Phoenix

Stewardship Report 2022

Phoenix Group Holdings plc

At Phoenix Group, we support an ambitious definition of effective stewardship of our customers and shareholders' assets based on dialogue, feedback, relationships and clear outcomes-oriented objectives to foster more sustainable returns.

Our 2022 reporting suite

Annual Report

Sustainability Report

Climate Report

Net Zero Transition Plan

Access the full reporting suite at thephoenixgroup.com →

Assurance statement
The Group has appointed Ernst & Young LLP ('EY') to provide limited independent assurance over selected climate-related disclosures content within this report 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 page 105 of this report.

Key terms
Please see the glossary on pages 102 and 103 for an explanation of key terms used throughout this report.

Data and figures shared in this report are at and for the year ended 31 December 2022.

This document has been approved by the LifeCo Board and the Phoenix Group Holding Board, and signed by our CEO and CIO.

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Throughout this document we highlight activities across our key priorities: climate change; nature; human rights; controversies; and corporate governance. We also disclose activities delivered directly by Phoenix and indirectly by our asset management partners.
These are signified by:

Key priorities

Climate change · Nature · Human rights · Controversies · Corporate governance

Delivery ownership

Phoenix · Asset management partners

Foreword – Andy Briggs, CEO

"Our purpose is helping people secure a life of possibilities. As the UK's largest long-term savings and retirement business, we have the responsibility and opportunity to make a difference to our customers' financial futures. We want to support them on their journey to and through retirement and meet more of their existing needs, while helping to drive a low-carbon, fair and more secure future."

There are major challenges facing society today that our customers and shareholders quite rightly expect us to take action on. As a large asset owner, we have the size and scale to drive real change for the benefit of all our stakeholders, and a key way we aim to deliver this is through our sustainable investment and stewardship activity. Our Company purpose guides our sustainable investment approach and beliefs. And our commitment is driven and overseen by our Board and Executive Committee, embedded into our business and strategy, and enabled by our colleagues and specialist teams, who are passionate about delivering on our purpose.

We support an ambitious definition of effective stewardship of our customers and shareholders' assets. We believe engaging with investee companies and exercising our investors' rights can drive better corporate behaviours, which is expected to also lead to stronger and more sustainable financial outcomes.

It is vital that we focus on the big issues that are impacting companies, such as climate change, nature, human rights and controversies to safeguard the interests of our customers and shareholders, and create a better future for all our stakeholders. We are dedicated to managing the risks and understanding the opportunities associated with these themes to optimise returns. This is underpinned by our clear expectations on sound governance practices of investee companies. It is also vital we work collaboratively with our asset management partners, peers and industry initiatives to embed best practice and drive sector and investee company action to enable real-world change.

We are fully committed to becoming a signatory to the UK Stewardship Code 2020. The Code is a clear framework that guides our stewardship activity and approach, as well as the disclosure you will read within this document.

I am proud of all we have achieved across 2022 in embedding our stewardship priorities and approach. We are aiming high and still have more to do. We have set ourselves objectives and targets for 2023 and beyond to be good stewards of our customers and shareholders' assets and deliver positive outcomes for all our stakeholders.

Andy Briggs
Group Chief Executive Officer

Foreword – Michael Eakins, CIO and Valeria Piani, Head of Stewardship

"Being a purpose-driven organisation supports our commitment to drive better sustainability and financial performance from the companies in which we invest. Stewardship is a core tool at our disposal to ensure corporate management receives feedback, support and constructive challenge in order to protect the long-term returns of our customers and shareholders. Our stewardship journey has started and there is no doubt that we will develop it further in the years to come."

2022 has been an ambitious year for Phoenix asset management's stewardship journey. We have focused on identifying and filling gaps to ensure we have the capabilities to be a leading voice in the industry. We have allocated increasing resources to our in-house stewardship function and set the building blocks to support an outcomes-oriented approach. We believe that 'quality' comes before 'quantity' and have embraced a focused strategy based on selecting key Environmental, Social and Governance ('ESG') priorities, identifying companies to target, and conducting in-depth research to support our dialogue with investees. As a large asset owner exposed to material ESG systemic risks across portfolios, we also communicate our long-term investor view during our engagements with investee companies.

The launch of our climate engagement programme, which covers 40%^ of our financed emissions in highly emitting sectors, is a good example of how we intend to tackle issues which can impact our ability to help secure a life of possibilities for our customers. We are taking similar actions on human rights and company controversies and we intend to further advance our approach to nature.

Our story would not be complete without acknowledging the crucial role played by our asset management partners. Our managers are at the forefront of the dialogue with invested companies and we encourage them to embrace a holistic view of stewardship as an integral part of the investment process.

In 2022, we improved the monitoring process of our managers through the application of our enhanced ESG assessment framework by our in-house dedicated teams. This has helped us identify strengths and areas for further improvements on voting and engagement activities.

We are dedicated to fostering better communication and information flows from asset managers to asset owners. While we have collected insightful data from our managers during our annual due diligence activities and in compiling this report, we believe that there is a need for more standardised quantitative and qualitative information on the outcomes of stewardship activities across asset classes. We are fulfilling this goal through both direct dialogue with our managers and our active participation in industry initiatives. We intend to keep this as a key area of engagement in 2023.

We see the benefits of collaboration within the industry, and we believe it is vital to promote a regulatory environment that enables successful stewardship in the investment value chain. We will continue to actively work with policy makers to achieve this goal, while fostering our dialogues with companies and asset managers.

Michael Eakins
CIO

Valeria Piani
Head of Stewardship

Executive summary

Key statistics from our research

40^%
of financed emissions in highly emitting sectors, from 25 companies, covered by our direct climate change engagements

12
companies engaged on United Nations Global Compact ('UNGC') breaches, seven showing progress against objectives

6
coalitions on human rights joined

29
industry initiatives we are active in to address ESG systemic risks

>90%
of assets covered by our ESG assessment framework for asset managers

>80%
of our customers share our concerns on climate change, nature and human rights

41%
of meetings by asset management partners covered social issues

56%
of meetings by asset management partners covered governance issues

96–100%
of resolutions voted on by our asset management partners

c.3,800
engagements with c.1,300 companies conducted by our asset management partners

59%
of meetings by asset management partners covered environmental issues

29^%
of financed emissions in highly emitting sectors, from 464 companies engaged on climate change by our asset management partners

We are a savings and retirement business with £259 billion assets under administration and c.12 million customers, served by a range of products across our pensions, savings and life insurance brands. Our purpose is helping people secure a life of possibilities and we will deliver this by growing a strong and sustainable business that supports our customers on their journey to and through retirement. Our sustainable investment and stewardship strategies are key enablers to fulfil this vision and safeguard the interests of our customers, shareholders, and other stakeholders. See chapter 1 →

We support an ambitious definition of effective stewardship of our customers and shareholders' assets based on dialogue, feedback, relationships and clear outcomes-oriented objectives to foster more sustainable returns. This definition applies to us when conducting activities through our in-house stewardship team and it is part of our expectations of asset managers who undertake many interactions with investee companies on our behalf. This Stewardship Report articulates our journey, which started with the new governance and suite of policies that we have established to support our activities (see chapter 2 →) and continued with actions we have taken directly, through coalitions of investors and delegated dialogue by our asset management partners. See chapter 6 →

Executive summary continued

Defining our focus ESG issues to engage on

In 2022, we identified the key ESG priorities for stewardship and portfolio monitoring by taking into considerations our customer views, insights from our recent materiality assessments, potential impacts on our portfolios across regions and sectors, availability of data and the existence of collaborative initiatives to join. As a result, we decided to focus on addressing the risks and opportunities associated with climate change, nature, human rights and controversies linked to the breach of the UNGC Principles. Our recent research has indicated that more than 80% of our customers share our concerns on these key ESG topics. See chapter 3 →

Climate change

We have set up ambitious decarbonisation goals for our portfolios to achieve net zero in 2050 with short- and mid-term targets, combined with a comprehensive climate engagement plan (see chapter 5 →). Our direct engagement programme is targeting 25 companies (19 of those being in the Climate Action 100+ list) related to 40^% of our financed emissions in highly emitting sectors (using a 2019 baseline across our corporate equity and credit portfolios). Moreover, in 2022, our asset management partners have engaged with 464 companies on climate change, covering an additional 29^% of financed emissions in highly emitting sectors. In this report, we have shared more information on the insights from our initial analysis on the 25 focus companies and the work we are doing to monitor the dialogue conducted by our managers. See chapter 6 →

Nature

Nature-related impacts are interconnected with climate change and success in one fundamentally depends on the success of the other. We have started taking action by piloting the Taskforce on Nature-related Financial Disclosures ('TNFD') framework, LEAP ('Locate, Evaluate, Assess, Prepare') monitoring portfolios (see chapter 5 →) and supporting emerging collaborative initiatives, such as Nature 100 ('NA100'). See chapter 8 →

Human rights

Human rights include a wide range of protections and freedoms. We aim to implement the United Nations Guiding Principles on Business and Human Rights ('UNGPs'), the global framework on business and human rights, which stipulate investors' responsibility for preventing, mitigating and accounting for how they address adverse human rights impacts. We have shaped and joined a new collaborative initiative, Advance, co-ordinated by the Principles for Responsible Investment ('PRI') initiative to foster the implementation of the UNGPs by companies in the mining and utilities sector. We have been selected to lead two and join four other coalitions within Advance. See chapter 6 →

In addition, we use the UNGC principles as a reference framework to identify companies at the centre of severe controversies showing misalignment with international standards on human rights, labour rights, environmental and climate change issues, and anti-bribery and corruption efforts. In 2022, we launched a programme to engage with 12 companies on alleged controversy cases and we joined collaborative dialogues co-ordinated by a third-party provider. We were pleased to assess that 58% of the companies in the list have shown positive progress against the engagement objectives set. See chapter 6 →

Executive summary continued

Corporate governance

We support sound corporate governance practices and remuneration policies that reward the creation of long-term shareholder value along with the right outcomes for all stakeholders of investee companies. We see these as enabling factors to achieve progress on our selected ESG themes. In 2022, we developed our first Global Voting Principles, which provide a solid framework to promote effective corporate governance and monitor the voting activities of our asset management partners. In this report, we share some of the insights from a commissioned analysis on the voting direction of our managers. We have noted differences in the approach to voting across our managers and we intend to address the current level of inconsistency over the coming years. See chapter 7 →

We are an asset owner operating with various delegated approaches to investments through asset managers. Consequently, the effective selection, appointment and monitoring of these managers is essential to meet the needs of our customers and shareholders. In 2022, we enhanced an internal ESG questionnaire and assessment methodology for managers, which has since been rolled out for selecting new managers and monitoring managers responsible for 91% of our assets. Through this exercise, we were able to better understand our managers' strengths and weaknesses and this helped to define a structured dialogue to enhance their practices. See chapter 4 →

Working collaboratively with our asset management partners

In 2022, our asset managers engaged with more than 1,300 companies through more than 3,800 engagement meetings covering all our ESG priorities. However, we received quantitative evidence of engagement objectives being set for only 17% of these dialogues. We are feeding back to our asset management partners on how they might strengthen their processes through improved objective setting and outcome reporting. See chapter 6 →

In 2022, our asset managers voted on between 96 and 100% of eligible resolutions on our behalf using their customised voting policies. While we were pleased to see that they are exercising this right on our behalf on a large scale, we noticed that some of our managers are conservative in the use of voting and thus are missing the opportunity to challenge companies. See chapter 7 →

Addressing market-wide and systemic risks

In 2022, we faced several prominent systemic risks as a business from ongoing inflationary pressures, increasing inequality, geopolitical instability, the climate change crisis and the current level of nature degradation. These risks do not only impact Phoenix as a company, but also our employees, our customers, broader society and the markets we invest in. These risks cannot be fully avoided or diversified and they will, or are already, impacting the economy as a whole. This is why we actively supported 29 industry initiatives and worked with policymakers and standard setters to address them in the long term. See chapter 8 →

We intend to become signatories to the UK Stewardship Code and have submitted this report to the FRC for its consideration. Appendix 1 includes a reference table to guide our readers on finding supporting evidence against the 12 Principles of the Code. **See Appendix 1 →**

2022 key achievements and future priorities

2022 – We are proud of what we have achieved so far in our journey

- Developed a full suite of policies and new governance structure to support our stewardship efforts
- Continued to build our internal stewardship team
- Established our ESG priorities for stewardship and portfolio monitoring on climate, nature, human rights and controversies which are guiding our dialogue with companies, asset managers and policymakers
- Launched our climate change engagement programme with 25 highly emitting companies in connection with Climate Action 100+ ('CA100+')
- Established our engagement programme linked to breaches of the UNGC Principles
- Joined a large collaborative initiative focused on human rights in the mining and utilities sectors
- Enhanced our internal assessment framework and escalation process to monitor the ESG capabilities of our asset management partners covering 91% of our assets
- Monitored the voting activities of our asset management partners and established a strategy to decrease inconsistencies on votes cast on our behalf
- Researched our customers across our consumer brands to elicit their views on responsible investment and ESG issues of concern, to inform our stewardship activities
- Participated in several industry initiatives, conducted direct dialogue with regulators and responded to consultations to address identified systemic risks

2023 and beyond – We are dedicated to continuing to improve and evolve our stewardship approach

- Continue our dialogue with investee companies on climate change, human rights and controversies to drive company performance and outcomes
- Define our engagement approach on nature-related risks and opportunities
- Progress on the implementation of climate-aware benchmarks taking into consideration insights from our stewardship programme
- Test our Global Voting Principles for 100 selected companies and continue monitoring the voting activities of our asset management partners to support our engagement activities
- Work with our asset management partners to improve quantitative and qualitative information on the outcomes of their stewardship activities conducted on our behalf
- Update our ESG assessment framework to further tailor expectations of asset management partners across asset classes and our ESG priority topics (e.g. human rights and nature)
- Refresh relevant policies, ensuring alignment with ESG regulatory obligations and measure effectiveness of our new governance structure to facilitate our stewardship activities
- Continue researching our customers' views on an annual basis and raise more awareness amongst them on the impact of their investments
- Continue assessing the effectiveness of dialogue with policymakers and standard setters to address identified systemic risks

1. Our purpose and strategy

At a glance

Who we are

Phoenix Group is the UK's largest long-term savings and retirement business. We offer a broad range of pensions and savings products to support people across all stages of the savings life cycle.

Our vision

To grow a strong and sustainable business to help more people on their journey to and through retirement.

Our purpose drives everything we do:

Helping people secure a life of possibilities.

Our business

c.£259bn
total assets under administration

c.12m
customers

c.6,800
colleagues as at 1 March 2023

FTSE 100
and FTSE All World

c.£6.4bn
market capitalisation as at 1 March 2023

£12.1bn
Group in-force long-term free cash to emerge from our current in-force business

Our family of brands

Standard Life
Part of Phoenix Group

SunLife
Part of Phoenix Group

PHOENIX LIFE
Part of Phoenix Group

ReAssure
Part of Phoenix Group

Our values

Growth
We grow our business through finding new ways to develop our expertise and innovate.

Passion
We're passionate about understanding and acting on what's important to our customers, colleagues and society.

Responsibility
We build trust by taking accountability and empowering others to do the right thing.

Courage
We're ambitious in the challenges we solve and we always speak up.

Difference
We collaborate across boundaries and embrace difference to deliver the best customer and colleague outcomes.

Our business and culture

Phoenix Group has grown in recent years following a series of acquisitions, including Standard Life Assurance Limited in 2018 and ReAssure Group plc in 2020. In 2022, the Group also announced its first-ever cash-funded acquisition of SLF of Canada UK Limited ('Sun Life of Canada UK'). The scale of these acquisitions has brought increased responsibilities for Phoenix Group as a large asset owner with a long-term investment view.

Our purpose is to help people secure a life of possibilities by growing a strong and sustainable business that supports customers on their journey to and through retirement. Our sustainable investing and stewardship strategies are key enablers to fulfil this vision.

We believe that considering ESG factors makes our portfolios more resilient over the long term. This is why our series of policies defines our expectations of asset management partners on integration, engagement and voting activities.

Measuring our culture

There are a number of people initiatives across Phoenix Group and specifically for our asset management function to enable our strategy and deliver our goals. We use a tool called Peakon which measures a number of drivers of engagement. We are intent on fostering a culture that empowers local leaders to drive engagement with their teams, and Peakon allows them to do this, by providing insightful data that can guide actions. Currently, the level of participation of colleagues in this tool is 61% for the Group and 70% for the asset management division.

The results of the 2022 survey indicate that our colleagues are motivated by the purpose and mission of our organisation and have positive views on the firm's business goals and strategies set by senior management. Other strong points mentioned by our colleagues included autonomy, management support and accomplishment. Where there are areas for improvement (in the asset management function, examples would be the physical working environment and equipment), initiatives have been put in place to enhance our employees' experience.

We support an ambitious definition of effective stewardship of our customers and shareholders' assets based on dialogue, feedback, relationships and clear outcomes-oriented objectives to foster more sustainable returns.

This definition applies to us when conducting activities through our stewardship team and it is part of our expectations of asset managers who undertake interactions with investee companies on our behalf.

Our overall company strategy is centred on three priorities (see chart 1) focused on optimisation, growth and enhancement of our operating model through cost efficiency and simplification. This is about leveraging our scale to enhance our competitive advantage of capital efficiency and to deliver higher returns. We are also growing both organically and through further mergers and acquisitions, as we engage our existing and new customers to meet more of their evolving needs.

Chart 1 – Our three strategic priorities

Optimise our in-force business
Leveraging our scale of in-force business to deliver capital efficiency and returns

Grow organically and through M&A
Meeting more of our existing customers' needs and acquiring new customers

Enhance our operating model and culture
Delivering leading cost efficiency and a modern organisation

Our business and culture
continued

We have a clear and differentiated strategy: we are growing our in-force business both organically and through M&A…

Organic growth

Fee-based businesses
- Workplace
- Retail
- Other

Retirement solutions
- DB Solutions
- Retirement Income

M&A growth

Backbook M&A
- Cost and capital synergies

Capability M&A
- Accelerates capability build

Reinvest surplus cash

Further in-force

Further in-force

Reinvest surplus cash

In-force business

Our in-force business provides three competitive advantages

- Capital efficiency
- Customer access
- Cost efficiency

…to deliver on our financial framework

Cash
In-force business covers our dividend over the very long term

Resilience
Highly resilient capital position

Growth
Growing organically and through M&A

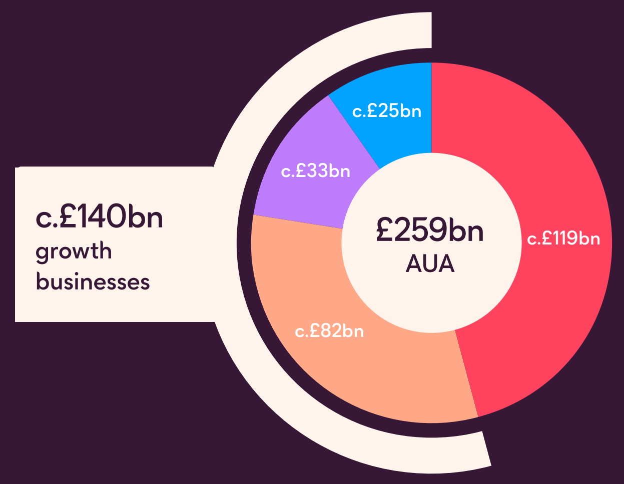
Our business and culture
continued

As shown in chart 2, our Heritage business looks after customers whose products are no longer actively marketed and is focused on the safe and efficient management of their policies. Our growth businesses actively market products and solutions to new and existing customers. This includes our Pensions and Savings unit, the Retirement Solutions unit that includes both vesting annuities and our Bulk Purchase Annuity ('BPA') business, and our European business in Ireland and Germany all of which operate under the Standard Life brand. Additionally, we have the over-50s customer brand 'SunLife'.

We operate a fully delegated approach to investments through asset managers. For the majority of our Assets Under Administration ('AUA') (80%), we set the investment strategy, but the mandates are run on a day-to-day basis by our asset management partners ('AMPs'). Of these assets with associated investment management agreements ('IMAs'), 90% are managed by our top 5 AMPs (level 1 category), while 10% are managed by a larger group of AMPs with smaller-sized mandates (level 2 category). The other (approximately) 20% of assets are managed by external managers offering mutual funds available on our distribution platforms (i.e. external funds links –EFLs) for which we do not control the investment strategies (level 3 category) (see chart 3).

Of total assets, 66%, are policyholder assets linked to the insured products we offer to our customers, while 14% are shareholder assets matching liabilities from annuities (see chart 4).

Chart 2 – An overview of our in-force business



Heritage
5.5m customers

We provide the safe and efficient management of legacy pensions and savings policies to deliver better customer outcomes, and realise cost and capital synergies through Heritage backbook M&A.

Retirement solutions
1.5m customers

We participate across the key retirement markets, as we seek to help customers secure income certainty in retirement, including defined benefit pensions (including BPAs), individual annuities, and home equity release.

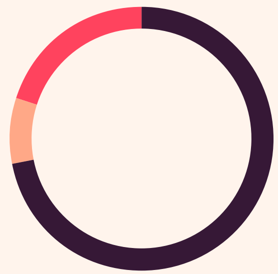
Pensions and savings
3m customers

We help customers journey 'to and through' retirement. Our Workplace business supports people who save through their workplace pension, and our Retail business supports individual customers to save for, transition to, and earn income in retirement.

Europe and Sun Life
2m customers

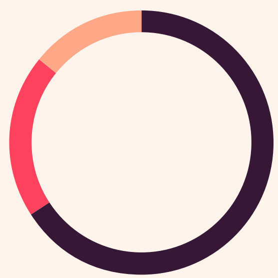
Standard Life International, which operates in Ireland and Germany, offers a range of pensions and savings products, including international bonds. SunLife offers protection solutions and funeral plans direct to the over 50s market in the UK.

Chart 3 – Distribution of AUA across types of asset managers[1]



Level 1 – Asset management partners	72%
Level 2 – Asset management partners	8%
Level 3 – EFLs managers	20%

Chart 4 – Distribution of AUA across types of assets



Policyholder	66%
EFLs	20%
Shareholder	14%

1 As at the end of December 2022, £6.5bn were temporarily with a level 2 manager as the portfolio was transitioning from an active equity mandate to an enhanced index mandate (split between two level 1 managers and one level 2 manager).

