



Phoenix Unit Trust Managers Limited Climate Report 2022

Prepared in accordance with the recommendations of
the Task Force on Climate-related Financial
Disclosures (TCFD) and the FCA Environmental, Social
and Governance Sourcebook

In this report

About this report	3
A Brief Overview	4
01 Introduction	
1.1 Purpose and climate ambition	5
1.2 Reasons for tackling climate change	5
1.3 Pillars of Group's climate strategy	5
1.4 Key actions on climate	6
02 Governance	7
03 Strategy	
3.1 Operations and Supply Chain	8
3.2 Pillars of Strategy	9
3.3 Decarbonising the investment portfolio	9
3.4 Effective stewardship of the assets	10
3.5 Scenario analysis	11
3.6 Conclusions	15
04 Risk management	16
05 Metrics and targets	
5.1 Impact of Group's operations	18
5.2 Impact of Group's supply chain	18
5.3 Carbon footprint of the investment portfolio	19
5.4 Climate alignment	22
5.5 Data coverage and quality	23
06 Appendices	
Glossary of terms	25
Methodology	27
Reporting limitations and enhancements	29
Statement of Compliance	31
Forward looking statements	32

About this report

We are pleased to present the first **Phoenix Unit Trust Managers Limited** Climate Report, prepared in accordance with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD') and the FCA Environmental, Social and Governance Sourcebook.

Entity reporting

This report is designed to be read in conjunction with the Phoenix Group 2022 Climate Report, published on 13 March 2023 and the Phoenix Group Net-Zero Transition Plan, published on 24 May 2023. The report aims to provide stakeholders with an overview of **Phoenix Unit Trust Managers Limited's** position and progress towards identifying, assessing and managing the impacts of climate-related risks on its business and unlocking climate-related opportunities. This is the first report of this type, and it is expected that future reporting will be refined as data, analysis and processes, both internally and across the industry, mature.

You can read the [Phoenix Group 2022 Climate Report](#) and the [Phoenix Group Net Zero Transition Plan](#).

As part of the Phoenix Group ("the Group"), Phoenix Unit Trust Managers Limited ("PUTM") fully aligns with the Group's policies and framework as they relate to climate and sustainability. Therefore, for various sections of this report, reference is made to the relevant sections of the Group's 2022 Climate Report. Where entity disclosure differs from the Group disclosure - or to provide additional details on elements that relate to the entity - entity specific data and narratives are provided in this Report.

The approach, methodology and key judgements in this report are consistent with the Group Climate Report and PUTM Fund Climate Reports. There is, however, a difference between the data used in this report and the Group 2022 Climate Report. This report uses PUTM figures as at 31 December 2022 and the latest available climate data. This differs from the Group 2022 Climate Report, which uses figures as at 31 December 2021 and climate data at a different reference point.

Key terms

Please see the glossary on page 25-26 for an explanation of key terms used throughout this Report.

A Brief Overview

Climate change creates risks as well as opportunities to the way we can invest your money. This report explains how we manage these and what progress we're making in moving towards what's called net zero. Net zero would mean there was a balance between the amount of greenhouse gas that's produced and the amount that's removed from the atmosphere.

There are four ways we approach this and we'd like to explain what they are.

1. Explaining our approach to governance

We work under the Phoenix Group's governance framework. The framework identifies, assesses and manages climate-related risks and opportunities. Our framework is likely to change in the future to keep pace with any changes in requirements and we expect that what we need to report on will also continue to develop over time.

2. What we look at in our business strategy

PUTM administer c.£57 billion of investments. Our size means we have an important role in moving towards a net zero economy for the benefit of our customers.

We focus on managing risks and look to invest in opportunities arising from moving to a net zero economy.

We need to understand the impact climate change could have on investments under different conditions in the future. To do this we use five scenarios. The scenarios help us see how the world might change, for example from being heavily reliant on carbon-intensive activities like fossil fuels, to a low-carbon economy using renewable energy sources.

3. How we manage risk

We use a risk framework that's used throughout the Phoenix Group of companies. The framework identifies, monitors and manages risk. This includes risks related to climate change and the move towards a low carbon economy.

We need to manage these risks to get the best possible outcomes for you as our customer. To do this we continuously develop our framework to make sure that suitable governance and processes are used to manage risks.

4. How we measure the impact on climate

We intend to monitor the climate impacts of our investments periodically through a variety of metrics. The metrics shown in this report are calculated using the latest climate data that's available to us.

Explaining the jargon we use: some of the information in the report can be quite technical so we've created a [guide](#) to explain what it means.

01 Introduction

1.1 Purpose and climate ambition

PUTM is part of the Phoenix Group, a purpose-led organisation aiming to help people secure a life of possibilities.

PUTM aligns to the Group's climate ambition of optimising value for its customers and playing a key role in delivering a net zero economy. The Group and PUTM do this by decarbonising their investments, operations and supply chain to manage risks, by investing in the growing sectors of the future to take advantage of the opportunities, and by being a leading voice in calling for action and driving systemic change. By reducing the carbon intensity of its investment portfolio in line with a Net Zero 2050 glide path, the Group believes it can reduce its 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. The Group continually monitors and reviews this approach to ensure it supports the delivery of good customer outcomes. To measure progress and deliver this ambition, interim and long-term targets are set at a Group level (see section 03 Strategy for further details). As part of the Group, PUTM is committed to supporting both the interim and long-term targets to improve its customer outcomes.

1.2 Reasons for tackling climate change

Tackling climate change is core to the business as a Group, for three reasons:

It is essential to managing financial risk for customers: The Group is committed to being a leading, responsible and sustainable business.

It offers investment opportunities: The net zero transition could unleash £2.7 trillion of investment in the UK alone by 2035. By investing in the growing sectors of the future, the Group can deliver long-term financial outcomes that will maximise value for its customers and investors if the policy environment is right.

It is the right thing to do: The Group has a comprehensive sustainability strategy that is fully aligned with its purpose of helping people secure a life of possibilities. Ensuring the Group plays its part in tackling the climate crisis is a crucial part of this.

1.3 Pillars of the Group's climate strategy

The Group's climate strategy is based on three pillars: **Invest** for the future, **Engage** to multiply impact and **Lead** by example. These are anchored by the strength of the Group's governance and risk management frameworks, scenario analysis and the ongoing investment in its people capabilities, climate data and technology platforms. The Group is committed to setting clear targets and to transparently reporting on its progress.

1.4 Key actions on climate

The Group has made significant progress in assessing climate-related risks and opportunities, and in developing and embedding its climate strategy, governance and risk management processes, as well as its metrics and targets framework.

Good progress has been made in the development of the stewardship programme, including the prioritisation of 25 companies through its stewardship engagement, representing c. 40% of the Group's financed emissions in high-emitting sectors (aggregated exposure at a Group level). Furthermore, the Group has published its first Stewardship Report. Its first Global Voting Principles were approved in 2022 and have since been published.

In 2022 the Group published and began implementing its exclusions policy which screens out companies that generate more than 20% of revenue from thermal coal, arctic drilling and oil sands (amongst other restrictions).

The Group is in the process of designing equity benchmarks for UK and US-listed equity exposures, which it believes will help reduce the carbon intensity of its portfolio and make it more resilient. In its operations, the Group delivered an 80% reduction in operational carbon intensity (against its 2019 baseline) and has engaged key partners on its ambition to halve its supply chain emissions by 2030.

02 Governance

The Group operates an overarching governance framework which applies across its entities, including PUTM, ensuring a consistent approach to governance. This framework ensures that Directors of the entities are able to discharge their statutory and regulatory responsibilities, the entity boards have appropriate oversight and supervision of those matters which they are required to consider and that there are appropriate delegation of authority in place to allow management to run the business on a day-to-day basis. This framework starts at the Group Board and is consistently applied throughout the rest of the Group via a clear organisational structure, with documented terms of reference and delegated authorities and responsibilities.

The PUTM Board has responsibility delegated to it for oversight of policies and activities that only impact PUTM.

