



Stewardship Report 2025.

Activity and Outcome

Pension Insurance Corporation PLC (PIC)



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At a glance.

Financial Investments

£54.8bn

Total UK direct investments¹

£15bn

Total number of policyholders

438,000

Social Housing¹

£2.8bn

Policyholder satisfaction

99%

Education¹

£2.4bn

Number of schemes insured

324

No of Engagements

183



Recent awards



Our clients include



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

Introductory statement.

This Activities and Outcomes (A&O) Report sets out how PIC has applied its stewardship policies and frameworks in practice over the reporting year, and the outcomes achieved as a result. It is prepared in line with the FRC Stewardship Code 2026 guidance and is intended to be read in conjunction with PIC's Policy and Context (P&C) Report.

While the P&C Report, submitted on a four year cycle, provides the foundational and contextual information that underpins PIC's stewardship approach, including organisational and governance structures, investment beliefs, and stewardship policies, this A&O Report focuses on implementation and delivery. It demonstrates how those policies, processes, and governance processes have been translated into stewardship activity, and the impact of those actions over the year.

The A&O Report provides evidence of PIC's application of the six Stewardship Code Principles through its stewardship activities and outcomes during the reporting period:

- **Principle 1:** Integration of stewardship and investment to deliver long term sustainable value for clients and beneficiaries
- **Principle 2:** Identification and response to market wide and systemic risks to support a well functioning financial system
- **Principle 3:** Engagement activities undertaken to maintain or enhance the value of assets
- **Principle 4:** Active exercise of rights and responsibilities, including escalation
- **Principle 5:** Integration of stewardship considerations into the selection and oversight of external managers
- **Principle 6:** Monitoring and holding to account stewardship service providers

Together, the P&C and A&O Reports provide a coherent and complete account of PIC's stewardship. The P&C Report sets out who we are and how we intend to steward assets, while this A&O Report explains what we did and the outcomes achieved in the reporting period. Consistency, alignment, and proportionality across the two disclosures are central to the FRC's expectations, with this A&O Report enabling stakeholders to assess how PIC's stated stewardship approach has been applied in practice.



I am pleased to present our fourth annual Stewardship Report, covering activities carried out in the year ending 31 December 2025.



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 £13.5 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. As we have transitioned to managing most of our portfolio in house, we have strengthened our own engagement capabilities and now conduct an increasing share of engagements directly rather than through external managers. Our five year engagement strategy provides a clear framework, setting out priority themes and guiding engagement across asset classes.

2025 was the initial year of implementation, where our Stewardship and Credit Research teams undertook 183 engagements, demonstrating both the scale of activity and the depth of focus applied. This momentum gives me confidence that we are well positioned to continue embedding stewardship into our investment decision making and to deliver sustainable, long term outcomes for our stakeholders.

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

2025 also represents the deadline for our coal policy, after which we aimed to divest from holdings breaching our threshold of 10% of revenues from coal extraction and burning. We have successfully achieved this aim, as detailed on page 18. Notably, 70% (by market value) of our counterparties who breached the 10% threshold when we first set the policy now meet the threshold, which in part is a reflection of our stewardship activity. With the rapidly evolving landscape and sentiment towards sustainability, we remain committed in our approach and convinced in the value-add of responsible investing and good stewardship.

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.

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 438,000 people, and have made £19.3 billion in pension payments, with a 99% customer satisfaction rating. At the end of 2025 we had a portfolio of £54.8 billion with £31.2 billion invested in the UK. To date we have invested £15 billion in UK housing and infrastructure.

PIC completed over £6.7 billion of new business premiums in 2025 (FY2024: £8.1 billion), securing the pension benefits of an additional 56,000 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.



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 2025 stood at £54.8bn. 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 2025)



	2025	2024
● Debt securities – Gilts and Governments Bonds	44.1%	39.0%
● Debt securities – Corporate	24.7%	30.2%
● Debt securities – Private investments	19.5%	18.4%
● Equity release mortgages	1.9%	2.0%
● Mortgage backed and other asset backed securities	0.5%	0.5%
● Participation in investment schemes	5.4%	6.0%
● Participation in liquidity funds	3.9%	3.9%

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 UK, 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.

At 31 December 2025, PIC had £10.7 billion invested in total in privately-sourced debt, creating significant social value. This includes sectors such as urban regeneration, affordable and social housing, renewable energy, and the UK's education sector. Working with partners such as local government, utilities, and infrastructure developers we are funding the housing and infrastructure the country needs. As a result, our investments create jobs and provide opportunities for skills development, helping to create intergenerational equity. High interest rates continued to suppress the supply of long-term infrastructure projects during 2025. At the same time very tight credit spreads meant that our demand for private credit assets was lower than in previous years. Within that context, we invested £2.0 billion during the year in high-quality, private assets. This included investments such as our £300 million funding of the Haweswater Aqueduct Resilience Programme, securing water supply for 2.5 million people in the Northwest of England. Overall, from our total £54.8 billion portfolio, £31.2 billion is invested in the UK.

Information on our investments is available to view on our website by anyone including our policyholders and the trustees of the pension schemes we secure.

Principle 1.

Signatories integrate stewardship and investment to deliver long-term sustainable value for their clients and beneficiaries.

Stewardship integration in investment decision-making process:

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

Sustainability considerations within 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 8).

We have prioritised higher level sustainability topics such as Net Zero commitments, climate data disclosures and credible transition plans. 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. PIC's approach to corporate bonds, private credit, developed market sovereign bonds and real assets are explained in the following paragraphs.



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 hold a bond and over what term to lend.

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

The theory behind our investment process is below:

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

This in practice means interpreting the data we receive through vendors or via primary data collection to identify the ESG factors we believe are the most financially material. We then assess a company's resilience to ESG risk through the effective management of these.

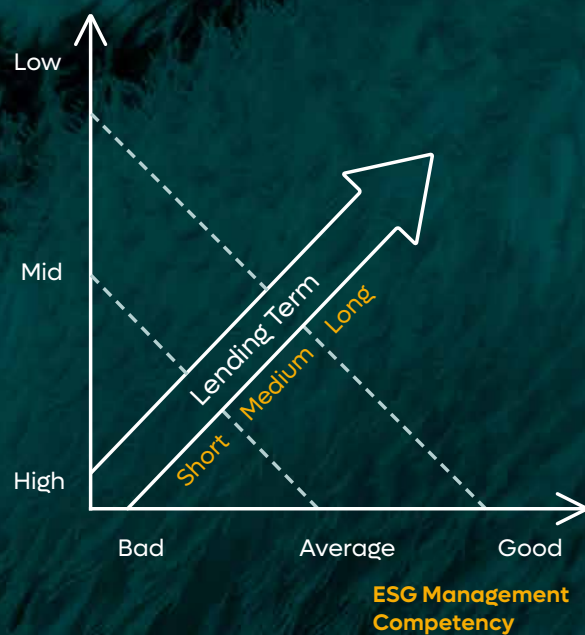
Sustainalytics² has been carefully selected as our data provider of choice for publicly listed corporate credit, given its focus on the downside risks of a company, which is most aligned with a credit investor's investment perspective.

- Sustainalytics rate industry risk with an "Average Exposure Score" which is their view of the total ESG risks in that sector. They also produce an "Average Manageable Risk Factor" which is their view of what portion, from the identified sector risk, can be managed. We call this ESG Industry Exposure Risk score.
- 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

ESG Industry Exposure
(manageable risk in sector)



The credit analyst will look to use this information as part of the overall decision for the creditworthiness of the company and the term for which we are prepared to lend to them. We attempt to apply this interpretation of ESG risks to all our bonds and other lending opportunities – however it is not always possible given time sensitivities, time availability and resource. Our aim is to continue to apply this process in practice and adapt the process as we progress to make it most suitable for our evolving investment portfolio.

The principles of our analysis are enhanced by adding additional data sources. We integrate MSCI Climate Data into 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 greenhouse gas (GHG) emissions, their commitments to decarbonise as well as their forecasted competitiveness in a low carbon economy.

Please see our **Climate Transition Plan** and our most recent **Climate (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.

² Neither Sustainalytics nor its content providers are responsible for any damages or losses arising from any use of this information and use is subject to conditions available at <https://www.sustainalytics.com/legal-disclaimers/>



Internally managed private credit assets

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

- For private debt into listed companies, we use data from our various data sources such as Sustainalytics, Bloomberg, Credit Sights, rating agencies and the company's public sustainability reports to analyse exposure to ESG risks.
- For our private debt investments into unlisted organisations, we liaise directly with the issuer to determine their ESG position and attribute an in-house ESG risk score. The process typically runs in the following way:
 - a. Where possible we send sector specific ESG questionnaires which assess individual factors which are deemed as most material to the sector.
 - b. We apply our in-house ESG rating methodology to produce an ESG Issuer Score. Absent any unusual events, we review this rating on an annual basis as part of our ongoing monitoring.
 - c. We engage with each organisation on responses given, and work with them on things like increasing transparency or setting objectives 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.

Developed Market sovereign bonds

As a low-risk insurance investor who is required by regulation to tightly cashflow match our liabilities, a large portion of our portfolio is invested into Developed Market sovereign bonds. Nevertheless, the ESG assessment of such bonds is approached in a similar manner to our other public credit exposure. We receive ESG country risk data from Sustainalytics and incorporate this into our country and sector limits framework. Depending on the level of ESG risk of a country, an adjustment is made to the level of exposure we can have in that sovereign's issuances by tightening the concentration limit allocated to that country in line with risk exposure.

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 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 KPIs spread across eight ESG related themes which are tailored for each type of property investment.



Environmental

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



Social

- Health and wellbeing
- Social value



Governance

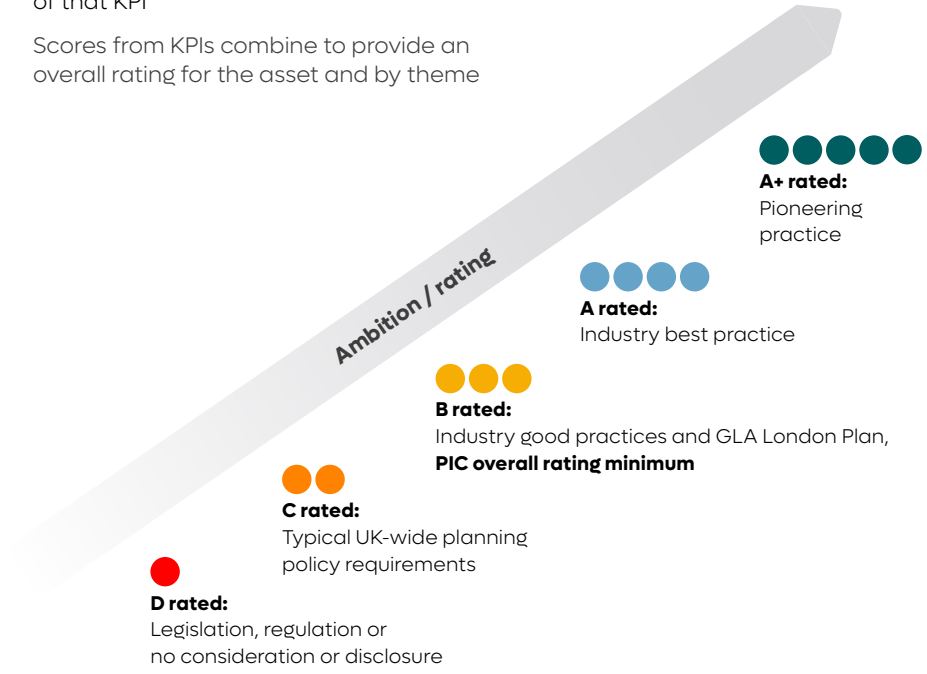
- Monitoring
- Policy



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.

