

# For the future.

**Pension Insurance Corporation plc**  
Climate Report (TCFD) 2025



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## Our 2025 suite of reports

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:

[pensioncorporation.com/investors](https://pensioncorporation.com/investors)



- Annual Report and Accounts
- PIC Company Report
- Investor Results Presentation



- Sustainability Report
- Climate Report (TCFD)
- Climate Report (TCFD) 2025 Basis of Reporting

# To us, climate change mitigation isn't just part of sound risk management, it forms part of our everyday business activity as a long-term, sustainable business within a decarbonising world.

## For the future.

This report was created in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD").

## Introductory letter from CIO



# Managing climate-related risks and capitalising on climate-related opportunities are critical to achieving our strategic objectives and delivering on PIC's purpose.

**Rob Groves**  
Chief Investment Officer



**I am pleased to present our 2025 TCFD report. This report sets out our approach to managing climate-related risks and opportunities, highlighting our key achievements over the year.**

Our approach to managing climate-related risks and opportunities at Pension Insurance Corporation plc ("PIC") is driven by our purpose, to pay the pensions of our current and future policyholders. This is underpinned by our strategic objectives: 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. The climate-related activities covered in this report work to support each of these strategic objectives and are a critical part of PIC delivering on its purpose.

The physical risks arising from climate change are material and increasing, as actions to mitigate climate change do not meet global ambitions. Despite this, transition risks are also increasingly material, as new energy sources displace incumbent technologies and policy action continues in certain geographies.

Understanding and managing these risks is essential in order to build a secure and sustainable business and drive long-term value growth.

We also welcome the ongoing expectation from our stakeholders that we play our part in supporting the transition to Net Zero, attempting to mitigate the risks that our business and society faces from climate change. We are committed to being a responsible corporate citizen, in collaboration with our industry peers, regulators, and policymakers.

### Our progress in 2025

2025 is a milestone year in our decarbonisation journey, as two of our interim decarbonisation targets come due: operational carbon neutrality and a 25% reduction in the weighted average carbon intensity ("WACI") of our public corporate credit portfolio. We are very proud to have met both targets. As we expected in our transition plan, the main contributor to our portfolio decarbonisation has been the decarbonisation of our existing investment counterparties. This is in part testament to the success of our stewardship approach, and our investment counterparties commitment to decarbonising their businesses.

2025 also represents the deadline for our coal policy, after which we aimed to divest from holdings breaching our threshold of 10% of revenues from coal extraction and burning. We have successfully achieved this aim, as detailed on page 16. Notably, 70% (by market value) of our counterparties who breached the 10% threshold when we first set the policy now meet the threshold, which is again in part a reflection of our stewardship.

Building on this success, we have rolled out our five-year engagement strategy, which highlights the priority areas on which we will engage with our investment counterparties across different asset classes.

The strategy has been successfully put into practice this year with our Stewardship and Credit Research teams carrying out 183 engagements. We have also been accepted for a third consecutive year as signatories to the UK Stewardship Code.

### Looking forward

We remain committed to our 2030 portfolio decarbonisation target and our long-term 2050 Net Zero target. We also look forward to making further investments in support of the transition to a low carbon economy, and we expect to see increasing opportunities in this space. It is clear that a successful transition will require significant investment in long-term infrastructure and we are well placed to support this.

We also intend to further develop our approach to climate-related risks, particularly in light of the recent supervisory statement from the Prudential Regulation Authority ("PRA") on this area. We will continue to improve our climate scenario analysis capabilities to ensure we are fully capturing and managing climate risks to our portfolio.

While we are pleased to have made the progress highlighted in this report, we know there is more work to do, and remain committed to our decarbonisation journey and playing our part in mitigating climate change.

**Rob Groves**  
Chief Investment Officer, PIC

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**

## TCFD recommendations

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

### Governance

**Disclose the organisation’s governance around climate-related risks and opportunities.**

Describe the Board’s oversight of climate-related risks and opportunities.



Governance and oversight of climate-related risks and opportunities  
**Page 5**

Describe management’s role in assessing and managing climate-related risks and opportunities.



Activities by Committee  
**Page 6**

### Strategy

**Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning, where such information is material.**

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.



Our Enterprise Risk Management approach  
**Pages 25-26**

Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.



Overview of our sustainability strategy  
**Pages 9-18**

Describe the resilience of the organisation’s strategy, taking into consideration the different climate-related scenarios, including a 2°C or lower scenario.



Overview of our sustainability strategy  
**Pages 17-18**

### Risk Management

**Describe how the organisation identifies, assesses, and manages climate-related risks.**

Describe the organisation’s processes for identifying and assessing climate-related risks.



Our Enterprise Risk Management approach  
**Page 24**

Describe the organisation’s processes for managing climate-related risks.



Our Enterprise Risk Management approach  
**Page 26**

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management.



Our Enterprise Risk Management approach  
**Page 28**

### Metrics and Targets

**Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.**

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.



Decarbonisation targets  
**Page 30**

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (“GHG”) emissions, and the related risks.



Decarbonisation targets  
**Pages 30-36**

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.



Decarbonisation targets  
**Page 30**

# Governance.

**Strong governance enables us to develop  
and implement an effective climate strategy.**



## Governance and oversight of climate-related risks and opportunities

**Our Board has ultimate oversight of, and accountability for, PIC’s climate-related risks and opportunities. Oversight is exercised through a robust governance structure, with specific responsibilities delegated to the most relevant Board Committees.**

The Board is committed to maintaining a strong framework of internal controls that supports the effective identification, assessment, and management of climate-related risks. This governance framework underpins the Board’s long-term objective to safeguard our policyholder’s pension payments, while empowering the management team to deliver sustainable business growth.

### Governance of climate risks and opportunities in practice

Operational responsibility for climate matters is embedded at management level, while strategic direction and oversight are provided by the Board and its Committees.

The chart below illustrates how responsibilities for climate-related risks and opportunities are distributed across PIC’s governance structure. This structure is reviewed annually to ensure it remains effective and responsive to emerging climate challenges.

Committee membership is determined to provide the right blend of skills, experience, and cross-committee representation. By maintaining clear lines of accountability and fostering collaboration between committees, PIC ensures that climate-related risks and opportunities are integrated into decision-making at every level of the business.

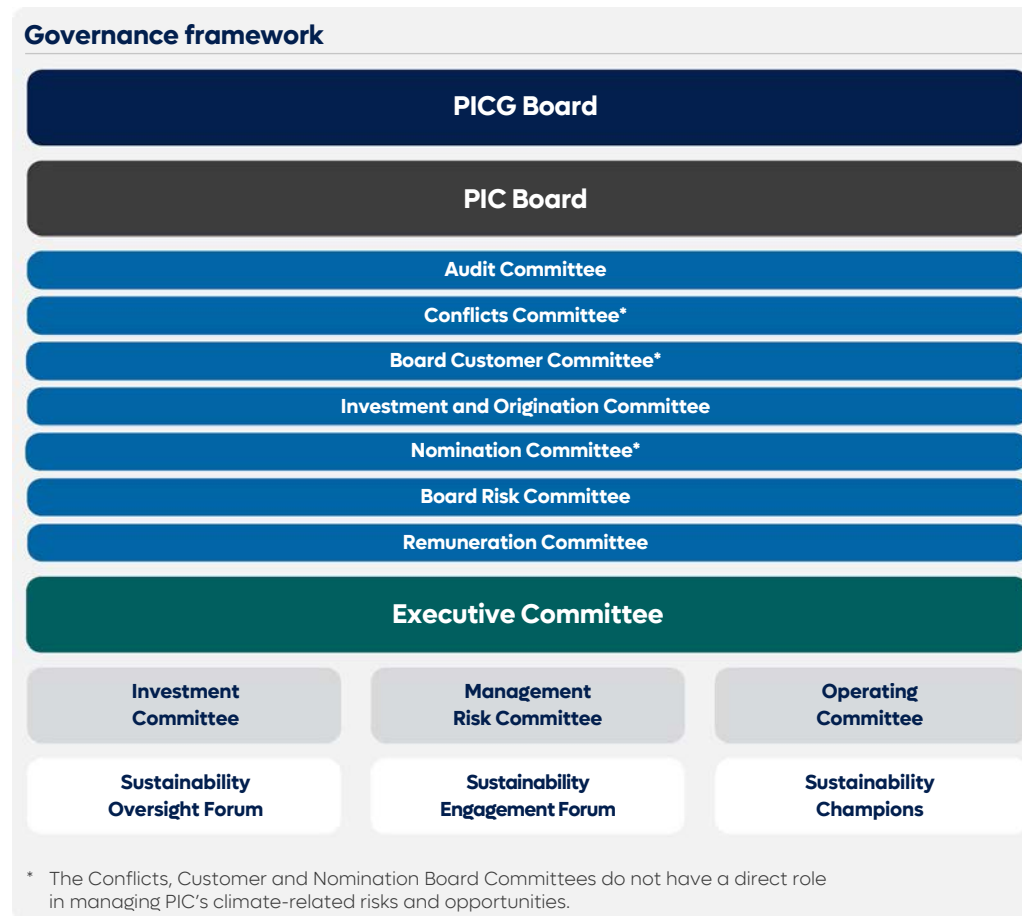
### Board Committee accountability for climate-related risks and opportunities PIC Board

The Board holds ultimate responsibility for promoting PIC’s long-term sustainability, guided by our purpose and strategic objectives. This includes maintaining oversight of climate-related risks and opportunities and ensuring that sustainability remains embedded across our business.

To strengthen accountability, a Board Sustainability Champion is appointed to ensure climate considerations are integrated into Board discussions and to support the Executive Committee Sustainability Lead in embedding sustainability into PIC’s culture and policies.

The Board approves the firm-wide sustainability strategy, as advised by the Executive Committee, as well as our Sustainability Report. It also receives semi-annual updates on climate-related matters, or more frequently where required, enabling informed decision-making and proactive risk management. During 2025, climate-related updates to the Board included:

- a review of our strategic sustainability positioning;
- progress with embedding sustainability as business as usual (“BAU”);
- carbon offsetting strategy and approach to carbon footprint transparency; and
- involvement with industry initiatives, including the A4S Sustainability Charter for the Bulk Annuity Process.



\* The Conflicts, Customer and Nomination Board Committees do not have a direct role in managing PIC’s climate-related risks and opportunities.



More information about PIC’s Board committees can be found in the **PIC Annual Report 2025**

## Activities by Committee



**Accountability and oversight of sustainability matters need to be carried out at different levels to be most effective. I am delighted to have been appointed as PIC's new Board-level Sustainability Champion. I look forward to working with the business to ensure that we play our part in minimising and mitigating the impact of climate change and deliver against the broader sustainability agenda.**

**Martin Pike**  
Board Director and Sustainability  
Champion, PIC

### Board Risk Committee

The Board Risk Committee advises the Board on current and potential risk exposure and appetite. This includes assessing risks related to climate, and assessing their potential impact on PIC's strategy and resilience.

The Committee ensures that climate risks are embedded into the Risk Management Framework and overall risk strategy. This includes approving PIC's climate risk appetite and the Climate Risk Policy. During 2025 the Committee received regular updates on our performance against key risk indicators relating to climate risk.

### Investment and Origination Committee

The Investment and Origination Committee oversees investment policy and strategy, as well as origination of new business. In relation to climate, this includes monitoring the progress of PIC's portfolio against our climate transition plan, and ensuring the ongoing development of PIC's climate strategy and integration within investment decisions.

In 2025, the Committee received a number of climate-related updates relating to the management and mitigation of risks within the investment portfolio. This included updates on responsible investment strategy, risk exposure within the portfolio and responsible investing strategic initiatives. The Committee also approved PIC's updated Stewardship Policy.

### Audit Committee

The Audit Committee has oversight of PIC's financial reporting, and internal and external audit process. It is responsible for approving the TCFD report and accompanying TCFD Reporting Criteria for publication, and also

recommends to the Board the approval for publication of our Sustainability Report. During 2025, the Committee also received a number of updates on the embedding of PIC's new Non-Financial Reporting team.

### Remuneration Committee

The Remuneration Committee is responsible for ensuring that climate and sustainability objectives are considered within performance scorecards, as part of its overall role in setting PIC's reward framework and ensuring it aligns with our culture and strategic objectives.

### Management Committees

#### Executive Committee

The Executive Committee assists the CEO in overall management of PIC. It plays a pivotal role in embedding climate considerations into PIC's BAU operations. PIC's Chief Strategy Officer is nominated as the Executive Committee Sustainability Lead and helps to ensure that the Sustainability Strategy is integrated within business planning and operational processes, assisted by the Head of Sustainability.

Activities during 2025 included approval of the annual Stewardship Report, a review of PIC's strategic sustainability positioning to ensure alignment with long-term objectives and stakeholder expectations, alongside a number of other updates on sustainability performance and progress.

As part of their roles, Committee members continuously monitor trends and regulatory updates to proactively consider their potential impact on our strategy, operations and reputation, and ensure this is considered

in our climate-related policies. A number of members have sustainability-related objectives included within their personal performance objectives.

### Investment Committee

The Investment Committee ensures that climate considerations are fully integrated into PIC's investment decision-making processes. Its role is to oversee how investment activity aligns with PIC's decarbonisation targets and climate transition plan, while maintaining a strong focus on long-term value creation and risk management.

In 2025, the Committee reviewed climate-related portfolio metrics and ESG risk exposure across the portfolio, using these insights to guide investment decisions. It also monitored progress against PIC's portfolio decarbonisation targets and assessed the effectiveness of engagement activities with high-impact issuers and sectors.

### Management Risk Committee

The Management Risk Committee is responsible for approving risk preferences and appetites, which are then submitted to the Board Risk Committee for review and approval. This includes developing and maintaining the Climate Change Risk Policy.

### Operating Committee

The Operating Committee is responsible for operational processes and ensures that sustainability principles are embedded into decision making in areas such as supplier selection and facilities management. This helps minimise our operational carbon footprint so that we continue to progress our climate transition plan and achieve our entity-level decarbonisation targets.

## Sustainability Champions and Oversight Forum

### Sustainability engagement and representation across the business

During 2025, PIC continued to hold regular internal stakeholder engagements to maintain a coordinated approach to climate-related actions and reporting across the business. These engagements took place through the Sustainability Oversight Forum and the PIC Talks: Sustainability Sessions, both of which remain central to embedding sustainability into our BAU operations.

The **Sustainability Oversight Forum** provides a central platform for senior leaders to review and challenge PIC's sustainability priorities, including climate-related actions and reporting. During 2025, the Forum moved to a quarterly schedule to allow for more focused discussion and alignment on key sustainability issues while maintaining timely oversight.

Meetings are attended by senior representatives from across the business, including the Chief Investment Officer, Chief Strategy Officer, Head of Sustainability, and a senior Risk team representative. The Forum reviews progress against PIC's climate transition plan, monitors emerging sustainability trends, and considers key risks and opportunities impacting our investment and operational strategies.

