

 Phoenix

# Net Zero Transition Plan Executive Summary

Phoenix Group Holdings plc



**We are proud to present our Net Zero Transition Plan, which sets out how we will become a net zero business by 2050 and achieve our interim targets for 2025 and 2030.**

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## Our 2022 reporting suite



Annual Report



Sustainability Report



Climate Report



Stewardship Report

[Access the full reporting suite at thephoenixgroup.com](https://thephoenixgroup.com) →

### Assurance

The Group appointed Ernst & Young LLP ('EY') to provide limited independent assurance over selected climate-related disclosures content for our Climate Report with the same data used within this Transition Plan marked with ^ as at and for the year ended 31 December 2022. The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagements ('ISAE') 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. A limited assurance opinion was issued and is available on pages 66 - 67 of our Climate Report.

[Read our Climate Report](#) →

# An important step on our journey to net zero



**Andy Briggs**  
Group Chief  
Executive Officer

I am hugely excited to be writing this foreword for our Net Zero Transition Plan, which marks an important step on our journey to becoming a net zero business by 2050.

As the UK's largest long-term savings and retirement business, we recognise our responsibility to tackle climate change. By taking the right actions to decarbonise, we believe that we can manage the risks and maximise the opportunities of climate change on behalf of our 12 million customers. And with close to £0.3 trillion assets under administration, our scale means we can make a real difference.

Over the last two years, many companies have set increasingly ambitious targets to reduce emissions – and Phoenix Group has been at the forefront of this process. But targets alone are not enough: the scale and urgency of the climate crisis and the action needed to tackle it means that robust plans to meet targets must urgently be put in place.

Our Net Zero Transition Plan sets out the actions we are taking to become net zero by 2050 and achieve our stretching interim targets in 2025 and 2030 across our investment portfolio, operations and supply chain. It gives us confidence that we are on the right track – but is transparent about where we need to do more and where we are dependent on action from others. It also helps to ensure that our decarbonisation plans are aligned with our wider business objectives and deliver the right outcomes for our customers. We have developed it in line with the latest industry guidance from the Transition Plan Taskforce and Glasgow Financial Alliance for Net Zero.

With a baseline carbon footprint of 24 MtCO<sub>2</sub>e – accounting for 99% of our overall carbon footprint – our investment portfolio is where we can have the greatest impact. We have placed our customers at the heart of our thinking and believe that the actions we are taking to decarbonise our investment portfolio are fully aligned with their financial interests. Our focus is on managing the risks and maximising the opportunities of climate change for our customers. And with recent customer research telling us that 80% of our customers are concerned about climate change and 90% expect us to invest their money responsibly, it's also what they want us to do.

We have already taken some exciting initial steps, such as decarbonising c.£12 billion of equity and listed real estate in our default workplace pension proposition. Over the next 12–18 months we are planning to decarbonise c.£12.5 billion of our shareholder corporate credit, and apply a customised decarbonising benchmark to c.£40 billion invested across our UK and US equity portfolios. By 2025 we aim to have introduced decarbonisation strategies across our £160 billion listed equity and credit portfolio.

Taking bold action to reduce our direct operational emissions and working with our suppliers to reduce their emissions is also crucial. It demonstrates leadership and shows that we are willing to walk the walk. That's why we are so proud to have achieved our 2025 Scope 1 and 2 decarbonisation targets for our own operations three years ahead of plan. We will use this as a platform to go even further on eliminating and reducing our operational emissions and scaling up our engagement with key suppliers.

However, whilst we have made good progress to date, we recognise that we are on a journey and have much more to do. We also know that we cannot deliver net zero alone and will become increasingly dependent on others, such as governments and high-emitting sectors, to achieve our net zero goals. That's why we are going to be vocal in calling for action from others and convening stakeholders to drive the wider system change that will ultimately be needed to become net zero.

On a personal level, I am extremely proud of what we have already achieved and excited by the ambition encapsulated in our Net Zero Transition Plan. By implementing it, we will be simultaneously playing our part in tackling climate change and helping our customers secure a life of possibilities.

<sup>1</sup> As defined by Phoenix Group's Sustainability Framework.

# Executive summary

Our Net Zero Transition Plan marks an important step on our journey to becoming a net zero business by 2050 across our investment portfolio, operations and supply chain.