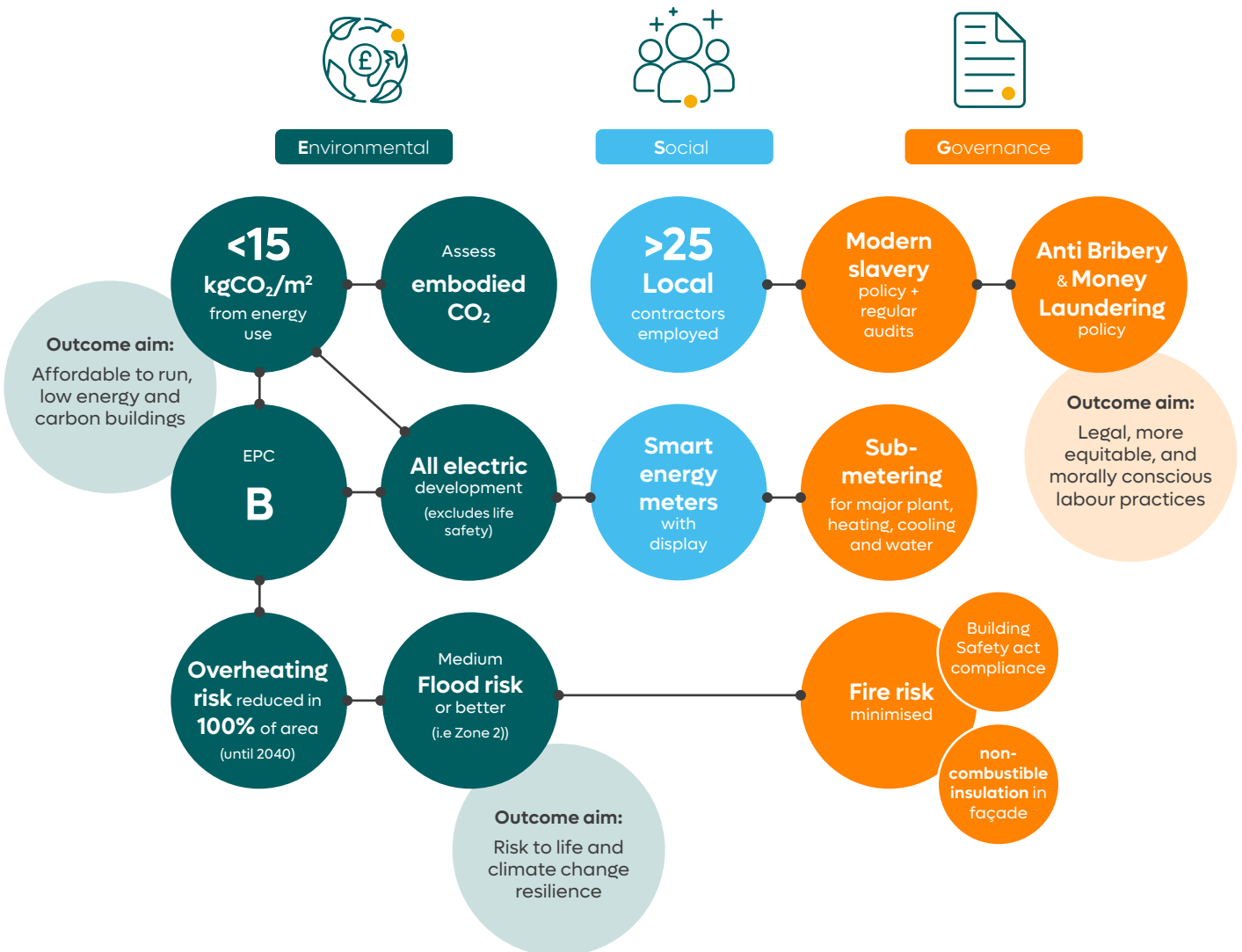
New developments must achieve an average aggregate PIC rating of ‘B’ across the framework before being recommended for investment³.

³ Applicable to development schemes of new build properties where PIC is making meaningful equity and /or debt investment and has influence over the design features of the construction and fit-out.



There are minimum standards for new build assets which set red lines on a handful of KPIs that any development must achieve or commit to meet, prior to financial close. The image below shows which selected KPIs across the ESG sections and how they link together.

New Build Minimum Standard



Our approach includes a 65 KPI questionnaire which varies depending on the stage of the development: 1) pre financial close, 2) construction phase and 3) operational. We also have a social value matrix that measures and monitors social value creation by each development.

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:



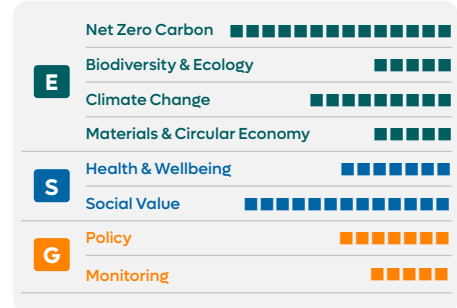
Technical advisor

KPIs – collected and reported before FC

Focus of data

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

Total
65



Phase 2 – Construction monitoring

Construction

24 – 48 months

Purpose:

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

Collected by:



Contractor

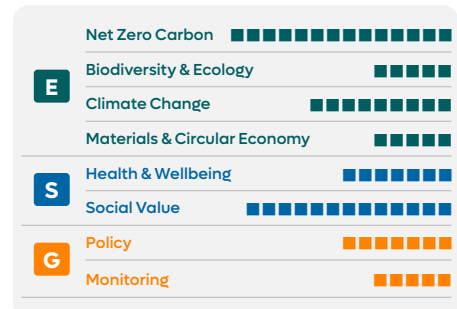
KPIs – reported annually

(by calendar year)

Focus of data

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

Total
12



At practical completion

Typically 8 weeks
(BSA1 Gateway 3 approval period)

Purpose:

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

Collected by:



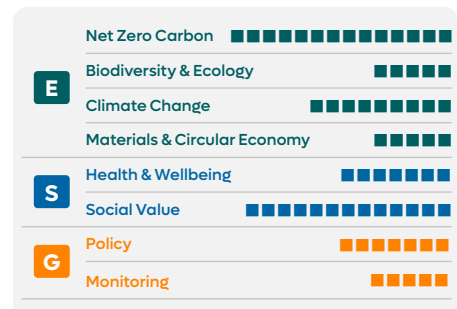
Developer

KPIs – Summary performance collected

Focus of data

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

Total
19



Phase 3 – Operation

Operation

25 – 60 years

Purpose:

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

Collected by:



PIC



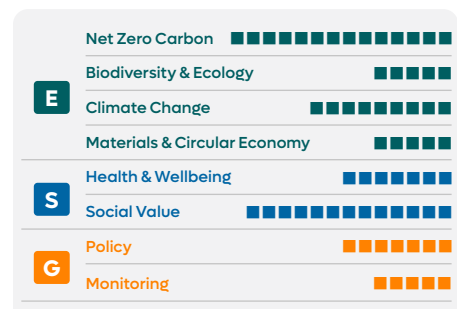
Management agent

KPIs – collected annually

Focus of data

- Annual energy use and CO₂ emissions
- Tenant satisfaction and protections
- Social value

Total
11



Social value created through long-term investment

PIC’s investment strategy integrates social value from the outset of each project, quantifying local economic, social and environmental outcomes and embedding community benefits through long-term stewardship.

Our development Millers Quay in The Wirral demonstrate how this approach can deliver improved employment, education, green space and climate-resilience outcomes, as well as providing inclusive community-based living for tenants for the long term.

Case study: Millers Quay at Wirral Waters



UN SDGs



A partnership with the local authority and Peel Ports with PIC funding delivery of 500 apartments.

Some of the social value highlights of this development:

- £44m of the construction spend in the local area
- 2,780 construction jobs created
- 444 students engaged on site
- 100 affordable homes
- Almost 5,000m² public green space
- 102 trees planted
- Winner of 2025 housing design award

Impact

Regeneration of brownfield site, delivery of quality homes, local employment and opportunities for some to enter what will be a long-term career.

“An acute focus from all stakeholders on social value during the development lifecycle allows for a wide spectrum of tangible and intangible benefits to be realised from community place making to providing comfortable and safe homes during the whole life span of the development.”



Tanmay Desai
Head of Built Environment, PIC Capital

To date, we have invested more than £5.9 billion in built environment projects including social and affordable housing, Build-to-Rent (“BTR”) developments and senior living. Projects such as these are important contributors to the regeneration of our cities and provide local employment opportunities. So far, PIC funded projects have led to 9.3 million on-site hours, with 650 people working on our construction sites in 2025. About 60% of these jobs were undertaken by local labour.

Further case studies are outlined within our **Sustainability report**.

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 2025, we held meetings with six 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 six 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.

Sustainable assets

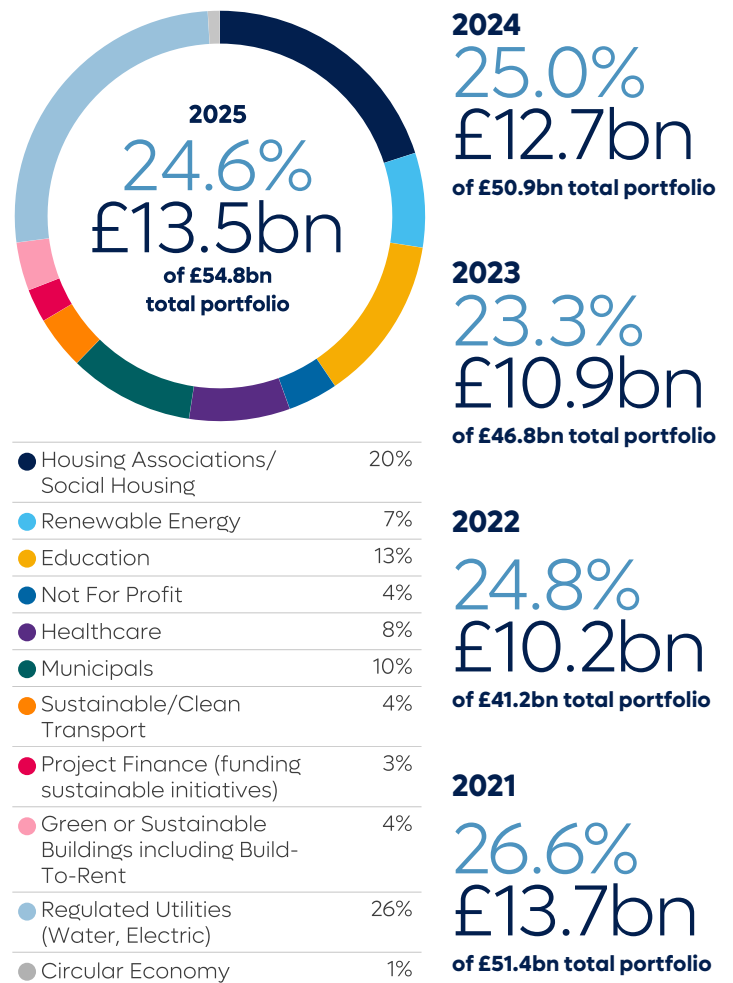
100% of PIC’s portfolio benefits from our Responsible Investment approach while around a quarter of the portfolio is categorised through our Sustainable Assets Framework as having a positive impact.

