- Supporting Stroom's ongoing global decarbonisation strategy, as they aim to reduce the carbon intensity of their operations.
- 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.

STROOM





Social and economic value of some of PIC's investments



The chart opposite summarises the total amount of direct investments made by PIC between 2012 and 2022 in certain sectors of the UK. The values invested are the total values since 2012 into that specific sector, and number of investments is the number of projects invested into the specified sector. The chart also estimates the economic impact of those investments in concrete terms.

Overall, PIC invested in total over £11.7 billion in direct investments across nearly 200 different projects in the UK over the last decade. In addition, a further 26 investments outside the UK with a combined value of £1.5 billion have been made in that same period. Housing (which includes social and affordable housing, and build-to-rent projects) is by far the biggest sector with 67 investments seeing PIC lend £3.7 billion in capital representing nearly a third of direct investments made by PIC.

To understand the value of PIC's day-to-day activity at a regional level, and the social and economic value of PIC's business in concrete terms explore the '[Social and Economic Value of Finance](#)' report that we specifically commissioned by New Financial.



Social value created through PIC's direct investments

A sector view

Housing		
Value	Number	PIC's investment into housing can directly be attributed to the development of 54,000 homes across the UK, enough to accommodate 130,000 people. This is equivalent to the population of Solihull in the West Midlands.
£3.7bn	67	
Education		
Value	Number	PIC's into the Education sector can directly be attributed to the development of 14,000 student rooms at universities across the UK, enough to house the entire student population of the University of Hull, or the undergraduate student population at the universities of Bath, Loughborough or York.
£2.8bn	46	
Infrastructure		
Value	Number	PIC's investment of £2.2 billion in 40 different infrastructure projects across the UK includes £675 million in 18 water projects; £560 million in eight transport investments; £210 million in seven gas and electricity projects; and £800 million in six urban regeneration or commercial real estate projects.
£2.2bn	40	
Renewable energy *		
Value	Number	PIC's direct share of financing on UK renewable energy projects provides enough energy to power an estimated 85,000 homes, equivalent to a city the size of Aberdeen . This reduces carbon emissions by around 24,000 tons a year.
£1.5bn	17	
Build-to-rent *		
Value	Number	PIC has invested heavily in build-to-rent in the past few years and has directly financed the development of 2,300 flats, employing 2,500 people directly in construction, and helping to kickstart urban regeneration projects.
£525m	5	

Source: New Financial estimates based on analysis of data from PIC.

* Note: renewable energy includes five solar power investments in Spain, and the build-to-rent investments are also counted under housing.



Social and economic value of some of PIC's investments continued

This map highlights a selection of social and affordable housing investments made by PIC in every corner of the UK. PIC has invested £3.7 billion in 67 housing projects over the past decade and has directly contributed to the construction and development of 54,000 homes, enough to accommodate 130,000 people. This is equivalent to the population of Solihull in the West Midlands.

Wales

£230m

Over the past decade PIC has invested £230 million in four separate social and affordable housing projects in Wales. Two of these investments were with Pobl (£35 million in 2013 and £65 million in 2020), the largest housing association in Wales that is based in Newport and has more than 17,000 homes under management. The investment will help Pobl build 10,000 new affordable homes by 2030, with a target to build homes that are 40% more energy efficient than average.

In 2017, PIC provided £93 million in funding to the Welsh Housing Partnership, a group of four housing associations backed by the Welsh Government. And in 2021 it invested £38 million in Wales and West Housing, which operates 12,000 homes across Wales with a focus on housing for older people and supported housing, to help fund the development of 2,500 new homes.

Northern Ireland

£155m

Last year PIC invested in two projects in Northern Ireland to help finance the development of nearly 3,000 new social and affordable homes. The firm invested £100 million with Apex Housing Association to help build around 1,500 new homes, focusing on family accommodation and energy-efficient buildings. Apex, which is based in Belfast, manages 7,000 homes across Northern Ireland.

And PIC also invested £55 million with Clanmill, a housing association based in Londonderry that provides homes for 10,800 people across the region, as part of £100 million fundraising to help build 400 new homes by 2026.



Scotland

£90m

PIC has invested in two social and affordable housing projects in Scotland with a combined value of £90 million in the past three years. In 2019, PIC invested £40m in debt issued by Eildon Housing Association, one of Scotland's largest housing associations based in Selkirk that manages 2,500 homes. The investment supports the construction of 750 new homes. And last year, PIC invested a further £50 million with Caledonia Housing Association, based in Dundee, to help finance the construction of more than 500 energy-efficient new homes.

England

£3.2bn

Over the past decade, PIC has invested more than £3.2 billion in 59 different housing projects across England. There are too many individual investments to record here but we have marked many of the locations on the map to give an indication of the footprint across the country. Some notable investments include:

- **North Star Housing:** in 2020 PIC invested £80 million to refinance and help develop 600 new homes for North Star Housing, which operates 4,000 homes in the Tees Valley, Yorkshire, and Durham.
- **Livin Housing:** in 2019 PIC invested £65 million to help develop 450 homes in the North East with Livin Housing.
- **Greatwell Homes:** PIC invested £40 million in 2019 to help develop 600 homes in the East Midlands.
- **Accord Housing:** in 2018 PIC invested £100 million to help fund the construction of 1,500 in the West Midlands.
- **Senior Living:** last year PIC set up a joint venture with Octopus Real Estate aiming to invest £200 million in building ten retirement communities across the UK with homes for around 2,000 older residents. The first project near St Albans was launched late last year.
- **London Borough of Newham:** in 2022 PIC invested £83 million to help finance the development of 161 homes on a brownfield site near London City Airport, with up to half of the homes being designated as affordable.
- **Raven Trust:** PIC invested £130 million in 2022 to help the Raven Trust, which manages over 7,000 homes in Surrey and Sussex, build a further 630 homes by 2026.





Environment



As a long-term investor with a commitment to pay the pensions of our policyholders, managing climate and environmental risk is fundamental to our strategy. In 2023, we have taken further steps to embed the management of this risk into our business and made strong progress in meeting our carbon commitments.