Policy and management of climate related issues are set at the Group level via the Group's Board Sustainability Committee. At entity level, the climate and sustainability agenda follows the priorities laid out by the Group in line with its focus on good customer outcomes, with educational sessions and consideration of climate-related risks by the PUTM Board as part of their regular agendas.

With evolving business requirements and the changing regulatory landscape there are likely to be further changes to the governance framework to further embed the climate agenda at entity level.

You can read more in the [Group 2022 Climate Report](#). Broader governance structures for the Group and Life Companies are described in the [Solvency and Financial Condition Report \(SFCR\) 2022](#).

03 Strategy

The Group's ambition is to maximise value and deliver strong financial outcomes for customers. Tackling climate change is essential to managing financial and climate risk for policyholders. The Group's climate strategy is to be a net zero business by 2050, and in response it has a significant role to play in helping to address the climate emergency and accelerating the transition to a net zero economy. This is intrinsically linked to the Group's purpose of helping people secure a life of possibilities.

The Group has also set an overarching target of achieving net zero emissions across all assets under administration by 2050. The Group has set interim carbon intensity reduction targets which provide a clear pathway to its overall net zero commitment. As part of the Group, PUTM is committed to supporting both the interim and long-term targets which are as follows:

2025*: 25% reduction in carbon intensity of listed equity and credit assets, and net zero across the Group's operations

2030*: At least 50% reduction in carbon intensity of all investment assets, and 50% reduction in carbon intensity of the supply chain

2050: Net zero across the Group's business

*The 2025 and 2030 investment targets are in respect of assets where PUTM (or Group) exerts control or influence.

The Group-wide Net Zero Transition Plan provides an overarching roadmap of the actions the Group will take on its journey to decarbonise the investment portfolio and will help it track progress towards its 2050 Net Zero and interim 2025 and 2030 decarbonisation targets.

3.1 Operations and Supply Chain

In addition to its overarching net zero emissions target, the Group has set targets to achieve net zero in its operations by 2025 and to achieve a 50% reduction in the carbon intensity of its supply chain emissions by 2030. The Group's operational and supply chain strategies allow it to drive change and positive impact, helping mitigate the climate-related risks of disruption to its business.

3.2 Pillars of Strategy

As laid out in the introduction, the Group's climate strategy is formed of three pillars: **Invest** for the future, **Engage** to multiply impact, and **Lead** by example. These are outlined below.

Invest

- Decarbonising the investment portfolio: Transforming the portfolio to increase net zero alignment.
- Effective stewardship of the assets: Working with investees and asset managers to drive emission reduction and reduce risk.
- Investing in climate solutions: Investing in the growing companies and sectors of the future.

Engage

- Engaging customers and employees on the role they can play in delivering net zero.
- Working collaboratively with partners to deliver cross-sector change and thought leadership.

Lead

- Reducing direct emissions by decarbonising operations.
- Reducing wider emissions by working with all suppliers in support of the Group's climate ambition and requiring all to have carbon reduction targets.

The nature of the Group and the PUTM business means the actions that have the greatest impact on climate relate mostly to the investment portfolio.

The Group's process for managing climate related risks and opportunities begins with sizing up the exposure relative to a baseline. The Group intends to increase its baseline asset class coverage over time as data and methods evolve; this report evaluates emissions of the listed equity and credit, and sovereign bond asset categories.

3.3 Decarbonising the investment portfolio

The Group-wide approach to decarbonising reflects the management of climate risk at a level which continues to deliver good customer outcomes. This involves considering how the appropriate balance is struck between risk and return, taking account of carbon emissions and transition risks, and what is in the best interests of customers, whilst overlaying carbon emission reductions, the exclusions policy and other constraints. It aims to improve portfolio resilience and support long term growth for our customers.

Exclusions Policy

In 2022 the Group published and began implementing the Group-wide exclusions policy which screens out companies that generate more than 20% of revenue from thermal coal, arctic drilling and oil sands (amongst other restrictions). This helps mitigate the Group's exposure to activities that could translate into material transition or 'stranded' asset risks. Over time, the Group expects the thresholds for exclusion to tighten and the sectors excluded to widen.

Reducing the carbon intensity of the investment portfolio

To take action on its equity and policyholder credit portfolios, the Group is currently developing decarbonising benchmarks for equity portfolios. Over the next 12-18 months benchmarks will be applied to UK and US equity portfolios before being rolled out to wider equity regions and to credit.

In 2022, the Group developed and started implementing a climate transition strategy for liquid corporate credit assets which sit in its shareholder credit portfolio. The strategy aims to deliver the decarbonisation trajectory required for these assets to meet the Group's interim 2025 and 2030 targets whilst increasing exposure to net zero aligned investments.

3.4 Effective stewardship of the assets

Beyond the thresholds of the exclusion policy, the Group embraces an 'engagement first' stewardship approach to supporting investee companies' action towards developing short, medium and long-term plans to transition to net zero and bring real world change.

Engagement Approach

Dialogue with company representatives takes place through strategic asset management partners, participation in Climate Action 100 (CA100+) or equivalent collaborative engagement on material sectors, and through direct engagements.

The Group has defined its 'focused engagement' list of 25 companies which accounts for 40% of its financed emissions in material sectors across corporate fixed income and listed equity holdings. 19 companies on the list are also targeted by CA100+, the largest collaborative initiative to engage with high emitting companies on climate change. The Group has been asked to lead four of these coalitions and is progressively joining fifteen others as active participants.

Global Voting Principles

The Group approved Global Voting Principles in March 2023 which summarise the framework for good corporate governance practices and standards for managing climate and nature-related risks and opportunities. The Group is not involved in voting decisions directly, either through casting votes or sending voting instructions to its asset management partners. The Group will therefore monitor voting directions of its asset management partners after votes are cast and will engage with them to reduce divergence of their voting from expectations.

Escalation

In the case that improvements by companies are not made despite several engagement efforts, the Group and its asset management partners will consider forms of escalation. The Group expects its asset managers to be prepared to take further actions.

Possible escalation strategies are collaborating with other shareholders, voting against management, presenting an AGM statement, issuing a public statement, decreasing exposure and ultimately divestment of the holdings.

3.5 Scenario Analysis

Background

The Group's approach to modelling climate-related financial risk, and testing the financial resilience of the business, forms part of the Group's Stress and Scenario Testing Programme and is a core element of the Group's Own Risk and Solvency Assessment (ORSA) process. Climate scenario analysis is a critical tool for testing the potential impact of a range of possible future climate pathways on the Group, or PUTM, to help assess the risks and opportunities it may present and determine possible management actions that could be taken to reduce climate-related risks to the Group, or PUTM, over the short, medium and long-term.

All Group entities, including PUTM, are part of the Group's Stress and Scenario Testing Programme. Scenario impacts can differ between entities depending on their business mix, assets and liabilities and these are described below.

How and when climate risk will emerge remains highly uncertain. Due to this uncertainty, a wide range of climate scenarios have been explored to assess a variety of different possible climate change outcomes. The scenarios cover different degrees of physical and transition risk, and reflect differing variables such as government policy and the transition speed.

Scenarios Assessed

Five scenarios have been assessed which mirror those analysed for the Group 2022 Climate Report. These are described in more detail in the table below. Three scenarios were provided by the Network for Greening the Financial System ('NGFS') and two scenarios were provided by the Inevitable Policy Response ('IPR'). The Group utilised the equivalent NGFS scenarios that were adopted for the PRA's Climate Biennial Exploratory Scenario ('CBES') exercise as these are widely used in the industry. The IPR scenarios were utilised to further test the Group and PUTM's resilience to different transition risk pathways, and to ensure that using just one provider did not bias results.

The scenarios were reviewed and approved by the Group Board Sustainability Committee in August 2022 and the results of the wider exercise were reviewed and approved by the Phoenix Group Holdings Board Risk Committee on 3 May 2023.