PIC defines a Sustainable Asset as one whose business model meaningfully relates to solving one or more of the United Nations Sustainable Development Goals (UN SDG) and thus benefits people and the planet over time. The word ‘Sustainable’ is chosen as it highlights the natural positive social and /or environmental outcomes that arise from a company’s regular business activity over time. The Sustainable Assets Framework is available in pages 33-34 of **Sustainability Report 2025**.

Our £13.5 billion⁴ investments in Sustainable Assets (c25% of our total portfolio) 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.

Investments in Sustainable Assets

Proportion of total portfolio over the last five years*



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

The following case study demonstrates an example of one of PIC’s sustainable assets

Case study: **Haweswater Aqueduct Resilience Programme**



For UK social infrastructure.

UN SDGs



We were the largest single investor, with a £300 million investment, into the Haweswater Aqueduct Resilience Programme (“HARP”); the UK’s latest water-related social infrastructure project.

HARP is a large-scale utility project delivered by United Utilities and will replace six tunnel sections of the original 1950s-built, 110km Haweswater Aqueduct. HARP will secure the continued supply of up to 570 million litres of clean drinking water required every day for 2.5 million residents in Cumbria, Lancashire, and Greater Manchester.

The project is one of the UK’s most significant water infrastructure upgrades in decades and will contribute to regional resilience, environmental performance, and economic growth through local supply chain and employment opportunities. HARP will be delivered with a strong environmental focus by reducing leakage, improving operational efficiency, and ensuring compliance with evolving climate resilience requirements.

The financing supports sustainable infrastructure that delivers both community and environmental benefits alongside long-term financial stability for PIC’s policyholders. Around 1,200 people will be employed at the peak of construction with an apprentice recruitment programme to help build and secure skills for the future.

Our Sustainable Asset Framework and further examples of investments in sustainable assets are outlined in our **Sustainability Report**.



Assets managed by external managers

Although the majority of our assets are now internally managed, we do still use a few selected 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 demonstrate a track record of doing so. It is important that our managers are responsible stewards of their clients' capital, as our reputation can be directly linked with their actions.
- Given we have specific mandates with each manager, the application of sustainability criteria will vary between them. Each of our managers have their own in-house ESG integration and stewardship framework which is used when establishing our investment universe.
- Once holdings are in the portfolio, we ask managers to comment on any controversies and include forward-looking thoughts on ESG related matters.
- Our managers each provide us with sustainability updates covering topics such as ESG ratings, controversies, and engagement activities.

Examples of these engagements can be found below under Principle 3.

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 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. 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.



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: **Investment due diligence**



For investment risk management.

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

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

We were provided with a third-party technical report covering the possible impact of different climate scenarios on annual precipitation, annual electricity generation of the portfolio, and seasonal generation. This analysis included a range of timescales and scenarios, including the IPCC's SSP5-8.5 scenario⁵. While we do not consider this to be a likely scenario, it presented a worst-case scenario which was useful for our downside risk management. This report indicated that the most extreme physical risk scenario (SSP5-8.5) would lead to a small increase in overall rainfall and increased variability. Overall, electricity generation was expected to modestly increase under this scenario, giving us confidence in proceeding with the investment. While there are significant challenges in predicting weather patterns on such timescales, we considered the absence of a significant downside in the modelling to be a positive indication of the low level of risk.

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



For better decision-making.

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

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

This is compared to a total of £2 billion of private debt investments sourced in 2025, and demonstrates our willingness to reject deals that we do not deem to meet our climate-related criteria. Given the nature of public markets, it is not possible to track an equivalent number of declined public deals.

However, we also apply our climate risk appetite to public deals, as set out by our investment strategy, and ESG-related factors are considered when excluding issuers from our investible universe.

5 https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_Chapter04.pdf

Establishing and implementing investment restrictions

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

Coal extraction and burning, and Tar Sands:

No new purchases in companies that derive more than 10% of turnover from coal extraction and burning, and tar sands. We have successfully achieved our aim to divest from holdings that breach this 10% limit by 2025.

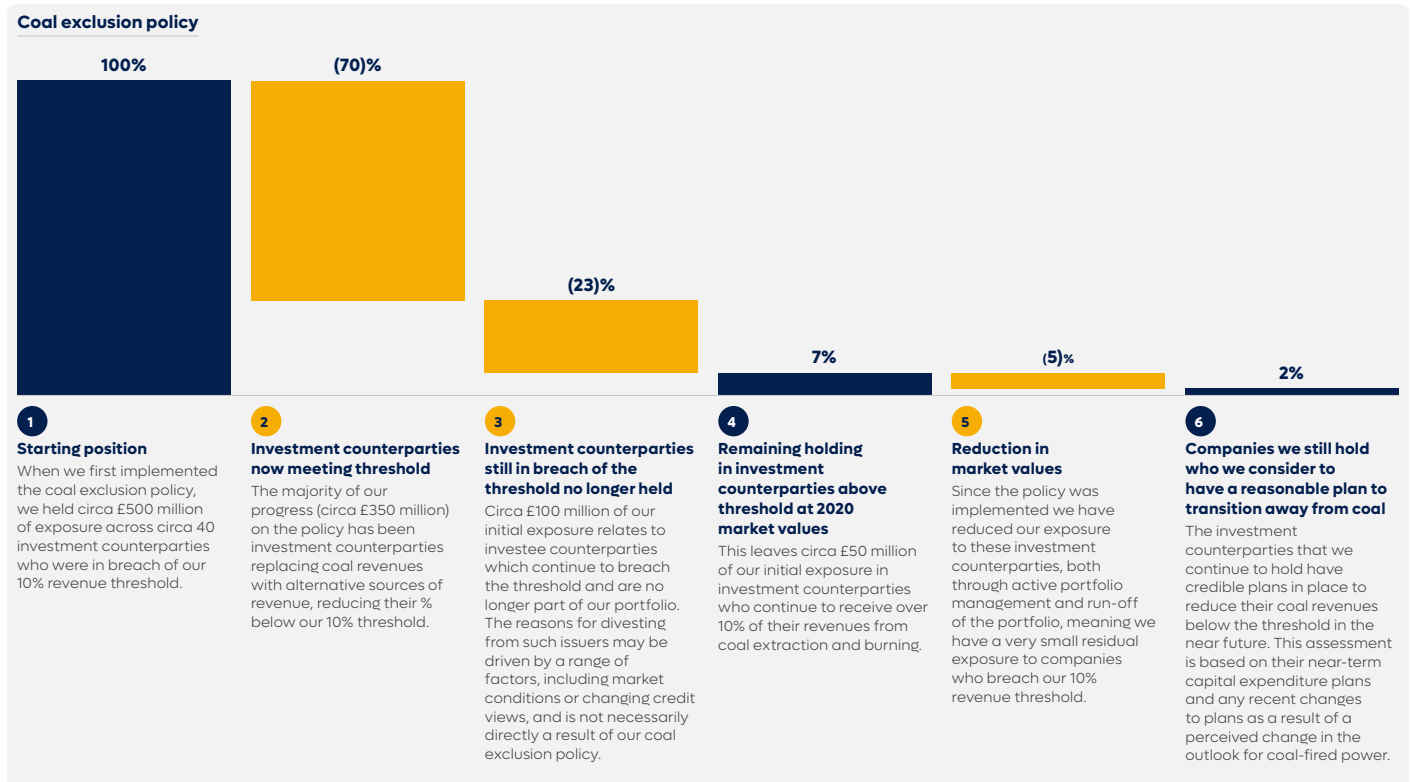
Oil:

As with coal, the long-term demand outlook for oil is uncertain as energy markets undergo meaningful structural changes. While oil is likely to remain in the energy mix for longer than coal, we have a cautious approach to long-term investment in the sector. We will make no new purchases of companies who exclusively focus on upstream activities. We aim to divest from these holdings over time. PIC will continue to invest in major integrated oil companies where such companies have decarbonisation commitments and have a credible strategy to deliver them. We believe such companies have an important role to play in the transition to a low carbon economy. Our cautious approach also includes concentration and duration limits for specific subsectors and a low allocation overall. As of 31 December 2025, this sector represents less than 1% of PIC's portfolio.

Coal exclusion policy – progress since implementation

We implemented our coal policy in 2020 to align with our long-term credit views on the viability of coal as a source of energy.

At that time, we had circa £500m of exposure to issuers in breach of the 10% revenue threshold. Our approach has been to engage with these issuers to encourage the replacement of coal-fired power plants with cleaner sources of electricity, where appropriate. We aimed to avoid divestment where possible, although we were prepared to take this action if our engagement did not achieve the desired outcomes. The graph below gives an indication of how this initial exposure of circa £500m has reduced over time.



Case study: **Flood Risk Framework and Investment Decision-Making**

Climate change is increasing flood risk across the UK through more frequent and intense rainfall, flash flooding and prolonged ground saturation.

These trends pose material risks to long term property assets, tenant safety and asset values, making flood risk a key consideration in PIC's stewardship and investment decision making.

PIC's proprietary Flood Risk Framework is embedded within the due diligence for new acquisitions and the review of existing assets. The framework assesses flood risk exposure over the full ownership period and considers the physical, human and commercial impacts of flooding.

The framework is used to:

- Define acceptable flood risk thresholds by asset type
- Guide risk based actions for PIC and external advisers
- Identify when additional modelling or mitigation is required
- Exclude investments where flood risk exceeds PIC's long term risk tolerance

The framework was developed by PIC's Head of Built Environment with technical advisers, drawing on Environment Agency flood data and detailed analysis of flood likelihood and severity across asset classes and locations. Engagements with investment teams, valuers, insurers and water consultants ensured the framework reflects both technical and commercial risk. Clear risk tolerances are set, with a strong preference for assets in Flood Zone 1, limited and diversified exposure to Flood Zones 2 and 3 (with defences), and a general exclusion of assets in Flood Zone 3 without defences, subject to limited exceptions.

Throughout 2025, the Flood Risk Framework played a decisive role in initial screening of schemes and stewardship outcomes by informing decisions not to invest in some prospective projects. These included residential, and mixed use schemes where flood exposure, reliance on long term defences or limited mitigation options were assessed as incompatible with PIC's long term investment horizon.

This disciplined approach demonstrates PIC's commitment to protecting asset value, tenant wellbeing and portfolio resilience as climate related flood risks continue to evolve.



Principle 2.

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.



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.



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.

We have taken strong measures to mitigate these risks while working with industry peers to promote well-functioning, more stable and increasingly transparent markets.



Financial markets

The global economic outlook continued to be extremely volatile in 2025, with uncertainty stemming from new trade tariffs and geopolitical tensions. There were also concerns regarding fiscal dynamics, for example in the US and UK. Nominal interest rates broadly edged downwards, with cautious rate cuts enacted in the US, UK and Eurozone. The main trend in exchange rates was a weakening of the US dollar relating to concerns regarding institutional independence.

Although interest rates have started to reduce and inflation has generally declined since 2023, uncertainty remains regarding the future pace of interest rate reduction. Various geopolitical hotspots (e.g. Russia/Ukraine, Israel/Gaza, US/China) have potential to affect interest rates and exchange rates.

Exposure to interest rates, inflation and exchange rates risks are managed by our hedging strategy and framework. This includes monitoring market conditions and our exposures relative to our hedging benchmarks and risk appetite limits. 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.

