

21st July 2021

Building a sustainable future together

As the UK's largest long-term savings and retirement business, Phoenix is committed to making a positive contribution to society for the benefit of all stakeholders, in line with our purpose of helping people secure a life of possibilities. In this context, one of the areas we can have the biggest impact is through responsible investment.

**14 million
policyholders**

**Over £330 billion in
AUA***

We are writing to you to outline the measures that Phoenix is taking, the commitments we have made, and what we expect of our investment partners. We strongly believe that by fully integrating environmental, social and governance ("ESG") considerations into how we do business, we are collectively well positioned to drive change.

Phoenix is a front-runner in tackling climate change

Phoenix was among the first insurers in the UK to make a clear commitment to help tackle climate change in line with science-based targets. We've set a target of making sure we are net-zero carbon in:

- our operations by 2025
- our investment portfolios by 2050

The impact of climate change is one of the biggest global issues and we are therefore supporting the goals of the Paris Agreement. We are committed to the need to improve corporate disclosures on climate change. Last year we signed up to the Task Force on Climate-Related Financial Disclosures ("TCFD") recommendations and we are currently working to strengthen our 2020 reporting. We are also reporting to Carbon Disclosure Project ("CDP") annually, reporting for the first time last year. We are one of the strategic partners for Green Horizon Summit @ COP 26, which will bring green finance leaders and key stakeholders together to explore how to unlock capital to realise the goals of the Paris Agreement.

Businesses need to act responsibly

The existential threat of climate change, the global pandemic and broader societal inequalities have all sharpened the focus on the need for businesses to act responsibly. By truly integrating ESG considerations into the investment decision-making process, investors can drive more sustainable outcomes, improve the resilience of their portfolios while also maintaining, or indeed improving, their financial returns.

At the time of writing, we are the largest asset owner signatory to the United Nations Principle for Responsible Investment in the UK and we are committed to using our position to integrate sustainability into every aspect of the value chain. This means we want to influence sustainable change directly, through the assets managed on our behalf by asset management partners we have selected and also through market participants such as banks, brokers, consultants whom we partner with for illiquid asset origination and other investment activities.

We'd like to take the opportunity to tell you more about our responsible investment priorities and what we expect of our investment partners.

Our ESG investment focus

Phoenix is making strong progress in comprehensively integrating ESG considerations into its end-to-end investment strategy, risk management and governance processes. This includes increased focus on ESG within our governance committees, the creation of the Board Sustainability Committee and through embedding ESG and climate data into our data platforms.

- ***Sustainable investments***

We are committed to increasing the share of sustainable investments in our portfolios across both our Heritage and Open businesses. We will require our investment partners to play an integral role in helping us to meet our sustainable investment objectives across all asset classes. Sustainable investments, including our investment in illiquid assets, are core components of our growth strategy and are key priorities for our asset management business.

Firstly, we are targeting at least 60% of the illiquid assets that we originate to back our annuities business in 2021 to be sustainable.

Secondly, within our workplace pensions business, our Standard Life customer surveys continue to show a clear desire from customers to invest in a responsible way. In our 2020 survey,

- 65% of customers believe it's important to invest in a way that drives positive change
- 89% agreed that protecting the environment is important

In response, we launched our sustainable multi asset default for workplace pensions and we are evolving our sustainable offerings. Looking forward, sustainability will be central to our ambition to grow our workplace pensions business.

- ***Climate change***

Our 'net-zero investment strategy' includes reducing the emissions of our investment portfolios in a way that is consistent with achieving our net-zero goal by 2050, engaging with investee companies to transition businesses to lower-carbon models and investing in climate solutions. We're baselining the carbon emissions of our investment portfolios and will be setting interim decarbonisation targets.

- ***Emphasis on Stewardship***

We fundamentally believe that asset owners bear a responsibility to engage with investee companies to drive better corporate behaviours which should also lead to better and more sustainable financial outcomes. That's why we require, actively encourage and monitor the implementation of voting and engagement activities that our asset management partners carry out on our behalf.

We'll continue to deploy our stewardship activities principally through a delegated model via our asset management partners and through collaborative industry endeavours such as Climate Action 100+. We're investing to expand our own Stewardship function to enhance our Stewardship framework.

- ***Membership of leading collaborative endeavours***

A core part of our strategy is to proactively contribute, lead where appropriate and collaborate in initiatives focusing on responsible investment activities and those with a climate focus. Phoenix is a signatory of the following initiatives:

- UN-supported Principles for Responsible Investing (PRI)
- Net-Zero Asset Owner Alliance (AOA)
- Institutional Investors Group on Climate Change (IIGCC)
- Climate Action 100+
- Task Force for Climate Related Financial Disclosures (TCFD)
- Science Based Targets initiative (SBTi)
- ABI Climate Change Roadmap
- Sustainable Markets Initiative (SMI) Insurance Taskforce

These platforms allow us to support industry development to accelerate and drive longer-term change.

What we expect of our investment partners

Looking forward, Phoenix will only partner with investment organisations that are similarly committed to achieving positive change.

How we expect our partners to embed ESG within investment management

We expect our asset management partners to fully embed and evidence responsible investment practices in their investment decision-making, risk-management and governance processes. Periodic reporting should have a dedicated sustainability focus, including transparent data on climate and wider ESG metrics.

How we expect our partners to address climate change

On climate change, we strongly encourage our partners to have their own net-zero commitments in place and to provide disclosures in line with TCFD recommendations. We look to our partners to support us in delivering our net-zero investment strategy and to provide innovative solutions as we look to decarbonise our investment portfolio and fulfil our net zero by 2050 pledge.

How we expect our partners to address stewardship

We require our asset management partners to employ and follow strong stewardship principles, to drive targeted improvement on climate change and ESG issues. This includes:

- Exercising voting rights on our behalf at shareholder meetings.
- Engaging effectively with portfolio companies and, when necessary, escalating engagement to drive better long-term performance from the business as a whole.
- Engaging with investee companies to improve disclosure on environmental, social and governance factors with a particular focus on climate change.
- Reporting on voting & engagement activities, including the outcome of engagement.

How we encourage collaboration and seek commitment

We encourage thought leadership from our investment partners. We also promote and encourage investment partners to join us in collaborating in industrywide initiatives. We expect asset management partners to be a signatory to UN PRI and to adopt the UK Stewardship Code in tandem with other international stewardships codes where applicable.

How we hold partners to account

Sustainability plays a greater role when we evaluate investment partner capability. We consider this as being fundamental to our relationships with our asset management partners.

When selecting/reviewing asset management partners or investing in illiquid assets, we only seek to partner with organisations that demonstrate a high degree of ESG competency across all areas of our commitment as described above. As you would expect, in line with good governance, if any of our asset management partners fail to adhere to our minimum requirements they will be put on notice to improve within agreed timelines and on the understanding that both a cessation of new investments or, in extreme cases, a termination of the mandate may be required should they fail to improve as agreed.

To conclude, we are committed to playing our full part in contributing to society for the benefit of all our stakeholders. As our current and future partners, we are looking forward to working closely with you to help us meet our sustainability objectives to benefit society and to help people secure a life of possibilities.

Yours sincerely,



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**Assets under administration as at 31st December 2020*