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# Our commitment

Phoenix Group is committed to tackling climate change and taking action to manage the risks and maximise the opportunities for our customers.

## We are clear on what we want to achieve, where we currently are and what it will take to get there.

- We recognise our responsibility to tackle climate change – and want to use our capacity to drive real economy decarbonisation.
- We are starting to take tangible actions at scale – as we move beyond setting targets and planning, to delivering real impact.
- We have put customers at the heart of our plan – everything we do has their best interest at its core. By taking the right actions to decarbonise, we can help our customers grow their investments and protect them against risk.
- We believe we are on track to deliver our 2025 target – if the actions we have committed to are implemented, but will likely need to do more to achieve our 2030 targets – although the challenge of predicting economy-wide decarbonisation and the effect this has on our own performance makes forecasting inherently uncertain.
- We cannot deliver net zero alone – and are going to be vocal in calling for action from others and want to convene action across our ecosystem.

## We have already delivered some big wins.

- Brought our sustainable multi-asset strategies to 1.5m workplace pension scheme members, which applies a decarbonisation strategy to all equities, ~£12b AUA
- Preparing to roll out bespoke decarbonisation indices to US and UK equities across all policyholder funds – c.£40 billion AUA<sup>1</sup>.
- Launched stewardship engagement with 25 priority companies which account for 40%<sup>^</sup> of financed emissions in highly emitting sectors.
- Goal to invest up to £40 billion in sustainable and/or productive assets including climate solutions with the right regulatory, policy and market conditions.
- Achieved our 2025 Scope 1 and 2 intensity-based decarbonisation target of 80% against our 2019 baseline for our own operations three years ahead of plan.

## We have aligned our plan with industry guidance

We have developed our Net Zero Transition Plan in line with the latest industry guidance from the Transition Plan Taskforce ('TPT') and Glasgow Financial Alliance for Net Zero ('GFANZ'). However, it is important to acknowledge that the guidance is still evolving and that we are still in the early stages of our net zero transition. As such, our Net Zero Transition Plan is not set in stone, and we will continue to build on it and refine it to ensure that it fully addresses the latest industry guidance.

<sup>1</sup> AUA at YE2021.



# Our Net Zero Transition Plan

Our Net Zero Transition Plan sets out how we will become a net zero business by 2050 and achieve our interim targets for 2025 and 2030.



<sup>1</sup> AUA at YE2021.

# 1 Decarbonising the portfolio

We have a directional roadmap for decarbonising our investment portfolio. We have started to implement actions and will continue to ensure this is in our customers' best interests.

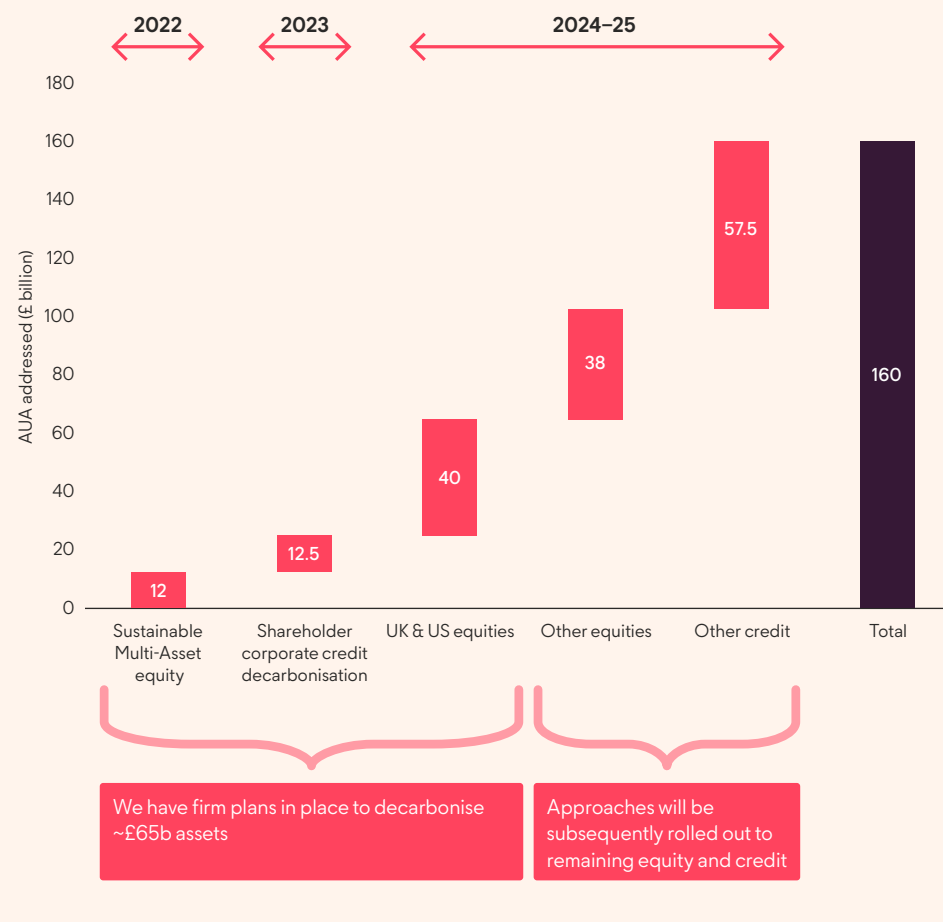
By reducing the carbon intensity of our investment portfolio, we can reduce our customers' exposure to companies with significant climate risk and increase their exposure to companies that are investing in the net zero transition and aligning their business models with low-carbon growth.

