

 Phoenix

Sustainable Finance

Classification
Framework for
Private Markets

1 Introduction

1.1 Context

Phoenix Group (or “Phoenix”) is the UK’s largest long-term savings and retirement business with c.£259bn¹ assets under administration and c.12 million customers. Our purpose is to help people secure a life of possibilities. At Phoenix, we believe that to deliver on our purpose of helping people secure a life of possibilities, it is crucial to put sustainability at the heart of our business. Our Sustainability strategy can be accessed on our Group website².

Within the Responsible Investment pillar, we have committed to include sustainability considerations within the investment decision making process. Other key objectives include:

- To increase our investment in sustainable assets within the shareholder and policyholder funds.
- To fund opportunities, which support the transition to a low-carbon economy.
- To expand our investment across all regions of the UK and aim to help the Government’s objective to ‘Build Back Better’ and ‘Levelling up’.

1.2 Purpose and scope of the Framework

To ensure transparency, it is important to outline the criteria that will be used to define a ‘sustainable asset’. The purpose of the Framework is to identify eligible activities/themes which could be classed as Sustainable. It is intended to serve as a guide for investments across the Phoenix Group.

- The Framework will apply to all assets of the Group where we influence the investment strategy. The Framework should not be used in isolation and does not absolve the obligation for thorough Environmental, Social and Governance ESG analysis as relevant/agreed for shareholder and policyholder assets. The latter is not in-scope for this document and is covered separately.
- The Group Exclusion policy will prescribe the activities in which the Group will not invest.
- ESG analysis and sustainability mapping report is required from asset management partners to evidence the impact of the investment opportunity/product/project. This information should be provided alongside the asset management partner’s credit/ investment analysis. It is acknowledged that the level of detail will evolve through time.
- This document will be updated periodically (at least annually) to reflect the evolving landscape of regulation and market standards. Feedback from Asset Management Partners and internal teams of Phoenix will be factored.
- The ‘Sustainable’ themes/ activities listed in this document are not exhaustive. Projects/assets deemed as Sustainable and not listed must be evaluated on a case-by-case basis.

1.3 Approach to crafting the Framework

Whilst there are industry/regulatory reference points to Sustainable classifications, implementation of such a Framework is evolving across the industry and organizations are on a learning curve. Phoenix Group’s proposed Framework for classification draws on the following available Frameworks:

- International Capital Markets Association (ICMA) principles for Green, Social and Sustainability bonds.

¹ assets under administration 31 Dec 2022.

² <https://www.thephoenixgroup.com/sustainability/reports.aspx>

- Green and Sustainable Finance Principles administered by the Loan Market Association (LMA), Loan Syndications and Trading Association (LSTA) and Asia Pacific Loan Market Association (APLMA).
- EU Taxonomy including the Technical Expert Group final report on the EU Taxonomy.
- UN Sustainable Development Goals.
- Reference to Institutional Investors Group on Climate Change working group on Climate Solutions.

The thresholds set out within the Framework typically applies to developed markets, specifically the UK, the EU and the US.

As per above, this Framework is our attempt to draw upon the various external taxonomies and principles available currently to provide transparency on how we define a 'sustainable asset'. This Framework will evolve over time and will be updated on an annual basis. Further, besides incorporating suitable amendments that can result from the application of this Framework, we also envision arriving at definitions for assets that can classify under 'transition' and/or 'productive finance' alongside this Framework.

External review

The criteria of the Framework were developed by Phoenix with support from Sustainalytics, a Morningstar company, and a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies.

For over 25 years, Sustainalytics has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading Asset Managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in their policies, practices and capital projects.

2. Eligible Types of Financing

2.1 Loans or private transactions

The Framework for Sustainability classification (the “Framework”) defines the following types of financing:

(i) **Dedicated Use of Proceeds Financing** – Investment or lending to a project with a dedicated purpose. The dedicated purpose should be towards a project/activity that is listed under the “Eligible Activities” column of Section 3 (Environmental) or Section 4 (Social) and meets the corresponding requirement(s) mentioned in the “Thresholds/exclusions” column and footnote(s), if any. In such cases, 100% of the lending/financing provided is eligible.

(ii) **General Purpose Financing** – Investment or lending to a company (the “Borrower”) for general corporate purposes. In such cases, the financing is only considered aligned with the Framework if the Borrower derives 90% or more of its revenues from “Eligible Activities” listed in Section 3 (Environmental) or Section 4 (Social) of the Framework. In certain cases, the Framework limits financing to just those activities of the Borrower, that align with the criteria defined for the corresponding “Sub-categories” (for example, “Manufacture of components for renewable energy technology and transmission”). Refer to “Use of proceeds decision tree” in the “Financing decision trees – Addendum to Framework for Sustainability Classification” document for a broad-level guidance on assessing the eligibility of both dedicated and general-purpose use-of-proceeds financing.

