Phoenix

Our approach to ESG integration

Scope of this document

Who are we?

Phoenix Group is the UK's largest long-term savings and retirement business with around £290 billion of assets under administration.

As life expectancy continues to increase and the pension landscape continues to shift, we offer our 12 million customers a broad range of pensions, savings and life insurance products across our family of brands which include Standard Life, SunLife, Phoenix Life and ReAssure. Our vision is to help even more people on their journey to and through retirement, providing the right support at the right time.

We are a growing business united by a common purpose – helping people secure a life of possibilities. This drives everything we do and means taking responsible and sustainable investment decisions, and using our presence and voice to drive forward change for the better, for our customers, our colleagues, and our wider community.

Scope of this document

This document sets out our approach to integrating Environmental, Social and Governance ("ESG") considerations, aligned to our position as an asset owner with fiduciary duty; with investment management activities delegated to a variety of asset management partners. Our approach applies to Phoenix Group's investment portfolios across the with-profits, unit linked, and non-profit non-linked product ranges, which operate under Phoenix Life, Standard Life, ReAssure and Sun Life, and wherever we have the ability to set the investment strategy or investment solutions.

We work very closely with our asset management partners in implementing our investment approach to ESG factors as outlined within this document and related policies. For clarity, we apply the standards/approaches set out to our own practices as well as our external managers. Please see our latest sustainable investment policies on our **website.**

More information on our company structure can be found in our Annual Report and Accounts →

What is ESG integration?

ESG integration is the ongoing consideration of ESG factors in investment analysis and decision-making, with the aim to improve risk-adjusted returns.

By doing so it helps to better ensure that financially material risks and opportunities are managed as part of the investment process. Examples of ESG factors include, but are not limited to, carbon emissions, human rights and board diversity.

Our approach

Integration of ESG factors within investment processes is aligned with our Group purpose of helping people secure a life of possibilities and delivering good customer outcomes. We believe ESG integration makes our portfolio more resilient. Our approach includes risk management for all investment portfolios, seeking investment opportunities and stewardship

Our approach is aligned to the United Nations-supported Principles for Responsible Investing (PRI) approach that material ESG factors should be incorporated into investment analysis and investment decisions[1]. We have taken into consideration current in force and imminent regulations within the UK. We believe that ESG integration is now part of core financial analysis by identifying and analysing material ESG factors alongside traditional economic factors.

We aim to adhere to the PRI's signatories' commitment and are working on embedding the six principles in our approach to ESG integration. As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that ESG issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time)[2].

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the six principles described to the right.

We believe that transparency and communication at every stage of the investment process is crucial. We appreciate that our stakeholders expect us to monitor and report on our investment activities just as we expect the companies that we invest in to report on their management of ESG factors in their operations.

We report on our activities annually on our Group website and in our annual Stewardship Report →

Principle 1
We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2
We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3
We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4
We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5
We will work together to enhance our effectiveness in implementing the Principles.

Principle 6
We will each report on our activities and progress towards implementing the Principles.