As we look ahead to 2026, 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 this 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 year end, 92% of the portfolio, including gilts and corporate debt, was rated investment grade (FY2024: 92%). No single counterparty, other than government bond exposures, represented more than 0.8% of the portfolio at year end (FY2024: 0.9%). Corporate and government bonds represent 68.8% of our portfolio (FY2024: 69.2%) and almost all of our private investments have been consistently rated investment grade.



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 updated PRA's Supervisory Statement: Enhancing banks' and insurers' approaches to managing climate-related risks (SS5/25);
- 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 and broader regulatory change.

Constructive engagement with the PRA is particularly important to us as it allows us to continue to influence the regulatory landscape so that we are better able to fulfil our purpose. A current focus is our continued work with the PRA regarding the Matching Adjustment, including the Matching Adjustments Investments Accelerator. The new regime should lead to increased investment flexibility and a more streamlined permissions process, which will allow PIC and our peers in the industry to direct larger amounts of investment into new areas. This could allow considerable social value creation and climate-friendly investments whilst maintaining security of cashflows in order to pay the pensions of our policyholders now and in the future.

PIC has also been engaging significantly on the emerging requirements for Liquidity Reporting, which has included responses to questions from the PRA and membership and attendance at Subject Expert Groups ("SEGs").

PIC also regularly participate in industry wide exercises that assist in the assessment of system wide financial and operational resilience. For example, in 2025 PIC participated in the Life Insurance Stress Test; conducting a scenario of severe shock to assess the impacts and actions that PIC could take to restore solvency. PIC was able to sustain significant capital (being above risk appetite) after a c. 1-in-100 year shock; demonstrating resilience but also contributing to a view of the broader sector.

Outside of direct interactions with our regulators, PIC work closely with the Association of British Insurers ("ABI"), on a range of industry wide topics.

Whilst we have broad representation across a variety of committees, our Head of Enterprise Risk Management and Regulatory Affairs sits on the Prudential Regulatory Committee, and our Head of Non-Financial Risk sits on the ABI's Conduct Committee. In the former, discussions of the committee focus on ensuring there is appropriate recognition of the industry's perspective in policy and regulation making, which has included topics such as liquidity reporting, recovery and solvent exit planning and Solvency UK.

We welcome the PRA's approach to engaging with PIC and the wider industry on important topics (including the emerging topic of "Alternative Life Capital: Supporting innovation in the life insurance sector" and further clarifications of the management of climate related risks). We will continue to engage with the PRA on a bilateral basis, as well as through industry groups, such as the ABI, to achieve these societally 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 Anti-Greenwashing rule, effective from 31 May 2024, which states that a firm's sustainability-related claims about its products and services must be: a) consistent with the sustainability characteristics of the product or service; and (b) fair, clear and not misleading. The FCA seeks to enhance the integrity and credibility of the market for sustainable finance. During the year, PIC established an Anti-Greenwashing Policy to adopt and implement the regulation which defines how PIC is expected to conduct itself regarding the sustainability-related claims it makes concerning its products, services, and PIC itself.

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. 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. The Board Consumer Committee received formal training in 2025 on the parallels between Anti-Greenwashing Rule and Consumer Duty.

Purposeful Finance Commission:

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

The Purposeful Finance Commission ('PFC') is an independent organisation chaired by PIC. 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 published Reservoir Underdogs in Q4 2025, in which it looked specifically at the water sector's fragmented and unaccountable regulatory landscape, which has prevented any reservoirs being built in the UK since 1992, and proposed radical reform. The PFC's core argument is that the fragmented oversight system for the development of reservoirs must be rationalised, and a single agency must be handed responsibility for championing delivery of reservoirs. This national champion agency must be given the ability to link reservoir need with housing need. This research sets out to propose tangible, targeted recommendations on how to boost their delivery.

Subsequently, in her speech to the Economist Water Summit in London in February, Environment Secretary Emma Reynolds spoke about the need to reform the water sector, as envisioned in the government's recent Water White Paper.

At the core of the proposed reforms are a shift "from a fragmented regulatory landscape to a single, integrated water regulator" and the effort to create "an attractive, sustainable investment environment" in the water sector, recognising the role that water infrastructure has in unlocking growth.

These proposed reforms reflect many of the recommendations from the Purposeful Finance Commission's report on unlocking regulatory challenges in the water sector and follow extended conversations with the Department about the report.

Please read the full report [here](#).

Case study: **Citizen Gain – Social Value as a Long Term Investment Outcome**

As long term lenders to and owners of UK housing and infrastructure, PIC views sustainability and social value creation as a natural outcome of our investment strategy and business model.

The UK's significant undersupply of housing and infrastructure presents a long term risk to economic growth and investable opportunities. **Citizen Gain** articulates how embedding social value into development can help address this challenge while supporting durable cashflows for pension payments.

Drawing on insights from nearly 50 organisations, PIC advocates integrating place based social value into projects from the outset, rather than treating it as a late stage mitigation. PIC uses its position as a long term investor to engage with developers, policymakers, regulators and standard setters on how social value can be defined, measured and governed. This includes oversight across the development lifecycle, the use of social value templates and indices, and constructive engagement to ensure developments deliver tangible benefits for existing communities.

Citizen Gain demonstrates that genuine social value creation can reduce planning risk, build local consent and unlock housing and infrastructure investment. For PIC, stewardship that aligns community outcomes with long term investment horizons, supports sustainable returns, strengthens market wide resilience and contributes to securing pensions for the future.

The ideas contained within Citizen Gain are being taken forward by the Social Value Commission, an independent body which will advise national policymakers and work with local government on ways to ensure local residents share the benefits of investment and private sector initiatives in their communities.

The Commission, which is chaired by PIC, includes Barratt Redrow, E.ON UK, Heathrow, Knight Dragon, Mitie, the Premier League, and VodafoneThree.





Climate change

Climate change continues to be an area of concern for the public, insurers and regulators alike. Climate change has the potential to 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. Shifts in government climate policies – such as recent reversals or strengthened commitments seen in 2025 – may also heighten the risk of stranded assets that PIC may be unable to sell.

Our 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 events would also lead to increased fixed costs for PIC on the built assets it manages (e.g. cost of insurance).

Managing climate risk is firmly embedded into our business and the carbon intensity of our investment portfolio (defined as the Weighted Average Carbon Intensity ("WACI") (Scope 1 and 2) in emissions per \$ million revenue) is a key metric. This 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.

In 2025 we further reduced the carbon intensity of our investment portfolio and successfully met our interim target of a 25% reduction in the WACI of our public corporate credit portfolio. This progress reflects focused engagement with our most carbon intensive investees and a natural decarbonisation of companies within the portfolio. In 2025, we also achieved operational carbon neutrality by decreasing our own scope 1 & 2 emissions by as much as possible and offsetting the rest through high integrity carbon removal credits. We expect our investment strategy, which favours assets aligned to a low carbon transition, to support continued progress towards our 2030 decarbonisation target and strengthen our resilience to climate related risk.

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

One way in which we respond to the systemic risk presented by climate change is as a member of the Net Zero Asset Owners Alliance "NZAOA". The Alliance responds to this systemic risk in a number of ways:

- Climate engagements: we have committed, in line with the NZAOA target setting protocol, to engaging with at least 20 of our investee companies a year, focussing on some of the most carbon intensive companies in our portfolio. We work with these investee companies to achieve real world decarbonisation and reduce both transition and physical risk. NZAOA members collectively have \$9.2tr of assets under management, meaning the engagement of the NZAOA members can have a systemic impact on reducing climate risk.
- Decarbonisation targets: our portfolio decarbonisation targets are informed by NZAOA guidance, and the overall effect of all members setting targets informed by that guidance is a significantly greater systemic impact on climate risk reduction than we could achieve through our own decarbonisation targets.
- Policy engagement: the NZAOA engages with policymakers globally to support the reduction of climate risk, and we actively contribute to this process. In 2025 we contributed to the NZAOA's work on financing the transition, focussing on carbon removals.

During the year, NZAOA experienced a period of instability as some asset owners exited amid wider anti ESG pressure, prompting a member vote to refine the alliance's remit and governance. PIC discussed the proposals with senior management, judged that the core scientific and fiduciary foundations remained intact, and committed to staying in the alliance irrespective of the vote's outcome.



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 2026 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, in order to price risks accurately and allocate capital efficiently. This includes the risks and opportunities presented by rising temperatures, climate-related policy and emerging technologies in changing worlds. The TCFD is in the process of being replaced by ISSB and we will transition our reporting to the ISSB frameworks (S1 “General requirements for Disclosure of Sustainability-related Financial Information” and S2 “Climate-related Disclosures”) if they are formally adopted in the UK.



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.



PIC is a founding member of the Association of British Insurers (ABI) Climate Change Working 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. The working group has also taken on a broader role in more recent years, contributing to ABI responses to policy and regulatory consultations, for example the PRA’s consultation paper 5/25 in 2025.



Longevity risk

In addition to the key market-wide and the systemic risks listed above, we consider longevity risk. If PIC’s policyholders live longer than was originally assumed when pricing new business, PIC’s liabilities will increase. Mortality rates during 2024 broadly returned to the levels seen before the pandemic, and early signs for 2025 show a continuation of these more stable patterns. While the direct impact of Covid-19 has not largely subsided, some indirect effects are still visible across the population, contributing to ongoing uncertainty in overall life expectancy trends. PIC has reflected this evolving picture in its assessment of the longevity risk across the business.

Uncertainty remains around how life expectancy will develop in the years ahead. People are generally living longer, and advances in medical treatment, including therapies for obesity and age-related conditions, may lead to future improvements over time. PIC continues to monitor developments in population health, healthcare access and medical innovation, updating its view of longevity as appropriate.

PIC typically transfers longevity risk through reinsurance contracts, significantly reducing its exposure if policyholders outlive expectations, as increased liabilities are shared with reinsurers. PIC also maintains strong capital requirements to safeguard the business against any unexpected increase in longevity. Additionally, PIC regularly reviews life expectancy trends to keep its assumptions up to date, including monitoring the Continuous Mortality Investigation (“CMI”). This year, PIC adopted the latest CMI_2024 model for mortality projections, strengthening its longevity modelling.

Principle 3.

Signatories engage 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 gain a deeper understanding of a company's operations, stakeholders, and performance. This type of engagement supports our investment decisions and is typically conducted through detailed, targeted questioning during due diligence.

2. Purposeful dialogue:

To influence corporate behaviour and drive positive change. These engagements are collaborative and ongoing, fostering open conversations that support long-term relationships and align with our buy-and-hold investment strategy.

PIC's engagement strategy

Our five-year engagement strategy implemented this year builds on our previous efforts and sets a clear direction through to 2030. The strategy focuses on six core ESG themes: Climate Change, Natural Capital, Human Rights, Human Capital, Corporate Governance, and Diversity, Equity, and Inclusion. The strategy covers multiple asset classes within our portfolio and seeks to create a lasting positive impact on both the companies we engaged with and the wider economy.

How we engage

We use four main channels to engage with investee companies:



1. Direct engagement
by our credit analysts
and Responsible
Investment team



2. Collaborative initiatives
with other
institutional investors



3. Specialist third-party
engagements for
niche asset classes



4. Engagement
via external
asset managers

Engagement areas of focus

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.

In addition to expanding the thematic scope of our engagements, we 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 have strengthened our internal engagement capabilities and now conduct the vast majority of engagements directly rather than through external managers. The successful delivery of the first year of our five year engagement strategy demonstrates our commitment to using our influence effectively to drive meaningful change and achieve tangible, real world impact.

