For the future.

Pension Insurance Corporation Group Limited

Sustainability Report 2024

Sustainability is a natural outcome of a long-term business model like ours.

We secure the pensions of our policyholders, creating social value through our investments in communities across the country.

Our 2024 suite of reports

You can find out more about our activities, financial performance, sustainability strategy and our progress to becoming a Net Zero business by 2050 on our website and in our reporting suite: **pensioncorporation.com/investors**

+ Annual Report and Accounts
+ Sustainability Report
+ PIC Company Report
+ Climate Report (TCFD)
+ Investor Results Presentation
+ Transition Plan

For our sustainable business.

I am immensely proud of all that has been achieved as we continue to progress through our sustainability journey.

Simon Abel
Chief Strategy Officer & Executive Committee ("ExCo") Sustainability Lead

Our sustainability strategy enables us to focus on meeting our purpose in a responsible manner, managing risks whilst creating social value through our business activity and investment portfolio.

As we look back at the progress made this year, we can be proud of what we have accomplished in all four pillars of our sustainability strategy: being a long-term sustainable business, being a responsible investor, protecting the environment and making communities sustainable, safe and inclusive.

- We became founding signatories to the Accounting 4 Sustainability ("A4S") Principles Charter for the pension risk transfer ("PRT") market and remain active participants in its related working groups
- The decarbonisation progress of our portfolio continues: we have now reduced our carbon emissions by 46% from our 2019 baseline level, and we remain well below our 2025 corporate credit portfolio decarbonisation target
- We have made strong progress in embedding sustainability as business as usual ("BAU") across the organisation with the help of our 15 Sustainability Champions and their department-specific initiatives
- We are rolling out our Supplier Sustainability Due Diligence and Supplier Code of Conduct
- We moved into our new office on Ropemaker Street, a building which has had sustainability at the core of its design, and we are targeting a certification of BREEAM Outstanding for the fit-out. The building includes a number of features to optimise energy performance, and we have focused on using materials with excellent environmental standards wherever possible in the fit-out process
- We have maintained our signatory status to the UK Stewardship Code and have joined the Investor Forum, a network of investors working collaboratively to engage with corporates
- We engaged with over 100 investee companies either directly or indirectly and have been active in two collaborative engagement efforts
- We engaged with our reinsurance and derivative counterparties on their own sustainability capabilities
- In recognition of our progress, we were awarded Sustainable Re/insurer of the year 2024 by Environmental Finance and a 4 Star assessment result from the UN Principles of Responsible Investing ("UN PRI"), of which we have been a member since 2020

Our portfolio includes £12.7 billion of sustainable assets and these are categorised using a newly implemented and Board approved Sustainable Assets Framework (see Appendix 1). Investing in sustainable assets like these not only helps us mitigate long-term risks such as climate change, but also creates significant social value. This year, we have continued to invest in areas such as renewable energy, clean transport, social and affordable housing, infrastructure and urban regeneration.

Our culture – prioritising our customers – is demonstrated by our values: resilient, adaptable and loyal. Our employee engagement score is 80%, and 93% of employees are proud to work for Pension Insurance Corporation Group Limited ("PIC"). PIC has been awarded the gold standard for accessible and inclusive service to customers with vulnerable circumstances and re-awarded ServiceMark with Distinction for "consistently high customer service levels".

I am pleased to present our 2024 Sustainability Report which showcases all that PIC has achieved as we make progress on our sustainability journey.

Simon Abel
Chief Strategy Officer &
ExCo Sustainability Lead

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

Evolution of PIC's sustainability journey

Steadily building our sustainability capabilities and promoting industry progress

2019

2019 Base year for our portfolio decarbonisation targets

2020

Signatory to the UN PRI

PRI Principles for Responsible Investment

Published first **Environment, Social and Governance ("ESG") Report**

Joined ABI Climate Change Working Group

ABI

2021

Joined NetZero Asset Owner Alliance and **committed to be Net Zero by 2050 across all emissions**

THE NET-ZERO ASSET OWNER ALLIANCE

Published first Task Force on Climate-related Financial Disclosures **("TCFD") Report**

2022

Committed to become **carbon neutral by 2025** across our operational emissions

Built ESG tool kit for private markets due diligence

Established Net Zero working group, published our Sustainability Policy and Stewardship Policy

Board approved sustainability strategy rolled-out across the business

2023

Accepted as a signatory to the **UK Stewardship Code**

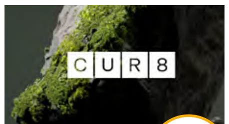
UK STEWARDSHIP CODE

Published transition plan alongside Climate Report (previously TCFD Report)

Founding member of **Sustainability Reporting Standards** for Social Housing

Sustainability for Housing

Established partnership with **carbon removal** company CUR8



2024

Founding **signatory of the Sustainability Principles Charter** for the BPA[1] process

A4S ACCOUNTING FOR SUSTAINABILITY

Environmental Finance Sustainable Investment Awards 2024 Winner Re/insurer of the year

- Industry initiatives
- Investment portfolio
- Reporting and impact
- Sustainability governance and policies

1. Bulk Purchase Annuity ("BPA").

PIC at a glance

Who we are

PIC has a single purpose: to pay the pensions of our current and future policyholders.

We are a specialist insurer, working within the UK pension risk transfer market. We are major investors in UK infrastructure and housing.

Our values

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

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

Resilient

Adaptable

Loyal

Our strategic objectives

To continue building a secure and sustainable business

To carry on leading as a responsible corporate citizen

To keep on driving long-term value growth

More detail about PIC's strategic objectives can be found on **pages 14-15** of the **Annual Report 2024**

Our culture

Our customers are our priority

We value all of our stakeholders and work hard to provide exceptional service to them all, including policyholders, trustees, and corporate sponsors.

We listen to them and are responsive to their requirements. In short, our customers are our priority.

Our people ensure we stand out from the crowd

PIC's culture has been nurtured over the years to ensure that each of us is focused on this priority.

It has evolved as the Company has grown, supporting our journey to be a leader in a dynamic and important industry, one which is responsible for securing the pension benefits of more than a million people, as well as channelling tens of billions of pounds into the UK economy.

PIC at a glance (continued)

PIC generates long-term social value...

by taking care of our customers...

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

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

Total number of policyholders
397,100

Policyholder satisfaction
99.3%

Number of schemes insured
298

that generates value for wider society and the economy.

and investing purposefully...

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

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

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

Total UK direct investments[1]
£13.8bn

Social housing[1]
£2.8bn

Education[1]
£2.4bn

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

Industry initiatives

THE INVESTOR FORUM

PIC is an active member of the Investor Forum. This not-for-profit, practitioner-led membership organisation was set up by institutional investors in the UK to embed stewardship at the heart of investment decision-making by facilitating dialogue, creating long-term solutions and enhancing value.

PRI Principles for Responsible Investment

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

SUSTAINABLE DEVELOPMENT GOALS

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

A4S

Sustainability Principles Charter for the BPA process

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

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

For more information on the Charter visit:
www.accountingforsustainability.org/en/about-us/our-networks/asset-owners-network/bulk-annuity-sustainability-principles-charter.html

THE PURPOSE OF FINANCE
IN ASSOCIATION WITH PIC

Purpose of Finance

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

UN environment programme finance initiative

PRI Principles for Responsible Investment

The Net-Zero Asset Owner Alliance

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

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

ABI

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

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

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 agree with the TCFD that financial markets need clear, comprehensive, high-quality information on the impacts of climate change. This includes the risks and opportunities presented by rising temperatures, climate-related policy and emerging technologies in changing worlds. The Financial Stability Board created the TCFD to improve and increase reporting of climate related financial information.

FRC UK STEWARDSHIP CODE

FRC UK Stewardship Code

PIC is proud to have been accepted in 2023 for the first time as a signatory to the UK Stewardship Code. The UK Stewardship Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. The Code applies to asset owners, asset managers and service providers. Those that are admitted as signatories are able to provide evidence annually on how they adhere to the high standards of the 12 principles of good stewardship practice. **UK Stewardship Code**

Sustainability *for* Housing

Sustainability Reporting Standards for Social Housing

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

New industry initiatives in 2024

ACCOUNTING FOR SUSTAINABILITY

A4S Sustainability Principles Charter for the BPA process

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

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

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

Some of the benefits of the Charter are that it levels the playing field between insurers, therefore facilitating the comparison of their sustainability capabilities. It also has a clear objective of simplifying reporting, which is helpful given the increased reporting burden required over the last few years. Finally, the Charter unites the industry in a collaborative manner to support continued progress in sustainability standards.

THE INVESTOR FORUM

Investor Forum

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

- Facilitated discussions with select UK issuers on sustainability topics and with Environmental, Social and Governance ratings service providers such as MSCI or Sustainalytics
- Sharing of best practices for the area of stewardship
- Access to a network of like-minded investors and helps promote collaboration
- Learning opportunities on various topics. For instance, sessions during 2024 covered:
  - A talk from the social housing regulator
  - Carbon capture and storage solutions
  - Just transition
  - Infrastructure upgrade plans for the UK water sector's next regulatory period

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

Environmental Finance
Sustainable Investment Awards
2024 Winner
Re/insurer of the year

Award winner: Sustainable Re/insurer of the Year 2024

PIC has won Environmental Finance's Sustainable Re/insurer of the year award. The award recognises an insurer (or reinsurer) who has made notable progress with its responsible investment strategy over the year and can evidence as much through case studies.

