Stewardship Report 2024.

Pension Insurance Corporation PLC (PIC)

May 2025

Contents

Executive summary.

2024 has been a year of significant progress in our stewardship efforts, as we deepened our engagement activities, refined our engagement strategy, and responded to evolving stakeholder expectations.

The year saw continued political backlash and deprioritisation for ESG topics such as Climate, Diversity Equity & Inclusion (DE&I) and Stewardship.

Although this sentiment was mostly fuelled from the US, we have seen a step back in policy support here in the UK for action around Net Zero. We reflect upon these changes from our position as long-term buy and hold investors with liabilities spanning decades in the future. From this stance, we remain convinced in the value of considering all things that impact our investments over multiple political and economic cycles and therefore remain focussed on continued engagement with our investees companies to mitigate ESG related risks.

In 2024, we strengthened our efforts to understand the stewardship priorities of our current pension scheme trustee clients, prospective trustee clients and policyholders. Insights from surveys and questionnaires highlighted growing interest in Natural Capital and Biodiversity, including emerging issues like Anti-Microbial Resistance (AMR). In response, we have formally incorporated Natural Capital as a separate engagement topic in our updated 5-year engagement strategy (2025–2030), which was approved at the Board level. Additionally, we have noted increasing expectations from advisers regarding our macro-stewardship activities and contributions to industry-wide progress.

PIC remains an active industry participant, demonstrated by our meaningful contributions to the Purposeful Finance Commission (PFC) and the A4S Sustainability Charter for the BPA process (see Principle 4 for further details).

Board and organisational training

This year, our Board and Executive Committee (ExCo) members participated in two sustainability-focused training sessions, including one on linking remuneration to sustainability performance. We expanded internal education efforts across the organisation, including a session on Human Rights and Modern Slavery delivered by an external manager. The training covered key risks such as forced labour, human trafficking, and child labour issues which are important for us to understand for both stewardship with investee companies and our own supply chain management.

Refining ESG assessments in real estate

We continued to refine our proprietary ESG assessment framework for real estate, incorporating specific key performance indicators (KPIs) for both construction and operational phases across different property types. For example, we developed tailored KPIs for Build-to-Rent assets and single/multi-family homes to ensure relevance and effectiveness. These metrics help us assess sustainability credentials, mitigate stranded asset risks, and respond to evolving regulatory requirements while aligning with investor and tenant expectations.

Enhancing stewardship in investments

Our investment approach integrates stewardship principles, as illustrated by key case studies in Principle 7, including:

- Avoiding governance risks in UK motor financing.
- Rejecting an investment in a mixed real assets portfolio due to fire risk.
- Our approach to holdings that do not meet our coal restrictions.

We also expanded engagement efforts with service providers, including reinsurers and banking counterparties.

Enhancing stewardship in other suppliers and counterparties

In 2024, we introduced sustainability-related assessments for derivative bank counterparties and asked reinsurers - both existing and potential - to respond to a new sustainability questionnaire. Additionally, we implemented a Supplier Code of Conduct, outlining expectations on legal compliance, voluntary initiatives, and sustainability practices.

Scaling up engagement activities

Our engagement efforts have grown significantly, with direct and collaborative engagements covering 130 companies in 2024 (up from 99 in 2023). The most common topic was climate change, particularly corporate decarbonisation strategies and disclosure improvements. However, we also deepened our focus on corporate governance, recognising its role in addressing broader ESG risks, as well as human rights issues, such as tackling modern slavery, forced labour, and health & safety.

For the first time, a majority of these engagements were conducted directly, rather than through our assets managers, reflecting our strategic shift toward managing more of our portfolio in-house. We continue to participate in collaborative initiatives, including UN PRI, Sustainability for Housing, and Investor Forum facilitated engagements.

Looking ahead

With our newly approved 5-year engagement strategy, we are well-positioned to drive meaningful progress on climate change, natural capital and biodiversity, human rights, human capital, corporate governance, and diversity, equity & inclusion. As we further enhance our in-house engagement capabilities, we remain committed to delivering responsible investment outcomes that align with both trustee expectations and industry best practices.

We hope this report provides a clear and comprehensive overview of our stewardship efforts in 2024.

I am pleased to present our third annual Stewardship Report, covering activities carried out in the year ending 31st December 2024.

With very long-term pension liabilities to match, our purposeful investment strategy is built on a buy and hold investment approach, carefully managing risk across multiple economic cycles. Whether navigating market downturns, recessions, inflation or geopolitical tensions, we remain focused on ensuring the sustainability of our investments for decades to come.

Our purpose – to pay the pensions of our current and future policyholders – leads us to creating significant social value, both through paying those pensions, but also through the long-term investments we make in the UK economy which provide the cashflows we need. Our £12.7 billion investments in Sustainable Assets underpins our belief that responsible investing not only helps us achieve our purpose but is a strategic opportunity to create positive change. From affordable homes to clean transport and social infrastructure, our portfolio is testament to the ways in which we are helping alleviate pressing societal and environmental challenges as we fulfil our purpose.

Stewardship at PIC goes beyond financial transactions: it is embedded in how we allocate, manage, and oversee capital to foster long-term value. We have significantly enhanced our engagement practices over the past two years, incorporating lessons learned, and adopting best practice from across the industry.

As we transition to managing more of our portfolio in-house, we are strengthening our internal engagement capabilities and will increasingly conduct engagements ourselves rather than through external managers. Our newly launched five-year engagement strategy underscores our commitment to leveraging our influence to drive meaningful change and deliver tangible, real-world impact.

We are satisfied with the progress we have made in stewardship over the past year, the rapidly evolving landscape of responsible investment demands continuous learning and adaptation, and we are committed to continuously refining our approach.

This report provides illustrative examples of how we have applied our stewardship approach, reinforcing our belief that a clear, long-term purpose can help shape a future where financial security, social well-being, and environmental sustainability go hand in hand.

Rob Groves
Chief Investment Officer
Pension Insurance Corporation plc

Foreword.

Principle 1.

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

PIC's business model: creating long-term value

We are a leading player in the Pension Risk Transfer (PRT) market. Our purpose is to pay the pensions of our current and future policyholders. We have insured the pensions of almost 400,000 people, and have made more than £16 billion in pension payments, with a 99% customer satisfaction rating.

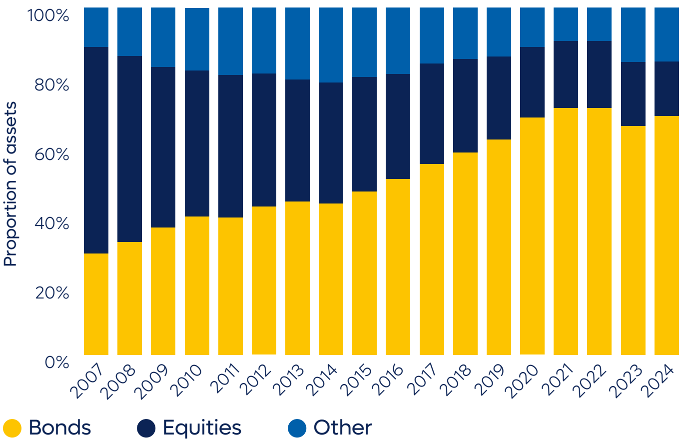
At the end of 2024 we had a portfolio of £50.9 billion with £30 billion invested in the UK. To date we have invested £13.8 billion in UK housing and infrastructure.

Financial investments	Total number of policyholders	Policyholder satisfaction
£50.9bn	**397,100**	**99.3%**
2023: £46.8bn	2023: 339,900	2023: 99.3%

Our clients include

TotalEnergies, COATS, Clarks, Atradius, Thomas Cook, HAYS

Asset allocation of DB pension schemes



Source: PPF's Purple Book 2024

PIC completed £8.1 billion of new business premiums in 2024 (FY2023: £6.9 billion), our highest ever annual total, securing the pension benefits of an additional 62,000 defined benefit ('DB') pension scheme members for the long term.

Our business model is based on:

- Insuring UK defined benefit pension funds through either a pension insurance "buy-in" or "buyout", growing our policyholder base and asset portfolio;
- Delivering excellent customer service for trustees, policyholders, and other stakeholders; and
- Ensuring that assets are invested and managed in a way that leads to sustainable benefits for the economy, the environment, society, and all of our wider stakeholders, in order to be able to pay our pension obligations over future decades.

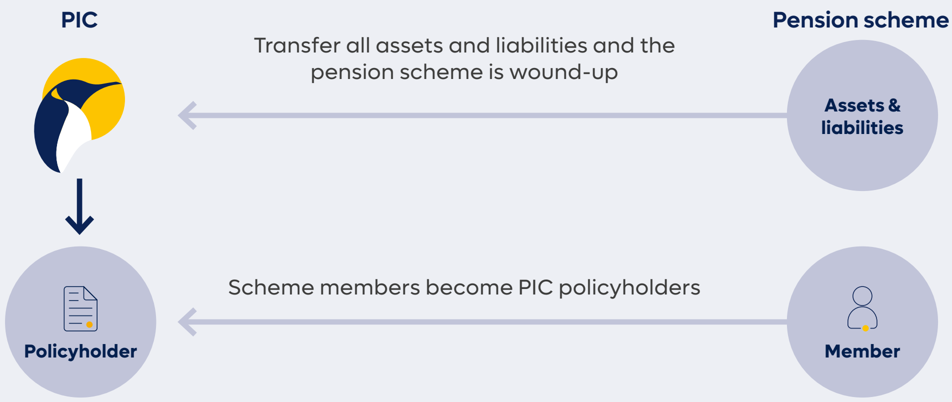
Explanation of a buy-in and buyout

Pension insurance buy-in

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

Pension insurance buyout

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



PIC generates long-term social value...

by taking care of our customers...

Pension fund members of defined benefit ("DB") schemes become our policyholders following a buyout.

Alternatively, pension scheme trustees can secure the pension payments to their members through a buy-in contract with us.

Total number of policyholders
397,100

Policyholder satisfaction
99.3%

Number of schemes insured
298

For more information, see our Customer care section in our **Annual report, pages 28-33**

and investing purposefully.

PIC's investment strategy is designed to provide the long-term secure cash flows that match the pension payments to our policyholders over the coming decades.

Our portfolio is primarily invested in publicly available fixed income assets, including government and corporate debt. In addition, we are major investors in UK infrastructure and housing, generally through the private markets.

These private investments provide secure, inflation-linked cash flows which can match our pension payments at specific maturities when public debt is not available.

Total UK direct investments[1]
£13.8bn

Social housing[1]
£2.8bn

Education[1]
£2.4bn

[1] Amount invested to date is estimated based on available historical data.

To date, we have invested more than £5.9 billion in built environment projects such as social and affordable housing, Build-to-Rent developments and senior living. These types of projects help to regenerate our cities and provide local employment opportunities, with over 7.1 million onsite hours worked across projects to date and c. 1,000 people working on our construction sites in 2024, with c.56% on average of those jobs being done by local labour.

Investment beliefs

At PIC, we value the importance of sound stewardship, using it as a tool to deliver on our purposes and create long-term sustainable returns. Our investment strategy is achieved through sound risk management and excellence in asset and liability matching which drives our investment strategy.

All assets, particularly those covering regulatory capital requirements, are invested to ensure appropriate level of security, quality and liquidity of the overall portfolio. This in turn leads to sustainable benefits for the economy, the environment, society as well as our stakeholders.

The long-term nature of our pension liabilities also requires us to consider sustainability and climate risks over that same time span. We recognise that asset owners have a responsibility to drive long-term change through responsible business and investment practices. Through our expanded governance and accountability structure, we are ensuring that sustainability is incorporated across PIC's operating model.

The four pillars of our sustainability strategy

Creating long-term value as we fulfil our purpose

Long-term sustainable business

Focus areas:

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

Being a responsible investor

Focus areas:

- ESG integration
- Stewardship and engagement
- Active participation in ESG industry initiatives
- Sharing knowledge through insightful publications
- Investing in sustainable assets and mapping the impact created

Protecting the environment

Focus areas:

- Supporting the economy-wide transition to Net Zero
- Meeting our carbon commitments
- Biodiversity impact of our real assets

Making communities sustainable, safe and inclusive

Focus areas:

- Investing across the UK in assets to provide essential services
- Helping turn brownfield assets into greener alternatives
- Providing local employment and skill development opportunities
- Financial and non-financial charity support

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

Our standalone Stewardship Policy is aligned with our purpose, investment process, and business philosophy. Throughout the investment process, PIC is focused on making good quality long-term investments, which minimise defaults and generate the inflation-linked, predictable long-term cashflows required to pay our policyholders' pensions. PIC's Stewardship Policy applies to all of our investments whilst recognising that the large majority of the investment portfolio is invested in fixed income. We believe that as bondholders we can exert influence over management of issuing companies and engage with them as necessary to help drive positive change.

PIC's investment portfolio is predominantly invested in high-quality assets that provide secure, long-term cashflows, including UK government bonds, investment-grade bonds, loans and cash. At 31 December 2024, £12.7 billion (FY2023: £10.9 billion) was invested in sustainable assets. These are assets that we define as having a business model that is meaningfully linked to solving one or more of the United Nations Sustainable Development Goals (UN SDGs). Our new Sustainable Assets Framework (pages 38-39 of Sustainability Report 2024) helps categorise these assets as sustainable and how they link to specific UN SDGs.

Case study:
Investing with Purpose

As risk-averse investors, our strategy prioritises the management of key risks. Fundamental to this is matching assets and liabilities across the cashflow profile of the business. We source these from both the public and private investment grade credit markets and therefore, PIC is a significant investor in secure long-term private debt, sourcing and creating assets to best match PIC's liabilities at maturities when publicly available debt is limited. This allows PIC to form partnerships with long-term borrowers and deploy capital in projects which have significant social value.

Sustainable assets

Proportion of total portfolio over the last five years*

2020
24.8%
£12.4bn
of £49.9bn total portfolio

2021
26.6%
£13.7bn
of £51.4bn total portfolio

2022
24.8%
£10.2bn
of £41.2bn total portfolio

2023
23.3%
£10.9bn
of £46.8bn total portfolio

Housing Associations/Social Housing	20%
Renewable Energy	8%
Education	13%
Not For Profit	4%
Healthcare	8%
Municipals	9%
Sustainable Transport (rail)	3%
Project Finance (funding sustainable initiatives)	0%
Green or Sustainable buildings including Build-To-Rent	5%
Regulated Utilities (Water, Electric)	29%
Industrial (Circular Economy)	1%

* stripping out the regulated gas utility sector from previous years given our new Sustainable Assets Framework

Culture

We value all our stakeholders and work hard to provide exceptional service to all our customers (policyholders, trustees and sponsors). We listen to them and pride ourselves on our responsiveness to their requirements.

PIC has long been a market leader in how we engage with, and the level of customer service we offer to, our policyholders. We were pleased to once again be re-awarded ServiceMark with Distinction by The Institute of Customer Service for "consistently high customer service levels", with the CEO of the Institute of Customer Service, saying PIC had "displayed a commitment to delivering world class customer service, driven by a clear focus on the purpose of the organisation."

PIC recognises that its employees are its most valuable assets. Our customer-focused culture underpins both our financial and sustainability strategic success. PIC's culture has been nurtured over the years to ensure that each of us is focused on our customers. It has evolved as the Company has grown, supporting our journey to be a leader in a dynamic and important industry, one which is responsible for securing the pension benefits of more than a million people, as well as channelling tens of billions of pounds into the UK economy.

Our employees are genuinely committed to great customer service and policyholder outcomes. PIC's 2024 employee engagement survey showed that 93% of our employees think PIC is "truly customer oriented". At the same time, 93% of our employees are "proud to work for PIC".

ServiceMark with Distinction
Accredited from Feb'24 to Feb'27
The Institute of Customer Service

Values

Our values

Our values – resilient, adaptable and loyal - are the principles underlying our culture, dictating the behaviours which allow us to fulfil our purpose and drive value for our shareholders.

They encourage diverse perspectives and a leadership mentality amongst our talented employees. They are PIC's way of doing things.

Resilient

Adaptable

Loyal

The above are attributes of our culture and are key to enhancing stewardship at PIC as they drive our overall business strategy and collaborative behaviour.

We demonstrate such values within our responsible investing overlay within all investment processes as well as focusing on excelling in client service.

Strategic objectives

Our three strategic objectives guide the business as we fulfil our purpose.

The highlights of our ambitions are:

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

Zooming in on the second objective, 'To carry on leading as a responsible corporate citizen', we prioritise ensuring that our behaviours reflect our values, including within our stewardship and engagement activities. By actively engaging with our stakeholders in a constructive and empathetic manner, we not only mitigate business risks but also enhance our reputation and ultimately improve returns.

Our culture and values serve as a guiding framework for our stewardship activities. We prioritise providing our policyholders with the highest levels of service, clear communications, and the right outcomes, all while actively considering the broader societal impact of our activities through a sustainability lens.


PIC

Principle 2.

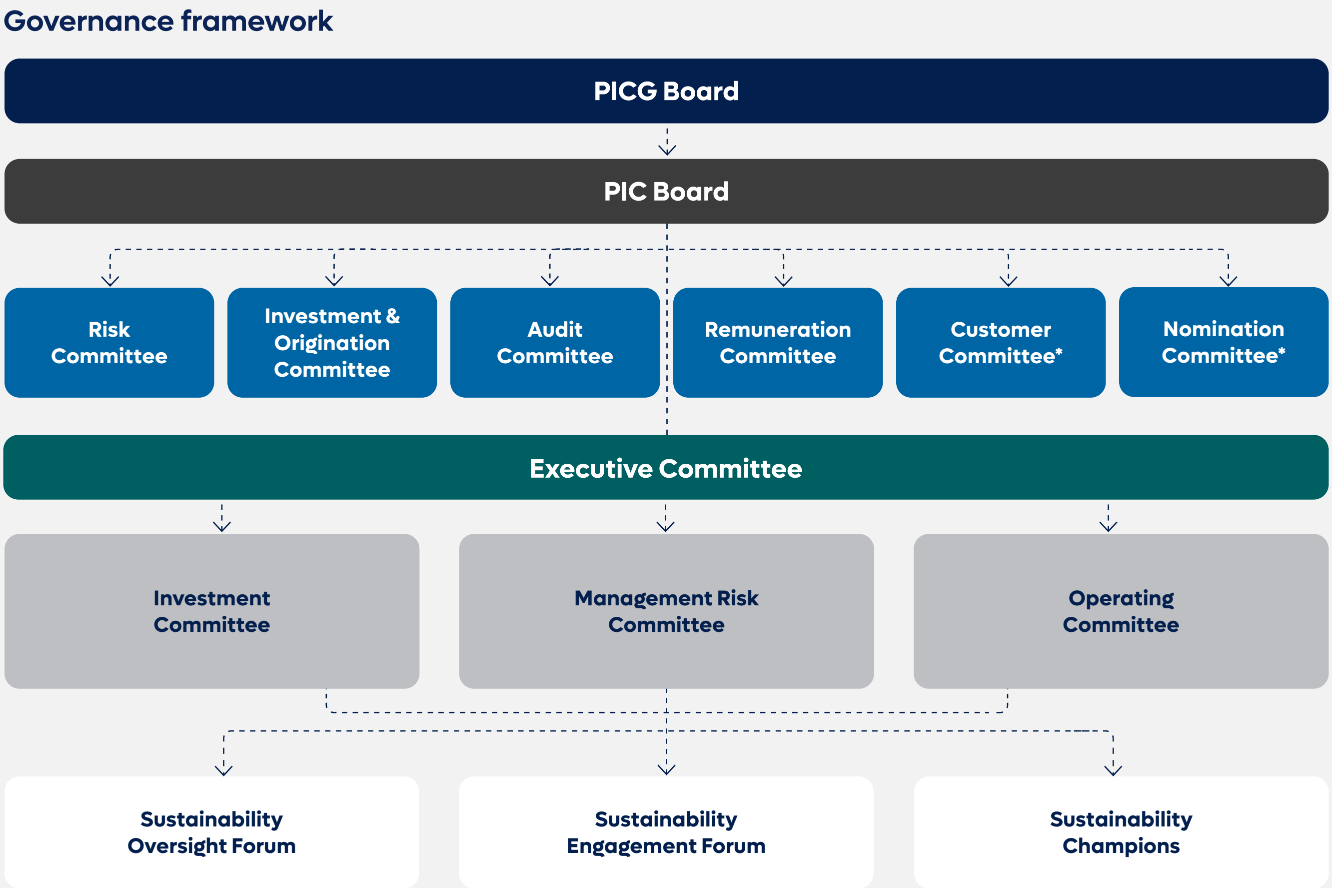
Signatories' governance, resources and incentives support stewardship.