Pro-rata approach³ – Funding we provide to enable green or social activities extends beyond approaches covered under (i) and (ii). In some instances, we provide funding to companies/projects with substantial, and often growing, eligible green or social activities, but that are below the 90% threshold. In these instances, we treat a pro-rated part of this funding as eligible for inclusion in proportion to the share of eligible activities within the recipient company’s business mix. In order for financing to be treated as eligible for inclusion under this approach, recipient companies must meet the following criteria:

- Derive between 50% and 90% of its Net Present Value (“NPV”) of cashflows⁴ from ‘Eligible Activities’ listed under the Environmental or Social Frameworks.
- For infrastructure projects or portfolio of infrastructure projects: Derive between 50% and 90% of its NPV of cashflows⁴ from ‘Eligible Activities’ listed under the Environmental or Social Frameworks.

(iii) **Sustainability-Linked Financing** – Investments in sustainability-linked bonds or loans to companies. Loans and bonds financed are eligible if they align with the LMA/LSTA/APLMA Sustainability Linked Loan Principles⁵ or ICMA Sustainability-Linked Bond Principles⁶. Sustainability-Linked Financing will be tracked separately from green and social use of proceeds categories and sub-categories included under this Framework.⁷

³ Sustainalytics has communicated to Phoenix that with respect to general purpose financing, it is best practice to limit the activity/asset selection criteria to pureplay companies only (defined as those that derive more than 90% of revenues or Earnings before interest, taxes, depreciation, and amortization EBITDA from eligible activities).

⁴ Where cashflow is not available, Phoenix may calculate NPV from EBITDA or revenue. For infrastructure projects Sustainalytics considers the NPV calculated from cashflows of the projects to be a credible approach for determining the value of the eligible assets.

⁵ LSTA, Sustainability Linked Loan Principles, at: <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/>

⁶ ICMA, Sustainability-Linked Bond Principles, at: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/>

⁷ Given the range of variables and benchmarking involved in such issuances (including the sectoral considerations, strength of key performance indicator(s) and sustainability performance target(s), historical data, peer performance, etc.), the applicability, strength and ambitiousness of these variables are usually evaluated on a case-by-case basis. Given this context, Sustainalytics has not reviewed the criteria defined for financing sustainability-linked instruments of the Framework.

The above eligible types of financing will generally take the form of loans or investments, though other instruments may be considered so long as they can align with the above. Phoenix may also invest in some activities or programs coordinated by or guaranteed by bilateral or multilateral development finance institutions. For such investments, Phoenix will ensure the alignment of financed activities with the Eligible Activities and associated criteria defined in this Framework.

(iv) **Research Financing** – Financing where proceeds are used for research in the advancement of any of the ‘Eligible Activities’ listed under the Environmental or Social Frameworks.

2.2 Investment in listed and non-listed bonds^{8,9}

Investment in Green/Social/Sustainable/Sustainability linked bonds are permitted under the Framework subject to due diligence of the sustainability credentials and environmental and social risk mitigation, which must be evidenced. Such bonds must:

- Disclose of the use of proceeds
- Align with current Green Bond Principles
- 100% of proceeds applied to green/social/sustainable projects
- Issuer undertakes to report regularly, increasingly impact data

2.3. Third party assessment of asset sustainability⁹

On occasion Phoenix will invest in assets where credit enhancement or other form of support is provided by a third party (Export credit agency, multilateral development banks, commercial insurers etc) which is contingent on the project or financing supporting activities that align with the third party’s Sustainability criteria/Framework. Providing the third party makes available credible/robust sustainability Framework or procedure that aligns with Phoenix’s own Framework and objectives, Phoenix is able to rely on the judgement of this third party as to whether an asset is sustainable.

For avoidance of doubt this approach would be used in conjunction with the expertise of Phoenix Asset Management to confirm that the outcomes resulting from the financing are aligned with the Phoenix sustainability principles.

⁸ Noting some listed bonds are private in nature but simply have a listing. In this case we would expect to be able to apply 2.1.

⁹ Sustainalytics considers financing towards activities as per the criteria defined under the Eligible Activities to be credible and notes that selecting green, social or sustainability bonds or loans that are aligned with credible use of proceeds principles including the ICMA principles or the APLMA/LMA/LSTA or selecting sustainable asset based on third party Frameworks does not necessarily ensure financing to eligible activities and credible green and social activities.