The **PIC Talks: Sustainability Sessions** are held quarterly and are open to all employees, providing updates and training on PIC's sustainability activities, including those relating to climate. These sessions play an important role in building awareness and engagement across the business and were well attended during 2025.

Key topics covered included the backlash towards ESG, electrifying the grid, carbon offsetting strategies, a deep dive into PIC's stewardship activity and general updates on PIC's approach to sustainability and decarbonisation progress.

In 2025, we welcomed a new cohort of 14 **Sustainability Champions** selected from across the organisation, who have continued to embed sustainability into everyday business practices. Each champion received formal training and collaborated through monthly sessions to share best practice and drive progress on climate and wider sustainability-related initiatives.

Some key achievements included:

- The Finance Champion actively engaged in PRA consultations on sustainability, including CP10/25. They also advanced our understanding of how climate change could impact capital requirements and how sustainability risk considerations are factored into capital model assumptions.
- The Data Office Champion began development of a streamlined process to consolidate PIC's various ESG data sources into a single, reliable 'source of truth'. This initiative aims to organise data for easier access and semi-automate periodic updates, improving confidence and efficiency in reporting, including climate metrics.

- The Debt Origination Champion focused on creating and maintaining a log of 'rejected deals' due to sustainability-related reasons. We believe there are valuable lessons that can be learned from tracking such decision making factors such as what to look for – or avoid – in future deals.

 More information can be found in our **Sustainability Report 2025**



**As a Sustainability Champion at PIC, I leveraged my data expertise to propose a plan to integrate ESG data into our new technical infrastructure, enabling a dedicated ESG database for comprehensive analysis alongside portfolio holdings and risk analytics.**

**This experience helped highlight business data-usage limitations, enabled me to observe ESG initiatives across PIC, broaden my ESG technical knowledge and meet fellow colleagues across departments working towards a common goal.**

**Mitanshi Nayak**  
Sustainability Champion, Investment Data Analyst, PIC

# Strategy.

**Our approach to respond to  
climate risks and opportunities is designed  
to support our strategic objectives.**



## Overview of our sustainability strategy



**Our approach to managing climate risks and opportunities is focused on integration throughout the investment process, reflecting our view that climate change and decarbonisation are major economic trends which can have significant influence on our investment portfolio. Understanding these trends and ensuring they are appropriately considered is critical to achieving our strategic objectives.**

**Cléo Fitzsimons**  
Head of Sustainability, PIC

### Responsible investing: 2025 priorities

In our 2024 TCFD report we outlined our responsible investing priorities in line with PIC's strategic objectives. These have remained consistent throughout 2025 as we focus on long-term progress. Updates on each priority can be found throughout this section of the report.

#### 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**

#### Decarbonising our business



#### Conducting climate scenario analysis



#### Enhancing our engagement strategy



#### Establishing and implementing investment restrictions



#### Integration of climate-related risks and opportunities into investment decisions



#### Understanding nature-related risk within our portfolio



### Delivering PIC's strategic objectives by integrating climate-related risks and opportunities

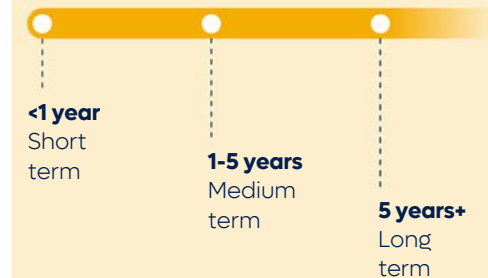
PIC's purpose is to pay the pensions of our current and future policyholders. Our investment portfolio of £54.8 billion is invested to fulfil this purpose.

To deliver on this, we have three strategic objectives that shape our day-to-day activities. A key part of achieving those objectives is understanding and managing sustainability risks and opportunities, including those related to climate. Given the nature of our business model, the majority of these risks and opportunities pertain to our investment portfolio, and that is therefore the focus of our sustainability strategy.

Throughout 2025, we have taken steps to support these objectives, ensuring we manage risks that could impact our investment portfolio over an extended time horizon.

We apply the following time horizons to support consistent evaluation of climate-related risks in line with our risk management approach:

#### Risk time horizons



## Overview of our sustainability strategy (continued)

### Decarbonising our business



We remain committed to our long-term decarbonisation goals and continue to implement our climate transition plan. Our targets include reducing the WACI of our total investment portfolio by 50% by 2030, using a 2019 baseline, and achieving Net Zero emissions across our entire business, including our investment portfolio, by 2050.

We are pleased to report that we have achieved our 2025 targets of operational carbon neutrality (Scope 1 and 2 emissions) and a 25% reduction in the WACI of our public corporate credit portfolio, using a 2019 baseline. These milestones reflect the strength of our strategy and the commitment of teams across the business.

Further details on our progress against targets can be found in the Metrics and Targets chapter (page 30). The following sections detail our approach to meeting our targets across our investment portfolio and our operations.

### Decarbonising our investment portfolio

Our climate transition plan focuses on the following actions to decarbonise our investment portfolio.

#### Use our influence

We continue to engage with our investment counterparties to support the decarbonisation of their businesses. We also recognise that achieving our portfolio decarbonisation targets requires broader systemic change. We continue to use our influence to encourage industry-wide alignment with Net Zero goals, actively engaging with policymakers and participating in collaborative initiatives.

#### Forward looking investment strategy

We favourably consider investments that support the low carbon transition, while maintaining a focus on long-term value and risk-adjusted returns. We continue to assess and manage the evolving risks associated with the energy transition, particularly for certain carbon intensive sectors, and factor this into our investment strategy.

#### Strategic divestment

Where engagement does not yield the desired outcomes, we remain prepared to divest from the issuers whose progress is not aligned with our decarbonisation goals.

 More information can be found in our **Climate Transition Plan**

### Reducing the environmental impact of our own operations

At the end of 2024, we moved to our new office at 22 Ropemaker Street. This move marked a major milestone in our sustainability journey, as the building was designed and fitted out with environmental performance as a core consideration.

As anticipated, the move to our new building has led to a significant reduction in our operational emissions. Our Scope 1 and 2 emissions in 2025 were 85% lower than in 2024, reflecting the benefits of the building's high energy efficiency and our use of renewable electricity. We continue to purchase carbon removal credits to offset the residual Scope 1 and 2 emissions from our operations. We are being supported by CUR8, a third party specialist in carbon removals, to access high-integrity credits from credible projects.

 Further details on the carbon removal credits that we purchased in 2025 can be found in our **Sustainability Report**



## Overview of our sustainability strategy (continued)

### Case study: **Engaging** with our most carbon intensive issuers



# For issuer transition.

**We continue to engage with the most carbon intensive investee counterparties in our portfolio. This serves to mitigate climate-related risks while accelerating the transition of these companies toward low-carbon business models, ultimately supporting our portfolio decarbonisation targets.**

The WACI of our portfolio is heavily influenced by a small number of carbon intensive investee counterparties. This presents a possible transition risk as those companies may be required to decarbonise their businesses, and also creates a challenge for PIC in meeting our decarbonisation targets.

To address this, we undertook targeted engagement internally via our credit research analysts and through our external managers with the top carbon-emitting issuers. Our approach combined active dialogue and investment restrictions to influence change. We assessed the credibility of transition plans by reviewing emissions reduction targets, science-based commitments, capital expenditure and research and development (“R&D”) allocations, and governance structures.

These efforts have already contributed to reducing the WACI of some of our portfolio’s highest emitters, positioning PIC to deliver on its long-term climate strategy. Looking ahead, we will continue active engagement with top emitters, monitor progress against transition plans, and use divestment as an escalation tool where necessary.

## Overview of our sustainability strategy (continued)

### Enhancing our engagement strategy



Active engagement remains a cornerstone of our approach to responsible investment and a key lever in our climate transition plan. In 2025, we began to implement our new five-year engagement strategy, which builds on our previous efforts and sets a clear direction through to 2030. The strategy focuses on six core ESG themes: Climate Change, Natural Capital, Human Rights, Human Capital, Corporate Governance, and Diversity, Equity, and Inclusion.

For each theme, we have identified the sectors within our portfolio most exposed to the associated risks and opportunities. Our engagement efforts are targeted at issuers where we believe we can exert meaningful influence, and where our stewardship can support real-world outcomes. This strategy spans both public and private credit, as well as our real estate investments, and is designed to be flexible and responsive to emerging issues over the five-year period.

The following table outlines our 2025-2030 engagement strategy.



More information around our other ESG engagement focus areas can be found in our **Sustainability Report**

### 2025-2030 Engagement Strategy

Environmental		Social		Governance	
Climate Change	Natural Capital	Human Rights	Human Capital	Corporate Governance	Diversity, Equity and Inclusion
<b>Fixed income – Public and Private</b>					
Climate engagements with issuers with significant real-world impact on carbon emissions.	Engagement with issuers operating in sectors with high pressures on natural capital where we have meaningful exposure and influence.	Engagement on modern slavery, labour standards and human rights in the supply chains.	Engagement on corporate culture, ability to attract, retain and develop workers, and wider management of human capital.	Engagement on corporate governance topics around Board and management effectiveness and executive remuneration.	Engaging on Diversity, Equity and Inclusion topics at the senior level and more widely across the workforce.
<b>Real Estate</b>					
Engaging on climate topics such as embodied emissions, EPC ratings, building regulation emissions, percentage of energy demand from non-fossil fuels, and type of offsetting within the built environment.	Engaging on natural capital topics such as biodiversity net gain, urban greening factor, water usage, and circular economy within the built environment.	Engaging on topics of modern slavery, building safety and other health and wellbeing topics within the built environment.	Engagement on social value topics such as affordability rate and community engagement within the built environment.	Engaging on corporate governance topics such as having necessary policies in place.	Engaging on Diversity, Equity and Inclusion topics within the built environment.

## Overview of our sustainability strategy (continued)

In 2025, our engagements by focus area were as follows:

### Engagement focus breakdown



● Climate Change	31%
● Human Rights	9%
● Natural Capital	28%
● Human Capital	7%
● Corporate Governance	11%
● Diversity, Equity & Inclusion	14%

\* Specialist third-party engagements not included in total figure.

ESG engagement platform continues to be an effective tool in planning our engagements and monitoring progress. It enables us to track engagement activity, record outcomes, and identify issuers that are lagging or unresponsive. This data-driven approach ensures that our engagement efforts are targeted, measurable, and aligned with our broader sustainability objectives.

To support the successful delivery of our engagement strategy, we continue to invest in the capabilities of our internal teams.

Throughout 2025, significant collaboration took place between our credit analysts and our sustainability teams, to align on goals and enhance the capabilities of both teams.

We have also focused on sharing knowledge and best practice within teams to embed a consistent high quality approach to engagement across the portfolio. As we increase the proportion of our investments that we manage directly, these internal capabilities become increasingly important.

Our stewardship approach is guided by our **Stewardship Policy**, which outlines our expectations for engagement and escalation. While active engagement remains our preferred route to influence, we recognise that not all issuers respond to engagement in the same way.

Where progress is not made within an 18-month period, we escalate concerns to senior management and may collaborate with industry peers. Divestment remains a last resort, but one we are prepared to take when necessary to uphold our climate and sustainability commitments.

### FRC UK Stewardship Code

**We are pleased to have maintained for a third consecutive year our signatory status to the UK Stewardship Code, which sets high standards of stewardship.**

The Code comprises a set of 12 principles for asset owners to support and report on information relating to their governance, investment approach, engagement activities and actions to address sustainability issues.



### Case study: Collaborative engagement

## For industry progress.

**We continued our membership with the Investor Forum, a not-for-profit, practitioner-led organisation that brings together institutional investors to promote effective stewardship.**

The Forum facilitates constructive dialogue between investors and UK-listed companies on long-term strategic issues, positioning stewardship at the heart of investment decision-making. Through this collaboration, we participated in several investor group discussions with UK issuers during the year, focusing on sustainability and other key topics. One such topic was the UK water utility industry.

In October 2024, the UK and Welsh Governments launched the Independent Water Commission (“IWC”) to review and improve the regulated water sector model. The IWC’s final report, published in July 2025, set out 88 recommendations across seven themes, aiming to deliver a ‘fundamental reset’ of the sector. These themes include strategic direction, planning, legislative framework, regulator reform, company structures and governance, and infrastructure resilience. The UK Government issued its initial response on the same day, signalling significant regulatory and structural changes ahead.

Following these developments, the forum convened meetings with Chairs of several listed UK water utilities and hosted a roundtable with the Department for Environment, Food and Rural Affairs (“DEFRA”).

Investors focused on understanding company views on the IWC report, regulatory reforms, and strategic opportunities, alongside investment plans for performance, pollution reduction, and climate resilience. The key outcomes were:

- UK water companies broadly supported the report for strengthening infrastructure and financial sustainability.
- Challenges were noted around compliance and potential costs of large-scale investments.
- Discussions included recent performance improvements and pollution reduction strategies.
- DEFRA outlined next steps in reforms, and invited investor input on balancing resilience, affordability, and environmental goals.

These engagements reinforced the importance of collaborative dialogue between investors, regulators, and companies to ensure the sector’s long-term sustainability. Investors will continue to monitor progress on regulatory reforms, governance enhancements, and infrastructure investment to safeguard water supply resilience and shareholder value.

## Overview of our sustainability strategy (continued)

### Integration of climate-related risks and opportunities into investment decisions



The majority of PIC's public and private credit investments are now managed internally. As a result, our internal investment approach has become increasingly important in ensuring that climate-related risks and opportunities are systematically integrated into decision making. Our process is designed to embed sustainability considerations at each stage of the investment lifecycle, using a combination of internal expertise, external data, and information gathered from direct engagement to inform robust, long-term investment decisions.

As part of regular portfolio monitoring and risk mitigation processes, our credit analysts and Sustainability team review and question any meaningful corporate investee roll-back from publicly stated climate-related commitments. Such roll-backs are escalated as priority discussion points in subsequent engagements with the company, where we re-affirm the importance of sustainability considerations to PIC.

#### Our information sources

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

- **MSCI ESG data:** we use MSCI's climate metrics to evaluate an issuer's exposure to climate-related risks, including greenhouse gas emissions, decarbonisation targets, and alignment with a low-carbon economy.

- **Sustainalytics ESG risk scores:**

Sustainalytics provides sub-scores such as 'Average Exposure' and 'Manageable Risk Factors', which help us understand sector and issuer-specific ESG risks, and 'Management' scores, which provide information on how well borrowers are managing those risks.

- **Credit analyst expertise:** our analysts apply their sector-specific knowledge to identify material sustainability-related risks and assess how these may affect long-term creditworthiness.

- **Direct engagement with issuers:**

engagements with borrowers' management teams provide qualitative insights into sustainability governance, transition plans, and resilience strategies. This is particularly valuable in private markets, where public information can be limited. We also use sector-specific sustainability due diligence questionnaires across key sectors such as utilities, housing, and infrastructure, to identify material risks and opportunities.