Internal governance structure

PIC supports stewardship through its strong internal governance structure. PIC's Board has ultimate responsibility for PIC's responsible investing and stewardship activities.

The Board has delegated certain aspects of its responsibilities to its six Board Committees which work closely together and assist in providing effective stewardship, oversight and leadership.

These committees are shown on the diagram below:



*The Customer Committee and Nomination Committee do not have a direct role in managing PIC's climate-related risks and opportunities.

Members of the Committees are appointed by the Board. In addition to the Board Committees, there are also a number of management and operating committees that assist senior management with business management and oversight of PIC in relation to:

- The day-to-day management of the business;
- Investment matters;
- Risk management frameworks; and
- All new business deals and interaction with policyholders including Consumer Duty outcomes and overall conduct.

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

Our three strategic objectives highlight our ambition for long-term value growth, ensuring that we behave as a responsible corporate citizen in pursuit of this ambition, and provide a secure and sustainable business for our stakeholders.

Governance of Stewardship at PIC

The Board recognises that sustainability is critical for the success of the organisation and should be taken into account when making strategic decisions. Our chosen approach to governance ensures that priority and attention is given to these factors by senior leaders within PIC. By recognising the importance of sustainability at the top of the organisation, PIC can navigate better the risks and opportunities that arise and build a more sustainable and resilient business.

The Board

PIC established a Board ESG Committee in mid-2021 as a temporary Committee with a remit to focus on sustainability, to embed governance of ESG in the Board, its committees, and the whole organisation. The Committee completed its work with the formal confirmation of responsibilities for the Board, the Board committees and the Executive Committee. By ensuring clarity of responsibility at the Board and its permanent sub-committees PIC ensures that sustainability matters are truly embedded into the Board agenda as well as given due time to discuss specific relevant matters within sub-committees.

This is evidenced through:

- Review and approval of the Sustainability, Stewardship and Climate Risk Policies at the Board, Investment and Origination Committee (IOC) and the Board Risk Committee (BRC) respectively;
- Quarterly discussions on the portfolio's decarbonisation trajectory, ESG integration and stewardship progress at the Investment and Origination Committee (IOC);
- Review of climate risk metrics and risk appetite frameworks at the Board Risk Committee; and
- In-depth review of Task Force on Climate Related Financial Disclosure and Sustainability reports at the Audit Committee.

The Board has delegated the day-to-day implementation of PIC's sustainability strategy to various senior management figures within the firm. Executive leadership of sustainability matters sits with PIC's Chief Strategy Officer who drives and monitors PIC's progress in respect of its overall sustainability strategy. The Chief Investment Officer is responsible for considering ESG factors within investments and overseeing the progression of our stewardship and engagement strategy, while accountability for Climate Risk sits with the Chief Risk Officer. In total, seven Executive Committee members have specific sustainability related objectives with specific KPIs where relevant. The Head of Sustainability sets the strategic direction for PIC's overall sustainability strategy and ensures alignment with PIC's corporate strategy and helps ensure sustainability standards set by the Board/Executive Committee (ExCo) are met.

The Sustainability Oversight Forum

The Sustainability Oversight Forum was formed in 2021 with the goal of further embedding sustainability within the business and ensuring oversight was distributed across functions. The forum provides a monthly platform for senior stakeholders to discuss all issues – whether corporate or investment related – that have a sustainability angle, including but not limited to our stewardship activities. The Forum is chaired by our Head of Sustainability and is composed of senior employees including the Chief Investment Officer and Chief Strategy Officer. It allows its members to delve deeper into the complexities of sustainability issues, exchange ideas and insights, and develop strategies to address them.

The Sustainability Engagement Forum

The quarterly Sustainability Engagement Forum is an all-staff meeting structured as Continuous Professional Development (CPD) Sustainability Training. It serves as a platform to inform the rest of the organisation about important sustainability matters, including updates on stewardship progress. This Forum not only provides a space for sharing updates but also plays a vital role in fostering sustainability awareness throughout the entire organisation.

Examples of topics that included stewardship covered in the Sustainability Engagement Forum in 2024 were:

- Introduction to stewardship and engagement and practical application of PIC's engagement strategy.
- Winning Environmental Finance's 'Sustainable Re/insurer of the year 2024' award which was awarded in part due to the effort and influence we have demonstrated in promoting industry-wide progress.
- PIC's carbon offsetting strategy and the importance of using high integrity carbon removal credits.
- Introducing voluntary Employee Commuting Survey to estimate employees' emissions from commuting.
- Engagement case studies, such as our work with companies in the UK water sector.
- PIC's participation in various sustainability and stewardship industry initiatives, such as the Accounting for Sustainability ("A4S") Principles Charter for which PIC were the founding signatories and remain active working party members.
- PIC's participation in charity partnerships.

The Forum is open to all and on average 130 employees attended and participated each quarter in 2024.

Comprehensive sustainability representation across all levels at PIC

PIC has sustainability representatives across the business. Arno Kitts, a Non-Executive Director on PIC's Board and Chair of the Investment and Origination Committee, is the Board level Sustainability Champion. Simon Abel, PIC's Chief Strategy Officer, has executive leadership on sustainability matters. Cléo Fitzsimons is PIC's Head of Sustainability and takes on corporate level sustainability responsibilities in addition to her focus on the investment portfolio.

In 2024, we implemented our Sustainability Champions initiative, involving 15 employees from 10 departments across the organisation. Each champion led their own department-specific initiatives with the aim of embedding sustainability as a standard practice.

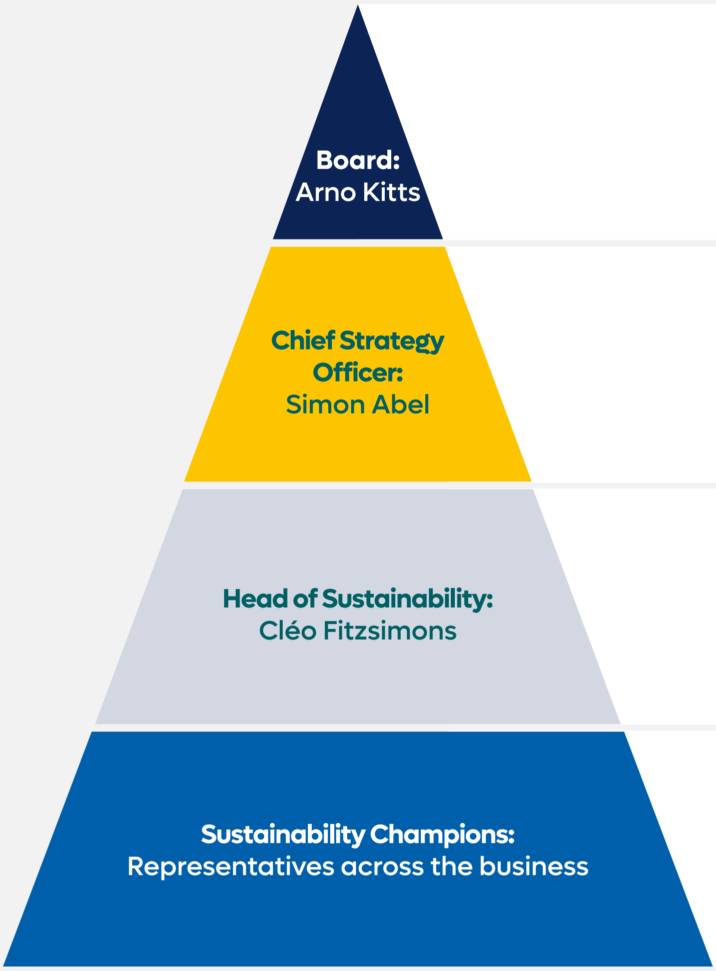
Every champion participated in formal sustainability training which equipped them with the skills to take informed actions and share external best practices into their respective areas. The champions met monthly throughout the year, collaborating and supporting each other to enhance the success of their initiatives.

Some key achievements included the Risk team champion putting in place practices to assess and score ESG risk for our investment counterparties and providing department wide sustainability training. Our Credit Research team champion helped ensure the successful adoption of our new internal ESG rating methodology and encouraged other analysts to engage on ESG topics by promoting PIC's Engagement Strategy.

More information can be found in our Sustainability Report.

Sustainability representation

At various seniority levels and across the business



Board-level Sustainability Champion

- Act to ensure that sustainability matters are considered by the Board
- Escalate any concerns about the Company's sustainability related activities to senior management and the Chairman
- Help ExCo Sustainability Lead embed sustainability matters into the Company's culture and policies as well as ensure appropriate external engagement of such matters and reporting from executives to the Board

ExCo Sustainability Lead

- Take ExCo leadership for sustainability matters
- Drive and monitor progress for PIC's overall sustainability strategy
- Promote/communicate PIC's sustainability capabilities across all stakeholder groups

Head of Sustainability

- Set strategic direction for PIC's overall sustainability strategy and ensure alignment with PIC's corporate strategy
- Help ensure sustainability standards set by the Board/ExCo are met
- Coordinate and oversee the two main streams of PIC's sustainability Target Operating Model (TOM): 1) Responsible investing; and 2) Long-term sustainable business

Sustainability Champions

- Build momentum and help drive sustainable change within the organisation
- Assist Business Function ExCo member to embed sustainability within BAU
- Bring outside best-practice information on sustainability within PIC and help spread it across the organisation

Ongoing training

To ensure our Board and employees are up to date on the latest industry developments we undertake continual training on the topics of ESG and stewardship.

For example, in 2024, the Board and ExCo members attended two sustainability related training sessions. One of the sessions was on linking remuneration to sustainability-linked performance objectives. The session covered the regulatory landscape, guidance from the investment community, FTSE100 best practice in relation to ESG metrics within incentive plans, and lessons learned from early adopters. A second session related to Non-Financial reporting, such as PIC's annual TCFD and Sustainability reports, and what ownership and governance structure was seen as best-practice within the industry.

For the wider organisation, one of our external managers delivered an insightful training session on Human Rights and Modern Slavery.

The session covered several key areas:

- what Modern Slavery, including forced labour, bonded labour, human trafficking, and child labour, entails;
- sectors considered most at risk;
- benefits for the corporate sector in proactively addressing these concerns;
- how we, as investors, can drive positive change (and identify malpractice) by asking our investee companies the right questions.

In addition, our Head of Sustainability provides on-going training on ESG integration and engagements with the Investment team in addition to the quarterly all-employee Sustainability Engagement Forum.

The Responsible Investing team

Our Responsible Investing team consists of three full time individuals.

The team is led by our Head of Sustainability, and she is accompanied by an Investment Stewardship Manager, and a Responsible Investment Climate Lead. During 2024 a summer intern supported the Responsible Investing team to help with the team's day-to-day activities. The intern was then offered a graduate position and subsequently became a member of the Responsible Investing team for the rest of the year.

The team members come from diverse academic and professional backgrounds with specialisms ranging across asset & wealth management, actuarial, ESG integration in public and private markets, Responsible Investing policy development, impact investing, Net-Zero consulting and further rich expertise.

The Investment Stewardship Manager is a full-time resource overseeing PIC's stewardship initiatives. She has been in her role since the beginning of 2023. She has a wealth of experience spanning 14 years in the insurance and pensions sector. With a background in Investment Risk and Investment Strategy, she has a proven track record in managing stakeholder relationships effectively and navigating intricate regulatory landscapes. She is also a CFA charterholder. In her role, she is tasked with advancing PIC's engagement strategy, providing oversight to external managers' engagement activities, and actively participating in collaborative engagement initiatives. Beyond these responsibilities, she serves as a Subject Matter Expert (SME) for other members of the Investments team. Her expertise empowers them with valuable insights on various engagement themes, enabling them to conduct impactful engagements directly with the companies they work with or cover.

The wider team

Responsibility for stewardship and engagement activity is not limited to the Responsible Investing team.

As mentioned above, PIC has also named Sustainability Champions in all major business functions to embed sustainability within our culture and every-day processes. This demonstrates PIC's dedication of resources towards Responsible Investing, in addition to the application of sustainability matters falling within the remit of each function's business as usual.

In the area of stewardship and engagement, 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. Our analysts consider material sustainability risks and opportunities alongside other factors and liaise with our Responsible Investing team on their findings. Additionally, all members of the Credit Research team hold performance objectives tied to stewardship and engagement. This includes actively engaging with issuers that have high ESG risk and logging all engagements in our proprietary engagement platform.

Every member of the Investments team is expected to consider ESG factors when reviewing an investment opportunity. This commitment ensures that our analysis is forward-looking, taking into consideration the risks associated with potential investments over extended periods, often spanning many decades. This forward-thinking approach aligns with our dedication to responsible investment practices and the long-term sustainability of our portfolio.

Third-party ESG data providers

PIC use MSCI and Sustainalytics to provide relevant ESG data, which is interpreted and analysed by PIC's credit research analysts in the context of our portfolio, and in light of our analysis determining what term we would be comfortable lending over.

For public corporate credit, the team use Sustainalytics' ESG Risk Rating reports to assist in identifying sustainability risks of a company, and to determine how well these risks are managed.

We incorporate climate data from MSCI into our investment decisions to evaluate an investment's climate-related risk exposure and how factors, such as GHG emissions, decarbonisation commitments and projected competitiveness within a low carbon economy, could influence its long-term success. Please see our most recent TCFD report for more detail.

Real estate assets – built environment

Specifically, in the area of built environment, we continue working with Buro Happold, a specialist-built environment consultant, to perform due diligence and engage with our property developers to strengthen the environmental aspects of our design and construction standards.

Together, we bolstered our due diligence process and have created a proprietary two-stage, in-depth ESG due diligence assessment that we use to benchmark all incoming real asset investments against. We are also using the scorecards to assess retrospectively our existing portfolio assets in this sector to ensure they are aligned with our enhanced standards (see more detail in Principle 7). PIC is committed to helping the property sector transition to be more environmentally friendly as we consider this a forward-looking investment opportunity and the right thing to do for our society.

Incentivising stewardship

Rob Groves, PIC's Chief Investment Officer has objectives to ensure the integration of ESG factors alongside financial factors in the investment decision making process.

This is measured through Key Performance Indicators (KPIs) such as:

- Meeting Net Zero commitments and transition strategy actions; and
- Establishing ESG Integration frameworks for all asset and sub-asset classes.

Giles Fairhead, PIC's Chief Risk Officer has an objective to own the approach to climate risk management and embed this in the organisation.

In total, seven members of the Executive Committee have performance objectives linked to sustainability with specific KPIs included where relevant. Sustainability, and more specifically stewardship-related objectives, are also incorporated into specific team objectives. For instance, the Credit Research team has the following stewardship related objectives:

- Build knowledge of sustainability-specific issues within our respective sectors so that we can have quality engagements on such topics with issuers.
- Where we have access to management, ensure all transactions with High ESG risk scores are engaged with during the year.
- Ensure that all discussions with management on ESG factors are logged into our engagement platform.
- Collaborate with the Responsible Investing team on advancing PIC's Engagement strategy.

We ensured that sustainability is incorporated within objectives, and we are reviewing the best way of bringing that into the remuneration framework.

Assessing the effectiveness of our chosen governance structures and processes

We firmly believe that our current governance structure, which includes representation from all seniority levels across the firm, ranging from Board members to dedicated employees responsible for the day-to-day operations, ensures the effectiveness required for sustainable business practices.

This multi-level representation fosters a comprehensive approach to decision-making, drawing on diverse perspectives and experiences. Our commitment to good governance is reflected in the strong score received during the latest UN PRI assessment process for 2023: 4 out of 5 for 'Policy Governance and Strategy'.

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

Specific areas of note related to governance and stewardship were:

- The right responsible investment policies in place and publicly disclosed
- Senior level accountability
- Stewardship strategy and stewardship code signatory
- Climate change commitments and disclosures

The assessment also identified areas for improvement, highlighting the need to enhance transparency by including more detail on engagements performed, a step we are actively planning to take. Additionally, there is growing recognition of the necessity to go beyond climate considerations to include wider biodiversity concerns. Furthermore, the assessment underscores the importance of refining our escalation policy as our engagement strategy continues to evolve and mature.

PRI Principles for Responsible Investment

Principle 3.

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

As a specialist insurance company focused on insuring the pensions of defined benefit pension scheme members in the UK, PIC doesn't manage clients' money. Instead, PIC's clients and beneficiaries include:

Policyholders whose pensions PIC pays

Pension trustees

Wider society through our sustainable investments in the economy

While rare, our routine business activities occasionally encounter potential conflicts of interests. These conflicts can stem from various relationships, such as those with our shareholders, clients, or suppliers, introducing biases that could influence our decision-making process.

Examples include:

- Personal dealing in shares where PIC employees have access to insider information such as potential new pension risk transfer transactions;
- One of our employees having a personal relationship with one of the counterparties we work with – either a supplier, a contractor, a service provider or an employee of a company which is considering a pension risk transfer to PIC;
- PIC's interactions with pension scheme trustees where a Non-Executive Director (NED) holds a position on the Board of Trustees or Sponsor of the pension scheme giving rise to potential conflict of fiduciary responsibility;
- PIC targeting a company for engagement where the company is also considering a pension risk transfer to PIC or has another commercial relationship with PIC;
- PIC's investment in the same private deal from both equity and debt perspectives or supporting different equity sponsors in the same transaction.

PIC's Conflicts of Interest Policy

PIC has a Conflicts of Interest Policy in place to manage the risks of conflicts. The Policy provides guidance and procedures for identifying, monitoring and managing conflicts of interest.

The Policy promotes the highest standard of integrity and requires employees to disclose their interests at least annually so that conflicts or potential conflicts can be identified and appropriate steps are put in place to mitigate them. It reminds all staff of their duty to act in the best interest of the Company and its Policyholders and reminds them to be alert to situations that may give rise to an actual or perceived conflict. The Conflicts of Interest Policy undergoes a thorough review at least once a year to ensure its relevance and effectiveness. Additionally, all employees are mandated to undergo compulsory training, conducted annually, covering this Policy alongside other relevant policies such as Gifts and Hospitality and Whistleblowing.

The Policy mandates the disclosure of any conflicts of interest at the commencement of each senior committee meeting, including Board and Board Committees. This is included as a standard item on the agenda for every meeting.

The Legal team also manage a 'Restricted List' of company names that is sent around to all PIC employees and forbids any personal account trading on companies on that list without a special circumstance waiver being sought out.

If there is a conflict of interest with an external stakeholder, PIC manages this conflict from the very beginning of any process. Once a potential conflict of interest is identified, the General Counsel and Deputy General Counsel assess the risk caused by the conflict and, depending on the severity, put in place mitigating actions. These can range from ensuring the conflicted party is not a decision maker or influencer to removing the conflicted party within PIC from the process.

Stewardship-specific conflicts of interest

PIC acknowledge that there may be potential conflicts of interest in our stewardship activities.