3. Environmental Framework

Theme	Sub-Categories	Eligible Activities	Thresholds	Exceptions to thresholds	
Renewable Energy	Renewable Energy Production – Solar	Production of Electricity from Solar PV		Application of technology in the fossil fuel industry	
		Production of Electricity from Concentrated Solar Power (CSP)	85% of electricity generated from the facility is derived from solar energy resources		
	Renewable Energy Production – Wind	Production of Electricity from Wind Power		Offshore wind projects supported by fossil fuel-based auxiliary power	
	Renewable Energy Production – Ocean Energy	Production of Electricity from Ocean Energy	For investments in ocean thermals, fossil fuel backup will be limited to power monitoring, operating and maintenance equipment, as well as resilience or protection measures or restart capabilities		
	Renewable Energy Production – Hydro	Production of Electricity from Hydropower	For facilities that became or will become operational after the end of 2019:	<ul style="list-style-type: none"> • Lifecycle carbon intensity below 50gCO₂/kWh or • Run-of-river without artificial reservoir or low storage capacity or • Power density is greater than 10 W/m² • Environmental and social risk assessment is mandatory for all new hydropower projects, and there should be no significant controversy surrounding the project 	
			For facilities that became operational before 2019:	<ul style="list-style-type: none"> • Lifecycle carbon intensity below 100gCO₂/kWh or • Run-of-river without artificial reservoir or low storage capacity or • Power density is greater than 5 W/m² 	
Renewable Energy Production – Biomass Bio Gas	Production of Electricity from biodiesel, bioethanol or other gaseous/liquid fuels produced from (i) sustainably sourced biomass waste, in particular, agricultural and forestry residues or (ii) non-waste biomass including food crops such as soybean oil, sugarcane, corn and wheat, and wood pellets.	<ul style="list-style-type: none"> • Lifecycle Green House Gas (“GHG”) emission intensity for electricity production should be below 100g CO₂e/kWh • Lifecycle GHG emission for biofuel production should be at least 65% lower than fossil fuel baseline¹⁰ <ul style="list-style-type: none"> – Pre-2021, 60% reduction – Pre-2015, 50% reduction • Non-waste biomass should be certified with RSB, ISCC EU, 2BSvS, BONSUCRO (for sugarcane), RTRS (for soy), or FSC/PEFC (for wood pellets) only • Biofuel feedstock production should (i) not compete with food/feed and 	Feedstock from palm oil operations, peat and non-certified non-waste feedstock		

¹⁰ Fossil fuel baselines for biofuel production facilities: (1) Biofuels (for transportation) – 94 gCO₂e/MJ; (2) Bioliqids (production of electricity) – 183 CO₂e/MJ; and (3) Bioliqids (production of heat) – 80 CO₂e/MJ as per EU RED II.

Theme	Sub-Categories	Eligible Activities	Thresholds	Exceptions to thresholds
			(ii) not take place on land with high biodiversity, or carbon pools in soil	
Renewable Energy	Renewable Energy Production – Geothermal	Production of Electricity from Geothermal	<ul style="list-style-type: none"> Direct emissions threshold for electricity production should be below 100g CO₂e/kWh 	
	Renewable Energy Production – Hydrogen	Production of Electricity from Hydrogen	<ul style="list-style-type: none"> Production through electrolysis powered by renewables 	
	Renewable Energy Production – Waste to Energy	<ul style="list-style-type: none"> Waste to energy facilities plants using municipal solid waste 	Majority of recyclables (especially plastics and metals) and hazardous materials are separated prior to incineration.	Projects that use plastics / rubber / tyre-derived fuels for energy/fuel conversion
	Transmission Infrastructure for Electricity	<p>Development, construction and operation of Electrical Grid, including:</p> <ul style="list-style-type: none"> Overground transmission and distribution lines – Transmission lines on high-voltage and/or extra-high voltage interconnected system 	Electrical grid development, maintenance, should be dedicated to connecting renewables to the power grid and supporting or integrating at least 90% renewable electricity	New infrastructure dedicated to connecting new fossil power plants or new nuclear power plants are excluded
	Manufacture of Components for Renewable Energy Technology and Transmission	Development and/or manufacture of renewable energy technologies, including equipment for renewable energy generation and energy storage. Examples could include wind turbines, solar panels, battery storage	End-use of the financed components: In case the manufactured equipment has multiple applications (e.g., turbines which could be used in wind power projects and fossil-fuel powered projects), Phoenix will count as 'sustainable finance' just the proportion of eligible equipment used for eligible projects	
Energy Efficiency	Building Energy Efficiency	Projects aimed at increasing the energy efficiency of buildings by replacing fossil-fuel powered technologies with electric technology and implementing other energy efficient technologies that are not powered by fossil fuels. Examples of such projects include electric heat pumps, electrochemical storage (battery storage, hydrogen storage)		Energy-efficient technologies designed or intended for processes that are inherently carbon-intensive (such as oil or gas-fired boilers,) or primarily driven or powered by fossil fuels such as hard to abate industries
	CHP	Installation of new cogeneration/ tri-generation/ combined heat and power (CHP) plants that generate electricity in addition to providing heating/cooling, provided the CHP plants are powered by CSP, solar thermal, biomass waste, geothermal or bioenergy (non-waste or unknown source),	<p>Biomass is aligned with the requirements defined in the "Renewable Energy" theme of the Framework</p> <p>If CHP plants are powered by geothermal or bioenergy, thresholds for power and heat combined should be below 100 gCO₂/kWh(e)</p>	CHP plants that run on coal or oil are excluded
	Electricity Transmission and Distribution	Finance and/or refinance projects involved in construction / maintenance /expansion of associated distribution networks, smart grids investments for more efficient electricity transmission and distribution	Electrical grid which supports the integration of at least 90% renewable electricity; or if the percentage of renewables is expected to increase, a pro-rata approach could be used to determine green allocation to grid development/maintenance	

