



Taking action on climate risk.



Dedication.

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Introduction.

Pension Insurance Corporation plc's (PIC) purpose is to pay the pensions of our current and future policyholders.

The pensions of our 300,000 policyholders are backed by an investment strategy designed to produce the cashflows to pay our policyholders' pensions decades into the future. A core part of this strategy is investing in secure, long-term assets that generate considerable social value for current and future generations, such as renewable energy, social housing and urban regeneration. Our strategy deliberately prioritises the management of Environmental, Social and Governance (ESG) and climate risks and opportunities.

We are therefore delighted to present our first report aligned to the Taskforce for Climate-related Financial Disclosures' (TCFD) recommendations, which builds on our commitment to be Net Zero across all sources of emissions by 2050 and our own emissions by 2025, as well as our membership of the UN-convened Asset Owner Alliance.

PIC supports the TCFD's recommendations and the drive for increased disclosure on climate-related risks, and we welcome its adoption by UK financial regulators as the currently recommended standard in climate disclosure. Although reporting against TCFD for PIC is still voluntary, we feel it is in line with our purpose to do so as we seek to manage climate risk ever more closely. This report brings transparency to our strategy, governance, risk management processes and key metrics for managing the impact of climate change on the business and our investment portfolio.

Asset owners such as PIC are well placed to play a core role in driving change, including through increased investment in assets that accelerate the transition to a Net Zero carbon economy. This is an area that deserves more attention, because there are no easy answers. While there is common agreement about where we need to get to, there has been little discussion so far about how we get there. There are many steps that can, and should, be taken right now by all actors in the economy to further limit the temperature rise and mitigate the impact of climate change.

You will find examples in this report of both the short-term actions we are taking at a corporate level and within our investment portfolio, as well as some of our investment actions which have a longer-term impact. These include our continued divestment out of areas like coal and oil and an increase in investments into renewable energy and other assets that help manage the transition.

Climate change is an issue that is of real importance to us all. We welcome the chance to present this report, and look forward to continuing to play a key role helping shape the debate about the transition as we all seek to manage this risk.



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Tracy Blackwell
Chief Executive Officer
Pension Insurance Corporation plc

Future.

Executive summary.

The Financial Stability Board (FSB) established the TCFD in 2017 to develop recommendations for more effective climate-related disclosures in order to promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. TCFD now has over 2,600 corporate and investor supporters in 89 countries and jurisdictions around the world.

PIC's climate commitments

PIC has made clear commitments for reducing our corporate impact on the climate, as well as the impact deriving from its investments.

Our climate strategy statistics



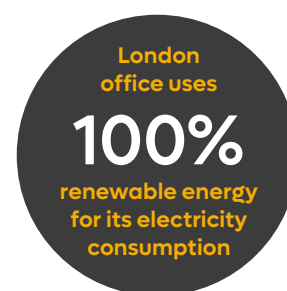
We have committed to being carbon neutral as a business by 2025



We have committed to being Net Zero within our investment portfolio by 2050



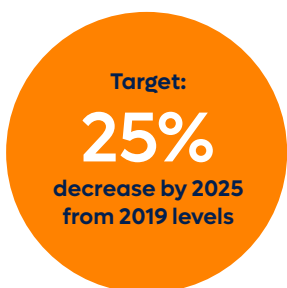
PIC reduced its scope 1 and 2 emissions by 16% during 2021



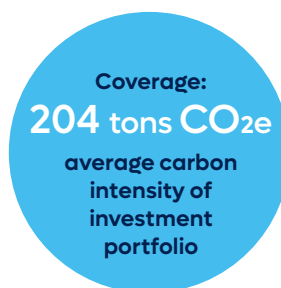
This neutralises PIC's scope 2 emissions on a market-based approach



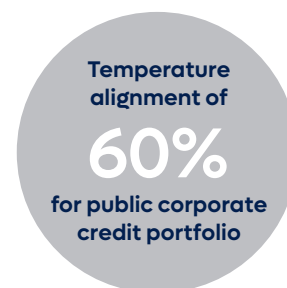
PIC is committing to decreasing investment portfolio's average carbon intensity (tons CO₂e/\$M revenue) by 50% by 2030 from 2019 levels



PIC set an interim target of decreasing the average carbon intensity of investments in publicly-listed credit by 25% from 2019 levels by 2025¹



The weighted average carbon intensity of PIC's portfolio is a measure of tons CO₂e/\$M revenue and represents 83% of investments



PIC's public corporate credit portfolio's temperature alignment is currently 2.37°C, with 60% of corporate exposure (by market value) on a trajectory of 2°C or below²

¹ Taking into account the quality and consistency of available data.

² Temperature alignment is the projected temperature rise by 2100 from pre-industrial levels within PIC's publicly listed credit investments (more detail on temperature alignment on [page 25](#)).