#### Our internal processes

The insights gathered feed into our proprietary ESG rating methodology to support consistent and evidence-based decision-making. Analysts assign scores across ESG issues based on sector-specific rating methodologies, providing a high/medium/low score for each ESG area, as well as a combined score. This is applied to all investments where no Sustainalytics rating is available.

In turn, the ESG rating alongside the other information gathered are considered by investment teams to inform the overall decision-making process. Climate-related risks are frequently discussed at Credit and Investment Committees, when considering specific investment opportunities and overall risk frameworks setting out our approach to managing these risks.

#### Externally managed investments and decision-making approach

Alongside our internally managed investments, we engage external managers to manage a portion of our portfolio. Where managers operate under a specific Investment Management Agreement ("IMA"), our investment policy, stewardship policy, and sustainability-related objectives are reflected in that IMA. We also include sustainability-related considerations in our due diligence of the manager's investment approach. We maintain regular contact with these external asset managers on climate-related issues, integrating their insights into our own investment approach where appropriate.

Where managers do not operate under a specific IMA, we assign an ESG rating to the manager as part of our due diligence process. The rating approach is two-fold:

- **Strategy rating:** rating the extent to which sustainability-related risks are integrated into the investment strategy that we are considering. Factors affecting this rating include the existence of ESG policies and evidence of implementation, emissions reporting, stewardship activity, and other factors.

- **Manager rating:** rating the fund manager's overall approach to integrating sustainability into their investment process. Factors affecting this rating include the level of ESG oversight and governance, resources committed to sustainability, and others.

These ratings are blended into a single rating; the ratings vary depending on the nature of the strategy. Sustainability considerations are more easily incorporated and measured for some strategies and in these cases we would weight more heavily towards the Strategy rating. For strategies where this is not the case, we would weight more heavily towards the Manager rating.

## Overview of our sustainability strategy (continued)

Case study: **Considerations for rejecting potential deals**

# For better decision-making.



**An important indicator that our responsible investment strategy is appropriately implemented is the number of investment opportunities declined due to sustainability concerns.**

During 2025, through the processes we have in place, we declined to invest in over £1 billion worth of private debt deals for sustainability-related reasons, including over £0.2 billion for reasons relating to climate risk.

This is compared to a total of £2 billion of private debt investments sourced in 2025, and demonstrates our willingness to reject deals that we do not deem to meet our climate-related criteria.

Given the nature of public markets, it is not possible to track an equivalent number of declined public deals. However, we also apply our climate risk appetite to public deals, as set out by our investment strategy, and ESG-related factors are considered when excluding issuers from our investible universe.

### Establishing and implementing investment restrictions

Our responsible investment strategy is primarily based on engagement, but recognises the need to also put in place restrictions or exclusions on sectors where we do not consider the returns to compensate for the risks arising from the transition to a low carbon economy. We have the following climate-related restrictions in place on our portfolio:

- **Coal extraction and burning, and Tar Sands:**  
No new purchases in companies that derive more than 10% of turnover from coal extraction and burning, and tar sands. We have successfully achieved our aim to divest from holdings that breach this 10% limit by 2025, and full details on the implementation of this policy can be found in the box below.

### Coal exclusion policy – progress since implementation

We implemented our coal policy in 2020 to align with our long-term credit views on the viability of coal as a source of energy. At that time, we had circa £500m of exposure to issuers in breach of the 10% revenue threshold.

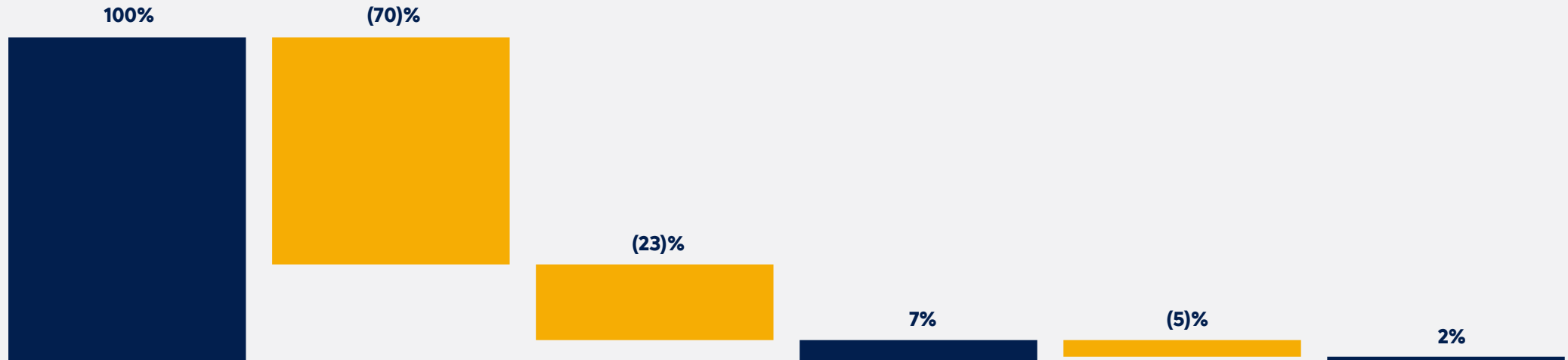
- **Oil:** As with coal, the long-term demand outlook for oil is uncertain as energy markets undergo meaningful structural changes. While oil is likely to remain in the energy mix for longer than coal, we have a cautious approach to long-term investment in the sector. We will make no new purchases of companies who exclusively focus on upstream activities. We aim to divest from these holdings over time.

PIC will continue to invest in major integrated oil companies where such companies have decarbonisation commitments and have a credible strategy to deliver them. We believe such companies have an important role to play in the transition to a low carbon economy. Our cautious approach also includes concentration and duration limits for specific subsectors and a low allocation overall. As of 31 December 2025, this sector represents less than 1% of PIC's portfolio.

Our approach has been to engage with these issuers to encourage the replacement of coal-fired power plants with cleaner sources of electricity, where appropriate. We aimed to avoid divestment where possible, although we were prepared to take this action if our engagement did not achieve the desired outcomes. The graph on the following page gives an indication of how this initial exposure of circa £500m has reduced over time.

## Overview of our sustainability strategy (continued)

### Coal exclusion policy



1

#### Starting position

When we first implemented the coal exclusion policy, we held circa £500 million of exposure across circa 40 investment counterparties who were in breach of our 10% revenue threshold.

2

#### Investment counterparties now meeting threshold

The majority of our progress (circa £350 million) on the policy has been investment counterparties replacing coal revenues with alternative sources of revenue, reducing their % below our 10% threshold.

3

#### Investment counterparties still in breach of the threshold no longer held

Circa £100 million of our initial exposure relates to investee counterparties which continue to breach the threshold and are no longer part of our portfolio. The reasons for divesting from such issuers may be driven by a range of factors, including market conditions or changing credit views, and is not necessarily directly a result of our coal exclusion policy.

4

#### Remaining holding in investment counterparties above threshold at 2020 market values

This leaves circa £50 million of our initial exposure in investment counterparties who continue to receive over 10% of their revenues from coal extraction and burning.

5

#### Reduction in market values

Since the policy was implemented we have reduced our exposure to these investment counterparties, both through active portfolio management and run-off of the portfolio, meaning we have a very small residual exposure to companies who breach our 10% revenue threshold.

6

#### Companies we still hold who we consider to have a reasonable plan to transition away from coal

The investment counterparties that we continue to hold have credible plans in place to reduce their coal revenues below the threshold in the near future. This assessment is based on their near-term capital expenditure plans and any recent changes to plans as a result of a perceived change in the outlook for coal-fired power.

## Overview of our sustainability strategy (continued)

### Conducting climate scenario analysis



Climate scenario analysis (“CSA”) involves analysing the possible risks to our business under a range of future climate scenarios, which is an important tool in understanding and managing climate-related risk.

Over the past three years, we have refined our approach to CSA, with our focus on producing information that can actively support decisions for our use cases.

The top down analysis completed in 2023 remains relevant as an overall assessment of our exposure to different climate scenarios given our stable business model, full details of this can be found in our **2023 Climate Report (TCFD)**.

In previous years, our approach has developed as follows:

	2023 – Top down analysis	2024 – Sector specific	2025 – combined approach
<b>Approach</b>	High level top down analysis to assess physical and transition risk.	Develop sector-specific scenarios focused on transition risk, and assess the risk of these scenarios at an individual issuer level.	Develop an overarching scenario that represents our best estimate view of the transition and build out sector-specific scenarios that are consistent with this.
<b>Scenarios</b>	Network for Greening the Financial System (“NGFS”): Net Zero 2050, Delayed Transition, and Current Policies.	Developed in-house on a sector-by-sector basis.	Developed in house on a sector-by-sector basis, to be consistent with an overall scenario.
<b>Scope</b>	Whole portfolio	Material sectors in our portfolio where transition risk is prevalent.	Material sectors in our portfolio.
<b>Advantages of this approach</b>	<ul style="list-style-type: none"> <li>Covers whole portfolio, which means it can be applied to a wide range of use cases.</li> <li>Widely recognised scenarios for consistency with peers.</li> </ul>	<ul style="list-style-type: none"> <li>The analysis aligns with the level of granularity at which investment decisions are made – issuer level – meaning decision-useful information is produced.</li> <li>Scenarios are easily understandable as they are based on key transition indicators for each sector.</li> </ul>	<ul style="list-style-type: none"> <li>Aligns with the level of granularity at which investment decisions are made.</li> <li>Easily understandable scenarios that can be considered in isolation for a specific sector.</li> <li>Drives consistency across sector-level scenarios</li> </ul>
<b>Disadvantages of this approach</b>	<ul style="list-style-type: none"> <li>High level analysis means results have limited use in investment decision making.</li> <li>It is challenging to engage stakeholders in the scenarios due to complexity.</li> <li>Relatively modest results are hard to justify given broader understanding of climate risks.</li> </ul>	<ul style="list-style-type: none"> <li>Covers a smaller proportion of the portfolio given the work involved in developing sector-specific scenarios.</li> <li>This in turn limits the breadth of use cases for which this can be applied.</li> </ul>	<ul style="list-style-type: none"> <li>Smaller proportion of the portfolio given the work involved in developing sector-specific scenarios.</li> </ul>

Given our streamlined business model, our primary use case is long-term investment decisions, both on a case-by-case basis and at a portfolio level. This has in turn guided how we develop our approach.

In 2025, we have reviewed our CSA approach to ensure it is designed to support our primary use case of informing investment. The key consideration for this review is the significant uncertainty involved in the analysis.

For example, when attempting to analyse long-term physical risk, there are several layers of uncertainty:

- **Emissions pathway:** there is uncertainty over how the energy transition will play out, and therefore the pathway for greenhouse gas emissions.
- **Temperature increase:** a given emissions pathway could lead to a range of temperature outcomes, depending on how sensitive the climate is to those emissions.
- **Physical risk impacts:** a given temperature increase could lead to a range of impacts on physical risk, based on how the climate reacts to increased temperatures. There is also geographic variation in the likely impacts.
- **Asset values:** a given physical risk impact could lead to a range of outcomes on the value of assets, depending on the market dynamics and the ability to adapt to the changes.

Similar layers of uncertainty exist in climate transition risk analysis. In this context, we consider it extremely challenging to develop a best estimate scenario that covers the whole economy through the above layers of uncertainty. It is also challenging to understand where a given scenario (e.g. an NGFS scenario) lies in the potential distribution of outcomes, meaning the scenarios are of limited use in informing investment decisions.

## Overview of our sustainability strategy (continued)

We have therefore continued to focus our CSA on producing granular sector/issuer-specific output. Our approach going forward will therefore be as follows:

### Step 1: High level scenarios

We have developed best estimate, fast transition, and slow transition scenarios in-house, based on a small number of macro indicators, such as global oil and gas demand. These are high level scenarios which form the basis of all our CSA.

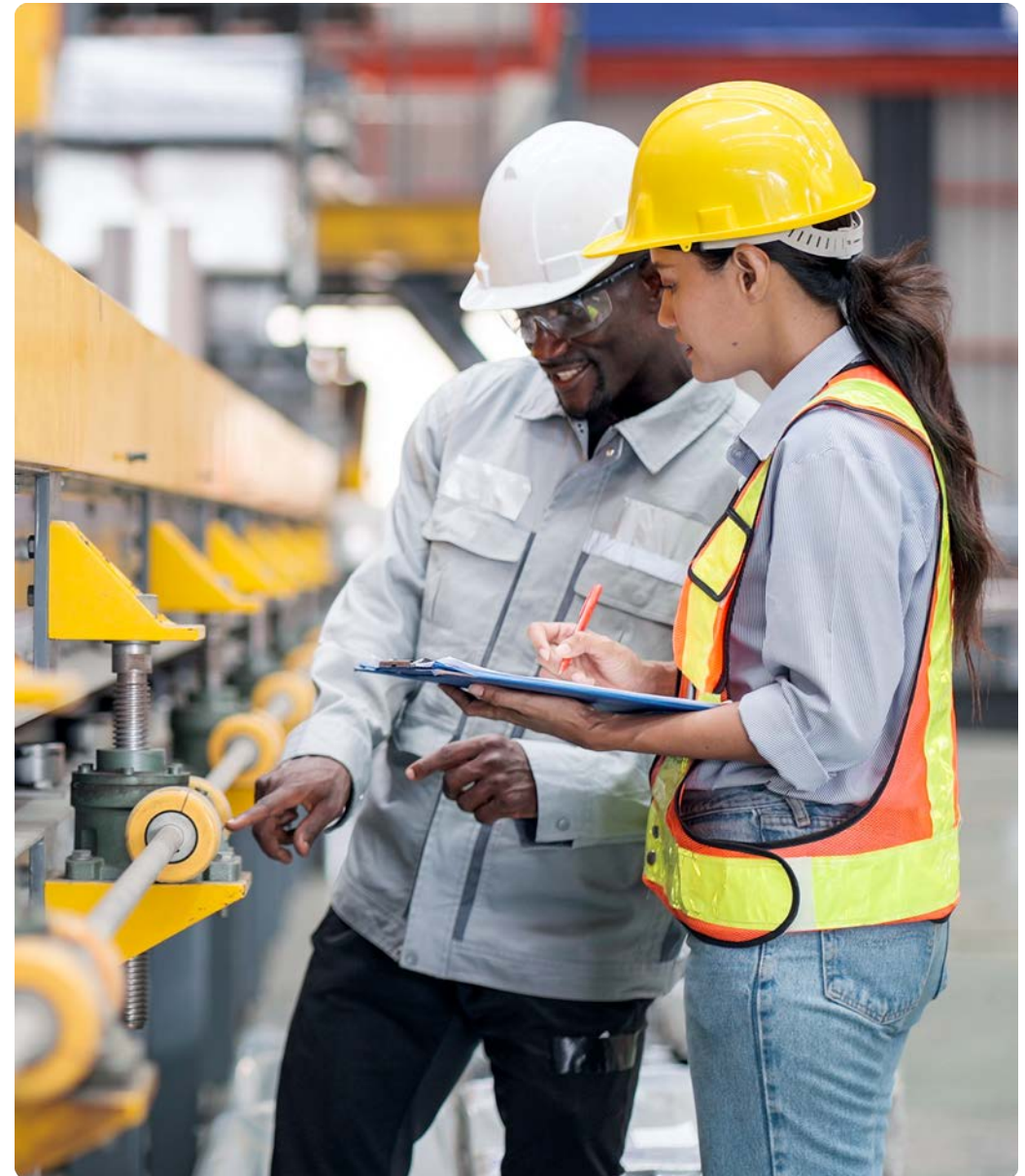
### Step 2: Develop scenarios for specific use cases

Where we have a specific use case, such as credit analysis on a specific issuer or of a particular sector, we further develop the scenarios, through the layers of uncertainty highlighted above, for that issuer or sector. For example, if we were considering investment in an auto manufacturer, we would consider the electric vehicle uptake that is consistent with our best estimate view on global oil and gas demand, as well as any nuances for the geography in which the manufacturer operates. This produces a consistent approach across the portfolio, while also facilitating detailed analysis for the use cases where this is needed. Our view is that only this detailed analysis can support investment decisions and we are therefore focused on making that analysis possible.