Theme	Sub-Categories	Eligible Activities	Thresholds	Exceptions to thresholds
Energy Efficiency	Energy Efficiency Technologies	Finance and/or refinance projects aimed at development, manufacture and/or installation of energy efficiency technologies and products in particular efficient appliances, electricity smart meters, energy efficient HVAC systems, building management systems	Household appliances falling into the highest two populated classes of energy efficiency in accordance with Regulation (EU) 2017/1369 of the European Parliament and of the Council and delegated acts adopted under that Regulation	Energy efficiency technologies that are inherently carbon intensive or powered by fossil fuels
	District Heating/Cooling Systems	Finance and/or refinance projects aimed at the development/construction/maintenance/ and/or installation of district heating networks	Electric powered cooling and heating systems Distribution network primarily (>50%) powered by renewables or waste heat Heat and cooling generation and transmission infrastructure directly connected to a power generation plant where 100% of generation will be from renewables	Energy efficiency equipment powered by fossil fuels are excluded Energy efficiency equipment designed or intended for processes that are inherently carbon intensive, primarily driven or powered by fossil fuels
Clean Transportation	Clean Road Transportation, Electric and Hybrid Passenger Vehicles	Finance and/or refinance the manufacture or purchase or associated infrastructure of – Zero emission or hybrid passenger vehicles	Hybrid vehicles will operate below 75 grams of CO ₂ /km based on New European Driving Cycle (NEDC) lab test procedures or WLTP	Construction of roads, bridges and parking facilities ¹¹
	Clean Rail Transportation	Finance and/or refinance the manufacture or purchase or associated infrastructure of – Zero emission (electric or hydrogen) rail; or low-carbon rail	Emission threshold of <50gCO ₂ e/passenger-km (for passenger rail) or <25gCO ₂ e/tonne-km (for freight).	The primary purpose of freight rail should not be the transportation of fossil fuel freight (the share of fossil fuel freight transported should not be more than 25% in mass) Fossil fuel-based transportation, supporting infrastructure and transportation dedicated to fossil fuel transport
	Clean Water Transportation	Finance and/or refinance the manufacture or purchase or associated infrastructure of – Zero emission water transport or low-carbon water transport	Low-carbon-fuel ships will be fully electric, biofuel or hydrogen-powered Bunkering facilities for biofuels, hydrogen, ammonia and methanol	Ships that run entirely on conventional heavy fuel oil (HFO) or bunker fuel, low-sulphur heavy fuel oil (LSHFO), Marine diesel oil (MDO)

¹¹ Please refer to social categories for eligibility of roads.