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 four 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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 embodied emissions, EPC ratings, building regulation emissions, percentage of energy demand from non-fossil fuels, and type of offsetting within the built environment.	Engaging on natural capital topics such as biodiversity net gain, urban greening factor, water usage, and circular economy within the built environment.
	Engagement objectives	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Adequate sick leave pay policies; • Board-level responsibility for corporate culture and employee well-being; • Worker voice and grievance mechanisms. 	<ul style="list-style-type: none"> • Board structure; • Remuneration policies; • Succession plans. 	<ul style="list-style-type: none"> • 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.
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Adequate sick leave pay policies; • Board-level responsibility for corporate culture and employee well-being; • Worker voice and grievance mechanisms. 	<ul style="list-style-type: none"> • Regulatory compliance; • Board structure, maximum tenure and turnover; • Succession plans. 	<ul style="list-style-type: none"> • 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.
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Positive impact on the local economy through material and labour; • Affordable housing provision; • Community engagement; • Support for vulnerable tenants. 	<ul style="list-style-type: none"> • Sustainable procurement policy; • Health, Safety & Well-being; • Anti Bribery and Money Laundering. 	<ul style="list-style-type: none"> • 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).			



Engagement summary – 2025

During 2025, we engaged with 183 companies through our diverse engagement channels on a range of sustainability topics. We count multiple engagements with a single entity as one engagement. Climate-related issues continued to dominate our engagements topics although we increased our focus on corporate governance, recognising its central role in addressing broader ESG challenges and mitigating material ESG risks across PIC’s portfolio.

Human rights were another focus area, with engagements targeting issues such as modern slavery, forced labour, and health and safety standards.

The chart below displays the breakdown of our engagements by area of focus. We outline on page 31 the number of times we discuss Environmental, Social and Governance issues with these companies, noting we engage some companies on a range of ESG topics.

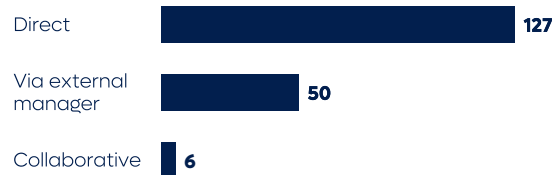
Engagement focus



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

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

Engagement channel



The majority of our engagements (73%) were conducted directly or through our participation in collaborative initiatives, while 27% were carried out by our external managers.

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



Environmental engagements

Environmental issues are a key priority for our engagement efforts, with a focus on two main areas: climate change and natural capital. These are key for PIC given our belief in the materiality of Climate Risk on our investment portfolio as well as the fact that our own decarbonisation progress fundamentally relies on the decarbonisation of the companies in which we invest. Environmental related topics discussed both via managers and directly by PIC during 2025 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 these engagements is outlined below.

In 2025 we engaged either directly or via our managers on climate and environmental issues with 132 companies.



Social engagements

Another priority engagement area for PIC is on selected social issues which have been categorised into Human Rights and Human Capital. We annually publish an updated Modern Slavery statement and have an internal policy on the matter – both approved at Board level. All employees also complete mandatory compliance training on the subject. We ensure we can evidence how we are enacting those commitments. For the year 2025, 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 2025, PIC engaged on at least one social topic with 85 companies.



Governance engagements

Ensuring robust governance practices within investee companies is crucial for mitigating long-term investment risks. We firmly believe that effective governance lays the foundation for addressing other significant 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 2025 PIC engaged on at least one governance topic with 120 companies.

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.

“We have achieved meaningful progress in the first year of implementation of our five-year engagement strategy. We have had to enhance our direct engagement capabilities given the in sourcing of the majority of our assets. We remain steadfast in our commitment to leverage our influence to drive meaningful change, accelerate climate action and deliver real-world outcomes.”



Sinead Lennon
Investment Stewardship Manager, PIC

At PIC, in-person or virtual meetings are our preferred method of engagement, as we consider active dialogue to be the best way of achieving results. This is true for both direct engagements and engagements via managers. Analysts have predominantly used this method across their engagements during 2025.

We are pleased with our progress in stewardship during 2025, while recognising the need to continually enhance the quality of our engagement with investee companies. In particular, we are proud of having built-up our internal capabilities and confidence in engaging directly with investee companies, decreasing our reliance on third parties and hence gaining control on the narrative.

Different types of engagement serve different purposes and vary in depth. This year, we increased the proportion of in depth engagements, as determined by the material topics set out in our engagement strategy, rather than high level information gathering discussions.

To support this approach, we introduced an internal engagement quality framework and placed greater emphasis on engagement effectiveness. A quality scoring system (1–3, where 1 represents the highest quality) was implemented, alongside plans for ongoing training for credit analysts to support deeper, more impactful dialogue. Encouragingly, the majority of engagements were scored 1 or 2, demonstrating a clear improvement in the depth and effectiveness of our stewardship activities. These outcomes are reported to the relevant governance committees within PIC.

While information gathering remains essential 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. The following case study demonstrates how we are identifying and assessing nature risk in our portfolio.



Case study: **Nature-related risk**

Alongside climate change, we are also placing increasing focus on understanding and managing our nature-related risks and opportunities, in particular the nature-related risks within the investment portfolio.

We use the ENCORE⁶ database to assess the dependencies and impacts of each economic sector on nature, to estimate our portfolio exposure to nature-related risks.

Where sectors have a high level of dependency on nature, if the ecosystem services that those sectors depend on are under threat from the degradation of natural capital, there is increased physical nature-related risk to that sector. On the other hand, if a sector has a high impact on nature, there may be increased transitional nature-related risks to that sector due to regulatory or consumer pressure to reduce the impact. More detailed information is outlined on page 24 in PIC's **Sustainability report**.

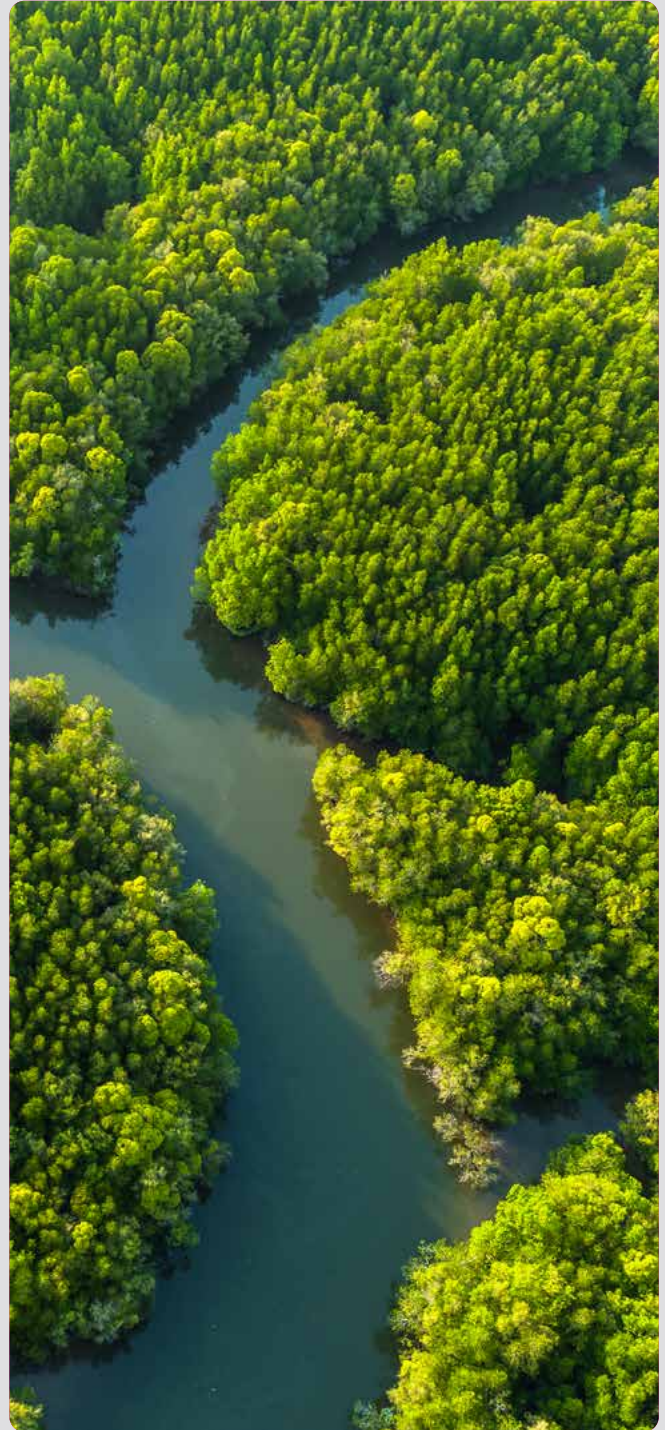
In 2025, we built on this approach and considered the ecosystem services upon which our portfolio is most dependent. If these ecosystem services are assessed to be materially at risk, then this could translate to financial risk in our portfolio. The ecosystem services upon which our portfolio is most dependent are:

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

Based on our expert judgement, the depletion of visual amenity services is unlikely to cause a material risk to businesses that we lend to. We have therefore focused on the water-related risks to conduct a more detailed analysis of our potential exposure. The sectors driving the majority of our High and Very High dependency on water-related services are utilities and healthcare / pharmaceuticals. An example of water related risk materialising can be found in the engagement case study on page 37.

Nature-related risk is inherently localised, meaning any sector-based analysis can only be used as an indication of possible areas of increased risk. With this in mind, we intend to focus our future work on:

1. Specific issues where our credit analysts deem water risk to be material, based on our increasing understanding, and refreshing our credit views in light of this risk.
2. Engaging with issuers in the sectors above to both understand their approach to managing water-related risk and detail our expectations on the topic.



⁶ <https://www.encorenature.org/en>

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. In our public credit engagements, we often work with asset managers or reach large corporations through collaborative engagement initiatives. While in private debt and real assets engagements, we tend to engage directly with investee companies to negotiate sustainability criteria in deal documentation. For our real estate assets, we strive to engage directly with the developers and contractors leveraging the expertise and resource of specialist, 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 pages 28-29.

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 2025 is included in Principle 1.

Our engagements with managers are in-person / virtual and arise when assessing a new investment or every two years for existing holdings. The engagements focus both on the Manager's sustainability capabilities and commitments as well as any strategy specific ESG integration process.

Many of our direct engagements are with issuers within the UK, US, and Europe; accordingly, we adapt our engagement dialogue/narrative to reflect the specific geopolitical and regulatory nuances of these regions. For our indirect holdings, our managers, such as the one who manages our Emerging Market Debt portfolio adapt their engagement approach to different geographies where needed. A good example of this is JPMAM who hold both Emerging Markets (EM) corporate and EM 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 2025 engagements across various asset classes are outlined in the following case studies.



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



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

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

To address this challenge, we undertook targeted direct engagements via our credit research analysts and through our external managers with the top carbon-emitting issuers. We assessed the credibility of transition plans by reviewing emissions reduction targets, science-based commitments, capital expenditure and research and development (“R&D”) allocations, and governance structures.

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

Case study: **Comisión Federal de Electricidad (CFE)**



Issue:

The Government of Mexico has committed to reducing GHG emissions by 35% by 2030. The General Climate Change Law and the Energy Transition Law also stated that Mexico must generate 35% of its electricity from renewable sources from 2024 onwards. As the country’s largest integrated utility, 100% state owned CFE will have an important role to play in enabling Mexico to meet these commitments. Our external manager J.P. Morgan Asset Management’s (JPMAM)⁷ have been engaging the company since early 2024, encouraging the company to disclose a comprehensive transition plan to understand how CFE is meeting regulatory expectations regarding investments in decarbonisation and renewable energy generation.