Scenarios selected and their key characteristics

Scenario set	Scenario	Description	Anticipated warming	Pace of transition	Key risk explored
Network for Greening the Financial System ('NGFS')	Current policies	<ul style="list-style-type: none"> No new climate policies are implemented beyond those currently in place. Emissions grow and irreversible climate change occurs causing permanent impacts on living and working conditions and infrastructure across the globe. Physical risks are high. 	3°C or above	None	Physical risk
	Delayed Transition	<ul style="list-style-type: none"> The action to transition to net zero emissions does not begin until 2030. More sudden and substantial policy changes required in 2030 to compensate delayed start. Transition and physical risks are higher than in the Net Zero 2050 scenario. 	2°C or below	Starts in 2030	Transition risk
	Net Zero 2050	<ul style="list-style-type: none"> Transition to net zero emissions starts immediately and unfolds in an orderly fashion. Carbon taxes and other policies intensify consistently over the scenario horizon. Physical risks are low. Transition risks are high. 	1.5°C or below	Starts immediately	Transition risk
Inevitable Policy Response ('IPR')	Forecast Policy Scenario	<ul style="list-style-type: none"> Significant policy changes are made by 2025 following pressure from investors, corporates, and civil society. Maximum of 1.5°C global warming increase not met. 	Approx. 1.8°C	Starts immediately	Transition risk
	Required Policy Scenario	<ul style="list-style-type: none"> More significant policy changes are made immediately to firmly target a maximum increase of 1.5°C in global temperatures. Maximum of 1.5°C global warming increase is met. Higher transition risks and lower physical risks than Forecast Policy Scenario. 	1.5°C or below	Starts immediately	Transition risk

The scenarios allow for stresses across economic variables including adverse impacts on GDP (where transition to a low-carbon economy results in broader economic slowdown), credit spreads, increasing yields to recognise the potential fall in value of fixed income assets and falls in the value of real assets held in equity and property investments.

This approach to scenario analysis is consistent with that set out in the [Group 2022 Climate Report](#).

Estimated Scenario Impacts

The table and commentary below reflect the estimated loss in value of the assets managed by PUTM under each scenario between now and 2050 relative to the base scenario.

Year	Net Zero 2050			Delayed Transition			Current Policies			Forecast Policy Response			Required Policy Response		
	2025	2030	2050	2025	2030	2050	2025	2030	2050	2025	2030	2050	2025	2030	2050
Total PUTM assets impact									2.4%			3.3%			3.3%
Estimated impact on asset classes															
Equity										2.3%	2.2%				
Property				2.3%	2.6%		2.5%	2.8%		2.8%	3.2%		2.8%	3.1%	
Government debt									3.4%						
Corporate debt															

Indicative climate change impact	Low	Moderate	Medium	High
Indicative estimated quantitative impact (Potential impact on the value of listed equity & credit, and property assets)	<2%	2%-3.5%	3.5-5%	>5%

Key: The scale shows the indicative estimated short, medium and longer-term climate impact on the asset portfolio relative to time zero. This indicative climate impact is shown as the potential fall in value of equity, property and fixed income assets relative to a base outcome. The scale allows for the anticipated actions that the underlying individual counterparties will take to decarbonise, including adaptation and abatement actions. However, it makes no allowance for the expected impact of the Group's decarbonisation strategy and other management actions to meet the Group's net zero targets.

Note: Asset class impacts have been determined using entity assets as at 30 September 2022, using Group data as a proxy given such analysis was mainly carried out at an overall Group level.

The estimated impacts of the five scenarios indicate that action must be taken to reduce climate risk in the portfolio over the coming years, or there may be significant losses in investment asset value arising due to climate change. Although overall losses are lower in some scenarios, under each there are pockets of assets that could lose significant value without action.

Impacts are more muted under the two IPR transition risk scenarios (forecast and required policy response) relative to the comparable NGFS scenarios (Net Zero 2050 and Delayed Transition). This arises from differences in the formation of the scenarios, including their allowance for future policy changes. The IPR scenarios are driven by potential “real world” policy decisions which incentivise greater economic investment in renewables and other cleantech solutions; and dampens the realisation of short-term transition risks that arise from a rapid rise in carbon prices in the NGFS scenarios. Overall, this reduces the cumulative stress under these scenarios out to 2050. This highlights the varied ways that climate change impacts could unfold and shows the importance of exploring multiple scenario narratives.

The highest impacts of the scenarios are where transition risk is the main driver and climate policy action is taken (either early or late). This highlights that the most material exposure to PUTM’s investment portfolio is expected to arise from transition risks.

PUTM’s investment portfolio has limited exposure to sectors and counterparties with direct physical risk such as property, energy, manufacturing and transport industries. However, there will be systemic impacts on other sectors and counterparties of physical risk events which have not yet been fully captured in the modelling due to their complexities. This is an area the Group plans to develop in the future by enhancing the analysis and reporting of exposure to physical climate risk.

Although a wide range of scenarios has been assessed, each scenario covers only one possible pathway through which climate risk may emerge. Real-life impacts may be more or less severe than those explored.

3.6 Conclusions

Overall, the importance of decarbonisation plans, stewardship activities and the use of climate solutions to the Group and PUTM's strategy is clear as they are key mitigants in ensuring the Group's investments decarbonise appropriately over time, either through the actions of the companies in which they are invested, or by actions pursued by the Group aligned to its investment strategies. This is key to building resilience to climate risk as it will help manage and reduce exposure to transition risks and better position the portfolio to exploit new opportunities.

Climate change presents opportunities as well as risks. As the investment portfolio has exposure to a wide variety of sectors and counterparties, there will be 'winners' that gain value as the scenarios unfold, such as renewable companies, and 'losers' that lose value as the scenarios unfold, such as oil and gas companies. This leads to offsetting movements in values within the portfolio and warns against a 'one size fits all' approach for managing counterparties within a sector as some companies are more willing or able to adapt to the green transition.

Engagement and stewardship will be key tools to help distinguish between such counterparties and this is key to the Group's sustainability strategy going forward. In addition, these tools not only aid the Group in reducing climate risk in the investment portfolio and achieving its targets, but they also encourage real world decarbonisation.

04 Risk management

Phoenix Group has a Group Risk Management Framework that applies throughout the Group. This framework is used across the Life Companies to ensure a consistent approach is taken to identifying, monitoring and managing risk.

You can read more in the [Group 2022 Climate Report](#).

The Group is exposed to various risks, including market risk and credit risk related to climate change as a result of the potential implications of a transition to a low carbon economy. Failure to manage these risks could result in a loss in the value of policyholder and shareholder assets. In addition, there are long-term market, credit, insurance, reputational, propositional and operational implications of physical risks resulting from climate change (e.g., the impact of physical risks on the prospects of current and future investment holdings, along with potential impacts on future actuarial assumptions).

The management of climate related risks has been embedded into the Group's Risk Management Framework (RMF). Significant progress has been made in recent years in developing a risk metrics and targets framework and establishing appropriate governance and risk management processes for this risk. These comprise of:

- annual stress and scenario testing;
- ongoing emerging risk, regulatory and market scanning;
- ongoing carbon footprinting exercises; and
- monitoring of progress against climate risk metrics and external targets.

Climate risk is integrated into the components of the RMF as follows:

- Risk strategy and culture: Sustainability and minimising environmental impact are key components of the Group's strategy. The Group has a specific sustainability strategy and set net zero carbon commitments for operations, supply chain and the investment portfolio.
- Risk appetite: The sustainability risk appetite statement as approved by the Group Board was updated during 2022 to reflect the Group's latest sustainability strategy. The Group has approved supporting climate risk appetite statements and metrics with footprints throughout the Risk Universe.
- Risk Universe: Climate risk is treated as cross-cutting risk, rather than standalone risk, as it can potentially impact all risk categories underlying the risk universe.
- Risk policies: All policies have been reviewed to ensure appropriate content is included for material climate risk exposures. Policies with a potential climate impact contain specific flags to ensure climate risk is clearly considered.

- Governance and organisation: Governance is led by the Group Board Risk and Group Board Sustainability Committees plus supporting management committees at the Group level. There is clarity on roles and responsibilities across the three lines of defence.
- Emerging risk: Climate and ESG risks continue to be monitored via the well-established emerging risk process, which also considers the evolving regulatory landscape. This is supported by forward-looking Own Risk and Solvency Assessment ('ORSA') monitoring.
- Strategic risk management: Climate risk is a principal risk and considered as part of risk oversight of strategic developments, e.g. Annual Operating Plan development, project reviews, ORSA, management actions and regular risk reporting.
- Risk and capital models: External tools have been sourced to support carbon foot-printing and climate scenario analysis. Models have been developed for internal climate scenario analysis with enhancements continuing to be made.
- Risk and control processes and reporting: A climate risk dashboard covering key climate risks is integrated into the Group's regular risk reporting. Minimum control standards are also in place for key policies.