The judges commented on three standout points:

1. We have a genuine responsible investing strategy evidenced with a three-person dedicated team and efforts to embed Sustainability as BAU across the organisation
2. We have a forward thinking and transparent approach to Net Zero evidenced through the publication of our third TCFD report and first Transition Plan
3. We use our influence for industry wide progress as demonstratef by being founding signatories to the A4S Sustainability Principles Charter for the BPA process and chairing the Purposeful Finance Commission

Sustainability strategy

Our sustainability strategy's overarching objective is to ensure we fulfil our purpose by managing long-term risks and helping create significant long-term social value, meaning sustainable benefits for the individuals and communities, the environment and the economy.

Our strategy positively impacts all our stakeholders, including the people who rely on us to pay their pensions. It enables us to achieve our strategic objectives in a responsible manner.

The strategy has four distinct pillars which, together with our Sustainability Target Operating Model ("TOM"), focuses on delving deeper into our corporate strategic objectives. The focus of each pillar is:

The four pillars of our sustainability strategy

Creating long-term value as we fulfil our purpose

Long-term sustainable business

Focus areas:

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

Being a responsible investor

Focus areas:

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

Protecting the environment

Focus areas:

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

Making communities sustainable, safe and inclusive

Focus areas:

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

Sustainability is at the heart of PIC's strategic objectives and fundamental to our purpose

Our strategic objectives

To continue building a secure and sustainable business

To carry on leading as a responsible corporate citizen

To keep on driving long-term value growth

Fulfilling our purpose in a responsible manner

Responsible Corporate

- Strong balance sheet and good governance practices
- Create long-term social value through our business activity
- Embed sustainability as part of BAU in all business processes
- Strong policyholder care and service
- Promote a diverse and inclusive workforce
- Charitable endeavours
- Reduce environmental impact of our operations

Responsible Investor

- ESG integration to mitigate risks
- Explore ESG opportunities
- Decarbonising our portfolio and protecting the environment
- Making communities sustainable, safe and inclusive
- Social and economic value creation through our sustainable assets
- Be good stewards of the capital we invest through engagement
- Using our influence to drive for better ESG performance in our investee companies

Our purpose

To pay the pensions of our current and future policyholders.

Sustainability Champions

New this year was our Sustainability Champions initiative which saw 15 individuals of various levels of seniority from across the organisation launch their own department specific initiatives.

The objective was to help drive sustainable change within the organisation and truly embed sustainability as BAU. Formal sustainability training was offered to our champions, along with opportunities to bring external best-practice into PIC within their respective business areas. The Sustainability Champions met monthly, working as a team to help one another enhance the success of their initiatives.

Some examples of departmental specific initiatives are:

- Finance champions educated their department on the upcoming regulatory roadmap with regards to sustainability and the non-financial reporting expectations this may entail
- Our Facilities champions ran a recycling campaign across the firm, educating people on how to properly recycle
- Data champions worked on better organising ESG data including around our stewardship activities and within our investment platform
- Our Origination & Asset/liability Management champions worked on engaging reinsurers on sustainability topics and examined the potential impact of sustainability practices and preferences on pricing
- Our Risk champion worked on assessing and scoring counterparty ESG risk as well as providing department-wide sustainability training
- Our PIC Capital champions gave a teach-in on "green leases" and contributed to the work of the built environment team on sustainability matters
- The Credit Research champion helped ensure successful adoption of our new internal ESG rating methodology and encouraged engagements on sustainability topics by other analysts to promote PIC's Engagement Strategy
- The HR champion embedded sustainability across the HR value chain and aligned our sustainability strategy to Talent Acquisition
- Our Compliance & Legal champion helped educate the team about the FCA's anti-greenwashing rule, which spurred the development of PIC's first "Sustainable Assets Framework" and promoted cross-functional knowledge sharing. They also helped incorporate sustainability into company-wide compliance reviews

Sustainability representation

At various seniority levels and across the business

Board level Sustainability Champion

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

ExCo Sustainability Lead

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

Head of Sustainability

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

Sustainability Champions

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

Our new office at 22 Ropemaker Street, EC2

Case study: **Our new office at 22 Ropemaker Street, EC2**

For sustainable spaces.

At the end of 2024, we moved into our new office at 22 Ropemaker Street, London. Since securing the lease of the top six floors of this newly constructed building, we have been working closely with the landlord, developer and specialist consultants to ensure sustainability was embedded into the core of the design and the fit-out of our office space.

Buro Happold (PIC's sustainability advisors) assessed our fit-out of Ropemaker against PIC's own proprietary ESG scoring system and rated the project as "A". We are also targeting a BREEAM Outstanding certification for the fit-out, evidencing exceptionally high standards of sustainability. BREEAM is a building certification that supports solutions to reduce carbon emissions to Net Zero, improve whole life performance, manage health and social impacts along with other high sustainability criteria. The building is also targeting a Platinum score for WELL Certification, which assess how the design supports human health and wellbeing.

Targeting certifications of:

BREEAM

NABERS DESIGN FOR PERFORMANCE

The design is also in line with the NABERS rating system, which helps to optimise the operational energy performance of the building. This includes ensuring that the design, construction and procurement of materials are correct in order to achieve predicted energy performance.

The Ropemaker development includes numerous beneficial features:

- Recovery of the building's waste heat
- Air quality monitoring and management as well as air quality data visible to occupants
- Enhanced metering to reduce energy in use
- LED lighting, daylight and presence detection
- Panoramic windows and accessible roof terraces
- Low-use water fittings and grey water collection with an aim to use 55% less water than baseline building
- Excellent cycle facilities, showers and lockers, all to WELL standards
- Thermal modelling has been undertaken to ensure appropriate and efficient thermal comfort levels will be maintained

As part of our drive to optimise carbon the project has, wherever possible, selected materials with excellent environmental credentials. Those selections go towards achieving BREEAM Outstanding:

- The carpets throughout are 40% recycled Econyl fibres and their backings use 90% recycled polyurethane cushion
- The Marmoleum flooring is made from 43% recycled cocoa bean shells
- Each tea point counter-top is made from recycled plastic with the plastic being recovered from fridges and single use cutlery
- All the joinery on the top floor (reception desks, boardroom joinery unit) uses recycled terrazzo slabs
- The basins in the wellness rooms are made using locally sourced recycled sands and aggregates, each piece contains 80% recycled materials

We have achieved a 100% diversion from landfill for all construction waste generated during the fit-out, and donated much of our old office furniture to charities / small enterprises, with the remainder being recycled. PIC worked with CUR8, specialists in carbon removal, to offset the remaining emissions via a diversified portfolio of carbon removal projects. In doing so, we prioritised projects that offered high durability and low risk of reversal, such as Direct Air Capture ("DAC"), Biochar, Enhanced Soil and Biomass Carbon Removal & Storage ("BiCRS").

Supplier selection

We have selectively partnered with sustainably minded suppliers such as our caterers, Grazing, whose headquarters and kitchens are 100% run on electricity generated by renewable sources, and who diligently pedal their way to our offices to deliver supplies via their zero-emissions delivery system. As much as possible, they commit to using re-usable packaging and minimising individually packaged products. When they do, they always use fully compostable or recycled materials. They also use waste-free media – such as screens and rearrangeable and reusable signage. When preparing food, Grazing source local produce as much as possible and use a food-sharing app called Olio to prevent throwing excess food in the bin. Where there is food waste, 100% of it is recycled into energy, including cooking oils into biofuel, by Refood.

Carbon offsetting

Last year, we announced a partnership with CUR8 and we are pleased to have continued working alongside this carbon removal specialist.

CUR8 has advised us as we progress along our carbon offsetting journey. Our carbon offsetting strategy follows the Oxford Principles for Net Zero Aligned Carbon Offsetting[1] and we selected carbon removal projects which prioritise quick removal speed, long storage capacity and low risk of reversibility.

Our portfolio of carbon removal credits was built by CUR8 and leverages their expertise and network within the Voluntary Carbon Removal industry. We are pleased to have removed over 800 tonnes of residual carbon emissions from the fit-out of our new office at 22 Ropemaker Street and we have, on a best efforts basis, neutralised the emissions created by our business travel throughout the year. To the right are snapshots of some of the projects found in our portfolio.

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

1PointFive

Removal method: Direct air capture

Speed of removal: < 1 year

Durability: 10,000+ years

DAC is at the furthest technology end of the carbon removal spectrum. Air is blown through machines that, through a series of chemical reactions, remove the CO_2 yielding a pure, compressed stream to be stored deep in geological reservoirs.

The advantages of DAC are numerous. Facilities have a small physical footprint compared to other forms of carbon removal and can be placed anywhere with an energy source. The drawdown of carbon is swift, easy to verify and can be stored for millennia. However, they are capital intensive and expensive to run making DAC an expensive option. These characteristics nevertheless make DAC credits some of the highest integrity carbon credits available, resulting in high demand and limited supply.

Supported by the infrastructure expertise of parent company Occidental, 1PointFive has attracted significant financial support (aided by the US' 45Q tax credit). In 2024, Microsoft agreed to purchase 500,000 tonnes of 1PointFive's future DAC credits – representing the largest durable carbon removal advanced commitment to date.

Carboneers

Removal method: Biochar

Speed of removal: Immediate

Durability: 1,000+ years

Dutch Carboneers are endorsed by the European Biochar Certification to develop smallholder farmer biochar projects in India. Biochar is a black residue, made of carbon and ashes, remaining after the pyrolysis of biomass. It is considered a carbon sink as it removes CO_2 from the air and stores it. Biochar can then be spread across soil and compost to enhance its fertility and water retention.

Dutch Carboneers produce their Biochar via a traditional method created by locals who are trained to transform their own farm residue into a valuable product for use in local farmlands. The company provides a cost efficient and decentralised biochar with a strong focus on bringing a positive impact to rural communities. Locals, often women, are trained and certified to produce biochar via the Kon-Tiki method that releases minimal emissions. Data is tracked real-time via a phone application that follows the process end-to-end. Over 50% of credit sales are allocated to the local community.