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
PIC Chairman

Our progress against our climate targets

We have made disclosures in line with the TCFD recommendations in PIC's Climate Report (TCFD). This report includes details on our progress against our operational and investment portfolio decarbonisation targets, as well as further detail on how we measure and manage PIC's exposure to climate risk.

Summary of the TCFD disclosures

TCFD disclosures

We confirm that our TCFD disclosures are compliant with the requirements under Chapter 2 of the FCA ESG Handbook. We have made our detailed disclosures in a separate Climate Report (TCFD) due to the granular nature of the metrics disclosed. Selected TCFD metrics can be found here.

PIC's climate achievements

Reduced Scope 1 and 2 emissions intensity by

26%

During 2023 PIC reduced its Scope 1 and 2 carbon emissions per Full-Time Employee ("FTE") by 26%

Temperature alignment of

1.9°C

for public corporate credit portfolio

PIC's public corporate credit portfolio is aligned to a 1.9°C temperature rise, with 75% of reporting corporates on a trajectory of 2°C or below

Weighted Average Carbon Intensity¹ ("WACI")

169

tons CO₂e/\$m revenue

weighted average carbon intensity of investment portfolio

The weighted average carbon intensity of PIC's portfolio represents 75% of investments, and this is a 3% decrease compared to 2022

PIC's climate targets

Carbon neutral as a business by

2025

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

Net Zero across all emissions by

2050

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

Target

50%

decrease by 2030 from 2019 levels

PIC is committed to decreasing the investment portfolio's average carbon intensity (tons CO₂/\$m revenue) by 50% by 2030 from 2019 levels

Target

25%

decrease by 2025 from 2019 levels

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

1. This metric has been 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 of our Climate Report (TCFD).



Environment continued

TPT Transition Plan Taskforce

PIC's Climate Transition Plan

In 2023, we are proud to have developed our first Climate Transition Plan, detailing our targets and actions to transition towards a lower-carbon economy. This has been drafted in line with the disclosure framework from the Transition Plan Taskforce. The Transition Plan has been developed alongside the relevant business functions to ensure the delivery of the plan is embedded within the business.

PIC's primary approach to transition to a lower-carbon economy is through the decarbonisation targets highlighted above. Our strategy to meet those targets is as follows:

Operational targets

1. Move to our new office, 22 Ropemaker St, which has been designed and developed to be highly energy efficient, minimising our operational energy use. 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 once completed.
2. Procure renewable electricity to reduce Scope 2 emissions to zero. We have secured this within the leasehold of our new building for a finite period of time.

3. Purchase carbon removal credits to offset residual emissions. We will first continue to reduce our emissions as much as possible. After which, we have focused on high quality carbon removal solutions to our offsetting needs.

Investment portfolio targets

1. Stewardship of existing borrowers to encourage those borrowers to reduce their carbon intensity.
2. Forward-looking investment strategy, which means our investment universe is less carbon intensive than our existing portfolio.
3. Strategic divestment as a last resort, if required.

Further detail on the above activities, including the progress that is expected to be delivered by each action, can be found in our [Transition Plan](#).

As part of our Transition Plan, we have also considered plausible scenarios where the above actions do not deliver sufficient progress to meet our decarbonisation targets, including potential drivers for those scenarios. We have identified further actions that we could take in such situations to ensure our strategy is robust in a range of plausible future scenarios.



Case study:

2 Ruskin Square

2 Ruskin Square, in Croydon, is a new c.345,000 sq ft Grade A office, next to East Croydon railway station. The building will be let to the Government Property Agency ("GPA"), providing PIC with secure, predictable, long-dated tenancy.

The Developer (Stanhope) and the Contractor (Lendlease) both have their own set of high-performance ESG standards which were implemented within the design and build of 2 Ruskin Square. As such, the development received a BREEAM Outstanding rating with score of >90%, meaning it sits in the top 1% of all UK new non-domestic buildings for its sustainability performance.

These high standards were further evidenced when PIC came to undertake the ESG due diligence process, which gained high and positive engagement from all parties. The asset was rated 'A' overall by PIC's internal ESG framework, demonstrating best-in-class standards. Key highlights of the development were:

- **Low embodied carbon** – the design and specification looked to limit the carbon associated with the materials used to build it and the team undertook comprehensive design optioneering alongside a Life Cycle Costing ("LCC") appraisal, to balance life time carbon emissions with replacement costs.
- **Low operational carbon** – The development is committed to achieving a Design for Performance (NABERS UK) certification. NABERS UK is a rating system for office buildings focusing on in-use energy. The base build would look to achieve NABERS UK rated 4 stars. Additionally, the tenant has their own in-use estate policies to achieve Net Zero carbon.
- **172% biodiversity net gain** – the development will revitalise an urban brownfield site. Through greening of the public realm and roof terraces, the site will provide a biodiversity net gain of 172%, in line with Department for Environment, Food & Rural Affairs ("DEFRA") Biodiversity Metric 3.0.
- **Reduced barriers to recycling** – The development includes a large range of operational waste streams, with specialist wheelie bin compactors for photocopier and printer cartridges, confidential paper waste, bulky waste, batteries, fluorescent tubes and light bulbs, landscape maintenance.
- **Investing in the local economy** – As at end of Feb 2022, 77% of the 85 suppliers to site were considered local, from within 50 miles of the site. This showed the contractor was committed to promoting the local economy.



Environment continued



Carbon offsetting

In 2023, PIC got approval on a carbon offset strategy and we are pleased to announce a partnership with CUR8 – a specialist in the carbon removal marketplace. We have purchased carbon credits through CUR8 who have designed a bespoke diversified portfolio of high-quality carbon removal projects. The credits purchased are to offset our 2023 and prior year Air Travel emissions.

Our carbon offsetting strategy follows the Oxford Principles for Net Zero Aligned Carbon Offsetting¹ and we have selected carbon removal projects with a focus on longer storage capacity to prioritise a higher quality of offsetting. A snapshot of some of the projects found in our portfolio is on the right.