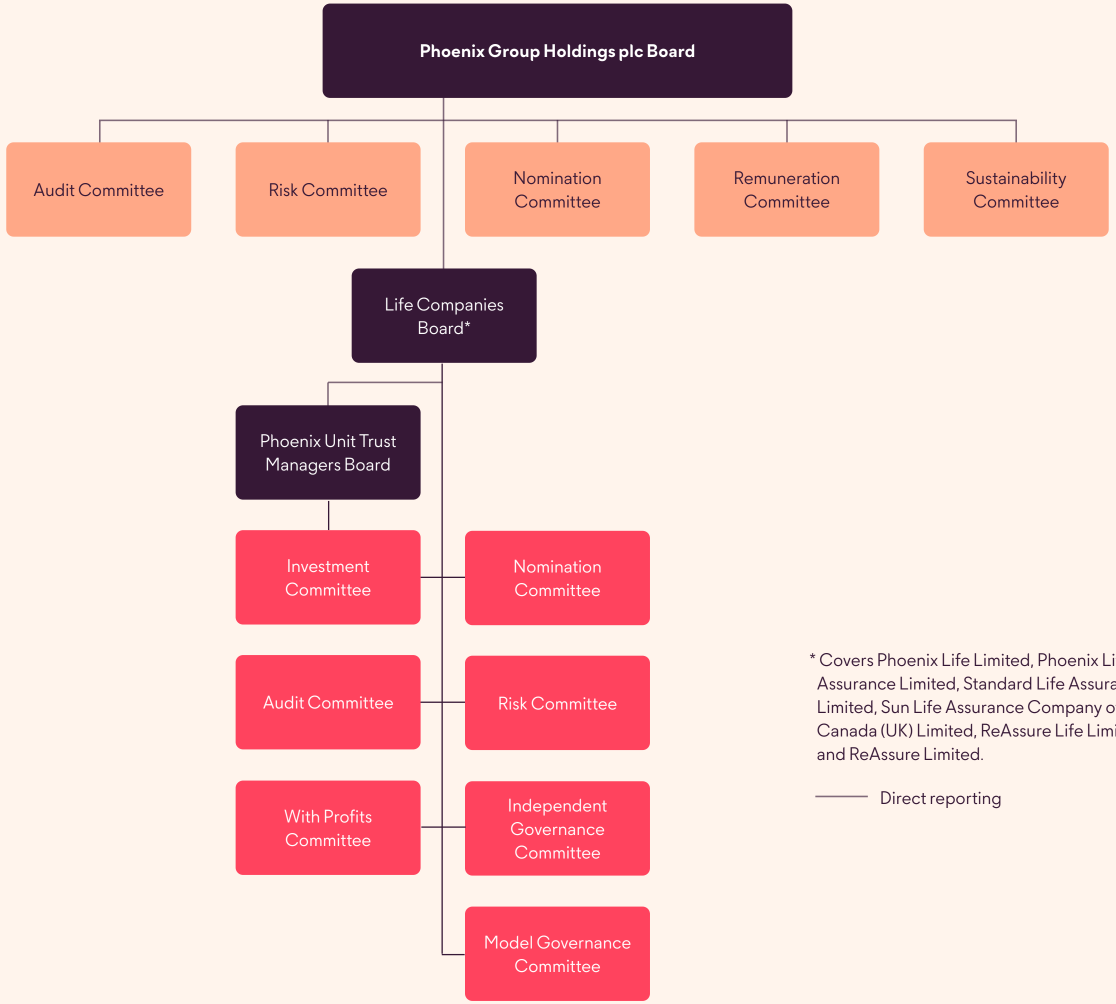
1 https://www.unpri.org/fixed-income/what-is-esg-integration/3052.article
2 https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment

Governance

Responsibility for the investment strategy (including ESG considerations), implementation and monitoring of our approach to ESG integration sits with the Life Companies Board Investment Committee.

The Group Chief Investment Officer who reports directly to Phoenix Group's Chief Executive Officer is accountable for all investment activities of the Group, which includes integration of risks and opportunities associated with ESG factors as well as stewardship. All team members within our asset management division are responsible for ensuring that Phoenix Group's approach to ESG integration and related policies are embedded within their role and we have dedicated sustainable investment professionals within asset management to help support this. In addition, we have a dedicated ESG investment risk team which provides ongoing oversight of our approach to ESG integration. While our approach and policies are designed for the long-term, they are reviewed annually and updated when needed.

Our sustainability governance framework



* Covers Phoenix Life Limited, Phoenix Life Assurance Limited, Standard Life Assurance Limited, Sun Life Assurance Company of Canada (UK) Limited, ReAssure Life Limited, and ReAssure Limited.

Stewardship

At Phoenix Group, we recognise the value of engaging with investee companies across all asset classes to promote best practices and will seek to do so where possible, either directly, or indirectly through our asset management partners.

As a long-term investor, we believe that it is important for us and our asset managers to exercise constructive influence on companies and other issuers in our investment portfolios to encourage good corporate governance and sustainable practices.