Industry collaboration

PIC recognises that asset owner and wider financial services companies working together is critical to driving genuine progress and avoiding the worst impacts of climate change. Along with being supporters of the TCFD, we are members of several industry groups driving action as well as active participants in public debate on related issues, such as:



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

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



Also known as the Global Goals, the United Nations Sustainable Development Goals (UN SDGs) were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people can enjoy peace and prosperity. The 17 SDGs are integrated – they recognise that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability. In terms of climate initiatives, PIC focuses on goals 13 (climate action), 7 (affordable and clean energy), 11 (sustainable cities and communities), 6 (clean water and sanitation), 14 (life below water) and 15 (life on land). A more detailed mapping of our assets and how they relate to the UN SDGs will be published in our 2021 year-end ESG Report.

THE NET-ZERO ASSET OWNER ALLIANCE

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

1. To transitioning their investment portfolios to Net Zero greenhouse gas (GHG) emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial levels;
2. To establishing intermediate targets every five years; and
3. To regularly report on progress. The Alliance is convened by UNEP's Finance Initiative and UNPRI.



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



THE PURPOSE OF FINANCE
IN ASSOCIATION WITH PIC

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

Progress with TCFD

The following table presents the TCFD's recommended disclosures and our progress with each area. We have attributed a **Gold**, **Silver** or **Bronze** status for each voluntary disclosure to mark our progress in each area. **Gold** represents areas where we have achieved strong progress, **Silver** represents areas where we are progressing well so far, and **Bronze** represents areas that are in need of improvement albeit some effort has been made.

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organisation's governance around climate-related risks and opportunities.	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.	Disclose how the organisation identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
 <p>Describe the Board's oversight of climate-related risks and opportunities.</p>	 <p>Describe the climate-related risks and opportunities the organisation has identified over the short-, medium-, and long-term.</p>	 <p>Describe the organisation's processes for identifying and assessing climate-related risks.</p>	 <p>Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.</p>
 <p>Describe management's role in assessment and managing climate-related risks and opportunities.</p>	 <p>Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.</p>	 <p>Describe the organisation's processes for managing climate-related risk.</p>	 <p>Disclose scope 1, scope 2, and if appropriate, scope 3 GHG emissions, and the related risks.</p>
	 <p>Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	 <p>Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.</p>	 <p>Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.</p>

About PIC

Pension Insurance Corporation plc (PIC) is a leading player in the specialist UK pension risk transfer market. The purpose of PIC is to pay the pensions of our current and future policyholders. We grow our business by taking on the assets and liabilities that sit within the UK's defined benefit pension schemes and have a portfolio of approximately £50 billion of assets backing the current and future payments of about 300,000 people.

The pensions of our growing policyholder base are secured by a purposeful investment strategy, which means that we focus on making good quality, secure, long-term investments, in order to minimise defaults and generate the inflation-linked, predictable cash flows required to pay our policyholders' pensions over the coming decades. We prioritise the management of key risks, including Environmental, Social and Governance (ESG), and we carefully consider risks from various perspectives including how these can influence asset prices and income streams which may go well beyond 2050.

As an insurer we operate within the Solvency II regulatory framework, which means that we are almost exclusively a fixed income investor, predominantly invested in government and investment grade corporate securities.

PIC has a long and successful track record of investing in secure, long-term, privately-sourced debt that matches our liabilities in years when publicly available debt is scarce. These include investments in areas like renewable energy, social housing and education, funding the race to Net Zero economy, regenerating our cities and providing low cost housing. These investments have a lasting impact on current and future generations.

Purpose.

Governance.

PIC applies the same principles of governance over climate-related issues as it does for governance over all risks affecting the business and its investments.

Strong governance enables us to deliver on our strategy while ensuring the stability of our business and investments. We have an experienced Board and management team who are used to operating within a highly regulated framework, overseen by the Bank of England, requiring robust governance processes.

Oversight of climate-risk

PIC's approach to climate risk is incorporated into the Group's ESG strategy and overseen by the Board-level ESG Committee.

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

The ESG Committee responsibilities include:

- Ensuring that the Board and its Committees provide oversight of the Group's ESG strategy and activities including those in relation to climate;
- Setting appropriate strategic goals which include short and long-term Key Performance Indicators (KPIs) and targets that the strategy and performance is measured and reported against. For instance, one of PIC's yearly KPIs is to reduce its average carbon intensity;
- Determining how the Group embeds the monitoring of ESG activities (including climate risk) within the Group and the criteria for the successful implementation of the ESG strategy;
- Reviewing ESG policies and initiatives of the Group ensuring they remain effective and up-to-date;
- Ensuring compliance with legal and regulatory requirements and industry standards, applicable to the Group; and
- Ensuring all stakeholders receive appropriate information about the Group's ESG activities.

The Committee also monitors and reviews current and emerging ESG and climate trends, identifies how those are likely to impact the strategy, operations, and reputation of the Group and determines whether and how these are reflected in the Group's policies and objectives.

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

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

Experience.

Corporate governance structure September 2021



More details regarding PIC’s ESG investment approach can be found [here](#).



The response by government and asset owners to climate change is one of the defining issues of our age. PIC recognises the urgency of curbing global warming in line with the Paris Agreement and we are proud to join with other institutional investors through the NZ AOA to help that effort. We fundamentally believe that achieving Net Zero is the right thing to do both for society and for our policyholders as we fulfil our purpose over the coming decades. Companies which actively demonstrate their commitment to sustainability are better placed to maintain secure long-term cash flows. As a long-term business we want to support the government in managing this long-term goal, benefitting our policyholders, employees, wider society and other stakeholders.