Dutch Carboneers Removal method: Biochar Speed of removal: < 1 year Durability: 1,000+ years

Dutch Carboneers are endorsed by the European Biochar Certification to develop smallholder farmer biochar projects in India. Biochar is a black residue, made of carbon and ashes, remaining after the pyrolysis of biomass. It is considered a carbon sink as it removes CO₂ from the air and stores it. Biochar can then be spread across soil and compost to enhance its fertility and water retention.

Dutch Carboneers produce their biochar via a traditional method created by locals who are trained to transform their own farm residue into a valuable product for use in local farmlands. The company provides a cost-efficient and decentralised biochar with a strong focus on bringing a positive impact to rural communities.

Locals, often women, are trained and certified to produce biochar via the Kon-Tiki method that releases minimal emissions. Data is tracked real-time via a phone application that follows the process end-to-end. Over 50% of credit sales are allocated to the local community.

Andes: Removal method: Bio-enhanced soil carbon Speed of removal: < 1 year Durability: 1,000+ years

Andes microorganisms are added to the soil along with agricultural seeds, such as corn and wheat. These microorganisms grow with plant roots and accelerate the conversion of CO₂ into minerals, making room for annual CO₂ removal. The microbes are provided to farmers free of charge.

The benefits of minerals in agricultural fields include improved water drainage, higher nutrient content in the soil, and decreased likelihood of plant diseases. Additionally, minerals stabilise soil organic matter, benefiting the overall health of soil, plants and communities that depend on agricultural systems.

Andes has been deploying their technology across the Midwest USA and will soon expand to Canada and South America.

Managing our climate risk exposure

We have made further developments to our process to manage PIC's exposure to climate risk. Based on qualitative analysis done in 2022, we identified the investment portfolio as the area of greatest exposure to climate risk in our business, and our development has therefore focused on this area of the business.

In 2023, PIC established a Climate Change Risk Policy, highlighting climate change as a cross-cutting risk across the business, with the potential to lead to other risks crystallising due to physical risks from climate-driven events, and transition risks from the process of adjusting to a low-carbon economy. This climate change risk policy provides the framework to identify, analyse, mitigate and monitor climate risk on a regular basis and report this to relevant Executive and Board level committees, in line with PIC's risk management system.

Further, we have performed a quantitative climate change scenario analysis on our investment portfolio in 2023. This is designed to understand the impact of three climate scenarios on PIC's balance sheet. The scenarios were based on those designed by the Bank of England for the Climate Biennial Exploratory Scenario ("CBES"). Further detail on the methodology and results of this scenario analysis can be found in our Climate Report (TCFD).

1. The Oxford Principles for Net Zero Aligned Carbon Offsetting 2020.



Responsible investing



The focus on ESG and a transition to Net Zero presents a seismic shift in the way our industry operates. There are significant opportunities for value creation through exposure to emerging climate-related technologies and industries that offer the potential for long-term growth. At the same time, a more comprehensive understanding of the risks posed by climate and ESG-related factors enables us to refine our approach to mitigating downside risk. The Board and its committees will play an important role in this, and I'm proud to take responsibility for ensuring this is central to the Board agenda."

Arno Kitts
Board level Sustainability
Champion



PIC is a signatory to the UN Principles of Responsible Investment and has been since early 2020. PIC takes pride in the genuine actioning of the principles, and this has been recognised through our 4-Star, and well above mean, assessment in the latest 2023 assessment process.

We are confident in the long-term social value generated by companies that have embedded enhanced sustainability into their business practices. Through the effective integration of Environmental, Social and Governance factors into investment decision making, we mitigate risk, identify opportunities and promote strong stewardship. Strong stewardship means all business functions are careful and responsible in their operations, and act in a sustainable manner to promote a more stable financial system.

The consideration of ESG factors within investments has been an inherent part of our process from early on. PIC defines ESG integration as the investment analysis of ESG factors alongside financial factors in the investment decision-making process. It explicitly and systematically includes the analysis of a range of risks and opportunities related to ESG drivers. In principle, this leads to a broader assessment of the environment in which companies operate and their performance in managing different stakeholders, giving a fuller understanding of risks over the long term than traditional financial analysis alone. These ESG-related risks may vary by country, by industry and by

characteristics specific to that issuer. For both directly and indirectly (via managers) managed investments we ensure that ESG factors are considered. This means that from the initial due diligence phase or manager selection, relevant ESG questions are asked, and responses assessed.

We believe that organisations which demonstrate positive sustainability characteristics are better placed to maintain cash flows and service their debt over the long term. These characteristics include whether they recognise responsibilities to key stakeholders beyond customers, such as employees, suppliers, society and the environment. To meet these responsibilities, it is crucial that they have a long-term focus.

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

Responsible investor

PIC Portfolio

ESG integration

Within all investment processes including manager selection

Social value

Investments into Sustainable Assets that create socially beneficial outcomes for people and our planet

Stewardship & engagement

UK Stewardship Code signatory, Standalone Stewardship Policy, Engagement strategy

Industry participant

UN PRI signatory, Net Zero Asset Owners Alliance member, ABI Climate Change Working Group participant

Climate change

decarbonisation to Net Zero, TCFD reporting, Climate risk management and climate scenario testing



Responsible investing continued

Investment restrictions

Given the underlying nature of our investments, our very long-term time horizon and the tight parameters that regulate our industry, we must give careful consideration when applying sector exclusions. We have nevertheless taken the view that investing in the following sectors is unsustainable and have imposed the below restrictions:



a. Coal extraction & burning and Tar Sands:

No new purchases in companies that derive more than 10% of turnover from coal extraction & burning and Tar Sands. We aim to divest from all of our holdings breaching the 10% limit in these areas by 2025.

b. Oil sector: No new purchases of companies which 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.

c. Controversial weapons: We will never knowingly hold any security that is involved in the production of controversial weapons, anti-personnel landmines and chemical & biological weapons.