**Our big initial decarbonisation focus is on our £160 billion listed equity and credit portfolio, which is the subject of our 2025 target<sup>1</sup>.**

We began to take action last year with the transfer of 1.5 million workplace pension customers into our Sustainable Multi Asset strategies, which applies an ESG and decarbonising approach to £12 billion AUA.

We are currently developing customised equity benchmarks which align with a net zero trajectory. We will initially apply the customised benchmark to UK and US equity assets accounting for c. £40 billion AUA, before rolling it out to other regions over the course of 2024 and 2025. We will apply decarbonising strategies to our credit assets, starting with our shareholder corporate credit portfolio (£12.5 billion AUA) before applying to other portfolios (£57.5 billion AUA).

Figure 1: Directional roadmap for decarbonising our £160bn listed equity and credit portfolio, subject of our 2025 target



In parallel, we are starting to consider other asset classes that fall into scope for our 2030 target. The scope of our 2030 target extends to include sovereigns, real estate and loans. These are more challenging asset classes to decarbonise and we have more work to do to develop firm plans. Our emerging thinking for sovereigns and real estate, the two largest additional asset classes, is as follows:

- Sovereigns (£41 billion AUA): Review 'green' sovereigns investment potential and engage with relevant government bodies
- Real estate (£9 billion AUA): Factor climate-related risks into the underwriting of equity release mortgages and consider options to tilt portfolio to greener buildings and to engage tenants on energy efficiency

**Our overarching goal to be net zero by 2050 across all our financed emissions also covers other collective vehicles and external fund links ('EFLs').**

In the first instance, we will look to deepen our engagement with managers of collective vehicles and build our understanding of options to decarbonise them.

**It is important to note that all potential future actions, including those currently in development, will be subject to detailed analysis and robust governance to ensure decisions are made in customers' best interests.**

<sup>1</sup> AUA at YE2021.

## 2 Effective stewardship of our assets

**Our stewardship activities focus on companies which collectively account for c.70% of our financed emissions in highly emitting companies.**

### Stewardship is central to our Net Zero Transition Plan

As a large asset owner, we recognise our stewardship responsibilities and adopt an 'engagement first' approach with the objective of using our position of influence to bring about corporate change. We see this as one of our most effective levers to drive real economy emissions reductions.

This is why we have committed to become signatories to the UK Stewardship Code in 2023. We are also signatories to both the UN-convened Net Zero Asset Owners Alliance ('NZAOA') and the Institutional Investors Group on Climate Change ('IIGCC'), whose protocols we are using to guide our engagement.

**Our direct engagement focuses on 25 companies, which account for 40% of our financed emissions in material sectors in corporate fixed income and listed equity (figure 2)**

We have developed a climate change scorecard, which we use to engage with the 25 highest priority companies and support their transition to net zero. The companies were prioritised on the basis of their current emissions, sector and action to date on climate change. Utilities and oil and gas are the most represented sectors, collectively accounting for 13 of the 25 companies (figure 3). On a geographic basis, 18 of the 25 companies are

located in Europe, five are in America and two are in Asia.