Action:

JPMAM met with CFE during the year to encourage the issuer to disclose a clear transition plan and renewable energy capacity targets, in line with Mexico’s national targets, to allow investors to better understand CFE’s strategy. CFE shared that the Ministry of Energy will be updating regulations as it pertains to emissions, which will provide further guidelines to CFE on how to progress climate disclosures and the transition plan. CFE is working to align with IFRS S1 and S2 requirements, which both address TCFD requirements. CFE has established a sustainability committee in 2025 which is chaired by a board member. During the meeting, the CFE team indicated plans to present the first materiality analysis to this committee in April 2026, and this committee’s feedback will determine a publication date for climate-related disclosures and the materiality analysis.

The company states that it expects to reach 38% clean energy by 2030. According to CFE, it has two coal plants (less than 8% of total capacity) and is planning to only use them for emergencies in the short-term, such as when natural gas pipes were frozen in 2021. CFE highlighted that it is working with the government regarding the closure of both plants in the long-term and continues to engage with local communities which depend on the plants for employment.

Outcome and next steps:

We welcome the company’s intention to make progress on climate-related disclosures and its strategy towards meeting the ambitious national decarbonisation targets. However, we are still awaiting the documentation of this progress in publicly available documents. JPMAM will continue our engagement in 2026 to review the results of the materiality assessment and will encourage the company to provide transparent and comprehensive climate-related disclosures.

⁷ The present information was sourced from J.P. Morgan Asset Management’s (JPMAM) Investment Stewardship Report (or other sources) and includes information that was obtained at an earlier date. It is presented as such and has not been updated, verified or audited. While JPMAM views engagement as an important part of understanding the risks and opportunities facing companies / issuers held in client portfolios, such engagement may not be effective in identifying such risks and opportunities and JPMAM does not guarantee any particular results or company / issuer performance as a result of such engagement. Other than for the information provided in the case study, JPMAM is not responsible for any information in this report.

Case study: **Codelco**



Issue:

Codelco, Chile's national copper company, faces material operational and social risks related to water management and indigenous community engagement. Water availability and quality are highly regulated in Chile, and mining operations are water intensive, making effective water stewardship essential for long-term value creation. Additionally, many mining sites are located near indigenous lands, requiring robust free, prior and informed consent (FPIC) processes to maintain community trust and regulatory compliance.

Action:

Our external manager JPMAM, engaged with Codelco to assess its water stewardship practices and approach to engagement with indigenous communities. The company stated that it has committed to reducing its water use by 60% by 2030 from a 2019 baseline. Codelco indicated, that it is shifting from groundwater use to increased desalination, wastewater reuse, and recirculation of tailings water. Whilst Codelco has ambitious group-level targets, JPMAM encouraged the company to break down and demonstrate its site-level water management for those sites with more water stress, as well as to detail its desalination approach, including energy sources and brine management to better understand the financial risks that may arise from operational disruption related to water scarcity.

When engaging with indigenous communities, Codelco conducts consultations in line with Chilean law and ILO Convention 169, ensuring compliance with FPIC principles as far as possible. The company participates in industry working groups related to indigenous peoples to share best practice and has developed community investment plans to address local needs, such as local community water access and economic resilience, which reduces the risk of possible disruption to operations due to community protests. Codelco maintains robust grievance mechanisms for local and indigenous communities to ensure company policies and local laws are followed regarding local community engagement.

Outcome:

Codelco has made notable progress in reducing reliance on freshwater and improving operational efficiency, while also strengthening its approach to community engagement, which reduces the potential for operational disruption and reputational risk from community resistance to projects. Enhanced disclosure, continued investment in water stewardship, and culturally sensitive consultation processes support long-term risk management and value creation for investors.

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 has a monopoly on the transmission and distribution of electric power in the country. Given the KSA's ambitious targets for renewable energy capacity, we have engaged SECO to understand how the company is contributing to national targets.

Action:

Our external manager JPMAM have been engaging with SECO since 2023. SECO has improved climate related disclosures in that time, producing a first attempt at TCFD-aligned reporting. At the most recent meeting, they discussed enhancements to climate disclosures, in particular disclosing the results of climate scenario analysis. The company were receptive to feedback and confirmed SECO is working to improve transparency. SECO is currently undertaking qualitative work on physical climate risk, noting high temperatures and sea level rise are important risks for the company. JPMAM will monitor for enhancements in future engagements.

They encouraged the company to set medium term decarbonisation target at the group level, as currently the company only has a grid intensity target and a 2050 net zero target. They also encouraged SECO to set renewable capacity target to support the net zero ambition. The company suggested this was challenging as SECO plays a key role in transmission and distribution (rather than generation) and capacity additions are not guaranteed, so the company was reluctant to commit to additional targets.

They also discussed the large increase in water withdrawal and consumption year-on-year; the company explained this was due to changing calculation methodologies, as the company is now aligning more closely with GRI. SECO is in the process of assessing water risks and developing a water management policy.

Outcome:

We welcome the company's progress on meeting existing targets and the company's internal work on enhancing climate scenario analysis capabilities and water management practices. JPMAM will continue to engage on disclosure related to this progress, as well as encouraging more rigorous group-level targets.

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



Issue:

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

On May 21, 2024 Orbia was forced to declare a force majeure at its facilities in Altamira, Mexico, due to extreme temperatures and drought causing water scarcity and interrupting the water supply to both industry and residents. Orbia has set an ambitious commitment to achieve a net-positive water impact, and we seek to understand the company’s plans to address its water stress risks.

Action:

Our external manager JPMAM engaged Orbia on our behalf, where the company acknowledged that water stress is a material business risk and has been included in the company’s climate risk assessment since 2019. The company highlighted that the drought in Tampico, Tamaulipas Mexico, as an acute, not chronic event, did not appear in their risk management models. Orbia indicated assured that the operational risk was limited in the short-term as they were able to meet client needs within their diversified global portfolio. In the longer-term, Orbia indicated that it is contributing to a water management project in the water-basin where their site operates, along with other industrial water users.

At a group-level, Orbia indicated to have set an ambition to be net positive on water with key outcomes:

- i. reduction in water volume through improved efficiency,
- ii. improving quality of wastewater discharge, and
- iii. contribution to collection action and community water, sanitation and hygiene (“WASH”) programmes.

The company mentioned that it is in the early stages of assessing how to meet this ambition and which sites to prioritise. For instance, the company shared challenges with moving to closed loop water management in its resin plants (which represent around half of Orbia’s water consumption), due to the high dependency on water and cost (only one site in EL Salto in Mexico has a closed loop).

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

Outcome and next steps:

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

Case study: **Japanese rail: Business Ethics and Safety Oversight**



Objective:

Our Credit Research Analyst engaged a large Japanese rail operator following a deterioration in the company's ESG risk assessment, which had been revised from medium to high risk by our ESG Risk ratings provider. The objective of the engagement was to understand the underlying causes of this reassessment, assess the severity of recently identified governance and business ethics incidents, evaluate the adequacy of remedial actions taken, and communicate expectations regarding internal controls, safety oversight, transparency and prevention of recurrence.

Action:

Engagement was conducted with the parent company and focused on issues arising across the group, including at key subsidiaries. Discussions centred on two major incidents identified over the previous year. The first related to historical safety and governance failings in rolling stock manufacturing, where improper wheel assembly practices and falsification of inspection data had occurred over an extended period. Although the unsafe practices had ceased several years earlier at the parent company, the information had not been adequately escalated within the group or disclosed to regulators, raising concerns around internal reporting, governance culture and business ethics. The unsafe practices continued at a subsidiary until the issue was discovered.

The second incident involved fraudulent claims for government subsidies by a non rail subsidiary, where personnel costs were significantly overstated across numerous public projects over several fiscal years. This raised further concerns regarding internal controls, incentive structures, parent company oversight and the effectiveness of internal audit and whistleblowing arrangements.

During engagement, we sought clarity on root causes, accountability, regulatory interactions and the scope of management's response. We emphasised expectations for strong parent level oversight of subsidiaries, robust internal audit and control frameworks, effective whistleblowing mechanisms, and improved transparency and disclosure to stakeholders. We also highlighted the importance of a strong safety culture and clear escalation processes for both operational and non operational risks.

Outcomes and next steps:

The company outlined a comprehensive programme of remedial actions, including senior accountability measures, strengthened compliance and internal audit functions, enhanced training, revised operating procedures, safety inspections and replacements, and closer oversight of subsidiaries by the parent company. Regulators have adopted an improvement directive led approach rather than imposing material financial penalties, which is consistent with local regulatory practice. An independent internal review, including external experts, is ongoing with reports and recommendations to follow.

While the incidents have not had a material financial or credit impact, we consider that they highlight potential company culture and control weaknesses that require sustained attention. We communicated that we would continue to monitor the outcome of the internal review, the effectiveness of recurrence prevention measures, and the quality of public disclosure. Further engagement and escalation will be considered if progress on governance, business ethics, safety oversight and transparency proves insufficient.

Case study: **Demonstrating a clear link between beneficiary oversight and stewardship practice**



Objective:

We initiated an engagement with a global food and nutrition company in response to concerns from a trustee of a pension scheme PIC insures, demonstrating a clear link between beneficiary oversight and stewardship practice. During a trustee meeting, a concern was raised regarding reported ethical practices at the investee company, relating to the addition of sugar to infant milk and cereal products sold in certain African markets, while comparable products in more tightly regulated markets such as Europe were reportedly sold without added sugar. In response, we committed to engage with the company to better understand its approach and actions.

The aim of the engagement was to assess whether the company's product formulation, labelling practices and ethical commitments were aligned with expectations on child health, fairness across markets and responsible business conduct. We also sought to understand how any potential health, ethical and reputational risks were identified and mitigated, and whether product differences were driven by regulatory requirements, nutrition science or commercial considerations. A further aim was to assess whether the company had a clear strategy to address concerns around added sugars in infant products over time.

Activity:

We engaged with representatives responsible for nutrition and product development, requesting information on transparency and labelling practices across markets, plans to standardise product formulations globally, the use of health impact assessments to understand the effects of added sugars in infant products, and the ethical frameworks guiding product development and marketing.

The company provided a detailed written response following internal dialogue with its nutrition team. It outlined its priority to provide safe, affordable and nutritious products globally, noting that infant and early childhood products are developed using current scientific research and in line with national regulations and international standards, including Codex Alimentarius guidelines.

The company confirmed that none of its infant formula products for babies aged 0–12 months contain added sugars and that added refined sugar has been removed from its growing-up milks. It also described ongoing efforts to reduce added sugar levels in infant cereals, noting that levels in products containing added sugar are significantly below permitted international thresholds.

The company emphasised its commitment to transparent labelling and regulatory compliance, highlighted the availability of no-added-sugar cereal options in several regions, and outlined plans to accelerate global rollout. It also contextualised its approach within regions experiencing high levels of malnutrition, highlighting the role of fortified cereals in addressing nutrient deficiencies.

Outcome:

We welcomed the company's acknowledgement of concerns and its confirmation of ongoing reformulation efforts. We requested greater clarity on timelines for the rollout of no-added-sugar infant cereals, particularly in African markets. The company subsequently confirmed that no-added-sugar infant cereals were introduced in the last year across several regions, including Sub-Saharan Africa, and reiterated plans were in place to continue expanding availability. A summary of the engagement was shared with the trustee.