Scenario analysis (which can be found in section 03 Strategy) and the assessment of climate metrics (which are disclosed in section 05 Metrics and Targets) form part of the Group's risk management approach.

05 Metrics and targets

As specified earlier, targets on climate action are set at the Group level, with all entities, including PUTM, contributing to delivery of these objectives, in line with the Group's Net Zero Transition Plan.

The investment portfolio metrics in this report are calculated using the PUTM figures as at 31 December 2022 and the latest available climate data. This differs from the Group 2022 Climate Report which uses figures as at 31 December 2021 and climate data at a different reference point.

Commentary is included in this section where PUTM's metrics are materially different from the Group. The evaluation methodology, source of data and key judgements are consistent to how metrics have been developed for Group in the Group Climate Report.

For any limitations, please see the limitations section within the appendices.

It is presumed that any future reports will include a year-on-year comparison to show progress. For now, and where appropriate, a comparison to Group level data for 2021 has been provided for context.

You can read more on metrics and targets in the [Group 2022 Climate Report](#) and the [Group's Net Zero Transition Plan](#).

5.1 Impact of the Group's operations

Given the nature and management of operational strategy and costs within Phoenix Group, where services are controlled and operated at the Group level and managed through service companies common across all entities, there is limited value in disaggregating/appportioning these to the entity level. Targets, metrics, progress and approach are addressed in the Group 2022 Climate Report.

5.2 Impact of the Group's supply chain

Given that several of the Group's key suppliers and most material emitters provide services and supply products across the Group's supply chain, these third parties aren't currently apportioned or contracted to PUTM specifically. In addition, Phoenix Group is currently undergoing an extensive exercise to enhance supply chain spend data quality and categorisation and align this more closely with the Group's taxonomy within its procurement and finance tools, in order to calculate supply chain emissions more accurately. Progress and the Group's approach are addressed in further detail within the Group 2022 Climate Report.

5.3 Carbon footprint of the investment portfolio

5.3.1 Approach and Methodology

The approach and methodology used for PUTM aligns to the Group climate disclosure. The calculations are based on PUTM's in-scope assets as at 31 December 2022. A comparison to Group level data, as disclosed in the Group 2022 Climate Report, is given for context below.

At 31 December 2022, assets held by PUTM represented 22% of the total AUA of the Group split by asset classes on post look through basis as follows:

		Group	PUTM	% of Group
Assets under Administration* (£bn)		259	57	22%
In scope assets (£bn)	Listed Equities & Credit	162	46	28%
	Government Bonds	42	8	19%
	Total	204	54	26%

Note: Real estate, illiquid credit and other assets are excluded for the 2022 climate report metrics

**The assets related to PUTM are reported in other group entities. PUTM administers assets on behalf of the life companies in the group. Therefore, assets listed for PUTM above will be presented across other entity reports.*

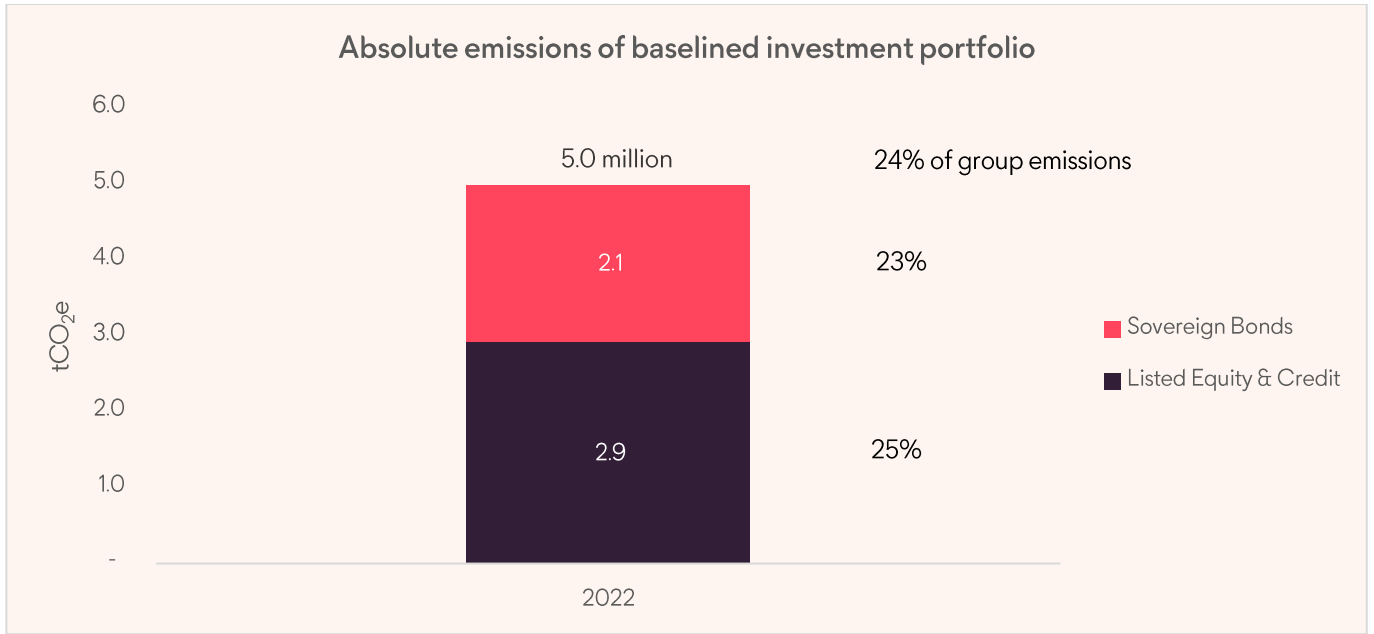
5.3.2 Absolute emissions of the investment portfolio of in-scope assets

Greenhouse gas emissions are categorised into three groups or 'Scopes':

- Scope 1 covers direct emissions e.g. use of natural gas, company car vehicle emissions.
- Scope 2 covers indirect emissions from the generation of purchased electricity, steam and heating.
- Scope 3 includes 15 other categories of indirect emissions in a company's value chain e.g., business travel and investments. Greenhouse gas emissions that occur as a result of financing, including lending and investment activity fall within Scope 3, category 15 of the GHG protocol and are referred to as 'financed emissions'.

Calculating absolute emissions

Measuring the financed emissions (Scope 1 and 2 emissions of investee assets) in absolute terms, i.e. tonnes of CO₂e, evaluates the investment portfolio's GHG exposure in the underlying investee counterparties and vulnerability to climate related risks. The financed emissions are calculated by multiplying the PUTM holding proportion of any given exposure, by the annual emissions of the respective investee company, country or underlying asset where emissions data is available.