We require our asset managers to:

- rely on internal and external research to monitor and assess investee companies' strategies and performance on ESG issues;
- define a relevant engagement focus list based on the above monitoring system;
- engage with identified priority companies, set engagement objectives and, in case of lack of progress, escalate engagement to drive better medium and long-term performance from the company as a whole;
- exercise voting rights on our behalf in companies in which we have holdings through the application of a customised voting policy which is regularly updated to reflect clients' views and monitored;
- track systematically and report regularly on their engagement activities, including details on the factors they discuss, company representatives they meet, investment professionals involved, outcomes achieved and investment implications, when applicable;
- track systematically and report regularly on their voting activities including details on use of proxy advisors, votes against management, topics addressed by voting, support of ESG shareholder resolutions and voting rationales.

We expect our asset management partners in listed market mandates to be a signatory to the PRI and to adopt the UK Stewardship Code 2020 or an equivalent local stewardship code applicable in their jurisdictions.

Engagement priorities

Phoenix has identified climate change, nature, human rights and controversies linked to the United Nations Global Compact principles as key engagement topics. Whilst these topics are relevant across our whole investment portfolio, some may be of increased significance for companies in certain sectors than others. For example, our climate change focus engagement list consists of 25 companies who collectively account for 42% of our financed emissions in highly emitting sectors. Highly emitting sectors, as defined using the UN-convened Net Zero Asset Owner Alliance classification, include (but are not limited to) oil and gas, utilities, chemicals and steel. In addition to our direct efforts on these issues, we also expect our asset managers to engage on these key and other ESG topics such as (but not limited to) human capital, cyber security, corporate governance and remuneration.

Voting

We are not involved in voting decisions directly, either by casting votes or sending voting instructions to our asset management partners. We monitor the voting directions of our asset managers using our voting principles as a framework of reference after the votes are cast. We are committed to engaging with our asset management partners to reduce the divergence of their voting from the expectations underpinning our voting principles and engagement activities. It is our intention, where possible, to either direct or bring voting activities in-house for selected mandates in the future.

“We believe it is important for us and our asset managers to exercise constructive influence on companies and other issuers in our investment portfolios to encourage good corporate governance and sustainable practices.”

Please see our separate Group Stewardship Policy, Global Voting Principles and Our Expectations of Companies on Key Sustainability Issues for more details →

Integrated ESG management

At Phoenix Group, we believe that considering ESG factors in the investment analysis and decision-making process helps to improve risk management for our customers and shareholders. We expect our asset managers to be signatories to the PRI and to have the necessary resources and operational structure in place to embed ESG considerations into their investment and decision-making processes.

We believe that a top-down approach coupled with bottom up analysis is more effective than either approach in isolation, which is why we also consider ESG factors in the Group's investment framework including in the design of investment strategies, manager selection and ongoing monitoring and reporting. The broad principles of our approach to ESG integration is applied consistently across all asset classes and sectors in our investment portfolio.

ESG integration is not just about mitigating risk, we believe that ESG data can also be used to look for investment opportunities. We have invested nearly £1.5 billion in climate solutions since 2022, including almost £600 million of shareholder capital invested in climate solutions in 2023. Examples of these investments include: renewable energy generation, clean transport and energy efficiency in the UK and abroad.

Integrating ESG issues in private markets investing

When integrating ESG issues into private markets investing, we follow a comprehensive due diligence process that addresses the most material ESG risks in addition to leveraging our comprehensive framework to classify private market investments as sustainable[1] or transition.

The process provides clarity on themes, sub-categories, eligible activities, thresholds and exclusionary activities that can help classify our investments into sustainable and energy transition assets. We have built this framework by working with a third party and bringing together various insights from regulatory/legal bodies, ESG-/sustainability-linked taxonomies and the broker-dealer ecosystem. This framework helps guide our investment decisions and ensures that we are assessing investments against robust ESG criteria.

Themes within the framework include but are not limited to: renewable energy, energy efficiency, clean transportation and green buildings, affordable housing, affordable basic infrastructure and services, and access to essential services.

Since 2022, we have invested nearly £1.5 billion in climate solutions including nearly £600 million of shareholder capital in 2023[2]. In 2023, we invested c.£1.2 billion in sustainable assets (both environmental and social) and transition assets, representing 87% of all illiquid assets originated in the shareholder portfolio.