### Step 3: Perform detailed analysis

We then use these more detailed scenarios to perform the scenario analysis. In the example above, this would consider the product offering of the specific auto manufacturer, their creditworthiness and ability to invest in new technologies, etc. For some use cases, we have leveraged third-party tools to provide the underlying analysis, where the scenarios available are consistent with our internal scenarios. In some cases we perform the analysis directly to both qualitatively and quantitatively inform investment decisions.

In 2025, our focus has been on understanding and prioritising our use cases, developing this overall approach to meet the high priority use cases, and developing our high level scenarios which will drive consistency across sector and issuer-level analysis. We will continue to roll out the approach in 2026. Given our relatively stable investment portfolio and our overall cautious investment approach to sectors with increased climate risk, our analysis from previous years remains relevant in assessing our overall exposure to climate risk.



## Overview of our sustainability strategy (continued)

### Understanding nature-related risk within our portfolio



Alongside climate-related risk, we are also paying increased attention to understanding our potential exposure to nature-related risk. A report by the Green Finance Institute, with input from DEFRA, HM Treasury, and the Financial Conduct Authority (“FCA”), concluded that lower economic growth driven by the degradation of nature could cause a 6% reduction to UK GDP<sup>1</sup>. Due to the long-term nature of our liabilities, we recognise the importance of understanding and managing our exposure to nature-related risks, and we have used the Taskforce for Nature-related Financial Disclosure (“TNFD”) framework to guide us in our initial work in this area.

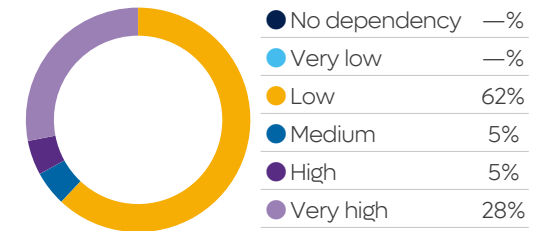
#### TNFD definitions

- **Dependencies:** aspects of environmental assets and ecosystem services that a person or an organisation relies on to function. An ecosystem service is considered to be the direct and indirect contributions that ecosystems provide for human wellbeing and quality of life. For example, a company that PIC lends to may be dependent on the ecosystem services of water flow, water quality regulation and the regulation of hazards like fires and floods.
- **Impacts:** a change in the state of nature which may result in changes to the capacity of nature to provide social and economic functions.
- **Nature-related risks:** potential threats posed to an organisation that arise from its dependencies and impacts on nature. These risks may be physical, transition, or systemic risks.
- **Nature-related opportunities:** activities that create positive outcomes for organisations and nature through positive impacts or mitigation of negative impacts.

Last year, we conducted an assessment of the dependencies of our portfolio on ecosystem services and the pressure placed by our portfolio on natural capital. This was based on the ENCORE<sup>2</sup> database. This gave us an indication of physical and transition nature-related risks in our portfolio. Where assets have high dependency on ecosystem services, they may be at risk of those ecosystem services no longer being delivered due to the degradation of nature, in turn affecting the value of the asset. Alternatively, where assets place high pressure on natural capital, they may be at risk of government policy aimed at supporting nature increasing their cost of doing business, or changing consumer views leading to reputational challenges.

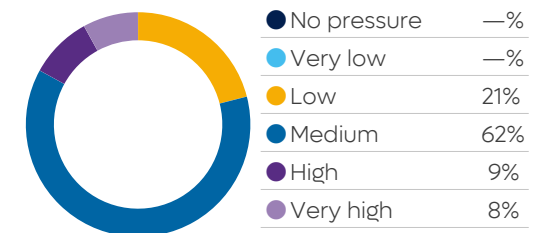
We refreshed this analysis in 2025 and the following graph show the breakdown of our portfolio between Very high, High, Medium, Low, and Very low dependencies on ecosystem services.

#### 1.1 Portfolio market value breakdown by dependency on one or more ecosystem services



The following graph shows the breakdown of our portfolio between Very high, High, Medium, Low, and Very low pressure on Natural Capital:

#### 1.2 Portfolio market value breakdown by pressure on one or more components of natural capital



Based on this analysis, our exposure to nature-related risks is consistent with our exposure at year end 2024. Note the ENCORE database is based on the ISIC classification<sup>3</sup>, which is not a classification used by PIC. We therefore have translated to our internal sector classification, which we consider to be the best classification to capture the underlying risk to our assets. There is judgement involved in this mapping and the above graphs should therefore be considered with caution.

1. [www.greenfinanceinstitute.com/wp-content/uploads/2024/06/GFI-GREENING-FINANCE-FOR-NATURE-FINAL-FULL-REPORT-RDS4.pdf](https://www.greenfinanceinstitute.com/wp-content/uploads/2024/06/GFI-GREENING-FINANCE-FOR-NATURE-FINAL-FULL-REPORT-RDS4.pdf)  
2. [www.encorenature.org/en](https://www.encorenature.org/en)

3. The International Standard Industrial Classification of All Economic Activities <https://unstats.un.org/unsd/classifications/Econ/isic>

## Overview of our sustainability strategy (continued)

In our judgement, physical nature-related risks are likely to be more material in the short term. We therefore considered further the ecosystem services upon which our portfolio is most dependent. If these ecosystem services are assessed to be materially at risk then this could translate to financial risk in our portfolio. Based on the ENCORE analysis, the ecosystem services upon which our portfolio is most dependent are:

1. Visual amenity services
2. Water purification
3. Water flow regulation
4. Water supply
5. Rainfall pattern regulation

Based on our expert judgement, the depletion of visual amenity services is unlikely to cause a material risk to businesses that we lend to. The real estate sector has “Very high” dependence on visual amenity services, based on the ENCORE database, and is a sector in which we have material exposure across housing associations, student accommodation, equity release mortgages, and other areas. In our view, while likely to be a factor in the attractiveness of the asset, visual amenity services are not a material driver to the credit risk of these asset classes.

This highlights the challenges of relying on sectoral analysis, in particular where mappings across sectoral classifications are required. We have therefore focused on the water-related risks to conduct a more detailed analysis of our potential exposure.

The sectors driving the majority of our High and Very high dependency on water-related services are utilities and healthcare/ pharmaceuticals. We have briefed the credit analysts that cover these sectors about this consideration and it is an ongoing part of their analysis and engagement with the sector.



## Overview of our sustainability strategy (continued)

### Case study: **Managing water-related risk of our investments**

#### Issue

Orbia, a multinational company with specialism in polymers, materials and infrastructure, is dependent on water, particularly in its chemical business groups both for cooling and as a raw material. Water stress may cause significant operational disruption and, in the long-term, could potentially impact the company's license to operate.

On 21 May 2024 Orbia was forced to temporarily shut down its facilities in Altamira, Mexico, due to extreme temperatures and drought causing water scarcity and interrupting the water supply to both industry and residents.

Orbia has set an ambitious commitment to achieve a net-positive water impact, and we seek to understand the company's plans to address its water stress risks.

#### Action

Our external manager J.P. Morgan Asset Management ("JPMAM")<sup>1</sup> engaged with Orbia on our behalf, who acknowledged that water stress is a material business risk and has been included in the company's climate risk assessment since 2019. The company highlighted that the drought in Tampico, Tamaulipas Mexico, as an acute, not chronic event, did not appear in their risk management models. Orbia assured that the operational risk was limited in the short term as they were able to meet client needs within their diversified global portfolio.

In the longer term, Orbia indicated that it is contributing to a water management project in the water-basin where their site operates, along with other industrial water users.

At a group-level, Orbia set an ambition to be net positive on water with key outcomes: (i) reduction in water volume through improved efficiency, (ii) improving quality of wastewater discharge, and (iii) contribution to collection action and community water, sanitation and hygiene ("WASH") programmes. The company mentioned that it is in the early stages of assessing how to meet this ambition and which sites to prioritise.

For instance, the company shared challenges with moving to closed loop water management in its resin plants (which represent around half of Orbia's water consumption), due to the high dependency on water and cost (only one site in EL Salto in Mexico has a closed loop).

As the company develops its strategy, JPMAM encouraged Orbia to consider quantifiable and measurable targets, which investors find useful to assess how the company is addressing water risk and to compare with peers. The company indicated plans to disclose a more detailed roadmap to meet their water commitment in the next 18 months.

#### Outcome

We welcome Orbia's commitment to be water positive but acknowledge plans to manage operational water risk are still being developed and industry-wide best practice is still emerging. We will continue to monitor progress by the company and encourage disclosure for water management both at group and business level to facilitate assessment of related risks.

1. The present information was sourced from JPMAM Investment Stewardship Report (or other sources) and includes information that was obtained at an earlier date. It is presented as such and has not been updated, verified or audited. While JPMAM views engagement as an important part of understanding the risks and opportunities facing companies/issuers held in client portfolios, such engagement may not be effective in identifying such risks and opportunities and JPMAM does not guarantee any particular results or company/issuer performance as a result of such engagement. Other than for the information provided in the case study, JPMAM is not responsible for any information in this report.



# For nature-related risk management.

# Risk Management.

**Integrating climate risks into our risk  
management approach supports the long-term  
resilience of our business.**



## Our approach to risk management



**Climate change has the potential to increase risk across multiple areas.**

**We are committed to integrating climate-related risks into our risk management processes so we can secure the best possible outcomes for our stakeholders.**

**Sally Bridgeland**  
Chair of Board Risk Committee, PIC

### Enterprise Risk Management Framework

We apply our Enterprise Risk Management (“ERM”) Framework across the business to build a consistent approach to managing risks. The risks are aligned to five key areas:



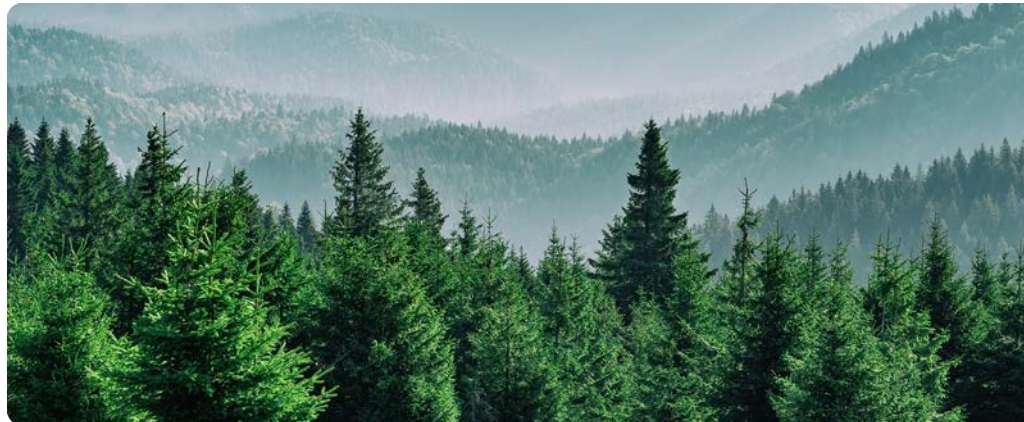
Our ERM Framework consists of our Risk Governance Framework, Risk Policy Framework, Risk Processes and Risk Appetite Framework:

- The Risk Governance Framework sets out PIC’s risk management responsibilities.
- The Risk Policy Framework sets, embeds, and monitors the standards applied to each risk area.
- The Risk Processes are the techniques and tools used to identify, assess, mitigate, monitor and report risk throughout PIC.

- The Risk Appetite Framework sets the level of risk the Board is willing to take, in which areas, and how performance against risk appetite will be measured.

We assess the physical and transitional risks associated with climate change across each of these areas.

This section gives more detail on how the Risk Processes and Risk Appetite Framework are applied to climate-related risks.



### Physical vs transition risks

Physical climate risks relate to the direct consequences of climate change, which can be either acute, driven by specific events, or chronic, arising from long-term shifts in climate patterns. These risks can impact organisations financially through direct asset damage and indirect effects such as supply chain disruptions.

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

We consider transition risks to be the more material climate risk in the medium term. Depending on actions taken to mitigate climate change, physical risks may have a greater long-term impact. However, changes in climate and weather systems are likely to play out over the longer term, whereas transition risk could materialise more quickly. We also remain conscious that financial markets are likely to price in the impacts of risks in advance of potential outcomes, potentially accelerating the timeframe over which these risks materialise for PIC.