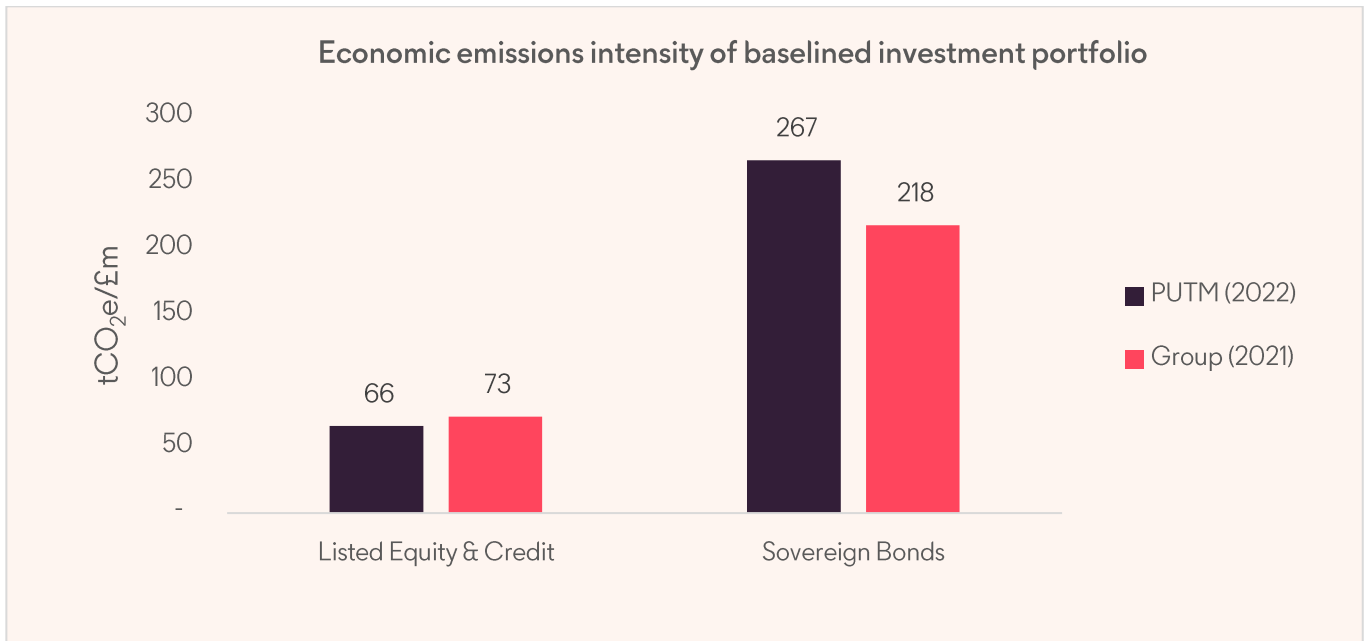


PUTM AUA as at 31 December 2022 was c.£57bn, which represent c.22% of the Group’s AUA. The AUA consists of policyholder assets. PUTM’s in-scope assets (listed equity and credit, and government bonds) were c.£54bn, representing c26% of the Group’s in-scope assets.

Analysis of carbon emissions baseline

This is the first year of carbon emission reporting for PUTM. For this initial reporting year, the financed emissions have been presented in respect of listed equity & credit as well as sovereign bonds. Analysis is currently restricted to these asset classes in year-end 2022 metrics due to data limitations. As such, absolute carbon emissions as at year-end 2022, based on available data, is 5.0 million tCO₂e (c. 24% of Group 2021 emissions for the equivalent asset classes) vs such asset being 26% of Group’s AUA for the same asset category. The majority (59%) of absolute emissions are driven by the listed equities & credit.

5.3.3 Economic emissions intensity of the investment portfolio



Analysis of economic emissions intensity baseline

Economic emissions intensity expresses portfolio emissions per £m of capital invested and enable comparison between portfolios of different sizes and over different time periods.

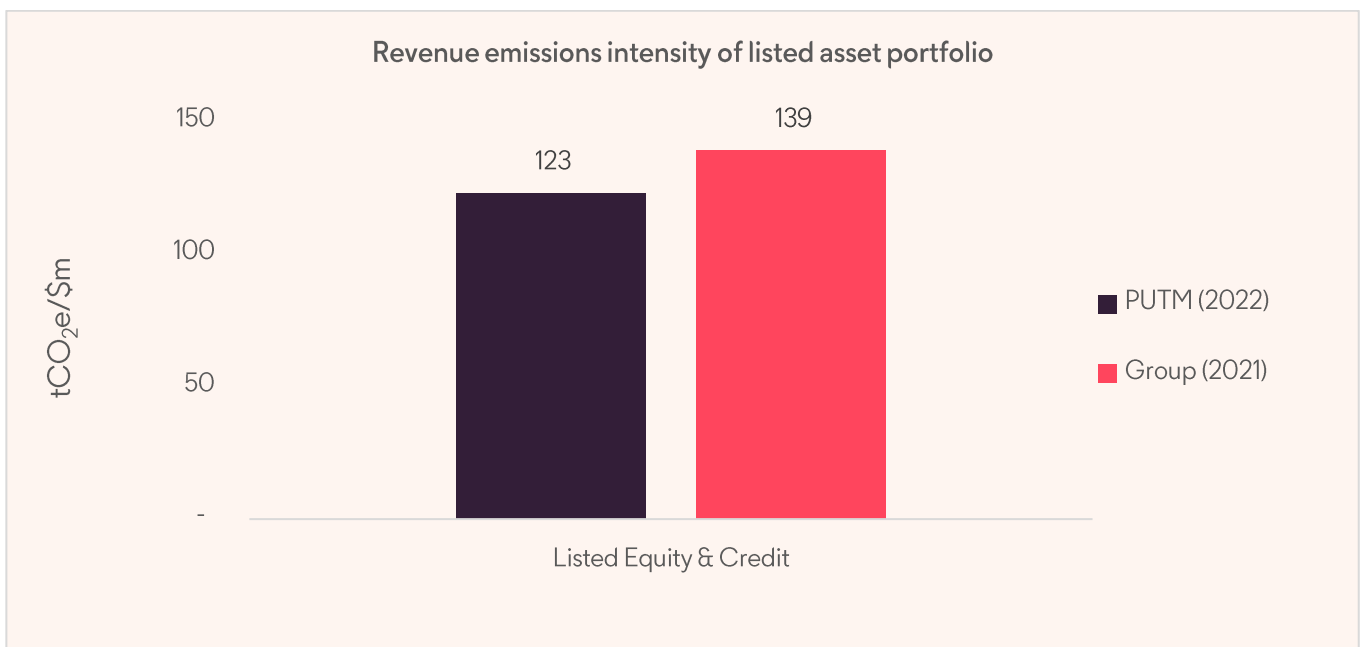
The economic emissions intensity of PUTM's investment portfolio will be presented in future years using the 2022 intensity as a comparator. For the current year, comparison to Group economic emissions intensity is provided for context.

Economic intensity for PUTM is 66tCO₂e/£m, lower than Group at 73tCO₂e/£m. This is mostly driven by its investments in the Materials sector being in assets with lower intensity when compared to Group.

The intensity of the emissions per £m is considerably larger for sovereign debt than for listed equity and credit due to the accounting method which results in double counting corporate emissions that take place within a country's borders. The relatively high intensity for PUTM's sovereign debt portfolio is on account to having a greater exposure than Group to the debt of countries that have a high carbon emissions profile.

5.3.4 Revenue Emissions intensity for listed asset portfolio

In line with TCFD metrics guidance, PUTM's emissions intensity have also been evaluated on a revenue basis for the listed equities & credit investments, that is the attributed GHG emissions per \$m of sales in the underlying companies. Revenue emissions intensity provides insight into carbon efficiency per unit of revenue and is a particularly useful metric for comparing companies within sectors. (For comparability this metric is provided in USD.)