Our investment principles and priority ESG topics

Our Group investment strategy for both policyholder and shareholder investments is reviewed annually and owned by the LifeCo Board. Its key underlying investment principles are as follows:

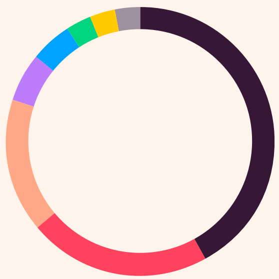
1. **Aligning to our business objectives including sustainable targets:** our business objectives relate to cash generation, resilience in the balance sheet, growing the business and delivering for our customers, while our sustainable investing strategy focuses on the consideration of ESG factors in investment and stewardship activities as outlined in our Responsible Investment Philosophy document (see page 19 for a summary →).
2. **Considering policyholders' reasonable expectations and committing to treat customers fairly:** we are focused on the outcomes that matter most to our customers.
3. **Aligning to our Board's risk appetites:** we hedge the majority of our shareholder market risks to deliver resilience and protect our dividend sustainability.
4. **Ensuring strategies** are product and fund specific taking into consideration existing features on options and guarantees.
5. **Considering appropriateness** for the nature and duration of liabilities (including inflation and currency considerations).
6. **Considering the features** of our regulatory balance sheet to manage solvency requirements.
7. **Managing in line with the Prudent Person Principle and the Investments part of the PRA and FCA Handbooks:** for example, ensuring diversification and asset liability matching; liquidity and collateral management; setting limits on risk concentrations; using derivatives; ensuring security, quality and profitability of portfolios; understanding the risks inherent in any investment.
8. **Implementing our strategic asset allocation frameworks:** we determine the allocation of assets that optimises risk and expected return whilst taking into consideration the risk constraints of the business.

In 2022, we took action to effectively serve the best interests of our customers by reviewing the strategic asset allocation of our funds and increasing our allocation to private markets and other new asset strategies. We have also changed fund managers for some asset classes to further improve investment outcomes. Lastly, we have consolidated funds to improve efficiencies and economies of scale, delivering fee savings to our customers.

Our diversified shareholder credit portfolio comprises both liquid and illiquid credit with a credit rating BBB exposure of just 19%. During 2022, the ongoing development of our asset management function enabled us to originate c.£3.5 billion of illiquid assets, an increase of 17% compared to 2021. We also maintained an illiquidity premium (the spread over corporate bonds) of c.70bps on private debt.

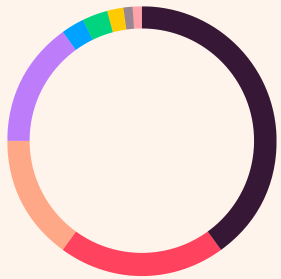
We believe these actions delivered positive outcomes this year and we will continue to consider all available options to fully satisfy our customers and shareholders' interests. Charts 5 and 6 provide an overview of our exposure across asset classes, strategies and geographies.

Chart 5 – Our AUA across asset classes



Equity	42%
Corporate bonds	22%
Government bonds	16%
Other	6%
Cash and deposits	5%
Collective investment undertakings	3%
Mortgages and loans	3%
Properties	3%

Chart 6 – Our AUA across regions



UK	40%
Europe (except UK)	20%
United States	15%
Not labelled	15%
Emerging and frontier markets	3%
Japan	3%
Developed Asia (except Japan)	2%
Australia and New Zealand	1%
Canada	1%

Our investment principles and priority ESG topics continued

Our ESG focus themes for action in sustainable investment are defined by taking into consideration:

- **Customer views collected through both qualitative and quantitative research** See chapter 3 →
- **Insights from Phoenix Group's materiality assessments using inputs from multiple stakeholders** See our double materiality review on page 16 →
- **The nature and materiality of the topic as representing a negative externality[1] to portfolios across regions and sectors** See chapter 8 →
- **Availability of data to monitor and assess companies' performance**
- **Existence of collaborative initiatives which intend to tackle the issue by supporting a co-ordinated action from investors** See chapters 6 and 8 →

We recognise the systemic opportunities and risks presented by climate change to our investment portfolios and we support the need to reduce greenhouse gas ('GHG') emissions and accelerate the transition to a low-carbon future. This is why we have set up ambitious decarbonisation goals for our portfolios to achieve net zero in 2050 with short- and mid-term targets to guide our journey (see chapter 5, page 51 →), in addition to a comprehensive climate engagement plan (see chapter 6, page 70 →).

Using these criteria, in 2022 we identified key priorities for monitoring portfolios, conducting and overseeing stewardship activities and fostering dialogue with policymakers and standard setters:

- Climate change
- Nature
- Human rights
- Controversies*
- Corporate governance

* Linked to a breach of the UNGC Principles

We believe that protecting and restoring the planet's natural resources is an economic and environmental imperative, which presents both an exciting investment opportunity and a complex risk to manage on behalf of our customers. Nature loss is interconnected with climate change and success in one fundamentally depends on the success of the other. We have started taking action through our monitoring of portfolios (see chapter 5, page 53 →) and emerging collaborative initiatives (see chapter 8, page 93 →).

Human rights are rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. They include a wide range of protections and freedoms, including social, labour, economic, cultural, civil, political, and environmental rights. We are dedicated to implementing the UNGPs, the authoritative global framework on business and human rights, which stipulate investors' responsibility for preventing, mitigating and accounting for how they address adverse human rights impacts. We have shaped and joined a new collaborative initiative to foster the implementation of the UNGPs by companies (see chapter 6, page 77 →).

Our journey to net zero

-25%

in the carbon emission intensity of our listed equity and credit assets by 2025[2]

-50%

in the carbon emission intensity of our investments by 2030[2]

Net zero

by 2050 in our investment portfolio

In addition, we use the UNGC principles as a reference framework to identify companies at the centre of severe controversies showing misalignment with international standards on human rights, labour rights, environmental and climate change issues, and anti-bribery and corruption efforts. In 2022, we launched a programme to engage with companies on alleged cases of breach of UNGC Principles (see chapter 6, page 75 →).

Beyond these key priorities, we support sound corporate governance practices and remuneration policies that reward the creation of long-term shareholder value and the right outcomes for all stakeholders of investee companies. We see these as enabling factors to achieve progress on our selected ESG themes. Our Global Voting Principles provide a solid framework to promote effective corporate governance and monitor the voting activities of our asset management partners (see chapter 7 →).

1 Negative externalities occur when the consumption or production of goods or services causes a harmful effect to a third party. In the context of global portfolios, climate change, deforestation and social inequality are traditional examples of negative externalities.
2 Where we exercise influence and control.

Phoenix Group materiality assessment

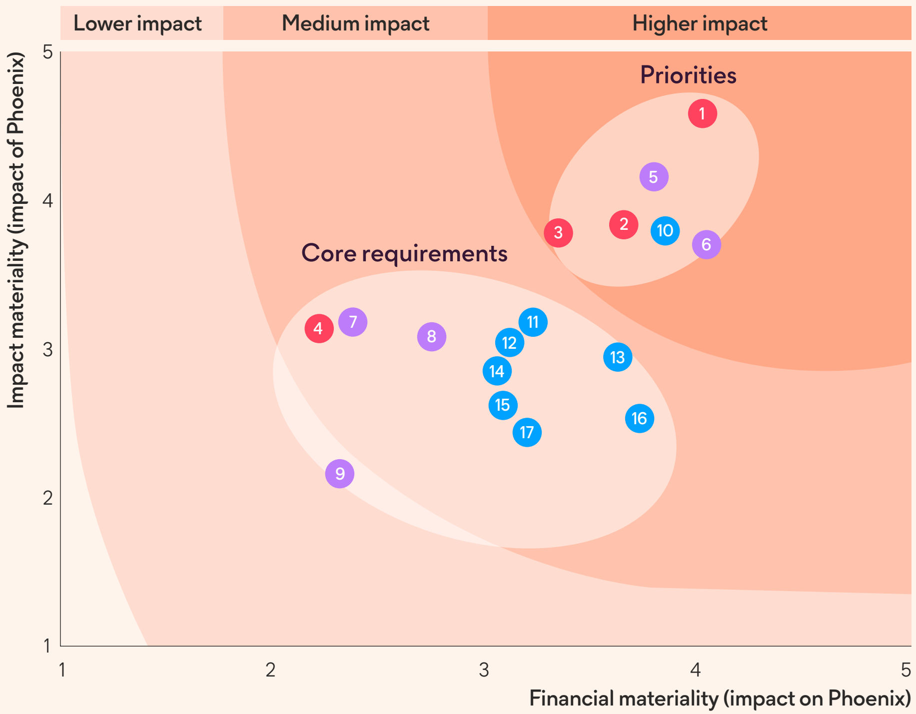
In 2022 we carried out a double materiality review, which looked at:

1. **Impact materiality (impact of Phoenix)** – The actual or potential impact we can have on people or the environment over the short, medium or long term.
2. **Financial materiality (impact on Phoenix)** – The risks or opportunities that could have a financial impact on Phoenix over the short, medium or long term.

We followed a structured approach:

- **Themes** – we created a longlist of 30+ ESG themes by looking at broader trends and frameworks such as the UN Sustainable Development Goals ('SDGs'). We consolidated this into a shortlist, based on industry standards and our business model.
- **Stakeholders** – we identified our key stakeholders (customers, senior managers, investors, employees, broader public, and peers) and provided relative weights for each group.
- **Materiality survey** – we created and ran an online survey, and gathered insights in interviews with Phoenix senior leaders.
- **Consolidation** – we clustered ESG themes into 'priorities' and 'core requirements' from the perspective of key stakeholder groups. We held dedicated workshops and refined our outputs to create our materiality assessment.

Our double materiality review



Environment
1. Climate change
2. Responsible products and investments
3. Nature and biodiversity
4. Circular economy

Social

5. Financial wellness and inclusion
6. Longevity and evolving demographics
7. Human rights
8. Diversity, equity and inclusion
9. Local communities' engagement

Governance

10. Digital innovation
11. Selling practices
12. Talent management
13. Data governance, privacy and cybersecurity
14. Customer centricity
15. Corporate governance
16. Transparency and reporting
17. Corporate and business ethics

Not all the priority themes identified are relevant for our investment activities but we have taken into consideration these insights when defining our sustainable investing strategy and key themes of focus.

2. Supporting stewardship through our governance, policies and resources

What we have achieved in 2022:

- Simplified and strengthened our governance structure to support sustainable investment and stewardship
- Updated our Stewardship Policy, Responsible Investment Philosophy and Exclusion Policy applicable across all our assets
- Developed our Global Voting Principles, expectations of companies on key ESG issues and a Sustainable Investment Risk Policy
- Updated our Conflict of Interest Policy to identify and manage any conflicts related to stewardship activities
- Expanded our internal stewardship team
- Integrated sustainable investment and stewardship in remuneration

Key future priorities:

- Continue recruitment to support stewardship activities
- Strengthen the compilation of our stewardship conflict of interest list
- Expand sustainability training to all Phoenix employees

A governance framework to enable effective stewardship

Our governance framework is the foundation enabling the achievement of our purpose and sustainable investment strategy, including stewardship, for the benefit of our stakeholders.

In 2022, we undertook a governance simplification process to ensure that our structure is fit for purpose. This resulted in a significant reduction of management committees, less duplication of information across groups, more clarity on governance routes and more consistency on the efficient management of meetings. We also developed a framework encouraging more thoughtful use of governance for positive impact on behalf of our stakeholders rather than passive engagement.

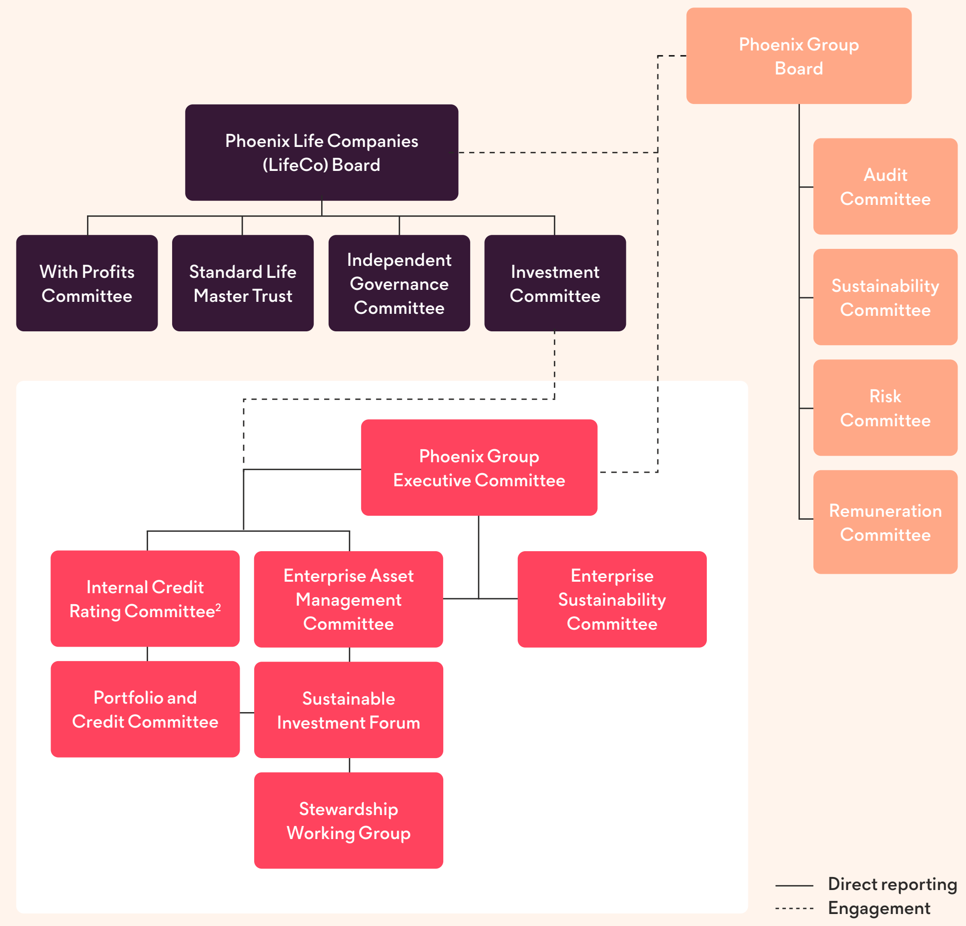
In 2022, we enhanced the terms of reference of the Sustainable Investment Forum (reporting to the Enterprise Asset Management Committee ('EAMC')) to better reflect its responsibilities to oversee and provide challenge relating to our stewardship strategy and activities. Additionally, we have created a subgroup of the Forum, the Stewardship Working Group, which is specifically responsible for making decisions in relation to engagement and voting activities.

We believe that the current agile governance structure supports purpose-led decision-making, proven by the several policies, frameworks and actions related to sustainable investment and stewardship which were approved and implemented in 2022.

In 2022, the LifeCo Board Investment Committee and EAMC met quarterly. In each session sustainable investment was discussed as a standard agenda item. In particular, these committees have reviewed our updated Stewardship Policy, Global Voting Principles, ESG expectations of companies, approach to engaging with UNGC violators and climate change engagement programme.

The organisation chart opposite provides an overview of our current governance structure of stewardship activities. For more information on the roles and responsibilities of the committees included in the chart, see appendix 2 →.

Chart 7 – Our governance framework to support stewardship[1]



1 Only management and Board committees with responsibilities related to stewardship are shown in this organisation chart.
2 The Internal Credit Rating Committee is chaired by the Asset Management Chief Risk Officer who reports to the Executive Committee. Keep double reporting line of SIF to ICRC and EAMC.

Phoenix Group's policies to guide our sustainable investment and stewardship ambitions

We have policies and statements in place which underpin the work we conduct on sustainable investment and stewardship in the best interests of our shareholders, employees and customers.

These policies follow a structured governance process for approval and regular updates[1] with ultimate sign off from either the LifeCo Board or the Phoenix Group Board. We have marked below when a policy has been introduced for the first time in 2022, and have indicated where existing policies have been reviewed and updated to ensure effective stewardship approaches.

Responsible Investment Philosophy → UPDATED

This document sets out our sustainable investment philosophy, aligned to our position as an asset owner with investment management activities delegated to a variety of partners. It includes an overview of sustainable investment solutions where Phoenix Group operates, and our strategy and governance. It also covers our approach to stewardship, integration, exclusions, selection and monitoring of asset managers, portfolio decarbonisation, nature loss, industry engagements and investor forums. For 2022, the document was updated to reflect our evolving expectations on ESG issues and SI practices.

Sustainable Finance Classification Framework for Private Markets → UPDATED

The purpose of the framework is to identify eligible activities/themes which could be defined as sustainable. It is intended to serve as a guide for investments in private markets where we have influence on the investment strategy. The framework draws on several industry standards including the EU Taxonomy and the UN SDGs. In 2022, we updated the framework to reflect the evolution of these standards.

Nature Statement → NEW

The statement includes commitments to understand the impact and dependence of our investment portfolio on nature and review our investment strategy to take into consideration nature-related risks, solutions and opportunities; work with our asset management partners and investee companies to help halt and reverse the degradation of nature; and, seek investment opportunities which actively support the transition towards a nature-positive economy.

Global Voting Principles → NEW

Our global voting principles summarise our high-level beliefs and expectations of good corporate governance, environmental and social practices. The document also describes our approach to engagement, escalation and conflict of interest in addition to setting expectations of our asset management partners on voting. 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.

Stewardship Policy → UPDATED

The policy covers all investments and outlines our definition of effective stewardship across asset classes. The document includes information on our approach to stewardship through direct, collaborative and delegated engagements, use of ESG research, monitoring voting practices, escalation strategies, expectations of managers and assessment of their practices, and transparency on our stewardship practices. In 2022, we updated the document to add more information on our approach across asset classes, our criteria for prioritisation, minimum requirements for asset managers, dialogue with policymakers and our approach to manage conflicts of interest.

Climate Change Risk Management Framework

Climate risk is treated as 'cross-cutting' to reflect its likely emergence through, and aggravation of, existing risks. The identification of climate-related risks has been embedded into the components of our internal Risk Management Framework. We assess our climate risk exposure through annual stress and scenario testing, ongoing monitoring of emerging risks, regulatory and market scanning, ongoing carbon footprinting exercises, and monitoring of our progress against climate risk metrics, risk appetites and external targets.

Human Rights Policy → NEW

This outlines the commitment by Phoenix to implement the UNGPs. The policy refers to: collaborating with our asset management partners to integrate human rights considerations into the investment processes and support effective stewardship of assets; screening of our equity and fixed income portfolios on potential human rights impacts; evolving our approach to access to data and continue to seek accurate information from a wide range of sources; and, the intention to implement investment portfolios' due diligence to identify salient human rights impacts and act on findings through direct, collaborative or delegated engagement by our asset management partners.

Exclusion Policy → UPDATED

This policy outlines the type of companies and products we have chosen to exclude from our investment portfolios as a minimum standard of alignment with our sustainability principles. In 2022, we updated the policy to introduce a new waiver rule on thermal coal. Our exclusions are related to controversial weapons, thermal coal (where >20% of revenue is from thermal coal extraction), oil sands (where >20% of revenue is from oil sands operations), Arctic drilling (where >20% of revenue is from Arctic drilling activity) and tobacco producers.

Sustainablity Risk Policy UPDATED

This internal risk policy sets the minimum operating standards relating to the management of sustainability risks throughout Phoenix Group. The document is one of a group of risk policies and intends to identify and manage potential risks linked to setting an inappropriate sustainability strategy and failing to manage the impacts of ESG matters on the group strategy which could cause financial failure, poor customer outcomes, reputational damage, loss of earnings and/or value.

Net Zero Commitment →

Through this public statement we have set the goal to reduce the GHG emissions of our investment portfolio to net zero by 2050, in line with the commitment of the UK government and the goals of the Paris Agreement. In addition, by 2025 we aim to reduce the carbon intensity of our listed equity and credit assets by 25%[2]. By 2030, we intend to cut the carbon intensity of all assets by at least 50%.

ESG expectations of companies[2] → NEW

This document provides a set of expectations of corporate management on key priority topics for stewardship activities: climate change; nature; human rights; and, UNGC-related controversies. The same expectations are reflected in our Global Voting Principles.

Sustainable Investment Risk Policy NEW

This internal risk policy sets the minimum operating standards relating to the management of sustainable investment risks throughout Phoenix Asset Management. It is one of a set of risk policies which aims to provide a clear risk and governance framework and an effective system of internal controls for the management of sustainable investment risks which could result in a negative impact on investment performance, a lack of appropriate products and propositions to meet customer demands and/or a breach of regulatory requirements.

1 Our policies are reviewed annually and updated when needed.
2 Where we exercise influence and control.

Allocating resources to support stewardship and sustainable investment

As of end of 2022, the sustainable investment ('SI') team within Phoenix Asset Management consisted of 19 professionals from diversified backgrounds spanning ESG, investment management, insurance, retirement services and data management.

Women represent 32% of team members and 47% are professionals from a diverse ethnic background. Almost 70% of the team holds relevant investment and/or sustainable investing qualifications.

The team is divided into four groups, responsible for different areas, as illustrated in the chart opposite.

In addition to the SI team, other colleagues within Phoenix Group have ESG and sustainability responsibilities. At the end of 2022, our central sustainability team headed by our Chief Sustainability Officer, was made up of 11 professionals focused on sustainability strategy and reporting across operations, procurement, human resources and investments. The risk team includes a Senior Climate Change Oversight Risk Actuary at Group level and a Head of ESG Oversight in Asset Management. The customer sustainability team includes seven professionals responsible for facilitating the design, development and delivery of the Group customer sustainability strategy.