Graphyte

Removal method: Biomass carbon removal and storage

Speed of removal: Immediate

Durability: 1,000+ years

Graphyte created a differentiated method for biomass burial: Carbon Casting. Their process dries and compresses biomass into dense carbon blocks protected by an impermeable barrier that preserves the carbon in the material while buried underground.

Carbon Casting leverages the availability of waste biomass, such as residues from timber and farming operations, to create wooden blocks. Graphyte developed an environmentally-safe, impermeable barrier that coats the blocks, and then they store the blocks in underground sites with state-of-the-art monitoring. Carbon Casting preserves nearly all the carbon captured in the biomass and consumes very little energy in the process.

Combining photosynthesis with practical engineering, Graphyte's Carbon Casting technology provides an immediate pathway for billions of tons of low-cost, permanent carbon removal that can be deployed in electricity constrained markets.

People

Our values – resilient, adaptable and loyal – encourage diverse perspectives and a leadership mentality amongst employees.

Dara McCann
Chief People Officer

At PIC, we emphasise a high performance culture, where our employees are encouraged to both give and receive challenge, and where they are enabled to develop solutions.

Our purpose and objectives underpinned by our culture set the direction of travel for the business. They provide the framework within which we can get the best outcomes for our stakeholders and create significant social value.

Our values – resilient, adaptable and loyal – are the principles underlying our culture, dictating the behaviours which allow us to fulfil our purpose and drive value for our shareholders. They encourage diverse perspectives and a leadership mentality amongst our employees.

The pension risk transfer market will, ultimately, be responsible for paying the pensions of millions of former DB pension scheme members. As the industry gets bigger it actively contributes to alleviating the challenges of an ageing society in a reliable and secure manner.

This responsibility is not underestimated by us. PIC is known for being purpose led and outcome focused and as a result we value and invest in maintaining a high performance culture.

During 2024, we have continued to invest in our employees and their working experience with additional enhancements to remain competitive.

To reflect our growth, at the end of the year we moved to a state-of-the-art new office at 22 Ropemaker Street, equipped with leading-edge technology, a subsidised staff canteen and games area. The brand new building provides a setting that reflects our strong culture focused on our values and the multifaceted needs for our people. We understand that our employees work in different ways and have sought to accommodate this, with quiet spaces, project rooms, and ready-to-go meeting areas.

Employee Engagement

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

Our high employee engagement scores continue to set PIC apart as a place for people to do meaningful work. We foster an environment that is both challenging and supportive, where our employees are rewarded and recognised for their contribution. Ultimately, we take pride in making PIC a place where employees can succeed personally and professionally whilst fulfilling our purpose.

PIC has become a leading employer, and we want to hear about the views and experience of working life at PIC.

We therefore conduct an annual employee engagement survey that gathers information from the people that know us best, our employees.

In addition, we gather feedback following internal campaigns on subjects that matter to our employees, for example their pension savings. We also provide opportunities for employees to ask questions of their leadership team. They can do this during regular Town Halls, and our annual all-staff conference. In addition, during 2024 we reintroduced the ExCo lunch programme, where ExCo members host a small group of employees at lunch for informal conversations about the company, its strategy and any other topic of interest.

Rewarding our employees

PIC offers competitive remuneration and benefits packages suited to what would be expected of a leading financial services provider in the fast-growing PRT industry. In line with expected governance, the remuneration package is reviewed periodically with the appropriate oversight of the Remuneration Committee.

During the year we also introduced a range of continuous service awards designed to help PIC support our employee's long-term health and long-term wealth.

These benefits include the provision of financial 'MOTs', career coaching, and in-depth health assessments that provide early detection and prevention services and personalised health insights.

These benefits are in addition to the standard suite of benefits offered in the PRT industry.

Diversity

Other notable initiatives from the year included a focus on diversity. At PIC, we believe that different ways of thinking lead to better policyholder and stakeholder outcomes.

This includes employee initiatives in working with specialist external partners to support colleagues and to promote awareness and education about areas of interest to them.

As part of this we were pleased to welcome a new cognitive diversity partner to PIC, GAIN (Girls are Investors), which provides female students with a platform for learning, career development and networking opportunities.

We already partner with another GAIN – Group for Autism, Insurance, Investment and Neurodiversity.

Charity partner

During the year employees were invited to nominate and vote for our new charity partner, alongside our long-standing charity partner Independent Age. Following a process whereby appointed charities were shortlisted and put to an employee vote, youth mental health charity, Beyond, was selected.

Dara McCann
Chief People Officer

Working with our charity partners

Our commitment to charitable causes is demonstrated by the activities of PIC's Charity Committee, which is made up of keen volunteers from across the business, including our Chief Financial Officer and General Counsel as Board and ExCo level sponsors. PIC is proud of our continued partnership with Independent Age, a charity offering support to the elderly. We are also delighted to announce a new charity partner, Beyond, a youth mental health charity.

The process for selecting Beyond was entirely employee led. Employees were asked to submit the names of charities for consideration as our next charity partner, a relationship we foster for around three years.

The Charity Committee received 25 nominations and narrowed submissions into a shortlist of five whereby each charity was invited to present to the Charity Committee and received a donation of £2,500 each. The Charity Committee selected two finalists and the process culminated with all employees being invited to vote for our new partner.

In addition, PIC supports employee-led initiatives through offering matched funding and facilitating access to Charity Aid Foundation accounts and facilitating Give As You Earn. PIC's Charity Committee organises a series of fundraising activities that take place throughout the year including the PIC Treasure Hunt, an employee and third-party event that attracted over 500 participants on a fancy-dress treasure hunt around the City of London.

The 2024 event raised a total of £31,790, with this amount matched by PIC, meaning a total of £63,580 was donated to our charity partners.

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

Independent Age

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

Read more at
https://www.independentage.org/get-advice/advice-guides-factsheets-leaflets

Beyond

During 2024, we are delighted to have welcomed Beyond as our new charity partner.

Beyond is a youth mental health charity tackling the growing mental health crisis affecting young people in the UK. They seek to address the lack of access to support and create opportunities for early and personalised interventions. The charity is guided by a volunteer youth board who use their own experiences to inform everything that the charity does and ensures focus is kept on young people and their evolving needs.

Dom Veney, Chief Financial Officer and ExCo sponsor of PIC's charity committee, said: "We are very pleased to partner with Beyond, a remarkable charity dedicated to supporting youth mental health.

Our colleagues are looking forward to working with Beyond, via fundraising and volunteering, to help support and enhance the wellbeing of young people."

Louisa Rose, Chief Executive of Beyond, said: "On behalf of Beyond, we cannot thank Pension Insurance Corporation enough for selecting us as one of your charity partners. To receive such generosity from companies like yours is essential to the success of our mission, so we are deeply grateful for PIC's support.

We look forward to being on this journey with you and believe that, together, we can create lasting change. Thank you for believing in us and helping to make a difference to the lives of young people in the UK."

Read more at
wearebeyond.org.uk

Third parties

Embedding sustainability into our third-party management is a natural continuation of our rigorous supplier selection and management process. We are pleased to have launched our Supplier Code of Conduct as well as a new sustainability focused section to our due diligence approach.

Martin Storrs
Head of Third Party & Outsourcing, PIC

Suppliers

Our suppliers are our partners in helping us fulfil our purpose. Therefore, we expect our suppliers to uphold and adhere to standards that align with our own with regards to proper business conduct.

Our **Supplier Code of Conduct ("Code")** outlines expected supplier behaviour towards legal and voluntary activities. It includes key topics which support and enhance PIC's culture and values regarding business ethics, 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. The spirit of the code is to promote stronger corporate citizenship by considering all stakeholders during business activity and decision making.

Our approach to third parties also includes a Supplier Sustainability Due Diligence questionnaire that all our suppliers are asked to respond to. The questionnaire includes 23 sustainability focused questions ranging on topics from environmental policies, health & safety, societal impact and accountability. Suppliers are attributed a risk score on each of their responses and we look to engage with those suppliers where there is either an individual response deemed of severe risk or at our discretion if we feel more effort could be made on a certain area that we deem of particular importance.

Reinsurers

This year, we asked relevant reinsurers to answer a set of specific sustainability related questions.

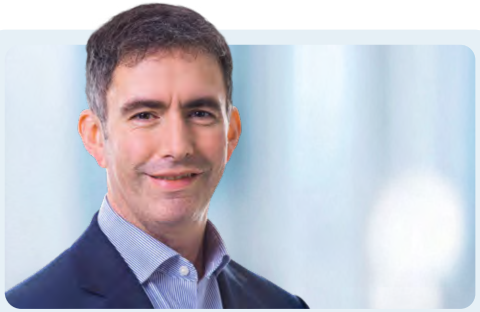
We engaged with reinsurers that we are already, or are considering doing business with, on either longevity reinsurance or funded reinsurance, with this including both American and European reinsurers.

We asked, and received responses from, nine reinsurers. Questions included:

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

We carefully assessed responses from each reinsurer and attributed a proprietary ranking amongst them. In addition, we started engaging in further detail with some of them. Our opinion of the reinsurer's sustainability capabilities feeds into our selection process and also influences what sustainability related wording we want to include in contracts.

Sustainable assets



Our £12.7 billion invested in sustainable assets demonstrates that PIC is able to pay the pensions of our policyholders securely over the coming decades, but that we also create significant social value.

Rob Groves
Chief Investment Officer, PIC

This year we received Board approval on our new Sustainable Assets Framework, which we launched with the aim of better managing long-term risk for assets which we define as sustainable (Appendix 1). PIC defines a sustainable asset as one whose business model meaningfully relates to solving one or more of the UN SDGs benefiting people and the environment.