## Our approach to risk management (continued)

### Applying our risk management processes to climate-related risks

#### Risk identification and analysis

We carry out climate risk assessments to determine potential exposures and recommend actions for managing climate-related risks, including utilising third-party analysis and conducting due diligence on potential new assets. We use the following risk management processes in our consideration of climate-related risks:

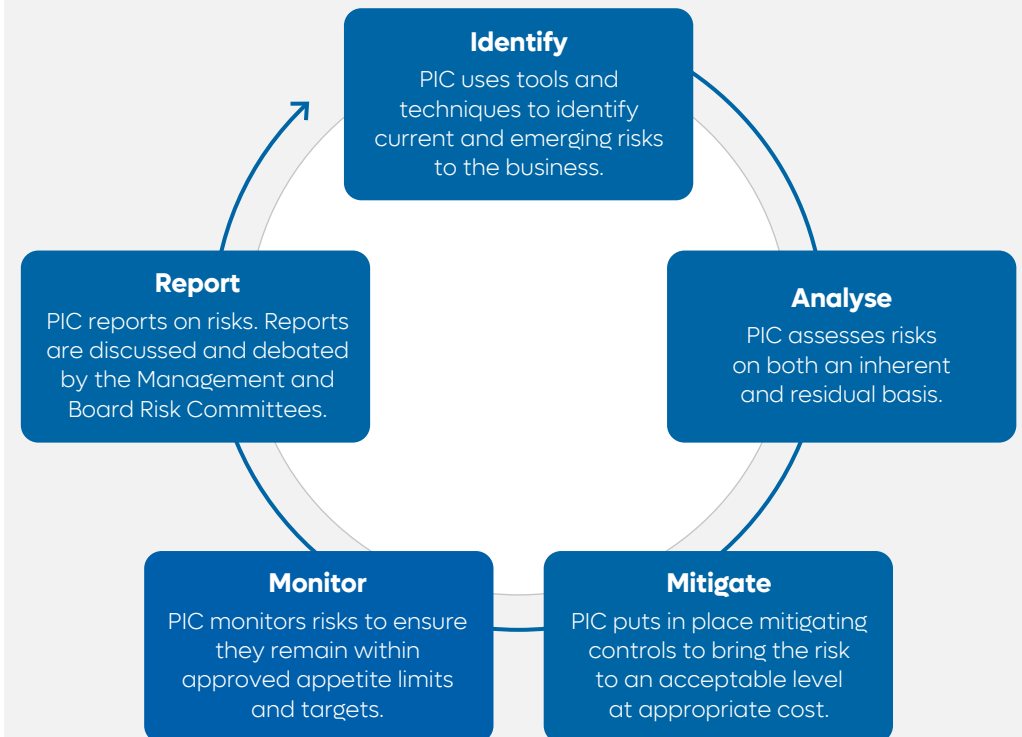
- **Own Risk and Solvency Assessment and Stress and Scenario Testing:** we evaluate the potential impact of risks on PIC's business using qualitative and quantitative scenario analysis, which considers potential climate-related risks.
- **Risk and Controls Self-Assessment:** this is a qualitative process designed to assess the potential impact of non-quantifiable risks on PIC's business. Climate-related risks are explicitly considered in this process.
- **Investment due diligence:** climate risk analysis is embedded throughout our responsible investment approach given our investment portfolio represents the most significant area of climate risk exposure.

Our risk taxonomy categorises the risks most likely to impact our business. The taxonomy provides consistent reference for all internal stakeholders and includes a comprehensive breakdown of manageable risk categories.

The table overleaf shows relevant elements of the taxonomy, and our view of the potential impact of physical and transitional climate-related risks on each lead taxonomy risk. This is informed by our climate risk assessments.

As indicated on the following page, we believe that climate-related risks are most likely to impact solvency and liquidity risks and have provided further detail about the potential impact of physical and transition risks in the second table overleaf.

### Risk management processes



## Our approach to risk management (continued)

Risks	Sub risks	Potential impact of physical risk	Potential impact of transition risk
<b>Solvency</b>	Market, credit concentration, counterparty default and downgrade	Significant	Significant
<b>Liquidity</b>	Asset liquidity, collateral posting	Significant	Significant
<b>Operational</b>	People, process, physical security and safety, information technology, legal and regulatory	Moderate	Moderate
<b>Conduct</b>	Culture, market interactions	Low	Moderate
<b>Franchise value</b>	Sustainability, reputation, financial targets	Moderate	Moderate

Lead taxonomy risks	Sub taxonomy risks	Potential impact of physical risk	Potential impact of transition risk
<b>Solvency</b>	<b>Market, credit concentration</b>	<p>The actual or anticipated impacts of physical climate change may result in reduced asset values, driven by factors such as:</p> <ul style="list-style-type: none"> <li>• Direct damage to our real estate investments leading to a loss of value or reduced attractiveness to tenants.</li> <li>• Rising insurance costs or the unavailability of insurance for assets due to the increasing likelihood and severity of physical climate risk events.</li> <li>• Operational or supply chain disruptions impacting investments caused by more frequent and severe climate-related events.</li> </ul>	<p>The actual or anticipated impacts of the transition to a low-carbon economy could lead to reduced asset values, driven by factors such as:</p> <ul style="list-style-type: none"> <li>• Shifts in consumer demand (or supply of energy, goods and services) potentially causing assets to become stranded.</li> <li>• Regulatory changes could lead to certain sectors or businesses becoming less profitable or creditworthy than expected (or indeed, promote investment in sectors that are more exposed to climate risks).</li> <li>• Increased building regulation and standards could require additional investment in existing real estate assets to meet new standards.</li> <li>• New technologies arising from attempts to mitigate climate change could lead to reduced demand for legacy technologies.</li> </ul>
	<b>Counterparty default and downgrade</b>	<p>Physical climate change could adversely impact our counterparties, such as derivative counterparties or reinsurers, in ways similar to those outlined in the Market risk section of the table on page 26. They may also experience issues operationally. In addition, reinsurers often maintain diverse product portfolios, meaning they may have direct exposure to physical climate risks through general insurance products.</p>	<p>Transition risk could negatively impact our counterparties in similar ways to those highlighted in the Market risk section of the table on page 26.</p>
<b>Liquidity</b>	<b>Asset liquidity</b>	<p>Acute physical climate risk events could lead to a reduction in PIC's ability to liquidate an asset without incurring significant costs, especially if the asset or sector is significantly impacted by physical climate risk.</p>	<p>The transition to a low carbon economy may leave assets stranded and reduce liquidity in assets reliant on the continuing use of fossil fuels.</p>
	<b>Collateral posting</b>	<p>While not considered to be a significant risk, any macro-economic volatility arising from climate-related issues may impact PIC's derivative counterparties, and the collateral flows that support derivative arrangements.</p>	

## Our approach to risk management (continued)

### Mitigating risks

We take actions, such as engaging with issuers and applying our investment restrictions, to mitigate climate risks and work towards our long-term objectives, including delivering on our Net Zero targets and our transition strategy. We have put in place the following risk mitigating actions to address several of our sub taxonomy risks.

Sub taxonomy risks	Climate risk driver	Potential impact of risk	Risk mitigation actions
<b>Market risk</b>	Physical risk	Significant	Implementing our engagement strategy and advancing stewardship initiatives.  Enhancing climate risk assessments by integrating sustainability sector scorecards and conducting formal evaluations of climate-related impacts in real estate investments.
	Transition risk	Significant	Establishing measurable 2030 decarbonisation goals in line with our Net Zero target and climate transition plan.  Implementing our engagement strategy and advancing stewardship initiatives.  Enhancing climate risk assessments by integrating sustainability sector scorecards and ensuring real estate assets are built with potential future changes to building regulations in mind.  Monitoring of risk appetite metrics to ensure we are making strong progress towards our decarbonisation goals.  Developing our approach to climate scenario testing, as highlighted on page 17.
<b>Credit concentration risk</b>	Transition risk	Significant	Concentration and duration limits for sectors identified as having significant exposure to transition risks.
<b>Asset liquidity risk</b>	Physical and Transition risk	Significant	Integrate sustainability sector scorecards and conduct comprehensive evaluations of flood risks and other climate-related impacts as part of our climate risk assessment of real estate investments.
<b>Reputational risk</b>	Transition risk	Moderate	Collaborate with industry bodies to identify and address climate risk sources, and actively participate in relevant market initiatives and forums.  Maintain engagement with key stakeholders to monitor exposures related to climate considerations.  Monitoring of risk appetite metrics to ensure we meet our decarbonisation goals.
<b>Legal and regulatory risk</b>	Transition risk	Moderate	Review climate and sustainability obligations in the UK and globally on an ongoing basis and share regular updates with the Management and Board Risk Committees.
<b>Physical security and safety risk</b>	Physical risk	Moderate	Improvements to business continuity and operational resilience frameworks to incorporate considerations for climate-related risks.

## Our approach to risk management (continued)

Case study: **Investment due diligence**

# For investment risk management.

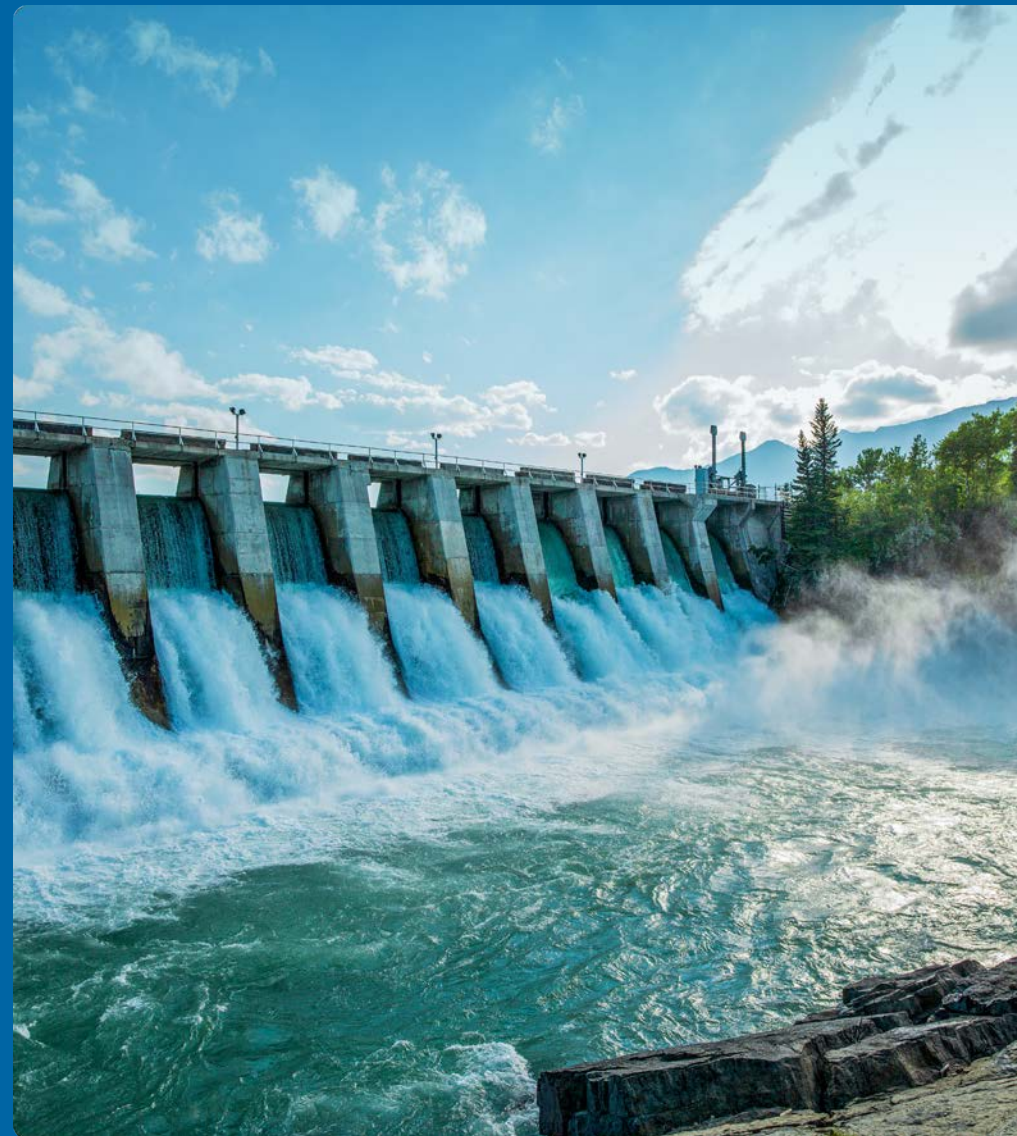
**PIC invested \$50 million in a portfolio of hydropower assets in the United States, which provide base load renewable electricity to customers in a number of Northern US states.**

As part of our due diligence, we were particularly focused on the potential impact of physical climate change on the value of the hydropower assets. As a result of climate change, there are likely to be changes in weather patterns, including the overall quantity and variability of rainfall. This presented a long-term risk to asset valuations as they could impact the ability of the assets to generate electricity on a consistent basis. The risks were both a reduced amount of precipitation overall, leading to reduced generation volumes, and increased variability, leading to more droughts and variability in the electricity generation.

We were provided with a third-party technical report covering the possible impact of different climate scenarios on annual precipitation, annual electricity generation of the portfolio, and seasonal generation. This analysis included a range of timescales and scenarios, including the IPCC's SSP5-8.5 scenario<sup>1</sup>. While we do not consider this to be a likely scenario, it presented a worst-case scenario which was useful for our downside risk management.

This report indicated that the most extreme physical risk scenario (SSP5-8.5) would lead to a small increase in overall rainfall and increased variability. Overall, electricity generation was expected to modestly increase under this scenario, giving us confidence in proceeding with the investment. While there are significant challenges in predicting weather patterns on such timescales, we considered the absence of a significant downside in the modelling to be a positive indication of the low level of risk.

1. [https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC\\_AR6\\_WGI\\_Chapter04.pdf](https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_Chapter04.pdf)



## Our approach to risk management (continued)

### Monitoring and reporting on climate risks

We use risk appetite metrics to monitor how we are managing climate risk and delivering against our climate transition plan. Our Sustainability Oversight Forum, Management Risk Committee and Board Risk Committee also receive regular papers that detail our risk management actions and considerations.

We continue to integrate climate-related risks into PIC's Risk Appetite Framework to systematically monitor and report on risks in alignment with the Board's risk preferences and risk appetite.

We seek to minimise our exposure to physical climate change risk and accept some exposure to transitional climate change risk, while staying vigilant with regards to emerging policies and seeking to avoid stranded assets. As detailed in the Governance and Strategy chapters, we have put in measures to monitor risk metrics and take action to diminish climate-related risks where appropriate.

High level risk	Climate change	
<b>Risk definition</b>	The potential for adverse consequences arising from the impacts of climate change, including physical risks arising from climate-driven events, and transitional risks arising from the process of adjustment to a low-carbon economy.	
<b>Risk preference</b>	Minimise	
<b>Risk appetite statement</b>	PIC has limited appetite for the impacts arising from climate change risk. We aim to manage our operations and portfolio in such a way as to reduce climate change risk while continuing to generate returns from our core operations. PIC is committed to supporting the objectives of the 2015 Paris Agreement and, as such, will take steps to decarbonise our portfolio and reduce our greenhouse gas emissions in line with our Net Zero commitments.	

Granular risk	Physical climate change	Transitional climate change
<b>Risk definition</b>	The potential for adverse consequences arising from acute (event-driven) and chronic (long-term shifts in climate patterns) risks associated with climate change.	The potential for adverse consequences arising from the process of adjustment towards a low carbon economy, with drivers including policy, technological innovation, market factors and reputational.
<b>Risk preference</b>	Minimise	Accept
<b>Risk appetite statement</b>	PIC has limited appetite for the impacts arising from physical climate change risk. We aim to minimise our exposure to physical climate change risk through techniques such as regional due diligence, lending decisions and the purchase of insurance.	PIC has a limited appetite towards negative transitional climate change risk while embracing the opportunities afforded through climate change transition. We aim to manage our exposure to transitional climate change risk through maintaining oversight of changing policy and regulations while divesting in certain sectors and companies to avoid stranded assets.