Chart 8 – The sustainable investment team

Head of Sustainable Investments

- **Climate Investment Risk**
  - Responsible for understanding exposure to climate investment risk, delivering climate investment risk metrics required for reporting obligations, and driving the business forward to achieve its decarbonisation objectives.
- **ESG Partnerships**
  - Responsible for enhancing and implementing the framework to assess and improve our asset management partners' ESG capabilities in collaboration with the dedicated team responsible for overseeing the work of our managers.
- **Stewardship**
  - Responsible for managing our in-house stewardship activities and overseeing the evaluation of the stewardship capabilities of asset management partners to improve standards and outcomes for our customers and shareholders.
- **ESG Strategy**
  - Responsible for developing and monitoring sustainable investment strategies across asset classes in the interest of policyholders and shareholders whilst supporting implementation and monitoring processes in collaboration with other asset management teams.

Case study: Building our internal stewardship capacity

In September 2021, Phoenix Group appointed its first **Head of Stewardship** as part of Phoenix Asset Management's SI team.

The purpose of this role is to develop an internal capability to conduct direct and collaborative engagements with companies and monitor stewardship activities of asset management partners across a range of key issues. Over the course of 2022, two additional positions have been filled: a **Governance and Voting Lead** – responsible for building an internal voting function and a monitoring system on managers' votes, and a **Senior Engagement Analyst on climate change** – to lead our thematic engagement programme linked to our commitment on portfolio decarbonisation. At the end of 2022, we also made a successful offer for a **Senior Engagement Analyst on social and human rights** issues, who will continue our engagement work on UNGC-related breaches, lead on collaborative efforts and support the implementation of the Group-wide Human Rights Policy. The professionals in the stewardship team have between 13 and 19 years of relevant ESG and sustainable investment experience each.

Using ESG research service providers

In 2022, Phoenix Asset Management had access to ESG data provided by two service providers. These data have been used to support the development of our ESG exclusions and restrictions, our portfolio carbon footprinting and scenario analysis and the identification of companies for internal and delegated engagement activities.

During the year, we also engaged other consultants and service providers on additional ESG-related areas:

- **Scenario analysis** – we have subscribed to a third-party service to enable portfolio analysis across a range of climate scenarios as well as evaluation of temperature scores.
- **Science-based targets** –we have worked with an external consultant to support our process of submission of portfolio decarbonisation targets to the Science Based Targets initiative ('SBTi') for external validation.
- **Voting** – we have worked with an investment consultant to assess the voting practices of selected asset managers and set our strategy to reduce the current level of inconsistency.
- **Human rights** – we have worked with a specialised consultant to develop our Group-wide policy and identify our roadmap to implement the UNGPs.

Training our colleagues on ESG issues

Delivering on our ambitions on sustainable investment and stewardship is not solely the responsibility of the SI team. Training our colleagues and executive teams across the organisation is essential to embed the corporate culture we want to stand for.

In 2022, a programme of ESG and sustainability-oriented education and deep dive sessions were provided across various levels.

Education for the Group Board and Board committees
At Board level, educational sessions covered several ESG areas of focus as shown in table 1 below.

Table 1 – Overview of Group Board and Board committees' ESG educational sessions

Topic	Coverage
Sustainability – Decarbonisation & Engaging People in Better Financial Futures Deep Dive	• Net zero targets and the external market. • ESG ratings and opportunities for improvement. • Net zero transition and the current challenges in energy markets transition. • Future trends in the context of climate change and environment. • Key challenges to developing a leading position on sustainability. • Competitors' progress in delivering climate change impact.
Operational Climate Change & Sustainability Deep Dive	• ESG supply chain strategy. • Evolution of sustainable supply chain strategy. • The Group's supply chain emissions. • Operational climate and environment strategy update.
Stewardship Deep Dive	• 2020 UK Stewardship Code and gap analysis. • Engaging with companies on climate change. • Phoenix's vision and approach to stewardship. • ESG themes of focus and 2022 priorities. • Approach to assessment and monitoring of the Group's strategic asset managers. • Overview of the Group's current commitments.
Decarbonisation Targets Under the SBTi Process	• Overview of science-based targets and SBTi. • SBTi targets in the context of existing institutional net zero commitments and strategy. • Progress-monitoring mechanisms. • Consequences of not meeting the targets. • Approval of the SBTi submission. • Oversight of the strategy for Phoenix's Net Zero Transition Plan and educational topics including energy market developments.

Training sessions for the LifeCo Board Investment Committee ('BIC')
In 2022, we held regular "deep dive" sessions for BIC covering a wide range of topics including stewardship, climate aware benchmark design, sustainable investment opportunities, ESG regulation and reporting.

Capacity building across the organisation
In June, we held a workshop with 132 senior colleagues across the Group as part of our Leading with Purpose training programme. The session was a follow-up from one held in December 2021 and supported by the Cambridge Institute for Sustainability Leadership. The aim of the workshop was to explore how the Group can undertake action to become a responsible business, with a specific focus on climate action.

We also held a number of 'meet the experts' sessions which were live presentations led by subject matter experts in the business, to help raise awareness of climate and sustainability issues.

Over the course of 2022, we further developed Phoenix's Climate Hub, which was launched in January 2022. This is an intranet-based platform aiming to increase understanding of climate change impacts, communicate the Group's climate strategy and provide useful tools and resources to employees. The educational modules include content exploring the science of climate change, how it presents a risk and an opportunity, deep dives on strategy and how one can make a day-to-day impact. In 2023, we will launch an all-colleague sustainability training programme.

Incentivising sustainable investment and effective stewardship

Sustainable investment (and stewardship as an enabling factor) is linked to executive and employee remuneration within Phoenix at different levels.

In 2022, a new ESG metric was introduced in our Long Term Incentive Plan ('LTIP') for executives and business leaders. This metric is linked to the decarbonisation of our operations and investment portfolios, both of which carry 10% weighting, totalling 20% overall. The LTIPs are granted each year and vest after three years for business leaders with a further two-year holding period for executives.

A special Chairman award is also awarded to a number of colleagues below business leadership level. Key criteria for nominations have been ESG deliverables based on the Group's ESG strategy (i.e. championing diversity and inclusion, volunteering or fostering sustainable investments).

Within Phoenix Asset Management, when relevant, individuals have specific ESG objectives included as part of their personal performance review. In turn, the personal rating has a direct impact on bonus outcomes. Additionally, all individuals eligible for an additional bonus have a specific sustainability metric. The metric refers to the integration of sustainable objectives into the investment process to ensure we hold ourselves and our asset management partners to account. Delivery of objective has a direct impact on this additional bonus outcome.

Managing conflicts of interest

Our Conflicts of Interest Policy sets out the minimum operating standards relating to the management of conflicts of interest risk throughout the Group.

All reasonable steps must be taken to avoid a conflict of interest arising. Where this is not possible, actions are taken to manage the conflict so as to avoid any material risk, disadvantage or loss to our customers. In addition, we always inform our customers in the event that we believe we may not be able to effectively manage a conflict that may affect them. As part of this, we provide sufficient details of the steps taken or being taken to reduce the risks of damage to their interests. This in turn enables them to decide whether to continue to do business with us despite the existence of the conflict of interest.

We keep a written record of actual or potential conflicts of interest that involve a risk of damage to the interests of one or more customers. In 2022, we registered 52 new conflicts and closed 27. As a result, at the end of the year there were 137 conflicts (111 potential and 26 actual) open and under management as shown in the chart opposite.

Chart 9 – Overview of 2022 open conflicts of interest by category

These conflicts have been managed by ensuring that key controls are in place, including:

- Distributing internally the policy text and additional guidance documents.
- Requiring relevant mandatory training for all employees when joining the company and thereafter on an annual basis.
- Maintaining processes and procedures to ensure appropriate segregation of duties for investment transaction-related activities.
- Updating regularly the register of all conflicts of interest which have arisen or may arise (actual/potential) as they are identified and reported.
- Distributing internally our inducement framework and additional guidance documents.
- Updating regularly the inducements register as they are identified and reported by the business.

Table 2 – Examples of how we managed conflicts of interest in 2022

Conflict type	Example	How it was managed
An individual at Phoenix has a personal or business relationship with a relevant individual in one of our supplier or competitor firms.	The spouse or partner of a Phoenix Lead Business Analyst on a key programme was the Lead Business Analyst working for the supplier on the same programme. There was the potential that information could be shared in either direction which could have unduly influenced the decisions of the parties.	All individuals involved in the programme in Phoenix and the supplier were aware of the conflict. Information barriers were in place, and the programme was structured so that the individuals did not interact directly. All key decisions were ratified by appropriate governance forums.
An individual at Phoenix holds a significant financial interest or directorship with one of our supplier or competitor firms.	A Senior Manager in Phoenix held substantial shares and investments in one of our key suppliers due to previous employment. The impact on their individual holdings could have potentially influenced decisions relating to this supplier.	The potential conflict was disclosed to the Investment Committee. Responsibility for dedicated advice on investment matters in relation to asset management with this supplier was assigned to another Senior Manager in the function. Any proposed trading in the shareholding was disclosed to the Company Secretariat before proceeding.

Managing conflicts of interest in relation to stewardship

When engaging with a company or monitoring voting we need to ensure that we are always acting in the interests of our customers. This is why, in 2022, we updated the Group Conflicts of Interest Policy to take into consideration risks linked to in-house stewardship activities. The policy describes how we identify and manage conflicts which arise from engaging with a company or monitoring voting at a listed company's annual general meetings ('AGMs').

Potential conflicts from stewardship activities	How we manage conflicts in engagements
• The investee company is a Phoenix Group client or associated with a Phoenix Group client. • A Phoenix Group employee or Board member is a director of the investee company. • A Phoenix Group employee or Board member has significant personal investments in the investee company. • The investee company has a strategic relationship with Phoenix Group. • The investee company is a supplier or business partner of Phoenix Group including an asset management partner. • The investee company is a distributor of Phoenix Group products. • The investee company is a Phoenix Group key competitor.	• The stewardship team defines an engagement strategy and specific engagement programmes to tackle priority ESG themes identified. • Engagement lists or objectives are not altered from the agreed frameworks. • Minutes from relevant oversight committees and records of all engagement activity conducted internally are used as evidence. **How we manage conflicts in voting** • The stewardship team develops our Global Voting Principles, which guide how we monitor the execution of voting by asset management partners. • When a conflict of interest arises in our monitoring activities, the stewardship team refrains from communicating voting policy positions with asset management partners. • Voting activities are currently fully delegated to our managers and executed under their customised voting policies.

A stewardship-specific conflict of interest list is collated and maintained within Asset Management, with support from respective control and governance teams. At the end of 2022, 73 companies were initially included on the list[1]. In 2023, we will focus on enhancing our data collection to compile this list.

As part of our selection and monitoring of asset managers, we request that they have in place and share with us a conflict of interest policy. In 2022, we assessed that all our level 1 managers have a conflict of interest policy. However, their level of transparency on risks and controls put in place and number of recorded cases of conflicts vary. Please see below an example from our asset manager, abrdn as included in its 2022 Stewardship Report. In 2023, we intend to drive more consistency across our managers.

"Potential conflicts can arise between abrdn's interests and those of its clients where shares are held in companies in which abrdn has strategic shareholdings. In such situations abrdn does not instruct a vote on the shares held on behalf of its clients. abrdn's significant shareholdings in 2022 included Phoenix Group in the UK and HDFC AMC in India." See abrdn Stewardship Report for further information →

1 Note that this list is currently not captured in the numbers shown in chart 9.

Ensuring that this report is fair, balanced and understandable

Our Head of Stewardship led the project to implement our workplan and produce this report. An internal working group has been created to monitor progress and review the content of the report to ensure that it is comprehensive, representative and understandable. The group comprised the Head of SI, Head of Shareholder Assets, Head of Policyholders' Assets, Head of ESG oversight/Risk, Head of Strategic Partnership & Research, and the Workplace Director. Additionally, this report has been reviewed and approved by the LifeCo Board and the Phoenix Group Holding Board. Our CEO and CIO have signed this report **(see pages 3 and 4→)**.

In preparation for this report, throughout 2022, Phoenix Group worked with a professional third-party consultancy to identify any potential gaps against the 12 Principles of the UK Stewardship Code and relevant reporting requirements. Through this exercise, we developed and completed a workplan to create and strengthen our policies, processes and data collection. However, we recognise that our journey is not finished and our stewardship activities will keep evolving and improving over time. Throughout this report, we have explicitly mentioned when we believe that areas for improvement or further development exist to ensure that this report is fair and balanced. We will report on our progress in future stewardship reports.

In the last quarter of 2022, our internal audit team also reviewed the work of our stewardship function and acknowledged the work undertaken and progress made. Additionally, the team made relevant recommendations to improve areas related to governance, tracking of interactions with managers and communications to customers. Work has commenced on addressing these recommendations with all actions scheduled to complete in 2023, at which point they will be verified by our internal audit function prior to closure. Additionally, the internal audit team intends to review our stewardship activities periodically.

The auditor, EY, has externally assured **(see appendix 6→)** the metrics in relation to financed emissions associated with our internal climate engagement list **(see page 70→)** and our delegated list for climate engagements conducted by our asset management partners **(see page 67→)**.

We believe that at this stage, our internal audit function and risk team are the best equipped to monitor and challenge our activities on stewardship and ensure that the content of this report is fair, balanced and understandable.

In the future, we will assess the possibility of expanding the external assurance of data included in the report.

3. Communicating with our customers and taking action

What we have achieved in 2022:

- Completed customer research across our consumer brands to explore their understanding and attitudes towards responsible investing and stewardship
- Enhanced communication through factsheets, apps and dashboards
- Brought our sustainable multi-asset solutions to 1.5 million workplace pension scheme members
- Launched a pilot project with the Tumelo platform

Key future priorities:

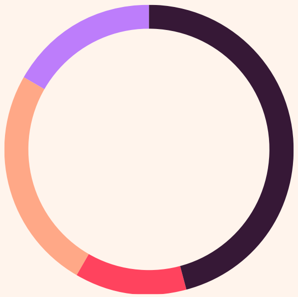
- Continue researching our customers' views on responsible investing and ESG issues of concern
- Assess appetite and effectiveness of the Tumelo platform
- Raise awareness amongst customers on the impact of their investments
- Expand our communication on stewardship through our customer website

Understanding our customers

We offer a variety of different life and insurance products to c.12 million customers across our four consumer brands. The charts on this page provide an overview of our customer base.

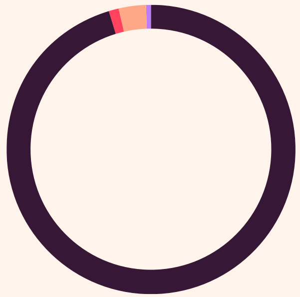
Our customers expect their provider to act with integrity, provide clear communications and manage their product in a way that aligns with both their desired outcome and objectives, whilst being supported by a service and proposition that help them make better-informed decisions.

Chart 10 – Our customers across business units



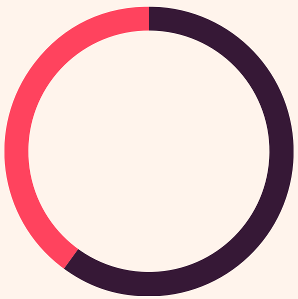
Heritage	c.5.5m
Retirement Solutions	c.1.5m
Pensions and Savings	c.3m
Europe and SunLife	c.2m

Chart 11 – Our customers' location



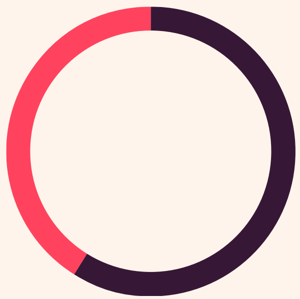
UK	c.11.2m
Ireland	c.100,000
Germany	c.386,000
Austria	c.43,000

Chart 12 –Our customers' age



Over 55	60%
Under 55	40%

Chart 13 – Our customers' gender split



Male	59%
Female	41%

We engage with our customers through a variety of channels (e.g. digital, telephone and mail) and are continually adapting our service and products to help more customers on their journey to and through retirement.

Customer insight

Our customers trust us to reflect their priorities in how we invest. They want us to keep their money safe and provide them with long-term financial returns. Increasingly, they also want their money to play its part in delivering a sustainable future.

In 2022 and early 2023, we conducted qualitative and quantitative research with a statistically representative group of our customers across ages, brands, fund size, gender and financial confidence to explore their understanding and attitudes towards responsible investing.

The majority (90%) of customers think that it is important we invest their money in a responsible and sustainable way. Understanding their needs and expectations is crucial to ensuring that we decarbonise our investment portfolio and consider ESG issues in a way that is fully aligned with their best interests.

The research showed us that our customers are concerned about specific ESG considerations (see chart 14). Their current awareness of responsible investment is generally low, although a majority are interested in finding out more (see chart 15).

Chart 14 – Key ESG concerns for our customers

Our customers are concerned about:

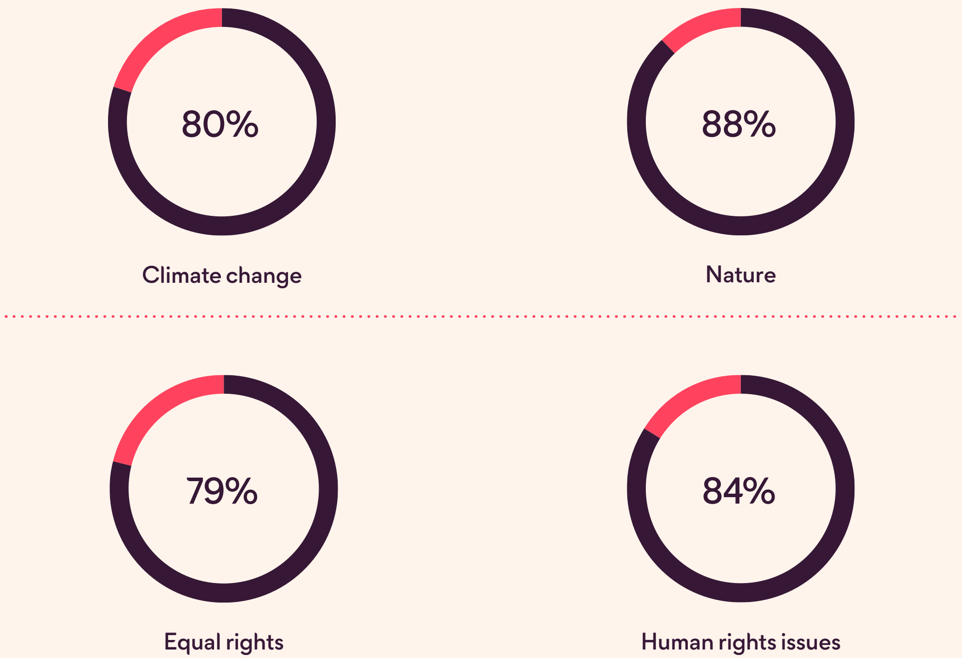
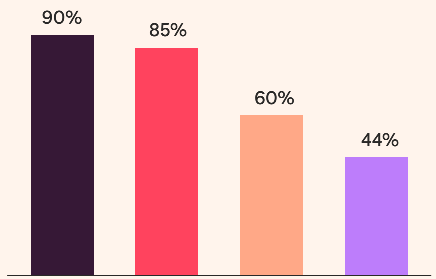


Chart 15 – Awareness and expectations of our customers on responsible investing



Expect us to invest [in] responsible investment options	90%
Expect us to tell them about the responsible investment options related to their products	85%
Want to know more about responsible investment options available in relation to their products	60%
Aware of responsible investment	44%

Customer insight continued

The results of this research are aligned with the insights from previous surveys which have informed the selection of our key ESG priorities for sustainable investment and stewardship (see chapter 1 → and opposite insight from our Standard Life brand).

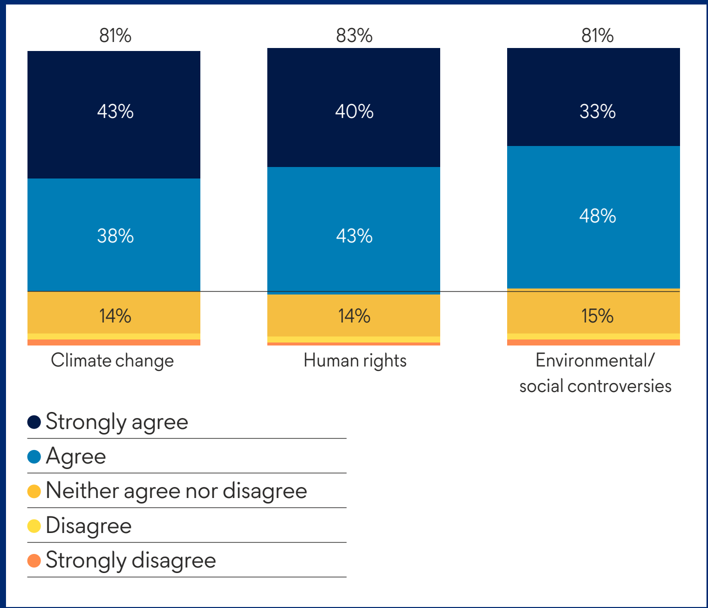
Insights from our annual survey of Standard Life customers

At the beginning of 2022, we conducted our annual online survey on sustainable investment with Standard Life customers. A total of 1,600 individuals took part in the exercise, representing a relevant demographical sample of our customer base.

The results showed that climate change and human rights continue to top the list when it comes to the sustainable investing factors that matter most; a pattern we have seen for a number of years. More specifically, our customers generally agree with our selection of key ESG priorities for stewardship activities (see chart 16).

Chart 16 – Our customers' opinion on key ESG priorities

We have selected climate change, human rights and environmental/social controversies as key topics for more direct conversations we'll be having with companies.



Standard Life
Part of Phoenix Group

Engaging our customers

As our customers are at different stages of their long-term savings journey and have varying levels of understanding of sustainable investment, we need to provide a range of material to help raise awareness and knowledge. We recognise the need to take them on this journey with us, through transparent, clear and appropriate communications.

Customer engagement journey

1. Inform
The first step of our customer engagement journey is to inform our customers so they can understand more about their products and investments.

2. Empower
The next step is to empower our customers with the investment knowledge to make informed decisions, allowing them to understand how we, as a provider, act to support them to and through retirement.

3. Inspire
Finally, we seek to inspire our customers to consider the impact of their investments and feel confident that their investments are aligned with their beliefs. We will bring to life our default solutions, so that customers can better understand the impact of their investment.