Tracy Blackwell
Chief Executive Officer
Pension Insurance Corporation plc



Commitments

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

Our climate goals reflect this:

- PIC has committed to be Net Zero by 2050 across all sources of emissions, including within its investment portfolio which backs the pension payments to our 300,000 policyholders.
- Whilst we have a long-term outlook, we must set short-term targets in order to reach our goals and manage the transition. We have set an interim target of achieving carbon neutrality within our own operations, under scope 1 and 2 emissions, by 2025, in line with the ABI'S Climate Change Roadmap.

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

Goals.

Case study.

Net-Zero Asset Owner Alliance

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

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

PIC's progress in decarbonising its portfolio to date means that it has joined the NZ AOA's inaugural 2025 target setting protocol, rather than the later 2030 protocol. The protocol commits members to publishing interim carbon-reduction targets every five years.



Stewardship/Engagement

ESG engagement describes the interaction between investors and issuers. Given our very long-term investment horizon, it is important that we work with companies to improve their sustainability practices, helping to ensure they maintain a strong industry positioning, healthy credit ratings and stable cash flows. PIC actively seeks out and engages with high emitters and non-Paris aligned companies to help push for decarbonisation and has a target of engaging with at least 20 companies from high-emitting sectors per year, as set out by the NZ AOA.



In-house managed investments

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

We engage with the management of our privately-sourced debt investments to understand their ESG risks and help them with their potential long-term disruptions, as well as encouraging better governance and transparency in reporting. This engagement includes how the borrower approaches issues related to climate change, as well as other social and governance factors, such as how to balance the needs of all stakeholders, including their employees and society, and the composition of the borrower's board and senior management team and its ability to develop and execute short- and long-range plans. Our long-term relationship with these borrowers allows us to engage with them extremely closely to understand their overall sustainability efforts. During 2021, we emphasised the disclosure on carbon metrics, something which is usually not readily or consistently available in private markets.



Outsourced investments

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



Purpose of Finance.

Created in 2017, PIC has an online thought-leadership platform, including podcasts featuring our CEO Tracy Blackwell, to share our insights on topics ranging from the green sustainability agenda, ethical investing and ESG integration. PIC has been actively engaging with other asset owners, asset managers, and policymakers, as well as the wider financial services industry, to encourage a more long-term, system-wide focus, through the company's long-standing Purpose of Finance project.

More information can be found [here](#).

Engaging.

Case study.

Engagement with Orsted and investing in their transition to a low carbon strategy

As we seek to drive change and as members of the NZ AOA, we have increased our engagement with 'high emitters' each year either directly or through our external managers.

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

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



Strategy.

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

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

The transition of our investment strategy is driven by:

1

The undeniable negative consequence that climate change is having on the world, including all sectors in which we are directly or indirectly exposed to.

2

The potential economic impact caused by a rapid transition away from carbon fuel that is now influencing government policy in the UK and around the world.