PIC's ESG assessment for corporate bonds

Given our liability-driven investment strategy, PIC is predominantly a fixed income investor. Working within a highly regulated environment we adopt a conservative risk profile and our portfolio aims to only include high-quality 'Investment Grade' assets. Our ESG assessment of corporate bonds is used as an important additional piece of information alongside our credit analysis and the traditional credit rating when assessing the quality of a bond, when deciding whether to buy or hold the instrument and if so, over what term to lend.

Where possible, we use third party ESG data vendors to provide relevant ESG data. Our added value comes from interpreting and analysing this data in the context of our portfolio, and in light of our analysis determining what duration we would be comfortable taking.

The theory behind our investment process is below:

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

This in practice means interpreting the data we receive through vendors or via primary data collection to identify the ESG factors we believe are the most financially material and creating a proprietary measure to assess those companies' resilience to ESG risk through the effective management of these.

The credit analyst will look to use this information as part of the overall decision for the creditworthiness of the company and the term for which we are prepared to lend to them.

We attempt to apply this interpretation of ESG risks to all our bonds and other lending opportunities – however it is not always possible given time sensitivities, time availability and resource. Our aim is to continue to apply this process in practice and adapt the process as we progress to make it most suitable for our evolving investment portfolio.

PIC's proprietary ESG assessment

ESG Industry Exposure (manageable risk in sector)





Responsible investing continued

Assets managed by external managers

PIC integrates ESG into our externally managed portfolio in the following way:

- An initial sustainability due diligence exercise is performed when considering a manager to partner with. This includes an assessment of managers at the firm level, to understand if sustainability is a central part of their culture and capabilities. We only choose to partner with managers who demonstrate strong credentials in terms of sustainability and stewardship and can demonstrate a track record of doing so. It is important that our managers are responsible stewards of their clients' capital, as our reputation can be directly linked with their actions.
- Given we have specific mandates with each manager, the application of ESG criteria will vary between them. Each of our managers have their own in-house ESG integration and stewardship framework which is used when establishing our investment universe.
- Once holdings are in the portfolio, we monitor their ESG risk profile over time and ask managers to comment on any controversies and include forward-looking thoughts on ESG matters.
- Our managers each provide us with bespoke ESG reports covering topics such as ESG ratings, controversies and engagement activities.

Internally managed private credit assets

We integrate ESG into our privately sourced credit in the following way:

- For private debt into listed companies, we use data from our various data sources such as Sustainalytics, Bloomberg, Credit Sights, rating agencies and the company's public sustainability reports to analyse exposure to ESG risks.
- For our private debt investments into unlisted organisations, we liaise directly with the issuer to determine their ESG position and attribute an in-house risk score. The process typically runs in the following way:
 1. Where possible we send sector specific ESG questionnaires which assess individual factors that are deemed to be most material to the sector.
 2. We apply our in-house ESG risk assessment framework and assign a Low/Medium/High ESG Issuer Score. Absent any unusual events, we review this rating on an annual basis as part of our ongoing monitoring.
 3. We engage with each organisation on responses given, and work with them on setting targets where we feel material ESG risks have been identified and not sufficiently addressed.
 4. We record our engagements on our proprietary ESG Engagement Platform so that these can be tracked and monitored over time.

Real estate assets

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

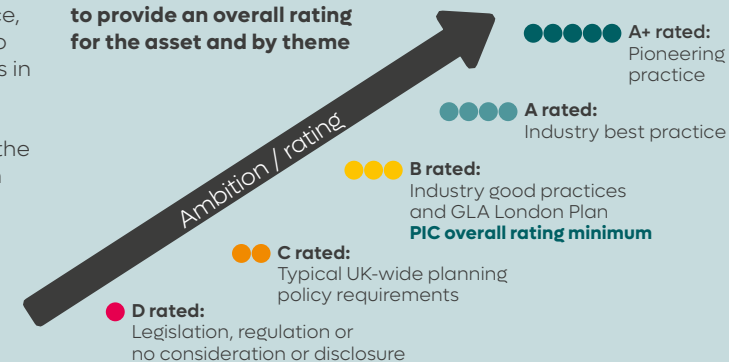
- Monitoring
- Policy



Every KPI includes five levels of performance, each comparative to industry benchmarks in 2022/23