We have created a suite of information – across our websites, app and customer dashboard – to help our customers discover more about our approach to sustainable investing. Comprehensive stewardship information, including a more user-friendly version of our Stewardship Policy, has been developed to help Standard Life customers to understand our approach, whilst providing real-life examples of how we drive change in the companies in which we invest. Having tested this, we will look to create similar documents for our other consumer brands to ensure all of our customers have access to this information.

Our approach takes customers on a journey focused on building their knowledge and confidence in both their product and investment solution, as illustrated above. We also believe that showing customers the impact of their savings is an opportunity to engage them more fully in their financial future.

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

As our investment strategy continues to develop, we will use customer research to ensure that we engage with customers as effectively as possible to develop content that they value, and provide them with the information needed to make informed decisions. We will communicate with customers, both directly and indirectly, through industry-wide campaigns and the wider financial services ecosystem.

Turning insight into action

Throughout 2022, we have used customer insight to shape the propositions we create and the way in which we engage customers about their investments. Our research continues to show that for most people their pension is just one part of a suite of, often complex, financial products they are looking to manage.

We want to help our customers feel secure and in control of their finances and thus will continue to develop solutions, taking into account research findings, that empower customers to make better-informed decisions.

The investment strategies of our products are linked to the risk appetite of our customers to deliver the best risks-adjusted returns. The usual time horizon considered is ten years unless a product features a defined glidepath or has a shorter lifespan.

Case study: Standard Life workplace default investment design

In 2021, Sustainable Multi Asset Universal Strategic Lifestyle Profile became the Standard Life default for new workplace customers. To make sure our existing customers could also benefit from this, in 2022 we moved c.1.5 million customers and c.£15 billion of assets from our existing default options to ones that reflect the same thinking and outcomes-based approach as our new default option.

Sustainable Multi Asset Universal Strategic Lifestyle Profile currently applies an ESG approach to all equity and listed real estate ('REIT') components.

The equity exposure in the solution tracks sustainable indices that combine exclusions, tilts and stewardship activity. When compared to the parent index, the sustainable equity indices target:

- 50% reduction in carbon emissions
- 50% increase in green technology revenues
- 10–20% enhancement in ESG scores

Standard Life
Part of Phoenix Group

Our ESG approach continues to evolve and not all of the components within the lifestyle profile are sustainable. During 2023, we will look to incorporate sustainable bond funds.

Stewardship for the solution is delegated to our asset management partners and we look to ensure that our views are considered through a due diligence exercise.

Additionally, our stewardship team is responsible for in house engagements or engagements in collaboration with other investors for some of the companies invested in. We are continuing to work with our asset managers to enhance their reporting on stewardship activity.

In 2022, we also evolved our factsheets for the funds within Sustainable Multi Asset Universal Strategic Lifestyle Profile, providing:

- ESG metrics aligned to sustainable investment targets
- Stewardship information on companies engaged, engagement meetings, themes and percentage of eligible proxy votes placed
- behavioural economic overlays
- action-orientated headers
- visual icons and cues

Turning insight into action continued

Case study: Piloting the Tumelo platform

Many people do not know where their pension is invested and may feel disengaged from the investment system. We have partnered with Tumelo to pilot the 'Voice your Investment view' platform with our customers in two pension schemes since the last quarter of 2022.

The platform allows customers to identify which companies their pension savings are invested in, with the opportunity to share how they would like their fund managers to vote in upcoming AGMs. Once all votes are collected, these are passed on to the fund managers, allowing them to consider customer wishes when casting their vote, with an update on the outcome of the vote provided to our customers through the platform and regular emails.

While this process does not enable customers to override or direct individual votes, we believe it could influence the underlying asset manager's voting practice.

In 2023, we will continue to assess the effectiveness of this pilot. If this is deemed successful, we will explore options to enhance the experience and consider how we extend this offering to more customers.

Case study: Improving financial wellbeing

Our Standard Life customers continue to benefit from our financial wellbeing proposition. This includes the Money Mindset platform, which provides access to open finance technology. It allows customers to see their financial accounts all in one place – providing a truly holistic view of their finances.

The system provides smart, actionable nudges to help customers make small financial changes that could make a long-term difference in their financial wellbeing.

In December 2022, we announced a £15 million strategic investment, taking a minority stake in Moneyhub, the FinTech powering Money Mindset, signalling our continued commitment and desire to partner with best-in-class FinTech to support our customers across a broad range of issues. Additionally, Standard Life is developing a wide range of tools to support customers with their financial needs. This will include help to trace lost pensions, build financial resilience and support to buy their first home.

Turning insight into action continued

The UK has a significant gender pension gap at 40%, the gap between the pension earnings of women and men, and currently around twice the gender pay gap.

Championing inclusion
Many factors can affect a woman's pension contributions, but we know from our research that it can be exacerbated by life stages that may impact a woman's earning power, such as taking time out to look after children, getting divorced, becoming a carer or experiencing menopause. These life events not only affect a woman's finances today but also in the future.

To support our customers with these challenges we have launched a number of initiatives in 2022.

- **Bridging the gap:** Standard Life launched a series of webinars in partnership with financial education experts Better with Money to provide insight and guidance to customers to help them feel more confident about their finances, focusing on key life moments that disproportionately affect women.
- **Supporting those with caring responsibilities:** ReAssure launched a tool to help customers understand the financial impacts of caring and explore available support, with the aim to do more to help the one in five of us who help care for someone.

Our focus for 2023 will be to enhance the support we offer women at key life moments and widen the reach of this support. We will also drive awareness of the challenges that women face amongst employers, trustees and the wider industry, highlighting the steps that can be taken to improve outcomes.

Case study: Addressing the UK's pension gap

Research from our think tank, Phoenix Insights, has revealed in 2022 that only 14% of direct contribution pension savers are on track for a retirement income that maintains their current standard of living. Engaging people and advocating for broader societal action to tackle under-saving is a critical part of our commitment to our purpose. Phoenix is engaging customers in their financial futures and helping them to financial wellness to and through retirement.

Phoenix Insights advocates for change in working practices, careers advice and lifelong learning. Not everybody can have longer working lives, however. Following our research, we have called on the government and employers to initiate a range of measures such as investing in mid-life upskilling, supporting age-inclusive workplaces, bolstering access to pension advice at a younger age, expanding auto-enrolment to the self-employed, and strengthening rights for renters.

More information on our research is available on our Phoenix Insights website →

Key statistics from our research

14%
of direct contribution savers are on track for a retirement income that maintains their current standard of living[1]

c.18m
consumers aged 25 to 75 express low confidence about saving enough to meet their financial goals in retirement[2]

30.5m
UK workers will lack the necessary skills required to do their jobs well in 2030[3]

1 in 3
people do not think they will get a state pension when they retire[4]

1 www.thephoenixgroup.com/sites/phoenix-group/files/phoenix-group/Phoenix%20Insights/Publications/Great%20expectations/Phoenix%20Insights%20Great%20Expectations%20Report.pdf.
2 www.thephoenixgroup.com/sites/phoenix-group/files/phoenix-group/Phoenix%20Insights/Longer%20Lives%20Index/Phoenix%20Insights%20Longer%20Lives%20Index%20Crisis%20of%20Confidence.pdf.
3 www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/the-economic-case-for-reskilling-in-the-uk-how-employers-can-thrive-by-boosting-workers-skills#.
4 www.thephoenixgroup.com/views-insights/phoenix-insights/publications/public-attitudes-state-pension.

4. Working with asset management partners and service providers

What we have achieved in 2022:

- Enhanced an internal ESG Assessment framework to select and monitor asset management partners
- Applied the framework for existing asset management partners responsible for 91% of our assets covered by IMAs and for selecting new managers
- Updated and applied our ESG questionnaire for EFL managers of Standard Life propositions
- Assessed membership of PRI for all EFL managers across the business
- Created an ESG template for IMAs with existing and new managers to reflect consistently our expectations on integration, stewardship and effective reporting
- Joined the Asset Owner Diversity Charter
- Approved an escalation policy from insights collected from annual ESG due diligence processes
- Selected 3 additional providers for ESG data and voting services

Key future priorities:

- Update our ESG assessment framework to further tailor expectations of managers on integration and stewardship across asset classes and key ESG topics (e.g. human rights and nature)
- Develop an assessment framework for ESG data service providers to monitor the quality of their services
- Continue application of our ESG assessment framework and increase coverage of asset management partners
- Make the list of EFL managers that are signatories to the PRI publicly available to our customers

Collaborating with our asset managers

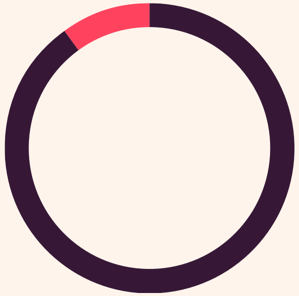
We are an asset owner operating on various delegated approaches to investments through external asset managers. The effective selection, appointment and monitoring of these managers is essential to meet the needs of our customers and shareholders.

It is important to specify that our relationships and ability to influence practices differ significantly between asset management partners and EFL managers:

- Asset management partners are responsible for the delegated management and the day-to -day investment decisions of our internal insured funds within the boundaries we set through IMAs. Phoenix is ultimately responsible and in control of the investment strategy of these funds. Chart 17 shows the distribution of AUA across asset management partners, with 90% of assets covered by five strategic and critical asset managers (i.e. level 1) and 10% by other managers with smaller mandates from Phoenix (i.e. level 2). Chart 18 shows the distribution of assets between segregated mandates and collective vehicles.
- EFL managers (i.e. level 3) typically manage collective funds in liquid assets that can be distributed publicly to customers through our products. These funds are managed by external asset management groups that we do not have IMAs with and Phoenix has no control over the way these funds are run.

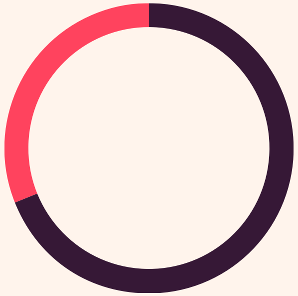
See chapter 1 for more information on the assets managed by these two categories of asset managers →

Chart 17 – Distribution of AUA across asset management partners[1]



● Level 1 – Asset management partners	90%
● Level 2 – Asset management partners	10%

Chart 18 – Types of mandates with asset management partners



● Segregated mandates	69%
● Collective vehicles	31%

1 As at the end of December 2022, £6.5 billion were temporarily with a level 2 manager as the portfolio was transitioning from an active equity mandate to an enhanced index mandate (split between two level 1 managers and one level 2 manager).

Assessing the ESG capabilities of our asset management partners

For all potential asset management partners, we conduct a thorough initial ESG due diligence exercise to ensure that they are fit for purpose and suitable for managing our clients and shareholders' assets.

This assessment forms part of the standard selection of managers, once decisions on specific investment strategies or asset classes have been made during our annual strategic asset allocation exercise. In this process, managers are scored on several aspects.

We also carry out periodic detailed due diligence on our current asset managers to safeguard that they are evolving with best practice and to ensure that they are aligned with our approach to sustainable investment. We meet with all managers regularly and for in-depth formal reviews covering investments, as well as firm-level assessments of risk, compliance and operational functions in addition to ESG. This is combined with an operations and compliance due diligence. The detailed due diligence applies a red – amber – green system on key areas. See the diagram below for an overview of these processes.

Our selection and assessment of managers

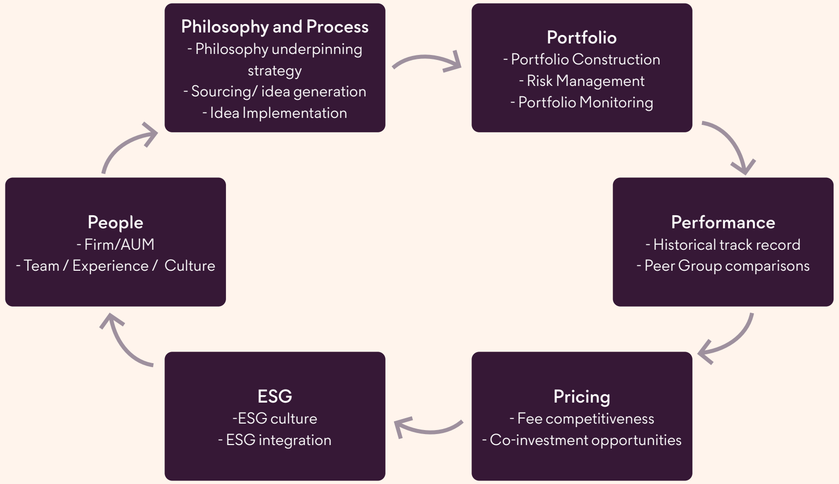
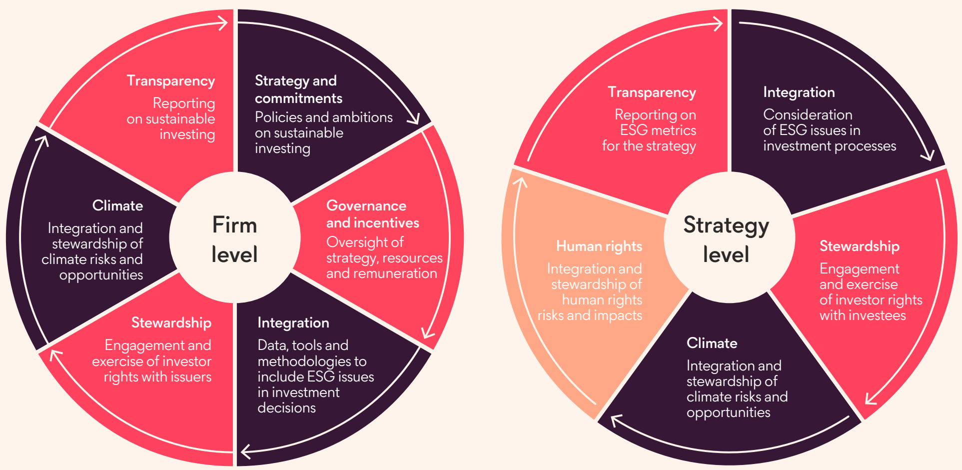


Chart 19 – On overview of our ESG assessment framework



In 2022, we enhanced an internal ESG assessment framework for managers which has been rolled out at a firm and strategy level for the selection of new managers (see chart 19). The same tool has also been applied at firm level to monitor all our level 1 managers and six of our level 2 managers covering more than 91% of assets under an IMA. The framework supports the evaluation of a manager not only on its ESG capabilities at the firm level but also on how a relevant strategy integrates ESG issues into investment analysis and stewardship activities. It is our intention to expand its application both at firm and strategy level to more asset management partners.

Key areas of focus for us at the firm level include strategy and commitments, governance and incentives, integration, stewardship, resources and knowledge, industry collaboration, and transparency as well as ESG data analysis and dashboards. We also evaluate how a manager embeds ESG analysis into its product offering.

Areas we look at when assessing specific strategies include integration of ESG factors into investment analysis and decision-making, alignment of values between the firm and portfolio managers, stewardship and ESG reporting. Overall, we also assess whether a manager is aligned with our own areas of focus such as climate and human rights and ensure that it can implement our exclusions policy.

Assessing the ESG capabilities of our asset management partners continued

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

The manager ESG assessment forms part of the overall manager evaluation and inform future engagement processes to make sure practices are increasingly aligned with our expectations.

Our ESG assessment framework will be updated annually to reflect evolving standards and expectations on integration and stewardship across asset classes. We plan to expand our evaluations on human rights and include new questions on nature-related risks and opportunities. Assessment reports are presented to internal governance committees as part of our manager oversight and selection process. Should any of our managers fall short of our ESG standards we first seek to engage with them to put improvements in place within an acceptable time frame. Where engagement does not lead to the expected outcomes we follow an escalation process which is linked to agreed milestones and timelines.

Our minimum requirements for asset management partners[1]

Mandates in public markets

- Be a signatory to the PRI.
- Adopt the 2020 UK Stewardship Code or an equivalent local stewardship code applicable in their jurisdictions.
- Support our net zero strategy and portfolio decarbonisation goals.
- Implement our exclusion policy.

Mandates in private markets

- Be a signatory to the PRI.
- Support our Net Zero strategy and portfolio decarbonisation goals.
- Implement our exclusion policy.

While we implement our ESG assessment process for all asset classes, we appreciate that there are differences between public markets and private markets. This differentiation is also reflected in our minimum requirements and engagement processes of asset managers.

Case study: Reflecting our expectations on sustainable investment through IMAs

In 2021, our CIO wrote an open letter to our partners (i.e. asset managers, consultants and service providers) outlining our vision and expectations on sustainable investing. In 2022, we created an ESG template to update existing IMAs with our asset management partners and ensure consistencies in our requirements. In preparing the template, we referred to the ICGN – GISD Alliance Model Mandate Guidance I ICGN and adapted it to reflect our expectations on sustainable investment, including stewardship and transparency. We started a dialogue with our managers on adopting the new text in the last quarter of 2022 and we will continue the process throughout 2023. We expect our ESG template to be updated on a regular basis to reflect our evolving ambitions on sustainable investment.

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

Insights from our 2022 ESG annual assessment of asset management partners

In 2022, we were able to confirm that all our managers are meeting our minimum requirements on integration, stewardship and exclusions.

Additionally, 85% of our asset management partners are signatories to the UK Stewardship Code, giving us an extra level of confidence in their capabilities. The managers that are not signatories are specialists in private markets. Whilst being a signatory to the Code is not a minimum requirement for Phoenix's private market managers, we will strongly encourage these managers to consider the benefits of being aligned with the Code.

In addition to the meetings co-ordinated as part of the ESG annual due diligence process, our internal stewardship team has had 54 meetings with our asset management partners focused on engagement and voting. Of these, 40 were with our level 1 asset managers. Other members of the sustainable investment team also had regular conversations with our managers on ESG portfolio monitoring, exclusions, restrictions and specific ESG themes.

In 2022, we assessed asset management partners responsible for more than 91% of our assets according to our enhanced ESG framework. Overall, we were pleased with the commitment and performance of our managers, although we have identified areas for improvements on which to base our dialogue with them. See case studies on page 40 →

When looking at our level 1 managers, we observed that they all scored strongly against our expectations on climate change consideration in integration and stewardship activities and transparency. In the cases when managers have been scored less favourably on strategy, governance, integration and stewardship, we noticed some areas for improvement on the vision and centralisation of sustainable investment, the approach to integration across investment teams, the use of votes against management and the provision of quantifiable information on engagement objectives and outcomes.

Chapters 5, 6 and 7 provide more information on insights from our managers' integration, engagement and voting practices →

Key insights on level 1 managers:

60%

have developed a set of principles and expectations on human rights for investee companies

80%

have signed up to the Net Zero Asset Manager Initiative and set relevant public interim portfolio reduction targets

80%

have published a TCFD report

Insights from our 2022 ESG annual assessment of asset management partners continued

Case study: Enhancing integration and stewardship practices

Context and actions

Through our new internal ESG annual monitoring process, it emerged that one of our level 1 asset managers was falling short of our expectations on sustainable investment practices. In response to our assessment, we sent a letter to the manager to raise our concerns and recommend remedial actions. Over the course of 2022, we organised seven meetings to encourage the manager to create a framework to interpret ESG data for investment analysis, embrace a more outcome-oriented definition of engagement, track company meetings in a structured way, implement a consistent approach to voting across investment desks and be publicly transparent on rationales for voting against management.

Outcomes and next steps

- The manager issued its first firm exclusion policy, restructured and expanded its ESG research team and internal ESG oversight committees, and selected a large strategic ESG service provider to source information.
- Progress was made to build a tracking system for engagement meetings conducted by investment and ESG professionals.
- The manager committed to expand the use of more ESG service providers and capture more granular proxy voting statistics.
- Over 2023, we will keep working with the manager to monitor these commitments and ensure further progress against our ESG and stewardship objectives.

Case study: Supporting the Asset Owner Diversity Charter

Context and actions

In June 2022, we became a signatory to the Asset Owner Diversity Charter. This UK flagship initiative aims to formalise a set of actions that asset owners can commit to, in order to improve diversity in all forms across the investment sector. As a signatory, we have made a commitment to support a more balanced and fair representation across the asset management workforce. Members of the initiative commit to incorporating diversity questions into their individual manager selection and monitoring processes in addition to collaborating with others in the investment industry to promote diversity, equity and inclusion best practice.

Outcomes and next steps

- All our level 1 asset management partners have completed a gender pay gap assessment in 2022.
- Half of all of our asset management partners responded to AO Diversity Charter questionnaire and shared the information with us. The majority of the managers who did not respond tend to be smaller and focused on private markets.
- We will continue asking for responses and work with other members of the initiative to assess trends when we have collected enough comparable data.

Case study: strengthening voting performance

Context and actions

After completing our annual ESG assessment of one of our level 1 asset managers, we were concerned by the overall low level of voting against management, the presence of split votes across investment teams, and disclosure of voting results on the firm's website being limited to European funds. We shared our analysis during one of our quarterly stewardship meetings and we were pleased to receive further clarifications and commitments.

Outcomes and next steps

- The manager showed that the level of split votes existing at firm level was low
- The firm committed to upgrade its public reporting systems to share voting records globally, although it was not able to provide a definitive timeline.
- The manager's next stewardship report showed that the percentage of votes against management had increased from the previous year.
- We will continue engaging with the asset manager to monitor the commitment on disclosure and voting.

Assessing the ESG capabilities of EFL managers

We assess the sustainable investment standards of managers for the majority of assets in EFLs (i.e. level 3 managers) through a combination of tailored due diligence processes, third-party assessments and ratings.

Additionally, we track whether managers are signatories to the PRI and invite them to sign up to the initiative through private letters. If the assessed managers do not meet our standards, we would look to engage with them further to seek improvements and influence positive change.

In cases of unsuccessful progress, the sustainable investment assessment will be taken into consideration alongside other factors to protect the long-term interests of our customers, and may result in removal of funds from our propositions.

In 2022, we identified six EFL managers that are not PRI signatories and wrote to them in early 2023. It is our intention to track responses to our communication and make available to our customers the list of EFL managers that are signatories to the PRI through our dedicated client websites.