For instance:

- When engaging with a private issuer to use our influence and promote better ESG practices, we may also be bidding with them on credit being issued. Our Investments team could be conflicted between potentially having challenging stewardship discussions and being selected as a lender in the issuance.
- Similarly, when PIC engages with a company sponsoring one of our existing pension schemes or is a sponsor of a prospective scheme, potential conflicts may arise due to the tension between PIC's engagement objectives and our interest in winning new business.

In the former case we rely on the fact that our engagement strategy is predetermined and approved by the Board, ensuring that our investment management processes, including engagement, remain unaffected by these relationships. There is sufficient transparency so that the Responsible Investing team can challenge other members of the Investments team if the right questions are not being asked of the issuing company. The Responsible Investing team encourage ethical decision-making among all team members by emphasising the importance of prioritising disciplined ESG risk assessment relative to short-term financial gains.

In the latter example, we would rely on two key elements to manage potential conflict. Firstly, there is a clear distinction between Responsible Investing and Origination teams who report to different Executive Committee members in PIC's organisational structure. Secondly, our engagement strategy is predetermined and approved at Board level, ensuring that our investment management processes, including engagement, remain unaffected by these relationships. We communicate our engagement approach with all sponsors, demonstrating our dedication to managing conflicts responsibly.

Examples of Conflicts in 2024

In 2024 we had no new conflicts of interest related to stewardship and engagement activity requiring disclosure.

Principle 4.

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Given our sector of the industry, and the resulting business models for PIC and our peers, the consistency and reliability of cashflows is critical to ensure we can fulfil our purpose of paying our policyholders' pensions.

As such, the key market-wide and systemic risks we have identified for our business are as follows:

Financial markets

With heightened geopolitical tensions the financial markets have been volatile. Volatility and dampened economic growth expose PIC to the risk of a prolonged high-interest rate environment, and there remains considerable uncertainty about the pace of interest rate reduction. Higher interest rates could lead to increased credit risk and put downward pressure on credit ratings – which can directly affect our business.

Credit risk

One of PIC's main risk exposures is to credit risk through our investment in debt securities. Systemic issues may impact credit risk by reducing credit quality and as such are thoroughly assessed at the time of investing in new debt securities and throughout the life of our holding period.

Regulatory and political environment

Risk associated with the regulatory and political environments in which PIC operates, including the ability of PIC to keep pace with changes in these environments.

Climate change

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 These are key risks that can cause increased volatility and uncertainty which destabilises markets and directly affects our asset-liability modelling. We find climate risk particularly difficult to respond to given its relative novelty. The true magnitude of consequences from climate risk are still unknown despite scientific forecasts and various scenarios which can be tested.

We have taken strong measures to mitigate these risks while working with industry peers to promote well-functioning, more stable and increasingly transparent markets. Our strategy for managing these risks is set out on the following page.

Financial markets

The global economic outlook continued to be volatile in 2024, with uncertainty over the timing of interest rate cuts and ongoing geopolitical risks, particularly the continued Russian invasion of Ukraine, the risks of a wider Middle East conflict and trade tensions. The impacts of these market conditions on PIC can be both positive and negative. While risks have been muted over 2024, as evidenced by narrow credit spreads, there are still potential risks in the future.

Although interest rates have started to reduce and inflation has fallen substantially, there remains considerable uncertainty about the pace of interest rate reduction. A prolonged period of higher interest rates could lead to increased credit risk and put downward pressure on credit ratings. Sustained levels of downgrades and defaults would impact PIC's solvency position. The continuation of tighter spreads could impact PIC's ability to originate sufficient assets at the required spreads to meet business assumptions.

Exposure to market risks such as inflation is primarily managed through our hedging programme. We monitor market conditions and have risk appetite limits set to manage PIC's exposure to market risks. PIC also holds capital to protect the business against market movements and downgrades and defaults, and we continue to develop our methodology for calculating the amount of capital to hold.

At 31 December 2024, £12.7 billion (FY2023: £11.4 billion) was invested in sustainable assets. These are assets that we define as having a positive impact on stakeholders and include investments in social housing. The overall composition of the portfolio is therefore well positioned to withstand economic stresses, ensuring the portfolio delivers the cash flows required to pay the pensions of our policyholders over the coming decades.

As we look ahead to 2025, we are prepared for another busy year. Geopolitical risks look set to remain heightened, bringing continued uncertainty and an elevated chance of market volatility as well as unexpected operational events with potential to affect market risk such as cyber-attacks and disruption to supply chains.

Credit risk

PIC is primarily exposed to credit risk through its investment in debt securities. A significant proportion of the asset portfolio is comprised of corporate and government bonds and private debt held to back annuity liabilities. Credit risk also arises in respect of derivative contracts and reinsurance arrangements to the extent that there is the potential for the counterparties to default on their obligations.

PIC manages exposure to credit risk by maintaining a comprehensive due diligence and governance process for assessing and selecting appropriate credit risks to acquire. Counterparty risk is controlled through establishment of collateral agreements and master netting agreements on interest rate and currency swaps. Minimum credit quality requirements are applied when selecting derivative and reinsurance partners to transact with and exposure limits are determined based on credit ratings and projected exposure to losses on default. To manage the credit risk PIC maintains, the credit portfolio and exposure to counterparties are monitored on a regular basis, and capital is held to further protect against crystallisation of credit risk. Some reinsurance contracts will also have collateral arrangements to manage risk.

PIC manages credit concentration risk by placing concentration limits for various characteristics (e.g. sectors, credit rating, geographical) and on exposures to individual counterparties. Capital is held to protect against the additional potential impact of concentrations within the portfolio in an adverse credit scenario.

Our portfolio is predominantly invested in low-risk, investment-grade corporate debt and UK Government bonds. At 31 December 2024, 92% of the portfolio, including gilts and government bonds, was rated investment grade (FY2023: 91%). During the year we re-weighted our portfolio more towards gilts where credit risky assets were expensive and, in general, not providing good risk-adjusted returns. This approach was primarily driven by better relative value of gilts versus corporate credit noting the very tight credit spreads.

Regulatory and political environment

PIC operates under the regulatory supervision of the Prudential Regulation Authority (PRA) and its rulebook, including Solvency UK (formerly Solvency II) requirements. Specifically in relation to sustainability, PIC must consider the expectations of:

- The PRA's Supervisory Statement: Enhancing banks' and insurers' approaches to managing the financial risks from climate change (SS3/19);
- The PRA's Dear CEO letter from July 2020 on managing climate-related financial risks;
- The PRA's Dear CEO letter from October 2022 on the PRA supervision of climate-related financial risk;
- Section 54 of the Modern Slavery Act 2015 which requires PIC to publish an annual statement setting out the steps we take to prevent modern slavery in our business and our supply chains; and
- The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 which require PIC to report annually on our gender pay gap.

We regularly engage with our regulators and policymakers on industry-wide topics such as Solvency UK, wider pension reforms, the landscape for UK investments, Consumer Duty, and industry related consultations.

Constructive engagement with the PRA is particularly important to us as this allows us to fulfil our purpose. A current focus is the potential widening of our investment universe of assets eligible for the Matching Adjustment ("MA"), following the Solvency UK reforms. Increased investment flexibility and a more streamlined permissions process will allow PIC and our peers in the industry to direct funds into new areas of investment creating considerable social value whilst maintaining security of cashflows in order to pay the pensions of our policyholders over future decades.

The changes to Solvency UK reform were published in 2024. PIC was an active participant throughout the consultation process and provided representatives for the various PRA / industry Subject Expert Groups ("SEGs"), which facilitated valuable engagement between regulators and industry.

The new solvency regime is intended to allow increased investment flexibility, including the introduction of assets with "highly predictable" cash flows into MA funds, and to facilitate a more streamlined process for regulatory review of investment proposals, meaning firms can be more agile in responding to appropriate investment opportunities. We view these changes as a positive outcome of our participation throughout the consultations on the various topics, and we hope over time will lead to increased investment in socially beneficial projects.

We welcome the PRA's intention to consult later this year on an MA investment accelerator, and we will actively engage with that consultation. Unlocking our full investment capacity requires addressing factors such as increasing the supply of opportunities, simplifying the investment process, and improving financial attractiveness. We will continue to engage with the PRA on a bilateral basis, as well as through industry groups, such as the Association of British Insurers ("ABI"), to achieve these socially beneficial outcomes.

In addition to the PRA, the Financial Conduct Authority (FCA) also plays a crucial role in our regulatory environment by safeguarding the interests of our policyholders and supervising market conduct. The implementation of the FCA's Consumer Duty rules, effective from 31 July 2023, which require FCA regulated firms to act to deliver good outcomes for retail customers, has been a significant focus for PIC. The Board Customer Committee was established with delegated authority from the Board and is chaired by PIC's Consumer Duty Champion Stuart King. It provides oversight and advice on implementing, prioritising, delivering, and embedding Consumer Duty requirements into the Company's processes and business activities. It also oversees the Company's progress against its delivery plans and offers advice and challenges to embed and maintain a culture focused on delivering good outcomes for customers.

Purposeful Finance Commission:

Helping Local Governments Overcome Barriers to Regenerating the UK's Towns and Cities

Tracy Blackwell
Chair of the Purposeful Finance Commission and CEO of Pension Insurance Corporation plc

The Purposeful Finance Commission ('PFC') is an independent organisation chaired by our CEO, Tracy Blackwell. It comprises leading combined authority figures, local government leads, and investors who have come together to identify, understand and overcome the barriers that communities across the country face in bringing forward long-term regeneration projects, and in accessing long-term institutional investment.

The PFC conducted extensive research and consultations with various stakeholders, including local authority representatives, investors, developers, and civil servants, culminating in the report 'Investment and Infrastructure.'

The report, published in 2024, lists eight recommendations which if implemented would help local government overcome barriers to urban regeneration, attract institutional investment, and create significant social value. These include establishing a 'pipeline fund' designed to address planning delays by increasing capacity and expertise in local authority regeneration teams; establishing a central public register for distinguishing and tracking public and private investments; provide greater national certainty for local authorities to bring forward long-term regional regeneration plans etc.

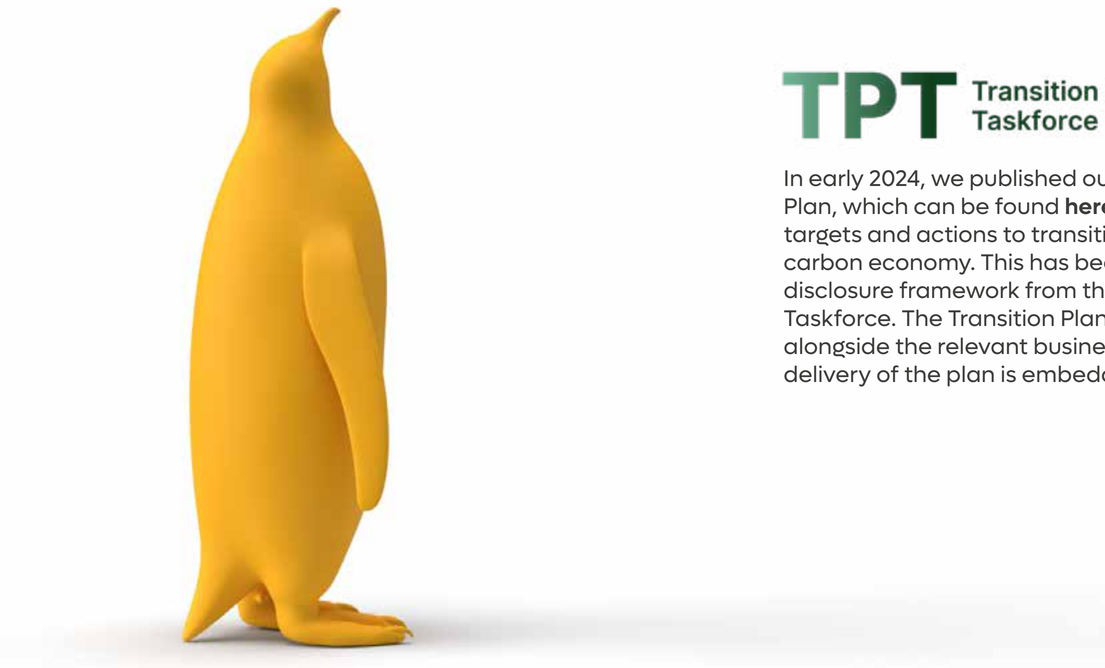
Please read the full report **here**.

Climate change

Climate change continues to be an area of concern for the public, insurers and regulators alike. Climate change may reduce the value of PIC's assets, increase the cost of capital, affect new business volumes, cause operational disruption and have a negative reputational impact.

The focus on climate change and related sustainability risk will remain high given the continued focus from key stakeholders in the UK. Climate change is likely to lead to increasingly acute weather catastrophes. Longer-term changes to natural resource availability and societal changes could lead to potential reductions in the value and availability of assets PIC invests in (e.g. property and infrastructure), and disruption to PIC's operations and counterparties. Increased weather catastrophes would also lead to increased fixed costs for PIC on the built assets it manages (e.g. cost of insurance). Finally, policy changes from future governments (e.g. some governments rowing back on or strengthening their climate commitments previously made) could lead to stranded assets (i.e. those PIC is unable to sell).

We continue to monitor the risk appetite metrics set for climate change risk, helping identify PIC's performance against published Net Zero targets. We continue to perform stress and scenario testing, focusing on specific sector transition pathways to identify the risks to which we are exposed. We also continue to monitor regulatory and policy developments in the UK and the key markets in which we operate to ensure we remain compliant.



THE NET-ZERO ASSET OWNER ALLIANCE

Mitigating climate change and associated risks was one of the key drivers to making our commitment to Net Zero. An important part of our transition plan that should enable us to meet our stated climate commitments is to engage with companies on the topic of climate and influence their behaviour so that it aligns with a Net-Zero world. We have committed to engaging with at least 20 of our investee companies a year with a focus on companies that will be likely to have the largest real-world decarbonisation impact. This is consistent with the Net-Zero Asset Owner Alliance Target Setting Protocol, an industry initiative we are members of. In 2024, we went beyond this number and had climate specific engagements with 94 portfolio companies within high-emitting sectors such as energy and utilities, as well as those with a significant impact on the transition, such as financial institutions.

We publicly support the Task Force on Climate-related Financial Disclosures ("TCFD") and published our first TCFD report (now called Climate report) in 2021. We have continued to annually publish a climate report along the TCFD framework with our 4th report being published in early 2025 and can be accessed **here**.
We agree with the TCFD that financial markets need clear, comprehensive, high-quality information on the impacts of climate change. This includes the risks and opportunities presented by rising temperatures, climate-related policy and emerging technologies in changing worlds. The Financial Stability Board created the TCFD to improve and increase reporting of climate related financial information.

In early 2024, we published our first Climate Transition Plan, which can be found **here.** The plan details our targets and actions to transition towards a lower-carbon economy. This has been drafted in line with the disclosure framework from the Transition Plan Taskforce. The Transition Plan has been developed alongside the relevant business functions to ensure the delivery of the plan is embedded within the business.

Managing our climate risk exposure

Managing climate risk is firmly embedded into our business, and carbon intensity (defined as the Weighted Average Carbon Intensity ("WACI") (Scope 1 and 2) in emissions per $ million revenue) is a key metric, which is monitored by PIC to ensure our externally published emissions targets and ambitions are achieved. The metric aligns with our externally published Net Zero targets.

We have further reduced the carbon intensity of our portfolio during 2024, and we remain on track and committed to meeting our 2025 and 2030 decarbonisation targets. We focus our stewardship activities on actively engaging with the most carbon intensive companies in our portfolio and expect to see continued progress from this in the medium term. Our engagement activity, alongside our forward-looking investment strategy that focuses on investments that align with a low-carbon transition, puts us in a strong place to mitigate the risks from climate change.

ABI

PIC is a founding member of the Association of British Insurers (ABI) Climate Change Work Group, which was established to support the implementation of the ABI Climate Change Roadmap. Developed in partnership with Boston Consulting Group, the Roadmap sets industry targets to address climate change and contribute to the UK's goal of reaching Net Zero by 2050. As part of this initiative, PIC has been actively engaged in tackling systemic risks affecting the bulk annuity market and collaborating with industry peers to help halve emissions by 2030 and achieve Net Zero by 2050.

The roadmap focuses primarily on the insurance sector's role in supporting the delivery of the UK's Net Zero strategy and meeting its carbon budgets and aims to identify where ABI members are taking action and where further action is needed.

Case study:
Supporting Sustainability Reporting Standards for Social Housing

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

See more detail on this case study in Principle 10.

Sustainability
for **Housing**

A4S Sustainability Principles Charter for the BPA process

In January 2024 PIC became a founding signatory to a new industry-specific initiative for the pension risk transfer market. The A4S Sustainability Principles Charter's objective is to align expectations between the main stakeholders within our market: pension scheme trustees, advisers and insurers. The Charter is a way of communicating to pension schemes looking to transfer some or all of their risk to insurers like PIC that a certain standard of sustainability and responsible investing will be applied once ownership of assets have transferred.

The Charter has four pillars and signatories need to be able to evidence meeting the objectives set out in each pillar to at least a 'good' standard:

1. Transparency
2. Integration of sustainability in decision making
3. Ongoing reporting and engagement
4. Industry engagement in promoting sustainability

Some of the benefits of the Charter are that it facilitates the comparison of insurer sustainability capabilities. It also has a clear objective of simplifying reporting, rather than insurers having to respond to varying and overlapping sustainability queries. Finally, the Charter unites the industry in a collaborative manner to support continued progress in sustainability standards.

Longevity risk

In addition to the key market-wide and the systemic risks listed above, we consider longevity risk. People living longer than expected can pose a risk for companies within the pension industry, as they may need to pay out benefits for a more extended period than initially anticipated. There has been increased uncertainty in relation to life expectancy following the Covid-19 pandemic. Mortality rates in the population have been higher compared to mortality rates in 2019. As well as the direct impacts of the pandemic, other factors may be contributing to higher mortality. For example, reductions in public spending and the cost-of-living crisis, with decreases in households' real income being linked to increases in premature deaths. This has driven a decrease in views of life expectancy in the UK, but with higher levels of uncertainty around estimates of life expectancy.

PIC generally seeks to transfer longevity risk via reinsurance contracts. This reduces the risk to PIC of policyholders living longer than expected as any increase in liabilities is shared between PIC and the reinsurers. It also means that PIC does not benefit as much from reductions in life expectancy. Where PIC has retained longevity risk, this is weighted more heavily to younger policyholders. PIC also holds capital to protect the business against potential increases in longevity.

PIC incorporates Sustainability criteria into both the tendering process for reinsurers and contract agreements where feasible. Our expectations are that reinsurers align with our own Responsible Investment and Stewardship approach where possible.

Principle 5.

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Policy framework

PIC has a detailed Policy Framework Overview which is described below. Policies, including our Sustainability and Stewardship policies, initially receive Board level approval when first established or if changed and then are reviewed and updated on an annual or biennial basis as required.

Policies may also be reviewed on an ad-hoc basis from time to time due to external factors such as changes in regulation. PIC's policies fall into three categories and are highlighted in the table below.

For example, PIC's Stewardship Policy is a Level 2 policy under the Level 1 Sustainability Policy:

Level 1 / 2 Policies

- High level requirements of the Board and Executive Committee relating to the key aspects of PIC's business.
- Each policy will be overseen by the Board or ExCo at committee or nominated sub-committee level, and will apply to the whole company.
- The aim is to limit the number of policies to around 10 – 12 at Board level (Level 1) and 20 – 25 at Exco level (Level 2).

Level 3 Policies

- More detailed, active documents, setting out how specific Level 1 and Level 2 policy requirements should actually be implemented.
- Each Level 3 policy will be managed at either company or business unit level, with oversight allocated to a nominated ExCo member.
- More than one Level 3 policy could cover each higher level policy.