Progress of our 25 target companies will be regularly monitored and, in case of insufficient progress, we will consider escalation strategies. Where our engagement does not lead to change after more than three years of dialogue, we intend to recommend the exclusion of assets that do not align with our climate and sustainability strategy.

**We have also engaged indirectly with more than 460 companies through our asset manager partners, which collectively account for a further 29% of our financed emissions from material sectors**

In 2022, our asset management partners engaged on climate change issues with 464 companies held in our investment strategies, representing almost 29% of financed emissions from high-emitting sectors in our listed equity and corporate fixed income portfolios. Our overall engagement on climate change in 2022 therefore covered almost 70% of financed emissions from material sectors (figure 2).

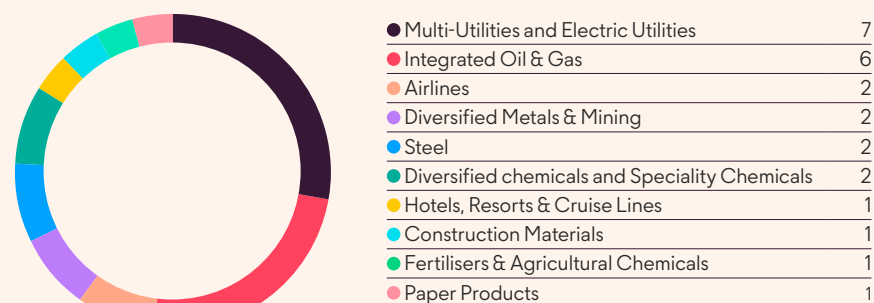
**Our voting policy sets expectations for corporate management across our listed equity portfolio**

Our voting policy includes expectations for investee companies to set ambitious science-based targets and have robust plans in place to deliver them. We are shadow testing the policy on 100 companies in 2023, with our long-term goal being to expand coverage and bring voting in-house for passive and enhanced index strategies in the future. In 2021, 47% of our listed asset portfolio (based on AUA) had either approved science-based targets ('SBTs') in place (31%) or had committed to putting SBTs in place (16%).

**Figure 2: Stewardship approach to financed emissions in material sectors**

Approach	Description
<b>Direct engagement with top 25 companies</b>	We are actively engaged directly with 25 companies which account for 40% of our financed emissions
<b>Indirect engagement through asset managers</b>	In 2022 we indirectly engaged with 464 companies which accounted for 29% of our financed emissions and we expect this level of indirect engagement to continue in future
<b>Indirect engagement through voting policy<sup>1</sup></b>	Our goal is to use our voting policy to set net zero expectations across our portfolio

**Figure 3: Sector coverage of 25 direct engagement companies that account for 40% financed emissions in material sectors**



<sup>1</sup> Our Global Voting Principles include expectations of companies on climate change. We are not involved in voting decisions directly. We monitor the voting practices of our asset managers using our voting principles as a framework of reference after the votes are cast.



### 3 Investing in climate solutions

We are committed to increasing our investments in climate solutions. Along with other eligible assets outside climate solutions, these will contribute to the £40 billion investment ambition over a medium- to long-term across sustainable and productive finance assets, aided by a supportive regulatory framework and access to transformative investment projects that offer an attractive returns profile.

We believe that investing in climate solutions will enable customers to benefit from growth opportunities arising from the economy-wide transition to net zero.

The opportunity is huge: it is estimated that around £2.7 trillion of investment<sup>1</sup> will be required over the next 15 years to meet the UK's emission reduction goals, and that the insurance sector has the potential to fund up to a third of this investment subject to market conditions, organisational credit/risk appetite, and deal flow that meets asset eligibility criteria. Our approach to investing in climate solutions encompasses investment in climate solution funds, investment in venture capital funds and direct investment.

The £40 billion we could invest encompasses sustainable and/or productive assets to support economic growth, levelling up and the climate change agenda. As ever, our key priority will be to deliver good outcomes for our customers, and this will continue to inform our investment decision-making process.