Insights from our 2022 ESG annual assessment of EFL managers

In 2022, Standard Life successfully conducted the annual ESG assessment of all its 22 EFL managers within the unit-linked propositions, evaluating their approach to sustainable investment. The ESG due diligence questionnaire, simplified for EFL managers, broadly follows the same structure and content used for asset management partners.

We were pleased to observe general positive trends across the content of our questionnaire. Nevertheless, the insights from this research showed areas for further improvements, such as the offering of impact funds or the application of an exclusion policy. We intend to work closely with the EFL managers assessed to improve their scores next year and beyond. We will also update the questionnaire further to reflect our evolving expectations on sustainable investing.

Key insights:

82%

of the firms assessed are already signatories to the UK Stewardship Code, while the others have confirmed their commitment to become signatories in the near future

91%

have a net zero commitment

82%

have a dedicated Climate Change Policy or Strategy

86%

are also members or have committed to become members of the Net Zero Asset Managers Initiative

73%

have a dedicated Human Rights Policy. However, all but three have a policy or strategy that consider human rights in fund management

Finding asset management partners for new strategies

In 2022, we issued requests for proposals ('RFPs') and conducted due diligence processes to select asset management partners for three strategies. We completed ESG assessments for all managers invited to participate following our ESG assessment framework both at firm and strategy level.

For example, in early 2022, we conducted a selection of managers for £8.5 billion in a UK Enhanced Index strategy. Five managers were shortlisted for a more in-depth due diligence process. A decision was made to allocate the mandate to three of the shortlisted managers allowing for exposure to a wider range of factors and sub-factors. One of the recommended managers for selection presented areas for improvement on governance, integration and stewardship practices. Consequently, the LifeCo Board Investment Committee approved the final selection of the manager with the condition of receiving full evidence of an engagement programme and commitment for collaboration from the firm to enhance practices and ambitions on our areas of concerns. These requirements were then put in place.

Selecting and monitoring ESG service providers

Phoenix Group's first selection exercise for appointing a service provider to supply climate change and ESG data was in 2021. Subsequently, in 2022 we appointed a proxy voting adviser to support the monitoring of our first Global Voting Principles[1] and opened a second RFP for the provision of ESG data by two additional providers. This will allow us to expand our coverage and supplier base in a field that is still evolving.

We have set up clear criteria for the selection of ESG service providers and we periodically engage and provide feedback on data provision to them (see opposite case study). In 2023, we will build on this engagement by developing a due diligence monitoring framework which will formalise our ongoing assessment of whether the quality of services provided to us is aligned with our expectations and needs.

When selecting ESG service providers, we consider:

- the firm's years of experience in the industry serving similar clients;
- coverage in terms of asset class, sector and geographies;
- quality and type of underlying data;
- number, qualifications and expertise of researchers;
- transparency, quality and clarity of the underlying methodology for ESG scoring;
- ability to provide information aligned with our needs and issues of focus;
- complementarity and additionality in comparison with similar offerings by other industry peers; and
- alignment of data service and models with external disclosure and reporting requirements.

Case study: Engaging with our service providers on climate data

In 2022, we shared with one of our service providers the need for additional information on companies' plans to phase out coal assets. While the data vendor provided assessments on companies' alignment with net zero using several data points and total capital expenditure share on brown assets, it did not seem to capture specific information on timelines and plans from companies to close their coal plants.

Through our dialogue with another service provider, we advised that it could improve its climate risk modelling to be forward looking by capturing company targets when projecting future emissions. The provider took on board the feedback and in 2022 began a programme of rolling out forward-looking targets for companies prioritising the most material emitters.

Other feedback provided in 2022 to climate data providers focused on broadening datasets to produce data quality scores as well as reporting on companies' physical output. Both data points are important for evaluating, projecting and improving reporting on the climate profile of investment portfolios.

We believe that by raising these questions and providing feedback on data collected, we can improve the service offered to us to support integration and stewardship activities.

1 We chose to appoint a specific voting provider without an RFP for operational reasons in 2022 given the provider's commercial relationship with our asset management partners and experienced custom policy team.

5. Integrating ESG issues into investment decisions

Throughout this document we highlight activities across our key priorities: climate change; nature; human rights; controversies; and corporate governance. We also disclose activities delivered directly by Phoenix and indirectly by our asset management partners.
These are signified by:

Key priorities

Climate change | Nature | Human rights | Controversies | Corporate governance

Delivery ownership

Phoenix | Asset management partners

What we have achieved in 2022:

- Developed expectations on ESG integration in investment decisions for asset management partners in public and private markets through our ESG assessment framework
- Expanded our carbon footprint analysis to sovereign fixed income and real estate assets
- Designed a customised decarbonising benchmark for UK and US equity funds
- Assessed impacts on nature for one listed equity and one fixed income portfolio
- Hired a nature specialist in the SI team

Key future priorities:

- Enhance our expectations of asset management partners on ESG integration across asset classes
- Develop sector- and asset-class pathways on climate change
- Continue designing climate benchmarks
- Expand the work on assessing impacts and dependencies on nature across portfolios, including preparing for the implementation of the TNFD LEAP framework

Our expectations of asset management partners

How our asset management partners integrate ESG issues in investments

We require our asset management partners to evidence how they make sure material ESG considerations are embedded effectively as part of their overall risk and opportunity management strategy and how engagement and voting with companies are conducted and incorporated into the investment decision-making process.

We also assess how managers take into consideration our key ESG priority issues, including climate change, human rights and company controversies[1].

We expect our managers to follow good practice when implementing ESG analysis in their respective asset classes. To do this, they must be able to show their approach to identifying relevant financially material ESG risks and embedding them in their valuations. We also expect our managers to monitor these ESG risks and opportunities over time. This could be through the use of internal dashboards, external ESG ratings providers and/or ESG KPIs. We encourage alignment to industry standards such as the Sustainability Accounting Standards Board and the Global ESG Benchmark for Real Assets to identify and track these risks. We take this approach across all our asset classes and geographies, although we have tailored our ESG due diligence questionnaire at strategy level differently for public and private markets. We appreciate that in the case of smaller niche managers focused on private markets we cannot expect the same level of availability of ESG tools and data. In those cases we expect our asset management partners to be able to provide evidence of internal frameworks and investment reports which support the consideration of ESG factors pre- and post-investments and efforts to collect and track ESG data from investee companies for integration and stewardship purposes. We are dedicated to enhancing our expectations on ESG integration across asset classes over time.

1 We are committed to expand our assessments on nature in 2023.

Our expectations of asset management partners continued

How our asset management partners integrate ESG issues in investments

From the assessments conducted on our level 1 managers, we have seen that:

- several have created an internal, centralised dashboard supported by proprietary methodologies to assign ESG scores and views of companies and made this data available to both ESG and investment professionals;
- the task of evidencing the use ESG scores/metrics in their investment process sits with investment teams. However, they defer to their audit and risk teams to ensure these processes are robust;
- they use some form of portfolio scenario analysis and/or temperature alignment indicators to assess the level of decarbonisation of their funds;
- while many have centralised frameworks to guide ESG integration, they allow for differentiations between public and private markets; and
- they can demonstrate through case studies how stewardship insights are connected to and reflected in investment decision-making across asset classes and geographies.

The real-life examples[1] in this chapter show how our asset management partners have integrated ESG research and stewardship activities in their investments across asset classes, including sovereign fixed income and alternative assets. The cases provide insights on managers' internal scoring and monitoring frameworks to identify companies to include in investable universes, increase/decrease financial exposure to and engage with on behalf of Phoenix and our customers. →

Case study: Supporting better disclosure and governance practice by a small company

Asset management partner: abrdn

Asset class: Listed equity (small cap)

Issuer: Interparfums

Sector: Consumer Staples

Country: France

ESG issues addressed: Reporting/Board Independence or Oversight

Context and actions

In 2022, abrdn engaged with Interparfums as the company had fallen below its ESG House Score's threshold for SFDR article 8 funds. abrdn's proprietary ESG House Score draws on available ESG data from third-party providers, while integrating the views of its in-house analysts, allowing them to compare how investee companies manage ESG issues. The scoring framework incorporates a governance score and an operational score, covering six core areas: climate change; environment; labour management; human rights and stakeholders; corporate behaviour; and corporate governance. These six core areas are then divided into specific risk categories. The scores are used to implement firm standards levels of sustainability thresholds in a range of sustainable investment strategies.

From the first research screening, abrdn was of the view that Interparfums was lagging behind peers in terms of board composition and ESG disclosures. Therefore, it requested a meeting to discuss the company's upcoming plans and to encourage improvement where needed. At the 2021 AGM, abrdn had already voted against the reappointment of three directors due to long tenure which impacted the overall board independence. During the meeting, abrdn was encouraged to hear that the company was working on an ESG report and aimed to improve its external ESG rating from service providers. Disclosure in the remuneration report had also been enhanced by providing more information on the CEO's bonus objectives. Moreover, the asset manager welcomed an update on board composition and succession planning, as the company shared the intention to add two new independent members, one with an ESG skillset, to the board at the 2023 AGM as others step down. The company also indicated its goal of having at least 50% board independence.

Implications on investment decisions

- The engagement with management reaffirmed abrdn's positive investment view of the company.
- The asset manager will continue to engage with the company to track progress and monitor the delivery of commitments on ESG disclosure and board composition.

1 Issue/issuers selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

Our expectations of asset management partners continued

How our asset management partners integrate ESG issues in investments

Case study: Rewarding innovation to support the circular economy

Asset management partner: Janus Henderson Investors (JHI)

Asset class: Listed equity

Issuer: Advanced Drainage Systems (ADS)

Sector: Industrials

Country: United States of America

ESG issues addressed: Climate Change

Context and actions

ADS is a thermoplastic corrugated pipe manufacturer, making pipes primarily for the use of sewage pipes, water tanks, filter systems and other solutions to manage the life cycle of rainwater. The company is well positioned to benefit from the substantial material conversion shift in the pipe industry, moving away from the high-emitting traditional materials such as concrete and steel to plastic. Its products are lightweight, simpler to install, and more durable than comparable alternatives made with conventional materials. Most of ADS's products are made with recycled plastics, which is enabling it to minimise exposure to volatile resin pricing, while also contributing to a circular economy.

The team used third parties' sustainability screens to confirm ADS qualified for a thematic portfolio considering criteria on current and future corporate revenues on selected primary and secondary themes[1]. There is a long-term secular shift in the pipe industry towards plastic pipes. They have superior performance to traditional materials, boasting qualities such as increased durability, ease of installation, and being less resource-intensive, without compromising lifespan. This product's market share was 1% in 1990 compared to 32% in 2019, with ADS benefiting from the majority of the rise due to its scale and manufacturing footprint. The recycling story highlights innovation too as processing various qualities of degraded plastic requires a high level of material science to get the formulation right.

Implications on investment decisions

- Based on its research, JHI investment team initiated a position in ADS in 2022 within our investment portfolios.
- Following a meeting with management in August 2022, the investment team started engaging with management to improve the company carbon disclosure and respond to the annual Carbon Disclosure Project ('CDP')'s questionnaire given current existing carbon data inconsistencies.

Case study: Enhancing our approach to assess the manufacturing of controversial weapons

Asset management partner: Legal and General Investment Management (LGIM)

Asset class: Listed equity and fixed income

Issuer: BAE Systems PLC ('BAE')

Sector: Industrials

Country: United Kingdom

ESG issues addressed: White Phosphorus Munition Production

Context and actions

The LGIM Controversial Weapons policy does not explicitly prohibit the ownership of companies which makes white phosphorus ('WP') munitions, however, it is (alongside nuclear and depleted uranium munitions) considered to have the potential to be included in future divestment lists due to historical incidents of misuse of this munition, and therefore of interest to LGIM in ESG terms.

In August 2021, the company mentioned in a meeting that it was responsible for a small amount of WP munitions procurement they were planning on exiting in the near future. In follow-up emails with the investor relations department, the exact extent of the product line (81mm mortar projectiles only) and customer base (British Army only) was detailed which LGIM considered to be good mitigation against the potential for misuse of these munitions. In October 2021, BAE formally announced its commitment to cease handling WP.

LGIM has continued to engage with the company during meetings in 2022. The asset manager met with both the CEO and CFO twice during the year. Additionally, the head of investment research and active engagement and members of the active equities and stewardship teams all met with the chairman. As well as confirming the targeted exit of white phosphorus, LGIM also discussed in depth the company's approach to selling to other countries, the co-ordination with the UK government and other checks in place. Following these meetings, BAE confirmed that its WP contract will end at the end of 2023.

Implications on investment decisions

- Phoenix Group and LGIM decided that BAE's shares should be retained with the investment portfolios.
- This decision has subsequently assisted portfolio performance, as the BAE shares delivered a total return of +60% in 2022.

1 The investor has identified ten environmental and social themes which help identify companies with positive impact and long-term compounding growth characteristics.

Our expectations of asset management partners continued

How our asset management partners integrate ESG issues in investments

Case study: How human capital management and data security can improve the investment case

Asset management partner: Alliance Bernstein ('AB')

Asset class: Listed equity

Issuer: Tata Consultancy Services ('TCS')

Sector: Information Technology

Country: India

ESG issues addressed: Human capital management/Risk management on cyber security

Context and actions

TCS is an Indian IT services company providing services to clients globally. Two material ESG issues TCS faces are human capital management, and privacy and data security. Human capital management is a key issue for IT services companies as they rely on highly demanded skilled labour with high turnover (especially among junior employees). Data privacy and security is critical to maintain clients and win new business as frequent breaches can harm the firm's reputation. AB's investment team engaged with the company several times to better understand these risks.

During its engagements in 2022, AB focused on TCS's management of data privacy and security risks. TCS has not had a data breach to this point and has appointed a chief data privacy officer to clear all marketing activities in conjunction with local and regional data privacy officers.

AB also discussed visa risks related to TCS's labour force. Most of the company's employees are from India, while the majority of its clients are located in the US and Europe. Historically, TCS has relied heavily on visa programes to allow Indian employees to work on client sites. To combat tightening immigration regulations, TCS has focused on expanding capabilities for teams to work remotely and increased localised hiring. TCS has also scaled its recruiting processes, using a national qualifier test to screen engineering graduates and offering access to their digital learning platforms before they join to encourage them to pick up as many skills as possible before they start. Recruits can improve their starting pay by up to 100% if they meet certain training targets. This enabled TCS to ramp up hiring significantly as demand picked up.

In addition to engaging with the company, AB monitored the company review on the website Glassdoor to assess employees' satisfaction and estimate expected turnover. On Glassdoor, Indian IT companies perform relatively in line with their developed market peers and TCS has strong ratings on culture and values, work-life balance, and overall ratings.

Implications on investment decisions

- The engagements and research conducted gave AB confidence in TCS's human capital and data security practices relative to peers.
- The company has been a long-term holding in the portfolio managed on behalf of Phoenix Group, and AB has continued to increase the position over time, in part because of its increased conviction in the company's ESG risk mitigation strategies.

Case study: Working with tenants to improve data measurement and action on climate change

Asset management partner: abrdn

Asset class: Real Estate

Issuer: Holiday and leisure parks, the direct real estate asset invested in

Sector: Consumer Staples

Country: United Kingdom

ESG issues addressed: Climate change/Pollution, Waste

Context and actions

The main driver for this engagement was to understand the occupier's energy, water and waste data and performance alongside any relevant initiatives it was planning to undertake. Through the dialogue, abrdn's intention was to offer some additional recommendations, feed the data into its net zero modelling for the wider real estate fund and set appropriate net-zero carbon targets. abrdn's net zero modelling for real estate calculates the carbon emissions of the fund and sets a carbon emissions baseline. It then models carbon emissions to 2050 in two scenarios: 1) Business As Usual and 2) if the fund were to meet the net-zero 1.5 pathway as outlined by the Carbon Risk Real Estate Monitor. The final stage of the model looks at decarbonisation initiatives required to meet the 1.5°C pathway and overlays the CAPEX investment. It also highlights those assets at most risk which enables the fund team to prioritise net zero initiatives.

Having such complete and high-quality data is vital for abrdn as a landlord, as it allows the asset manager to calculate baseline emissions, measure year-on-year progress, identify which actions produce the best results and ensure environmental disclosures are robust. It also enables abrdn to understand occupiers' needs and support them in reducing their energy consumption and emissions.

On top of regular, quarterly tenant/landlord communications, abrdn engaged with the occupier twice in 2022. This engagement was led by the fund team, supported by the ESG specialists dedicated to support real estate funds. The occupier's CFO is keen to oversee this relationship, and thus engages with abrdn regularly, while the energy data is provided by the Group's Chief Accountant.

Implications on investment decisions

- The objective of collecting the occupier's energy, water and waste data alongside details of upcoming environmental initiatives was achieved.
- The tenant decided to switch to the same energy data platform that abrdn uses. This is mutually beneficial, as it allows for seamless sharing and analysis of the energy data.
- The entity and the fund are aligned in wanting to improve their ESG performance and the fund will remain invested in the asset.
- The engagement will continue annually, to monitor data and progress by the entity.

Our expectations of asset management partners continued

How our asset management partners integrate ESG issues in investments

Case study: Redefining energy optimisation by connecting buildings, businesses and the grid while keeping high ESG standards

Asset management partner : Goldman Sachs (GS)

Asset class: Private Equity

Issuer: GridPoint

Sector: Energy

Country: United States of America

ESG issues addressed: Climate Change

Context and actions

GridPoint is a provider of energy management and optimisation technology for commercial buildings, delivering savings to customers upon installation and enabling integration of distributed energy for grid resilience. GridPoint's subscription-based platform enables commercial businesses to upgrade their facilities, improving operational sustainability, maximising decarbonisation, increasing grid resiliency, and reducing energy costs. Small-scale commercial buildings are often overlooked as grid resources in favour of larger facilities such as industrial and manufacturing. The largest sources of energy consumption in small buildings can also be sources of stabilisation for utilities when enrolled in demand response programmes, becoming distributed energy resources. These distributed energy resources can stabilise the grid and build resiliency, which is important as energy demands increase with electrification. As commercial buildings add features such as electric vehicles' charging and back-up battery storage, GridPoint connects energy grids with the built environment and the growing number of behind-the-meter distributed energy resources to enable its customers to provide greater grid stability through an intelligent network of buildings. TheGridPoint network ultimately allows utilities to draw on distributed energy resources during times of renewables intermittency instead of relying on conventional sources of back-up generation such as fossil fuel-powered 'peaker' plants.

Implications on investment decisions

- GS invested in GridPoint in a growth-oriented direct private equity strategy dedicated to the climate transition, following detailed diligence of the company.
- The investor has been actively involved in advancing ESG integration at the company. This includes tracking ESG-related recommendations and/or requirements, training management teams on best practices for measurement and impact KPI collection as part of a biannual data collection process, and facilitating diversity, equity, and inclusion training for members of the management team.
- GS worked with GridPoint to engage Watershed, an emissions accounting tool, to help with future GHG emissions measurement, benchmarking and emission reduction strategy development and target setting.

Case study: Supporting the issuance of future green and social bonds

Asset management partner: abrdn

Asset class: Sovereign fixed income

Issuer: Government of Chile

Country: Chile

ESG issues addressed: Climate change/Natural resource use/impact

Context and actions

In December 2022, abrdn spoke with the Head of Chile's Public Debt Office as part of an ESG conference. The asset manager sought to understand more about any new projects which are anticipated for the proceeds of green and social bonds. In addition, abrdn had questions related to water scarcity and wanted to provide some challenge on the timeliness of climate data. abrdn also encouraged Chile to reduce the three-year carbon reduction reporting lag for green labelled bonds to be in line with other countries, such as Uruguay.

Implications on investment decisions

- While Chile is still in the process of analysing different projects, abrdn touched on the possibility to include actions on forestry, metro lines, conventional renewable energy and green hydrogen.
- Chile is increasing exposure to conventional renewable energy – with good conditions for wind in the south and solar in the north.
- On green hydrogen, the government is creating financial incentives to promote the technology, although this is at the early stages and infrastructure will be critical.
- Constitutional issues related to water rights are under discussion in Congress. Currently Chile is positioning its critical infrastructure for adaptation on the issue of water scarcity, though regulation will be important.
- The asset manager will monitor any improvements.

Decarbonising our portfolios towards net zero

Our portfolio monitoring on key ESG issues

We invest and manage assets on behalf of our customers who have shared with us their concerns on ESG issues such as climate change, nature and human rights. It is our responsibility to ensure that we balance the need for returns with the right level of risk. Both of those elements – risk and return – point towards investments that manage our customers' exposure to material ESG risks while ensuring continued long-term stable financial returns.

We are on the path to transitioning our investment portfolio to net zero by 2050, as well as hitting ambitious interim targets to cut emissions in the next decade.

Our climate strategy is based on three pillars: Invest for the future; Engage to multiply impact; and Lead by example (see opposite). These are anchored by our governance and risk management frameworks, scenario analysis and ongoing investment in our people capabilities, climate data and technology platforms.

Our climate ambition

To optimise value for our customers and play a key role in delivering a net zero economy. We do this by decarbonising our investment operations and supply chain to manage risks; investing in the growing sectors of the future to take advantage of the opportunities; and being a leading voice in calling for action and driving system change.

Governance

Risk management

Scenario analysis, people capability, data and technology

Invest

- **Decarbonising our investment portfolio** by transforming our portfolio to increase net zero alignment.
- **Effective stewardship of our assets** by working with investees and asset managers to drive emissions reduction and reduce risk.
- **Investing in climate solutions** in the growing companies and sectors of the future.

Engage

- **Engaging our 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 our direct emissions** by decarbonising our operations.
- **Reducing our wider emissions** by working with all suppliers in support of our climate ambition and requiring all to have carbon reduction targets.

Metrics and targets

Set clear targets for cutting emissions and publish transparent data on our performance against them.