Theme	Sub-Categories	Eligible Activities	Thresholds	Exceptions to thresholds
Green Buildings Green Buildings	Green Building Financing, Construction and Building Renovation	Finance and/or refinance the acquisition of new buildings and/or existing buildings (or a portfolio of properties) achieving the following levels of environmental performance	<p>Buildings certified to an acceptable level under any of the following internationally recognised green building certification schemes: BREEAM¹² ("Very Good"¹³ or above), LEED¹⁴ ("Gold" or above), Home Quality Mark (4 Stars or higher), EDGE, Energy Performance Certificate (EPC) "B" or above in UK, "A" or above in Europe USA:</p> <ul style="list-style-type: none"> • 2020 Green Communities Criteria – Multifamily High Rise or Meeting Near Zero or Zero Energy Criteria • EarthCraft (any level) with 20-30% improvement over ASHRAE 90.1 • ENERGY STAR® for New Homes Standard (8% improvement from Energy Star Certified Homes, Version 3.1 Revision 08) • OR 9% improvement from Energy Star Certified Homes, Version 3.1 Revision 09) • ENERGY STAR for Buildings (85 or above Score for commercial buildings only) • GreenPoint Rated (California Single Family/Multifamily: Home Outperforms California's 2019 energy code, Title 24 Part 6 or National (Non-CA) Multifamily certification with 20-30% improvement over ASHRAE 90.1) <p>Three years look-back permitted for certification.</p>	
Sustainable Water and Wastewater Management	Sustainable Water and Wastewater Management	<p>Finance and/or refinance projects aimed at</p> <ul style="list-style-type: none"> • drinking water treatment • water recycling • wastewater treatment • sustainable urban drainage systems and river training and other forms of flooding mitigation • manure and slurry treatment • desalination plants 	<p>Investment in desalination plants if</p> <ol style="list-style-type: none"> i) powered by renewables or ii) that have average carbon intensity below 100g CO₂e/kWh 	<p>Investments in treatment of wastewater sourced from fossil fuel operations are excluded from the Framework</p> <p>Integrated Water and Power Plant with fossil fuel power</p> <p>Projects without assurance of appropriate waste management plan for brine disposal are excluded from the Framework</p>

¹² BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.

¹³ Sustainalytics considers BREEAM Excellent to be good practice for BREEAM certified buildings that ensures high energy performance.

¹⁴ Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the nonprofit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings. 4

https://www.icmagroup.org/Emails/icma-vcards/SATO_Market_Information_Template.pdf

Theme	Sub-Categories	Eligible Activities	Thresholds	Exceptions to thresholds
Sustainable Water and Wastewater Management	Water Monitoring and Loss Management	Finance and/or refinance projects aimed at: <ul style="list-style-type: none"> water loss management measures, such as active leakage control, pressure management, infrastructure and asset management (including maintenance), metering, monitoring and reporting, and digitalization and automation. water efficiency systems or equipment for managing use of water efficiently, resulting in lower consumption 		Investments in hard-to-abate industries are excluded from the Framework Landscaping projects include invasive or drought-tolerant species as a result of modified genetic are excluded Equipment and methods dependent on fossil fuels are excluded Systems and measures to provide water for fossil fuel operations, fracking, nuclear and mining are excluded
Circular Economy Adapted Products, Production Technologies and Processes and/or Certified Eco-efficient Products	Circular Economy Adapted Products, Production Technologies and Processes and/or Certified Eco-efficient Products	Financing or Refinancing – <ol style="list-style-type: none"> Production of resource-efficient products designed using recycled, waste, and/or bio-based material (RSB-certified). R&D (incl. pilot project) of products, processes and technologies using bio-based materials (such as biopolymers/bioplastics) 	Production of resource-efficient/ low-carbon products should have the following: <ul style="list-style-type: none"> RSB certified Reasonable basis / evidence to support substantial reduction of lifecycle emissions (relative to comparable fossil product) Sustainable sourcing of the proportion of biogenic feedstock (biomass), if used¹⁵ 	Products made from virgin raw materials Any form of new plastic products Manufacturing of household appliances.
Environmentally Sustainable Management of Living Natural Resources and Land Use	Environmentally Sustainable Management of Living Natural Resources and Land Use	Financing or refinancing projects/borrowers under following categories: <ul style="list-style-type: none"> environmentally sustainable agriculture in particular no-till farming systems, soil recovery and restoration of degraded pasture, no use of synthetic fertilizers and pesticides climate smart farm systems utilizing biological crop protection or drip-irrigation where the operations are certified by recognized third-party certifications such as Rainforest Alliance environmentally sustainable forestry, including afforestation or reforestation (projects and products that have received FSC and PEFC certification to promote sustainable forestry and responsible sourcing) preservation or conservation of natural landscapes 	Reforestation/afforestation should use tree species that are well-adapted to the site conditions and have a sustainable management plan in place	Manufacture, purchase or distribution of inorganic, synthetic fertilizers, pesticides or herbicides are excluded from the Framework Financing of equipment running on fossil fuels

¹⁵ The criteria for identifying sustainably sourced feedstock are mentioned in the “Renewable Energy Production – Biomass bio gas” section.