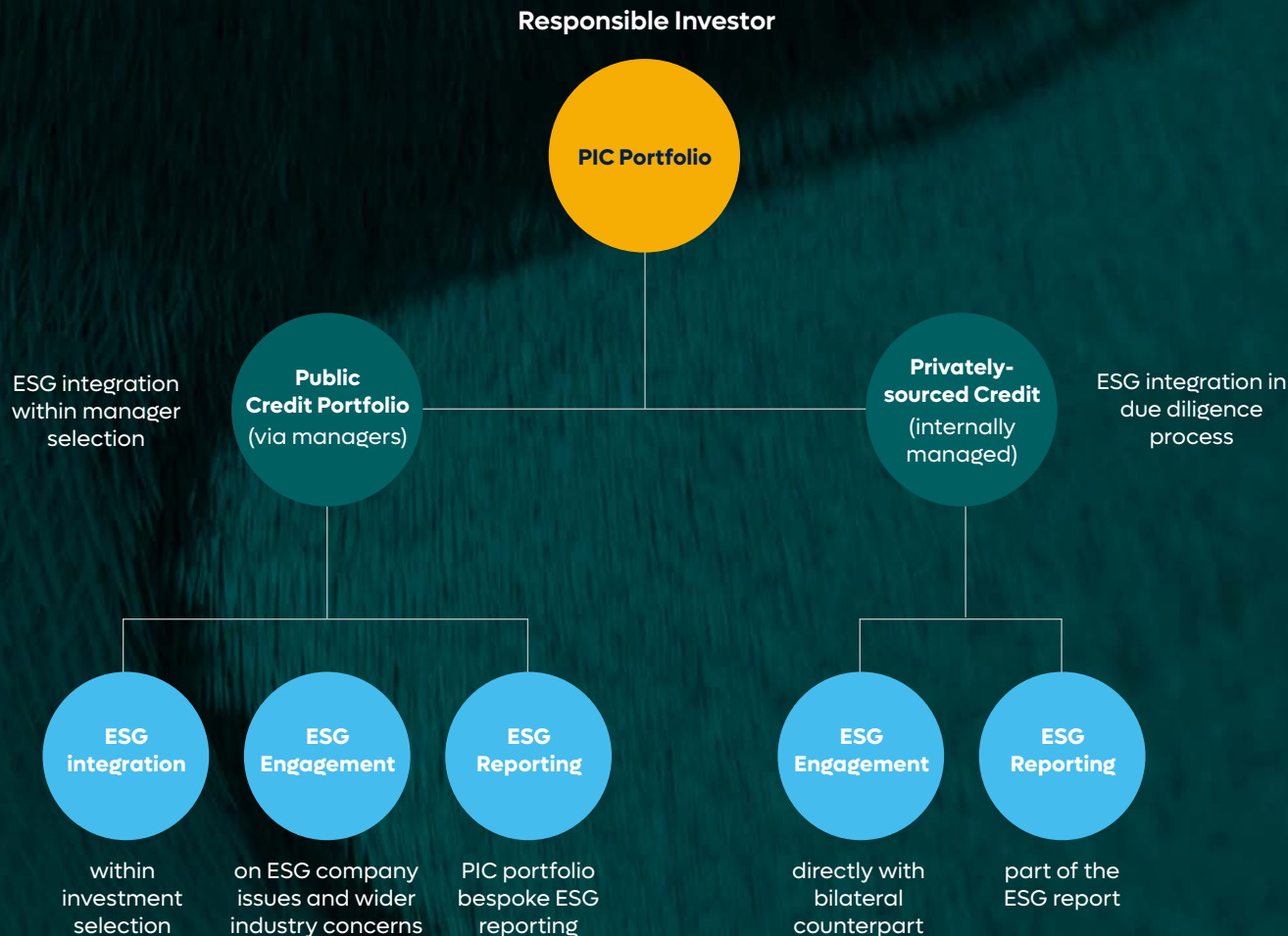
3

A tipping in the relative market balance towards investments in greener sectors and technologies.

4

The feasibility and cost of exiting specific positions matched to future liabilities.

PIC responsible investment approach



ESG integration

Climate change considerations are integrated throughout the organisation's decision-making processes, as are wider ESG factors.

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

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

Due diligence

We seek climate disclosure from issuers and external managers in order to integrate these considerations into our due diligence and investment decision making processes.

The potential impacts of climate change are incorporated into the due diligence across all of our investments – for example, the likelihood of increased flooding risk for our property investments. We also include climate risk in our external manager scorecards, testing whether they embed climate risk into the investment processes for their funds, and establishing how climate risk is overseen at an entity level.

Corporate initiatives

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

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

- Removal of single-use plastic utensils in kitchen.
- Switching individual rubbish bins for communal bins and installing a number of recycling bins in strategic locations across each floor.
- Enabling 'follow-me' printing to encourage staff to reduce printing to essential printing only. A follow-me printer means staff need to actively swipe their employee passes at centralised printers and select what they want to print. Anything not printed within 12 hours gets deleted, meaning that unnecessary printing is minimised.
- Use of Navigator paper for printing, because it is more environmentally friendly, chlorine free and FSC certified. Navigator paper is made with 2/3 of the energy requirement coming from biomass (i.e. not fossil fuels); by recycling any waste water from the production process; and by the management of specific forests and replanting of trees. More information on Navigator paper can be found [here](#).
- Offering employees a cycle to work scheme.
- Using energy-efficient LED lights throughout our office space.
- Installing Passive Infrared Sensors (PIR) for lighting on each floor. PIR sensors turn lights off after a certain time and only come back on when motion is detected.
- Providing energy efficient laptops to all staff.
- Switching off air conditioning at evenings and weekends.
- Refurbishing our office in 2018 to install double glazed windows and energy efficient insulation.
- Limiting staff travel to strictly necessary (even before the pandemic) – and where travel is necessary we opt to offset emissions through the respective airline scheme.

Our scope 1 and 2 GHG emissions performance can be found in the **Metrics and Targets** section in this report.

Renewable.

Investment restrictions

Given the underlying nature of our investments, our very long-term time horizon, and the tight parameters that regulate our industry, we must give careful consideration when applying sector exclusions. We have nevertheless taken the view that investing in the following sectors is unsustainable and have imposed the below climate-related restrictions across our direct and indirect 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 aim to divest from all of our holdings in these areas by 2025 and have nearly achieved this target already.
- **Oil:** Exclude companies within exploration and production, drilling and field services. No new purchases in companies in these sectors. A company may on occasion be considered for investment if we are convinced that it has demonstrated an ambitious commitment and clear strategy to transitioning its business model towards clean energy.

Taken together, these considerations have a double bottom line impact: a positive impact on climate change and helping us meet our investment objective. In addition to this risk-averse stance to certain carbon-intensive sectors we have proactively increased our position in greener investments, like renewable energy:

- During 2020 we increased our investments in renewable energy by about £500 million.
- During 2020 we reduced our exposure in the portfolio to oil by about £500 million.

These restrictions are constantly being reviewed and are subject to change.