Decarbonising our portfolios towards net zero continued

Our portfolio monitoring on key ESG issues

The emissions from the issuers we invest in represent a significant carbon footprint. In 2022, we expanded our carbon footprint baseline to include sovereign debt and real estate assets, which has increased our baselined asset portfolio to £238 billion (representing 77% of our total investment portfolio as at year-end 2021). This baselined asset portfolio had a carbon footprint at year-end 2019 of 24 million tonnes CO_2e, consisting of 15 million tonnes from our listed equity and credit portfolio, and 9 million tonnes from our sovereign debt and real estate portfolios. For our listed equity and credit portfolio, our financed emissions of 15 million tonnes a year in 2019 reduced by 4 million tonnes to 11 million tonnes a year in 2021. This reduction is mainly due to the 2021 year-end position using invested asset emissions data which captures the economic slowdown due to Covid-19. As a result, it is not appropriate to use the reduction observed between these two time points as an indicator of our future trajectory, since subsequent years are likely to show an increase in absolute carbon emissions (relative to the 2021 year-end position) owing to the bounce-back of the global economy post Covid-19.

We have a real opportunity to drive down emissions and we are focused on developing decarbonisation pathways on an asset class and sector level, further expanding our baseline to include illiquid credit assets in 2023, and continuing to develop appropriate metrics to track our progress against our interim milestones on our pathway to net zero by 2050.

A key mechanism for decarbonising our investments is to support companies that are committing to and making progress in the net zero transition and to reduce our exposure to companies that are most at risk. Our overall objectives in doing so are to manage the climate risks that customers are exposed to whilst maintaining the broad risk and return profile of their portfolios. By reallocating assets in combination with stewardship activities, we aim to reduce our investment portfolio's carbon emission intensity over time in line with our decarbonisation targets.

We are currently designing a customised decarbonising benchmark for UK and US equity funds accounting for around £40 billion of assets. We will continue to evolve our methodology before ultimately rolling out equivalent benchmarks across other asset classes, including listed credit. We have taken a proactive approach in this process working collaboratively with our asset management partners.

Emissions reduction targets coverage

Using the value of our AUA in 2021 for reference, the coverage of our emissions reduction targets grows from £160 billion (52%) of AUA in 2025 to c.£250 billion (81%) in 2030 and c.£310 billion (100%) in 2050.

Listed equities and credit
c.£160bn

Other assets we control and influence
c.£90bn

External fund links
c.£60bn

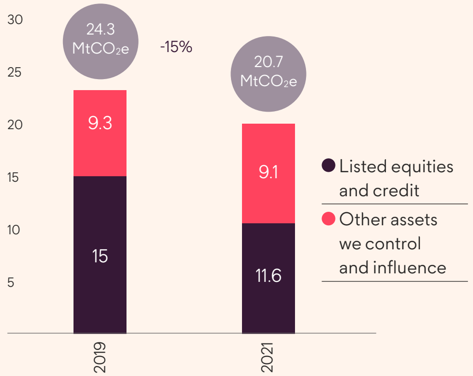
By 2025 cut carbon intensity of listed equities and credit[1] by 25% (covering £160bn AUA)

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

By 2050 cut carbon intensity of our entire portfolio to net zero (covering £310bn AUA)

Our progress

Our total financed emissions across listed equities and credit and other assets we control and influence (which accounted for c.£250 billion AUA in 2021) fell by 15% between 2019 and 2021.



1 Where we exercise influence and control.

Assessing our impact on nature across our portfolios

Our portfolio monitoring on key ESG issues

Risks linked to portfolio company impacts and dependencies on nature have remained largely unrecognised by investors. In recent years though, data and tools allowing investors to begin to analyse nature-related risks have become more available. In 2022, Phoenix undertook some initial steps to identify the primary themes of nature-related risks across investment portfolios.

Using data from the Encore tool, a free to access resource developed by the Natural Capital Finance Initiative, we carried out an initial assessment of one actively managed global listed equity portfolio and one passively managed global listed fixed income portfolio. Findings from the analysis delivered very similar outcomes for both the equity and fixed income portfolios. Principal dependencies are linked to ground water and surface water provision as well as flood and storm protection. Principal impact pressures are linked to water usage and discharges of soil pollutants, water pollutants and solid waste.

In the future, we will look to expand analysis of listed equity and credit exposure using the same tool. By doing this, we hope to establish a more complete picture of where the most (potentially) material nature- related risks are coalescing across investments within these two asset classes.

In parallel, we will also be concluding a pilot project to test the TNFD LEAP approach for financial institutions. The pilot aims to establish how our existing ESG data providers enable us to identify company- and project-level nature-related impact and dependencies and evaluate and assess the extent and materiality of these. A key part of this work will be the identification of data gaps, new data assessments, development of appropriate metrics and methodologies to assess issuer impact footprint and exposure, as well as scenario analysis and target setting. We will be sharing aspects of the findings of the pilot with the TNFD itself to help shape the framework as it develops.

Findings from these analyses will inform our approaches to assess the materiality of nature-related risks at the security level, and stewardship activities conducted both directly and through our asset management partners.

Assessing our exposure to human rights impact

Our portfolio monitoring on key ESG issues

The UNGC initiative promotes the application of 10 principles linked to international standards on human rights, labour rights, environmental and climate change issues, and anti-bribery and corruption efforts. Companies might be at the centre of a controversy linked to one or more UNGC Principles, which can be considered a breach of those principles[1] .

In the specific case of breaches of the UNGC Principles by companies in our portfolios, we rely on preliminary assessments provided by two leading ESG service providers to understand the severity and scale of the breach and the level of response by the companies flagged. Screening of our equity and fixed income portfolios on potential UNGC breaches through investee companies' direct operations is conducted on a semi-annual basis based on a consensus methodology and financial exposure analysis. We then complement this assessment with additional desk research and inputs collected from our asset management partners. These efforts are also linked to our thematic engagement programme explained in chapter 6 (see page 75 →).

As outlined in our first Human Rights Policy, we shall conduct further portfolio due diligence in alignment with the expectations of UNGPs framework to further inform our and asset managers' engagement activities on human rights and social issues.

1 It has to be noted that the UNGC initiative does not provide assessments of companies with respect to the implementation of the principles. External ESG service providers have developed their UNGC compliance tools based on their own methodologies to link severe media and public controversies by companies to the content of these principles. Phoenix Group has currently access to two of these tools.

Integrating sustainability in private markets

Our portfolio monitoring on key ESG issues

We have made a commitment to invest £10 billion in direct investments in sustainable opportunities by 2025 within our shareholder portfolio in illiquid markets.

To support this activity we have developed a comprehensive framework that we use to classify sustainable investment in alternative assets. (See here →). Within the environmental component of this framework we consider investments in solutions to climate change and nature loss such as renewable energy, energy efficiency, clean transportation, green buildings, water and wastewater management, circular economy production technologies, management of living natural resources and land use. Within the social component, we include investments to promote affordable housing, basic infrastructure and services, access to essential services (e.g. in healthcare and education) and gender equality.

In 2022, we invested c.£1 billion in sustainable assets (both environmental and social-related), representing 53% of illiquid assets originating in sustainable opportunities for the shareholder portfolio. We assessed ESG risks alongside other considerations for every transaction and discussed them through our relevant governance committees.

In chapter 7 (see pages 83 and 84 →), we include two practical examples of how we have used our investors' rights in relation to these assets to structure loan covenants linked to ESG objectives and inform engagement activities with investee companies.

6. Engaging with issuers to drive outcomes

Throughout this document we highlight activities across our key priorities: climate change; nature; human rights; controversies; and corporate governance. We also disclose activities delivered directly by Phoenix and indirectly by our asset management partners.
These are signified by:

Key priorities

Climate change · Nature · Human rights · Controversies · Corporate governance

Delivery ownership

Phoenix · Asset management partners

What we have achieved in 2022:

- Developed expectations on engagement of asset management partners for public and private markets through our ESG assessment framework and Stewardship Policy
- Launched our engagement programme on climate change and finalised research of focus issuers
- Worked with peers to improve disclosure from asset managers on climate change engagement and voting
- Launched our engagement programme on controversies linked to UNGC breaches
- Joined the PRI collaborative initiative Advance as a lead and participating investor

Key future priorities:

- Continue work with asset management partners to improve their disclosure on engagement activities and outcomes
- Continue in-house engagement on climate change, controversies linked to UNGC breaches and human rights
- Define our engagement approach on nature-related risks and opportunities

Supporting effective engagements with issuers

We believe that engagement strategies and approaches to enhance the long-term value of investment for the benefits of our customers and shareholders should not materially differ across asset classes and geographies.

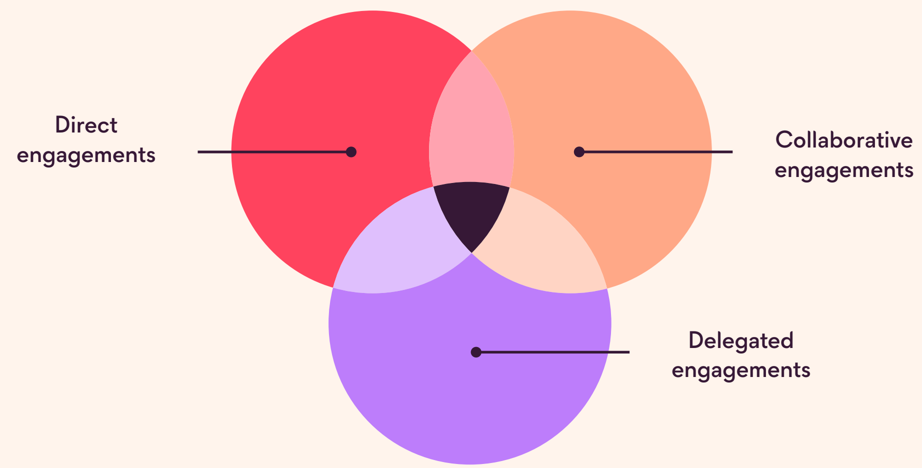
For example, investors can increase their ability to influence when speaking with one voice (i.e. as both shareholders and bondholders) in discussions with issuers. Equally, investees in both developed and emerging markets should be encouraged to achieve the same level of best practice on ESG issues, although access to corporate management and information can vary. In private assets, whilst availability of ESG data to assess issuers practices can be more challenging, investors' more concentrated financial exposure and higher possibility of securing board representation in addition to the ability to negotiate additional covenants and use of proceeds, can increase leverage with corporate management to achieve stronger ESG performance. In real estate assets, engagement with occupiers and property managers can also improve energy efficiency, resources management and sustainability credentials of buildings.

Different interpretations of engagement exist in the market. We believe that engagement refers to a two-way interaction between the investor and investees in relation to the corporate business strategy and ESG practices with the goal of influencing issuers' practices. Asking a question on ESG issues during a meeting does not necessarily characterise the interaction as an engagement in our view. Providing feedback on information collected, sharing best practice by peers and defining engagement objectives with focus issuers better defines an engagement activity.

We also support the view that engagement, voting and ESG integration are interlinked and, when relevant for a specific strategy, they should be intrinsic parts of the investment decision-making process. This is why we do not think that stewardship should be a delegated function for specialised ESG professionals only, but it should be equally undertaken by investment professionals with ESG knowledge and experience alone or in collaboration with sustainable investing professionals and be efficiently documented.

As a large asset owner, we embrace this concept of effective engagement. While we ordinarily conduct dialogue with investees through our asset management partners, we also undertake direct engagements with issuers' representatives and join collaborative engagements with other investors through our internal stewardship team. Our direct engagements are focused in nature and based on our portfolio monitoring activities which allow us to identify target investees with high financial exposure and strong impact on our priority ESG topics.

Our approach to engaging with issuers



Fostering collaboration for higher impact

Collaborative engagements can be an efficient strategy to channel investors' concerns to issuers. However, co-ordination and preparation by coalitions are essential to ensure high-quality dialogue.

We will consider joining a collaborative engagement if the following criteria are met:

- We share the objectives of the initiative and support identified recommendations to investees.
- We are supportive of existing rules in terms of public external communications.
- We have the resources to positively contribute to the dialogue with focus issuers.
- Collaborating with peers is permitted by existing regulation.

As stated in our Stewardship Policy, we expect our asset management partners to be active in collaborative engagements too and we assessed their participation through our ESG assessment framework. In 2022, we assessed that 80% of level 1 managers participated in collaborative engagements with issuers, while one large passive manager preferred to engage individually with investees and participate in investors collaborations to shape standards rather than individual corporate behaviour.

In 2022, we also monitored that 80% of all asset management partners (i.e. level 1 and 2) are active members of CA100+ and 35% have joined the PRI collaborative initiative Advance.

For more information on our and our asset management partners' participation in collaborations, see:

Case study 'Fostering a living wage for all employees'
Read more on page 63 →

Case study 'Addressing the deforestation crisis in Brazil'
Read more on page 66 →

Case study 'Encouraging alignment of strong decarbonisation goals with management incentives'
Read more on page 68 →

Case study 'How our managers are addressing nature loss'
Read more on page 93 →

Our climate change engagement programme
Read more on page 70 →

Our engagement programme with companies linked to controversies
Read more on page 75 →

Our collaborative engagement efforts on social issues and human rights
Read more on page 77 →

Tackling the climate change crisis through policy dialogue and standard setting
Read more on page 91 →

Taking action to address nature loss through investor collaboration
Read more on page 92 →

Appendix 5 – Industry initiatives focused on ESG issues Phoenix Group is a member of or supports
Read more on page 101 →

Escalating dialogue when progress is not made

In the case that improvements by investees are not made despite several engagement efforts, we consider forms of escalation. We expect our asset management partners to be prepared to take similar actions for engagements conducted on our behalf as mentioned in our Stewardship Policy. Escalation strategies might vary across asset classes depending on available investors' rights.

For example, voting is only possible in listed equity assets. However, we do not expect escalation practices to be different across funds, sectors or geographies. Forms of escalations available to us and our managers are collaborating with other shareholders, voting against management, presenting an AGM statement, issuing a public statement, decreasing exposure and ultimately divesting the holdings.

In 2022, we assessed that all level 1 managers are open to the form of escalation that we encourage them to take and provided evidence of this through case studies. In 2023, we intend to further encourage our managers to track their forms of escalation more systematically in their systems and report to us accordingly.

For more information on how we and our asset management partners use escalation strategies, see:

Case study 'Addressing sexual harassment in the mining sector'
Read more on page 63 →

Case study 'Fostering a living wage for all employees'
Read more on page 63 →

Case study 'Addressing human rights impacts in the technology sector'
Read more on page 64 →

Case study 'Encouraging alignment of strong decarbonisation goals with management incentives'
Read more on page 68 →

Case study 'Fostering stronger diversity at board level in the United States'
Read more on page 82 →

Case study 'A holistic engagement to inform voting decisions across ESG issues'
Read more on page 82 →

Case study 'Encouraging faster action on deforestation'
Read more on page 83 →

Our climate change engagement programme
Read more on page 70 →

Our engagement programme with companies linked to controversies
Read more on page 75 →

The engagement work conducted by our asset management partners

How our asset management partners engage with issuers

From the assessment of our level 1 managers, we learnt that:

- they are aligned with our definition of engagement as dialogue focused on influencing and shaping issuers' performance. However, they are more comfortable applying an outcomes-focused approach to dialogues conducted by ESG professionals than investment professionals; and
- they have engagement tracking systems available to both investment and ESG teams, but they do not have a consistent approach to note engagement objectives and progress against them.

In preparation for this Stewardship Report and as part of our monitoring activities, we have also asked all our asset management partners, managing our customers' strategies in listed equity and corporate fixed income (11 in total), to share quantitative information on the engagement dialogue they had with investees on our behalf.

While the asset management partners we work with have shared broad information on engagement meetings held, issuers met and broad ESG issues discussed, only a subset of the dataset provided information on representatives met, subtopic issues addressed, objectives set and progress against these objectives. We believe that this is primarily due to limitations in reporting and tracking tools.

Overall, 17% of all the meetings reported to us had associated engagement objectives tracked in our managers' reporting systems. A much smaller percentage of these meetings were associated with progress against these engagement objectives set. We are dedicated to keeping an open dialogue with our managers to improve coverage of these important performance indicators. It is our intention to share with them the insights from this report to provide constructive feedback in 2023.

We have also noticed that some managers only reported to us on outcomes-oriented meetings, while others preferred to share information on all meetings undertaken with investees when an ESG issue was raised or discussed. While we believe that there is merit for both type of interactions, we are encouraging asset management partners to keep these two categories separate from a reporting perspective and enhance the ability to track objectives and progress made to be shared with us. Ultimately, our definition of engagement refers to a two-way dialogue with an outcome focus. We will strengthen our monitoring frameworks to provide asset managers with a greater understanding of what is expected of them. This should also allow for greater comparison amongst managers.

The engagement work conducted by our asset management partners continued

How our asset management partners engage with issuers

In 2022, our 11 relevant asset management partners had more than **3,800** meetings (see table below) with more than **1,300** investees across sectors and geographies on our behalf and in relation to the assets they managed for us (see charts 20 and 21).

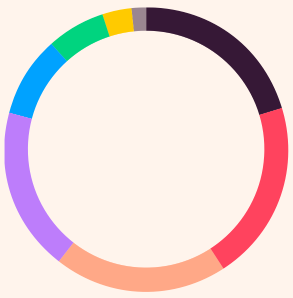
Table 3 – Overview of engagement meetings reported by our managers

	Number of engagement meetings
Level 1 asset management partners (90% of assets)	3,260
Level 2 asset management partners	544
Total	3,804

Chart 20 – Sector distribution of engaged issuers

Industrials	205
Financials	195
Consumer Discretionary	194
Materials	150
Consumer Staples	146
Information Technology	118
Healthcare	80
Real estate	80
Communication Services	74
Energy	64
Utilities	43

Chart 21 – Regional distribution of engaged issuers



United States	277
Developed Asia (except Japan)	276
UK	265
Europe (except UK)	253
Emerging and frontier markets	124
Japan	87
Australia and New Zealand	46
Canada	21

The engagement work conducted by our asset management partners continued

Environmental and governance issues have been the most common topics addressed in these meetings (see table 4). We were also able to collect more granular data on sub-topics covered for more than half of the meetings. Climate change, remuneration, human capital management, nature and board effectiveness have been the most popular themes of dialogue (see table 5).

Table 4 – ESG issues covered in engagement meetings

Topics covered	Number of meetings	% of meetings where topic was covered*
Environment	2,250	59%
Social	1,578	41%
Governance	2,135	56%

Table 5 – Subtopics covered in engagement meetings

Subtopics covered	Number of meetings	% of meetings where topic was covered*
Climate change	742	20%
Remuneration	617	16%
Human capital management (e.g. inclusion and diversity, employee terms, safety)	383	10%
Board effectiveness – independence or oversight	323	8%
Natural resource use/impact (e.g. water, biodiversity)	308	9%
Leadership – chair/CEO	266	7%
Pollution, waste	228	6%
Board effectiveness – other	240	6%
Conduct, culture and ethics (e.g. tax, anti-bribery, lobbying)	177	5%
Human and labour rights (e.g. supply chain rights, community relations)	176	5%
Shareholder rights	157	4 %
Public health	74	2%
Inequality	40	1%
Board effectiveness – diversity	23	1%

* Note: managers may cover multiple subtopics in the same meetings, therefore these percentages are calculated by dividing number of meetings where the topic was covered by total number of meetings held by managers. Consequently, the percentages do not add up to 100.

How our asset management partners engage with issuers

In addition to these statistics, we collected a number of case studies to show how our asset management partners have engaged individually and collaboratively with companies and governments, shared feedback and recommendations to corporate management and country officials, and used escalation strategies in the case of poor outcomes. The cases provided span across asset classes, regions and sectors, and cover multiple topics, including governance, climate change, nature, labour and human rights and sustainability disclosure[1]. →

1 Issue/issuers selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

The engagement work conducted by our asset management partners continued

How our asset management partners engage with issuers

Case study: Addressing sexual harassment in the mining sector

Asset management partner: abrdn

Asset class: Listed equity and Fixed Income

Issuer: Rio Tinto

Sector: Materials

Country: United Kingdom

ESG issues addressed: Human and labour rights

Voting policy override: Yes, the manager abstained on approval of financial statements

Context and actions

abrdn has had ongoing engagements with Rio Tinto on multiple ESG issues for many years. In 2021, the asset manager had serious concerns in relation to the company's actions at Jukan Gorge and impacts on local communities. This resulted in a vote against the company's annual report and accounts and remuneration report at the 2021 AGM.

In 2022, dialogue focused on allegations of sexual discrimination and harassment at the company's fly-in fly-out sites, and a subsequent inquiry by a Western Australian parliamentary committee. The parliamentary inquiry into sexual harassment found significant issues and encouraged the company to carry out a full review, led by former Australian Sex Discrimination Commissioner Elizabeth Broderick, which was published externally and included 26 recommendations. The asset manager discussed in detail the outcomes of the recommendations and the steps that the company was going to put in place.

Outcomes

- Rio Tinto has made several changes at both board and executive level.
- The company has also put together a strategy to address the outcomes of the parliamentary review and committed to implement all 26 recommendations and publicly report on its progress against them. abrdn is supportive of the steps that the company is taking to address the issue of concern and its openness to recognise that a change of practices is needed.
- However, in light of the serious nature of the problems emerged, the asset manager abstained on the approval of the company's annual report and accounts at the 2022 AGM.
- The annual report and accounts received approval from over 99% of votes cast at the meeting.
- abrdn does not believe that this issue is limited to Rio Tinto and has launched an engagement programme focused on mining companies globally that have similar sites to understand the steps being taken to ensure employees have safe and supportive working conditions.

Case study: Fostering a living wage for all employees

Asset management partner: Legal and General Investment Management ('LGIM')

Asset class: Listed equity and fixed income

Issuer: J Sainsbury PLC

Sector: Consumer staples

Country: United Kingdom

ESG issues addressed: Human and labour rights

Voting policy override: No

Context and actions

In 2022, Sainsbury's has come under scrutiny regarding paying a living wage to all employees, including contractors. LGIM advocates that all companies should ensure that they are paying their employees a living wage and that this requirement should also be extended to all firms with whom they do business across their supply chains. Company boards should challenge decisions to pay employees less than the living wage, and the remuneration committee, when considering remuneration for executive directors, should consider the remuneration policy adopted for all employees.

LGIM engaged initially with the company's then CEO in 2016 about this issue and by 2021, Sainsbury's was paying a real living wage to all employees, except those in outer London.