# Metrics and Targets.

Tracking progress against our short  
and long-term decarbonisation targets.



## Decarbonisation targets



**Achieving our 2025 goals marks a significant milestone, and demonstrates we are making positive progress towards our long-term 2050 Net Zero target.**

**We remain fully committed to driving meaningful change through our portfolio for a sustainable future.**

**Rob Groves**  
Chief Investment Officer, PIC

### Our decarbonisation targets

We are pleased to announce that we have successfully met both of our 2025 decarbonisation targets to:

#### Achieve carbon neutrality in our operations

Following our move to 22 Ropemaker Street at the end of 2024, we have achieved carbon neutrality in our Scope 1 and 2 emissions, by significantly reducing our emissions and offsetting the remaining residual amounts with high integrity carbon credits. Further details on this are included on page 35.

#### Achieve a 25% reduction in the WACI of our public corporate credit portfolio on a 2019 baseline

The WACI of our public corporate credit portfolio ended 2025 at 137 tCO<sub>2</sub>e / \$m revenue, significantly below our target of 216 tCO<sub>2</sub>e / \$m revenue. Further details on this can be found on page 31.

These achievements mark a significant milestone in our journey to Net Zero and demonstrate the effectiveness of our operational sustainability initiatives, alongside our responsible investment strategy and stewardship activities.

We remain focused and committed to delivering our longer-term goals, including a 50% portfolio emissions reduction target by 2030. The WACI of our total investment portfolio, where data is available or can be estimated, decreased by 18% to 127 tCO<sub>2</sub>e / \$m revenue during 2025 which is currently below our 2030 target of 144 tCO<sub>2</sub>e / \$m revenue. Although we are pleased with our progress, we remain cautious given we do not expect our decarbonisation journey to be linear.

This could be impacted by factors such as changes in asset allocation and impacts from geopolitical events.

Through our stewardship activities we continue to actively engage with the most carbon intensive companies in our portfolio to reduce the WACI of our investments. These engagements are ongoing, and we expect them to continue to take effect in the medium term.

You can find more information about the methodology used in the calculation of our metrics within our **Basis of Reporting**. In addition, KPMG has provided independent limited assurance over selected information within the Metrics and Targets chapter of this report, marked with an "AS".

Targets	Baseline	Target	FY25	FY25 % progress from baseline to target	FY24
<b>Achieve carbon neutrality in our operations by year-end 2025<sup>1</sup></b>	N/A	Carbon neutral	— tCO <sub>2</sub> e	Target met	256 tCO <sub>2</sub> e
<b>Achieve a 25% reduction in WACI of our public corporate credit assets by 2025 on a 2019 baseline<sup>2</sup></b>	289 tCO <sub>2</sub> e / \$m revenue	216 tCO <sub>2</sub> e / \$m revenue	137 tCO <sub>2</sub> e / \$m revenue	Target met	185 tCO <sub>2</sub> e / \$m revenue
<b>Achieve a 50% reduction in WACI of our full investment portfolio by 2030 on a 2019 baseline<sup>3</sup></b>	289 tCO <sub>2</sub> e / \$m revenue	144 tCO <sub>2</sub> e / \$m revenue	127 tCO <sub>2</sub> e / \$m revenue <sup>AS</sup>	112%	155 tCO <sub>2</sub> e / \$m revenue†

#### Achieve Net Zero carbon across the whole business by 2050.

While we are still in the early phase of this journey, the actions and results detailed in this report show we continue to make progress towards this goal.

- Based on our Scope 1 and 2 emissions. Given the target is carbon neutrality, no baseline figure is relevant for this target. FY25 reflects carbon credits purchased to offset our residual location-based emissions of 145 tCO<sub>2</sub>e, further details of which can be found on page 35.
- When we calculated the baseline for our Public Corporate Credit WACI in 2019, this was based on data from MSCI. Since 2019, we have improved our data coverage by onboarding further data sources, some of which cover public corporate credit. However, in order to ensure we are comparing like-for-like with the original scope of our target, we are only considering the assets covered by MSCI for the 25% reduction in WACI, noting that there are changes in data coverage and the investment portfolio over time.
- This includes all assets where standard emissions measurement methodologies and data are available. Data coverage has increased over time compared to our baseline as we have onboarded further data sources, and this has led to a reduction in the metrics and therefore increased progress against the baseline.

<sup>AS</sup> The independent limited assurance report has been issued in accordance with International Standard on Assurance Engagements (UK) 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE (UK) 3000) and the International Standard on Assurance Engagements 3410 Assurance of Greenhouse Gas Statements (ISAE 3410). The full limited assurance report can be found in Appendix 2.

† KPMG previously provided limited assurance on this selected information which is taken from our 2024 Climate report (TCFD).

## Investment portfolio

### Our investment portfolio metrics

The table below details the metrics we use to monitor and assess the decarbonisation progress of our investment portfolio. Additional measures, including metrics relating to our Matching Adjustment fund (which directly backs our policyholder liabilities), can be found in **Appendix 1**.

We are pleased to report that the WACI of both our total portfolio and our Public Corporate Credit portfolio have reduced significantly during 2025, and the progress of these metrics against our targets is shown in the chart below.

The Public Corporate Credit portfolio WACI reduced by 26% to 137 tCO<sub>2</sub>e / \$m revenue, meaning we have met our 2025 target of 216 tCO<sub>2</sub>e / \$m revenue, which represented a 25% reduction on a 2019 baseline.

The Public Corporate Credit WACI is based on all assets for which data is available from MSCI, excluding sovereign bonds. Note that this includes different assets to the 'Debt securities – Corporate' category in the tables to follow. This decrease was driven by the portfolio rotating into less carbon intensive assets, alongside favourable data updates, with a general trend of issuer revenue increasing and emissions decreasing.

This was the most significant driver of the 18% reduction in our total portfolio WACI to 127 tCO<sub>2</sub>e / \$m, which is currently below our 2030 target of 144 tCO<sub>2</sub>e / \$m revenue.

Our total financed emissions increased by 17% during 2025, driven by an 8% increase in our portfolio to £54.8 billion. We expect our financed emissions to continue to increase in the medium term as our portfolio grows.

We therefore focus more on the weighted measure of the WACI for year-on-year comparisons and our targets.

The carbon footprint of the portfolio also increased by 8% in 2025 to 108 tCO<sub>2</sub>e / £m invested, driven by an increase in the weighting to government debt securities, which have a proportionally higher carbon footprint than other asset classes.

We expect this to be a temporary increase due to the current composition of the portfolio, and anticipate that the carbon footprint will continue its downward trajectory in future years as the decarbonisation of the portfolio continues.

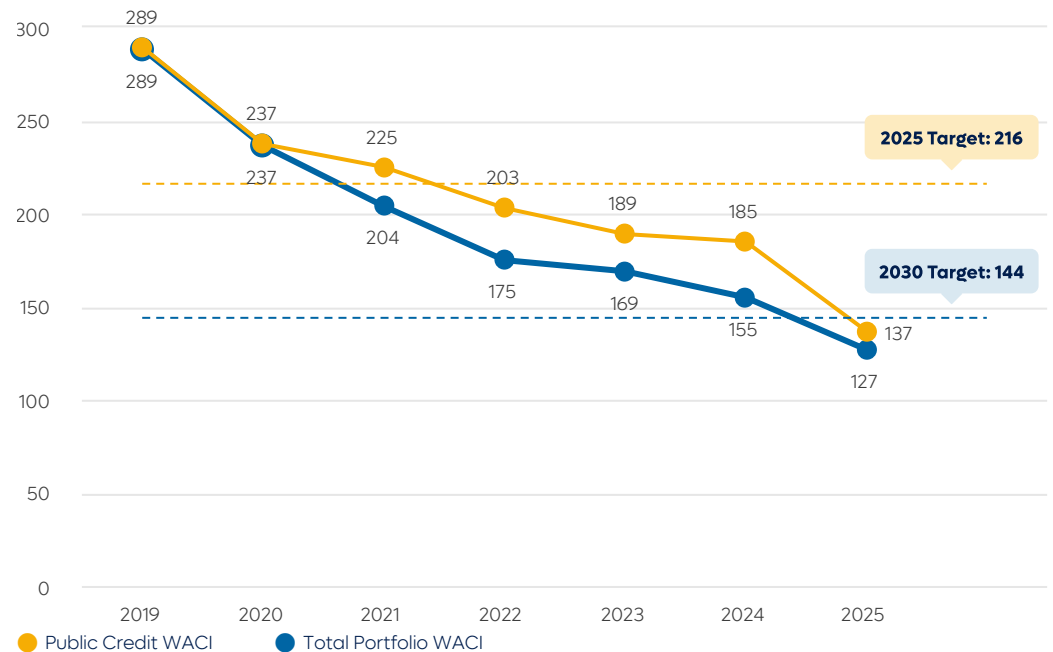
Metric	Unit	FY25	FY24	% change from 2025 to 2024	% of data coverage for total portfolio (by market value)	% of emissions data that is from actual company reported data
<b>Financed emissions (Scope 1 and 2)</b>	tCO <sub>2</sub> e	<b>4,386,533</b> <sup>AS</sup>	3,763,031 <sup>†</sup>	17%	76% (FY24: 75%)	90% (FY24: 85%)
<b>Carbon footprint (Scope 1 and 2)</b>	tCO <sub>2</sub> e / £m invested	<b>108</b> <sup>AS</sup>	100 <sup>†</sup>	8%	76% (FY24: 75%)	90% (FY24: 85%)
<b>Weighted Average Carbon Intensity (WACI) (Scope 1 and 2)</b>	tCO <sub>2</sub> e / \$m revenue	<b>127</b> <sup>AS</sup>	155 <sup>†</sup>	(18)%	77% (FY24: 77%)	69% (FY24: 67%)
<b>Implied Temperature Rise</b>	°C	<b>2.0</b>	2.1	(5)%	31% (FY24: 37%)	N/A
<b>Science Based Targets exposure<sup>1</sup></b>	% of portfolio (by market value)	<b>18%</b>	19%	(5)%	N/A	N/A

1. This represents the percentage of our portfolio by market value that has set a science-based target or has publicly committed to do so.

<sup>AS</sup> Data is subject to independent Limited Assurance under ISAE (UK) 3000 and ISAE 3410. The limited assurance report provided by KPMG can be found in Appendix 2.

<sup>†</sup> KPMG previously provided limited assurance on this selected information which is taken from our 2024 Climate report (TCFD).

### Total Portfolio and Public Credit WACI



## Investment portfolio (continued)

### Financed emissions and carbon footprint breakdown of our investment portfolio

We report our financed emissions as they represent the total greenhouse gas emissions attributable to our investment portfolio. These are measured in absolute terms, expressed in tonnes of CO<sub>2</sub> equivalent. In 2025, financed emissions increased by 17% compared to 2024, primarily driven by 8% growth in the size of our portfolio to £54.8 billion, reflecting new business written during the year. As our portfolio expands, more assets are included in the calculation, which naturally results in higher absolute emissions.

We also report carbon footprint, in tCO<sub>2</sub>e / £m invested, where data is available. This metric accounts for the ongoing growth of our investment portfolio and enables better year-on-year comparisons. The carbon footprint of our portfolio also increased by 8% during 2025 to 108 tCO<sub>2</sub>e / £m invested. This is driven by a higher allocation to government debt securities, which we see as temporary, and we expect the downward trend from previous years to continue going forward.

We use the Partnership for Carbon Accounting for Financials ("PCAF") methodology to establish the proportion of emissions attributed to PIC across a range of asset classes. If no PCAF attribution factor is available, we use our own methodology which is aligned in principle with the PCAF approach. More information can be found in our **Basis of Reporting**.

Asset class	Market value (£m) FY25	Financed emissions (Scope 1 and 2) (tCO <sub>2</sub> e) FY25	Carbon footprint (Scope 1 and 2) (tCO <sub>2</sub> e) FY25	Data coverage of market value (%) FY25	Market value (£m) FY24	Financed emissions (Scope 1 and 2) (tCO <sub>2</sub> e) FY24	Carbon footprint (Scope 1 and 2) (tCO <sub>2</sub> e) FY24	Data coverage of market value (%) FY24
<b>Debt securities – Government</b>	24,151	4,228,164 <sup>AS</sup>	146 <sup>AS</sup>	97%	19,831	2,315,301 <sup>†</sup>	119 <sup>†</sup>	99%
<b>Debt securities – Corporate</b>	13,527	811,519 <sup>AS</sup>	67 <sup>AS</sup>	89%	15,381	1,294,271 <sup>†</sup>	95 <sup>†</sup>	88%
<b>Debt securities – Private investments</b>	10,687	120,957 <sup>AS</sup>	53 <sup>AS</sup>	21%	9,382	116,848 <sup>†</sup>	48 <sup>†</sup>	25%
<b>Mortgage-backed and other asset-backed securities<sup>1</sup></b>	1,308	28,784 <sup>AS</sup>	25 <sup>AS</sup>	85%	1,280	27,670 <sup>†</sup>	26 <sup>†</sup>	83%
<b>Investment properties</b>	900	1,221 <sup>AS</sup>	1 <sup>AS</sup>	90%	805	801 <sup>†</sup>	2 <sup>†</sup>	69%
<b>Participation in Investment Schemes</b>	2,976	7,407 <sup>AS</sup>	9 <sup>AS</sup>	27%	3,080	8,140 <sup>†</sup>	16 <sup>†</sup>	17%
<b>Other<sup>2</sup></b>	2,144	N/A	N/A	N/A	1,978	N/A	N/A	N/A
<b>Total</b>	<b>55,693</b>	<b>4,386,533<sup>AS</sup></b>	<b>108<sup>AS</sup></b>	<b>76%</b>	51,737	3,763,031 <sup>†</sup>	100 <sup>†</sup>	75%

1. Includes equity release mortgages ("ERMs").

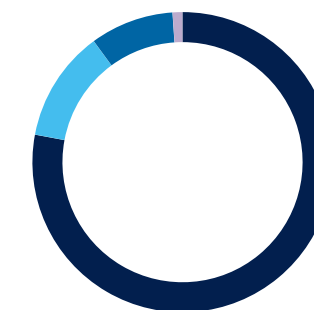
2. Includes cash and other assets for which no emissions data is available.

<sup>AS</sup> Data is subject to independent Limited Assurance under ISAE (UK) 3000 and ISAE 3410. The limited assurance report provided by KPMG can be found in Appendix 2.

<sup>†</sup> KPMG previously provided limited assurance on this selected information which is taken from our 2024 Climate report (TCFD).

PCAF produces data quality scorecards<sup>3</sup> for each asset class to indicate the quality of the emissions data on a scale of 1 (highest data quality) to 5 (lowest data quality). The graph below shows the quality of the emissions data used in our financed emissions calculation.