Analysis of revenue emissions intensity

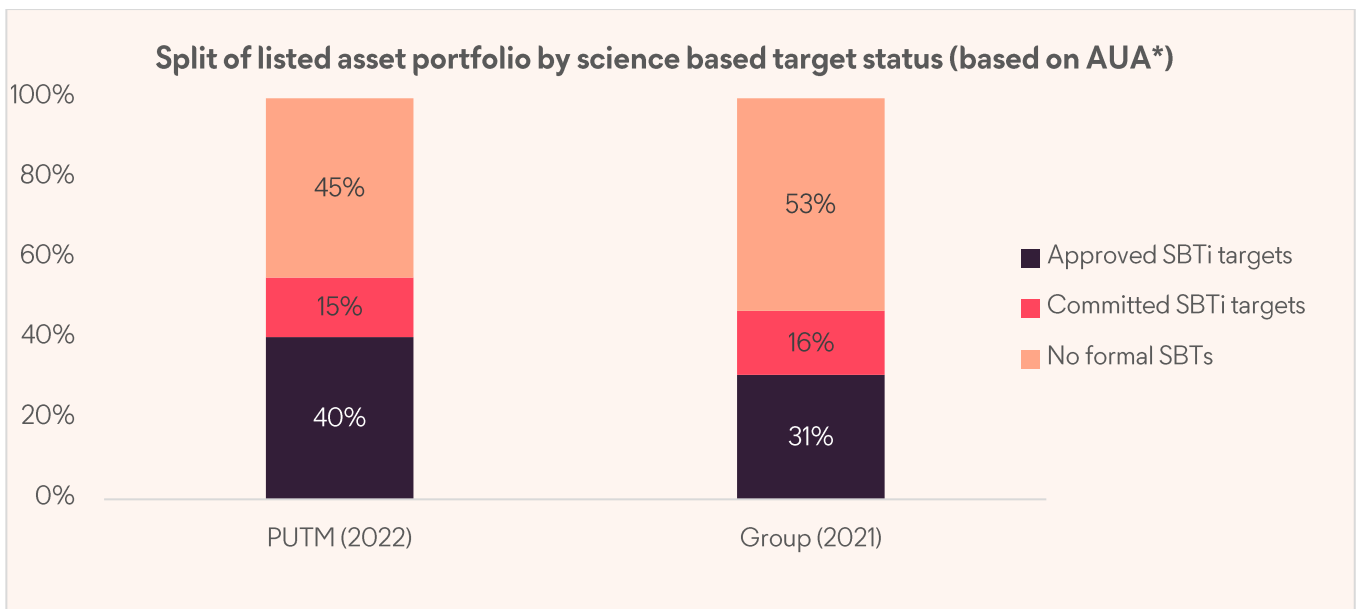
Revenue intensity for PUTM is 123tCO₂e/\$m, lower than Group at 139tCO₂e/\$m. Group figures are for year end 2021 and are provided to give a broad context, with the difference partly explained by post-COVID19 corporate revenues rising faster than emissions causing intensities to fall. The PUTM Revenue intensity is driven by investments in Energy, Materials, Industrials and Utilities sectors.

5.4 Climate alignment

5.4.1 Approach & Methodology

Investments that are 'aligned' with the goals of the Paris Agreement, and therefore a net zero economy, are resilient to climate related risks. In the PUTM portfolio this has been evaluated by considering the percentage of investments that has set targets that comply with the Science Based Targets Initiative (SBTi).

5.4.2 Split of listed equity & credit portfolio by science-based target



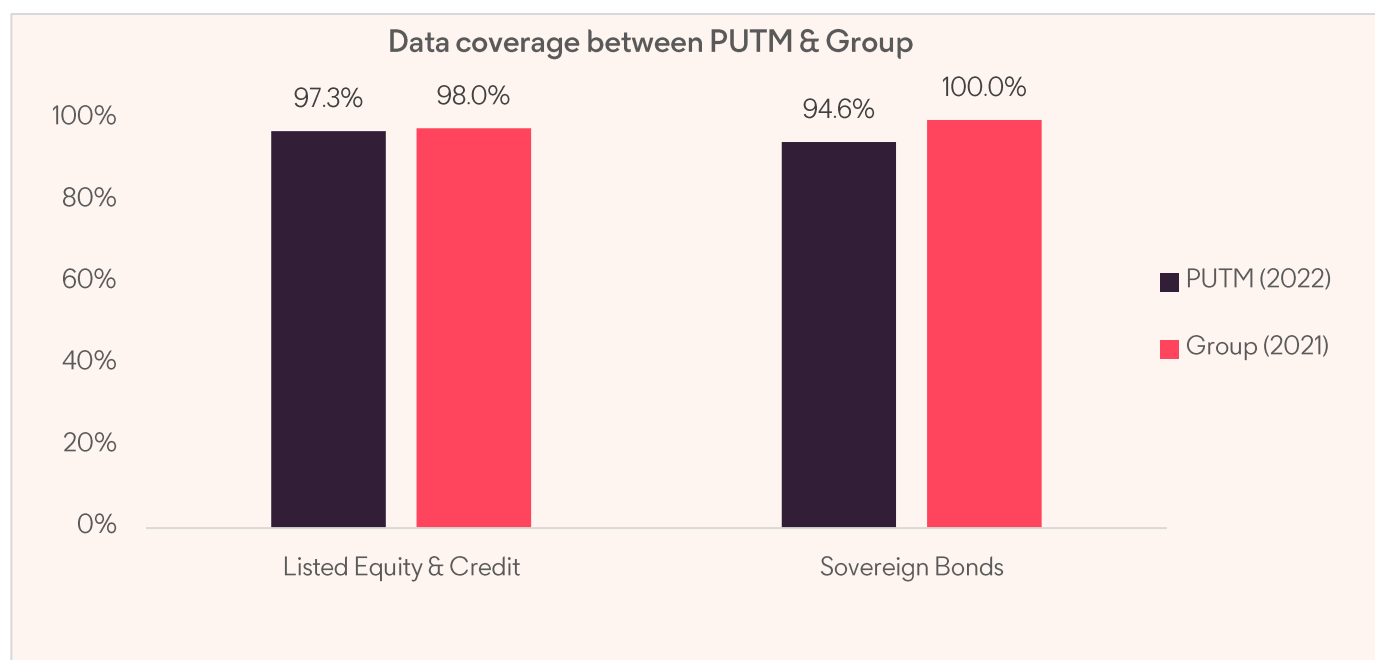
* PUTM in-scope AUA represent c.28% of the Group's in-scope AUA (Listed Equity & Credit)

As at year-end 2022, 55% of the assets based on in scope AUA (listed equity and credit) were invested in counterparties that had committed to set or already approved science-based targets (SBTi). This is higher than the overall group position in 2021 which showed 47% of assets in scope. Although higher than group, PUTM identifies the need for further enhancement to counterparty engagement.

The difference is partly explained by the fact that over time the share of the portfolio with SBTi increases due to the growing focus on decarbonisation targets grounded in the best available climate science. The Group's stewardship activities continue to encourage investee counterparties to adopt such targets.

5.5 Data coverage and quality

5.5.1 Data Coverage of in-scope assets



Analysis of data coverage

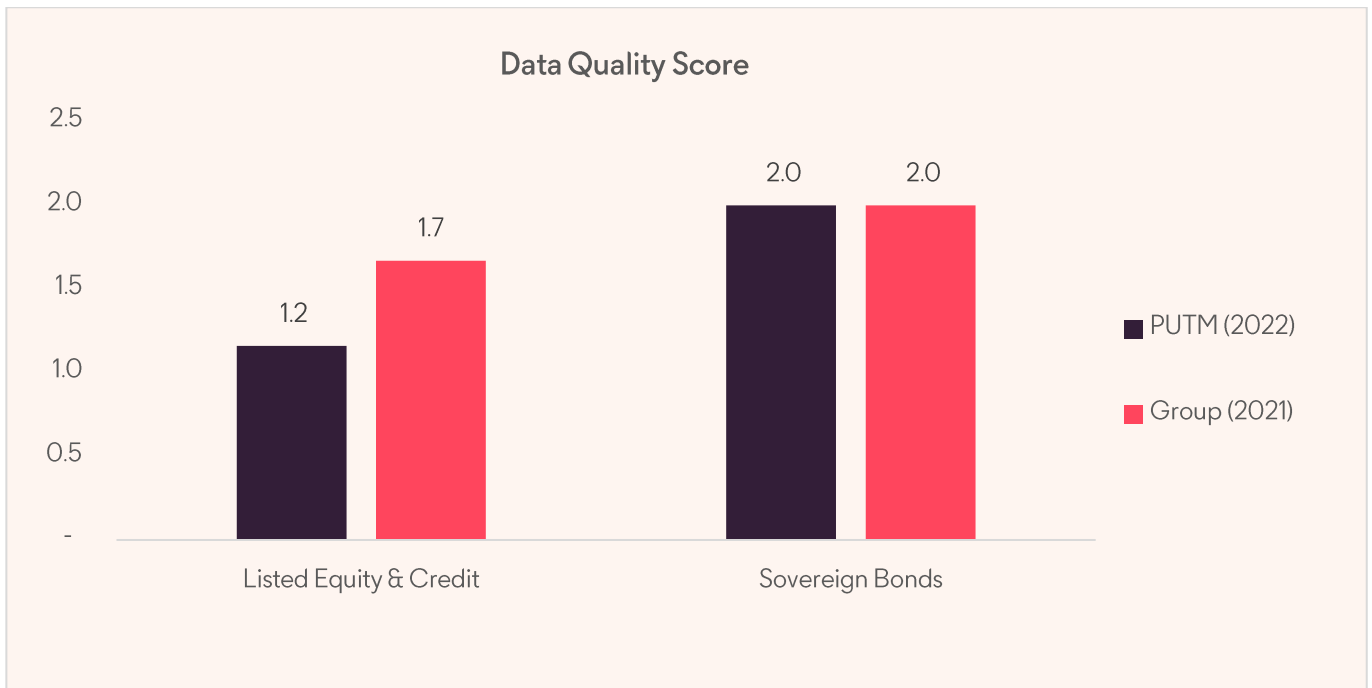
The data coverage metric represents the proportion of PUTM's investments where financed emissions calculations are available. The data coverage metric has been published for each asset grouping and this is expected to improve over time with improving data availability and collection methods.