In 2022, LGIM, together with the organisation ShareAction, other asset owners and asset managers, co-filed a shareholder resolution calling on the company to become a living-wage accredited employer by its AGM in 2023. With over 600 supermarkets, more than 800 convenience stores, and nearly 190,000 employees, Sainsbury's is one of the largest supermarkets in the UK. Although Sainsbury's is currently paying higher wages than many other listed supermarkets, the company was selected because it is more likely than many of its peers to be able to meet the requirements to become living-wage accredited.

LGIM decided to co-file this resolution because of Sainsbury's decision to split its London employees into 'inner' and 'outer' London, with those in 'outer' London paid less than the real living wage of £11.05 per hour ('outer' London employees were offered £10.50 per hour). Although the hourly rate differential appears small, when multiplied by the total hours worked, this would make a material impact on affected employees' ability to meet the demands of the cost-of-living crisis as inflation costs soar and the economy struggles to recover from the effects of the Covid-19 pandemic.

Outcomes

- In April 2022, Sainsbury's moved all its London-based employees (inner and outer) to the real living wage. LGIM welcomed this development as it demonstrates Sainsbury's values as a responsible employer.
- However, the shareholder resolution was not withdrawn and remained on the 2022 AGM agenda because, despite this expansion of the real living wage to more employees, there are still some who are excluded. This group comprises contracted cleaners and security guards, who fulfil essential functions in helping the business to operate safely.
- Approximately 17% of votes were cast in support of the shareholder resolution at the 2022 AGM.

The engagement work conducted by our asset management partners continued

How our asset management partners engage with issuers

Case study: Engaging on climate risk in the banking sector

Asset management partner: BlackRock
Asset class: Listed equity
Issuer: Barclays PLC
Sector: Financials
Country: United Kingdom
ESG issues addressed: Climate Change
Voting policy override: No

Context and actions

BlackRock has engaged regularly with Barclays over the last several years to discuss a range of material corporate governance and sustainable business matters. At Barclays' 2022 AGM, management proposed an advisory, non-binding shareholder vote on the company's Climate Strategy, Targets and Progress 2022. This advisory vote on Barclays' climate strategy, targets and progress came after the bank received climate-related shareholder proposals for shareholder consideration at the 2020 and 2021 AGMs. BlackRock believed that Barclays has made notable progress in developing its net zero roadmap. In particular, the bank had in the prior year added medium-term targets to 2030 for financed emissions which reference the International Energy Agency's Net Zero 2050 scenario. In addition, the company broadened the scope of its targets to include reducing financed emissions from steel and cement, in addition to power and energy. Finally, Barclays enhanced its coal policies to include a commitment to phase out financing for thermal coal mining and power by 2030 in OECD countries and 2035 for the rest of the world. As set out in the company's 2022 sustainability report, Barclays plans to make progress on a number of other issues over the coming year. For example, reviewing green financing targets and setting targets for Automotive Manufacturing and Residential Real Estate. The bank has also provided a timeline for the completion of its target setting for high-emitting sectors by 2024.

Outcomes

- At the 2022 AGM, BlackRock supported management's proposal in recognition of the company's disclosed climate strategy which includes meaningful short-, medium-, and long-term emissions reduction targets, the company's progress against the commitment laid out in 2020, and the additional enhancements envisioned in its progress report.
- While BlackRock acknowledges Barclays' progress against its 2020 commitment, it believed that there were areas where the bank's disclosure and underlying climate strategy could be enhanced. Reporting additional information on financed emissions outside of energy and power would be helpful for investors to better understand the climate risks, challenges and opportunities Barclays is facing and to measure progress on an ongoing basis.
- The climate strategy proposal received approximatively 81% of supportive votes from shareholders at the 2022 AGM.
- BlackRock has continued to engage with the company to monitor progress against the commitments made in its climate report and the above-mentioned areas for enhanced reporting. This, as well as the consistency between corporate decisions and stated climate ambitions, will be carefully considered in future voting decisions.

Case study: Addressing human rights impacts in the technology sector

Asset management partner: Janus Henderson Investors ('JHI')
Asset class: Listed equity
Issuer: Meta Platforms, Inc
Sector: Communication Services
Country: United States of America
ESG issues addressed: Board Independence or Oversight/Human and labour rights/Risk management
Voting policy override: No

Context and actions

JHI has engaged with Meta Platforms over several years seeking to encourage improvements to corporate governance and to address a broad range of concerns around privacy and data security. This resulted in several meetings, initially with the global head of content and human rights. Whilst there have been some positive developments, including Meta becoming a signatory of the UNGC, the existing misalignment between senior management and users' welfare and human rights continues to raise concerns. In 2022, the manager engaged with the company further by discussing this issue with the company's ESG engagement leader. JHI also decided to join a collective meeting with other shareholders to address this topic in addition to diversity, equity and inclusion and environmental management.

As part of the engagement, JHI provided examples of potential metrics that could be reported on to achieve a more holistic alignment such as the response time following user concerns alongside other mental health and meaningful group engagement statistics. However, the investor also made it clear that the company would be better placed to set its own transparent alignment targets.

Outcomes

- At the 2022 AGM, as part of an initial escalation, JHI voted in favour of shareholder proposals calling for an independent board chair and to report on third-party human rights impact assessment, consistent with its engagement with management.
- These advisory proposals received 19.5% of supportive votes and over 63% of votes in favour from independent shareholders.
- JHI will continue to engage on these issues with senior management and will look to escalate further to ensure progress continues to be made. Escalation could further entail reaching out to the board and non-executive directors to share concerns and understand their perspective.

The engagement work conducted by our asset management partners continued

How our asset management partners engage with issuers

Case study: Moving from brown to green assets responsibly

Asset management partner: Macquarie Asset Management ('MAM')

Asset class: Private Equity/Infrastructure

Issuer: Puget Sound Energy

Sector: Utilities

Country: United States of America

ESG issues addressed: Climate Change

Context and actions

In February 2022, a MAM-led consortium (MAM fund and other co-investors) acquired 31.6% of Puget Sound Energy ('Puget'), including Board representation, allowing it to engage with the company on strategic objectives.

Puget is the largest integrated electric and natural gas utility in the Pacific Northwest of the United States, with c.1.2 million electric customers and c.850,000 natural gas customers. It is a vertically integrated utility, with its assets including electricity generation, electricity transmission and distribution and natural gas infrastructure. Puget's service territory spans 6,000 square miles and includes the metropolitan area surrounding Seattle. Washington State is at the forefront of clean energy policy in the US, and this investment is an opportunity to participate in the green energy transition being undertaken by Puget. This is the second time a MAM fund has invested in Puget. Another MAM fund was Puget's largest shareholder between 2009 and 2019.

Outcomes

- During MAM's previous investment, the company committed to a substantial reduction in its carbon footprint including transition from coal to gas.
- As part of its commitment to decarbonise its business model, Puget constructed Tacoma LNG, a natural gas liquefaction and storage facility in Tacoma to improve its ability to meet peak customer gas demand and provide cleaner transport fuel to the marine trade between Puget Sound and Alaska.
- Puget also led community negotiations that resulted in the closure of two coal-fired generation units in Montana, including a plan to mitigate the economic effects of the closure.
- In MAM's current investment period, Puget agreed to sell its 25% stake in a coal-fired power unit to a co-owner who plans to develop a 600-MW wind energy project on the site. Upon the close of this divestment in 2025, Puget's generation fleet will become coal-free.

Case study: Supporting climate solutions while keeping high ESG standards

Asset management partner: Goldman Sachs ('GS')

Asset class: Private Equity

Issuer: Northvolt

Sector: Energy

Country: Sweden

ESG issues addressed: Climate Change/ Board Diversity

Context and actions

Founded in 2016 to enable the transition to a decarbonized future, Northvolt is a European supplier of sustainable lithium-ion battery cells and systems. The company aims to play a key role in the transition to a low carbon economy by taking a fundamentally new approach to battery production, bringing almost the entire manufacturing process into its own operations. This has allowed Northvolt to produce sustainable batteries and work towards integrating circularity and recycling into its setup. In June 2021, GS invested in the company through a growth-oriented direct private equity strategy dedicated to climate transition (GS more broadly invested in Northvolt in 2019) and has since been actively involved in the company's ESG engagement and management through the board.

Outcomes

- GS has engaged with the company to identify and track impact KPIs in a biannual data collection process, establish an ESG uplift plan, and appoint two female independent directors to the board.
- GS also supported the company by leveraging its global relationships with commercial partners to accelerate key customer dialogues (as of August 2022, Northvolt has $55 billion in Original Equipment Manufacturer contracts), providing ongoing support to augment its supply chain security and product roadmap, and partnering with corporate management in a first-of-its-kind project financing with multiple investors, allowing the company to obtain necessary funds to continue expansion.

The engagement work conducted by our asset management partners continued

How our asset management partners engage with issuers

Case study: Addressing the deforestation crisis in Brazil

Asset management partner: Legal and General Investment Management ('LGIM')

Asset class: Sovereign fixed income

Issuer: Brazilian government

Country: Brazil

ESG issues addressed: Natural resource use/impact

Context and actions

In 2021, 40% of global tropical forest loss occurred in Brazil, and 17% of the Amazon rainforest has been lost in the past 50 years – mainly due to forest conversion for cattle ranching. Devastating forest fires in 2019 and 2020 have also amplified the need for action. Deforestation is not just a company issue: national policymakers have a significant role to play, through the development and enforcement of appropriate regulation. The Investors Policy Dialogue on Deforestation ('IPDD') collaboration was established in 2020 to convene a consistent message from investors to Brazilian policymakers on this matter. Its focus on Brazil stems from the country's vulnerability to deforestation and the importance of protecting the Amazon rainforest to safeguard the global ecosystem and mitigate climate change. LGIM's approach to engage with the Brazilian government via the IPDD has been proactive and centred on identifying areas of concerns and helping define the improvements investors would like to see. Through meaningful engagement with the relevant representatives of the Brazilian government, the IPDD had input into the country's deforestation agenda. Sector experts from LGIM's investment stewardship team have joined the IPDD and Brazilian government dialogues with the objectives of significantly reducing deforestation rates, enforcing a Brazilian forest code, supporting Brazil's agencies tasked with implementing environmental and human rights legislation, while avoiding any legislative developments that may negatively impact forest protection, preventing fires in or near forest areas and allowing public access to data on deforestation, forest cover, tenure, and traceability of commodity supply chains.
As part of the IPDD, investors also wrote to the two presidential candidates before the second round of the Brazilian elections in October 2022, restating the group's position on deforestation.

Outcomes

- The objectives set out are long term, and determining whether they have been achieved will require several years, so that the relevant data can be obtained and compared.
- The government launched a special environmental taskforce, 'Guardians of the Biome', with ten physical bases within the Amazon basin, where 1,200 agents and officials will work in partnership. Targeting illegal logging and other types of environmental crime linked to deforestation, this taskforce will be co-ordinated by the Ministries of Environment, Justice and Public Security. In addition to the current satellite images that are being used to monitor suppression of vegetation and deforestation, the ministry will be launching a monitoring system and will work on developing deforestation datasets.
- The IPDD will continue to monitor legislative changes and the relevant bills in progress.
- Globally, LGIM has been appointed as co-chair of a new IPDD working group which will engage for two years on the deforestation-free commodity regulations being debated and implemented in the UK, Europe, the United States and China.

Our asset management partners' engagement with issuers on climate change

How our asset management partners engage with issuers

In 2022, our asset management partners have actively engaged with issuers in our portfolios on climate change issues.

In 2022, we assessed that our managers have engaged 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 (using a 2019 baseline).

Appendix 3 also shows their overall support for climate shareholder resolutions against corporate management and their voting behaviour on approvals of net zero plans by investees for the assets they manage on our behalf. Given the current lack of standardisation and measurements to assess the quality of companies' transition plans, we are expecting our asset management partners to be transparent on their assessment criteria and expectations. Equally, we are asking our managers to disclose publicly the rationale for their votes. In 2022, we have also worked with the UK Transition Plan Taskforce to shape a framework applicable across sectors (see chapter 8, page 91 →).

Periodic dialogue with our asset managers is crucial to monitor agreement on target setting, assessment of progress by issuers, co-ordination of expectations in case of overlapping engagements, and escalation strategies in case of lack of progress. Conversations on climate change engagements have been regularly included in agendas of meetings with managers throughout 2022.

Our asset management partners' engagement with issuers on climate change continued

How our asset management partners engage with issuers

Case study: Encouraging alignment of strong decarbonisation goals with management incentives[1]

Asset management partner: abrdn

Asset class: Listed equity and fixed income

Issuer: Enel

Sector: Utilities

Country: Italy

ESG issues addressed: Climate Change/Remuneration/Reporting

Voting policy override: Yes, the manager voted against the company's long term incentive

Context and actions

The first engagement with the company was part of a governance roadshow in advance of its 2022 AGM. On this occasion, abrdn welcomed the updated net zero targets brought forward from 2050 to 2040, the plan to disclose emissions across all scopes and the submissions of targets to the SBTi for an external accreditation. During the meeting, climate metrics within executive remuneration were also discussed. The company shared the plan to reduce the ESG weighting of the LTIP from 25% to 20% and remove the metric related to renewable energy. abrdn provided the feedback that the removal of the renewable energy metric was disappointing and that all three GHG emission Scopes should be included within the LTIP.

The key objective of the work with other investors was to seek alignment of Enel's disclosures to the CA100+ Net Zero Benchmark. In the dialogue with investors, the company provided positive updates on its climate strategy including new long-term goals related to Scope 1 emissions, new 2030 gas targets for Scope 3 emissions, progress on disclosing how capital expenditure is aligned to the Paris Agreement and work to improve disclosure on lobbying.

In late 2022, the CA100+ coalition sent a private letter to the company with additional requests related to climate governance on the board, lobbying disclosure, metrics within executive remuneration and disclosure on progress in reducing Scope 3 emissions.

Outcomes

- In view of the concerns regarding the removal of the renewables metric, abrdn decided to vote against the LTIP at the 2022 AGM and engaged further on this point through CA100+. This item received 3.4% of votes against management from shareholders overall.
- In November 2022, Enel became the first and only company to fully align its corporate disclosures with the CA100+ Net Zero Company Benchmark.
- Enel has committed to decarbonising in line with a 1.5°C pathway and reaching net zero emissions by 2040. Its decarbonisation strategy consists of shifting towards renewable energy generation and storage, phasing out coal power generation by 2027 and natural gas, in both power generation and sales to clients, by 2040.
- abrdn will monitor progress on any pending requests and any changes made to the LTI structure prior to voting at the 2023 AGM.

Case study: Supporting a transition plan in the utility sector[1]

Asset management partner: Invesco

Asset class: Listed equity

Issuer: SSE

Sector: Utilities

Country: United Kingdom

ESG issues addressed: Climate change/Diversity/Remuneration

Voting policy override: No

Context and actions

In 2022, Invesco engaged with the company on five occasions through direct one-on-one calls, site visits and group conference meetings, and regular post-earnings results updates. To engage effectively, it regularly met with senior executives and director-level representatives. The 2022 engagement with the company built on previous multi-year dialogues around capital allocation, and split between asset sales, organic cash flow, renewables, networks and the dividend. The main topics of discussion with the company have centered on the energy transition and renewable power generation. SSE is a leading investor in wind generation, coupled with hydroelectric and dispatchable power production in the UK and Ireland. The company spoke of its ambitious plans on carbon capture and storage and target dates which Invesco intends to monitor closely for material progress. The engagement has also covered the topics of windfall taxes and health and safety following the death of a contractor.

During the 2022 AGM season, the asset manager additionally engaged with the company on governance issues to specifically discuss remuneration, succession planning, the direction of change and the push for increased diversity.

Outcomes

- The company has stepped up its ambition to focus on the pathway toward net zero and the transition to a low-carbon economy. Therefore, Invesco voted in favor of its transition plan in 2022.
- On succession planning, SSE has initiated developmental process for the assessment of internal talent and has strong internal candidates. It has also shown a commitment to increasing diversity.
- The company has also introduced suitable ESG metrics in its remuneration policy with performance measures well aligned with its net zero acceleration programme.
- As a result of the engagements, at the 2022 AGM Invesco supported the remuneration proposals and the net zero transition plans or similar.
- The net zero transition report was approved by c.99% of votes cast by shareholders at the 2022 AGM.

1 Issue/issuers selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance

Our asset management partners' engagement with issuers on climate change continued

How our asset management partners engage with issuers

Given the current lack of consistency on stewardship reporting from asset managers to asset owners and the challenges emerging for institutional clients to fully measure and track engagement and voting activities conducted on their behalf, in 2022 we decided to join the Institutional Investor Group on Climate Change ('IIGCC') Asset Owner Alignment working group (see opposite case study).

Case study: Working with other asset owners to standardise reporting from managers on climate engagements

The IIGCC Net Zero Stewardship Toolkit was developed to support investors in implementing a stewardship and engagement strategy. It identifies six key steps, from prioritisation of engagement activities to alignment of assessment frameworks and escalation actions. Step five identifies alignment between asset owners and asset managers as fundamental to ensure that engagement activity from an asset manager delivers what asset owners require.

While asset owners can and do engage directly with portfolio companies, many rely on external managers to implement engagement strategies. In this context, the alignment between asset owner and manager is critical to achieving net zero targets. We have therefore decided to join a new working group set up by IIGCC together with another ten asset owners to develop a supplementary questionnaire to the Net Zero Stewardship Toolkit which can foster transparency between investors.

This questionnaire aims to support asset owners, as well as investment consultants and asset managers, in incorporating climate stewardship into selection, appointment and monitoring of external managers. The questionnaire has been open for consultation in early 2023. Phoenix Group has invited asset management partners to review the template and provide feedback.

Our climate change engagement programme

Our engagement programmes with companies on key ESG issues

Approach

Beyond the thresholds of our exclusion policy, we embrace a stewardship approach to support investee companies' action towards developing short-, medium- and long-term plans to transition to net zero and bring real-world change. Our approach is not to apply exclusions as a blunt tool and to use this approach only as a last resort when corporate practices are incompatible with our climate strategy and engagement is deemed difficult or unsuccessful.

This allows us to help drive real emission reductions rather than transferring ownership of assets to those who may have a less proactive approach to delivering net zero. This means that we will, where appropriate, stay invested in high-emitting companies with the intention of shaping their business models through dialogue, voting and escalation strategies.

Dialogue with company representatives is taking place through our strategic asset management partners, our participation in CA100+ or equivalent collaborative engagements with high emitters, and direct engagements.

In-house engagement strategy

We have developed a climate change engagement programme for our direct and collaborative engagement efforts where dialogue with investee companies will be reviewed on an annual basis against our set engagement objectives. This is in connection with our periodic monitoring of portfolio decarbonisation goals and portfolio carbon footprinting.

In the first half of 2022, we defined our focus engagement list of 25 companies, which account for 40%^ of our financed emissions in highly emitting sectors in corporate fixed income and listed equity holdings (using our 2019 carbon footprint baseline as reference).

Our 2022 direct and delegated focus lists on climate change therefore related to almost 70%^ of financed emissions in highly emitting sectors bringing us in alignment with the Asset Owner Alliance ('AOA') Target Setting Protocol and IIGCC Net Zero Stewardship frameworks we are using as reference[1].

1 We define highly emitting sectors using the AOA classification. According to its protocol, AOA members shall engage, at a minimum, 20 companies in their portfolio with a focus on those responsible for the most 'owned emissions' or those responsible for a combined 65% of owned emissions in their corporate bond and equity portfolio. IIGCC Net Zero commitments expect that investors will consider at least all assets within listed equity and corporate fixed income portfolios and all sectors considered 'material' to the net zero transition. Investors should seek to have aligned or otherwise continue to engage at least 70% of financed emissions from companies in these material sectors.

Our climate change engagement programme continued

Our engagement programmes with companies on key ESG issues

Nineteen companies in our focus list are targeted by CA100+, the largest collaborative initiative to engage with high emitters on climate change. We have been asked to lead on four of these coalitions and are gradually joining another 15 as active participants.

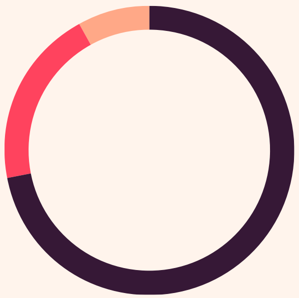
In selecting our focus list, we have given priority to companies associated with high financed emissions showing areas for improvements in forward-looking indicators such as temperature alignment scores, science-based targets, the insights from CA100+ Net Zero Framework[1] and assessments on carbon performance from the Transition Pathway Initiative ('TPI')[2]. This analysis has allowed us to focus on the companies that would benefit most from dialogue with investors as they have large carbon footprints and opportunities to scale up their ambitions on transitioning their business model in a changing world.

Charts 22 and 23 illustrate the sector and regional coverage of the 25 companies engaged by our stewardship team.

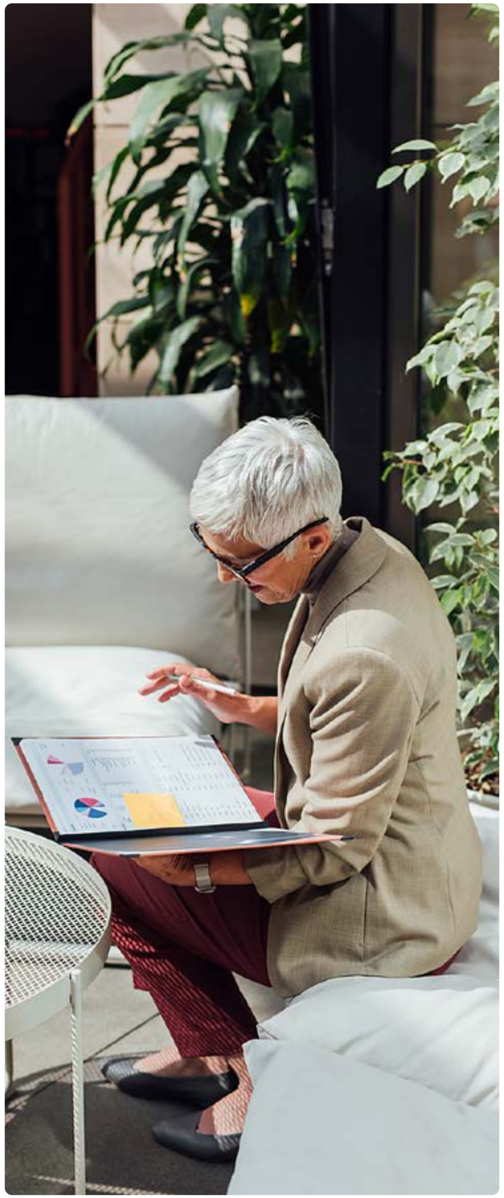
Chart 22 – Sector coverage of our focus engagement list

Oil & Gas	6
Utilities	6
Transport	3
Chemicals	3
Steel	2
Mining and metals	2
Cement	1
Agriculture, forestry and fisheries	1
Multi-utilities	1

Chart 23 – Regional coverage of our focus engagement list



Europe	18
North America	5
Asia	2



1 Net Zero Company Benchmark I Climate Action 100+.
2 Tool – Transition Pathway Initiative.

Our climate change engagement programme continued

Our engagement programmes with companies on key ESG issues

In the second half of 2022, we completed our analysis on each of the 25 companies against our in-house climate change scorecard to then be able to define tailored engagement objectives. Our framework is tailored by sectors and builds on the TCFD pillars. Table 6 summarises our expectations of corporate management to manage climate-related risks and opportunities as incorporated in our proprietary scorecard.