Case study: **Automotive Industry transition and preparedness**



Objective:

We engaged with several global automotive manufacturers to understand how they are adapting their strategies amid changing regulatory signals, particularly the easing of environmental requirements in key markets, and slower near term growth in demand for battery electric vehicles (BEVs). The purpose of these engagements was to assess how companies are balancing short term commercial realities with long term climate commitments, and whether they remain prepared for a faster transition should market or policy conditions change.

Actions:

Our discussions focused on how regulation and customer demand are shaping electrification plans, how companies view the role of hybrids during the transition, and how capital is being allocated under heightened uncertainty.

The OEMs (Original Equipment Manufacturers) we engaged recognise that the pace of electrification varies by region and are therefore pursuing differentiated electrification strategies aligned with local market preferences. For the US market, we observed a clear shift toward demand led decision making, replacing earlier approaches that were more directly driven by regulatory compliance. This has led to more cautious assumptions about the pace of BEV adoption in the medium term.

At the same time, companies consistently reaffirmed that BEVs remain central to long term decarbonisation strategies, reflecting their importance in meeting stringent environmental standards and evolving consumer preferences in other major markets.

A common approach has been to maintain investment in future focused capabilities, such as electrification technologies and software, while being more selective and flexible about large scale manufacturing investments. This reflects an effort to avoid over committing capital before demand is clear.

Hybrids are viewed as a practical transition solution for the US market, helping to reduce emissions while meeting customer needs and supporting profitability. Companies emphasised that this is not a permanent endpoint, but a way to manage the transition responsibly across diverse markets.

Conclusion and next steps:

We concluded that companies are responding pragmatically to uncertainty by prioritising flexibility, resilience, and capital discipline. While this approach reduces financial risk, it is likely to result in a slower pace of emissions reduction in the near term compared with earlier expectations.

As electrification becomes less driven by regulation and more by market forces, the key test for companies will be preparedness. We believe that long term climate credibility now depends on whether manufacturers can accelerate the transition when needed, rather than on fixed short term targets.

We will continue to assess whether companies:

- Remain ready to scale electrification if demand or regulation shifts,
- Treat hybrids as a time limited bridge, not a long term substitute,
- Align capital allocation decisions with long term climate objectives, and
- Maintain strong governance and oversight of transition planning.

Continued engagement will prioritise evidence of readiness and adaptability, rather than headline ambition alone.

Case study: **Saudi Sovereign – funding Vision 2030 and decarbonisation**



Issue:

Saudi Arabia’s Vision 2030 targets economic diversification and reduced reliance on oil, with energy transition and emissions reduction as priorities. In February 2025, the Kingdom issued its first euro-denominated sovereign green bond, raising EUR 1.5 billion. The bond’s use of proceeds align with the International Capital Market Association (ICMA) Green Bond Principles, covering pollution prevention and control, water and waste management, climate adaptation, and biodiversity. Although PIC are not investors in these Green bonds, we do hold a small investment in the wider sovereign bond program. JPMAM, as investors in both the green and sovereign bond programs scrutinized the issuances in order to better consider credible sustainability outcomes, adherence to market standards, and transparent reporting important for understanding the Kingdom’s transition progress.

Action:

Our external manager JPMAM met with the National Debt Management Centre (NDMC) in Riyadh as part of its field trip to Saudi Arabia. The NDMC led the multi-year effort to establish the Kingdom’s Green Financing Framework and launch the debut euro-denominated sovereign green bond. They provided significant detail on the efforts taken to ensure that the approach was credible and that it sent a message to investors of Saudi’s commitment to Vision 2030 and related environmental policy funding. JPMAM welcomed the ambition of the issuance, and the market signal it created. As a next step, they requested that the NDMC periodically come to market with a green bond as this continues to strengthen alignment between the Kingdom’s energy transition policy and its green bond program. They requested that post-issuance reporting include both quantitative use of proceeds breakdown as well as qualitative case studies. They also encouraged NDMC to focus the use of proceeds on recent capital expenditure instead of the refinancing of existing projects or routine government operational spending, as the additionality of the latter two is less clear.

Outcome:

The discussion was open and constructive. The NDMC was receptive to many of JPMAM’s suggestions and indicated that they would consider providing narrative case studies in the upcoming post-issuance report. JPMAM appreciated the NDMC’s openness and believe that these steps will help support investor confidence and strengthen the credibility of Saudi Arabia’s green bond program. They will continue to monitor these developments to assess long-term risks and opportunities.

Case study: **Government of Hungary**



Issue:

Hungary issued its first green bond in 2020 and updated the green bond framework in 2023. ÁKK, the Hungarian government’s debt management agency, reached out to investors for feedback on improvements to green bond impact reporting and the potential issuance of social bonds and sustainability-linked bonds in the future.

Action:

Our external manager JPMAM, joined a group investor call with the Head of Sustainable Finance at ÁKK to offer feedback on green bond financing and reporting. They discussed ÁKK’s most recent impact report.

The report includes 8 categories, with clean transportation the most allocated green category (constitutes over 99% of the bond allocation), mostly related to electrified railway transport.

ÁKK indicated that in future reporting, the socio-economic impacts of the projects will feature more prominently to showcase how green bond proceeds support low carbon GDP impacts and employment impacts.

ÁKK indicated that it is currently facing the challenge of finding the balance between increasing the share of EU taxonomy aligned expenditures and diversifying the allocation. JPMAM shared that ICMA alignment of proceeds was the most important marker of green bond integrity from their perspective, so would not prescribe a specific level of diversified allocation or EU Taxonomy alignment.

ÁKK’s Head of Sustainable Finance suggested that the land use category is particularly challenging to measure alignment to the EU Taxonomy due to data requirements. They discussed measurement of adaptation impacts (an allocation category of the green bond framework), including the social benefits of adaptation projects.

On social bond reporting, JPMAM referred to the ICMA Social Bond Principles as the dominant global standard, in their view, and referred to Global Impact Investing Network’s IRIS+ framework as a source of social impact metrics. They discussed the merits and challenges of sustainability-linked bonds.

Outcome:

JPMAM welcomed the opportunity to share feedback on Hungary’s green bond issuance. They will continue to monitor impact reporting to better understand the evolution of industry reporting and in the context of sustainable investment strategies.

Case study: **Assessing Healthcare Affordability, Access, and Operational Resilience in a US issuer in our portfolio**



Our external manager, Wellington Asset Management⁸ engaged Ascension Health, one of the largest nonprofit health systems in the United States, to understand how the organisation is managing leverage, capital allocation, and operational recovery during a period of significant sector wide transition.

Through frequent dialogue and credit reviews, they assessed Ascension's strategic repositioning, including its multiyear effort to streamline operations, divest non core hospitals, optimise labour and capacity, and rebuild financial flexibility. The analysis also incorporated rating agency actions related to Ascension's acquisition of AmSurg, a major ambulatory surgery provider that expands the system's outpatient footprint and aligns with long term utilisation trends. These engagements confirmed that although leverage has increased, the system retains AA category characteristics supported by liquidity, portfolio optimisation, and management's visibility into improvement targets through 2028.

Direct interactions and ongoing monitoring also clarified Ascension's recovery path following the Change Healthcare cyber-attack, which disrupted scheduling, revenue collection, and cash flow. They highlighted disciplined restructuring – divesting roughly 30 hospitals, reducing debt by \$1 billion, and refocusing resources on markets with stronger payer mix and demographic growth. These steps, together with transparent financial guidance and progress on integrating AmSurg, underpin the constructive outlook despite recent Moody's and Fitch downgrades tied to higher leverage and capital spending. The new CEO, elevated after a multiyear transition, and a strengthened leadership team were viewed as positives that reinforce confidence in the strategy to rebuild and expand operating margins.

This engagement also supports broader investor understanding of the defensive qualities of large not for profit health systems, including Ascension's substantial size, diversified enterprise profile, and resilient demand across inpatient and outpatient services. Internal sector specialists emphasised that hospital credit performance is driven more by sustained fundamentals – labour contracts, payor agreements, and revenue cycle efficiency rather than by episodic headlines. The assessment noted that Ascension's payor, labour, and supply contracts are largely secured for the upcoming year and improving outpatient volume trends support a favourable view of near term stability. As Ascension continues refining its footprint and executing its growth strategy, insights from these engagements help us evaluate valuation opportunities and credit trajectory in a sector undergoing structural change.

Case study: **Higher Education: Regulatory Pressure, Governance, and Long-Term Resilience at a US issuer in our portfolio**



Wellington Asset Management also engaged Harvard University to understand how large, complex academic institutions navigate mounting regulatory scrutiny, political pressure, and reputational risks while maintaining financial resilience and academic freedom. Wellington monitored developments across top universities, including federal investigations, accreditation concerns, and potential implications for donor sentiment and enrolment dynamics. Commentary on peer institutions helped frame a broader analytical lens for evaluating how elite universities, Harvard included, could respond to similar challenges.

Through this engagement, emphasis was put on the importance of governance strength, transparency, and institutional adaptability in sustaining long term credit quality.

Analysis highlighted how sudden regulatory interventions can affect federal funding flows, research continuity, and institutional autonomy – factors highly relevant for Harvard given its sizable federal research portfolio and global academic reputation. Discussions within investor groups have also focused on potential second order impacts such as shifts in philanthropic giving, changes to student demand, and the role of independent monitors or oversight mechanisms when institutions face federal scrutiny. These considerations, derived from real time issuer interactions and sector wide monitoring, deepen the understanding of how Harvard's risk profile might evolve.

As stewardship practices continue to expand across municipal and tax-exempt portfolios, Harvard remains a critical institution where engagement can support clearer insight into policy exposure, governance processes, and long term financial capacity. Wellington contributes to this by translating regulatory and political developments into implications for institutional resilience and credit stability. Continuous assessments help us contextualise headline risk within Harvard's broader fundamentals – large endowments, diversified revenue streams, and historically strong demand, while identifying areas where sustained transparency and proactive governance will be essential to mitigating future risks.

⁸ Wellington: As active managers seeking to deliver enduring, competitive investment returns for their clients, Wellington invests in securities by choice and believes that through informed, active ownership can encourage best practices on issues that are material to client outcomes. They consider engagement to be one element of our overall stewardship approach. As a community of investment boutiques, individual portfolio managers make their own investment decisions with respect to how much emphasis to place on stewardship activities.

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. Further information on our participation in 2025 is outlined on page 24.



Case study: Collaborative Engagements – Investor Forum



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

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

On October 2024, the UK and Welsh governments launched the Independent Water Commission (“IWC”) to review and improve the regulated water sector model. The IWC’s final report, published in July 2025, set out 88 recommendations across seven themes, aiming to deliver a ‘fundamental reset’ of the sector. These themes include strategic direction, planning, legislative framework, regulator reform, company structures and governance, and infrastructure resilience. The UK government issued its initial response on the same day, signalling significant regulatory and structural changes ahead. Following these developments, the forum convened meetings during 2025 with Chairs of several listed UK water utilities and hosted a roundtable with the Department for Environment, Food and Rural Affairs (“DEFRA”).

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

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

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

Case study: **UN PRI Advance Collaborative Engagement on Human Rights**



PIC continues to participate in the UN Principle for Responsible Investment led (UN PRI) Advance collaborative engagement initiative, which brings together global investors to address human rights and social risks in high risk sectors, including utilities and renewables.

PIC acts as a collaborating investor, contributing to collective stewardship efforts aligned with the UN Guiding Principles on Business and Human Rights (UNGPs).