Procedures

- Prepared by individual business units setting out how they will carry out their work to implement and evidence the Level 1 / 2 / 3 policies.
- Each procedure document will be overseen by the relevant business unit head or a nominated senior member of staff.
- Procedures will include MI reporting and audit requirements.

Policy review and sign off

Level 1

The approval of each Level 1 policy is the responsibility of the PIC Board and approval may be delegated to a nominated Board sub-committee. Each Level 1 policy is monitored by a nominated member of ExCo, including a formal review of the policy requirements and how these have been implemented in practice. Any recommendations for changes are directed to the Board or relevant Board sub-committee. An example of our Level 1 policy is our Sustainability Policy.

Level 2

Level 2 policies are prepared and maintained under the oversight of nominated ExCo members and submitted to ExCo for approval. As with Level 1 policies, the responsible ExCo member will carry out a regular review of each Level 2 policy in line with the schedule agreed for that policy and provide a report to ExCo. An example of a Level 2 policy is our Stewardship Policy, which stems down from the Sustainability Policy.

Level 3

For Level 3 policies, the responsible ExCo member arranges for a senior member of PIC staff in their Business Unit with suitable knowledge and experience to carry out an independent review of these documents, to ensure that they comply with the associated Level 1 and Level 2 policies. The responsible ExCo member will inform ExCo of any material issues or changes in the Level 3 policies and has the authority to approve the Level 3 policy. An example of a Level 3 policy is our Conflicts of Interest Policy which stems down from our Compliance Policy (L2) and Assurance Functions Policy (L1).

Sustainability and Stewardship Policies review

We regularly revisit and update both our level 1 Sustainability Policy, outlining PIC's commitment to sustainability matters, and our level 2 Stewardship Policy, detailing our approach to stewardship within our investment portfolio. The updates ensure that the policies remain up-to-date and aligned with the latest industry standards. Changes typically include:

- Updates to comply with the evolving regulatory environment in the area of sustainability;
- Addition of references highlighting our status as a signatory to relevant industry initiatives;
- Revisions to the governance section to reflect any changes to member representation and/or committees involved in sustainability matters.

The policies are updated on a biennial basis, or more frequently if required to ensure they continue to be aligned with PIC's objectives around investment stewardship and sustainability more broadly. Any changes to the Sustainability and Stewardship Policies are approved by the Board and the Board's Investment and Origination Committee respectively, following the review and governance process.

Our Sustainability Policy can also be found publicly **here**.

Internal and external assurance

PIC has made significant efforts to enhance stewardship through sound assurance, both internally and externally. PIC's Assurance Functions Policy (Level 1) sets out the Board's requirements for the four assurance functions: Compliance, Risk, Actuarial and Internal Audit.

PIC's CEO ensures that each Assurance Function has the necessary authority, resources, expertise, and access to all relevant information and to all relevant staff to discharge its responsibilities. The Board requires the CEO and the Heads of the four Assurance Functions to develop an Integrated Assurance Programme. This ensures that the responsibilities of the Assurance Functions to review the activities of the functional business areas of the Company are carried out in a co-ordinated and efficient manner.

The CEO and the Heads of each of the Assurance Functions also provide annual reports to the Board which set out PIC's performance against the objectives of the Assurance Functions Policy and key outcomes from the individual functional reviews and the integrated Assurance Programme, together with an assessment of the effectiveness of each of the functions.

In line with industry best practice, PIC operates a "Three Lines of Defence" model within which risk management responsibilities are split between the First Line business units, the Second Line functions (Risk, Compliance and the Actuarial Assurance Function) and the Third Line (Internal Audit). Within this model, in the context of Risk Management:

- First Line business units are responsible for carrying out risk management in their day-to-day activities, in line with the requirements of this policy.
- The Second and Third-Line functions are responsible for designing, implementing and embedding the Risk Management Framework itself and for providing assurance to management and the Board that the business is operating within the Risk Management Framework.

Compliance (internal)

PIC's internal Compliance Function advises the Board on the requirements of all relevant laws, regulations and administrative provisions, including those prescribed in the FCA Handbook and PRA Rulebook, and how these are addressed in the operations of the Company. They ensure adherence of sustainability requirements under such provisions across the relevant functions within the organisation. It also helps create and manage a programme of compliance training for all staff and prepares and reports on the extent to which the Company's compliance activities are operating satisfactorily.

Risk (internal)

PIC's Risk Function reports the extent to which the risk management framework is operating satisfactorily and coordinated the risk management training program for PIC staff. The team owns PIC's Climate Change Risk Policy, which was established in 2023. Following the introduction, PIC has worked on further embedding sustainability risk into the Risk Management Framework. This has taken the approach of including sustainability and associated risks within the Risk Taxonomy and Risk Framework with further work to be undertaken to reflect this in PIC's policy structure. Sustainability risk is recognised as a cross-cutting risk across the business, with the potential to lead to other risks crystalising and impact multiple PIC's strategic objectives. PIC are developing a framework to identify, analyse, mitigate, and monitor sustainability risk on a regular basis, and report this to relevant Executive and Board level committees, in line with PIC's risk management system. The Risk team reviews our TCFD report and contributes to the Climate Risk Management section. They also evaluate relevant sections of this Stewardship Report.

Actuarial (internal)

PIC maintains a permanent and effective Actuarial Function, which oversees the calculation of technical provisions, including the independent review and any recommendations for the consideration and approval of the Board in relation to any methodologies, models or data used. The Actuarial Function also reviews PIC's overall underwriting policy, including the sufficiency of premiums charged and adequacy of PIC's reinsurance arrangements.

Internal Audit (internal)

PIC's Internal Audit Function assesses the extent to which the internal control system is operating satisfactorily and undertakes consulting and advisory services related to governance, risk management and controls for PIC's business.

External audit

KPMG has been the external auditor for PIC for the last 18 years, with a tendering process completed in 2016 with the Audit Committee annually reviewing its performance. For the 2022 year-end, the scope of the financial audit included consideration of the consistency of PIC's TCFD report with the financial statements.

This was the first year that this consideration was in scope of the financial audit. For the 2023 and 2024 year-ends, as well as consideration of consistency with the financial statements, KPMG were also engaged to provide limited third-party assurance over a subset of the metrics disclosed in the TCFD report. KPMG signed an unqualified assurance opinion on a subset of the metrics disclosed in the TCFD report.

Oversight and accountability for our climate scenario analysis

An example of our internal assurance process (and improvements in our climate reporting) is the process that was carried out to deliver our enhanced climate scenario analysis, which in 2024 focused on deep-dives into some of our portfolio's most exposed sectors.

Initially, in 2023, we conducted climate scenario analysis on our investment portfolio using scenarios from the Network for Greening the Financial System, developed by the Bank of England. This analysis provided a high-level view of our exposure to climate-related risks, detailed in our 2023 TCFD report. In 2024, we enhanced our capabilities by developing a more in-depth approach which focused on transition risks in highly exposed sectors such as Oil and Gas, Housing Associations, Airports, Utilities, and Autos. This approach allowed us to produce more granular information to support our investment decisions.

The Credit Research team together with the Responsible Investment team developed realistic scenarios for each sector, including a best estimate and an accelerated transition scenario, based on internal expertise and external research. These scenarios helped estimate the potential impact on the credit ratings of companies within these sectors. We then aggregated these impacts to understand the overall effect on our balance sheet and Solvency Ratio. The results demonstrated that our responsible investing approach effectively manages our portfolio's exposure to climate transition risks, with some downgrades expected over the long term.

The scenarios and underlying assumptions were reviewed by key members of the Sustainability Oversight Forum to challenge and validate those assumptions. The results of the scenario analysis were then reviewed by the Actuarial Assurance Function, in line with PIC's stress and scenario framework.

Assurance over stewardship activities and reporting

PIC's Engagement Platform is updated on an on-going basis by PIC's credit analysts whenever they have an ESG related discussion with an investee company.

The logged engagements are documented with an audit trail. On a quarterly basis, the investment Stewardship Manager reviews our ESG Engagement Platform and any direct engagements that have been logged in during that quarter. They separately review the engagements undertaken by our key third party managers.

The summary information about our engagement activity from the platform contributes to our annual reporting, including our Sustainability Report, Annual Report and TCFD report, as well as internal reporting to senior Board and ExCo-level committees. All three external reports adhere to robust governance procedures, including reviews by relevant ExCo members and approval or recommendation for Board approval by the Audit Committee. This ensures the accuracy and verifiability of the provided information.

Governance around our stewardship code submission

The governance around this UK Stewardship Code Application is a process which we established two years ago to ensure that what we present to the FRC is accurate and substantiated and that the application reflects genuine actions which took place and can be evidenced.

The draft report undergoes a formal review by the Head of Sustainability and is then reviewed by key senior stakeholders, including PIC's Chief Investment Officer and Chief Strategy Officer, as well as the Corporate Affairs and Legal teams, for feedback and sign-off. The final version is approved by the Executive Committee and a detailed review is undertaken by a Non-Executive Director who serves as PIC's Board Sustainability Champion, who provides comments and feedback. Subsequently, the entire Board has the opportunity to review the report and offer any material comments before it is finalised and submitted.

Internal and External Assurance over our Climate Reporting

It is important that we have high quality climate data on our portfolio as this not only allows us to accurately monitor and report on the climate risk that we are exposed to, but it also allows us to make our engagement as efficient as possible as we can actively engage with our highest polluting companies.

For 2023 year-end reporting, we enhanced our TCFD report by improving internal controls to validate metrics, publishing our Basis of Reporting, and obtaining limited third-party assurance from KPMG. Our processes remained the same in preparing the 2024 year-end climate reporting.

KPMG have provided limited third-party assurance over selected information within the Metrics and Targets chapter of PIC's Climate Report (TCFD). The full limited assurance report (to be read in conjunction with our Reporting methodology) can be found in Appendix 2 of the **Climate Report**.

Principle 6.

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

PIC provides tailored pension insurance buyouts and buy-ins to the trustees and sponsors of UK defined benefit pension schemes. A key part of fulfilling PIC's purpose is balancing the needs and requirements of all our stakeholders.

Our main clients and beneficiaries are:

- The retail-level policyholders whose pensions we provide; and
- Institutional trustees and sponsors of UK defined benefit pension schemes who look to transfer their members' benefits to the protection of the insurance regulatory framework.

Policyholders

Our purpose is to pay the pensions of our current and future policyholders

Link to KPI's

- **Solvency ratio**
- **Fitch rating**
- **Policyholder satisfaction**

+ For more information on our KPIs see pages 16-17 of **our Annual report**

Link to strategic objectives

To continue building a secure and sustainable business

To carry on leading as a responsible corporate citizen

Why we engage

- Our policyholders are central to our business, but they did not buy their annuity from us – the trustees of their original defined benefit scheme did
- Given the demographic of our policyholders, there is an increased possibility of them having vulnerable circumstances. We seek to establish an ongoing relationship built on exceptional customer service and the right customer outcomes

What matters to them

- That they can rely on us
- Security of their pension benefits
- Timely, accurate pension payment process
- Jargon-free communications
- Accessible and accountable senior management
- Customer service focused on achieving the right outcomes
- Proactive management of policyholders with vulnerable circumstances
- PIC's reputation as a company that creates significant social value

Defined benefit pension scheme trustees and sponsors

This stakeholder group is vital for the future growth of the Company

Link to KPI's

- **Solvency ratio**
- **Fitch rating**
- **Policyholder satisfaction**

Link to strategic objectives

To continue building a secure and sustainable business

To carry on leading as a responsible corporate citizen

Why we engage

- These stakeholder groups are primarily responsible for bringing buyouts and buy-ins to the pension risk transfer ("PRT") market
- It is their decision whether to conclude a buyout or buy-in with PIC

What matters to them

- Competitive bid process
- Track record of delivering on our promises
- Excellence in customer service
- Partnership approach, especially where there is a long-term relationship
- Flexibility and innovative thinking to help them achieve their de-risking goals
- The creation of social value through the assets they pass to us
- Systems and processes that allow transactions to complete even in difficult markets
- Smooth transition process

PIC's Policyholders

PIC secures UK defined benefit pension schemes, moving the pension promise into the security of the insurance regulatory framework, helping pensioners get their full benefits in a more secure environment.

At year-end 2024, we had insured the benefits of 397,100 pension scheme members. Across the people whose pensions we look after, we have a mix of older, current pensioners and younger deferred members. The typical average age of members in a scheme we insure is around 70. Virtually all our policyholders are based in the UK and the map on the following page, which is included in our Annual Report, helps illustrate PIC's social and economic reach across the UK.

Total number of policyholders

397,100

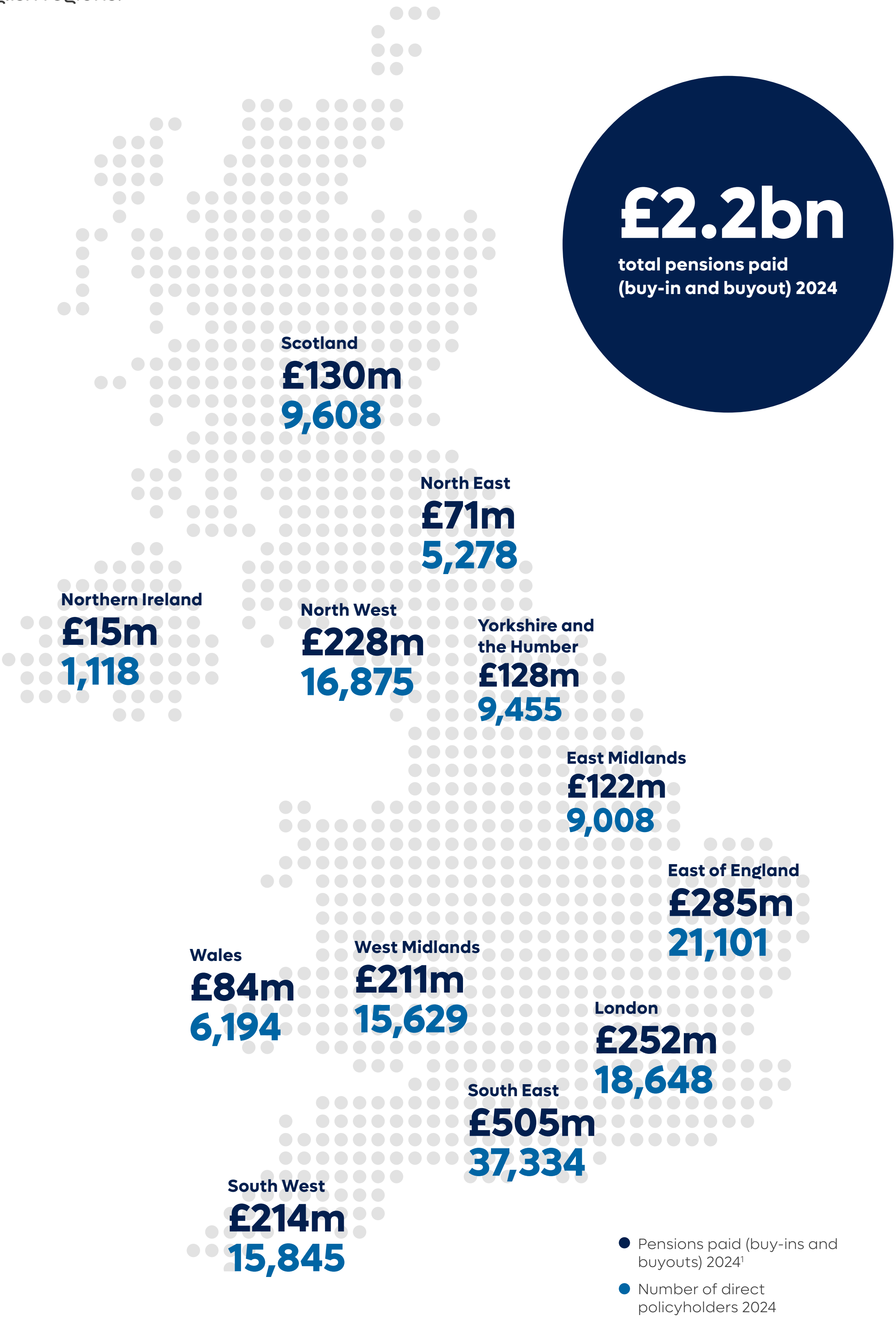
Policyholder satisfaction

99.3%

Number of schemes insured

298

The map below shows the value of the pension payments we have made to our policyholders from the total pensions paid of £2.2 billion. These current payments are broken down by the countries of the UK and nine English regions.



[1] Regional distribution of payments is estimated based on the split of policyholders across the country.

Everything we do is designed to pay our policyholders' pensions. Pension scheme members are welcomed as our direct policyholders following a buyout transaction agreed by the trustees of their pension scheme.

PIC has long been a market leader in how we engage with, and the level of customer service we offer to, our policyholders. During the year, we retained our ISO accreditation and BSI Kitemark for inclusive services in recognition of the work we have done for customers who may need extra support. All our policyholders can expect to be treated with care, respect and integrity, regardless of their circumstances, and we are mindful and proactive in ensuring we are accessible for customers who need additional support.

We care deeply about delivering excellent service to our 397,100 policyholders and were pleased to achieve customer satisfaction levels of 99.3% during the year on pension payments of £2.2 billion. We actively seek feedback from our customers through regular surveys and customer insight activity and we use this to improve the services we provide to customers. During 2024 we retained our ServiceMark Accreditation with distinction from the Institute of Customer Service ("ICS") and won our sixth ICS award, in the Trusted Quality Provider category.

We hold events every year, where our policyholders can meet with, and question, PIC's senior management.

Every event allows us to directly engage with our policyholders. They include:

- A mixture of entirely free online and in-person events across the UK, packed full of interesting and helpful information.
- Topics including the management of pensions and the investment of funds earmarked for future pension payments;
- Updates from our senior leadership team such as from our CEO and CIO;
- Celebrity guest speakers such as Dr Sarah Jarvis, Dr Rosemary Leonard, and John Humphrys, and a choice of complimentary services at our Policyholder Days.

We make our Sustainability and Stewardship report publicly available so that all policyholders can find out about some of the investments that back their pensions and our stewardship approach/activities.

Activity Example:
seeking beneficiary views – policyholder events

Our customers tell us that being a PIC policyholder means so much more than simply seeing their pension payments in their bank account. One of the areas that is commonly remarked upon is the benefit of being able to hear directly from PIC and meet fellow policyholders at one of our dedicated, free events, to which we have welcomed more than 30,000 people since 2011. As a result of this feedback we increased the number of events from seven to 11 this year, to better cater for the changing geography of our growing policyholder base. In addition, we created an online video series, 'PIC on Demand', for policyholders, including those who are less able to travel.

PIC gathers beneficiaries' views and feedback at its policyholder events, through surveys, and directly asking policyholders for feedback. Through these methods we learn what matters to them. Policyholders care that their pensions are secure and delivered on time, that communications are transparent and easy to understand, that PIC maintains great customer service and customer outcomes, and that our investments that back their pensions are socially valuable. Taking this information on board, we have ensured that we continue to prioritise our strong customer service as well as communicate the socially beneficial impact of our investment portfolio via our Annual and Sustainability reports, on our website and within the presentations at Policyholder events.

"Thank you for the professional approach extended to us at the PIC event. The event was most enjoyable and the venue superb.

We were made to feel at home. We met so many friendly folks and reacquainted ourselves with previous friends.

It was good to hear about the company and its ethos and this was backed up by professional, knowledgeable and approachable staff."

PIC Policyholder, 2024

PIC’s assets

Ensuring the long-term security of our policyholders’ pensions is at the heart of our investment approach. PIC’s total investment portfolio as at 31 December 2024 stood at £50.9bn. Due to the nature of our business, we fully bear the risk of the investments we make by guaranteeing the level of payments to the policyholders whose pensions we insure.