Climate-related investment opportunities

When assessing investment opportunities, PIC looks to identify companies that are positioned to benefit within a low carbon world, in line with our climate commitments. We actively seek companies that are 'ahead of peers' in terms of establishing their transition strategy and can better weather the change in industry landscape, as well as better navigate on-coming regulatory changes. As an example, we see long-term value opportunities in our property development investments where we invest to ensure very high environmental specifications, well above the regulatory minimum. This helps future-proof the asset and our investment.

Case study.

Divestment from thermal coal

During 2020 we informed our investment managers that they should divest our remaining holdings in companies which rely on either the extraction or the burning of coal for more than 10% of their turnover, by the end of 2025.

We believe that coal is not viable in the long-term as a source of energy due to its high pollution levels, and therefore there is a real risk that cash flows generated from coal extraction or burning will not be sustainable over the long-term. Risks such as a potential carbon tax, litigation risk and the impact of ESG factors on supply and demand dynamics which could cause downgrades or defaults in corporate debt linked to the sector played an important role in our decision.

We are well on track to achieving our target and have a very low exposure to companies breaching the revenue threshold. Those companies held that are currently deriving over 10% of their revenue from coal are maintained in the portfolio because they have set ambitious targets to decreasing their coal exposure to below our threshold requirement by 2025.



Financing the transition

PIC understands its role in accelerating the transition in the global energy system to a Net Zero carbon emissions economy.

Over the past few years, the financial system has also been transitioning to ensure the appropriate allocation of capital towards assets that will help to achieve a successful transition. We are progressing this as part of our investment strategy principally through reducing our exposure to fossil fuel assets and investing in alternative energy assets, such as renewable energy, that enable the carbon emissions reduction pathway necessary to limit temperature rises to the Paris Agreement goal.

We also understand that simply divesting is not the whole answer, and we have committed to engaging with high-emitting companies and sectors to drive significant carbon reductions within their respective industries. Investing in new green assets is a strong part of the answer, but so is investing to 'green' brownfield assets within high-emitting sectors such as real estate and infrastructure.

Case study.

High environmental standards in design of our New Victoria Development

PIC's award-winning New Victoria development in central Manchester will deliver 520 new homes on an inner-city brownfield site by regenerating a key part of the city centre. The development will include 460m² of new landscaped space, which is the first time this site has had any green space in over 100 years. PIC has partnered with Muse Developments and VINCI Construction UK to deliver the £130 million Build-to-Rent scheme.

PIC has made a high level of environmental standards central to its design during both the construction and operational phases. For example, 99.5% of waste at the New Victoria development will be recycled, reused, or disposed of in more environmentally-friendly ways than landfill. A typical construction project would dispose of 8%-10% of waste created through landfill.

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

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



We are very pleased and proud to have brought so much social value to the North West through this award-winning project. Once complete, New Victoria will help to pay the pensions of our policyholders, fulfilling PIC's purpose. As an outcome of this purposeful investment, hundreds of millions of pounds are being spent over the course of the project in the local economy, supporting jobs, helping the environment and benefitting the wider levelling up agenda.

Tracy Blackwell
Chief Executive Officer
Pension Insurance Corporation plc



PIC is a committed investor in renewable energy with total investments of more than £1.5 billion in the sector, as a socially beneficial outcome of our purpose. Q-Energy has once again shown great knowledge and expertise in structuring deals that allow long-term investors such as PIC to invest in clean energy. By funding infrastructure projects dedicated to tackling climate change, PIC's investments reduce the risk of securing pension payments to our 300,000 policyholders and benefit society as a whole.

Florence Carasse
Senior Debt Origination Manager
Pension Insurance Corporation plc

Case study.

Investing in renewable energy

In June 2021 PIC provided £175 million (€203 million) of senior secured debt funding, as sole investor, for a further 18 solar parks. PIC has invested £777 million in solar energy to date, covering 60 solar plants.

Having made our first renewable energy investment in 2012, we have now invested over £1.5 billion in the sector as we seek to finance projects that will drive the energy transition and mitigate climate change.

As part of the ESG analysis of this investment, PIC reviewed the community impact, potential environmental disruption, staff health and safety, as well as project accountability. This analysis fed into PIC's in-house ESG risk assessment framework and all of these factors are reviewed on an annual basis. The parks will generate enough electrical capacity to power more than 17,300 households each year.



Risk management.

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

Our risk management approach is designed to support our business ambitions and has the following core objectives.

- To set out the risks that we are able and willing to accept that can give us sustainable returns, and to set out risks we believe are not adequately rewarded and require close management and mitigation.
- To optimise the capital that we hold so that we can deliver our strategy.
- To provide a framework within which authority for taking risks can be appropriately delegated and controlled throughout the organisation, enabling the Board to draw assurance that the risks to which we are exposed are being appropriately identified, managed and where necessary minimised.
- To ensure we remain forward-thinking in assessing what could happen to the business and what actions could be taken now and/or in the circumstances to manage or mitigate the risks.