In private credit transactions, each potential trade is assessed on its own merit in addition to our annual commitment for a minimum proportion of sustainable and transition assets. Even for assets that are not sustainable or transition, we conduct a deal-level assessment on broader ESG risks and opportunities. These assessments draw on a range of elements as set out in the framework (below).

Additionally, our ESG oversight team within Asset Management Risk reviews and challenges the ESG due diligence on all private assets transactions that propose a sustainability classification. This analysis focuses on climate change and other material ESG risks that can affect asset value to ensure they are within our risk appetite and tolerances.

1 Our Sustainable Finance Classification Framework for Private Markets provides greater clarity on our definition of sustainable and transition assets.
2 As a portion of £1.2 billion originated in sustainable and transition assets in 2023.

£1.5bn

invested in climate solutions since 2022

87%

of illiquid assets originated in 2023 were either sustainable[2] or transition, against our annual commitment of 50-70%

Our ESG assessment framework for private credit transactions

- The Phoenix Group's Sustainable Finance Classification Framework for Private Markets.

  +

  Most material ESG risk factors relevant to the issuer/sector.
- Pre-investment due diligence carried out by Phoenix Asset Management teams either directly or in collaboration with the AMPs. The manager's ESG assessment/memo is also taken into consideration.
- Any pertinent ESG views expressed by the rating agencies/External Credit Assessment Institutions ('ECAIs').
- ESG/sustainability third party opinions directly relevant to the transaction and as provided by the borrower and/or deal arranger.

Integrating ESG issues in private markets investing continued

Our analysis assesses the borrower and its business activities, the type of financing (i.e. use of proceeds/general corporate-purpose borrowing) and any forward-looking ESG efforts. This informs our view of ESG classification, as well as our assessment of ESG risks and opportunities that are in turn presented to our committee as part of our overall transaction approval. For transactions originated since 2023, we have also captured the most recent carbon emissions intensity/footprint vis-à-vis the average footprint of the overall illiquid portfolio (and versus suitable sector tolerances) and opined on the emissions reductions' pathway of the borrowing entity. Further, on several occasions this year, Phoenix Group has stepped away from otherwise financially attractive opportunities that were associated with unmitigated ESG/credit risks outside our investment appetite.

Fostering clean transportation

Asset management partner:
abrdn

Asset class:
Private credit

Issuer:
NS Groep

Sector:
Industrials

Country:
Netherlands

ESG issues addressed:
Climate change, pollution and waste

Context and actions

NS Groep plays an essential role in the Dutch state's mission to tackle climate change. The company provides climate-neutral transport options that include travel by train, public transport bicycles and train replacement bus services. All NS Groep trains are electric, and the emissions footprint has been reduced to zero given the company's green power purchasing policy (i.e. energy is provided by wind farms). In 2022, around 93% of the electricity purchased was used to run the trains and the remaining 7% for operating the stations, offices and workshops. Additionally, NS Groep aspires to achieve full circularity in terms of procurement, maximum reuse of materials and zero waste in offices and workshops and from trains.abrdn and Phoenix Group worked together to execute a nine-year private placement funding to the company in April 2023. There was a concerted effort from NS Groep, abrdn and Phoenix Group to stay closely connected following the transaction and follow the key developments on the concessions by the Dutch government for the main rail network between 2023 and 2035.

Outcomes

- Phoenix Group, abrdn and NS Groep have stayed connected following the transaction to monitor and support various business developments. This has helped deepen the relationship across the three parties further.
- In December 2023, NS Groep was officially awarded the concession for the main rail network by the Ministry of Infrastructure and Water Management in the Netherlands. State Secretary Vivianne Heijnen signed the concession, meaning that train passengers were assured of a sustainable train journey and that the Netherlands will retain a strong network. The concession takes effect in 2025.

Asset manager selection and monitoring

As an asset owner with a predominantly outsourced investment management model, we recognise that thorough due diligence on our asset managers as well as ongoing monitoring is vital to ensure that the assets are managed in-line with Phoenix Group's approach and expectations. We expect all of our asset managers to be able to implement our approach to integrate ESG considerations into their investment processes.