As we are responsible for paying people’s pensions for the rest of their lives and we have a mix of younger deferred members and older pensioners in payment, we have a long investment horizon that extends beyond 30 years. Our business model and insurance regulations require us to match our assets with our liabilities, so we hold investments to maturity that meet those expected cashflow requirements for the entire duration beyond 30 years. To achieve this, we consider it appropriate to invest in a mix of Government bonds, public and private debt to support our liabilities.

PIC’s investment portfolio is broken down by asset class in the chart below:

Financial investments by asset class (31 December 2024)

	2024	2023
Debt securities – Gilts and Governments Bonds	**39.0%**	36.2%
Debt securities – Corporate	**30.2%**	33.4%
Debt securities – Private investments	**18.4%**	17.8%
Equity release mortgages	**2.0%**	2.4%
Mortgage backed and other asset backed securities	**0.5%**	0.6%
Participation in investment schemes	**6.0%**	8.7%
Participation in liquidity funds	**3.9%**	—%
Deposits with credit institutions	**—%**	0.9%

Given our very long-term investment horizon, and our conservative risk profile, a meaningful percentage of the portfolio is invested in what is known as productive assets. These investments are chosen not only for their ability to generate financial returns but also for their potential to help alleviate pressing societal and environmental challenges. These investments are generally found within private markets and often characterised by their tangible contributions to society, low risk profile, and capacity to generate inflation-linked cashflows. Examples of such investments include urban regeneration projects, social infrastructure initiatives, renewable energy, and education facilities.

These types of investments have the advantage of providing us with stable and secure cashflows to match specific liability payments at maturities decades into the future, when publicly listed debt is not available. Under the insurance regulatory framework, Solvency II, we are obliged to cashflow match all our future projected pension payments by the month, so sourcing these types of cashflows is crucial to us fulfilling our purpose.

During 2024 we invested around £2.0 billion in high quality assets in sectors including UK housing and infrastructure. £1.0 billion of this was conducted with long-term partners, whereby our existing relationship led to attractive opportunities with strong fundamentals. This included our £50 million investment in Peel Ports, our second transaction with the issuer, following our initial £33 million debt investment during 2023. We also continued our partnership with Northern Ireland based Apex Housing, with a £30 million investment, following a previous investment of £100 million in 2021. Overall, we have invested £13.8 billion in UK housing and infrastructure.

Information on our investments is available on our website to both our policyholders (beneficiaries) and trustees (clients).

Pension scheme trustees

While our policyholders are central to our business, the clients in our business model are the pension scheme trustees looking to move their members' benefits to the protection of the insurance regulatory framework.

Because each deal is unique, communicating directly with trustees, or their selected advisers, is the communication method we feel most effectively allows us to understand their specific needs and how we should tailor our transfer proposal to them. We understand through these channels that some of the most important factors for them in assessing a potential risk transfer partner include a strong track record of delivering on commitments, exceptional client service, and a collaborative approach to long-term partnerships. We have taken this feedback on board and made sure to continue prioritising our customer service and building strong one-to-one relationships with each group of trustees and advisors within the pension community.

Good sustainability credentials are also a criteria increasingly focused on by trustees and our Head of Sustainability is often invited to speak at annual trustee review meetings and pitches to trustees for new business. ESG related questions from trustees have often centred around ESG integration and our approach to climate change and responsible investing. Also, increasingly, we have been asked about our stewardship approach such as our priority engagement topics and specific case studies around demonstrating our engagement activity, which lets us know that this subject is growing in importance amongst pension scheme trustees.

In 2024 we have increased our efforts to understand what our current and prospective trustees care about specifically in the area of stewardship.

The surveys and questionnaires we receive from pension scheme trustees lets us know of the topics growing in importance. For example, in the past few years we have noticed an increase and interest in the topics of Natural Capital / Biodiversity and subsets of it such as Anti-Microbial Resistance (AMR). We have responded to this by formally incorporating Natural Capital as a separate topic of engagement in our updated 5-year engagement strategy (please refer to Principle 9 for more information).

We have also seen an increased expectation from advisers on our macro-stewardship activities, and how we are helping promote wider progress within the industry. PIC is an active industry participant as evidenced in our chairing of the Purposeful Finance Commission ('PFC') and contribution to the A4S Sustainability Charter for the BPA process, more information on both of these can be found in Principle 4.

Our experience revealed a significant variance in expertise on ESG topics among trustees, with many smaller schemes lacking internal expertise in this area. However, we recognise that trustees often rely on advisor assessments, who in turn are providing us with valuable insights into industry trends. As a result, we have directed our efforts towards engaging with advisors to gain a better understanding of trustees' priorities. We find that we score well on several advisors' scorecards owing to a number of factors:

- We are a signatory to the UK Stewardship Code;
- We are members of several industry organisations such as: the Good Economy's Sustainability for Social Housing approach (founding member) and a founding signatory to the A4S Sustainability Principles Charter for the BPA process;
- We are transparent and clear in our reporting including on our stewardship activities and policies;
- We engage with counterparties such as reinsurers;
- We have executive level accountability for sustainability.

We will continue our direct conversations with current and prospective trustees as well as their advisors to monitor if their requirements change over time.

Investment managers following stewardship and investment policies

We work with a limited number of third-party asset managers in relation to certain asset classes within our portfolio. Each manager operates under a unique Investment Management Agreement (IMA), which reflects our investment policy, and specific investment objectives.

Our managers are also required to be UN PRI signatories, are asked to provide us with bespoke ESG reporting and adhere to our Stewardship Policy.

We hold our managers accountable through regular meetings with them. In 2024, we once again engaged with our managers to review the positions against our internal exclusions policy, particularly concerning the oil and gas sector. In addition to the Responsible Investing team, a dedicated member of the Public Credit team oversees the implementation of these IMAs. They engage with key external managers on sustainability-related issues regularly to ensure that the agreed upon standards are being effectively implemented.

Throughout 2024 our external managers have followed our stewardship and investment policies. They also provided us with the information we require on ESG and engagements. We are satisfied with the quality of our managers' ESG reporting.

Principle 7.

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

The consideration of ESG factors within investments has been an inherent part of our process from early on. PIC defines ESG integration as the investment analysis of ESG factors alongside financial factors in the investment decision-making process. It explicitly and systematically includes the analysis of a range of risks and opportunities related to ESG drivers.

In principle, this leads to a broader assessment of the environment in which companies operate and their performance in managing different stakeholders, giving a fuller understanding of risks over the long term than traditional financial analysis alone. These ESG-related risks may vary by country, by industry and by characteristics specific to that issuer. For both directly and indirectly (via managers) managed investments we ensure that ESG factors are considered. This means that from the initial due diligence phase or manager selection, relevant ESG questions are asked, and responses assessed.

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

Prioritised issues when assessing investments

Our top priority sustainability considerations through our investment process are assessed on a materiality basis depending on sectors, as highlighted within our private markets ESG sector specific questionnaires which are used in our due diligence process (described further on page 36).

We also have prioritised higher level sustainability topics such as Net Zero commitments and Climate data disclosures. Sustainability considerations evolve with time, for instance, discussions around climate data reporting have evolved into discussions on the quality of the data and format in which it is reported.

How integration of stewardship and investment differs for funds, asset classes and geographies

There are many broad approaches to implementation of our ESG integration and stewardship process, and we are conscious that, for PIC, any assessment needs to be comparable across public and private market investments.

Although comparable, our approach varies depending on the asset class being invested into.

Corporate bonds

Our ESG assessment of corporate bonds is used as an important additional piece of information alongside our credit analysis and the traditional credit rating when making a decision about whether to buy (or continue holding) a bond and over what term to lend.

We use third-party ESG data vendors such as MSCI and Sustainalytics to provide relevant ESG data where they provide coverage of our issuers. Our added value comes from interpreting and analysing this data in the context of our portfolio, and in light of our analysis determining what term we would be comfortable lending over.

The theory behind our investment process is below:

- The higher ESG risk a company's industry is exposed to, the higher we would expect the companies' efforts to be in managing these risks.
- As a consequence, the better the management practices towards identified ESG risks, the less likely a company is to experience adverse impacts on its balance sheet due to ESG factors over the long term.

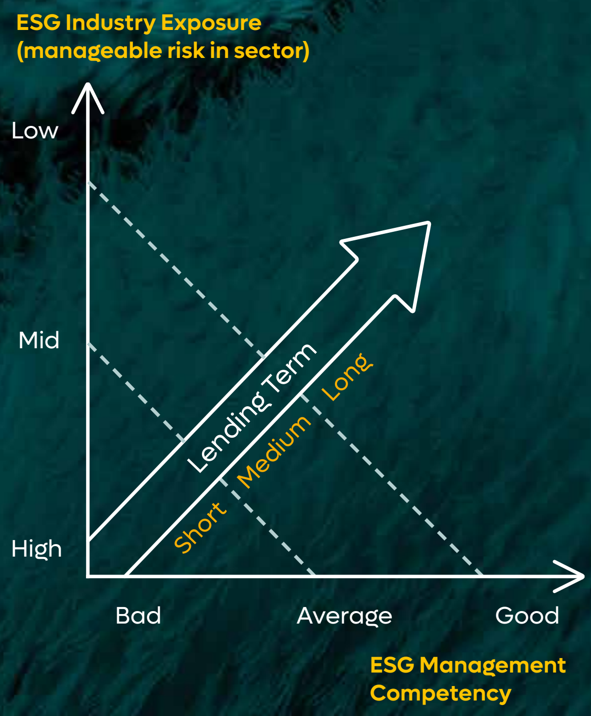
This in practice means interpreting the data we receive through vendors or via primary data collection to identify the ESG factors we believe are the most material and creating a proprietary measure to assess those companies' resilience to ESG risk through the effective management of these.

We use Sustainalytics for the public credit issuers which they cover, given their focus on the downside risks of a company, which is most aligned with a credit investor's investment perspective.

- Sustainalytics rate industry risk with an 'Average Exposure Score' which is their view of the total ESG risks in that sector and also produce an 'Average Manageable Risk Factor' which is their view of what portion, from the identified sector risk, can be managed.
- Sustainalytics then produce a 'Management' score that assesses how well the company manages the ESG risks that are deemed to be manageable. We call this ESG Management Competency score.

We then plot, where possible, the ESG Industry Exposure Risk on the Y axis and Management's ESG Competency on the X axis. Our lending term is then influenced on where on the graph our corporate is plotted.

PIC's Proprietary ESG Assessment at a Glance



Where the assessment outlined above shows that a public credit investment holding has been deemed to be exposed to a high degree of ESG risk, coupled with a management's lack of ability or commitment to mitigating that risk, we would either refrain from investing in it or, in case of an existing holding, the company will be targeted for sustained engagement through one of our engagement channels (more detail in Principle 9).

Absent any unusual events, our Credit Research team review these ratings on an annual basis as part of our ongoing monitoring.

The principle of analysing the ESG industry risk and ESG management can be enhanced by adding additional data sources. We also integrate MSCI Climate Data to our investment universe and apply a set of Climate related parameters to flag investments which should be avoided given their climate position. This climate position is influenced by things such as their GHG emissions, their commitments to decarbonise as well as their forecasted competitiveness in a low carbon economy. Please see our most recent TCFD report for more detail.

Where ESG engagements are conducted following a review, details will be recorded on our proprietary ESG Engagement Platform so that these can be tracked and monitored over time.

Assets managed by external managers

Although the majority of our assets are now internally managed, we do still use a few selected key asset managers. PIC integrates ESG and stewardship into our externally managed portfolios in the following way:

- An initial sustainability due diligence exercise is performed when considering a manager to partner with. This includes an assessment of managers at the firm level, to understand if sustainability is a central part of their culture and capabilities. We only choose to partner with managers who demonstrate strong credentials in terms of sustainability and stewardship and can substantiate a proven track record in these areas. It is important that our managers are responsible stewards of their clients' capital, as our reputation can be directly linked with their actions. We are proud that our key external managers are highly ranked by UN Principles for Responsible Investment and are signatories to the UK Stewardship Code.
- Given we have specific mandates with each manager, the application of ESG criteria will vary between them. Each of our managers have their own in-house ESG integration and stewardship framework which is used when establishing our investment universe.
- Managers are asked to provide their own ESG assessment of identified ESG risks and evidence of any stewardship and engagement carried out with these companies.
- Once holdings are in the portfolio, we monitor their ESG risk profile over time and ask managers to comment on any controversies and include forward-looking thoughts on ESG matters.

Internally managed private credit assets

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

- For private debt issued by listed companies, we use data from our various data sources such as Sustainalytics, Bloomberg, Credit Sights, rating agencies and the company's public sustainability reports to analyse exposure to ESG risks.
- For our private debt investments issued by unlisted organisations, we liaise directly with the issuer to determine their ESG position and attribute an in-house risk score. The process typically runs in the following way:
  a. Where possible we send sector specific ESG questionnaires which assess individual factors deemed as most material to the sector. Some questions are applicable to all sectors such as:

     'Have you set a Net Zero target and aligned your business strategy?' or 'Do you have policies in place to manage staff welfare in line with the UNGPs?'.

     Other questions are more sector specific such as for the water utilities sector: 'What certified environmental management systems are in place within your operation sites?' or 'What is the average monthly leakage as a proportion of total water supplied?'.

     While relevant questions for the consumer sector would be: 'Do you have KPIs to assess the community impact of your operations?' and 'How do you monitor supply chains and promote transparency within them?'.

     The Stewardship Lead within the Responsible Investing team collaborates closely with the Credit Research team to enhance the questionnaires, ensuring they remain aligned with industry best practices.
  b. We apply our in-house ESG risk assessment framework and assign a Low/Medium/High ESG Issuer Score across our internally managed holdings with analysis included in ratings documentation and shared with the Investment Committee. Absent any unusual events, we review this rating on an annual basis as part of our ongoing monitoring. Our Credit Research team is responsible for establishing these internal ratings.
  c. We engage with organisations on responses given, and work with them on setting targets where we feel material ESG risks have been identified and not sufficiently addressed.
  d. We record our engagements on our proprietary ESG Engagement Platform so that these can be tracked and monitored over time.

Real estate assets

We have established strong ESG criteria within the framework of our investment process for PIC's growing real estate portfolio. Under the strategic and technical direction of PIC's Built Environment and Responsible Investing teams, we have created, along with a third-party specialist consultant Buro Happold a proprietary rating system to assess ESG credentials across PIC's real estate portfolio.

The standards within our approach go beyond the regulatory minimum and assess assets according to 65 evenly weighted KPIs spread across eight ESG related themes which are tailored for each type of property investment.

Real estate assets

Environmental
Net Zero carbon
Biodiversity and ecology
Climate change
Materials and circular
Economy

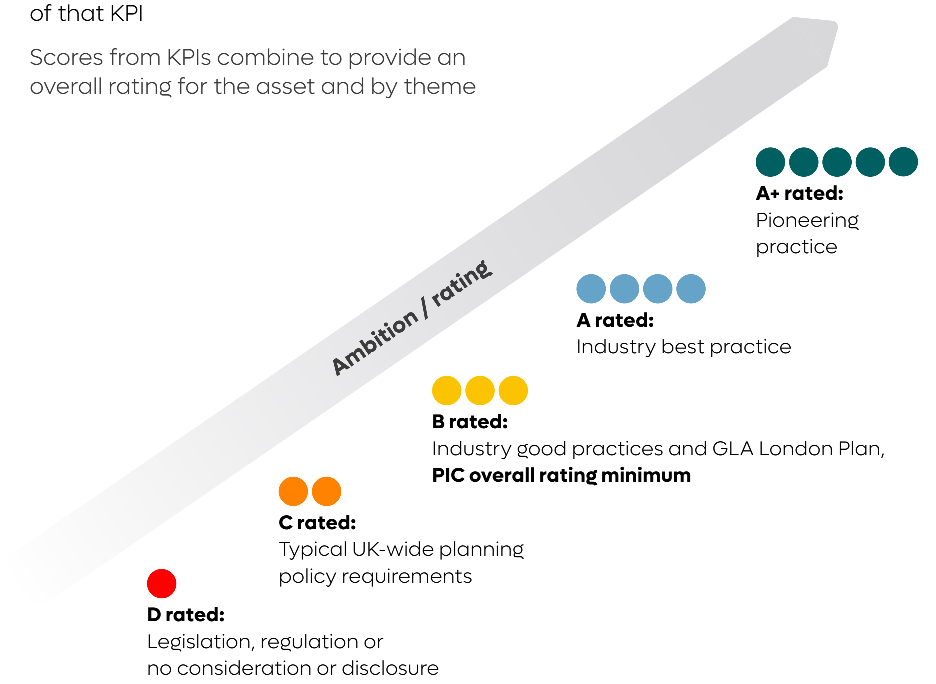
Social
Health and well-being
Social value

Governance
Monitoring
Policy

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

The higher the level the greater the ambition of that KPI

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



Our analysis goes into meaningful depth on ESG risks and opportunities in the built environment and identifies areas for further engagement. Where PIC can influence the design of a building, we ensure that we engage directly with the builders to incorporate industry leading environmental standards.

New developments must achieve an average aggregate rating of ‘B’ across the framework before being recommended for investment.

Case study:
ESG Assessment for our Real Estate Portfolio

Real estate forms a growing proportion of our investment portfolio and our approach to investing in and managing this asset class incorporates elements from every area of our climate and Sustainability strategy.

In 2024, we progressed our proprietary approach to include specific KPIs to monitor during construction as well as once assets are operational. These KPIs have been modified for relevance across our Built Environment portfolio to take into consideration the nuance needed for different asset types. For example we have a set of KPIs for our Built-to-Rent assets and another set for single or multiple-family homes.

In addition to further understanding the sustainability credentials of our assets and the positive impact these may have, PIC collects these KPIs to ensure we own robust and future-proofed assets, which maintain their value by reducing stranded asset risk and minimising impacts of future regulation changes. Finally, performance of these metrics is important to buyers, investors and tenants who are increasingly conscious and considerate of their own personal environmental footprint and societal impact.

PIC Capital Built Environment ESG

Asset activities led by Built Environment and Asset Operations team

Phase 1 – Pre-financial close ("FC")

Acquisition/Due diligence — 6 – 12 months

Purpose:

- Avoid acquiring poor developments
- Agree performance standards
- Write into funding agreement

Collected by: Developer

Reviewed by: Technical advisor

KPIs – collected and reported before FC

Total 65

Focus of data

- Location details and external conditions
- Developer governance
- Net Zero, biodiverse and climate resilient design
- Healthy buildings and community social value

E: Net Zero Carbon; Biodiversity & Ecology; Climate Change; Materials & Circular Economy
S: Health & Well-being; Social Value
G: Policy; Monitoring

Phase 2 – Construction monitoring

Construction — 24 – 48 months

Purpose:

- Capture data through process, avoiding date loss
- Review against agreements

Collected by: Contractor

KPIs – reported annually
(by calendar year)

Total 12

Focus of data

- Dust and waste recycling
- Local labour and sourcing
- Social value
- Contractor policies

E: Net Zero Carbon; Biodiversity & Ecology; Climate Change; Materials & Circular Economy
S: Health & Well-being; Social Value
G: Policy; Monitoring

At practical completion — Typically 8 weeks (BSA1 Gateway 3 approval period)

Purpose:

- Clarify final performance
- Review against agreements
- Create reference pack

Collected by: Developer

KPIs – Summary performance collected

Total 19

Focus of data

- Construction summaries
- Final building performance
- Building Regulations packs
- Certifications and commissioning

E: Net Zero Carbon; Biodiversity & Ecology; Climate Change; Materials & Circular Economy
S: Health & Well-being; Social Value
G: Policy; Monitoring

Phase 3 – Operation

Operation — 25 – 60 years

Purpose:

- Track in-use performance
- Feed into annual reporting
- Reduce transition/ liquation risk

Collected by: PIC & Management agent

KPIs – collected annually

Focus of data

- Annual energy use and CO_2 emissions
- Tenant satisfaction and protections
- Social value

Total 11

E: Net Zero Carbon; Biodiversity & Ecology; Climate Change; Materials & Circular Economy
S: Health & Well-being; Social Value
G: Policy; Monitoring

Case study:
Arbour Housing in Milton Keynes

In September 2024, we announced the practical completion of Arbour, a landmark Build-to-Rent scheme located in the heart of central Milton Keynes. The £80 million redevelopment of a brownfield site provides 306 residential apartments purpose designed for rent, 43 of which are offered at a discounted market rate.