During the period, PIC engaged collaboratively with a large US energy holding company to address human rights risks linked to the expansion of its renewable energy portfolio, particularly exposure to forced labour and conflict minerals within supply chains. Engagement focused on strengthening human rights governance and due diligence practices. Progress included updates to the company's human rights policy, internal training, and discussions on supply chain risk assessments, supplier standards, Indigenous Peoples' rights, grievance mechanisms, and enhanced disclosure.

The engagement continued into 2025, with a focus on deepening supply chain due diligence beyond tier one suppliers.

Building on this work, PIC expanded its participation in the UN PRI Advance initiative by joining another investor group engaging another US utility company. Alongside its ongoing collaborative engagement outlined above, this further strengthens PIC's stewardship efforts to advance human rights practices in the US utilities and renewables sector.

Case study: **Promoting Sustainability Reporting in UK Housing Associations**



As an investor in UK housing associations, we rely on transparent and consistent sustainability reporting to assess long-term risks and opportunities.

The Sustainability Reporting Standard for Social Housing (SRS), developed by Sustainability for Housing, provides a voluntary framework for ESG disclosure across 12 themes, including climate, safety, affordability, and governance. The aim is to provide clarity and consistency in ESG reporting while preparing the sector for a new era of sustainability and financial reporting.

During the year we provided feedback to enhance the newest version of the reporting criteria, to ensure the Standard effectively supports the sector as it navigates these changing times.

While most housing associations in our portfolio have adopted SRS, a number of private housing associations still publish limited sustainability information, creating gaps in comparability and risk assessment. We continued to encourage adoption of the SRS among all housing associations we invest in. For those not yet aligned with the standard, we engaged directly and requested completion of bespoke questionnaires focused on financially material risks such as EPC ratings, fire safety, damp and mould remediation, and tenant welfare. These engagements aimed to ensure that sustainability risks are well managed and that the housing association business model remains robust and future-proofed for the duration of our investment and beyond.

We received a reasonable response from non-adopters, improving our understanding of their sustainability practices and risk management. The majority of our portfolio now reports under the SRS framework, enhancing transparency and comparability for investment decisions. We will continue to promote and support robust sustainability practices across the industry, with ongoing engagement to drive full adoption of SRS and encourage housing associations to go beyond best practice.

Principle 4.

Signatories actively exercise their rights and responsibilities.

As primarily a debt investor, PIC does not typically have 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 by including 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 a 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. 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.

Case study: Built Environment KPI Ratings update



The ESG framework, described on page 11, provides a consistent and structured methodology for assessing new acquisitions, overseeing construction activity, and monitoring operational performance across the portfolio.

Since its introduction, it has been applied to 11 assets, we collated these results and ratings across all themes and KPIs, allowing PIC to build a more comprehensive and comparable evidence base, enabling clearer insights into performance trends and the effectiveness of ESG measures implemented across different asset types.

To ensure the framework remains robust and responsive to a changing external landscape, PIC has undertaken a detailed review of results and ratings across all themes and KPIs. This work aims to keep the framework balanced, appropriately calibrated, and aligned with evolving standards. As part of this review, rating thresholds have been updated to reflect recent shifts in legislation and policy, changes to established certification systems such as "BREEAM" (Building Research Establishment Environmental Assessment Method), and PIC's evolving strategic priorities. Insights gathered through scheme assessments, including patterns of KPIs skewing consistently high or low, have also informed refinements to maintain meaningful differentiation between scores.

This process has led to updates to three minimum standards, strengthening expectations and providing clearer direction for new schemes. These enhanced standards are now being embedded into all upcoming asset acquisitions, ensuring improved requirements are adopted from the earliest stages. PIC continues to work closely with counterparties throughout this rollout, using the framework as a platform for constructive engagement that supports higher ambition, promotes stronger design and construction practices, and reinforces PIC's leadership in ESG performance within the built environment.

Case study: **Operational asset performance monitoring of our Build to Rent portfolio**



PIC has expanded its portfolio of operational assets in the last year, particularly within the Build to Rent (BTR) sector, where the business retains direct control of activities and carries responsibility for Scope 1 and 2 emissions reporting. PIC's asset management partner has supported the development of a more rigorous approach to annual data collection across these assets.

Over the reporting period, PIC and Savills gathered a suite of operational and social value metrics designed to enhance understanding of asset performance and local impact.

This includes data on jobs created, employment of local people, and charitable initiatives delivered through asset operations, helping to quantify the social value generated within surrounding communities. PIC also collected resident focused insights, such as the utilisation of amenity spaces and cycle storage. These findings are actively fed into the design and acquisition process for future assets, ensuring lessons learned translate into tangible improvements in resident experience and operational efficiency.

Through this collaborative effort, PIC has strengthened and standardised its asset level data processes. The enhanced framework supports more informed decision making by Savills, including procurement of local subcontractors and staff, deeper engagement with local businesses, and improved integration of new residents into existing communities.

Principle 5.

Signatories integrate stewardship considerations into their selection and oversight of external managers.

External managers

We work with a limited number of third party asset managers in relation to certain asset classes within our portfolio. An overview of our manager selection process, including the initial sustainability due diligence undertaken when assessing potential partners, is set out on page 15.

Each manager is appointed under a bespoke Investment Management Agreement (IMA) that reflects our investment policy and specific investment objectives. Our managers are also required to be UN PRI signatories and adhere to our Stewardship Policy.

We hold our managers accountable through regular meetings with them. In 2025, we once again engaged with our managers to review the positions against our internal exclusions policy, particularly concerning coal exposure. In addition to the Responsible Investing team, a dedicated member of the Public Credit team oversees the implementation of these IMAs. They engage with external managers on sustainability-related issues regularly to ensure that the agreed upon standards are being effectively implemented.

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

- We conducted in depth discussions with our external managers on coal exposure within the portfolio, specifically assessing alignment with our policy requirement that companies derive no more than 10% of turnover from coal extraction and coal fired power generation by 2025. This led to divestments of a small number of investments. Full details on the successful implementation of this policy can be found on page 18.
- Updates on our engagement with companies in high emitting sectors within the portfolio, particularly in relation to their transition plans, supporting continued reductions in portfolio carbon emissions and progress toward our Net Zero targets.
- Discussions on specific sustainability topics regarding two sectors which we felt were affected by recent Trump DEI/ ESG rollbacks in the US within the:
 - Hospital sector on access, affordability, and workforce availability/Medicaid policy risk
 - US Universities on DEI Rollbacks and visa restrictions/ federal funding and legal challenges/ research and innovation impact

Examples of these engagements can be found above under Principle 3.

Annual review of external managers

At the beginning of 2026, 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 2025. As part of this review, the level of ESG integration in their portfolios was evaluated along with their stewardship capabilities.

Throughout 2025 our external managers have followed our stewardship and investment policies. They also provided us with the information we require on ESG and engagements.

Funds

PIC has minor exposure to external funds; we outline on page 13 our expectations of how our managers integrate stewardship considerations and details of our oversight process.



Principle 6.

Signatories monitor and hold to account stewardship service providers.

In Principle 5, we describe how we monitor and hold external managers to account. We also have high expectations for other external service providers such as re-insurers which are outlined in the case study below.

Case study: **A4S: Sustainability Principles Charter for the Bulk Annuity Process**



PIC is a founding signatory and active participant in the A4S initiative of the Sustainability Principles charter for the Bulk Annuity Process.

The initiative has brought together pension schemes, insurers, pension advisers and the regulatory community to produce a Sustainability Principles Charter which seeks to align expectations around sustainability within the bulk annuity process. It sets out clear principles to drive greater transparency, reporting and engagement before, during and after a buy-out or buy-in transaction between pension schemes and insurers.

The majority of occupational DB pension schemes in the UK, representing £1.4 trillion in assets under management, are now closed, with many maturing on a path which considers transacting with a pension insurer. Insurers, as well as pension schemes and advisers, therefore play an increasingly important role in ensuring that pension investments are both resilient to the climate, nature and social crises that we face, as well as playing an active role in investing in a more sustainable world for pension members to retire into.



The four key principles are:

1. Transparency

Transparency of values, principles and investment beliefs in relation to sustainability, as well as ongoing commitments that may guide future policy and practice affecting sustainability approaches.

2. Decision making

Evidence and understanding of how sustainability considerations are incorporated into investment analysis and decision-making processes, and investment stewardship activity.

3. Reporting and engagement

Ongoing reporting and engagement to key stakeholders on sustainability commitments beyond the point of transaction.

4. Collaboration

Commitment to ongoing engagement across the pension sector as responsible investment best practice evolves.

A4S Sustainability Principles Charter 2025 achievements:

Consolidated reporting

A meaningful achievement of the A4S initiative in 2024 and early 2025 was the consolidation of sustainability related reporting by insurers to pension scheme advisers. In past years, insurers received annual bespoke and often lengthy reporting requests from the pension adviser community to detail their sustainability approach and capabilities. As a result of the initiative, adviser signatories collectively agreed on a 'master-set of questions' to ask all signatory insurers who, in early 2025 submitted their final responses back to advisers. We welcome this coordinated and much simplified reporting process.

In 2025, PIC played an active role in a workstream that communicated the Charter's expectations with the reinsurer community. Charter signatories reached out to their global network of reinsurers inviting them to an initial information session, hosted by A4S and insurer signatories, to explain the principles of the charter and insurer expectations. The initial session was attended by three reinsurers who were interested in learning more about what insurer expectations around sustainability were for them. They agreed to take a few steps forward in providing some standard reporting on an annual basis and attending an insurer signatory update meeting once a year. In addition, PIC integrated responsible investment criteria within investment guidelines of Funded Reinsurance agreements considered during the year.

Third Party Management

PIC's business model relies on various third party and outsourced service providers ('Suppliers') to deliver a broad number of functions ranging from policyholder administration to investment management and infrastructure.

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 a Third-Party and Outsourcing Management Policy which defines the minimum requirements for the selection and appointment of suppliers. This policy must be met and followed in order that suppliers are approved

Activity: Selection and review of third party and outsourced services providers

Before appointing a new supplier to perform a service or an outsourced function, the following activities must be completed:

1. The inherent risk assessment questionnaire to determine the risk rating of the service;
2. 'Know Your Supplier' checks; and
3. A supplier controls assessment questionnaire for all suppliers tiered as Critical, High and Medium. The assessment is proportionate to the risk identified in the inherent risk questionnaire and covers various risk domain, such as; Information Security, Data Privacy, Business Continuity and Conduct Risk.

Our supplier controls assessment questionnaire includes sustainability focused questions that respondents are asked to respond to, covering topics such modern slavery, environmental matters, and health and safety. Control weaknesses identified as part of the supplier controls assessment process are remediated appropriately.

Contracts or agreements are entered into for all services PIC consume. For Critical ('Material') services, appropriate governance approvals and regulatory notifications are undertaken prior to the contract or agreement being signed, and an exit strategy is drafted.

Suppliers are subject to ongoing monitoring, with an enhanced approach for Critical suppliers. Periodic refreshes of the inherent risk and supplier control assessments are performed, proportionate to the inherent risk of the service.

We continue to utilise a third-party management platform that automates many aspects of the Third-Party and Outsourcing lifecycle. Since implementation in 2024, the platform has enhanced PIC's capabilities of managing suppliers more effectively.



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.

The Supplier Code of Conduct 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 and 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.

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Pension Insurance Corporation plc is a public limited company registered in England and Wales under company number 05706720 with registered offices at 22 Ropemaker Street, London EC2Y 9AR. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. FRN 454345.