### Split of PIC's investment portfolio's financed emissions of 4,386,533<sup>AS</sup> tCO<sub>2</sub>e by PCAF data quality



	FY25	FY24
● Score 1 (Highest data quality)	<b>78%</b>	61%
● Score 2	<b>12%</b>	24%
● Score 3	<b>—%</b>	—%
● Score 4	<b>9%</b>	14%
● Score 5 (Lowest data quality)	<b>1%</b>	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>

3. <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>

## Investment portfolio (continued)

### Weighted Average Carbon Intensity breakdown

The key metric we use to monitor our portfolio decarbonisation is WACI. This measures the carbon intensity of our investments by calculating tCO<sub>2</sub>e per \$m revenue generated by the underlying asset. It provides a meaningful comparison across asset classes and indicates the relative exposure of companies to transition risks. We use US dollars as the standard revenue currency for consistency with peers; however, WACI calculated using GBP revenue is also available in **Appendix 1**.

Our current WACI targets are based on Scope 1 and 2 emissions, and we continue to take steps to incorporate Scope 3 data (see **Appendix 1**); however, data quality and availability remains a challenge. It is important to note that WACI can be influenced by market conditions such as inflation, interest rate movements and exchange rate fluctuations.

The WACI of our total portfolio reduced by 18% in 2025 to 127 tCO<sub>2</sub>e / \$m revenue, driven by a reduction in the WACI of our corporate debt securities. The total portfolio WACI is now lower than our 2030 target of 144 tCO<sub>2</sub>e / \$m revenue, which represents a 50% reduction on a 2019 baseline. We will continue to track this closely to ensure we sustain our progress and downward trajectory and remain well below the target in the years leading up to 2030.

Asset class	Market value (£m) FY25	WACI (tCO <sub>2</sub> e / \$m revenue) FY25	Data coverage of market value (%) FY25	Market value (£m) FY24	WACI (tCO <sub>2</sub> e / \$m revenue) FY24	Data coverage of market value (%) FY24
<b>Debt securities – Government</b>	<b>24,151</b>	<b>98</b> <sup>AS</sup>	<b>97%</b>	19,831	98 †	99%
<b>Debt securities – Corporate</b>	<b>13,527</b>	<b>185</b> <sup>AS</sup>	<b>90%</b>	15,381	239 †	91%
<b>Debt securities – Private investments</b>	<b>10,687</b>	<b>92</b> <sup>AS</sup>	<b>28%</b>	9,382	98 †	30%
<b>Mortgage backed and other asset backed securities<sup>1</sup></b>	<b>1,308</b>	<b>309</b> <sup>AS</sup>	<b>85%</b>	1,280	365 †	83%
<b>Investment properties</b>	<b>900</b>	<b>25</b> <sup>AS</sup>	<b>90%</b>	805	21 †	69%
<b>Participation in Investment Schemes</b>	<b>2,976</b>	<b>36</b> <sup>AS</sup>	<b>22%</b>	3,080	31 †	14%
<b>Other<sup>2</sup></b>	<b>2,144</b>	<b>N/A</b>	<b>N/A</b>	1,978	N/A	N/A
<b>Total</b>	<b>55,693</b>	<b>127</b> <sup>AS</sup>	<b>77%</b>	51,737	155 †	77%

1. Includes ERMs.

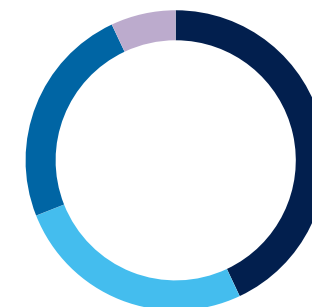
2. Includes cash and other assets for which no emissions data is available.

<sup>AS</sup> Data is subject to independent Limited Assurance under ISAE (UK) 3000 and ISAE 3410. The limited assurance report provided by KPMG can be found in Appendix 2.

† KPMG previously provided limited assurance on this selected information which is taken from our 2024 Climate report (TCFD).

We also monitor the PCAF data quality<sup>3</sup> for our WACI. Revenue data is available for a slightly higher proportion of our assets than the Enterprise Value Including Cash (“EVIC”), which is used for the financed emissions calculation. This leads to a higher data coverage for the WACI than Financed emissions. However, there are more assets included in the WACI calculation where emissions are estimated, which leads to a lower overall PCAF data quality.

### Split of PIC’s investment portfolio’s WACI of 127<sup>AS</sup> tCO<sub>2</sub>e/\$m revenue by PCAF data quality



	FY25	FY24
● Score 1 (Highest data quality)	<b>43%</b>	31%
● Score 2	<b>26%</b>	36%
● Score 3	<b>—%</b>	—%
● Score 4	<b>24%</b>	26%
● Score 5 (Lowest data quality)	<b>7%</b>	7%
Total	<b>100%</b>	100%

3. <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>

## Investment portfolio (continued)

### Forward-looking metrics

While the metrics reported above provide a snapshot of past performance, and help to demonstrate year-on-year progress, forward-looking indicators help us assess how our portfolio aligns with global climate pathways and supports our long-term decarbonisation objectives and management of our climate risks.

### Implied Temperature Rise

We use Implied Temperature Rise (“ITR”) as a forward-looking metric to indicate how our corporate credit holdings align to global climate targets.

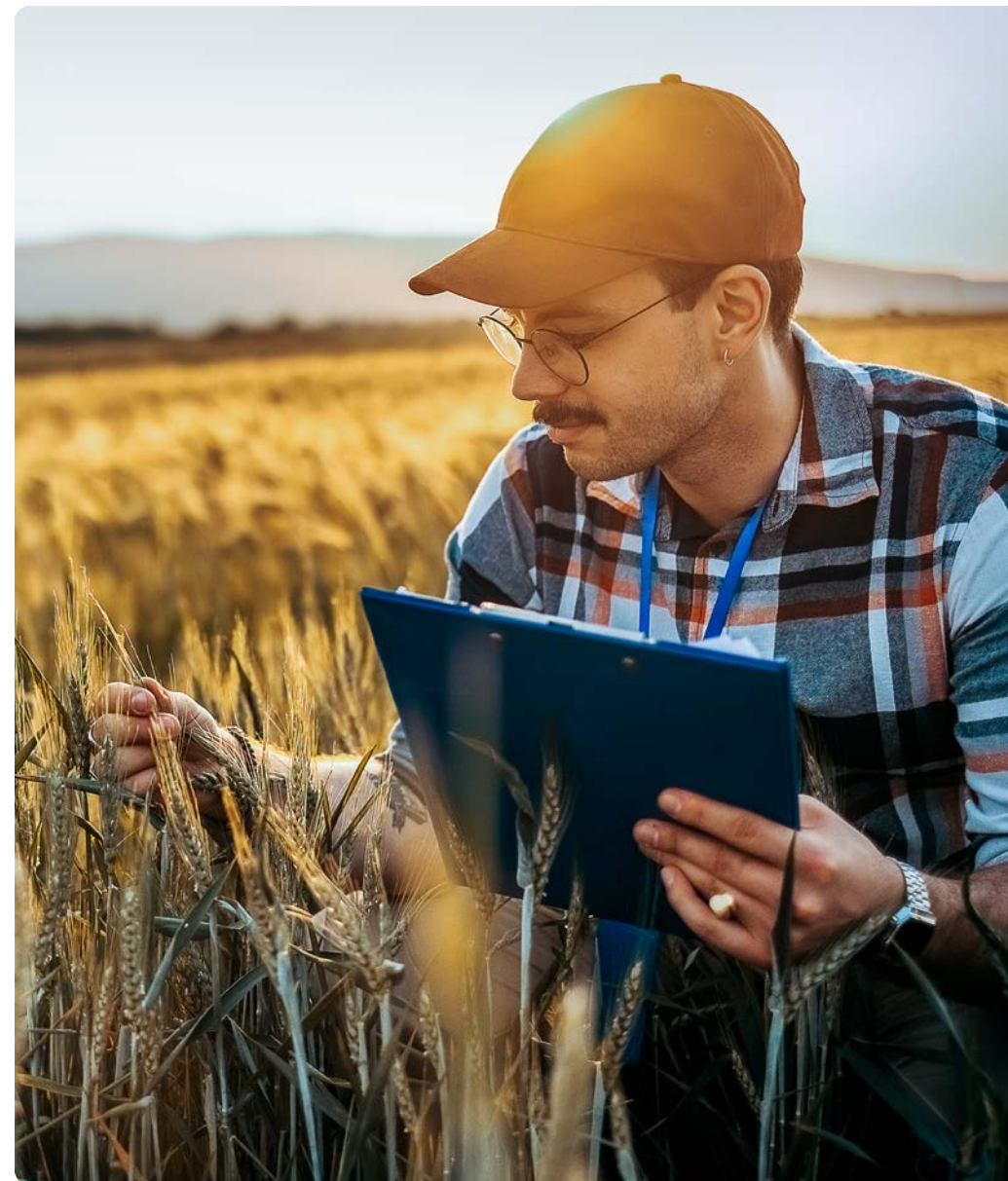
We source data from MSCI, which incorporates each issuer’s latest reported Scope 1 and 2 emissions, estimated Scope 3 emissions, and projected future emissions. These figures are assessed against Paris-aligned pathways for the issuer’s sector and geography. Where current or forecast emissions exceed the levels permitted under the pathway, the excess is converted into an ITR value for that company.

MSCI only has data available for 31% of our portfolio. For those assets where data is available, 33% of our exposure aligns with a <1.5°C pathway and an additional 38% of our exposure aligns with a <2°C pathway. Overall, the weighted average ITR for assets with available data has improved slightly to 2.0°C, compared to 2.1°C in 2024.

### Science Based Targets exposure

We also consider the proportion of companies in our portfolio that have set a Science Based Target as another forward looking metric. The Science Based Targets initiative (“SBTi”) sets a benchmark for best practice in emissions reduction and Net Zero commitments. It independently verifies that corporate targets are aligned with climate science, providing a strong indicator of a company’s progress towards a 1.5°C pathway.

In 2025, only 18% of our portfolio by market value had committed to setting a science-based target, compared to 19% in 2024. This slight reduction reflects changes in portfolio composition. The 18% of our total portfolio represents 56% of our assets that are covered by MSCI, which is an increase from 52% in 2024. We remain committed to encouraging issuers to adopt credible decarbonisation plans through our engagement strategy.



## Operational metrics

### Our Scope 1 and 2 emission metrics

Scope 1 and 2 metrics	Unit	2025	2024	% change from 2025 to 2024
<b>Total energy consumption</b>	kWh	<b>857,501</b>	1,257,735	(32)%
<b>Scope 1 emissions (from gas combustion)</b>	tCO <sub>2</sub> e	<b>67</b>	31	116%
<b>Scope 2 emissions (from electricity use) (location-based)</b>	tCO <sub>2</sub> e	<b>87</b>	225	(61)%
<b>Scope 2 emissions (from electricity use) (market-based)</b>	tCO <sub>2</sub> e	<b>—</b>	415	(100)%
<b>Total Scope 1 and Scope 2 (location-based) emissions</b>	tCO <sub>2</sub> e	<b>154</b>	256	(40)%
<b>Total Scope 1 and Scope 2 (market-based) emissions</b>	tCO <sub>2</sub> e	<b>67</b>	446	(85)%
<b>Emissions intensity (floor area)</b>	tCO <sub>2</sub> e/m <sup>2</sup>	<b>0.03</b>	0.04	(25)%
<b>Emissions intensity (FTE)</b>	tCO <sub>2</sub> e/FTE	<b>0.23</b>	0.43	(47)%

We have calculated our Scope 1 and 2 operational emissions in line with GHG protocol, using the UK Government GHG Conversion Factors for Company Reporting.

Our operational energy usage and emissions have decreased significantly during 2025, driven by the move into our new office space, 22 Ropemaker Street, at the end of 2024. This is due to the high energy efficiency and renewable energy supply of the new building, which means our market-based Scope 2 emissions have now reduced to zero.

We have leveraged our partnership with carbon removal specialist CUR8 to purchase high integrity carbon credits to offset our remaining emissions and meet our 2025 target to achieve carbon neutrality in our operations. We have done this based on the remaining location-based Scope 1 and 2 emissions of 154 tCO<sub>2</sub>e, ensuring we are carbon neutral across both estimation methods.

See page 14 of our **Sustainability Report** to read more about our carbon offsetting approach.

Our emissions intensity by floor area has reduced by 25% this year, with this reflecting the larger floor area and lower emissions of 22 Ropemaker Street. Emissions intensity per FTE has also decreased by 47% in 2025, with this driven by a combination of the lower office emissions and increase in headcount during the year.

Full details of our methodology for calculating these emissions can be found within our **Basis of Reporting**.

## Operational metrics (continued)

### Our Scope 3 emission metrics

Scope 3 metrics	Unit	2025	2024	% change YoY
<b>Category 1: Purchased goods and services</b>	Not reported – methodology under development			
<b>Category 2: Capital goods</b>	Not reported – methodology under development			
<b>Category 3: Fuel- and energy-related activities</b>	tCO <sub>2</sub> e	41	Not reported	—
<b>Category 4: Upstream transportation and distribution</b>	Not applicable to PIC			
<b>Category 5: Waste generated in operations</b>	tCO <sub>2</sub> e	5	Not reported	—
<b>Category 6: Business travel</b>	tCO <sub>2</sub> e	184	325	(43)%
<b>Category 7: Employee commuting</b>	tCO <sub>2</sub> e	209	213	(2)%
<b>Category 8: Upstream leased assets</b>	Not applicable to PIC			
<b>Category 9: Downstream transportation and distribution</b>	Not applicable to PIC			
<b>Category 10: Processing of sold products</b>	Not applicable to PIC			
<b>Category 11: Use of sold products</b>	Not applicable to PIC			
<b>Category 12: End-of-life treatment of sold products</b>	Not applicable to PIC			
<b>Category 13: Downstream leased assets</b>	Not applicable to PIC			
<b>Category 14: Franchises</b>	Not applicable to PIC			
<b>Category 15: Investments</b>	Please see Investment Portfolio metrics (pages 32-33)			

We continue to enhance the transparency and completeness of our Scope 3 emissions reporting as part of our commitment to robust climate disclosure. In 2025, we have expanded our reporting to include Category 3 (Fuel- and energy-related activities) and Category 5 (Waste generated in operations) for the first time. This marks an important step in broadening our understanding of indirect emissions beyond our operational boundaries.

Our business travel emissions have decreased by 43% compared to the previous year, driven by a reduction in air travel in 2025. We will again be purchasing carbon removal credits to offset, on a best-efforts basis, the year's business travel emissions.

Our employee commuting emissions have remained broadly flat in 2025, with working patterns remaining consistent since the transition to our new office at 22 Ropemaker Street.

Full details of our methodology for calculating these emissions can be found within our **Basis of Reporting**.

We are actively developing methodologies for Category 1 (Purchased goods and services) and Category 2 (Capital goods). These categories require robust data collection and estimation processes, and we intend to disclose these in future reporting periods.