The word 'sustainable' is chosen as it highlights the natural positive social and / or environmental outcomes that arise from a company's core business activity, rather than, for example its charity work.

Our £12.7 billion of investments in sustainable assets underpins our belief that responsible investing not only helps us achieve our purpose of paying pensions, 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.

A recent change to our classification of regulated gas utilities has decreased the amount shown as invested in sustainable assets, with prior year comparatives also restated to reflect this change.

As we progress towards a low carbon world, and evidence of action towards climate commitments are needed, we felt that it was no longer appropriate to consider gas utilities as sustainable. We fully appreciate that gas is needed as we transition towards Net Zero, and we are happy to consider such assets as transition assets, however our view of a low carbon world sees us minimally relying on such an energy source.

In 2024, we also refined our general portfolio sector categorisation and now differentiate between regulated and unregulated integrated utilities. As such, we are now able to include regulated integrated utilities into our sustainable assets, which in previous years wasn't possible. This addition is the main driver for the increase in our sustainable assets as a proportion of the total portfolio when compared to 2023.

Sustainable assets
Proportion of total portfolio over the last five years*

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

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

2020	2021	2022	2023
24.8% £12.4bn	**26.6%** £13.7bn	**24.8%** £10.2bn	**23.3%** £10.9bn
of £49.9bn total portfolio	of £51.4bn total portfolio	of £41.2bn total portfolio	of £46.8bn total portfolio

Sustainable assets (continued)

Case study: **Manchester New Victoria**

UN SDGs

11 SUSTAINABLE CITIES AND COMMUNITIES

There is considerable social value created through the early lifecycle of a building development, including environmental benefits, jobs and skill development. However, equally as important when describing the social value of a regeneration project are the health and community, or social fabric, benefits that these developments enable.

PIC's first operational Build-to-Rent development, Manchester New Victoria, has now reached full occupancy. Our main business drive to build this development was to help provide the cashflows needed to pay the pensions of our policyholders over the coming decades.

Embedding social value into our developments is important in this regard for two reasons. First, we are part of the local community ourselves and we want to live and work in an environment that benefits from our presence. Second, it also results in longer duration tenancies without an undue number of vacant apartments, which means smoother cashflows, helping PIC achieve its business objective.

The best developments provide a thoughtfully designed and welcoming physical environment alongside an engaging on-site team that facilitates an active community. The creation of building communities is the starting point of our Build-to-Rent development designs. The financial investment need not be large; what really matters is the commitment of effort, creativity, time, and care. For example, we host weekly "get to know your neighbour events," for new residents and have initiatives including health and wellness events, focussing on a healthy body and mind; a dog walking club; fitness classes; as well as partnerships with local businesses and restaurants.

Residents can also contribute to the wider community through various initiatives. For instance, residents and staff of Manchester New Victoria recently ran the Great Manchester Run in support of charity Independent Age, and there are ongoing initiatives such as a clothes bank and coffee mornings to support local causes.

What we are starting to create is more of a village – a vertical village perhaps – than a traditional Build-to-Rent development. This will also have considerable benefit for the centre of Manchester as well. Having 500 people living literally on the doorstep of local businesses – our residents are able to buy directly from them through the New Vic app – will support them over future years.

The app also provides a platform for virtual community engagement. As well as booking a repair they may need, booking the on-site amenities, such as the cinema room or private dining room, residents are able to chat with their neighbours, can start groups with those with shared interests, and arrange meet ups. Recently the residents formed a book club and the New Vic football team.

We're really pleased that we've been able to create such a strong community – with so much social value – right at the start of our journey. As we welcome increasing numbers of residents into our Build-to-Rent schemes we'll take this experience and help to shape their communities, and with it, create significant social value by bringing new life back into our town and city centres.

For building communities.

Sustainable assets (continued)

Case study: **Habiko: a public-private partnership delivering low-carbon affordable homes**

For low-carbon affordable homes.

UN SDGs

PIC entered into a joint venture, called Habiko, with Muse, a nationwide place maker, and Homes England, the Government's housing and regeneration agency, to forward fund the construction of 3,000 low-carbon, low energy affordable homes for the rental market. This 12-year partnership has a dual aspect in that it focuses both on meeting the need for affordable housing while also responding to the climate crisis.

Habiko is targeting up to 100% affordable homes for rent for those whose needs are not met by the market, with rents set at 20% below the local market rent. During the lifespan of the partnership, PIC will have the ability to continue to forward fund the development of the affordable homes and will ultimately own the homes and places they have helped to create through its investment and long-term stewardship approach.

The homes will be built across England in areas of high demand for this type of housing. The developments aim to create social value for these communities, including boosting the local economy through job creation and new skills to drive green innovation. The homes will be in accessible locations, close to employment opportunities and be designed to help residents save money on their energy bills.

PIC's investment team was instrumental in setting sustainability standards for the new houses, in particular the criteria that would credibly define the houses as 'low carbon, low energy'. Such criteria include maximum energy intensity (kWh/m^2) as well as mandating that the primary energy source of all houses will be electric. In addition, PIC requires that a rating of "B" or above is met through our proprietary rating system as well as the 12 minimum sustainability standards – which PIC applies to all new build developments – for each project within the joint venture. Such standards include minimum EPC ratings, flood risk zone restrictions, policies to encourage local labour procurement, and where feasible an embodied carbon assessment for the whole building should be conducted.

Sustainable assets (continued)

Case study: **UK Ports**

For investment into UK port infrastructure.

UN SDGs

Infrastructure assets have been a core part of our investment strategy for more than a decade given the stability of long-term cashflows they produce, as well as the social value they create.

The majority of these investments are of importance to the local economy (and in aggregate to the national economy). In 2023, we made an investment of international significance, deploying £100 million of funding in three major UK Port Groups – Associated British Ports ("ABP"), Peel Ports and Forth Ports – covering port sites from Southampton, Liverpool and all the way to Dundee. In 2024, we invested another £50m directly into Peel Ports.

Ports handle 95% of international trade. The diversity of cargo transited, their varied customer base, long-term customer contracts, and ability to adapt their product offering makes the UK ports sector resilient through business cycles, making them an attractive asset for a buy-to-hold investor like PIC, with pensions to pay stretching out decades into the future.

The funds we have provided will help them develop their basic infrastructure, making them – and by extension UK trade and exporters – more resilient and adaptable to ever-changing global trade dynamic. Recent examples of the importance of this exceptional adaptability are acting as the critical link in the wind farm supply chain, as well as during Covid-19, when they successfully managed a significant increase in cargo traffic.

Enhancing port infrastructure to be able to act quickly and efficiently to the changing global geopolitical landscape will provide stability for the country. Whether it is a change in supply chain profiles, or further energy price pressures due to escalation of the war in the Middle East, ports will remain a key asset that the government and wider UK economy will rely on.

When it comes to supporting Net Zero ambitions, UK ports are already underway with a number of exciting projects that PIC, along with other financial institutions are investing in:

- Peel Ports is developing a new maritime logistics hub that will take an estimated 14,700 lorry journeys off roads across the UK and continental Europe annually
- ABP announced the first large-scale green hydrogen import facility in the UK. The facility will be located at the Port of Immingham and will be used to import green ammonia which will be used to produce green hydrogen to help decarbonise hard-to-abate sectors such as transport and industry
- Forth Ports are leading the charge on Scottish Green Freeports, with a proposal that will generate up to 50,000 new jobs and act as a catalyst for new green technologies and renewable energy manufacturing which will make a significant contribution to the re-industrialisation of Scotland

Sustainable assets (continued)

Case study: **VTG Rail**

For cleaner transport.

UN SDGs

In May 2024, PIC directly lent £40 million over a 15-year term to VTG – a leading European freight wagon leasing business. Supporting the global shift of freight traffic from road to rail helps decarbonise the world's logistics chain.

Based on UK government estimates, transporting goods by truck is approximately four times as carbon intensive, per kilometre travelled, as transporting goods by rail. This investment represents an ongoing commitment by PIC to invest into Clean Transportation solutions that support greater cost efficiencies and less carbon intensive operations.

VTG has a transparent sustainability strategy that strikes a healthy balance between mitigating climate change and social cohesion. The company scored 99 out of a possible 100 points against the Global Real Estate Sustainability Benchmark, which measures the sustainability performance of companies and funds in the infrastructure and property sector. They support the UN SDGs and give full backing to the Paris Agreement and the European Green Deal. VTG's sustainability commitments include being a carbon neutral company by 2040, water treatment and cleaning optimisation goals, a permanent recycling rate of 93%, the installation of whisper brakes for the entire VTG fleet, developing diversity targets, establishing a health management system, rolling out a supplier code of conduct and strategic anchoring of sustainability within the company's daily activities and processes.

Environment

Only by assessing and addressing climate-related risks and opportunities are we able to secure long-term cash flows that back our policyholders' pensions over the coming decades. This requires us to have a thorough understanding of any risk posed by climate change and to work together to put robust processes in place.