Scores from KPIs combine to provide an overall rating for the asset and by theme

The higher the level the greater the ambition of that KPI



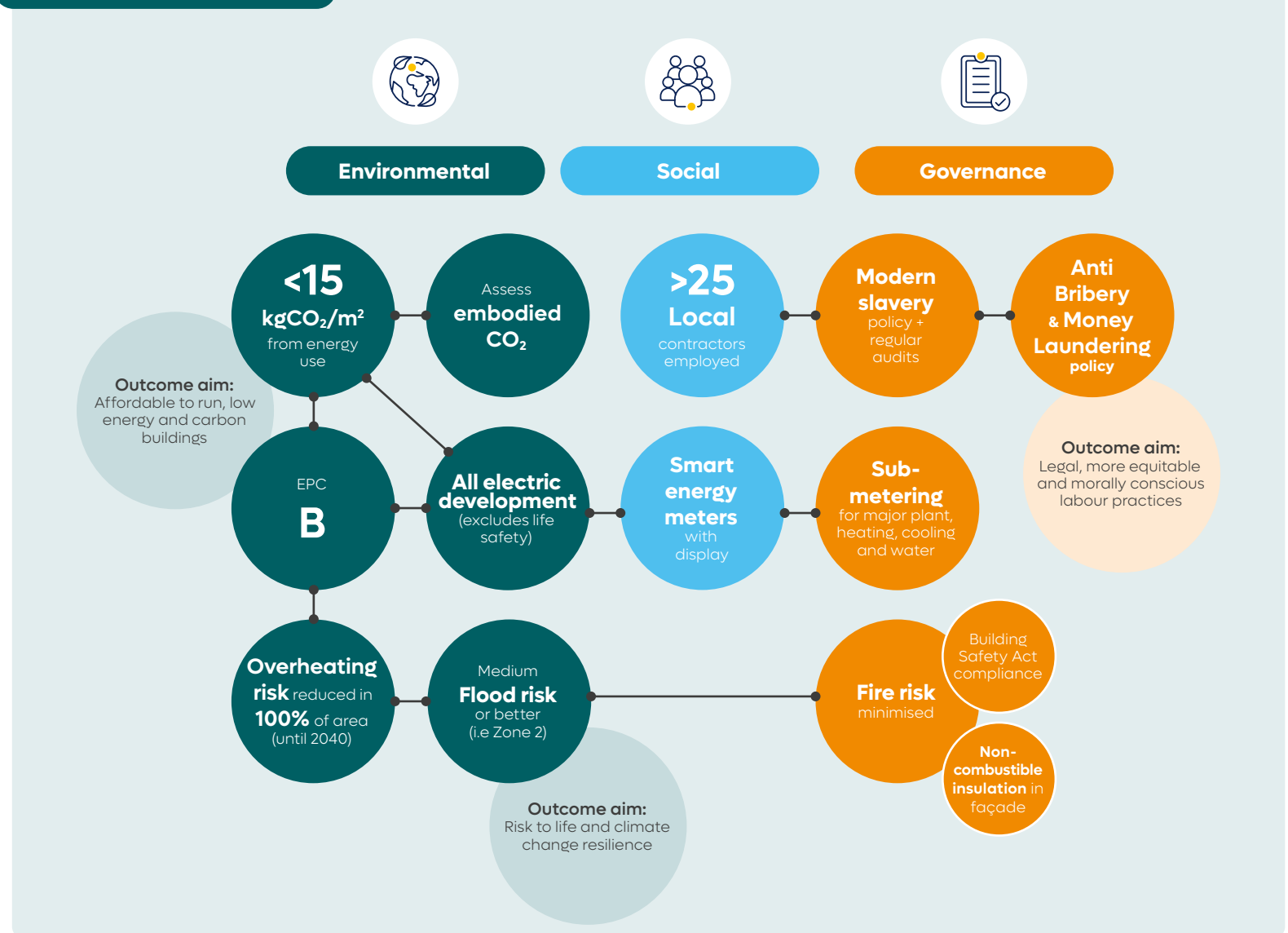


Responsible investing continued

Our analysis goes into meaningful depth on ESG risks and opportunities in the built environment and identifies areas for further engagement. Where PIC can influence the design of a building, we ensure that we engage directly with the builders to incorporate very high social and environmental standards. Only developments with an average aggregate rating of 'B' across the 65 KPIs is proceedable for investment.²

In early 2023, minimum standards were developed and implemented. These standards set red lines on a handful of KPIs that any development must achieve or commit to meet prior to financial close. The image below shows the selected minimum KPIs across ESG themes and how they link together to form combined development outcomes. The aim of this is to 'raise the floor' on all assets by setting these standards on the most meaningful set of KPIs in order to aim for the outcomes in the diagram.

New Build Minimum Standard



2. Applicable to development schemes of new build properties where PIC is making equity investment and has influence over the design features of the construction and fit-out (to be confirmed by PIC Built environment team).



Responsible investing continued



How sustainably focused Real Estate can help resolve some of the UK's social and environmental troubles

Well-functioning, energy-efficient and fit-for-purpose property assets can be critical assets in helping the UK tackle some of its most pressing issues on both social and environmental fronts. It is estimated that 4.3 million homes³ are needed in the UK to meet existing demand and 1.2 million households are on the waiting list for social homes. Almost 100,000 households are living in temporary accommodation, including over 120,000 children.⁴ The housing deficit would take at least half a century to fill even if the Government's current target to build 300,000 homes⁵ a year is reached. There is a crucial need for private capital in the sector and PIC has identified this as an opportunity to have impact while fulfilling its purpose.

In addition, with the cost-of-living crisis and energy costs rising, serious retrofitting is needed in the existing housing stock as well as all new-builds need to be designed with energy efficiency in mind. PIC is pushing both the social and environmental agenda within property as we continue to be one of the UK's leading investors of affordable and social housing and require high levels of both social and environmental features in the buildings we fund.

PIC's property portfolio includes debt investments of over **£2.4 billion** to housing associations as well as directly owning development schemes that, once operational, should offer **416** affordable and social housing units and create nearly **12,000 sq m** of green space of which over half is publicly accessible green space. That is equivalent to respectively **48** and **24** tennis courts of green space. PIC's first operational built-to-rent scheme, Manchester New Victoria, has welcomed its first tenants and was built with resident wellbeing and sustainability at the core.

PIC were early adopters and continue to be proud supporters of the Sustainability Reporting Standards for Social Housing⁶ in an effort to help the housing sector measure and enhance its ESG performance in a transparent, consistent and comparable way.



3. The housebuilding crisis: The UK's 4 million missing homes | Centre for Cities.

4. Debate on the future of social housing, House of Commons, 19 April 2023 | Local Government Association.

5. Tackling the under-supply of housing in England – House of Commons Library (parliament.uk).

6. Home – Sustainability for Housing.





Case study:

Manchester New Victoria – operational Community building in the heart of Manchester

New Vic is PIC's first Build-to-Rent scheme to complete, repurposing a key area adjacent to Manchester Victoria train station into a vibrant new residential community. New Vic has 520 beautifully designed apartments across two towers of 20 and 25 storeys respectively, offering over 17,000 square feet of resident amenities and more than 6,000 square feet of commercial space.

Since the first tenants moved in, in Q3 2023, PIC has been dedicated to creating a real sense of community. To do this, PIC has a long-term engagement plan for residents and the local community. A regular programme of complimentary events including sustainability-specific topics, entertainment and wellness activities allow tenants to acquaint themselves with their neighbours and forge meaningful relationships. Events are held in a series of indoor and outdoor tenant amenity areas some of which are also available for private hire by tenants.