In the strategy section (**page 12**) we have outlined the corporate-level initiatives we have in place to minimise future climate risk. In terms of our investments, PIC stress-tests its portfolio where data is available through a range of climate outcomes and use the data to help re-position the portfolio. At the same time, PIC is enhancing its risk management framework, risk appetite and risk taxonomy to recognise the influence climate factors will have on the organisation from a physical and transition risk perspective.

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

We primarily view climate risk as the following:

Transition climate risk

Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organisations.

Policy and Legal Risks: Policy actions around climate change continue to evolve. Their objectives generally fall into two categories – policy actions that attempt to constrain actions that contribute to the adverse effects of climate change or policy actions that seek to promote adaptation to climate change.

Technology Risk: Technological improvements or innovations that support the transition to a lower-carbon, energy efficient economic system can have a significant impact on organisations. For example, the development and use of emerging technologies such as renewable energy, battery storage, energy efficiency will affect the competitiveness of certain organisations, their production and distribution costs, and ultimately the demand for their products and services from end users.

Market Risk: While the ways in which markets could be affected by climate change are varied and complex, one of the major risks is of shifts in supply and demand for certain commodities, products, and services as climate-related risks and opportunities are increasingly taken into account.

Reputation Risk: Climate change has been identified as a potential source of reputational risk tied to changing customer or community perceptions of an organisation's contribution to or detraction from the transition to a lower-carbon economy.

Physical climate risk

Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organisations, such as direct damage to assets and indirect impacts from supply chain disruption. Organisations' financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting organisations' premises, operations, supply chain, transport needs, and employee safety.

Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods.

Chronic risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves.

Climate-related risk management throughout our business and for our stakeholders

We are continually assessing how our business and our investments may be impacted by the above risks. Importantly, our risk strategy is developed so that we are able to withstand the physical and transition risks associated with climate change and meet our ESG objectives while maintaining the financial strength of our balance sheet.

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

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

Corporate stakeholder engagement on climate-related risk

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

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





Case study.

Integrating Physical and Transition risks for key sectors in our investment portfolio

Sector Focus: Building & Infrastructure

Physical risks

We assess **acute physical risk** such as storms, floods, wildfires which can cause significant damage to infrastructure assets, in addition to making them unusable for temporary or extended periods of time.

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

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

Transition risks

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

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



Metrics and targets.

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

We are reducing our total energy consumption and carbon emissions (scope 1 and 2) at our offices. This is being effected through a series of cumulative actions and bigger changes (outlined in our Strategy section). For example, all the energy used in our office is now provided by a renewable energy supplier. Full details of our scope 1 and 2 emissions and the methodology applied can be found below.

In order to understand our total impact, we are making efforts to map carbon emissions across our investment portfolio (scope 3) with the assistance of third parties such as MSCI. We have concentrated on mapping the carbon of our Matching Adjustment (MA) portfolio investments, which are the assets that back our policyholder and buy-in pension scheme liabilities. These assets represent just over 95% of all our assets under management. The remaining 5% constitutes our Diversified Capital Fund which is invested in collective investment vehicles, as well as derivative, cash and liquidity fund positions.

Below we have provided information of our scope 3 emissions currently assessed within our MA portfolio and the methodology applied to calculating our impact. The MA portfolio is split between two parts:

1. Public debt comprising of publicly listed corporate credit, sovereigns and listed municipal bonds;
2. Privately-sourced debt which includes all our privately-sourced debt investments such as privately sourced corporates, housing associations, education facilities, student accommodation, real estate, equity release mortgages, alternative energy, and more.

We have achieved strong coverage (92%) regarding carbon metrics of the public debt portion of the MA portfolio. Due to the nature of our investments within private markets however, our privately-sourced debt investments are less well covered (48%) as available data is generally very limited. We have therefore had to build a bespoke methodology on a case-by-case basis across our various asset classes. We hope to expand this coverage as more data is made available via our investee organisations and third party sources. More detail on the methodology can be found in the **Appendix**.



Progress.

Corporate level metrics

As a large limited company incorporated in the UK, PIC is required to report its UK energy use and carbon emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

The data detailed in this table represent emissions and energy use for which PIC is responsible. To calculate our emissions we have used the main requirements of the Greenhouse Gas Protocol Corporate Standard along with the UK Government GHG Conversion Factors for Company Reporting 2021. We have calculated our emissions for 2021 year in line with our financial years. Any estimates included in our totals are derived from actual data in the same reporting period which have been extrapolated to cover any missing periods. We do not have any fuel used for company travel to report.

Streamlined Energy & Carbon Reporting disclosure for the period January to December 2021	Current reporting year (UK & offshore)	Previous reporting year (UK & offshore)
Total energy consumption used to calculate emissions in kWh	893,748	1,012,564
Emissions from combustion of gas in tons CO ₂ e (scope 1)	81.9	94.3
Emissions from purchased electricity in tons CO ₂ e (scope 2, location-based)	94.8	116.5
Total gross tons CO₂e based on above	176.7	210.8
Intensity ratio: gross tons CO ₂ e/floor area	0.04	0.04
Intensity ratio: gross tons CO ₂ e/FTE	0.5	0.7



Corporate level targets

We understand the importance of setting meaningful goals and demonstrating progress year-on-year.