ESG assessments form part of our ongoing manager oversight framework, through in-depth formal due diligence reviews that focus on all aspects assessed at the selection stage. These reviews allow us to monitor managers' alignment with our approach to sustainable investment while delivering investment performance outcomes.

To support our evaluation, we expect our managers to complete our ESG questionnaire. We also hold meetings with them and use the responses to the questionnaire to guide our dialogue. Managers are assessed following an agreed methodology tailored for public and private markets and then assigned a red – amber – green score.

Our ESG assessment forms part of the overall manager evaluation process and is used to inform dialogue with our managers. We update our ESG assessment framework on an annual basis to reflect evolving standards on integration and stewardship across asset classes and assessment reports are presented to internal governance committees as part of our manager oversight and selection process. While we implement our ESG assessment process for all asset classes, we appreciate that there are differences between public and private markets. This differentiation is also reflected in our minimum requirements of our asset managers.

> "We update our ESG assessment framework on an annual basis to reflect evolving standards on integration and stewardship across asset classes and assessment reports are presented to internal governance committees as part of our manager oversight and selection process."

We appreciate that our asset management partners may have their own approach to integrating ESG considerations ,however, partners that fail to adhere to our standards will be put on notice to improve on the understanding that a cessation of new investments or a termination of the mandate may be required should they fail to improve as agreed.

Our minimum requirements for asset management partners[1]

Mandates in public markets

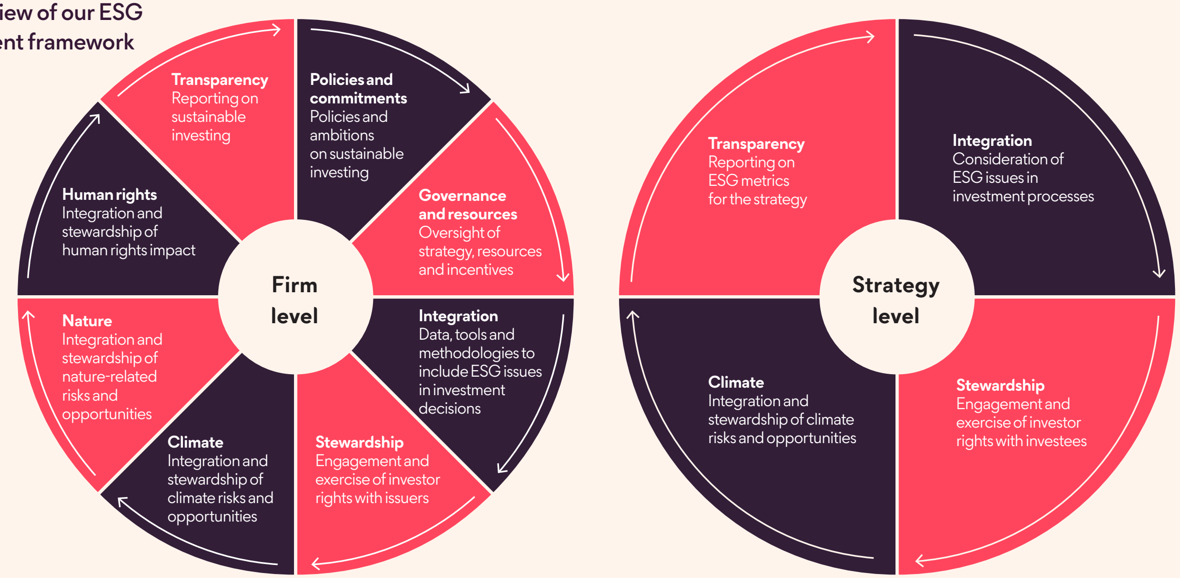
- Be a signatory to the PRI.
- Adopt the 2020 UK Stewardship Code or an equivalent local stewardship code applicable in their jurisdictions.
- Support our net zero by 2050 ambition and portfolio decarbonisation goals.
- Implement our exclusion policy where we have control of the investment guidelines.

Mandates in private markets

- Be a signatory to the PRI.
- Support our net zero by 2050 ambition and portfolio decarbonisation goals.
- Implement our exclusion policy where we have control of the investment guidelines.