Theme	Sub-Categories	Eligible Activities	Thresholds	Exceptions to thresholds
Environmentally Sustainable Management of Living Natural Resources and Land Use	Aquaculture	Financing or refinancing Capital expenditures related to <ul style="list-style-type: none"> • creating and ongoing monitoring and surveillance of marine protected areas • aquaculture or fisheries demonstrating sustainable aquaculture practices through certification by the Aquaculture Stewardships Council or Iceland Responsible Fisheries Management (IRFM) • aquaculture and fisheries demonstrating sustainable practices through certification by the Marine Stewardship Council (MSC) 		Fossil fuel-based equipment
	Climate Change	Financing or refinancing related to: <ul style="list-style-type: none"> • Protection against flooding, including flood barriers, floor warning systems, drain enlargements, drainage improvements • Wildfire safety infrastructure and equipment (high-definition cameras, weather stations, covered conductors in case of utilities in order to support grid resiliency) 	Projects should be supported by Vulnerability Assessment and Adaptation Plan	
	Prevention of Air Pollution	Financing the reduction in environmental pollution providing benefits to human health, such as expenditures related to reducing air emissions, or process upgrades.	<ul style="list-style-type: none"> • Components/System does not directly rely on fossil fuels or extending the life of fossil fuel usage • Investments for monitoring tools (software) explicitly emissions (including Scope 3 emission and emissions in company value chain) intended to analyse and collect GHG 	<ul style="list-style-type: none"> • Air pollution prevention from fossil fuel production (such as produced water from fracking) are excluded • Prevention of air pollution that results directly from technologies that are inherently reliant on fossil fuels as an energy source is excluded
	Emissions Capture and Processing	Capture and storage of greenhouse gases/emissions	<ul style="list-style-type: none"> • Nature-based Solutions such as the development of projects that naturally sequester carbon (habitat restoration and conservation of coastal and marine habitats, and afforestation / reforestation) • Enhanced Natural Processes, such as land management approaches to increase carbon content in soil through modern farming methods • The development of carbon capture systems as enabling technologies 	R&D and Commercial-scale CCU/CCS applied to "hard-to-abate" industrial activities that are inherently carbon-intensive (usually heavy industry, and not solely fossil fuel-related activities) CCU where captured carbon is intended for enhanced oil recovery

4. Social Framework

Theme	Sub-Categories	Eligible Activities	Thresholds	Exclusions
Affordable Housing	Affordable housing – defined as social rented, affordable rented, shared ownership and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined by local incomes and local house prices	<ul style="list-style-type: none"> (i) Financing registered Housing Associations that derive >90% of revenues from construction/ operation of affordable housing to the target group (ii) Financing Social Landlords that derive >90% of revenues from the development and/or provision of affordable housing or supported living; or (iii) Financing Social Landlords that derive >90% of revenues from shared ownership properties sold under a government approved Shared Ownership Scheme^{16,17} <p>Target group is low-income/disadvantaged populations defined by applicable local regulations¹⁸ and with reasonable assurance of affordability, such as through capped rents or rent control</p>		
Affordable Basic Infrastructure/ Services	Improvement in quality of life in disadvantaged/ rural areas and regions by increasing access to affordable basic infrastructure	<p>Financing related to:</p> <ul style="list-style-type: none"> • Infrastructure and services that increase access to potable water • Infrastructure and services that improve access to sewage treatment and sanitation • Infrastructure that increases access to public transport in underserved areas • Telecommunication infrastructure and services for underserved communities 		Potable water – limited to provision of potable water for people and not industrial use
Access to Essential Services	Healthcare Infrastructure and Healthcare related Products and Services	<ol style="list-style-type: none"> 1. Financing the acquisition, refurbishment, maintenance, equipment and operation of existing public health and related infrastructure (hospitals, clinics, care homes, healthcare centres, or other healthcare facilities) 2. The provision of public/state healthcare, mental health care or social services offering subsidized or universal access irrespective of ability to pay in the U.S.¹⁹ <p>Universal healthcare systems (referenced under 1 above) are assumed to provide this guaranteed and affordable access</p>		

¹⁶ More details here: <https://www.gov.uk/affordable-home-ownership-schemes/shared-ownership-scheme>

¹⁷ In Sustainalytics' view, in order to ensure a contribution to increasing access to affordable housing, it is good practice to define a target population with an upper threshold at or below the annual median income at the municipal or regional level and notes that the Shared Ownership scheme includes a threshold that is well above median income.