David Weymouth
Chairman, PIC

Summary of the TCFD disclosures

TCFD disclosures

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

+ Selected **TCFD metrics can be found here**

PIC's climate achievements

Reduced Scope 1 and 2 emissions intensity by

16%

During 2024 PIC reduced its Scope 1 and 2 carbon emissions per Full-Time Employee ("FTE") by 16%

Weighted Average Carbon Intensity ("WACI")

155 tCO_2e/ $m revenue[1]

WACI of investment portfolio

The WACI of PIC's portfolio has reduced by 8% in 2024, based on portfolio data coverage of 77% (FY23: 75%)

Weighted Average Carbon Intensity ("WACI")

185 tCO_2e/ $m revenue

WACI of public corporate credit portfolio

The WACI of PIC's public corporate credit portfolio remains well below the 2025 target of 216 tCO_2e/$ revenue

PIC's climate targets

Carbon neutral as a business by

2025

We have committed to being operationally carbon neutral (Scope 1 and 2) by year-end 2025

Net Zero across all emissions by

2050

We have committed to being Net Zero across all emissions (Scope 1, 2 and 3) by 2050

Portfolio emissions target

50%

decrease by 2030 from 2019 levels

PIC is committed to decreasing the investment portfolio's average carbon intensity (tons CO_2/$m revenue) by 50% by 2030 from 2019 levels

Portfolio emissions target

25%

decrease by 2025 from 2019 levels

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

1. This metric has been subject to independent Limited Assurance under ISAE (UK) 3000 and ISAE 3410. The limited assurance report provided by KPMG can be found in Appendix 2 of our Climate Report (TCFD).

Environment (continued)

PIC's Decarbonisation Journey

In early 2024, we published our first **Climate Transition Plan**, in line with the Transition Plan Taskforce ("TPT"), detailing how we intend to meet our decarbonisation targets. In 2024, the WACI of our investment portfolio reduced by 8% to 155 tCO_2e / \$m revenue, and we remain well ahead of our 2025 target on our public corporate credit portfolio. We are pleased to have achieved a 46% reduction in our total portfolio WACI from our 2019 baseline levels and remain on track to meet our 2030 target of a 50% reduction in our portfolio WACI from our 2019 baseline.

Two key pillars of our transition plan were:

1. **Engagement with our existing borrowers to encourage those borrowers to reduce their carbon intensity**
2. **Our forward-looking investment strategy, ensuring that our new investments are less carbon intensive than our existing portfolio**

TPT Transition Plan Taskforce

Case study: **Asset manager engagement**

For engagement with a carbon intensive company.

UN SDGs

13 CLIMATE ACTION

One of our asset managers engaged on our behalf with a highly carbon intensive issuer in our portfolio. The engagement has taken place over a number of years, recommending the company sets medium and long-term emissions reduction targets, increase disclosures and refocus its business plan towards less carbon-intensive activities.

In 2024, the manager engaged with the company to follow up on progress made in managing transition risks associated with the national transition plans in which it operates. They also encouraged the company to set credible medium and longer-term emissions reduction targets and follow the TCFD's recommended disclosures.

The company has since set targets for both 2030 and 2050 and has refocused on growth in their renewable power generation capacity. The company has planned to invest significant resource into renewable energy interconnection projects.

The company has also produced their first TCFD-aligned report and started carrying out climate scenario testing which they will look to include in their next TCFD report.

Environment (continued)

Nature-related risk

Alongside climate change, we recognise that the degradation of natural capital, defined as the sustainable use and preservation of natural resources, is a topic of increasing importance to us and our stakeholders. A report by the Green Finance Institute[1], with input from the Department for Environment, Food and Rural Affairs ("DEFRA"), HM Treasury, and the FCA, concluded that the degradation of nature could cause a 12% loss to UK GDP. The interconnection between the worsening of climate change and the degradation of nature is increasingly apparent. Given the long-term nature of our liabilities, we recognise the importance of understanding and managing our exposure to nature-related risks.

In 2024 we performed an initial assessment of our nature-related dependencies, impacts, risks, and opportunities. As a financial services company with our sole office in central London, our operational dependencies and impacts on nature are relatively limited. The main interface with nature in our business comes through our investment portfolio and this has been the focus of our initial assessment.

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

Dependencies, impacts, risks and opportunities

Our initial assessment has been based on the Taskforce for Nature-related Financial Disclosure ("TNFD") framework, in particular focusing on nature-related dependencies, impacts, risks and opportunities that are relevant to our business. The TNFD framework defines these as follows:

Dependencies

Aspects of environmental assets and ecosystem services that a person or an organisation relies on to function. An ecosystem service is considered to be the direct and indirect contributions that ecosystems provide for human wellbeing and quality of life. For example, a company that PIC lends to may be dependent on the ecosystem services of water flow, water quality regulation, and the regulation of hazards like fires and floods.

Impacts

A change in the state of nature which may result in changes to the capacity of nature to provide social and economic functions.

Nature-related risks

Potential threats posed to an organisation that arise from its dependencies and impacts on nature. These risks may be physical, transition, or systemic risks.

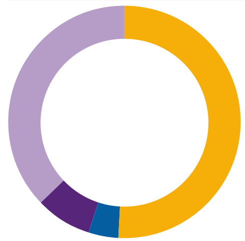
Nature-related opportunities

Activities that create positive outcomes for organisations and nature through positive impacts or mitigation of negative impacts.

We used the ENCORE[2] database, which provides details of the dependencies and impacts of each economic sector on nature, to estimate our portfolio exposure to nature-related risks. There is an increased physical nature-related risk for those sectors that have a high level of dependency on nature, in particular if the ecosystem services that those sectors depend on are under threat from the degradation of a natural resource. On the other hand, sectors with a high impact on nature may have increased transition risk due to regulatory or consumer pressure to minimise this impact. An example of this would be the introduction of biodiversity net gain regulations, which require all property developments in the UK to increase biodiversity by a net 10% within the development area.

Figure 1.1 shows that circa 45% of our portfolio by market value has a high or very high dependency on one or more ecosystem service. This does not necessarily mean these sectors have high nature-related physical risk, as it may be that the ecosystem services upon which those sectors depend on are not under significant threat. However, this analysis gives us an initial understanding of our potential exposure to nature-related physical risk.

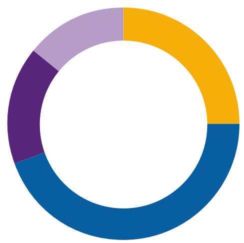
1.1 **Portfolio market value breakdown by dependency on one or more ecosystem services**



No dependency	0%
Very low	0%
Low	51%
Medium	4%
High	8%
Very high	37%

The following figure 1.2 shows that circa 30% of our portfolio has a high or very high impact on nature. As noted above, this presents an initial understanding of potential exposure to nature related transition risk.

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



No pressure	0%
Very low	0%
Low	25%
Medium	44%
High	16%
Very high	14%

Next steps

We are developing our understanding of our exposure to nature-related risk, and we intend to focus future analysis on:

- Understanding the underlying ecosystem services that our portfolio has the highest dependency on and assess the extent to which those services are under threat
- Building biodiversity into our engagement approach as part of our new engagement strategy

Responsible investing

PIC became a signatory to the UN PRI in 2020. PIC actively supports these principles in practice, recognised through our 4-star assessment in the latest rating process.

We are confident that companies which have embedded enhanced sustainability into their business practices create long-term social value. Through the effective integration of ESG factors into investment decision making, we mitigate risk, identify opportunities, and promote strong stewardship. Strong stewardship means encouraging businesses to act in a sustainable manner.

The consideration of ESG factors has been integral to our investment process for many years. This means that we consider ESG alongside pure financial analysis in the investment decision-making process. It explicitly and systematically includes the analysis of a range of risks and opportunities related to ESG. 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.

PRI Principles for Responsible Investment

These ESG-related risks may vary by country, by industry and by characteristics specific to that issuer. These factors are considered irrespective of whether the asset is a direct investment, or whether we manage it via an asset manager. This means that from the initial due diligence phase or manager selection, relevant ESG questions are asked, and responses assessed.

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

Our approach is twofold: every member of the Investment team is expected to consider ESG factors when reviewing an investment opportunity; however, expert credit analysts do the detailed risk analysis for credit-investment decisions, because they have the deepest knowledge of specific issuers. They also liaise with our Responsible Investing team on their findings. This means our analysis is forward-looking and takes into consideration the risk to potential investments over many decades.

More detail about PIC's Responsible Investment approach can be found here **responsible-investment-approach.pdf.downloadasset.pdf (pensioncorporation.com)**

Responsible Investor

PIC Portfolio

ESG Integration:	Social Value:	Stewardship and Engagement:	Industry Participant:	Climate Change:
Within all investment process including within manager selection	Investments into sustainable assets that create beneficial outcomes for people and our planet	UK Stewardship Code signatory, Standalone Stewardship Policy, Engagement strategy	UN signatory, Net Zero Asset Owners Alliance member, ABI Climate Change Working Group participant	Decarbonization to Net Zero, TCFD reporting, TPT, Climate risk management and climate scenario testing

Case study: **Fire safety hazard**

Rejecting a potential investment due to fire safety.

PIC recently considered making an investment into a portfolio of real assets, a large number of which were hotels. The majority of the hotels in the portfolio were built using combustible/flammable cladding and lacked cavity barriers, which is a fire hazard. Current laws exempt hotels from cladding regulations seen in high rise residential buildings, hence consultants on the deal established that the risk was 'low'. However, PIC took the view that despite not being in breach of regulation, cladding is still a material building safety risk and one that we are not comfortable with as a long-term asset holder.
In addition, should regulations change, it is up to the freeholder/landlord to remedy the situation at its own costs.

Responsible investing: 2024 strategic initiatives

Our strategic objectives

- To continue building a secure and sustainable business
- To carry on leading as a responsible corporate citizen
- To keep on driving long-term value growth

Responsible investing: 2024 strategic initiatives

Climate scenario analysis

Performed more meaningful scenario analysis on a sector-by-sector basis.

Link to strategic objectives: secure and sustainable business; long-term value growth

Nature risk analysis

Scan of nature-related risk for our portfolio to identify most material exposures.

Link to strategic objectives: responsible corporate citizen; long-term value growth

Enhanced stewardship capabilities

Worked with internal teams to deliver more effective engagements.