All other Scope 3 emission categories are not relevant to PIC's business model and are therefore excluded from our reporting.

# Focus areas for 2026.



## Focus areas for 2026

### Governance

- Continue with current governance structure now that sustainability is embedded in various Board and Management Committee reporting cycles.
- Appointment of next cohort of Sustainability Champions from across the organisation.

### Risk management

- Continue ensuring our climate risk appetite and risk mitigation strategies are appropriate.
- Remain abreast of political and regulatory guidance regarding expectations on sustainability matters such as related disclosures.
- Consider enhancing the link between the climate-related risks we are exposed to and the metrics we track to monitor those risks.

### Strategy

- Roll out our climate scenario analysis across our most material use cases, focusing on granular decision-useful analysis.
- Ongoing implementation of our transition plan, focusing on our 2030 targets.
- Continue to deliver on our new five-year engagement strategy.
- Build on our initial work on nature-related risk to understand in more detail the implications for our portfolio. Guide ourselves by the TNFD framework.

### Metrics and Targets

- Further development of our Scope 3 emissions reporting to continue to enhance the transparency and completeness of our disclosures.
- Focus on improving data quality and coverage for our portfolio metrics, particularly for private investments.
- Ensure portfolio WACI remains comfortably below the 2030 target through active engagement, investment decisions, and scenario analysis.
- Prepare for the implementation of UK Sustainability Reporting Standards ("UK SRS").



# Appendix.



## Appendix 1: Data tables

### Whole portfolio metrics

Metric	Unit	FY25	FY24	2025 % of data coverage for total portfolio (by market value)	2025 % of emissions data that is from actual company reported data
<b>Financed emissions (Scope 1 and 2)</b>	tCO <sub>2</sub> e	<b>4,386,533</b> <sup>AS</sup>	3,763,031 †	76%	90%
<b>Financed emissions (Scope 3)</b>	tCO <sub>2</sub> e	<b>3,309,095</b>	4,199,392	32%	43%
<b>Carbon footprint (Scope 1 and 2)</b>	tCO <sub>2</sub> e / £m invested	<b>108</b> <sup>AS</sup>	100 †	76%	90%
<b>Carbon footprint (Scope 3)</b>	tCO <sub>2</sub> e / £m invested	<b>193</b>	229	32%	43%
<b>Carbon footprint (Scope 1 and 2)</b>	tCO <sub>2</sub> e / \$m invested	<b>80</b>	80	76%	90%
<b>Carbon footprint (Scope 3)</b>	tCO <sub>2</sub> e / \$m invested	<b>144</b>	183	32%	43%
<b>Weighted Average Carbon Intensity (WACI) (Scope 1 and 2)</b>	tCO <sub>2</sub> e / \$m revenue	<b>127</b> <sup>AS</sup>	155 †	77%	69%
<b>Weighted Average Carbon Intensity (WACI) (Scope 3)</b>	tCO <sub>2</sub> e / \$m revenue	<b>424</b>	442	32%	28%
<b>Weighted Average Carbon Intensity (WACI) (Scope 1 and 2)</b>	tCO <sub>2</sub> e / £m revenue	<b>163</b>	193	77%	69%
<b>Weighted Average Carbon Intensity (WACI) (Scope 3)</b>	tCO <sub>2</sub> e / £m revenue	<b>542</b>	550	32%	28%
<b>Implied Temperature Rise</b>	°C	<b>2.0</b>	2.1	31%	37%
<b>Science Based Targets exposure<sup>1</sup></b>	% of portfolio (by market value)	<b>18%</b>	19%	N/A	N/A

1. This represents the percentage of our portfolio by market value that has set a science-based target or has publicly committed to do so.

<sup>AS</sup> Data is subject to independent Limited Assurance under ISAE (UK) 3000 and ISAE 3410. The limited assurance report provided by KPMG can be found in Appendix 2.

† KPMG previously provided limited assurance on this selected information which is taken from our 2024 Climate report (TCFD)

### Matching adjustment portfolio metrics

Metric	Unit	FY25	FY24	2025 % of data coverage for total portfolio (by market value)	2025 % of emissions data that is from actual company reported data
<b>Financed emissions (Scope 1 and 2)</b>	tCO <sub>2</sub> e	<b>3,985,998</b>	3,151,651	78%	89%
<b>Financed emissions (Scope 3)</b>	tCO <sub>2</sub> e	<b>3,213,082</b>	4,091,769	36%	43%
<b>Carbon footprint (Scope 1 and 2)</b>	tCO <sub>2</sub> e / £m invested	<b>110</b>	98	78%	89%
<b>Carbon footprint (Scope 3)</b>	tCO <sub>2</sub> e / £m invested	<b>192</b>	229	36%	43%
<b>Carbon footprint (Scope 1 and 2)</b>	tCO <sub>2</sub> e / \$m invested	<b>82</b>	78	78%	89%
<b>Carbon footprint (Scope 3)</b>	tCO <sub>2</sub> e / \$m invested	<b>143</b>	183	36%	43%
<b>Weighted Average Carbon Intensity (WACI) (Scope 1 and 2)</b>	tCO <sub>2</sub> e / \$m revenue	<b>132</b>	165	79%	66%
<b>Weighted Average Carbon Intensity (WACI) (Scope 3)</b>	tCO <sub>2</sub> e / \$m revenue	<b>425</b>	444	36%	28%
<b>Weighted Average Carbon Intensity (WACI) (Scope 1 and 2)</b>	tCO <sub>2</sub> e / £m revenue	<b>169</b>	205	79%	66%
<b>Weighted Average Carbon Intensity (WACI) (Scope 3)</b>	tCO <sub>2</sub> e / £m revenue	<b>543</b>	552	36%	28%
<b>Implied Temperature Rise</b>	°C	<b>2.0</b>	2.1	36%	N/A
<b>Science Based Targets exposure<sup>1</sup></b>	% of portfolio (by market value)	<b>21%</b>	25%	N/A	N/A

## Appendix 2: KPMG assurance letter

### Independent Practitioner's Limited Assurance Report to Pension Insurance Corporation plc

Report on Pension Insurance Corporation plc's Selected Information for the year ended 31 December 2025.

#### Conclusion

We have performed a limited assurance engagement on whether selected information in Pension Insurance Corporation plc's ("PIC" or the "Company") Climate Report (TCFD) 2025 (the "TCFD Report") for the year ended 31 December 2025 has been properly prepared in accordance with PIC's Climate Report (TCFD) – Basis of Reporting 2025 as set out at [www.pensioncorporation.com](http://www.pensioncorporation.com) (the "Reporting Criteria"). The information within the TCFD Report that was subject to assurance is indicated with the symbol "AS" (the "Selected Information") (and is also listed in Attachment A).

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

Our conclusion is to be read in the context of the remainder of this report, in particular the "Inherent limitations in preparing the Selected Information" and "Intended use of our report" sections to follow.

Our conclusion on the Selected Information does not extend to other information that accompanies or contains the Selected Information and our assurance report (hereafter referred to as "Other Information"). We have not performed any procedures with respect to the Other Information.

#### Basis for conclusion

We conducted our engagement in accordance with International Standard on Assurance Engagements (UK) 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information ("ISAE (UK) 3000") issued by the Financial Reporting Council ("FRC") and in accordance with International Standard on Assurance Engagements 3410 Assurance Engagements on Greenhouse Gas Statements ("ISAE 3410") issued by the International Auditing and Assurance Standards Board ("IAASB"). Our responsibilities under those standards are further described in the "Our responsibilities" section of our report.

We have complied with the Institute of Chartered Accountants in England and Wales ("ICAEW") Code of Ethics, which includes independence, and other ethical requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, that are at least as demanding as the applicable provisions of the International Ethics Standards Board for Accountants ("IESBA") International Code of Ethics for Professional Accountants (including International Independence Standards).

Our firm applies International Standard on Quality Management (UK) 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements ("ISQM (UK) 1"), issued by the FRC, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

#### Inherent limitations in preparing the Selected Information

The nature of non-financial information; the absence of a significant body of established practice on which to draw; and the methods and precision used to determine non-financial information, allow for different, but acceptable, evaluation and measurement techniques and can result in materially different measurements, affecting comparability between entities and over time.

As described on page 2 of the Reporting Criteria, the greenhouse gas ("GHG") emissions quantification process is subject to scientific uncertainty, which arises because of incomplete scientific knowledge about the measurement of GHGs; and estimation (or measurement) uncertainty resulting from the measurement and calculation processes used to quantify emissions within the bounds of existing scientific knowledge.

For all of the Selected Information, the underlying GHG emissions data relates to PICs investment counterparties. In most cases this is collected for PIC by third-party data providers, providing actual as well as estimated data, and in some other cases it is estimated by PIC using proxy data. In both cases there are significant limitations on the availability and quality of underlying GHG emissions data of PIC's investment counterparties. There are some investment counterparties, where PIC has been unable to obtain underlying GHG emissions data from third-party data providers and has concluded that such data cannot be reasonably estimated, and therefore data related to these investment counterparties is not included as part of the Selected Information disclosed. As a result, the disclosed Selected Information does not represent the entirety of PIC's investment portfolio. Pages 31 to 33 of the TCFD Report discloses the percentage of PIC's investment portfolio, by market value, which the Selected Information represents.

Over time, better or more complete information may become available from third parties, including investment counterparties, and the principles and methodologies used to measure and report any or all of the Selected Information may change based on market practice and regulation.

The Reporting Criteria has been developed to assist PIC in reporting ESG information selected by PIC as key performance indicators to measure their progress towards their decarbonisation targets. As a result, the Selected Information may not be suitable for another purpose.

## Appendix 2: KPMG assurance letter (continued)

### Directors' responsibilities

The Directors of PIC are responsible for:

- designing, implementing and maintaining internal controls relevant to the preparation and presentation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- selecting and developing suitable Reporting Criteria for preparing the Selected Information;
- properly preparing the Selected Information in accordance with the Reporting Criteria; and
- the contents and statements contained within the TCFD Report and the Reporting Criteria.

### Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent limited assurance conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to PIC.

### Summary of the work we performed as the basis for our conclusion

We exercised professional judgement and maintained professional scepticism throughout the engagement. We planned and performed our procedures to obtain evidence that is sufficient and appropriate to obtain a meaningful level of assurance over the Selected Information to provide a basis for our limited assurance conclusion. Planning the engagement involves assessing whether PIC's Reporting Criteria are suitable for the purposes of our limited assurance engagement. Our procedures selected depended on our judgement, on our understanding of the Selected Information and other engagement circumstances, and our consideration of areas where material misstatements are likely to arise.

In carrying out our engagement, we performed procedures which included:

- conducting interviews with PIC's management to obtain an understanding of the key processes, systems and controls relevant to the preparation of the Selected Information, but did not include evaluating the design of particular control activities or testing their operating effectiveness.
- obtaining an understanding of the model used by PIC's management to prepare the Selected Information (the "Model"), including how input data flows through the Model and the model methodology. This included obtaining an understanding, through observation and interviews with PIC's management, of key processes and controls in relation to PIC's management oversight and challenge of the input data used in the Model.

Our work did not include evaluating the design of particular control activities or testing their operating effectiveness.

- performing limited substantive testing over the input data used in the Model, including agreeing a selection of input data to corresponding supporting documentation, this included, where applicable, third-party sources. Our procedures over the input data did not include any evaluation of the completeness or accuracy of the underlying third-party source data.
- considering the appropriateness of the carbon conversion factor calculations and other unit conversion factor calculations used by reference to widely recognised and established conversion factors.
- independently re-performing the mathematical calculation of the Selected Information, using PIC's input data, in accordance with the Reporting Criteria.
- reading the TCFD Report with regard to the Reporting Criteria and for consistency with our findings over the Selected Information.

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

### Intended use of our report

Our report has been prepared for PIC solely in accordance with the terms of our engagement. We have consented to the publication of our report on PIC's website at [www.pensioncorporation.com](http://www.pensioncorporation.com) for the purpose of PIC showing that it has obtained an independent assurance report in connection with the Selected Information.

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

### Gunjan Narang

for and on behalf of KPMG LLP  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
17 March 2026

## Appendix 2: KPMG assurance letter (continued)

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

### Attachment A – Selected Information

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

#### Investment Portfolio – Total metrics (Scope 1 and 2):

Metric	Unit	Value	Year
<b>Financed emissions (Scope 1 and 2)</b>	tCO <sub>2</sub> e	4,386,533	2025
<b>Carbon footprint (Scope 1 and 2)</b>	tCO <sub>2</sub> e /£ invested	108	2025
<b>Weighted Average Carbon Intensity (WACI) (Scope 1 and 2)</b>	tCO <sub>2</sub> e /\$ revenue	127	2025

#### Investment Portfolio – Financed emissions (Scope 1 and 2) split by asset class:

Metric	Unit	Value	Year
<b>Debt securities – Government</b>	tCO <sub>2</sub> e	4,228,164	2025
<b>Debt securities – Corporate</b>	tCO <sub>2</sub> e	811,519	2025
<b>Debt securities – Private investments</b>	tCO <sub>2</sub> e	120,957	2025
<b>Mortgage backed and asset backed securities (including Equity Release Mortgages)</b>	tCO <sub>2</sub> e	28,784	2025
<b>Investment properties</b>	tCO <sub>2</sub> e	1,221	2025
<b>Investment funds - participation in investment schemes</b>	tCO <sub>2</sub> e	7,407	2025

#### Investment Portfolio – Carbon footprint (Scope 1 and 2) split by asset class:

Metric	Unit	Value	Year
<b>Debt securities – Government</b>	tCO <sub>2</sub> e /£ invested	146	2025
<b>Debt securities – Corporate</b>	tCO <sub>2</sub> e /£ invested	67	2025
<b>Debt securities – Private investments</b>	tCO <sub>2</sub> e /£ invested	53	2025
<b>Mortgage backed and asset backed securities (including Equity Release Mortgages)</b>	tCO <sub>2</sub> e /£ invested	25	2025
<b>Investment properties</b>	tCO <sub>2</sub> e /£ invested	1	2025
<b>Investment funds - participation in investment schemes</b>	tCO <sub>2</sub> e /£ invested	9	2025

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

Metric	Unit	Value	Year
<b>Debt securities – Government</b>	tCO <sub>2</sub> e /\$ revenue	98	2025
<b>Debt securities – Corporate</b>	tCO <sub>2</sub> e /\$ revenue	185	2025
<b>Debt securities – Private investments</b>	tCO <sub>2</sub> e /\$ revenue	92	2025
<b>Mortgage backed and other asset backed securities</b>	tCO <sub>2</sub> e /\$ revenue	309	2025
<b>Investment properties</b>	tCO <sub>2</sub> e /\$ revenue	25	2025
<b>Investment funds - participation in investment schemes</b>	tCO <sub>2</sub> e /\$ revenue	36	2025

**Pension Insurance Corporation plc**  
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