¹⁸ UK: target population for affordable housing is the population segment with an income equal or below the income median household which was GBP 29,900 in FY2020.

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyear2020>

¹⁸ France: under French law as per income criteria defined in the July 29th 1987 Decree relating to the ceiling of resources of low-income housing beneficiaries <https://www.service-public.fr/particuliers/vosdroits/F869>

¹⁹ Sustainalytics considers the financing of healthcare services/facilities where access and affordability is guaranteed, either through providing services for free or through sufficiently subsidized access for a clearly defined target population, to be a credible social activity.

Theme	Sub-Categories	Eligible Activities	Thresholds	Exclusions
		<p>while private healthcare systems will have to guarantee this affordable access²⁰ to must-serve/vulnerable populations²¹</p> <ol style="list-style-type: none"> 3. Financing that supports the Not For Profit (NFP) healthcare sector in the U.S.¹⁹ 4. Financing that supports increasing access towards universal health coverage and affordable essential medicines and vaccines for all 		
Access to Essential Services	Healthcare Infrastructure and Healthcare related Products and Services	<ol style="list-style-type: none"> 5. Financing property owners that derive >90% of revenues from healthcare providers/operators as described under point 1 above²² 		
	Education (schools, universities, colleges, libraries, or other educational institutions)	<p>Finance and/or refinance the following in state schools (pre-K, elementary and secondary) and public universities:</p> <ul style="list-style-type: none"> • Acquisition, refurbishment, maintenance, operation of or improvements to education facilities that provide safe, inclusive and effective learning environments for all students, allowing for a successful integration of disadvantaged groups in the education system • Acquisition, refurbishment, maintenance, operation of or improvements to public/state universities in the US or institutions that have as a mission to provide affordable education to historically marginalized groups, such as Historically Black Universities and Colleges and Tribal Colleges and University • Housing for students that aims to ensure affordability through rent caps or rent control where the rent is capped below the local or regional average • Property owners that derive >90% of revenues from student housing providers/operators and have operational control over these properties. Housing for students that aims to ensure affordability through rent caps or rent control where the rent is capped below the local or regional average • Bursaries provided to students from vulnerable groups 	Vulnerable groups are defined by each educational institution	Private schools Sporting facilities and stadiums at universities
Financing Non-profit, Charitable or Philanthropic Institutions and Social Enterprises	Financing Non-profit Institutions and Social Enterprises	<ul style="list-style-type: none"> • Lending to registered non-profit organisations and/or charities with the purpose of supporting programs that aim to benefit vulnerable target populations and/or to advance areas that clearly serve the public interest in line with the green and social themes identified in the Framework • Lending to social enterprises that generate at least 90% revenues from the programs and/or activities that fall under any of the green or social themes in the Framework 		Promotion of religious/political activities

²⁰ Affordability through subsidized pricing ensuring that the tariffs between public and private are not substantially different, therefore, limiting out-of-pocket expenses for patients.

²¹ The Definition of Vulnerable Adults and the Services They Receive: <https://www.carecheck.co.uk/the-definition-of-vulnerable-adults-and-the-services-they-receive/>

²² Sustainability has communicated to Phoenix that financing property owners who derive 90% of revenues from healthcare providers or operators may not be aligned with what Sustainability views as good practice as those property owners are not directly involved in the provision of healthcare services or development of healthcare facilities.

Theme	Sub-Categories	Eligible Activities	Thresholds	Exclusions
Directed purpose financing to assist UK local authorities ²³ and similar Non-UK regional governments and multilateral development banks where appropriate		<p>Financing or refinancing that meets one of the following²⁴.</p> <ul style="list-style-type: none"> UK Local authorities – financing for capital projects which are aligned to PWLB Guidance (as per May 2022 document), namely Service delivery, Housing, Regeneration, Preventative action and Treasury management, as described in paragraphs 31 to 53 of that document (headed “Defining activity”) Overseas Regional Governments, non-UK Governments and multilateral development banks – these may be considered if financing is aligned to a statutory Framework, which is consistent with the objectives of this Framework 		Funds directed towards commercial developments such as an investment into a local CRE asset for yield purposes only and not being borrowed to aid local regeneration would be excluded
Gender Equality		<p>Financing related to the promotion of gender equality through commitment/programmes²⁵ that help improve the health and socio-economic status of groups or individuals that have faced historical marginalization or disadvantage based on gender</p> <p>Financing of SMEs that are majority-owned or majority-managed at the most senior level by women (more than 50%)</p>		

²³ HM Treasury, “PWLB Guidance for Applicants”, (2022), at: <https://dmo.gov.uk/media/zuxnuyir/pwlb-guidance-for-applicants-may-2022.pdf>

²⁴ Sustainalytics notes that these criteria allow for financing of a wide range of undefined activities. Given the general nature of these criteria and the lack of transparency regarding activities to be financed, Sustainalytics believes that these criteria lack credibility as a basis for green and social finance.