The building, formally a vacant office block known as 'Bowback House', is fully owned by PIC, which will use the rental cashflows to pay our policyholder pensions.

The development is part of our wider investment in UK housing and infrastructure, which totals over £13 billion to date, including more than £3 billion in social housing.

The highly energy efficient homes incorporate a range of clean energy technologies, including air source heat pumps and solar panels. The development creates social value in the centre of Milton Keynes. For example, the development sourced products from local areas, with the furthest material source being one day's transportation away, as well as residents of Arbour being able to buy directly from local businesses through a special "Arbour app".

Case study:
Social value created through long-term investment in urban regeneration projects

High quality regeneration projects, which we tend to define loosely as the development of built environment and infrastructure projects on urban brownfield sites, such as disused docks, abandoned factories and obsolete office blocks, create significant social value throughout their lifecycle.

From the planning and design stages, during construction and into operation, they create significant benefit for local communities, including job creation and skill development, improved healthcare, a more cohesive social fabric, and better environmental outcomes.

As a country we need regeneration projects because they help our cities become denser and better connected, increasing national productivity, and they revitalise our smaller urban centres, bringing new life to tired town centres. PIC is already a major investor in these types of projects, with more than £13 billion invested in UK infrastructure and we want to invest considerably more.

When PIC assesses a potential investment, one of the key factors we look at is the sustainability characteristics of the project over the very long term, as we seek to both make the development as attractive as possible to potential residents (themselves increasingly aware of socially responsible businesses) and manage potential political and regulatory challenges over future years.

Funds

PIC primarily invests directly rather than through funds, although there is some minor fund exposure where shareholder equity is invested to achieve diversification.

Where we do invest in funds, we integrate ESG and stewardship into our investment process through a proprietary ESG Manager Scorecard where both the manager and the strategy are assessed and attributed a score between 1 and 5. Managers are engaged with at least annually on the topic of ESG, however more emphasis is put on these topics within conversations with poorly rating managers.

In 2024, we held meetings with seven fund managers to discuss in detail:

- Their firm-level approach to sustainability;
- Integration of ESG within the specific strategy we are invested in, including examples and case studies;
- Reporting on climate metrics for the portfolio;
- Overview of stewardship activities, including voting and engagement practices;
- Any reporting conducted on stewardship efforts.

Following these discussions, we updated the scores for all seven managers. Overall, the managers were receptive to our feedback, with most expressing interest in understanding how they compared to peers and identifying areas for improvement. We provided tailored feedback after each meeting to support these efforts.

The managers also highlighted challenges with generic questionnaires often sent by other investors, noting that such questions can be misaligned with their strategy - for example, in cases involving 'short' positions, quantitative algorithmic approaches or very short holding periods, where ESG integration and stewardship questions may not be as applicable as long-only funds. The managers appreciated our approach which values their company-wide initiatives such as hiring practices, supplier codes of conduct, or participation in industry roundtables to advance market practices. This recognition is particularly important for strategies where direct ESG application is more challenging.

Differing geographies

We understand that ESG integration and stewardship will often have different requirements for different geographies.

In the US, for example, evolving political dynamics, recent ESG backlash, and rollbacks of sustainability commitments have required us and our managers to tailor our approach to engagement. For instance, we recognise that issuers may be more defensive and cautious in accepting ESG-related meeting requests. To address this, we ensure transparency by clearly communicating the purpose of the meeting in advance and emphasising our support for any positive ESG actions they are undertaking.

Similarly, engaging in emerging markets requires a customised approach to account for unique local risks and opportunities. Our manager for these markets, JP Morgan Asset Management (JPMAM), employs proprietary emerging markets country scores alongside in-depth local knowledge to navigate these challenges and identify material ESG risks.

This approach not only informs our approach in emerging markets but has provided wider insights applicable to other parts of our portfolio.

PIC's Country Risk Framework also explicitly considers ESG factors for all sovereigns within our investment portfolio. We rely on data from Sustainalytics for this assessment and monitor any changes in scores quarter on quarter. Countries that score poorly on ESG represent higher risk and receive a lower limit than they would if based purely on the Sovereign credit rating.

Processes used to integrate stewardship and investment

We feel strongly that investing in a sustainable manner is the only way that we can ensure we fulfil our purpose over the long term.

The process for stewardship and purposeful investing for our directly and indirectly managed assets has been outlined in the figure below.

Responsible Investor

PIC Portfolio

ESG Integration: Within all investment process including within manager selection

Social Value: Investments into sustainable assets that create beneficial outcomes for people and our planet

Stewardship and Engagement: UK Stewardship Code signatory, Standalone Stewardship Policy, Engagement strategy

Industry Participant: UN signatory, Net Zero Asset Owners Alliance member, ABI Climate Change Working Group participant

Climate Change: Decarbonisation to Net Zero, TCFD reporting, TPT, Climate risk management and climate scenario testing

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

The Responsible Investing team is available to support all other members of the Investments team and act as subject matter experts in sustainability and more specifically climate risk and stewardship approaches. We see stewardship as crucial to help PIC fulfil their 'buy and hold' strategy by working with companies to be sustainable over the long term so that they minimise risks and retain their credit worthiness over our investment period.

More specifically, our Responsible Investing team plays a pivotal role in several key processes:

- Collaborating with credit analysts to update and refine sector-specific ESG questionnaires. Each credit analyst leads the process for their respective sector, while the Stewardship Manager ensures consistency and shares best practices across sectors. Additionally, the team keeps abreast of industry developments to ensure comprehensive coverage in the questionnaires.
- Facilitating regular teach-ins on specific topics such as Climate Change and assessing companies' transition plans. These sessions provide valuable insights and updates for the Investment team, enhancing their understanding of pertinent ESG issues.
- Sharing information sourced from industry channels on relevant topics to enhance the quality of our direct engagements. By leveraging external expertise and resources, we strengthen our engagements and stay informed about industry best practices.

Stewardship driving investment decisions

The case studies below demonstrate how stewardship has informed monitoring and acquisition decisions at PIC.

Case study: Avoiding Governance Pitfalls in UK Motor Financing

Background:

In 2023, we were presented with an opportunity to invest in a new bond issuance from a UK-based banking and motor financing company. However, after a detailed assessment by a member of the PIC Credit Research team, concerns were raised regarding the company's creditworthiness due to:

- A weak loan book composition;
- Lack of transparency and disclosures on large loan concentrations within the loan book, which could be sizeable;
- Significant reliance on wholesale markets for funding.

Action:

Following a thorough credit discussion, PIC chose not to invest in this seemingly attractive opportunity, citing serious governance concerns.

Outcome:

During 2024, there was a negative court ruling against the company due to a lack of disclosures regarding commissions paid to automotive dealers for providing financing to customers. While this ruling alone was not financially material, it posed a risk of setting a precedent for other claims. Consequently, the company has temporarily paused the writing of new UK motor finance business, which constituted around 15-20% of their earnings. This development has led to a significant widening of spreads on their senior bonds, and the stock price was also significantly negatively affected.

By opting not to invest, PIC avoided potential risks that could have adversely impacted our portfolio. While the court ruling also applies to other UK banks in which PIC holds positions, these institutions were assessed to have stronger governance practices, better diversification, and more robust capitalisation.

Case study: Rejecting a Potential Investment due to Fire Safety

Background:

PIC recently evaluated a potential investment in a portfolio of mixed real assets, which included a significant number of hotels. Upon review, it was revealed that many of the hotels in the portfolio were constructed using combustible or flammable cladding and lacked cavity barriers, creating a potential fire hazard.

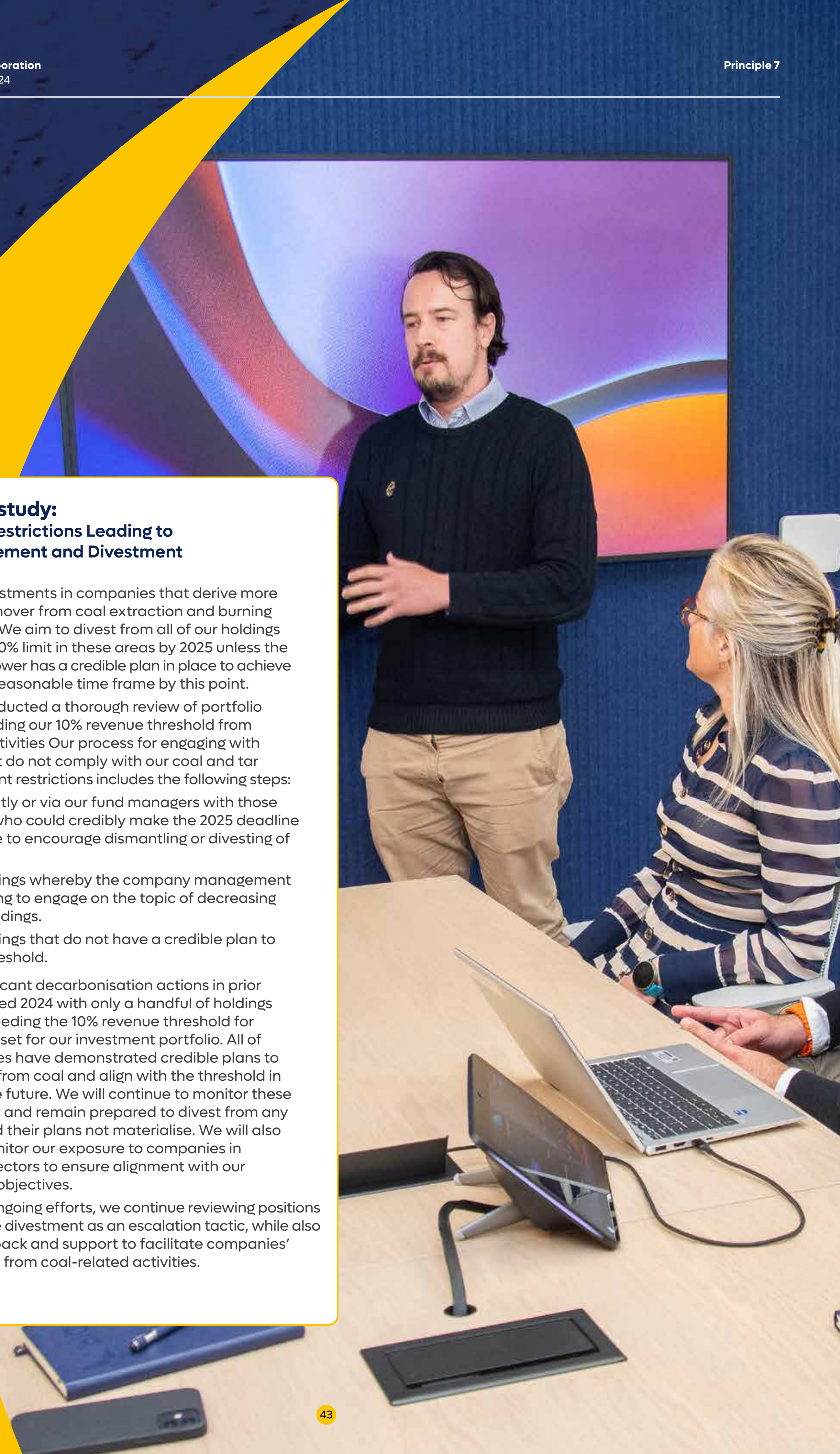
The current regulations exempt hotels from the stricter cladding standards applied to high-rise residential buildings, therefore consultants on the deal assessed the fire risk as 'low.' Nevertheless, PIC recognised that cladding remains a material building safety concern, particularly for a long-term asset holder. Moreover, any future changes to regulations could place the financial burden of remedial action on the freeholder or landlord.

Action:

PIC conducted a detailed assessment of the fire safety risks associated with the cladding and considered the broader implications of holding these assets over the long term. Despite assurances from consultants and the current regulatory framework, PIC determined that the potential risks outweighed the benefits of the investment. The decision was underpinned by PIC's commitment to prioritising building safety and ensuring alignment with its risk tolerance as a responsible investor.

Outcome:

PIC opted not to proceed with the investment in the portfolio. This decision underscores PIC's proactive approach to addressing material safety risks and its unwillingness to compromise on long-term asset quality.



Case study:
Coal Restrictions Leading to Engagement and Divestment

PIC restrict investments 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 breaching the 10% limit in these areas by 2025 unless the respective borrower has a credible plan in place to achieve the target in a reasonable time frame by this point.

In 2024, we conducted a thorough review of portfolio holdings exceeding our 10% revenue threshold from coal-related activities Our process for engaging with companies that do not comply with our coal and tar sands investment restrictions includes the following steps:

1. Engage directly or via our fund managers with those companies who could credibly make the 2025 deadline and continue to encourage dismantling or divesting of coal assets.
2. Sell any holdings whereby the company management was not willing to engage on the topic of decreasing their coal holdings.
3. Sell any holdings that do not have a credible plan to meet our threshold.

Following significant decarbonisation actions in prior years, we entered 2024 with only a handful of holdings marginally exceeding the 10% revenue threshold for coal extraction set for our investment portfolio. All of these companies have demonstrated credible plans to diversify away from coal and align with the threshold in the foreseeable future. We will continue to monitor these holdings closely and remain prepared to divest from any positions should their plans not materialise. We will also continue to monitor our exposure to companies in high-emitting sectors to ensure alignment with our environmental objectives.

As part of our ongoing efforts, we continue reviewing positions and using future divestment as an escalation tactic, while also providing feedback and support to facilitate companies' transition away from coal-related activities.

Principle 8.

Signatories monitor and hold to account managers and/or service providers.

Holding our external managers to account

PIC requires high standards of its external asset managers as explained in sections below.

UNPRI

Activity:

PIC has been a signatory to the United Nations' Principles for Responsible Investment ("UN PRI") since 2019 and, as part of this commitment, in 2024 PIC has continued to require all key external asset managers who help manage the main public credit portfolio to be members of the UN PRI.

Outcome:

All our key external asset managers remained members of the UN PRI in 2024 and demonstrated strong adherence to its principles, as reflected in the managers' 4 or 5 star rating in UN PRI assessment.

Reporting

Activity:

We require bespoke reporting from our managers, and this includes climate disclosures as well as disclosures on their engagements. We have worked with our managers in 2024 to ensure the reporting they did for us was thorough and relevant. On occasion we have asked our managers for follow up calls with their analysts on certain high risk or controversial areas they have reported on.

Outcome:

Some examples of the discussions that came out of our reporting requests are listed below:

- We had an in-depth discussion with our external managers regarding our coal exposures. Specifically, we discussed how our engagements with the companies that still had exposure to coal were progressing and whether these companies were on track to meet our 2025 threshold of no more than 10% of revenues being derived from coal.
- With one of the managers, we discussed their engagements on ensuring the proper governance of AI and the protection of digital rights, as well as their approach to engaging with sovereign counterparties.
- We hosted a session where one of our managers presented their approach to Modern Slavery and Human Rights risks and shared the importance of considering these issues. This session was open to the broader Investment team and well attended.

Annual review of external managers

Activity:

At the beginning of 2025, PIC's Investment and Origination Committee (IOC) conducted its annual review of PIC's external managers against each mandate and the service provided to PIC for 2024. PIC internally rate the responses for each manager against our ESG rating methodology. As part of this assessment, the level of ESG integration in their portfolios was evaluated along with their stewardship capabilities.

Outcome:

All managers have been receptive to our 'stewardship specific' requests and continue to drive engagement with the companies we have asked them to focus on. The managers' engagement actions and subsequent case studies highlight manager proactiveness towards ESG, which is something PIC values highly. The engagement actions completed by our asset managers and the case studies they were able to provide to us as evidence are used throughout this application to the UK Stewardship Code.

Engaging with other service providers

Banking counterparties

Activity:

In 2024, we expanded our engagement activities to include derivative bank counterparties, focusing on their sustainability initiatives, governance practices, and approaches to managing sustainability risks.

This effort aims to better understand their commitments and practices while encouraging greater alignment with our own sustainability objectives.

The key areas of engagement are listed below.

- Sustainability Initiatives: We enquired whether counterparties are signatories of initiatives such as the UN Global Compact, UN Principles for Responsible Banking, and the Net Zero Banking Alliance. Additionally, we sought information on whether they have adopted Net Zero targets based on recognised frameworks.
- Governance: We asked about their sustainability governance frameworks, including policies on climate risk, the existence of dedicated sustainability committees or officers, and the frequency of board-level reporting. Furthermore, we would like to assess the integration of sustainability KPIs into management targets and the extent to which these KPIs are linked to executive compensation.
- Loan Book Management: We examined how counterparties assess and manage sustainability-related risks within their lending portfolios, including policies on controversial sectors such as coal mining, tar sands, and upstream oil activities. We also sought clarity on their exclusion policies and approaches to mitigating these risks.
- Stewardship: Our engagement included questions on how counterparties interact with portfolio companies to support their transition to sustainable practices. We requested examples of how they actively drive change towards a low-carbon economy.

Outcome:

We started this initiative at the end of 2024 and haven't received the responses yet. However, we hope by showing our interest in these topics we will encourage our counterparties to review their practices if they fall short. Responses will be analysed in 2025.

Reinsurers

Activity:

In 2024, we asked relevant reinsurers to answer a set of specific sustainability related questions. We engaged with reinsurers that we already transact with or are considering transacting with, on either longevity reinsurance or asset back reinsurance, with this including both American and European reinsurers.

Outcome:

We asked, and received responses from, 9 reinsurers. Questions asked were:

- How is ESG information integrated within the investment process and included in investment decisions?
- Do you have any dedicated Responsible Investing / ESG personnel?
- Do you have a Stewardship policy? If so, when was it last reviewed?
- Are ESG considerations factored into longevity modelling?
- Do you publish a TCFD report, or disclose any Climate and/ or Biodiversity related metrics?
- Anything else that you think is relevant to PIC's understanding of how you approach sustainability more generally?

We carefully assessed responses from each reinsurer and attributed a proprietary ranking amongst them. In addition, we started engaging in further detail with some of them.

Our opinion of the reinsurer's ESG capabilities feeds into our selection process and also influences what ESG related wording we want to include in contracts.

Third Party Management

PIC's business model relies on various outsourced services providers to deliver a large proportion of its functions ranging from investment management to policy administration.

As PIC has grown, the number of suppliers that PIC uses has increased. To protect our customers and the wider business, it is critical that PIC effectively monitors its suppliers. This helps us to manage operational risk and ensure services are delivered in an efficient manner, and in accordance with FCA and PRA guidelines.

Our business model hinges on establishing partnerships with suppliers to deliver high-quality services, underpinning our long-term objectives. Consequently, we expect our suppliers to adhere to standards that align with our own policies and values. PIC has an Outsourcing and Third-Party Management Policy which defines the minimum requirements for the selection and appointment of suppliers. These criteria ensure that only approved suppliers, meeting standards relating to conduct, governance, location, and more, are engaged to undertake work on behalf of PIC. This helps ensure that suppliers can best meet PIC's needs and that PIC are confident in the supplier we are choosing to partner with.

Activity: Selection and review of service providers and outsourcers

Before appointing a new supplier to perform a service or an outsourced function and on a regular basis once appointed, the relevant business unit must complete a:

1. 'Know Your Customer' form about the supplier; and
2. Profile and Tiering Risk Questionnaire which risk rates the suppliers of particular services.