What we have done so far:

- New Vic offers **pet-friendly tenancies and has established a dog walking club** offering residents the opportunity to meet other pet owners within the building.
- **Supporting residents' health and wellbeing** by offering a gym and studio on site. Residents are welcome to enjoy fitness classes and personal training support as part of the many perks of living at New Vic. PIC also hosts 'Wellness Wednesday' sessions where residents are invited to help themselves to healthy snacks in the café lounge and participate in a gentle mindfulness activity.

- **Local business engagement** – the New Vic app provides a database of businesses in the local vicinity and the site team will partner with a number of these companies to host engagement events: e.g. offering residents the opportunity to win a free breakfast at a local restaurant during the 2023 Christmas campaign.
- **To encourage the ethos of living sustainably** the site team will host quarterly events on the topic. These will vary from clothes-mending workshops, resident swap shops, food and clothes drives, grow-your-own-sessions. In addition, a tree has been planted for each new resident, offsetting 97.3 tonnes of CO₂ from the move in process.
- **To enhance fire safety and accessibility** PIC went beyond existing regulation and installed enhanced features such as evacuation lifts, sounders on balconies, CRIB5 fabrics to all apartment furniture and automatic doors to the core amenity areas.
- **Charitable activities** have started on site, these include a food bank collecting donations for the Booth Centre – a local shelter supporting those experiencing homelessness - and a partnership with JogOn, an initiative focused on recycling unwanted running shoes and donating them to grass roots clubs and those in need globally.
- **Good governance** – PIC hosts weekly leasing, resident engagement and health and safety meetings. PIC also hosts monthly operational meetings and reports quarterly to the New Vic board.

What plans are for the near future:

- **Move-in satisfaction surveys** are already underway and from Q1 2024 **Quarterly Resident Satisfaction Surveys** will be held to allow us to measure what's working and what needs improvement on site.
- **Tenant and landlord energy-use evaluation and carbon footprinting** after a year of operations; with carbon offsetting of staff emissions.
- **Charitable activities** which support and engage with the local and wider community surrounding New Vic. These include a clothing bank which resells or recycles clothing and stops them reaching landfill and a hygiene bank donation point for the building and the local community to contribute to.
- **Support mental health and wellbeing** via mindfulness classes on the New Vic app and in-person talk groups via charities such as Talk Club.
- **Further Improvements to biodiversity**, food growing and bee hive sponsorship with tenant engagement.

PIC's activities aim to help build a community of residents as well as creating social cohesion within the wider community.





Case study:

London Square Hawks Road

Supporting the delivery of affordable homes, considering the comfort of future tenants and local community investment

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 carbon in line with Greater London Authority definition, emitting >70% less carbon emissions from energy use of typical building 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 950 sq m of new green space will be provided, featuring communal gardens, playground, courtyards and lawns, which will be open to the existing and new community.





Stewardship and engagement



PIC is extremely proud to have been accepted as a signatory to the UK Stewardship Code. Acceptance to the Code is a testament to the emphasis we put this year on our engagement activity with our external managers and with companies directly. Our engagements aim to drive for better corporate behaviour with those companies that do not meet our high standards.

Rob Groves
Chief Investment Officer



Stewardship

At PIC, we value the importance of sound stewardship, using it as a tool to deliver on our purpose and create long-term sustainable returns.

PIC's approach to stewardship is aligned with our purpose, investment process and strategic objectives. PIC has a standalone Stewardship Policy, and it applies to all of our investments whilst recognising that the large majority of the investment portfolio is invested in fixed income. We believe that as bondholders we can exert influence over management of issuing companies and engage with them as necessary to ensure compliance with our [Stewardship Policy](#).

PIC is proud to have been accepted as a signatory to the Financial Reporting Council's ("FRC") UK Stewardship Code and our application report can be found on our website. PIC is also involved in collaborative engagements including the PRI-led advance initiative on human rights and social issues, and industry peer-led collaboration with companies within the UK water utilities sector. In addition, we engage with policymakers on industry-wide topics such as Solvency II, wider pension reforms, and how to help local authorities overcome the barriers to local regeneration. More detailed information on our stewardship activities including case studies can be found in our Stewardship Report and on our [website](#).

Engagement

PIC is a buy-and-hold investor with long-term liabilities, and to make sure our business model remains viable we engage with issuers to ensure more sustainable practices are undertaken within the issuers' firms.

Engagement describes the interaction between investors and issuers. Engagements are conducted to influence or identify the need to influence corporate behaviour and enhance sustainability related disclosure. PIC wants to ensure we (and our managers on our behalf) use our influence to help companies in which we invest improve aspects of their environmental, social and governance performance. PIC actively engages with investee companies across public credit and private debt investments on material sustainability issues. Active engagement is at the heart of our business as it helps our strategic objectives of driving long-term value growth and is a core pillar of our stewardship approach. It drives our wider sustainability strategy to help ensure that ESG-related risks are mitigated where possible and opportunities uncovered. Engagement is done for two main reasons at PIC:

1

Fact finding: to understand the company, its stakeholders and performance. To inform our investment decision as part of regular due diligence. This engagement is usually centred around fact-finding through detailed and specific questioning.

2

Purposeful dialogue: with a specific and targeted objective to achieve a change in corporate behaviour. This is a two-way dialogue meaning we do not talk at companies, we talk with them. This approach encourages open and honest dialogue so that a long-term relationship can be better maintained which helps us see out our buy-and-hold investment strategy.



Stewardship and engagement continued

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

PIC received Board level support for our two-year engagement strategy which is undertaken through four distinct engagement channels:

For our direct investments, we engage with organisations at the point of capital raise, during refinancing or if any covenants are breached. For our indirect holdings we work closely with our managers to ensure that important sustainability topics – both company-specific and industry-wide – are engaged on with companies. We communicate our engagement expectations with managers in advance and then set out our engagement plan for the year ahead. The plan includes a focus list of companies to engage with on specific topics such as climate change mitigation and also wider themes such as social issues in supply chains for high-risk sectors. Please refer to the Responsible Investing section on [page 23](#) of this report for more detail on our approach to integrating various ESG issues within our investment decision making.