1 We acknowledge that some managers may be on a journey to achieve these minimum requirements and we are able to provide them with a grace period subject to a demonstrable commitment to achieve these standards within the agreed time frame.

An overview of our ESG assessment framework



Exclusions

As the UK's largest long-term savings and retirement business we recognise that we have a responsibility to deliver good customer outcomes. While our preference will always be to engage in constructive dialogue with our investee companies where possible, to help improve their performance on ESG factors, we accept that this might not always be appropriate. This could be due to the nature of their business or because they fail to meet our expectations.

At present we implement investment exclusions to assets that we control and/or influence in five key areas:

- Controversial weapons
- Thermal coal[1]
- Oil sands[1]
- Arctic drilling[1]
- Tobacco producers[2]

[1] Where over 20% of revenues come from this source. For thermal coal, a waiver is adopted where companies have between 20-30% thermal coal revenues and have Paris aligned science based targets approved by the Science Based Targets Initiative (SBTi).
[2] Where over 1% of revenues come from this source.

Please see our Exclusions Policy for more details →

The scope of the Exclusions Policy includes all assets where we have direct control or influence over the investment mandate or solution. Examples of assets where we have no direct control or influence are External Fund Links - funds available to our customers but not managed by us.

Portfolio decarbonisation and low-carbon transition

As an asset owner investing for the long-term, we recognise the opportunities and risks presented by climate change to our investment portfolio and we support the need to reduce greenhouse gas emissions (GHG) and accelerate the transition to a low-carbon future. We are committed to managing climate risk in our investment portfolio in support of good customer outcomes. Phoenix Group has made a public commitment to achieve net zero GHG emissions by 2050.

To advocate for a low carbon transition, and to collaborate on best practice with other asset owners, we are a member of the Net-Zero Asset Owner Alliance and the Institutional Investors Group on Climate Change (IIGCC). We are also a signatory to Climate Action 100+.

We have implemented an Exclusions Policy that seeks to reduce our holdings in the most carbon intensive coal assets. We are also actively working with our asset management partners to devise 'decarbonising' investment strategies. This includes analysing how to decarbonise portfolios through the use of alternative indices or tilts, investing in climate solutions, and Paris-Aligned stewardship where we work with our asset management partners to influence investee companies to commit to net zero.

Climate scenario analysis is also a critical tool for stress-testing the resilience of the business to climate risk and the success of our net zero strategy. We assess how climate-related risks and opportunities may play out over a range of possible future climate scenarios.

Emissions reduction target coverage

Using the value of our AUA at year-end 2021 for reference (consistent with the presentation in our Net Zero Transition Plan) the coverage of our emissions reduction targets grows from £160 billion (53%) of AUA in 2025 to c.£250 billion (81%) in 2030 and c.£310 billion (100%) in 2050.

Listed equities and credit
c.£160bn

Other assets we control and influence
c.£90bn

External fund links
c.£60bn

By 2025
cut carbon intensity of listed equities and credit under control and influence by
25%
(covering c.£160bn AUA)

By 2030
cut carbon intensity of all assets we control and influence by at least
50%
(covering c.£250bn AUA)

By 2050
cut carbon intensity of our entire portfolio to
Net Zero
(covering c.£310bn AUA)

We have begun to incorporate decarbonisation into our investment strategies and in 2024 launched the FTSE Phoenix Climate Aware index series. The indices and benchmarks developed with FTSE Russell aim to protect policyholder portfolios against the risk of climate change by reducing exposure to companies which might face negative impact for lacking well-developed plans on how to successfully navigate the climate transition.

You can read more about our commitment to net zero in our Net Zero Transition Plan →

"Phoenix Group has made a public commitment to achieve net zero GHG emissions by 2050."

Halting and reversing nature loss

Natural systems and biodiversity support all life on our planet but are being degraded at an unsustainable rate. The accelerating loss of nature creates risks for financial institutions in their lending and investment portfolios that remain largely hidden. Failure to reveal, account for and take action on these risks can, we believe, negatively impact medium and longer-term investment returns.