We recently implemented a new third-party management system called Prevalent. This system has greatly simplified the review process by automating many aspects of supplier assessment, which covers several risk control domains. The rollout began in Q4 2023 and was ongoing throughout 2024. The system has enhanced PIC's capabilities of managing suppliers more effectively.

Our third party selection and review process also includes a Supplier ESG Due Diligence questionnaire that all our suppliers are asked to respond to before we appoint them and as part of our review process. The questionnaire includes 23 sustainability focused questions ranging on topics from environmental policies, health & safety, societal impact and accountability for all third parties tiered as High, Critical and Medium an assessment must be performed against Prevalent Control Framework and remediation of the top control weaknesses identified. The scope of the control assessment must include all applicable risk areas according to the risk profile of service established during the Profile and Tiering process. e.g. Information Security, Data Privacy, Business Continuity, Conduct Risk.

For Critical/High risk third parties regular performance monitoring is conducted.

Supplier Code of Conduct

Our Supplier Code of Conduct ('Code') outlines the standards of proper business conduct we expect our suppliers to uphold and adhere to align with our own.

It includes key topics which support and enhance PIC's culture and values regarding doing business the right way, including anti-bribery and corruption, conflicts of interest, sustainability, modern slavery, amongst others. The Code sets out standards of business conduct suppliers are expected to follow, either by law or through good corporate behaviour, when providing services or products to PIC.

We will assess and monitor supplier practices, and if necessary engage with suppliers, in light of the expectations in the Code. The spirit of the code is to promote stronger corporate citizenship by considering all stakeholders during business activity and decision making.

Principle 9.

Signatories engage with issuers to maintain or enhance the value of assets.

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

PIC actively engages with investee companies across public credit and private debt investments on material sustainability issues to influence or identify the need to influence corporate behaviour and enhance sustainability related disclosure.

Active engagement is of central importance to our business as it helps our strategic objectives of driving long-term value growth and is a core pillar of our stewardship approach. It drives our ESG strategy to help ensure that ESG-related risks are mitigated where possible and opportunities uncovered. Engagement is done for two main reasons at PIC:

1. Fact finding:

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

2. Purposeful dialogue:

With a specific and targeted objective to influence and achieve a change in corporate behaviour. This is a two-way dialogue meaning we do not talk at companies, we talk with them.

Our engagements encourage open and honest dialogue so that a long-term relationship can be better maintained which helps us see out our buy-and-hold investment strategy needed to pay our policyholders.

PIC's engagement strategy

PIC's first official engagement strategy was executed over two years between 2023 and 2025 and has now come to an end. It spread across Environmental, Social and Governance topics while emphasising Climate Change, Human Rights, and Corporate Governance.

The strategy covered multiple asset classes within our portfolio and sought to create a lasting positive impact on both the companies we engaged with and the wider economy.

PIC engages through four distinct channels:

Engagement channels

1. Direct by credit analysts
2. Via key external managers
3. Selected third-parties for specialty asset classes
4. Collaborative engagement initiatives

Activity Example:
Negotiating Improved Sustainability Disclosure

When investing in private debt, we use the origination process, or subsequent amendment/waiver/consent requests, as opportunities to incorporate improved sustainability disclosure as a covenant requirement within the associated documentation. The covenant will typically require issuers to provide key KPIs or to answer questions on a broad range of ESG topics, that can include the issuer's environmental targets and strategies, greenhouse gas emissions, climate risk assessments, customer safety measures, and governance practices. In 2024, we successfully negotiated improved disclosure with an issuer in the social housing sector. We previously worked with a student accommodation provider to achieve similar improvements.

For our indirect holdings, we work closely with our external managers to ensure that important sustainability topics – both company-specific and industry-wide - are engaged on with companies.

We communicate our engagement expectations with managers in advance and then set out our engagement plan for the year ahead. Managers are expected to report back to PIC on their engagement actions on either a quarterly or half-yearly basis depending on the manager through their regular ESG reporting.

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

5-year engagement strategy

In 2024 our initial two-year engagement strategy was used to help inform and develop our five-year engagement strategy, which was approved at Board-level and will run from 2025 – 2030. The key insights below informed our approach going forward.

Corporate reach:

We found that large corporations are more accessible either through well-established asset managers or collaborative initiatives. Our involvement with the UN PRI Advance initiative on Human Rights and the Investor Forum, which we joined earlier in 2024 has proven particularly effective in reaching these entities.

Collaborative engagement:

In addition to joining the Investor Forum in 2024, we became involved in a collaborative engagement group organised by Royal London Asset Management, which focused on the UK water sector. Through this collaboration, we participated in several engagements which we felt yielded positive progress within the water sector that has had significant issues over recent years. We are open to joining other collaborative engagement initiatives where we see clear value and alignment with our strategic priorities.

Sectoral influence:

We've learned to recognise our influence in certain sectors such as Housing Associations, UK-regulated utilities and Real Estate, due to our position as a major capital provider.

Engagement areas of focus

Building on the successes of our two-year engagement strategy, our five-year engagement strategy, is split between asset classes and will formally expand our focus across six core topics:

Environmental	**Climate Change**	Climate engagements with issuers with significant real-world impact on carbon emissions. The goal is to encourage these issuers to reduce their carbon footprint and contribute to mitigating climate change.
	Natural Capital	Engagement on topics related to the sustainable use and preservation of natural resources. This can include issues of pollution (water, soil and air), land and water use, and solid waste.
Social	**Human Rights**	Engagements in this area aim to ensure that companies respect and uphold human rights throughout their operations and supply chains. This includes addressing issues such as forced labour, modern slavery, and fair wages.
	Human Capital	Engagements with companies to promote employee well-being and opportunities for workforce development. The focus is on ensuring that companies invest in their employees and create positive working environments.
Governance	**Corporate Governance**	Engaging with companies to ensure they have strong governance practices. This includes transparency, accountability, and ethical business practices.
	Diversity, Equity and Inclusion (DE&I)	Engagements here aim to promote diversity, equity, and inclusion within companies.

A notable enhancement is the integration of Natural Capital into our engagement framework. To support this, we have identified key sectors for impact on nature within PIC's portfolio to focus our engagement efforts on.

In addition to expanding the thematic scope of our engagements, we are also focused on enhancing our internal engagement capabilities. This involves continuous learning and the sharing of best practices among our analysts in the Investments team, who maintain direct relationships with the companies in our portfolio.

We recognise that having those closest to the holdings — our credit analysts and portfolio managers — lead on engagement efforts is the most effective route. By supporting internal collaboration and knowledge sharing, we aim to further strengthen our engagement initiatives over the next five years.

PIC's 5 year engagement strategy is summarised in the table below.
It highlights the nuances in engagement objectives depending on the asset class and sector:

		Environmental	
		Climate Change	**Natural Capital**
Fixed income – Public	**Description**	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 objectives	• The company's decarbonisation plans are ambitious and credible; • Transparent reporting through additional disclosures or external verification (such as SBTi); • Integration of KPIs related to decarbonisation in the management remuneration structures.	• Policies to manage impact on natural capital; • Disclose in line with TNFD; • Set targets / set out natural capital strategy; • Focus on pollution (water, soil and air), land and water use, and solid waste.
	Priority sectors (identified based on relevance, exposure, and potential influence)	Oil and Gas, Utilities, Transportation, Finance.	Commodities (Oil and Gas; Basic Materials), Utilities (Water), Consumer non-cyclical (Healthcare / Pharma, Food and Beverage), Housing Associations.
	Engagement route	External managers, Direct by PIC analysts, Collaborative engagement initiatives.	
Fixed Income – Private	**Description**	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 objectives	• The company's decarbonisation plans are ambitious and credible; • Transparent reporting through additional disclosures or external verification (such as SBTi); • Integration of KPIs related to decarbonisation in the management remuneration structures.	• Policies to manage impact on natural capital; • Set targets / set out natural capital strategy; • Focus on pollution (water, soil and air), land and water use, and solid waste.
	Priority sectors (identified based on relevance, exposure, and potential influence)	Housing Associations, Utilities, Transportation.	Utilities (Water), Housing Associations, Infrastructure, Renewables.
	Engagement route	Direct by PIC analysts, Collaborative engagement initiatives.	
Real Estate	**Description**	Engaging on climate topics such as Net Zero Carbon, embodied and operational emissions, % 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.
	Engagement objectives	• Low embodied carbon emissions; • All-electric building with a high proportion of energy from renewable sources; • Minimum EPC ratings of B for new properties; • Climate and flood risk assessment.	• Maximising on-site biodiversity net gain; • Minimising waste and maximising materials re-use and recycling; • Reduce water use intensity.
	Engagement route	Direct via PIC Built Environment team and External Consultants (Buro Happold).	

Social		Governance	
Human Rights	**Human Capital**	**Corporate Governance**	**Diversity, Equity and Inclusion**
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.
• Policies in place such as Modern Slavery policy / Human Rights policy, and Supplier Code of Conduct; • Consideration of human rights risk including in the supply chains; • Independent Human Rights audit to identify any potential breaches.	• Adequate sick leave pay policies; • Board-level responsibility for corporate culture and employee well-being; • Worker voice and grievance mechanisms.	• Board structure; • Remuneration policies; • Succession plans.	• Disclosure around DE&I; characteristics of the Board and senior management • Commitments around DE&I.
Manufacturing, Renewables, Consumer non-cyclical.	Across all sectors.	Across all sectors.	Across all sectors.
External managers, Direct by PIC analysts, Collaborative engagement initiatives.			
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.
• Policies in place such as Modern Slavery policy / Human Rights policy, and Supplier Code of Conduct; • Consideration of human rights risk including in the supply chains; • Independent Human Rights audit to identify any potential breaches.	• Adequate sick leave pay policies; • Board-level responsibility for corporate culture and employee well-being; • Worker voice and grievance mechanisms.	• Regulatory compliance; • Board structure, maximum tenure and turnover; • Succession plans.	• Board DE&I characteristics; • Gender pay gap.
Infrastructure, Renewables, Housing Associations.	Across all sectors.	Across all sectors.	Across all sectors.
Direct by PIC analysts, Collaborative engagement initiatives.			
Engaging on topics of Modern Slavery, building safety and other health and well-being topics within the built environment.	Engaging on social value topics such as affordability rate, community engagement and within the built environment.	Engaging on corporate governance topics such as having necessary policies in place.	Engaging on DE&I topic within the built environment.
• Modern Slavery policy in place; • Fire and Structural Safety compliance; • Healthy living environment for occupants including access to clean air and water; • Minimising the impact of climate change on occupants.	• Positive impact on the local economy through material and labour; • Affordable housing provision; • Community engagement; • Support for vulnerable tenants.	• Sustainable procurement policy; • Health, Safety & Well-being; • Anti Bribery and Money Laundering.	• DE&I policy of both developers and contractors; • Evidence of actions to promote diversity and inclusion (events, leaderships).
Direct via PIC Built Environment team and External Consultants (Buro Happold).			

Environmental engagements in 2024

Environmental issues are a key priority for our engagement efforts, with a focus on two main areas: climate change and natural capital. Environmental related topics discussed both via managers and directly by PIC during 2024 were:

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

PIC has set itself engagement targets in line with the NZ AOA to engage with at least 20 companies a year, focussing on real-world decarbonisation. A selection of our engagements are published as examples in our yearly Climate Report (TCFD). In 2024 we engaged either directly or via our managers with 106 companies on climate and environmental issues.

Social engagements in 2024

Another priority engagement area for PIC is on selected social issues, which have been categorised into Human Rights and Human Capital. We publish our Modern Slavery statement and have an internal policy on the matter – both approved at Board level. We ensure we can evidence how we are enacting those commitments. For the year 2024, our key social engagement topics included:

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

In 2024 PIC engaged with 44 companies on at least one social topic.

Governance engagements in 2024

Ensuring robust governance practices within investee companies is crucial for mitigating long-term investment risks. We firmly believe that effective governance lays the foundation for addressing other significant sustainability issues. Governance issues were split into Corporate Governance and Diversity, Equity & Inclusion. We recognise the importance of engaging with investee companies on critical governance topics, such as:

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

In 2024 PIC engaged with 66 companies on at least one governance topic.

A brief description of how these different areas of engagement are managed through our different engagement channels is outlined as follows.

External managers

PIC's two main external managers of the public credit portfolio are Schroders and JP Morgan Asset Management (JPMAM), and we leverage their scale, ESG expertise and stewardship resources to effectively engage, where relevant, with companies on our behalf. At the start of 2024, we shared our priority topics and issues we expect both our managers to engage on over the course of the year.

For our environmental engagements, we focus on those companies that lie within the high carbon emitting sectors and in particular those companies that are not yet Net Zero aligned or reporting necessary climate data. Additionally, as outlined in Principle 7, we have implemented investment restrictions regarding the percentage of revenues derived from coal activities. We ask our managers to actively engage with companies that surpass this threshold and we ask them to communicate our intention to divest from companies failing to reduce their percentage of revenue from coal activities by the end of 2025.

Our environmental objectives include public commitments to Net Zero targets, the publication of a climate strategy, and transparent carbon emissions disclosure. Where companies fall short of current standards or have unclear decarbonisation or natural capital strategies, we request our managers to engage with them on our behalf, helping drive progress towards these goals.

For social engagements, we discuss our priority social topics with our external managers and identify which sectors are most at risk. For example, our managers have prioritised manufacturing, materials and utilities sectors as a 'high risk' for human rights abuse given their reliance on supply chains and emerging market exposure. In 2024, our managers have also continued engaging with companies in the tech sector on human rights concerns, such as data privacy, cyber security and the responsible use of AI.

Our social objectives include the full disclosure of a Modern Slavery policy and statement and independent audit of Modern Slavery risk within the supply chain. PIC aims for companies to demonstrate alignment between their operations and International Labour Organisation (ILO) standards (or a country specific equivalent) and adequate independent auditing.

Measuring our engagement progress

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

PIC developed an online ESG engagement platform, which acts as a database for logging engagement records across the year and keeps track of progress against the relevant KPIs and our desired outcomes. The platform is located on our server and is an 'online tool' that can be accessed by Credit Analysts from the Public Credit, Credit Research and Debt Origination teams as well as the Responsible Investing team.

During 2024 we engaged with 130 firms through our diverse engagement channels on a range of sustainability topics. The largest proportion of our discussions focused on climate change, aligning with our priority to support the achievement of our net-zero commitments. However, during 2024 we have also amplified our engagements on Corporate Governance topics, recognising the key role good governance has in addressing broader ESG concerns. The topic of Human Rights was another key area of focus, where we have addressed issues such as modern slavery, forced labour, and health and safety.

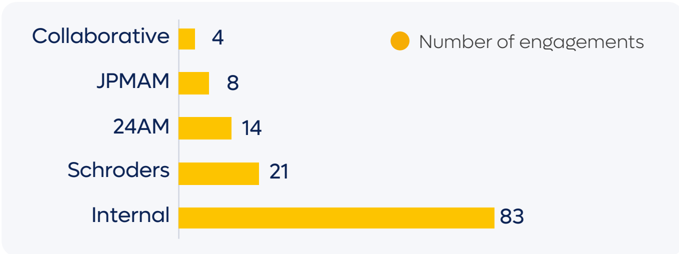
The chart below displays the breakdown of our engagements by area of focus.

Engagement focus breakdown

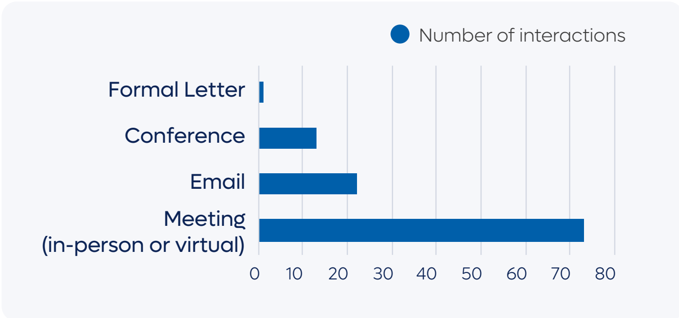
Climate change	38%
Human Rights	18%
Natural Capital	15%
Human Capital	12%
Corporate Governance	11%
Diversity, Equity & Inclusion	6%

Note that the split is based on the instances of engagement, as some companies are engaged with on multiple topics.

As we continue to transition our portfolio in-house, we are enhancing our internal engagement capabilities. Consequently, in 2024, the majority of our engagements (over 65%) were conducted internally or through collaborative initiatives, while just over 30% were carried out by our external managers:



The graph below shows the breakdown of engagement methods throughout the year. At PIC, in-person or virtual meetings are our preferred form of engagement method, considering them to be the most authentic. This preference holds true for both direct engagements and engagements via managers. Analysts have predominantly used this method across their interactions during 2024.



We are satisfied with our progress in the area of stewardship during 2024. However, PIC recognises the importance of continually improving the quality of our interactions with investee companies.

We understand that different types of engagements serve different purposes, with varying levels of depth. Going forwards, we aim to increase the proportion of in-depth, multi-year engagements that focus on meaningful challenges and clear objectives as opposed to conducting high-level information-gathering discussions. This shift aligns with our updated five-year engagement strategy. To support this, in 2025 we plan to provide ongoing training to our credit analysts, equipping them with the skills and insights needed for deeper, more impactful dialogues with investee companies.

While information gathering remains an essential part of our risk management process, enabling us to comprehensively assess our investee companies, we recognise that challenging discussions are sometimes necessary to drive meaningful change. As engagement topics evolve in line with our five-year strategy, we will continue refining our approach to ensure our stewardship efforts contribute to long-term, sustainable improvements across our portfolio.

Engagement across different asset classes and geographies

Due to the different nature of our asset classes, it is often necessary to engage with the underlying investment companies or stakeholders in different ways.

Our methods for public credit engagement differ from those for private debt and real assets engagement. For instance, in our public credit engagements, we often rely on our managers to use their influence to advocate for sustainability practices or alternatively try to reach large corporations through collaborative engagement initiatives, while in private debt and real assets engagements, we may engage directly with investee companies to negotiate sustainability criteria in deal documentation to include amendment/waiver/consent requests (where applicable) to negotiate inclusion of ESG covenants. For our real estate assets, we strive to engage directly with the developers and contractors leveraging the expertise and resource of specialist firms, such as Buro Happold.

Our engagement process across different asset classes becomes more targeted and bespoke as our expertise in this area develops. Our engagement process for different asset classes will have different desired outcomes, engagement channels etc. The key differences between asset classes have been outlined in the table on page 50-51.

PIC primarily invests directly rather than through funds, although there is some minor fund exposure where shareholders' equity is invested to achieve diversification. For these funds we engage directly with fund managers on ESG topics both at the manager level and the fund strategy level. More information on our engagement with managers during 2024 is included in Principle 7.

Our engagements are either fact finding through questionnaires we send to all of our managers which asks for climate data, or in-person / virtual when assessing a new investment or performing a yearly review. The engagements tend to be of higher level and more focused around ESG integration into the strategy rather than stock specific.

Generally, due to the nature of our business and investments, and given the fact that the vast majority of our direct engagements are UK based, we have not adapted our direct engagement approach for other geographies. However, our managers, who look after our US and Emerging Markets investments, have adapted their engagement approach to different geographies where needed. A good example of this is JPMAM who hold both Emerging Markets corporate and sovereign holdings on our behalf. We have discussed with them the challenges of engaging with issuers in that part of the world, in particular sovereigns. JPMAM's global reach and presence on the ground has helped gain access to these investees and start discussions although even they admit it is challenging. Their approach has had to be one of fostering relationships based on trust and having discussions on a topic rather than asking direct questions.

Several of our 2024 engagements across various asset classes are outlined in the following case studies.