²⁵ Sustainalytics considers the financing of specific programmes such as training and development programmes and health programmes that directly contribute to gender equality to be a credible social activity.

5. Reporting Recommendations:

Illiquid Assets

The following recommendations are made on a best endeavours basis, acknowledging that granularity and sophistication of data will improve through time.

- Asset Managers should use outcome, and/or metrics relevant for the proposed opportunities. The ESG analysis and mapping to the Framework should illustrate the expected social or environmental benefit. Asset Managers should also provide indication on the timing and frequency of developing reporting (and in turn the obligations on the borrower to provide reporting).
- Asset Managers are required to be transparent about projects with partial eligibility and disclose rationale for projects being sustainable.
- Asset Managers are encouraged to use existing industry Frameworks.

As an example https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Social-Bonds_June-2022-280622.pdf

<https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>

https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Mapping-SDGs-to-GSS-Bonds_June-2022-280622.pdf

Methodology, assumptions and standards used for the calculation of impact indicators must be disclosed.

6. Alignment to EU Taxonomy

EU Taxonomy Climate Delegated Act was approved in principle on 21 April 2021 and its formal adoption took place on 4 June 2021. It contains the overarching design of the EU taxonomy, as well as extensive implementation guidance on how companies and financial institutions can use and disclose against the taxonomy. It is supplemented by a technical annex containing technical screening criteria for 70 climate change mitigation and 68 climate change adaptation activities, including criteria for do no significant harm to other environmental objectives. The thresholds covered in the Framework are predominantly aligned to the EU Taxonomy.

7. SDG Alignment

The table below illustrates how the SDGs could be aligned to eligible operations for Environmental, and Social activities. The table is from ICMA²⁶ and identifies 15 SDGs as being relevant to the Green and Social bond principles.

SDG mapping has been used as Phoenix discloses SDG alignment of its activities within the Phoenix Group Sustainability report. It is important to note that this table is meant to serve as a reference and that projects/Eligible Activities should be reviewed individually for alignment. Alignment with the SDGs does not automatically ensure alignment with the Framework.

Theme	SDG Alignment
Renewable Energy	SDG 7
Energy Efficiency	SDG 7 and 9
Clean Transportation	SDG 11
Green Buildings	SDG 9
Sustainable Water and Wastewater Management	SDG 6
Circular economy adapted products, production technologies and processes and/or certified eco-efficient products	SDG 12
Environmentally sustainable management of living natural resources and land use	SDG 2 and SDG 15
Affordable Housing	SDG 11
Affordable Basic Infrastructure/Services	SDG 11
Access to Essential Services	SDG 3 and SDG 4
Financing non-profit, Charitable or philanthropic institutions and social enterprises	SDG 8
Directed purpose financing to assist local authorities/municipalities	

²⁶ https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Mapping-SDGs-to-GSS-Bonds_June-2022-280622.pdf

8. References

<p>International Capital Market Association</p>	<p>https://www.icmagroup.org/sustainable-finance/resource-centre/research-and-learning/</p> <p>https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf</p> <p>https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Social-Bonds_June-2022-280622.pdf</p>
<p>Loan Markets Association</p>	<p>https://www.lma.eu.com/application/files/4716/7715/0338/Green_Loan_Principles_23_February_2023.pdf</p>
<p>LMA</p> <p>Guidance on the application of the Green</p> <p>Loans Principles in the real estate finance</p>	<p>https://www.lma.eu.com/application/files/2316/%200552/7456/01_LMA_Case_Study_REF_Invest%20ments_Green_Buildings_V06.pdf</p> <p>https://www.lma.eu.com/application/files/5316/4580/0900/Guidance_on_the_application_of_the_Green_Loan_Principles_in_the_real_estate_lending_context_-_Retrofit_projects.pdf</p> <p>https://commission.europa.eu/news/new-rules-greener-and-smarter-buildings-will-increase-quality-life-all-europeans-2019-04-15_en#:~:text=New%20rules%20for%20greener%20and%20smarter%20buildings%20will,into%20force%20%28Directive%20%282018%2F844%2FEU%2C%20amending%20existing%20Directive%202010%2F31%2FEU%29.</p>
<p>EU Taxonomy</p>	<p>https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852</p>