PUTM will continue to work with climate data providers to improve data coverage across all asset classes. For 2022, the coverage across both Listed Equity and Credit and the Sovereign Bond categories was lower than that of Group on account of a new data source for asset mapping.

5.5.2 Data Quality of in-scope assets

Robust decision-making is enabled by the consideration of high-quality carbon profile data.

In the interest of transparency, PCAF has developed a data quality hierarchy that allows the scoring of the quality of emissions data of individual companies. Data scores range from 1 to 5 with the highest standard of disclosed and verified emissions scoring 1, with corporate emissions that are based on industry estimates scoring 5. PCAF considers reported data to be of better quality than estimated or extrapolated data.



Analysis of data quality

When considering the portfolio emissions, the large majority are attributed to counterparties that have the highest data quality score. PUTM's total portfolio score is 1.3 at year-end 2022 (compared to 1.9 for Group as at year end 2021).

However, whilst this is a considerable improvement, even attaining the highest score by using only reported data is only as good as the accuracy of evaluating emissions in the corporate disclosures of the investee companies.

The data quality score for sovereign debt has been assessed at 2 due to the use of GHG emissions data which is being validated. PUTM will continue to broaden its data sources over time to help improve the completeness and quality of reported data especially as asset classes in scope are extended.

06 Appendices

Glossary of terms

AUA/AUM (Assets Under Administration/Assets Under Management)

Assets which the entity holds under administration (AUA) or directly manages (AUM).

Carbon footprint

Carbon footprint is the total greenhouse gas (GHG) emissions caused by an individual, event, organisation, service, place or product, expressed as carbon dioxide equivalent (CO₂e).

Climate scenario

A plausible representation of future climate that has been constructed for explicit use in investigating the potential impacts of anthropogenic climate change.

CBES (Climate Biennial Exploratory Scenario exercise)

Bank of England exercise to explore the financial risks posed by climate change for the largest UK banks and insurers.

Economic emissions intensity

Economic emissions intensity is the level of GHG emissions per unit of economic activity.

ESG (Environmental, Social and Governance)

ESG criteria are a set of standards that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls and shareholder rights.

FCA

The Financial Conduct Authority regulate the conduct of over 50,000 firms in the UK to ensure good customer outcomes.

Financed emissions

Greenhouse gas emissions that occur as a result of financing, including lending and investment activity. These activities fall within Scope 3, category 15 of the GHG protocol.

GHG (Greenhouse gases)

Gases which warm the earth at different intensity levels such as water vapour, carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydro chlorofluorocarbons (HCFCs), ozone (O₃), hydrofluorocarbons (HFCs), and perfluorocarbons (PFCs).

Look-through

Data that shows the composition of the underlying securities held in a fund.

Net zero

A state where no incremental greenhouse gases are added to the atmosphere. Emissions output is balanced with removal of carbon from the atmosphere.

Paris alignment/agreement (UN Climate Change Conference of the Parties – COP21)

Goal set by the global Paris climate change deal in 2015 to hold global average temperature increase to 'well below 2 degrees Celsius above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels'.

Patient capital

Patient capital is another name for long term capital. With patient capital, the investor is willing to make a financial investment in a business with no expectation of turning a quick profit.

PCAF (Partnership for Carbon Accounting Financials)

Global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the greenhouse gas (GHG) emissions associated with their loans and investments.

Physical risk

The physical impacts resulting from climate change which could result in long-term market, credit, insurance, reputation, proposition and operational implications.

RMF

This is the Risk Management Framework of the business.

Stewardship

Use of influence to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend.

SBT (Science Based Targets)

An emissions reduction target is defined as 'science-based' if it is developed in line with the scale of reductions required to keep global warming below 2°C from pre-industrial levels.

TCFD

Task Force on Climate-related Financial Disclosures created by the Financial Stability Board to improve and increase reporting of climate-related financial information.

Transition risk

Market and credit risk related to the transition to a low carbon economy.

Methodology

Extract from Group 2022 Climate Report

Calculating absolute emissions

Measuring financed emissions (Scope 1 and 2) in absolute terms, i.e., metric tonnes of CO₂e, provides a baseline for climate action to align with the Paris Agreement. The financed emissions are calculated by multiplying the proportion of any given exposure, by the emissions of the respective investee company, country or underlying asset (depending on the asset class in question):

$$\text{Absolute emissions for listed equity and listed credit} = \sum_c \frac{\text{Outstanding amount}_c \times \text{Company Emissions}_c}{\text{Enterprise Value including Cash}_c}$$

$$\text{Absolute emissions for sovereign debt} = \sum_c \frac{\text{Outstanding amount}_c \times \text{Country Emissions}_c}{\text{PPP Adjusted Gross Domestic Product}_c}$$

Calculating financed emissions for listed equity and credit – emissions intensity method

When the absolute emissions figure is not normalised for the size of the company or investor, it does not allow for comparison across companies, portfolios or different time periods. To address this challenge, the weighted average of economic intensity is calculated using the following formulae:

$$\text{Weighted average of economic intensities} = \frac{\sum_c \text{Holding Value}_c \times \text{Carbon Emissions Intensity (Economic)}_c}{\sum_h \text{Portfolio Holding Value}_h}$$

Where for listed debt and equity:

$$\text{Carbon Emissions Intensity (Economic)}_c = \frac{\text{Carbon Emissions}_c}{\text{Enterprise Value including Cash}_c}$$

Where for sovereign debt:

$$\text{Carbon Emissions Intensity (Economic)}_c = \frac{\text{Carbon Emissions}_c}{\text{PPP Adjusted GDP}_c}$$

The weighted average of revenue intensity for listed equity and credit assets is also calculated:

$$\text{Weighted average of economic intensities} = \frac{\sum_c \text{Holding Value}_c \times \text{Carbon Emissions Intensity (Revenue)}_c}{\sum_h \text{Portfolio Holding Value}_h}$$

Where for listed debt and equity:

$$\text{Carbon Emissions Intensity (Revenue)}_c = \frac{\text{Carbon Emissions}_c}{\text{Revenue}_c}$$

Other metrics

Calculating SBTi-aligned companies

Science Based Targets are targets that, based on the latest climate science, have objectives that are consistent with the goals of the Paris Agreement. A key climate 'alignment' metric is percentage of AUA Invested in companies that have Science Based Targets (SBTs). This evaluates how aligned a portfolio is to a net zero economy and therefore how resilient it is likely to be to transition risk. This metric is evaluated based on whether an investee company has affiliated itself with SBTi – either it has committed and is in the process of setting science-based targets or that it has already set its targets and had them approved by SBTi.

Data quality scores

The data quality score is used to indicate the quality/reliability of the source data used to derive emissions values for individual Issuers. The Portfolio Data Quality Score is the Market Value weighted sum of Data Quality scores for the constituent holdings.

PCAF defines a data quality scale with 1 being the most reliable and 5 the least. The approach used here, is calibrated in line with the PCAF approach insofar as possible.