We're leveraging insights gained through various engagement channels, such as learning from our external managers and the outcomes derived from collaborative engagement initiatives. These valuable learnings are then integrated into our direct engagements, allowing us to enhance and refine our approaches for more effective interactions with companies.

Engagement Channels

1

Direct by Credit Analysts

2

**Via Key
External Managers**

3

**Selected Third Parties for
Speciality Asset Classes**

4

**Collaborative
Engagement Initiatives**





Stewardship and engagement continued

	External Managers	PIC Direct	External Consultants (Buro Happold)	Collaborative
Asset Class	Public Credit	Public Credit and Private Debt	Real Assets	Public Credit and Private Debt
PIC Teams	Public Credit and Responsible Investing	Credit Research, PIC Capital & Responsible Investing	PIC Capital and Responsible Investing	Responsible Investing and Credit Research
Environmental				
Topic	Climate engagements with our highest emitting public credit investments	Various – including climate data reporting and alignment to Net Zero	Environmental factors within the Built Environment	N/A
Desired Outcome	The company to be receptive and open about committing to align their operations towards the Paris Agreement and Net Zero		The developer maintaining high standards towards the environmental impact of the construction and operational phases. Successful outcome demonstrated through increase in Buro Happold proprietary rating score	
Example KPIs	Public disclosure of: <ul style="list-style-type: none">• Climate commitments including Net Zero• Decarbonisation targets• Carbon metric disclosure• Climate strategy		Embodied emissions, EPC ratings, building regulations emissions, % energy demand from non-fossil fuels, water usage, waste generated	
Social				
Topic	Modern Slavery, labour standards and human rights in the supply chain (Manufacturing focus)	Modern Slavery, labour standards and human rights in the supply chain	Social factors within the built environment	UN PRI – led engagement on: Human Rights within Mining, Utilities and Renewable sectors
Desired Outcome	Companies demonstrating alignment between their operations and International Labour Organisation (“ILO”) standards or a country-specific equivalent and performing adequate independent auditing		Developers enhancing social value themes such as affordability, socio economic needs of the community and community engagement within the development and operational aspects of the building. Successful outcome to increase proprietary rating score	The company to fully implement the UN Global Principles, align their political engagement with their responsibility to respect human rights and deepen progress on the most severe human rights issues in their operations and across their value chains
Example KPIs	Public disclosure of: <ul style="list-style-type: none">• Modern Slavery policy/statement• Independent audit review		Affordability rate, community engagement, support for vulnerable tenants	Published Human Rights Code of Conduct, number of human rights controversies, third party rating on ‘S’ factors of the company (if listed), Internal audit reviews
Governance				
Topic	Internal governance within the company		Governance factors within the built environment	
Desired Outcome	Companies demonstrating strong governance structures within its operations and maintaining up to date policies relevant to governance		Developers are ensuring they maintain up-to-date and relevant policies relating to governance, sustainable procurement, health and safety, diversity and inclusion and anti-bribery and money laundering. Successful outcome demonstrated through increase in Buro Happold proprietary rating score	N/A
Example KPIs	Public disclosure policies relating to: <ul style="list-style-type: none">• Health, Safety & Wellbeing• Diversity and inclusion policy• Anti-Bribery and Money Laundering• Governance strategy		Evidence of policies related to: <ul style="list-style-type: none">• Sustainable procurement• Modern Slavery• Health, Safety & Wellbeing• Diversity and inclusion policy• Building safety• Anti-Bribery and Money Laundering	
			Evidence of effective building monitoring including energy meters and green building certificates	



Engagement areas of focus



Environmental engagements

One of our priority areas of focus for engagement is on environmental issues, including climate change and biodiversity. Environmental related topics discussed both via managers and directly by PIC during 2023 were:

- Climate alignment and strategy
- Decarbonising and minimising emissions
- Net Zero and climate-relevant commitments
- Transition plans and timeframes to meet climate commitments
- Climate risk and oversight
- Disclosures and reporting of carbon emissions metrics
- Transparency around year-on-year progress against climate commitments
- Carbon efficiency of real estate assets
- Circular economy
- Pollution and waste

PIC has set itself engagement targets in line with the NZ AOA to engage with at least 20 companies a year, focussing on real-world decarbonisation. Details of our engagements are published yearly in our Climate Report (TCFD). In 2023 we surpassed this target by having engaged either directly or via our managers with 74 companies on climate and environmental issues.



Social engagements

Another priority engagement area for PIC is on selected social issues. We have published a public statement on Modern Slavery and have an internal policy on the matter – both approved at Board level. We ensure we can evidence how we are enacting those commitments. Therefore, some of our key social engagement topics include:

- Modern slavery and forced labour
- Fair labour practices, including safe working conditions
- Human rights issues including in the supply chains
- Human capital and promoting employee wellbeing



Governance engagements

Ensuring robust governance practices within investee companies is crucial for mitigating long-term investment risks. We firmly believe that effective governance lays the foundation for addressing other significant ESG issues. We recognise the importance of engaging with investee companies on critical governance topics, such as:

- Board diversity and inclusion
- Establishment of ESG or sustainability policies
- Executive remuneration
- Individual responsibility for sustainability

Measuring our engagement progress

A key part of our engagement strategy is to measure progress year-on-year of our portfolio companies. Continuous monitoring allows us to understand which of our investee engagements are showing progress in line with our desired outcomes and this helps us identify those issues that continue to lag or are unresponsive to engagement.

PIC recently developed an online ESG engagement platform, which acts as a database for logging engagement records across the year and keeps track of progress against the relevant KPIs and our desired outcomes.

During 2023 we have engaged with 99 firms through our diverse engagement channels on a range of sustainability topics. Our primary focus has been meaningful dialogue with top emitters, but we've also amplified our social engagements, recognising the importance of balancing environmental ('E') and social ('S') goals as we move towards a low-carbon economy. The chart below displays the breakdown of our engagements by the area of focus.