Due to the sustainability efforts enacted across our business, we have managed to reduce our total scope 1 and 2 CO₂e emissions by 16% in 2021. We have committed to the target of being carbon neutral as a business by 2025 and by being Net Zero within our portfolio by 2050 (more detail below).

Portfolio level metrics

Scope 1 and 2 Weighted Average Carbon Intensity (WACI)					
Name	Weighted Average Carbon Intensity (tons CO ₂ e/\$M revenue)	% Data Coverage	% of Portfolio Covered	MV* £bn Covered	MV* £bn Total Portfolio
Public Debt	202	92%	72%	£33.9	£36.7
Public Corporate Credit	225			£22.30	
Government/Sovereign	170			£10.30	
US Municipal Bond Portfolio	34			£1.02	
Privately-sourced Debt	219	48%	11%	£4.9	£10.2
Housing Associations/Social Housing	296			£2.80	
Equity Release Mortgages (ERM)	163			£1.10	
Student Accommodation	59			£0.98	
	204		83%	£38.8	£46.9

Please see the **Appendix** for the methodology used per asset class. *As of 30th October 2021



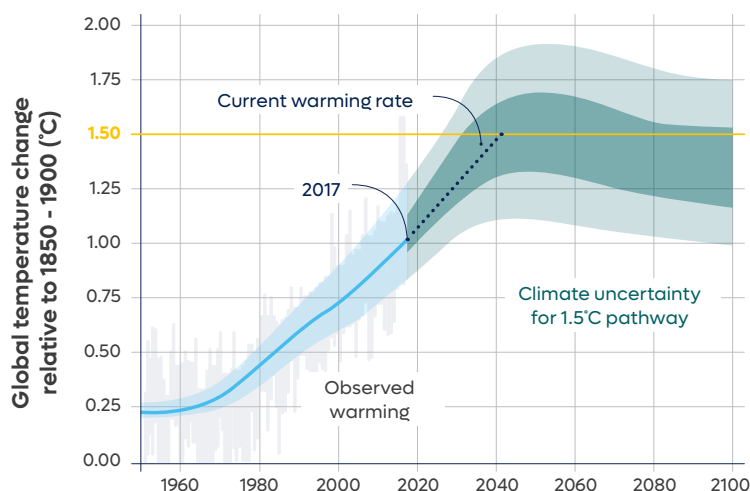
Implied temperature rise

In addition to the above, we have also calculated the implied temperature rise for each corporate credit holding where available. This uses MSCI's implied temperature rise model (through to the year 2100 or later), based on the issuer's most recent scope 1, 2 and estimated scope 3 emissions. The data also projects the issuer's future emissions which takes into consideration publicly stated future targets and deduces whether the company is aligned with the Paris goal of limiting global warming to well below 2°C from pre-industrial levels. What is referred to by pre-industrial levels is a 30 year rolling global average calculation of combined air temperature over land and water temperature at the ocean surface. The 30-year timespan accounts for the effect of natural variability, which can cause global temperatures to fluctuate from one year to the next – and smooths any anomaly years, such as the 2015/16 El Niño event.

A report from the National Oceanic and Atmospheric Administration (NOAA) stated that, in 2020, the average global temperature was 1.19°C warmer than the pre-industrial level average of 13.71°C³. The report also states that earth's average temperature has risen by 0.08°C per decade since 1880, and the rate of warming over the past 40 years is more than twice that (= 0.18°C) per decade since 1981. This rise in temperature is depicted in the graph opposite.

Of those companies in our portfolio from which a temperature alignment is reported by MSCI (c.70% of our public corporate credit exposure), it can be derived that our portfolio's temperature alignment is currently 2.37°C with 60% of corporate exposure (by market value) on a trajectory of 2°C or below.

How close are we to 1.5°C?⁴



From IPCC Report:

Human-induced warming reached approximately 1°C above pre-industrial levels in 2017. At the present rate, global temperatures would reach 1.5°C around 2040. Stylised 1.5°C pathway shown here involves emission reductions beginning immediately, and CO₂ emissions reaching zero by 2055.

³ National Oceanic and Atmospheric Administration, Climate Change: Global Temperature Report, August 2021.
<https://www.climate.gov/news-features/understanding-climate/climate-change-global-temperature>

⁴ Figure 1, FAQ 1.2, from the Frequently Asked Questions document, Special Report: Global Warming of 1.5°C, IPCC.



Portfolio targets

In line with various industry initiatives we are involved with; we have committed to decreasing our portfolio average carbon intensity (on a scope 1 and 2 basis) by 50% by 2030. We have therefore set ourselves an interim target, in line with guidance from the NZAOA target-setting protocol, of decreasing our public corporate credit portfolio (worth c.£22bn) average carbon intensity by 25% from 2019 levels by 2025. We will endeavour to decrease this section of the portfolio by another 25% (from 2019 levels) in the following five-year period – in line to achieving our 50% reduction commitment over a decade.

Looking ahead.

Key 2022 initiatives:



Continue to embed ESG into all facets of our business, overseen by the recently established 'ESG as Business as Usual' working group, whose members span all PIC business units.