As part of our ambition to provide a life of possibilities for our customers, we recognise that we have an important role to play in helping to reverse the loss of nature and invest to restore it and the ecosystem services that nature provides. To deliver on this we are assessing options to include nature and biodiversity within our investment portfolio risk management as well as seeking out opportunities to invest in nature's restoration. The restoration of nature will increase the capacity of natural systems to absorb CO_2 from the atmosphere and thereby play an important role in enabling an orderly transition to net zero.

In 2023 we became a member of the Finance for Biodiversity Foundation and signatories to the Finance for Biodiversity Pledge. In addition to contributing to the development of Finance for Biodiversity's target setting guidance we will continue to look for opportunities to support the activities of the initiative more broadly as part of our commitment to sector-wide collaboration and knowledge sharing.

In 2023 we also signed up to Nature Action 100 (NA100), a global investor engagement initiative supported by more than 200 investors representing $28 trillion in AUM. NA100 aims to drive greater corporate ambition and action on tackling nature loss and biodiversity decline. The initiative focuses on 100 companies in key sectors with the largest impacts and dependencies on nature to ensure they are taking timely and necessary actions to protect and restore nature and ecosystems by 2030.

Please see our Nature Statement for more details →

Respecting human rights

Human rights are rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. They include a wide range of protections and freedoms, including social, labour, economic, cultural, civil, political, and environmental rights.

We are committed to implementing the United Nations Guiding Principles on Business and Human Rights ('UNGPs'), the authoritative global framework on business and human rights, which stipulate investors' responsibility for preventing, mitigating and accounting for how they address adverse human rights impacts.

We are exposed to a wide range of potential human rights issues through our investments. We are collaborating closely with our asset management partners to integrate ESG considerations, including human rights, into the investment processes and support effective stewardship of assets invested.

In order to proactively manage human rights risks across our investments, we are committed to evolving our approach to access data and continue to seek accurate information from a wide range of sources on an ongoing basis. Equally, we intend to conduct investment due diligence to identify salient human rights impacts and act on any findings through direct, collaborative or delegated engagement by our asset management partners.

Phoenix Group's Human Rights Policy provides more information on our commitments and approach →

Industry engagement and investor forums

Phoenix Group is committed to collaborating and engaging with other institutions, national as well as international, where it aligns with our approach.

We are open to participating in industry forums, working groups, and collective engagements to foster knowledge sharing and support global efforts for a sustainable world. As well as being a signatory to the UK Stewardship Code, the United Nations-supported Principles for Responsible Investment and a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD), we are also supporters of the organisations opposite.

Please refer to our **Stewardship Report 2023** for examples of our contribution to activities conducted within these industry forums, working groups and collective engagements.

- ABI Board Climate Change Committee
- Asset Owner Diversity Charter
- Carbon Disclosure Project
- Climate Action 100+
- Coalition for Private Investment in Conservation
- Deforestation Free Finance Initiative Working Group
- DWP Taskforce on Social Factors
- FCA Vote Reporting Group
- FCA Working Group on Voluntary Code of Conduct of ESG Data
- Finance for Biodiversity Pledge Signatories and Foundation Member
- Get Nature Positive Campaign
- Glasgow Financial Alliance for Net Zero
- Green Finance Institute
- Institutional Investor Group on Climate Change
- International Corporate Governance Network
- Investor Forum
- Investor Initiative on Human Rights Data
- Nature Action 100
- Net Zero Asset Owner Alliance
- Partnership for Carbon Accounting Financials
- Pension Lifetime Savings Association
- Principles for Responsible Investment
- Principles for Responsible Investment Advance
- Race to Net Zero Campaign
- Scottish Government Green Finance Taskforce
- Science Based Targets Initiative
- Sustainable Markets Initiative Insurance Taskforce
- Task Force on Climate-related Financial Disclosures
- Task Force on Nature-related Financial Disclosures
- TheCityUK Green and Sustainable Finance Group
- Transition Pathway Initiative
- UK Sustainable Investment & Finance Association
- UK Transition Plan Taskforce

Phoenix

Contact us

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News and updates

In line with our sustainability programme and our commitment to reduce our environmental impact, you can view key information on our website
thephoenixgroup.com

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