Engagement focus breakdown



■ Climate Change	38%
■ Natural Capital	15%
■ Human Rights	18%
■ Human Capital	12%
■ Corporate Governance	11%
■ Diversity, Equity & Inclusion	6%



Case study:

Abu Dhabi National Energy Company ("TAQA")

PIC has committed to engaging with our highest-emitting companies, aligning with the commitment shared by all members of the Net Zero Asset Owner Alliance, an industry initiative of which we are members. This expectation has been communicated to our external managers responsible for engaging in the respective portions of our portfolio they oversee. One of our external managers, JP Morgan Asset Management ("JPMAM"), conducted engagements with three of our highest emitters within their portfolio – Saudi Electricity Company, TAQA and Qatar Gas Transport Company by sending letters to the Chairs of their Boards.

Issue:

Ahead of COP28, United Arab Emirates ("UAE") increased the ambition of its Nationally Determined Contributions ("NDCs") as well as its National Energy Strategy, committing to triple renewable power-generation capacity and increasing the share of clean energy in the energy mix to 60%.

In order to understand how Abu Dhabi's energy and utility company, TAQA, would mitigate any potential resulting transition risks, JPMAM engaged the company. They sought to understand how the company plans to support the delivery of the UAE's new emissions reductions goals and renewable energy targets including whether it intended to have its own targets validated by the Science Based Targets initiative ("SBTi").

Action:

JPMAM engaged the company and questioned whether their stated emissions reduction targets (25% absolute reduction in Scope 1 and 2 emissions by 2030) were sufficient to meet the UAE's more ambitious goals. While the company indicated they were confident they would be able to meet UAE's goals, they were not able to currently commit to having their targets validated by the SBTi. This was due to the company's own assessment that their small amount of coal exposure in Morocco, and their estimation that they would need to achieve a ~40% emissions reduction by 2030, would make it difficult for them to have their targets validated by SBTi.

In terms of its decarbonisation strategy, the company described its plans to decommission its legacy gas plants indicating this will largely happen by 2028. The company targets 30% of gross generation capacity coming from renewables by 2030, however, the acquisition of renewable energy developer Masdar meant they had already met the target at the time of engagement. In line with UAE targets anticipated to be applicable to the company, JPMAM encouraged the company to update its renewables capacity growth target, noting the national renewable energy ambitions.

The company indicated they plan to invest approximately USD 10 billion by 2030 in transmission and distribution networks to cater for growth in electrification. They also identified a list of high-level climate related risks and opportunities in the 2022 Sustainability Report. JPMAM encouraged them to provide more information including TCFD-aligned scenario analysis to provide investors with a clearer sense of the materiality of the issues.

Outcome:

In September 2023 TAQA revised its growth targets aiming for 150 GW of gross power generation by 2030, with around 65% of its generation capacity coming from renewable power sources. The announcements included plans to invest USD 20 billion until 2030 towards power and water capacity expansion and transmission and distribution networks.





Case study:

Stewardship and engagement in the UK water utilities sector

In recent years, the UK water utilities sector has faced considerable challenges, including negative press due to river pollution and issues of poor governance. This case study explores how PIC has undertaken stewardship and engagement initiatives with investee companies in the sector to promote sustainability and address these and other potential future challenges.

Background:

The UK water utilities sector operates in a heavily regulated environment, presenting unique challenges for addressing long-standing issues. Several key factors contribute to the challenges around addressing these issues in the sector:

- 1. Customer-centric cash flows:** The majority of cash flows in the sector come from customers. Any solutions to environmental and governance issues ultimately impact customers, making it crucial to strike a balance between the need for improvements and affordability.
- 2. Regulatory oversight:** The sector is subject to regulatory reviews every five years, the next one (known as Asset Management Period 8 or AMP8) being 2025-2030. Companies must submit their business plans to the regulator Ofwat, which reviews and approves these plans and sets an allowed rate of price increases. This regulatory oversight limits the firms' control over spending.

- 3. Investment grade ratings:** The regulator also requires that companies maintain an investment grade rating, and as a part of its review, Ofwat has a say on the target capital structure. This puts further restrictions on firms' ability to raise capital to fund their investment plans.

As a long-term investor in the UK water utilities sector, we believe our role extends beyond financial returns. Our goal is to support these companies in achieving more sustainable operations, including better governance and transparency, even when faced with these challenges. Earlier this year, we joined a collaborative engagement initiative led by Royal London Asset Management. This initiative focuses on several critical areas:

- **Climate change adaptation:** Assessing how companies are addressing climate change risks, including ensuring a sufficient water supply for a growing population and increased flood risk.
- **Biodiversity:** Examining efforts each company makes to improve biodiversity for both land and water. Examples include having a clear Biodiversity Action Plan with ambitious targets and commitments as well as disclosing biodiversity net gain.
- **Affordability:** Identifying solutions to improve companies' performance without significantly increasing costs to customers, especially during times of economic challenges like the current cost-of-living crisis.
- **Antimicrobial Resistance ("AMR"):** Considering AMR as a risk although recognising this as a more ambitious target.

In the first phase of the engagement initiative, Royal London Asset Management have developed an assessment scorecard that includes minimum standards as well as some more ambitious targets. 11 companies in the UK water sector have already been assessed, marking the first stage of the engagement programme. These scores will be used to frame the conversations with each individual firm by helping us identify areas of particular weakness. At the end of the engagement programme, the scorecard will be used to assess the success of the group's engagement efforts. The group also plans to meet with the regulator to discuss their assessment of the business plans that the water firms submitted earlier this year.

Our stewardship and engagement activities in the UK water utilities sector reflect our commitment to long-term sustainability and responsible investment. By working collaboratively with other investors and establishing clear expectations, we aim to drive positive change in this vital sector, balancing the needs of both customers and the environment. While the challenges are significant, we believe that a sustained effort can yield significant positive outcomes in the years to come.





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