We will look to scale up our investment in climate solutions in three ways

#### Investment in climate solution funds

In 2022, we selected an asset management partner to support us in designing a multi-asset 'climate solutions' mandate, into which we will deploy c.£338 million of policyholder assets into in 2023. This solution invests in equity and credit assets for the climate change leaders of today and the future, and companies pursuing a net zero decarbonisation strategy. We will look to increase our allocation of policyholder assets to climate solution funds over the course of 2023 and beyond.

#### Investments in venture capital funds

We have a dedicated venture capital fund with an initial allocation in excess of £100 million. The fund will follow a thematic ESG approach within a number of sectors, including Green Energy, Fintech and Healthcare, to provide attractive risk-adjusted returns. We will look to increase our allocation of funds to venture capital as opportunities arise to scale the low carbon technology companies of the future.

#### Direct investment

Our ambition is to deploy £10 billion in direct investments in sustainable assets by year end 2025 and further scale up investments in climate solutions as part of broader goal to invest up to £40bn in sustainable and productive assets dependent on favourable policy, regulatory and market landscape. Over the last two years we have invested £2.3 billion in sustainable assets, including c.£0.7 billion in climate solutions.

£338 million

of policyholder assets assigned to climate solutions mandate

£0.7 billion

invested in climate solutions in 2021 and 2022

£40 billion

Phoenix Group ambition to invest in sustainable and/or productive assets with the right regulatory, policy and market conditions

<sup>1</sup> ABI Climate Roadmap.

## 4 Engaging customers and driving system change

Engaging our customers and using our scale to drive wider system change are core elements of our Net Zero Transition Plan – and crucial to meeting our targets.

### Engaging our customers

#### We have put our c.12 million customers at the heart of our plan

We believe that by decarbonising our investment portfolio at a steady pace, we will reduce our customers' exposure to climate-related risks and help them benefit from the growing sectors of the future. Understanding our customers' evolving priorities and expectations on climate change and communicating our plans with them effectively is crucial to the successful delivery of our Net Zero Transition Plan.

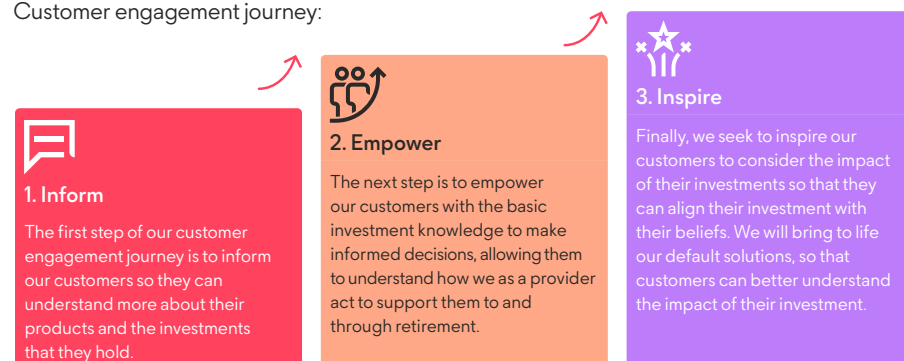
Research tells us that our customers are concerned about climate change and expect us to invest their money in a responsible way

**80%** concerned about climate change

**90%** think it's important we invest their money responsibly

In 2023 we aim to reach 1.5 million customers to raise awareness about the impact of their investments

Customer engagement journey:



### Driving wider system change

We can't deliver net zero alone and want to use our scale and voice to drive wider system change

We believe that the actions we have already committed to put us on track to achieve our 2025 financed emissions target under most scenarios. However, further action is likely to be needed to meet our 2030 target where we have a far greater dependency on action by others – notably governments and high-emitting sectors. We therefore want to use our scale and voice to multiply impact and drive the wider system changes needed to deliver net zero.

We will do this by delivering thought leadership, engaging decision-makers and collaborating with our peers

#### Delivering thought leadership

to develop solutions to barriers currently hindering the net zero transition

#### Engaging decision-makers

to inform the debate on the net zero transition in the real economy

#### Collaborating with peers

to amplify our voice and develop new business models and end-to-end solutions

We will focus on establishing the right regulatory, policy and market conditions to enable investment in climate solutions at scale

- **Calling for regulatory reform** such as Solvency II, as well as assessing changes to the charge cap and illiquid disclosures on default workplace pensions, with a view to increasing allocation to sustainable investments.
- **Identifying policy solutions** that would establish the necessary risk-return profiles for large investors such as Phoenix Group to deploy capital at scale in emerging technologies such as hydrogen and carbon capture, usage and storage ('CCUS').
- **Developing innovative commercial models**, both unilaterally and in collaboration with others, to overcome market barriers to scaling up investment in proven technologies such as heat pumps.