Increase coverage of carbon metrics across our investment portfolio, especially within the privately-sourced debt portion. Our recently established Investment Transition Working Group, whose members include key Investment Team representatives, are responsible for advancing our low carbon transition strategy.



Continue to progress key initiatives to reach our decarbonisation goals for PIC as an entity and throughout our portfolio.



Increase our climate-related engagements with investee organisations within highly emitting sectors, in line with our NZ AOA commitments. We will be publishing a standalone Stewardship policy to further communicate our engagements.



Future.

Appendix.

TCFD Metrics Methodology

We believe the unit of measurement that most appropriately represents our portfolio's carbon position is that of the Weighted Average Carbon Intensity 'WACI' (tons CO₂e/\$M revenue) as data needed behind this metric is most reliable and consistent across most asset classes on a scope 1 and 2 basis.

The WACI has been completed separately for two groups of emissions: scope 1 (direct) and 2 (indirect) combined, alongside scope 3 (indirect, associated) where possible such as within Credit. The WACI allows for reliable comparison between companies of different size. The carbon data behind our corporate credit and Sovereign investments has been sourced from MSCI ESG Research.

Public Debt – Public Corporate Credit

We calculate our share of the corporate's Absolute Emissions (tons CO₂e) for scope 1, 2 and where possible 3 by multiplying the Carbon Emissions (tons) per USD million enterprise value including cash (EVIC) by the market value of our investment. By using Enterprise Value, this adequately distributes the emissions burden between equity, bonds, and cash within the company. We then calculate the carbon footprint (tons CO₂e/\$M invested) of total corporate credit exposure of the portfolio, by dividing the total Absolute Emissions attributed to our total credit exposure divided by total EVIC Coverage (USD million). This data is provided to us by MSCI.

Public Debt – Sovereign & Government

When assessing our sovereign portfolio, we have used the Weighted Average Carbon Intensity (tons CO₂e/GDP Nominal). For government absolute emissions needed within this calculation, the total GHG emissions in a country are derived from tons CO₂ equivalent across six greenhouse gases in line with the Kyoto Protocol (carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride). Although the WACI can be compared between corporates and sovereigns, this is not the case for the absolute emissions and carbon footprint given differing methodologies. This data is provided to us by MSCI.

Public Debt – US Municipals

In relation to US Municipal Bonds, our dedicated US Municipal Bond Manager calculated the Weighted Average Carbon Intensity (tons CO₂e/\$M revenue), Absolute Emissions (tons CO₂e) and Carbon footprint (tons CO₂e/\$M invested) on each holding in our portfolio via publicly available data. We calculated overall asset metrics using this individual holding data. Many of the institution data is found [here](#).

Private-sourced Debt – Social Housing

For our investments within the social housing sector we have taken the value of average emissions per social housing dwelling to be 2.6 tons CO₂e, as estimated by The Sustainable Energy Association (SEA) in 2018. Data in relation to the number of units, total borrowings and rental income of each organisation is publicly available from the private registered provider social housing stock and rents in England 2020 to 2021⁵. We have then estimated the number of units we have financed as a proportion of our investment. Combining this with the SEA estimate of 2.6 tons CO₂e gives a final value of absolute emissions (tons CO₂) which can be summed for all our investments in the sector. The Weighted Average Carbon Intensity (WACI) (tons CO₂e/\$M revenue) and carbon footprint (tons CO₂e/\$M invested) can then be derived from the remaining data. The final WACI metric is relatively high and this is due to a combination of two main factors. The average social housing property has a lower than national average EPC rating, making them energy inefficient. Next, the relatively low rents contribute to a lower denominator in the intensity calculation resulting in a higher WACI.

Privately-sourced Debt – Student Accommodation

Data in relation to the number of student accommodation rooms and rents received per room/ per week are available for each student accommodation deal that PIC has made. PIC has used an estimate average m² per room to be 15m² given internal data available and this is used as a key assumption for our carbon calculations. The CO₂ emission rate (kg CO₂/m² per year) for each student accommodation is available online. This is then multiplied by the total m² and converted to tons to give absolute emissions (tons CO₂e). The total absolute emissions are divided by the Total rental income per year (mm USD) to give Weighted Average Carbon Intensity (WACI) (tons CO₂e/\$M revenue). The carbon footprint (tons CO₂e/\$M invested) is then calculated with the remaining data.

Privately-sourced Debt – Equity Release Mortgages

When considering the carbon intensity for our Equity Release Mortgage (ERM) issuances, we focused on first calculating the average carbon emissions (tons) per house, derived from UK government data for carbon dioxide emissions (tons per annum) and number of lodgements for each region (this resulted in an average of 4.04 tons of CO₂ per house). By dividing our average ERM issuance value by the average value of the homes we loan to, we inferred that PIC provides financing to an average of 34% of the property value and therefore we take accountability for this proportion of the house's carbon footprint. For the \$m revenue used in our WACI calculation we use the interest earned on the loan.

⁵ Regulator of Social Housing, Gov.uk, October 2021.
<https://www.gov.uk/government/statistics/private-registered-provider-social-housing-stock-and-rents-in-england-2020-to-2021>



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