Link to strategic objectives: secure and sustainable business; responsible corporate citizen

Decarbonisation

Monitored and progressed portfolio decarbonisation in line with targets.

Link to strategic objectives: secure and sustainable business; responsible corporate citizen; long-term value growth

Engagement strategy

Developed a five year engagement strategy with objectives for each engagement topic.

Link to strategic objectives: secure and sustainable business; responsible corporate citizen

Counterparty risk

Extended our ESG investment approach to reinsurance and derivative counterparties.

Link to strategic objectives: secure and sustainable business

Reporting

Created a Non-Financial reporting team within Finance to centralise sustainability-related reporting.

Link to strategic objectives: long-term value growth

Sustainable assets

Established a new Sustainable Assets Framework for added long-term risk management.

Link to strategic objectives: secure and sustainable business; long-term value growth

Active industry participant

Promoted selected industry initiatives to raise industry standards.

Link to strategic objectives: responsible corporate citizen; long-term value growth

Core activities

Input into investment decisions
Integrate ESG into credit analysis and due diligence.

Ongoing stewardship and reporting
Pursuing quality engagement activity and reporting on it.

Input into origination
For both existing buy-in schemes and prospective transactions.

PIC sustainability
Embedding sustainability across our operations guided by our TOM.

Decarbonisation alignment
Ensure sub-investment teams are aligned on PIC's approach.

Responsible investing: 2024 strategic initiatives (continued)

The process of ESG integration needs to be tailored for each individual asset class in order for it to be meaningful. We have a proprietary approach for all of the major asset classes we invest in. This includes public and private credit markets, real assets and collective investments.

Cléo Fitzsimons
Head of Sustainability, PIC

Investment restrictions:

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

a. **Coal extraction and burning and Tar Sands**: No new purchases in companies that derive more than 10% of turnover from coal extraction and burning and Tar Sands. We aim to divest from all of our holdings breaching the 10% limit in these areas by 2025 unless the respective borrower has a credible plan in place to achieve the target in a reasonable time frame by this point.

   So far, we have made strong progress towards achieving this target, engaging with the companies in our portfolio to understand their plans to reduce coal usage over time.

   As at 31 December 2024, a handful of companies marginally breaching this threshold remain in the portfolio. All have evidenced credible plans to have less than 10% revenue from coal in the foreseeable future. We continue to closely monitor these holdings and are prepared to sell them should their coal reduction plans not materialise.

b. **Oil sector:** No new purchases of companies which exclusively focus on upstream activities. We aim to divest from these holdings over time. PIC will continue to invest in major integrated oil companies where such companies have decarbonisation commitments that are aligned with PIC's and have a credible strategy to deliver them. We believe such companies have an important role to play in the transition to a low carbon economy.

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

ESG internal rating methodology

Our Credit Research team enhanced its proprietary ESG rating methodology for our privately sourced debt investments. The new methodology takes a sector specific approach using the Key Performance Indicators ("KPIs") most material to that sector and asks analysts to quantitatively score companies according to a pre-defined scoring system as well as qualitatively justify and provide evidence for their assessment. The end result is a separate low/medium/high risk exposure score as well as an overall headline blended score. This new methodology is in the process of being rolled out across all portfolio holdings as well as being actively used for any new investments being rated. The analyst's score undergoes a peer review prior to being presented at PIC's Rating Committee.

Real estate assets

We have established strong ESG criteria within the framework of our investment process for PIC's growing real estate portfolio. This year we have continued to enhance our proprietary rating system that assesses 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.

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

Only developments with an average aggregate rating of "B" or higher across the 65 KPIs is proceedable for investment.

In early 2024, we progressed our proprietary approach to include specific KPIs to monitor during construction as well as once assets are operational. These KPIs have been modified for relevance across our Built Environment portfolio to take into consideration the nuance needed for different asset types.

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

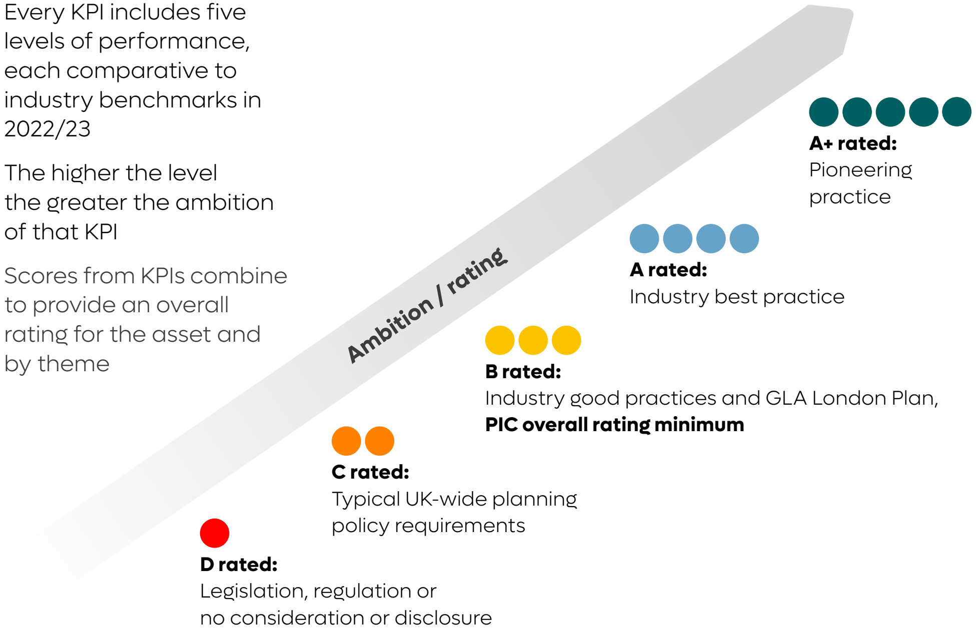
Real estate assets

Environmental	Social	Governance
Net Zero carbon	Health and wellbeing	Monitoring
Biodiversity and ecology	Social value	Policy
Climate change		
Materials and circular		
Economy		

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



Real estate assets (continued)

PIC Capital Built Environment ESG

Asset activities led by Built Environment and Asset Operations team

Phase 1 – Pre-financial close ("FC")

Acquisition/Due diligence

6 – 12 months

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

Collected by: Developer

Reviewed by: Technical advisor

KPIs – collected and reported before FC

Total: 65

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

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

Phase 2 – Construction monitoring

Construction

24 – 48 months

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

Collected by: Contractor

KPIs – reported annually (by calendar year)

Total: 12

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

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

At practical completion

Typcially 8 weeks (BSA[1] Gateway 3 approval period)

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

Collected by: Developer

KPIs – Summary performance collected

Total: 19

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

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

Phase 3 – Operation

Operation

25 – 60 years

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

Collected by: PIC & Management agent

KPIs – collected annualy

Total: 11

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

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

1. Building Safety Act ("BSA").

Real estate assets (continued)

Case study: **From brownfield site into energy efficient rental accommodation**

For brownfield transformation.

UN SDGs

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

The building, formally a vacant office block known as "Bowback House", is fully owned by PIC, which will use the rental cashflows to pay the pensions of our policyholders. The development is part of our wider investment in UK housing and infrastructure, which totals over £13 billion to date[1], including more than £3 billion in social housing.

The highly energy efficient homes incorporate a range of clean energy technologies, including air source heat pumps and solar panels.

The development creates social value in the centre of Milton Keynes. For example, the development sourced products from local areas, with the furthest material source being one day's transportation away, as well as residents of Arbour being able to buy directly from local businesses through a special "Arbour app".

Case study: **Building for an increasingly socially responsible world**

For social value in urban regeneration projects.

UN SDGs

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

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

As a country we need regeneration projects because they help our cities become denser and better connected, increasing national productivity, and they revitalise our smaller urban centres, bringing new life to tired town centres. PIC is already a major investor in these types of projects, with more than £13 billion[1] invested in UK infrastructure and we want to invest considerably more.

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

1. https://www.pensioncorporation.com/news-insights/insights/2024/social-value-beneficial-long-term-investment-urban-regeneration

Flood Risk Framework

According to the Environment Agency, as of December 2023, 13% of England by area (1.6mn hectares) is exposed to a level of flood risk (i.e. low to very high). In addition, one in 12 properties are built in these risk areas, equating to two million homes and half a million non-residential buildings. Five million people live in these buildings and are potentially exposed to flooding every year[1].

As climate change occurs, flood risk will increase with drier grounds causing flash floods or over saturated ground leading to the ground being unable to hold flood water. Higher magnitude flood events are forecasted at an increased frequency.

Given PIC's growing property asset portfolio, and the increasing risk of floods occurring in the UK, we developed a proprietary Flood Risk Framework. The framework assesses flood risk exposure for long-term assets. It identifies and reviews the physical, human and commercial risks associated with flooding to the assets either already in PIC's portfolio or being considered for new investment.

The framework is predominantly used at due diligence stage to:

- Provide guidance on acceptable flood risk levels for asset types
- Provide steps for PIC and advisors to consider flood risk dependent on risk levels
- Outline if further modelling and development mitigations are required
- Rule out an investment if the flood risk exposure is too high for that asset type

To build the framework, PIC's Head of Built Environment, along with technical advisers, initially reviewed the Environment Agency data on building stock and flood risk review to understand the scale of the issue. Seeing that flood risk was a material risk for many of the areas PIC considers investing in, they delved deeper into their analysis. They examined the likelihood of flood events across PIC ownership periods and how mitigation measures can be implemented to reduce the impact of such events.

Along with members across the investment team, key flood risks for each asset type were reviewed and engagements were held with external sector specialists such as valuers, insurers and water consultants.