## 5 Leading by example by decarbonising our operations and supply chain

We have already exceeded our 2025 target for operational emissions reduction and are scaling up engagement with our key suppliers.

### Decarbonising our own operations and supply chain is an essential part of our Net Zero Transition Plan

While our operational and supply chain emissions are small in comparison to our financed emissions, they remain an important focus of our Net Zero Transition Plan. We recognise the importance of leading by example, which is why we have set ambitious targets and are implementing strategic measures to decarbonise our own operations and empower our suppliers to do the same.

### We have already exceeded our 2025 target for Scope 1 and 2 operational emissions

In 2022 we met and exceeded our 2025 target to reduce our Scope 1 and 2 emissions in line with a Science-based Targets Initiative ('SBTi') '1.5 degrees' scenario (figure 4).

We were able to achieve this through a combination of purchasing renewable energy, investing in energy efficiency measures and some buildings consolidation.

Our focus is now on further eliminating and reducing our operational emissions with a particular focus on our Scope 3 business travel emissions; and preparing to buy carbon removal credits to compensate for any remaining operational emissions.

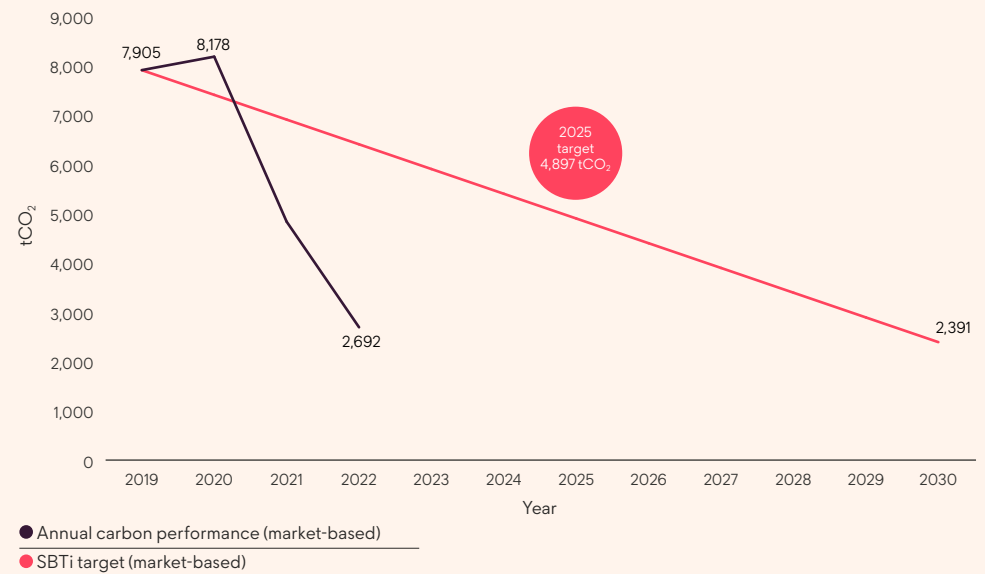
### We encourage our suppliers to sign up to robust emissions reduction targets and are scaling up our engagement with our key suppliers

Our supply chain emissions are concentrated in a small number of large suppliers, with our top 10 suppliers representing c.65% of our purchased goods and services emissions footprint.

Our initial focus on decarbonising our supply chain has been improving our supply chain emissions data and engaging key suppliers to adopt SBTi reduction targets. Through this engagement we share best practice to support their journeys to net zero. To date, 82% of our key suppliers have committed to either a science-based target or target based on the UN's Race to Zero initiative; and our response rate for our CDP supply chain programme for our key suppliers has increased to 84%.

Our near-term focus is to scale up our engagement with key suppliers. In the medium term, our goal is to integrate carbon pricing into sourcing and procurement decisions, alongside net zero clauses and factoring emissions into our tender processes.