Case study:
Saudi Electricity Company (SECO)

Issue:

Saudi Electricity Company (SECO) is the biggest producer of electricity in the Kingdom of Saudi Arabia (KSA) and transmits and distributes electric power in the country. The KSA has pledged to reach net zero emissions by 2060, and in 2023 increased its national renewable energy capacity ambitions from 58GW to 130GW by 2030.

Action:

Our external manager JPMAM[1] engaged Saudi Electricity Company (SECO) the biggest producer of electricity in the Kingdom of Saudi Arabia (KSA).

Engagement was conducted to follow up on the progress made in managing transition risks associated with the national transition plans. In previous engagements, our external asset manager noted the longer-term KSA emissions targets and recommended the company also consider setting credible medium- and longer-term emissions reduction targets to assess how the company planned to meet the KSA emissions targets. The company has since set a Net Zero 2050 target, and a 2030 grid emissions intensity target. Questions were raised as to whether the company's interim 2030 target should focus on emissions more broadly given the KSA emissions target. While SECO has not committed to broader targets, the company has indicated that such targets are under consideration.

SECO explained that the increase in ambition of the government's renewable energy target has led them to refocus on their own renewable power generation growth, as well as the grid and interconnecting third party renewables projects. They have not yet set a target around renewable energy capacity growth but are actively bidding for projects in KSA. The company plans investments exceeding SAR 11.25 billion (~$3bn) by 2026 for 22 renewable energy interconnection projects.

Outcome/Next Steps:

JPMAM welcome the company's enhanced disclosures and refreshed emissions reduction targets. The manager will monitor the company's progress with regards to delivery of its part of the country's decarbonisation ambition.

[1] "The present information was sourced from JPMorgan Asset Management (JPMAM)] 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 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 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."

Case study:
Comisión Federal de Electricidad

Issue:

The Government of Mexico has committed to reduce GHG emissions by 35% by 2030. The General Climate Change Law and the Energy Transition Law also states that Mexico must generate 35% of its electricity from renewable sources by 2024. 100% state owned Comisión Federal de Electricidad (CFE), as the country's largest integrated utility, will have an important role to play in enabling Mexico to meet this commitment. As the company did not disclose a comprehensive transition plan, our manager JPMAM[1] sought to engage with the company to understand how they are managing potential transition risks arising from national level emissions reduction targets and related policies.

Action:

JPMAM met with the company in March 2024 and asked about the company's transition plan which is not yet clearly included in disclosures. They explained that of CFE's power generation capacity in 2024, 32% is from clean technologies, 40% combined cycle gas generation and 8% from coal. The company explained plans to increase total generation capacity to 100 GW by 2035, and to increase renewable energy capacity to 35% of the total by 2028. They also explained that they plan to close their coal power generation facilities by 2035. The company shared information on the investments they are making in transmission (MXN 127,000m) and distribution (MXN 61,955m) over the next five years.

The manager asked if the company has considered setting an emissions reduction target in line with that of the national government. The company said they have a target to reduce emissions by similar levels, but this was not disclosed in its public reporting to date. The manager welcomed the company's plan to release its first non-financial report later in 2024 and encouraged reporting of KPIs and targets to help investors understand how the company was managing risks. JPMAM also provided feedback that TCFD aligned reporting is helpful to us as investors assessing climate risks, as well as data on health and safety.

JPMAM met the company again in September 2024 following national elections in Mexico. The company explained that the new administration is supportive of the energy transition with big investments planned, and specific national target revisions are likely to follow later in the coming months. CFE indicated that it will present its 2025 business plan with the new federal government in December 2024.

Outcome/Next Steps:

Prior to the meeting with JPMAM in September, CFE published its green bond allocation report which provided enhanced disclosure concerning the company's new target to reduce CO2 emissions in electricity generation to 324 gr/KWhr in 2028. The company confirmed this constitutes approximately a 30% reduction from 2023 levels (130gr/KWhr). The company said it would consider the manager's recommendation to disclose these and their other renewable capacity targets in the next annual iteration of its business plan to help investors understand how they are addressing the government's emissions expectations.

Case study: United Parcel Service

Issue:

UPS, a global shipping and supply chain management firm, has set emissions reduction goals for 2025 and aims to achieve carbon neutrality by 2050. However, questions remain about the company's trajectory towards these targets and its ability to align with net-zero principles. Additionally, employee mental health and initiatives associated with it, were areas of focus in the engagement by one of our external managers, Schroders.

Action:

On 17 October 2024, Schroders reached out to UPS via email to arrange a call to discuss these issues. The engagement took place on 21 November 2024, with representatives from UPS's Investor Relations, Sustainability, and Safety teams. During the discussion, Schroders sought to understand UPS's progress towards its 2025 emissions targets, its long-term decarbonisation strategy, and the feasibility of committing to a net-zero target.

Outcome/Next Steps:

UPS confirmed that its 2035 targets are a critical milestone on the path to achieving carbon neutrality by 2050. A key element of its strategy is transitioning its vehicle fleet to renewable energy sources, and in 2024, the company allocated approximately $1 billion, representing 25% of total capital expenditure, towards sustainability-related investments. However, UPS stated that setting a formal net-zero target remains a challenge due to the lack of a viable pathway to sustainable aviation fuel, which is a key component of its logistics operations.

Regarding employee well-being, UPS highlighted several initiatives aimed at supporting its workforce. The company has introduced parental and caregiver leave policies and provides training for managers to recognise signs of employee distress. Mental health support has also been expanded, with virtual counselling services available and on-site counsellors stationed at the company's Worldport facility. Additionally, UPS has plans to improve vehicle air conditioning systems to enhance working conditions for employees.

Following this engagement, Schroders views the discussion as constructive and will continue to monitor UPS's progress in these areas. Ongoing engagement will focus on encouraging the company to strengthen its climate commitments and further enhance employee well-being initiatives.

Case study: UnitedHealth Group Inc

Issue:

UnitedHealth Group Inc. (UNH), a multinational healthcare and insurance company, was identified by our manager Schroders as scoring poorly in the CCLA Corporate Mental Health Benchmark, which evaluates how companies manage and support employee mental health. Schroders participated in a collaborative engagement with Churches, Charities and Local Authorities (CCLA), a British asset manager specialising in managing investments for charities, religious organisations, and public sector bodies, to assess UNH's policies, governance concerning employee mental health, as well as its offerings through its insurance business. The objective was to encourage improved disclosure and oversight in this area.

Action:

Our manager, Schroders, first engaged with UNH in May 2023, where the company outlined some of its existing mental health initiatives. During this discussion, Schroders requested greater transparency regarding these initiatives and the company's overall mental health strategy.

Further engagement took place in July 2024, when the manager discussed UNH's preliminary score in the CCLA benchmark, seeking clarity on areas requiring improvement. Following the release of the 2023 CCLA benchmark results, Schroders engaged again in November 2024 to gain a deeper understanding of UNH's approach and to encourage enhancements in its policies. UNH provided insights into its mental health benefits, which include coaching, counselling, and behavioural health plans. The company confirmed that most employees have access to these benefits, although the specific offerings vary by industry. Additionally, UNH stated that it actively tracks service utilisation to assess effectiveness and incorporates mental health awareness questions into its employee health plan surveys.

Outcome/Next Steps:

While UNH demonstrated a range of mental health support initiatives, Schroders requested further disclosure on the extent of these offerings across its products and services, as well as clarification on how the company's board oversees mental health matters. Schroders will monitor progress and assess how UNH's policies evolve in response to the engagement.

Case study: Engagement with an American multinational financial services company on its Coal Policy

Issue:

PIC's credit analyst reviewed an American multinational financial services company's commitments to align its financing activities with Net Zero goals. The company have set interim 2030 targets for sectors such as Oil and Gas, Power, Automotive, and Aviation. Additionally, the company has committed to not providing banking services to clients deriving the majority of their revenues from coal extraction. However, the analyst believes that its current coal policy is lagging behind many international peers and could benefit from a review.

Action:

The analyst reached out to the company to discuss its coal policy and requested that they tighten the definition from 'companies deriving the majority of their revenue from coal extraction and burning' to 'more than 10% of their revenue.' This would align with PIC's own coal policy.

PIC also aims to divest from all holdings that breach this 10% limit by the end of 2025. In light of this, the analyst suggested that the company develop a similar overall strategy to exit coal companies with over 10% of their revenues by 2030 in Europe and 2040 worldwide, a policy already applied by many other financial institutions. This proactive approach is intended to mitigate long-term risks associated with coal investments and enhance the sustainability of PIC's portfolio.

Outcome/Next Steps:

PIC understands that a rapid change may not be feasible and therefore encourages the company to engage with its coal clients to develop sustainable transition strategies. By supporting these clients in their journey towards more sustainable practices, the company can play a pivotal role in driving the transition to a low-carbon economy.

The company acknowledged PIC's request. We look forward to their response and will continue to engage with the company to ensure that its policies evolve in line with global sustainability standards.

Case study: Engagement with UK Housing Association

Issue:

In 2023, a UK-based housing association faced a significant challenge when its governance rating was downgraded to non-compliant by the sector regulator. This downgrade was due to the association's inability to account for a large number of electrical safety inspections across its housing portfolio, raising potential health and safety risks for tenants. Recognising the importance of the issue, PIC initiated engagement with the housing association in early 2023 to better understand the issues and support their return to compliance.

Action:

PIC raised concerns about the housing association's governance following the regulatory downgrade and established a series of regular meetings with its leadership team. During these quarterly updates, the association outlined its progress in addressing the identified shortcomings. Over the course of the year, significant changes were made, including a restructuring of the executive team and close collaboration with the regulator to resolve the compliance issues. The primary focus was on ensuring the recertification of electrical systems to meet safety standards. The housing association also implemented measures to strengthen its governance by bringing additional expertise to its Board to ensure long-term operational and governance stability.

Outcome/Next Steps:

By early 2024, the housing association successfully regained a compliant governance rating, reflecting marked improvements in managing asset certification and enhancing both its executive team and board structure. PIC will continue to monitor its governance and operational performance to ensure ongoing compliance and effective management.

Principle 10.

Signatories, where necessary, participate in collaborative engagement to influence issuers.

PIC is a member of several relevant initiatives within the financial services industry, recognising that collective action is required to make meaningful change.

Net Zero Asset Owners Alliance (NZAOA)

As a member of the NZAOA, PIC participates in numerous work streams and group meetings. PIC attends and participates in the NZAOA Engagement Track monthly all members' call and attends the quarterly Net-Zero AOA all member webinars. This allows PIC to take collective action and share knowledge with other asset owners in meeting its decarbonisation and engagements goals.

Investor Forum

In Q1 2024 PIC joined the Investor Forum, a not-for-profit, practitioner-led membership organisation set up by institutional investors. The Forum's purpose is to position stewardship at the heart of investment decision-making by facilitating engagement in constructive dialogue with UK-listed companies on long-term strategic issues.
The Investor Forum offers:

- Facilitated discussions with select UK issuers on sustainability topics and with ESG ratings service providers such as MSCI or Sustainalytics.
- Sharing of best practices for the area of stewardship.
- Access to a network of like-minded investors helping promote collaboration.
- Learning opportunities on various topics. For instance, sessions during 2024 covered:
  - A talk from the Social Housing regulator
  - Carbon Capture and Storage Solutions
  - Just Transition
  - Infrastructure Upgrade Plans for the UK Water Sector's Next Regulatory Period

Collaborative engagement through the Investor Forum

During 2024, we participated in discussions with UK issuers on several sustainability topics.

This included a discussion with a leading water company's Chair and CEO, which was timely given the findings of Ofwat, the water regulator, which found overall poor performance across the sector with several companies falling short of key targets, including pollution reduction.

This engagement session was hosted before Ofwat's final report was published, but we were able to discuss with the company the challenging environment created by the draft determination. The company noted that their business plans received customer support at the time of preparation, but no company received full approval in this regulatory cycle. They stated that they welcomed open and honest conversations with investors and were committed to demonstrating the viability to their business plans with the regulator.

The Forum also organised an engagement session with a company in the mining sector from which we had previously divested from for investment reasons. While we no longer hold a position in the company, we joined the session to gain insight into its progress toward achieving its decarbonisation targets. This engagement provided an opportunity to better understand the company's transition strategy, including any obstacles the company and the broader sector is facing on its net-zero journey.

We leverage our participation in the Investor Forum to strengthen our stewardship capabilities. We aim to share relevant insights widely within PIC, particularly among relevant portfolio managers and credit analysts.

UN PRI advance collaborative engagement

PIC is a signatory to the UN PRI and in September 2022, as part of PIC's engagement strategy, we decided to join the UN PRI led collaborative engagement program Advance: a stewardship initiative for human rights and social issues. This initiative is comprised of 120 investors whose objective is to engage on social and human rights related issues within mostly the metals and mining, utilities and renewables sectors.

The following three engagement expectations are defined by the UNPRI & Advance:

- Fully implement the UN Guiding Principles on Business and Human Rights (UNGPs) –the guardrail of corporate conduct on human rights;
- Align their political engagement with their responsibility to respect human rights;
- Deepen progress on the most severe human rights issues in their operations and across their value chain.

This is a new stewardship initiative where institutional investors work together to take action on human rights and social issues. The overall objective of the initiative is to advance human rights and positive outcomes for people through investor stewardship.

The initiative was officially launched on the 1 December 2022 and PIC was assigned to engage an American energy company with other investors. PIC plays a collaborating investor role in this engagement as opposed to the role of a lead investor within this investor group.

Case study:
Collaborative Engagement with a US Energy Company

As part of the UN PRI Advance initiative, we participated in a collaborative engagement with one of America's largest energy holding companies to address human rights risks due to its plans to expand the renewables portfolio, given the sector's reliance on materials linked to forced labour and conflict minerals. The company's poor performance in the Renewable Energy and Human Rights Benchmark underscored the need for stronger governance and due diligence practices.

Action:

In 2024, the investor group continued to engage with the company to address these concerns. The company updated their Human Rights policy in 2023 and completed internal education and training on the topic, which was welcomed by the investor group. Discussions in 2024 focused on several key areas aimed at embedding best practices on Human Rights more deeply across the company's operations and supply chains:

- Identify salient human rights risks within its supply chains through impact assessments.
- Strengthen the supplier code of conduct and assess risks in solar supply chains.
- Integrate language on Indigenous Peoples' rights into the human rights policy and other relevant documents.
- Embed Human Rights Due Diligence into the Supplier Code of Conduct and existing supplier relationships.
- Develop a grievance mechanism and enhance disclosure on the types/categories of grievances received.

Outcome and Next Steps:

The investor group had one call with the company during the year, after which the group of five investors met quarterly to review the company's progress against discussed topics, exchange insights on industry best practices, and discuss strategy for future engagement. In addition, UN PRI organised a number of educational sessions throughout the year where other investment leads share insights into the successes and challenges they face in engaging with their companies. A key takeaway from these sessions was the clear divergence between companies operating under the European regulatory framework and those in the US, where the pressures to report and address Human Rights abuses are comparatively lower.

A follow-up discussion with the company occurred at the beginning of 2025. The company plan to conduct regular reviews of their supply chain, albeit currently focusing only on its own operations and tier 1 suppliers. They also plan to publish its impact report in April. The collaborative engagement will continue in 2025, with a focus on conducting a deeper assessment of the company's supply chains to further mitigate human rights risks.

Case study:
Supporting Sustainability Reporting Standards for Social Housing

PIC was one of the founding members and is a continued supporter of the Sustainability Reporting Standards for Social Housing (SRS). The SRS are a set of sustainability related standards which social housing providers who support the SRS are required to report against on an annual basis.

PIC is a lender (often directly into their private debt issuance) to more than 60 housing providers across the UK and we feel that we have strong influence over this sector. Unlike listed companies mandated to disclose their carbon emissions, private entities like housing associations lack such regulatory obligations, impeding lenders' access to comprehensive data. Consequently, PIC together with other investors increasingly requires housing associations to voluntarily disclose their carbon emissions data to ensure transparency and accountability within their investment portfolios.

Action:

PIC collects data from the reporting of individual housing associations, and since inception of the SRS we encourage all reporting by housing associations to be aligned with it. Housing associations have the option to choose between filling in a questionnaire provided by PIC or reporting directly in line with the SRS. We have updated our questionnaire to facilitate a smooth transition for housing associations into reporting in line with the SRS, as they are already providing much of the same information to us.

The metrics required by the SRS encompass a range of high-level themes such as climate change, biodiversity impact and strategy, resource management, affordability and security, building safety and quality, resident voice and support, structure and governance, board and trustees, staff well-being, and supply chains. Looking ahead, PIC anticipates housing associations to enhance their ESG disclosures, going beyond reporting their Scope 1 and 2 emissions but aligning their reporting with other relevant metrics within the SRS.

This standardised methodology helps housing associations report on a wide range of ESG metrics and increases the usefulness of reporting to lenders through consistent measurement and easier comparability. We believe that standardised reporting helps promote transparency within the housing association sector and this in turn helps drive the sector towards best practice in sustainability initiatives.

Sustainability *for* Housing

Principle 11.

Signatories, where necessary, escalate stewardship activities to influence issuers.

Stewardship escalation policy

Our escalation policy acts as a backstop when engagement or influence activities are no longer effective.

This is applied when issuers do not make improvements in line with our expectations, despite multiple engagement efforts, within an 18 month engagement period. We require our asset managers to proactively escalate any sustainability concerns and report back any new information or evidence to PIC. We will also consider raising issues with collaboration with groups such as the ABI's Climate Change group, Net Zero Asset Owners Alliance (NZAOA) or the Investor Forum engagement groups.

Divestment will be considered as a last resort, as demonstrated in the case study below. We believe divestment in isolation will not solve the global, long-term challenges we face.

Our approach to escalation varies depending on the channel of engagement. Where we have a direct relationship with a company or a developer, for example, in the real estate space, we request additional meetings with senior management or directors as a means of escalation.

Managing coal exposure

We continue to monitor our exposure to companies in high-emitting sectors to ensure alignment with the 10% revenue threshold for coal extraction set for our investment portfolio.

Following the divestment last year (detailed in last year's report, page 53, Principle 11), we once again completed our annual review with managers to assess any remaining positions. As of 31 December 2024, a handful of companies marginally breaching this threshold remain in the portfolio. However, all have evidenced credible plans to diversify away from coal and meet the 10% threshold in the foreseeable future. We continue to closely monitor these holdings and remain prepared to divest should their coal reduction plans not materialise.

Our earlier divestment highlights our willingness to take decisive steps to ensure that our investments align with our environmental objectives and underscores our dedication to responsible investing practices. This proactive management of our coal exposure serves as a compelling example of our ongoing efforts to uphold our sustainability commitments and drive positive impact. Moving forward, we remain steadfast in our commitment to engaging with companies and actively managing our portfolio to achieve our decarbonisation targets by 2025.

Principle 12.

Signatories actively exercise their rights and responsibilities.

As a debt investor, PIC does not have any voting rights. PIC does, however, discuss key issues affecting investee companies with its asset managers, and expects its asset managers to raise any concerns we have with the relevant companies and to report back to us.

Whenever feasible, we leverage our influence as investors to include particular ESG requirements to be fulfilled in our investment terms and covenants, in both our private market investments and direct company relationships.

Outcomes:

- PIC negotiated a covenant for improved ESG disclosure with one issuer in the social housing sector following waiver request.
- PIC contractually requires all new direct property investments to be targeting majority EPC rating of B for their housing stock.
- PIC requires all new property investments where we are a lead investor to respond to our in-depth ESG due diligence questionnaires and provide supporting evidence for responses.
- PIC has successfully negotiated the inclusion of green lease clauses in long leases with various local authorities. These clauses enable PIC to request information and data about the environmental performance of the building throughout the term of the lease. This data will allow PIC to assess the building's environmental impact and these clauses also allow PIC to suggest improvements and enhancement works to the tenants of these leases to improve the environmental performance of the building throughout the lease term.

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