PIC's Flood Risk Framework sets thresholds based on current data and risks specific to each asset class and location.
The framework helps set PIC's risk tolerance for flood risk which recommends that:

- Most assets be located within Zone 1 (for river and sea) and low risk locations (from surface / reservoirs/ ground / sewers)
- We should limit the number of assets in Zone 2 and 3 (with flood defences) and ensure diversification for assets within those zones
- Exclude any asset within Flood Zone 3 (with no flood defences) with limited exceptions such as water-based infrastructure assets

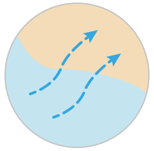
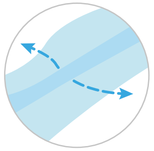
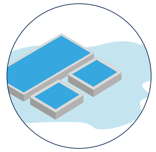
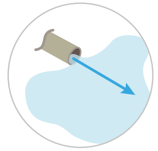
Whilst the rate of climate change and regularity of events is unknown, experts agree there are increased frequency of global and regional events linked to climate change. Our Flood Risk Framework acknowledges and provides guidance on how evolving climate change risk is considered with regards to flooding, given its relevance in the UK, to protect PIC property assets and their tenants over time.

Tanmay Desai
Head of Built Environment, PIC

1. https://www.data.gov.uk/dataset/50545819-8149-4999-9d9f-c082e7234257/risk-of-flooding-from-rivers-and-sea-key-summary-information

Flood Risk Framework (continued)

How is risk indicated

What is flood risk? – base understanding							
Category		Coastal/Tidal	Fluvial	Pluvial	Groundwater	Infrastructure/artificial sources	
Source		Seas	Rivers	Surface water	Groundwater	Reservoirs	Sewers
How it occurs		• Intense windstorm events occurring at the same time as high tide (storm surge) • Water overwhelms low-lying land in coastal or tidal regions.	• Excess rain or snowmelt upstream in a river basin collects and flows downstream • Water levels overflow banks onto the neighbouring land	• Extreme rainfall event on either saturated ground or impermeable hard standing • This runs over the surfaces collecting in localised low levels independent of an overflowing water body.	• Natural underground drainage system cannot drain rainfall away quick enough • This causes the water table to rise above the ground surface. Typically linked to bedrock geology.	• Excess rainfall causes upstream collection in reservoirs and overflows banks • This can be independent of river flooding or can exacerbate it.	• During excess periods of flash flooding, excess rain can overwhelm existing sewer capacity • Overflowing out of manholes or in building in different areas.
Risk indicator	**Form**						
Flood zone	Zone 1, 2, 3a & 3b	✓	✓	N/A	N/A	N/A	N/A
Probability level	Low to medium to high	✓ Low to high	✓ Low to high	✓ Very low to high	Modelling analysis required by flood risk specialist		
Return period	1 in number years	✓	✓	✓	Binary only (it occurs or not)	Binary only (it occurs or not)	N/A
Likely or unlikely	Binary	N/A	N/A	N/A	✓	✓	Can only be provided by flood risk specialist
Future risk	Low to medium to high	Can only be provided by flood risk consultant specialist modelling					

Flood Risk Framework (continued)

Case study: **Wirral Waters One**

For developer engagement on flood risk.

UN SDGs

In 2022, PIC invested £130 million in a new waterfront neighbourhood, Wirral Waters One ("WWO"), also known as Miller's Quay. This is the anchor project of Peel L&P's Wirral Waters, the UK's largest urban regeneration project and a key part of the levelling up agenda. The Wirral Waters scheme is a central Government supported project to redevelop a brownfield site into a new waterfront neighbourhood, creating up to 20,000 permanent jobs over the long term. This is part of the regeneration of Wirral, which sits within the Liverpool City Region.

Issue:

The dock wall at Miller's Quay was identified to have voids below the waterline, attributed to scour from propeller wash. Initial repairs were conducted in 2003/04 using concrete infills, but no further maintenance had been carried out since then. As a key component of infrastructure and interface between the Miller's Quay and the wider Wirral Waters development, the risk of collapse and the extent of damage needed to be assessed.

Action:

PIC worked with the developer and port authority to resolve these risks and the following actions were undertaken as a result of this engagement:

1. The developer commissioned an Asset Engineering Report utilising sonar and lidar surveys, supplemented by above-ground investigations, to evaluate the dock wall's condition
2. Surveys revealed new void formation since the previous repairs and further erosion of existing voids, heightening the risk of collapse
3. A repair specification with a minimum design life of 50 years was developed, ensuring alignment with the commencement of the Miller's Quay development works
4. Peel, the developer, appointed a contractor to execute the repair works
5. A specialist consultant was engaged for quality assurance checks throughout the repair process

Outcome:

The successful completion of the dock wall repair project enabled the contractor to commence their works for the Miller Quay development which were ongoing during 2024. It stands as a testament to the collaborative efforts of PIC and the developer. By addressing critical structural vulnerabilities, the project effectively mitigated the risk of collapse of Miller's Quay infrastructure, and simultaneously ensured the long-term integrity of the associated flood defence benefits crucial for both Wirral Waters and the Miller's Quay development. This achievement underscores PIC's unwavering commitment to sustainable urban regeneration and its pivotal role in realising the ambitious vision of the Wirral Waters project.

Our stewardship approach

In today's world, where the role of investors is increasingly scrutinised for its impact beyond financial returns, our purpose – to pay the pensions of our current and future policyholders, creates significant social value, particularly through the long-term investments we make in the UK's economy.

At PIC, stewardship goes beyond a mere concept; it's a core part of how we operate. Our role as long-term investors is not just about financial transactions but also about responsibly allocating, managing, and overseeing capital to create lasting value for all stakeholders. By integrating ESG factors into every investment decision and engaging with issuers on key concerns, we reduce risks while fostering sustainable outcomes for the economy, the environment, and society.

We are delighted to have maintained our signatory status to the UK Stewardship Code, evidencing our continued commitment to the 12 core principles of good stewardship set out by the Financial Reporting Council ("FRC"). While we've made notable progress in sustainability and stewardship, we recognise there's always room for growth, and we are committed to building on our expertise in this area.

Engagement

Engagement describes the interaction between investors and issuers. Engagements are conducted to influence or identify the need to influence corporate behaviour and enhance sustainability related disclosure. PIC wants to ensure we (and our managers on our behalf) use our influence to help companies in which we invest improve aspects of their environmental, social and governance performance. Noting that we are debt investors, PIC actively engages with issuing companies across public and private markets on material sustainability issues.

Active engagement is of central importance to our business as it helps our strategic objective of driving long-term value. It drives our sustainability strategy to ensure that ESG-related risks are mitigated where possible and opportunities uncovered.

> **Stewardship isn't just about helping us fulfil our purpose – it's also about shaping a brighter, more sustainable future for generations to come.**
>
> **Rob Groves**
> Chief Investment Officer, PIC

Engagement is done for two main reasons at PIC:

1. **Fact finding:** to understand the company, its stakeholders and performance. To inform our investment decision as part of regular due diligence. This engagement is usually centred around fact-finding through detailed and specific questioning.
2. **Purposeful dialogue:** with a specific and targeted objective to influence and achieve a change in corporate behaviour. This is a two-way dialogue meaning we do not talk at companies, we talk with them.

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

PIC's engagement strategy

Over the course of 2023 and 2024, PIC has carried out a thematic programme of engagement which emphasised climate change, human rights and corporate governance. The strategy covered multiple asset classes within our portfolio and sought to create a lasting positive impact on both the companies we engaged with and the wider economy.

PIC engages via four distinct channels:

Engagement channels

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

Our stewardship approach (continued)

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. In such cases, our Stewardship policy outlines our escalation process.

To monitor our engagement efforts, we developed an online ESG engagement platform, which acts as a database for logging engagement records during the year and keeps track of progress against the relevant Key Performance Indicators ("KPIs") and our desired outcomes.

Some recent achievements of our 2023-2024 engagement strategy include:

- Our activities over the past two years closely aligned with the initial objectives of the strategy, reinforcing the importance of targeted and sustained engagement in achieving long-term ESG goals.
- During 2024, we engaged with 130 firms through our diverse engagement channels on a range of sustainability topics. Our primary focus has been meaningful dialogue with top emitters, but we've also amplified our social engagements, recognising the importance of balancing environmental and social outcomes as we move towards a low-carbon economy. The chart on the right displays the breakdown of our engagements by area of focus.
- A notable success came from emerging market engagements carried out via one of our external managers. We believe that these engagements contributed to several high-emitting companies either committing to report under the TCFD framework for the first time or reduce their emissions meaningfully. These in turn led to the overall reduction in the WACI over the past two years of some of our portfolio's highest emitters.

Engagement focus breakdown

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

Over the past two years, we've significantly enhanced our engagement practices by incorporating lessons learned and adopting best practices from across the industry. With the launch of our five-year engagement strategy, we remain committed to leveraging our influence to drive meaningful change and deliver tangible, real-world impact.

Victoria Ruleva
Investment Stewardship Manager

2025-2030 engagement strategy

Transition to the 2025-2030 engagement strategy

As we reflect on the outcomes achieved and challenges faced during the two-year period, several key insights have emerged that will inform our approach going forward.

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

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

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

Five-year engagement strategy: Building on the successes of our two-year engagement strategy, our recently launched Board-level approved five-year engagement strategy, which runs from 2025-2030, is split between asset classes and will formally expand our focus across six core topics.

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

In addition to expanding the thematic scope of our engagements, we are also focused on enhancing our internal capabilities. This involves continuous learning and the sharing of best practices among our analysts in the Investments team, who maintain direct relationships with the companies in our portfolio. We recognise that having those closest to the holdings – our credit analysts and portfolio managers – lead on engagement efforts is the most effective route. By supporting internal collaboration and knowledge sharing, we aim to further strengthen our engagement initiatives over the next five years.