The weighted average score is calculated as follows:

$$\text{Data Quality Score} = \frac{\sum \text{Holding}_n \text{ Data Quality Score}_n \times \text{Market Value}}{\sum \text{Holding}_n \text{ Market Value}_n}$$

High transition risk

'Transition risk' – the technological, market, legal and reputational risk of a transition to a net zero economy – is the key climate change risk that affects the Group's investments portfolio. A number of sub-industries within four carbon intensive GICS sectors were qualitatively identified as being exposed to elevated levels of transition risk. The metric is evaluated by expressing the value of these holdings as a % of AUA of the listed assets portfolio.

Scope 2 emissions using GHG Protocol

Phoenix Group reports Scope 2 emissions using the GHG Protocol dual-reporting methodology, stating two figures, location and market-based, to reflect the GHG emissions from purchased electricity:

- a location-based method that reflects the average emissions intensity of the national electricity grids from which consumption is drawn; and
- a market-based method that reflects emissions from electricity specific to each supply/contract. Where electricity supplies are known to be from a certified renewable source, a zero emissions factor is used, otherwise residual mix factors are used.

Please note calculations such as those described in this section require the application of a number of key judgements for which processes exist that are defined between the Group's and Entity's reports.

Reporting limitations

During the course of production of the **Phoenix Unit Trust Managers Limited** 2022 entity report, limitations to disclosures have been noted and are presented in the table below.

Limitation	Implication
Asset data coverage limitations	The total in-scope assets are limited by the climate look-through data availability, which will be calculated going forward. All metrics are calculated on a look-through basis.
Asset type coverage limitations	Asset types included are listed equities and credit, and sovereign bonds. These will be extended going forward to other asset classes.
Use of external providers for data	There is a reliance on external data providers for look-through and climate data for climate metrics.
Scope 3 data/metrics	No scope 3 metrics have been produced, the data availability and transparency are limited at this stage.
Proxies for data inputs	For listed equities and credit, where reported emissions data is not available, modelled data is used, based on sector averages. The use of proxies is reflected in the data quality scores. For sovereign bonds, where scope 2 data coverage varies to scope 1 data the scope 2 data is scaled accordingly (based on existing scope 2 data) to ensure equal data coverage.
Policy and shareholder assets	The quantitative analysis and metrics section currently does not distinguish between policyholder assets and shareholder assets; calculations are based on the overall AUA and the in-scope asset classes.

Reporting enhancements

Management will look to expand on the following reporting elements for future publications of the entity report.

Reporting elements	Timeframe & disclosures
Data limitations in metric production and coverage	As the maturity of data in the climate change sector improves, data coverage across the currently disclosed asset classes and look-through data are expected to improve over the future periods.
2023 financial reporting year release	The expectation is that there will be greater harmonizing across the Group and Entity reporting reference dates over future periods.
Comparative baseline data	The first-year reporting for FY2022 will be built upon to provide comparative data from 2023 onwards.
Extension of asset types	For the year-end 2022 there is no disclosure for illiquid instruments, such asset types will be included in the future entity reports.
Inclusion of Supply Chain and Operations based targets and metrics	The current maturity over the data available for the supply chain and operations on an entity level has led to the exclusion of these areas for FY2022. Metrics to apportion entity impacts (e.g. pro rata) would come with significant issues on accuracy and it is unlikely to be fit for the purpose of tracking progress. Future entity reports look to add further details around its operations and supply chain whether leveraging off the group or producing on the entity level.
Breakdown between policyholder and shareholder assets	Further enhancement of the data, calculations and reporting processes are expected to result in more granularity and flexibility of the data outputs, including a breakdown between policyholder assets and shareholder assets.

Statement of Compliance

This compliance statement confirms that the disclosures in this report have been prepared in accordance with the TCFD recommendations and are compliant with the disclosure requirements documented in the FCA ESG Sourcebook and FCA Policy Statement 21/24.

Craig Baker
PUTM Chief Executive Officer

30/06/2023

Contact us



In line with our climate disclosure and our commitment to reduce our environmental impact, you can view key information on our websites:

www.phoenixunittrust.co.uk

www.thephoenixgroup.com

Registered address

Phoenix Group Holdings plc

20 Old Bailey

London

EC4M 7AN

Registered number 11606773

Forward looking statements

Basis of preparation

The reader should be aware that this report and the information contained within it, is prepared on the following basis:

The preparation of this report requires the application of a number of key judgements and also requires assumptions and best estimates to be made at a given point in time. The key areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to this report, include: financed emissions, operational emissions and climate scenario analysis. There is a risk that the judgement exercised, or the estimates or assumptions used, may subsequently turn out to be incorrect. These judgements and resulting data presented in this report are not a substitute for judgements and analysis made independently by the reader; Climate disclosures in the 2022 Climate Report use a greater number and level of judgements, assumptions and estimates, including with respect to the classification of climate related activities, than the Group's and PUTM's reporting of historical financial information. These judgements, assumptions and estimates are highly likely to change over time, and, when coupled with the longer time frames used in these disclosures, make any assessment of materiality inherently uncertain. In addition, the Group's and PUTM's climate risk analysis and net zero transition planning will continue to evolve and the data underlying the Group's and PUTM's analysis and strategy remain subject to change over time. As a result, the Group and PUTM expect that certain climate and ESG disclosures made in this report are likely to be amended, updated, recalculated or restated in the future;

This report uses climate models, external climate data and other sources/methodologies, each of which are subject to ongoing refinement and modifications beyond our control;

The outputs of these models, external data and other sources/ methodologies can be materially affected by the quality of the underlying data used. They may be subject to uncertainties affecting the accuracy of their outputs. There is a risk that the outputs may be misinterpreted or misused when dealing with developing themes, such as climate-related disclosures and other environmental, social and governance data points, due to the lack of market standards, historical reference points and benchmark data, as well as the inability to rely on historical data as a strong indicator of future trajectories, in the case of climate change and its evolution;

In general, the quality of the data relied upon in climate and ESG reporting is often not yet of the same standard as more traditional financial reporting and therefore presents an inherent limitation. Further development of reporting standards could materially impact the performance metrics, data points and targets contained in this report; and

As standards, frameworks and practices continue to evolve, it may mean subsequent reports do not allow a reader to compare performance metrics, data points or targets from one reporting period to another, on a direct like-by-like basis.

Forward looking statements

The 2022 Climate Report contains, and the Group and PUTM may make other statements (verbal or otherwise) containing, forward looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives. Statements containing the words: 'believes', 'budget', 'forecast', 'intends', 'will', 'may', 'should', 'expects', 'plans', 'aims', 'seeks', 'targets', 'predict', 'outlook', 'goal', 'continues', 'projected', and 'anticipates' or other words of similar meaning are forward-looking. Such forward looking statements and other financial and/or statistical data involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control.

Forward looking statements may be affected by:

- changes in legislation;
- industry and regulatory standards;
- the development of standards and interpretations including evolving practices in ESG and climate reporting with regard to the interpretation and application of accounting;
- climate change and a transition to a low-carbon economy (including the risk that the Group may not achieve its targets);
- the limitation of climate scenario analysis and the model that analyse them;
- lack of transparency and comparability of climate-related forward-looking methodologies;
- environmental, social and geopolitical risks;
- the Group's and PUTM's commitment to continue to deliver good customer outcomes; and
- the Group's and PUTM's ability with government and other stakeholders to manage and mitigate the impacts of climate change effectively.

As a result, the Group's and PUTM's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements and other financial and/or statistical data within the 2022 Climate Report. No representation is made that any of these statements will come to pass or that any future results will be achieved. As a result, you are cautioned not to place undue reliance on such forward-looking statements contained in this 2022 Climate Report.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. The forward-looking statements speak only as the date on which they are made. The Group and PUTM undertakes no obligation to publicly update or revise any of the forward-looking statements or data contained within the 2022 Climate Report or any other forward-looking statements or data it may make or publish whether as a result of new information or for any other reason.

This forward-looking statement in relation to climate-related metrics should not be regarded as a complete and comprehensive statement and should be read together with the Forward-looking statements and the risks identified in the Risk Management Report on pages 56-67 of the Group 2022 Annual Report and Account.