Figure 4: Progress versus operational Scope 1 and 2 emissions reduction targets



### Proportion of key suppliers committed to science-based targets and engaged with CDP

82%<sup>1</sup>

of our key suppliers<sup>1</sup> have committed to either a science-based target or equivalent

84%

of surveyed suppliers participated in our CDP supply chain programme

<sup>1</sup> Key suppliers include: strategic (those that we work closely with due to the strategic nature of the services they provide); critical (suppliers where the goods or services provided are limited in the market and barriers to change are complex); and financially important with spend ≥£1 million (suppliers that are numerous but where value to Phoenix Group is significant).

# Summary

We believe we are on track to achieve our 2025 targets, if we implement the actions we have committed to, but need to do more to achieve our 2030 target, and are increasingly dependent on action by others.

## Summary high-level directional roadmap

Looking back:  
Setting foundations & starting to act

Current focus:  
Taking action at scale

Long-term focus:  
Maintaining action & expanding scope

2020–2022

2023–2025

2025+



Invest

- Undertook initial actions to decarbonise, including equity component of the Sustainable Multi-Asset workplace default (£12 billion AUA)
- Invested £0.7 billion in climate solutions

- Apply decarbonisation levers to listed equity and credit portfolio, including customised benchmarks
- Stewardship strategy implementation
- Scale up investment in productive and sustainable assets including climate solutions

- Extend decarbonisation levers to other asset classes
- Further scale up investment in productive and sustainable assets including climate solutions



Engage

- Conducted customer research and created content to increase customer understanding of their products
- Actively participated in industry groups and engaged with key decision-makers

- Scale up engagement across all consumer brands and channels to inform, empower and inspire our customers
- Launch thought leadership programme to address dependencies and drive wider system change

- Inspire customers to consider the impact of their investments and align their investment with their beliefs
- Be a leading voice in calling for action from others and convening action across our ecosystem



Lead

- Decarbonised own operations through investment in energy efficiency and purchasing renewable energy
- Published ESG supply chain standards and encouraged sign-up to SBTs and CDP

- Further eliminate and reduce operational emissions and offset residual emissions
- Scale up engagement with key suppliers

- Maintain net zero for own operations
- Introduce carbon pricing to supply chain decisions and implement sustainable strategic sourcing

**We are building momentum on our journey to net zero**  
Our directional decarbonisation roadmap focuses primarily on actions between now and 2025 and is indicative only. Nevertheless, it shows how we have already started taking action across our investment portfolio, operations and supply chain and are now building on these foundations to achieve real scale.

### We are on track to achieve our 2025 targets

If the actions we have committed to are implemented then we believe we will be on track to achieve our 2025 interim target under most scenarios. This assessment has been informed by our progress to date and our forward-looking emissions pathway projection tool.

### Beyond 2025 we become increasingly dependent on action from others

How likely we are to achieve our 2030 target is currently less certain. We become significantly more dependent on decarbonisation in the wider economy and action by others – in particular government, regulators and high transition risk sectors.

### Our Net Zero Transition Plan will continue to evolve

Our Net Zero Transition Plan summarises our latest thinking, but we recognise that we are on a journey and have lots more to do. We will continue to refine our plan to ensure that we remain on track to achieve net zero.

### Key dependencies in our Net Zero Transition Plan

- Government policy that provides the necessary signals and support to enable investment into climate solutions at scale
- Financial sector regulation that enables more capital to be invested in long-term illiquid assets such as green infrastructure
- Action from companies in high transition risk sectors having credible transition plans and taking action at the required pace
- Hard-to-influence asset classes such as sovereign bonds, where decarbonisation requires action from the bond issuer
- Voluntary carbon markets to enable investee companies and our own operations to offset their residual emissions
- Uptake and commitments from key suppliers and top emitters, will also be dependent on pressure they are feeling from other customers and within their own industry and sector

# Contact us

## News and updates

In line with our Net Zero Transition Plan and our commitment to reduce our environmental impact, you can view key information on our website:

**[thephoenixgroup.com](https://www.thephoenixgroup.com)**

To stay up-to-date with Phoenix Group news and other changes to our site's content, you can sign up for email alerts, which will notify you when content is added.

**<https://www.thephoenixgroup.com/site-services/email-alerts>**

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