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 wellbeing 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.

2025-2030 engagement strategy (continued)

		Environmental		Social		Governance	
		Climate Change	Natural Capital	Human Rights	Human Capital	Corporate Governance	Diversity, Equity and Inclusion
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 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 ("DE&I") topics at the senior level and more widely across the workforce
Fixed income – Public	Engagement objectives	• The company's decarbonisation plans are ambitious and credible • Transparent reporting through additional disclosures or external verification (such as SBTi) • Integration of KPIs related to decarbonisation in the management remuneration structures	• Policies to manage impact on natural capital • Disclose in line with TNFD • Set targets/set out natural capital strategy • Focus on pollution (water, soil and air), land and water use, and solid waste.	• Policies in place such as Modern Slavery policy/Human Rights policy, and Supplier Code of Conduct • Consideration of human rights risk including in the supply chains • Independent Human Rights audit to identify any potential breaches	• Adequate sick leave pay policies • Board-level responsibility for corporate culture and employee wellbeing • Worker voice and grievance mechanisms	• Board structure • Remuneration policies • Succession plans	• Disclosure around DE&I characteristics of the Board and senior management • Commitments around DE&I
Fixed income – Public	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	Manufacturing, Renewables, Consumer non-cyclical	Across all sectors	Across all sectors	Across all sectors
Fixed income – Public	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 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
Fixed Income – Private	Engagement objectives	• The company's decarbonisation plans are ambitious and credible • Transparent reporting through additional disclosures or external verification (such as SBTi) • Integration of KPIs related to decarbonisation in the management remuneration structures	• Policies to manage impact on natural capital • Set targets/set out natural capital strategy • Focus on pollution (water, soil and air), land and water use, and solid waste	• Policies in place such as Modern Slavery policy/Human Rights policy, and Supplier Code of Conduct • Consideration of human rights risk including in the supply chains • Independent Human Rights audit to identify any potential breaches	• Adequate sick leave pay policies • Board-level responsibility for corporate culture and employee wellbeing • Worker voice and grievance mechanisms	• Regulatory compliance • Board structure, maximum tenure and turnover • Succession plans	• Board DE&I characteristics • Gender pay gap
Fixed Income – Private	Priority sectors (identified based on relevance, exposure, and potential influence)	Housing Associations, Utilities, Transportation	Utilities (Water), Housing Associations, Infrastructure, Renewables	Infrastructure, Renewables, Housing Associations	Across all sectors	Across all sectors	Across all sectors
Fixed Income – Private	Engagement route	Direct by PIC analysts, collaborative engagement initiatives					
Real Estate	Description	Engaging on climate topics such as Net Zero Carbon, embodied and operational emissions, percentage of energy demand from non-fossil fuels, and type of offsetting within the built environment	Engaging on natural capital topics such as biodiversity net gain urban greening factor, water usage, and circular economy within the built environment	Engaging on topics of Modern Slavery, building safety and other health and wellbeing topics within the built environment	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
Real Estate	Engagement objectives	• Low embodied carbon emissions • All-electric building with a high proportion of energy from renewable sources • Minimum EPC ratings of B for new properties • Climate and flood risk assessment	• Maximising on-site biodiversity net gain • Minimising waste and maximising materials re-use and recycling • Reduce water use intensity	• Modern Slavery policy in place • Fire and Structural Safety compliance • Healthy living environment for occupants including access to clean air and water • Minimising the impact of climate change on occupants	• Positive impact on the local economy through material and labour • Affordable housing provision • Community engagement • Support for vulnerable tenants	• Sustainable procurement policy • Health, Safety & Wellbeing • Anti Bribery and Money Laundering	• DE&I policy of both developers and contractors • Evidence of actions to promote diversity and inclusion (events, leaderships)
Real Estate	Engagement route	Direct via PIC Built Environment team and external consultants (Buro Happold)					

2025-2030 engagement strategy (continued)

Case study: **Sustainability Reporting Standards**

For Social Housing.

UN SDGs

PIC was one of the founding members and is a continued supporter of the SRS, a set of sustainability related standards which social housing providers who support the SRS are required to report against on an annual basis.

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

Action:

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

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

This standardised methodology helps housing associations report on a wide range of sustainability metrics and increases the usefulness of reporting to lenders through consistent measurement and easier comparability.

We believe that standardised reporting helps promote transparency within the housing association sector and this in turn helps drive the sector towards best practice in sustainability initiatives.

Appendix 1: Sustainable asset categories

PIC defines a sustainable asset as one whose business model meaningfully relates to solving one or more of the UN SDGs. The assets must be assessed as having a lasting positive impact on stakeholders such as the communities in which the company operates and the environment. 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.

Sustainable asset category	Eligible activities[1]	Related UN SDGs
Not for profit	Financing provided to registered non-profit organisations and /or charities with the purpose of supporting programmes that aim to benefit vulnerable populations and/or to advance areas that clearly service the public interest. Also includes lending to social enterprises.	1 No poverty; 2 Zero hunger; 3 Good health and well-being; 4 Quality education; 5 Gender equality; 6 Clean water and sanitation; 7 Affordable and clean energy; 8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 10 Reduced inequalities; 11 Sustainable cities and communities; 12 Responsible consumption and production; 13 Climate action; 14 Life below water; 15 Life on land; 16 Peace, justice and strong institutions; 17 Partnerships for the goals
Municipals and local authorities	Investments in Municipals and Local Authorities engaged in the provision of essential services as a public good. This can include provision of community based services and facilities, maintenance of public space and public infrastructure.	
Project finance (funding sustainable initiatives)	Project finance investments which fund socially and environmentally beneficial initiatives linked to the UN SDGs (i.e. funding of school, healthcare, infrastructure) and /or a circular economy.	
Green, social, sustainability or sustainability linked issuance	Formally labelled Green, social, sustainability or sustainability linked bond in-line with an industry recognised framework such as the ICMA's Green, Social, Sustainability and Sustainability-linked Bond Principles and (if applicable) listed on the Climate Bond Initiative ("CBI"), which also includes social and sustainability bonds. In addition, the Responsible Investing team reserves an overlay judgement as to inclusion in this category upon further scrutiny of framework and standard referred to in labelling.	
Social and affordable housing	Investments relating to the construction, maintenance, refurbishment, or operation of Affordable Housing. Where Affordable Housing is defined as housing for sale or rent, for those whose needs are not met by the market. This includes (i) affordable homes for rent that have the rent set in accordance with the Government's rent policy or is at least 20% below local market rents, (ii) Starter Homes, (iii) discounted market sales housing that is sold at a discount of at least 20% below market value, and (iv) other affordable routes to home ownership such as shared ownership, relevant equity loans and rent to buy.	1 No poverty; 10 Reduced inequalities
Clean/Renewable energy	Investments relating to the construction, development, acquisition, maintenance and operation of clean or renewable energy projects / facilities / companies including, among others, solar and wind power.	7 Affordable and clean energy; 13 Climate action
Education (schools, universities, colleges, student accommodation)	Investments relating to the provision of education including, albeit not limited to, improvements to schools / colleges / universities (or other educational institution), student accommodation and their facilities to ensure they are of decent standards.	4 Quality education

1. It is possible that activities related to these categories are considered despite not being listed. A clear focus of business activity should link to the UN SDGs.

Appendix 1: Sustainable asset categories (continued)

Sustainable asset category	Eligible activities[1]	Related UN SDGs
Sustainable/ Clean transport	Investments supporting the shift to clean energy transport and the development, operation and upgrade of public transportation facilities, also including improvements to rail transport and other non-motorized means of transport.	9 Industry, innovation and infrastructure; 12 Responsible consumption and production
Green or sustainable buildings	Financing and/or refinance the acquisition of new and/or existing buildings that aim to achieve high environmental standards and /or high social standards. Buildings built with a specific social purpose, such as Affordable Housing, Built to Rent or leased to local authorities/ public sector also qualify.	11 Sustainable cities and communities; 12 Responsible consumption and production
Healthcare	Financing a company working within the Healthcare sector for the provision of public / state or private healthcare products and services. As well as for the acquisition, refurbishment, maintenance, equipment and operation of existing public and private health related infrastructure (hospitals, clinics, care homes, healthcare centres, or other such facilities). Healthcare also includes Pharmaceutical, Biotechnology, and Laboratory Equipment and Services.	3 Good health and well-being
Regulated utilities* (water and electricity)**	Companies within the regulated water and electricity sector. This includes electricity generation, transmission and distribution, and integrated electricity companies. Within the water sector, including companies that provide drinking water and wastewater services (including sewage treatment) to residential, commercial, and industrial sectors of the economy as well as operate public supply networks. We recognise that several companies within the water sector have been involved in severe negative ESG controversies, and in response to this behaviour we actively engage with companies in that sector on such topics.	1 No poverty; 6 Clean water and sanitation; 7 Affordable and clean energy; 9 Industry, innovation and infrastructure; 11 Sustainable cities and communities
Circular economy	Contributing to the production of resource-efficient products designed using recycled, waste, and bio-based materials, or Research and Development of products, processes and technologies. Includes waste-to-energy and materials recycling companies.	12 Responsible consumption and production

1. It is possible that activities related to these categories are considered despite not being listed. A clear focus of business activity should link to the UN SDGs.
* In previous years we have included 'Regulated Gas Utilities' as a sustainable asset. Although we recognise the use of gas as a transition asset to help us get to Net Zero, our view of a low carbon world would see us minimally relying on such an energy source.
** Within electricity, we appreciate that there may be some exposure to gas fired electricity generation within integrated companies.

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