Table 6 – Our expectations of companies on climate change

Governance and remuneration	• Assignment of Board-level oversight and responsibility for climate-related issues. • Evidence of Board's skillsets to understand climate-related risks and opportunities. • Executive remuneration linked to climate transition-related KPIs including short- to medium-term hurdles linked to the company's net zero strategy. • Evidence of alignment of direct and indirect lobbying activities with the Paris goal of limiting temperature rise to 1.5°C. Where misalignment with the company's climate strategy is identified, we expect to see examples of escalation actions to ensure alignment.
Strategy	• Commitment to a long-term net zero goal by 2050, with a clear scope, timeline and baseline. • Details on measures that will be deployed to deliver GHG emissions reduction targets, including the proportions of revenues that are considered 'green' where relevant, initiatives in collaboration with suppliers and clients, the use of Carbon Capture, Utilisation and Storage and offsets. • Definition of a coal phase-out plan, with a clear target for divesting coal assets by 2030 in OECD countries and 2050 in the rest of the world (for companies active in thermal coal mining, trading and/or combustion for energy generation). • Evidence of climate scenario planning to test the alignment of the company transition plan and relevant interim targets with net zero. Multiple scenarios should be sought, including a 1.5°C scenario. The company should disclose the methodological framework used for scenario analysis, and link to the underlying assumptions and variables of the scenarios used for the analysis. • Details on capital allocation and R&D spending in alignment with the transition plan. • Definition of a Just Transition strategy to identify impacts from transitioning to a lower-carbon business model on workers and communities and measures to minimise harm.
Risk management	• Evidence of integration of transition and physical risks in the company risk management framework.
Metrics and targets	• Disclosure of historical emissions data covering Scopes 1, 2 and 3 with this information being externally verified. • Evidence of positive trends on reduction of total absolute and intensity GHG emissions. • Commitment to short-, mid- and long-term targets aligned with a 1.5°C trajectory covering the company value chain; targets should be expressed both in terms of intensity and absolute emissions. • Commitment to apply for SBTi verification or a credible independent verification of the company's targets.
Disclosure	• Alignment with the TCFD disclosure recommendations. • Externally audited annual disclosure on climate change. • Development of a climate transition plan. • Statement in the company's financial accounts about climate scenarios under which they were generated as well as any material climate assumptions and outcomes. • Responses to the annual CDP questionnaire.

Our climate change engagement programme continued

Our engagement programmes with companies on key ESG issues

The heat map opposite shows relevant insights and trends from our analysis. In particular, we noticed that:

- 84% of companies have set net zero targets, but 60% of companies lack sufficient detail in their targets given either limited coverage of Scope 3 emissions or weak short-to-mid-term ambitions or lack of goals for absolute emissions reduction;
- 48% of companies have conducted strong scenario analysis, yet 84% do not include climate scenario sensitivity analysis into their financial accounts; and
- Governance (42%) and Strategy (49%) are two pillars where the average score for companies was lowest, while highest scores were calculated for Metrics & Targets (61%) and Transparency (69%).

Through the completion of our in-depth research, we have defined company-specific engagement objectives for the next three years of dialogue with the focused list of companies which started in November 2022. Progress towards these tailored objectives will be regularly monitored through an internal tracking system. In case of insufficient progress against our objectives, we will consider the escalation strategies mentioned on page 59 of this chapter.

An overview of our in-house research of 25 highly emitting companies[1]

		Scorecard framework category scores				
Industry sector	Phoenix Climate Score	Governance (out of 4)	Strategy (out of 6–9, sector dependent)	Risk Management & accounting (out of 2)	Metrics & Targets (out of 5–7, sector dependent)	Transparency (out of 3)
Oil & Gas	84%	69%	71%	100%	79%	100%
Mining & Metals	73%	75%	78%	50%	67%	83%
Utilities	72%	63%	56%	100%	67%	100%
Oil & Gas	70%	63%	63%	50%	75%	100%
Oil & Gas	65%	56%	67%	75%	58%	83%
Oil & Gas	65%	44%	83%	75%	42%	100%
Utilities	65%	50%	50%	50%	83%	100%
Utilities	64%	25%	66%	50%	83%	83%
Steel	63%	63%	50%	50%	70%	83%
Oil & Gas	61%	56%	46%	50%	63%	83%
Utilities	60%	50%	69%	63%	42%	83%
Agriculture, Forestry and Fisheries	59%	19%	50%	50%	90%	83%
Utilities	54%	69%	53%	50%	42%	67%
Mining & Metals	54%	56%	47%	50%	58%	67%
Transport	54%	19%	42%	63%	88%	50%
Chemicals	53%	63%	33%	50%	70%	50%
Chemicals	49%	25%	54%	50%	50%	67%
Transport	48%	38%	38%	50%	75%	50%
Chemicals	43%	31%	54%	25%	50%	33%
Multi-utilities	38%	50%	36%	50%	29%	33%
Oil & Gas	37%	19%	29%	50%	46%	50%
Cement	37%	13%	30%	50%	54%	50%
Utilities	34%	19%	19%	50%	50%	50%
Steel	32%	19%	33%	25%	40%	67%
Transport	24%	0%	4%	50%	50%	17%

- 0–19%
- 20–39%
- 40–59%
- 60–79%
- 80–100%

1 The scoring framework awards one point for a complete, fulsome answer to a given indicator and zero points for no relevant information or an answer indicating poor performance. We also award points on 0.25 increments, based on the level of disclosure companies provide and the quality of the response. The Risk Management & Accounting pillar has only two indicators, whereas the Strategy pillar can achieve up to nine indicators for some sectors. The qualitative nature of assessing Governance and Strategy indicators also lends them to undergo more scrutiny. We demand strong governance and robust strategies in place, and there are always areas where more disclosure is required. The more companies disclose, the more of their plans and processes we can assess. The highest scoring pillars of the framework are Transparency and Metrics & Targets. Transparency, with three indicators, is relatively easy to score high on, as the assessment is on the production of reports and not an assessment of the quality of reporting – such issues are often raised in other parts of the assessment framework. The Metrics & Targets pillar scores companies on a reasonably quantitative basis and most listed companies are accustomed to disclosing carbon emissions data.

Setting expectations of corporate management on nature

Our engagement programmes with companies on key ESG issues

In 2022, we started assessing our impact on nature across our portfolios. This work will continue and support the development of our stewardship strategy on nature.

In 2022, we developed a set of requirements to guide our dialogue both with asset management partners and investee companies.

Table 7 summarises our expectations of corporate management to manage nature-related risks and opportunities.

Table 7 – Our expectations of companies on nature

Governance	• Establish a strong governance framework with board-level accountability and responsibility to oversee the integration of nature-related risks and opportunities in the company strategy, and risk management and reporting framework.
Assessment	• Identify on a best endeavour basis, the size, scale and materiality of dependency and impact on ecosystem services at each priority business location including an analysis of the company's supply chain in line with leading relevant industry standards and guidance.
Integration	• Integrate the management of actual and potential effects of nature-related risks and opportunities into the organisation's business model, strategy, financial planning, risk management framework and reporting.
Metrics and targets	• Develop qualitative and quantitative targets in alignment with internally agreed goals as well as effective metrics to measure progress towards these across both operations and the supply chain.
Preservation	• Respect and adhere to, throughout their operations, international laws, regulations and treaties, including the UN Convention on Biological Diversity, that aim to preserve and restore natural assets and ecosystem services.
Nature-based solutions	• Prioritise the development and/or acquisition of high-quality carbon removal credits from nature-based solutions for offsetting residual emissions across their value chain.
Disclosure	• Align corporate disclosure with the most updated version of the TNFD reporting framework.

Our engagement programme with companies linked to controversies

Our engagement programmes with companies on key ESG issues

For companies with financial exposure in shareholder assets[1] and significant exposure in policyholder assets flagged by our portfolio screening against UNGC breaches, we commit to engage collaboratively with other investors in a multi-year engagement programme through a third-party platform[2]. Through this effort, we want to make sure that companies provide effective actions to address the controversy and set up robust policies and implementation practices to avoid the occurrence of a similar issue of concern in the future.

Access to the collaborative platform allows us to track progress of dialogue against set engagement objectives, co-sign letters to companies and join meetings with company representatives.

In March 2022, we developed our first target list of companies to engage with which was updated at the end of 2022 to reflect the use of an additional service provider's dataset. Given the current lack of correlation on external service providers' opinions on what constitutes a controversial case, we have created an internal consensus methodology to make sure that we focus on the most relevant cases. Our target list currently consists of 12 companies across sectors linked to a range of controversies as shown in charts 24 and 25.

Throughout 2022, we focused on strengthening our approach to data, assessing the companies and joining dialogues with corporate representatives. While we established our approach on UNGC-linked controversies only in 2022, collaborative dialogue with investors through the third-party platform we are using has taken place for long time, with 40% of the list being engaged on the issue of concern for more than four years. Chart 26 adjacent illustrates the level of responses and progress made to date by the focus list of companies on the issues raised according to the third party we are using. Seven companies on the list have shown positive progress against engagement goals set (i.e. more than 25% of objectives met).

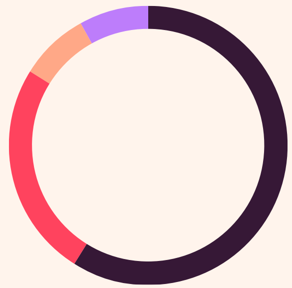
1 Companies linked to UNGC breaches form part of a restriction list in shareholder assets and financial exposure cannot be increased until companies have demonstrated significant actions to address the controversy.
2 Offered by one of the service providers we use to assess UNGC breaches in our portfolios.
3 Note on methodology: to define a score on progress we assigned 0 for inaction, 1 for action taken, 0.5 for action initiated and 0.25 for commitments made out of the total engagement objectives defined (each of them scored 1).

Chart 24 – Sector coverage of our engagement focus list

Energy	42%
Materials	25%
Consumer Discretionary	8%
Chemicals	8%
Industrials	8%
Information Technology	8%

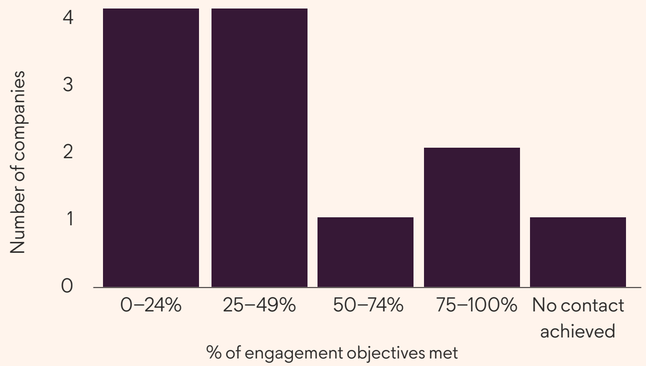
Note: percentages do not add up to 100% due to rounding

Chart 25 – Issues of controversies of our engagement focus list



Corruption	59%
Environment	25%
Human Rights	8%
Environment & Human Rights	8%

Chart 26 – Progress against engagement objectives set to date



Source: Third-party collaborative platform[3]

Our engagement programme with companies linked to controversies continued

Our engagement programmes with companies on key ESG issues

Case study: Engaging with two oil and gas companies on controversies in Nigeria

Issuer: Shell and TotalEnergies	**Sector:** Energy
Asset class: Listed equity and fixed income	**Country:** United Kingdom and France
	ESG issues addressed: Natural resource use/impact

Context and actions

In August 2022, we joined an online call with Shell's senior investor relations officer and an ESG reporting adviser organised by a third-party provider together with other investors subscribed to its collaborative engagement service. The call covered the company's environmental impacts in Nigeria through the fully owned subsidiary SPDC, which is the operator of the SPFC joint venture. During the meeting, Shell shared positive trends on their cleaning-up process for oil spills (primarily due to sabotage). We were also informed that a third-party agency co-ordinated by the government was supervising the process and will share an external opinion when completed. Shell confirmed its decision to to sell the onshore oil assets in the Delta of Nigeria and pending the developments on a local court hearing.

In September 2022, we joined a similar collective call with the investor relations and ESG reporting teams at TotalEnergies. The company has a 10% stake in the subsidiary SPDC. During the meeting, corporate representatives confirmed that TotalEnergies is contributing to cleaning and restoration projects in proportion to its stake, in addition to promoting transparency and sharing best practice with Shell. Similarly to Shell and pending on the current legal case, the company has decided to sell its stake in the joint venture as it is too exposed to reputational risks and sabotage.

Outcomes

- We and the other investors encouraged the two companies to define ESG criteria to select the buyer of the assets and ensure that environmental, human capital and human rights standards are kept at the highest level during and after the transition.
- We have also encouraged the companies to commit to sharing lessons learned and remedial solutions based on their experience of operating oil assets in the country for several years.
- We will continue to monitor the cleaning-up process for the oil spills occurred so far and the responsible sale of the assets to another operator.

Our engagement programme related to UNGC breaches follows a three-year cycle with defined time-bound escalation steps in case of lack of progress by companies. These include sending individual letters to the board, considering investment restrictions if not already in place and ultimately proposing divestments in case of very limited progress after several attempts at engagement.

In addition to our internal engagement activities on UNGC-related breaches, 80% of our level 1 asset managers have explicitly shared with us information on using and accessing UNGC tools by external providers. Some of the managers have an explicit active engagement programme on these cases, while others analyse the materiality of the cases and then leave to individual portfolio managers to integrate the information and eventually speak with companies if deemed necessary.

Our collaborative engagement efforts on social issues and human rights

Our engagement programmes with companies on key ESG issues

Since the end of 2021, Phoenix has been an active member of the PRI Advisory Committee of Advance, a new collaborative engagement initiative on human rights and social issues.

Representing $30 trillion AUM, 220 investors have joined the initiative, from which 121 have decided to collaboratively engage with 40 target companies. Through our participation in the advisory committee we have helped shape the initiative, including defining sectors of focus, approaches to assess companies and overall rules for investors' participation. Phoenix Group was confirmed as lead investor for the coalitions focused on utility companies Enel and EDF, and participating investor for the groups responsible for dialogue with three mining companies (Glencore, BHP and Rio Tinto) and one utility company (EON).

Endorsers, participants and leading investors in Advance have all supported an Investor Statement which acknowledges investors' responsibilities to respect human rights as defined by the UNGPs including the importance of building continuous and meaningful engagement with rights-holders and affected stakeholders. The statement also outlines the expectations of companies engaged through the initiative, including with regard to UNGPs' implementation, alignment between political engagement and human rights responsibilities, and progress on tackling human rights issues across operations and supply chains.

Phoenix and co-leads have opened direct communication with Enel and EDF to introduce the investor group who will commence research and dialogue in 2023. Our next Stewardship Report will include an overview of the first year of collaborative dialogue with the six companies.

As part of our membership of Advance, we have also developed our first Group-wide Human Rights Policy (see chapter 2 →). Furthermore, in 2022, we developed a set of our expectations of companies on managing human rights impacts, as can be seen in the table below.

For more examples on how our asset management partners have been engaging on human rights and social issues, please refer to the engagement and voting case studies in this chapter and chapter 7 →

Table 8 – Our expectations of companies on human rights

Policy	• Have a human rights policy which commits management to undertake measures to respect human rights and align practices with the UNGPs or equivalent emerging industry standards and good practices addressing human rights.
Board oversight	• Assign responsibility to the board for overseeing the application of the policy and human rights risk management.
Saliency	• Identify their salient human rights issues through their own operations, the use of their products and services, and their business relationships (including supply chains). This includes undertaking ongoing due diligence to identify, monitor and address risks at each of these three levels.
Stakeholder engagement	• Engage with a wide range of stakeholders, including rights-holders who might be affected by their operations and business relationships to ensure that they understand and can adequately address risks and adverse impacts.
Grievance mechanisms	• Provide accessible grievance mechanisms for individuals and communities that may be impacted by their operations.
Remedy	• Take action through the use of leverage and provide access to remedy to address harm.
Metrics	• Establish metrics to monitor and track abuses of human rights and actions taken to address these.
Assessment	• Assess the effectiveness of their human rights management, including due diligence processes, measures and targets, and the use of any third-party assurance providers.
Collaboration	• Collaborate with peers and other stakeholders through industry initiatives that intend to tackle human rights issues in specific sectors and/or geographies.
Disclosure	• Publicly communicate their efforts to respect human rights, including through the timely reporting and disclosure of their salient human rights issues, how they manage those issues, and their performance in doing so with the use of measurable data when possible.

7. Exercising our investor rights

What we have achieved in 2022:

- Conducted a review of voting activities from selected asset management partners
- Developed our first Global Voting Principles
- Defined our voting vision for 2023 and the future
- Identified a voting provider to work with in 2023

Key future priorities:

- Test our Global Voting Principles for 100 companies
- Review voting activities from selected asset management partners using our voting principles as a reference
- Continue the work with peers and the UK regulator to enhance voting disclosure by managers to asset owners

Throughout this document we highlight activities across our key priorities: climate change; nature; human rights; controversies; and corporate governance. We also disclose activities delivered directly by Phoenix and indirectly by our asset management partners.
These are signified by:

Key priorities

Climate change | Nature | Human rights | Controversies | Corporate governance

Our expectations of asset management partners on voting and other investor rights

The exercise of shareholders rights through voting is an essential element of the stewardship toolkit available to investors. As mentioned in other chapters, we believe that engagement, voting and ESG integration are interconnected elements of the investment cycle which should continuously feed into each other.

We see engagement as an effective tool to better understand company practices and inform voting decisions. In the case of passive strategies, voting is often the only opportunity to voice shareholders' opinion on investee companies' strategies and performance.

As demonstrated in our Stewardship Policy, Global Voting Principles and ESG due diligence framework, we expect asset management partners to:

- exercise voting rights on our behalf through the application of their customised proxy voting policy which is regularly updated and monitored to reflect clients' views; and
- track systematically and report regularly on their voting activities including use of proxy advisers, votes against management, topics addressed by voting, support of ESG shareholder resolutions and voting rationales relating to Phoenix's assets.

In addition to exercising rights through voting in listed equity strategies, we expect our managers to make full use of investor rights in other asset classes too. This would include seeking amendments when reviewing prospectus and transaction documents in listed fixed income assets, or taking board seats and shaping terms and conditions in indentures, contracts and covenants in private markets. To complement legal expertise in investment teams, we expect our managers to access in-house legal counsels as well as third-party legal counsels, if deemed necessary, to review documentation and propose amendments in the best interests of their clients.

Case study: Measuring voting directions from asset management partners

Context and actions:

In 2022, we commissioned external research by an investment consultant to undertake a detailed analysis of the voting activities of six of our asset managers, covering approximately 91% of our assets linked to an IMA. The analysis focused on a subset of representative segregated passive equity mandates investing across three regions: North America; United Kingdom; and Europe.

The objective of the analysis was to help build a picture of the voting activity of each manager and to quantify the extent, and implications, of managers voting differently from one another.

The consultant analysed more than 112,000 proposals voted by the managers on our behalf and considered what the aggregate direction of a vote was. This did not take into consideration the number of votes per proposal each manager had (determined by investment size), but assumed each manager had one vote. The exercise also focused specifically on instructions to vote against management.

Outcomes and next steps:

- The research identified that across the passive strategies analysed managers voted differently to one another on the same agenda item 47% of the times, effectively meaning that a consistent view to investee companies was not expressed.
- Even the two managers in the group that showed a more progressive attitude to voting did not show alignment as they had differing voting stances with respect to board director elections, executive compensation, and ratification of auditor appointments.
- These results have prompted more internal discussions on Phoenix's desired approach to voting in the future. Throughout 2022, we assessed various available options to drive higher consistency on voting.

Developing our first Global Voting Principles

Based on insights from the 2022 commissioned research, we have concluded that taking some voting activities in-house in the future will best support our stewardship ambitions, allowing us to use our voice more consistently and in connection with our internal engagement activities.

During 2022, we engaged with our asset management partners on the decision to develop our voting policy and to, over time, consider in-sourcing voting for certain mandates.

We were pleased that all our managers for the strategies in scope were fully supportive of our plans.

In 2022, we developed our first Global Voting Principles (see chapter 2 →) to articulate our high-level beliefs and expectations of corporate management. These principles will inform our monitoring of the exercise of voting rights by our asset management partners at annual and general meetings on an ex-post basis. During 2023, we will not be involved in voting decisions directly, either by casting votes or sending voting instructions to our managers. Testing our policy will be purely synthetic and in collaboration with a selected proxy voting adviser who will develop voting recommendations to us based on our policy and underlying voting instructions.

When preparing our voting principles, we have analysed the policies of our most progressive asset management partners in addition to other leading asset managers and asset owners. We focused on key topics, including climate change, nature and human rights, board quality and effectiveness, and executive incentives. Our principles are accessible to our asset management partners and external stakeholders through our website. They serve as a robust framework to both guide our voting intentions in the future and assess our asset managers' voting policies and approaches.

Gradual implementation process

Recognizing that bringing some voting activities in-house would take time and resources, we have designed a gradual implementation process.

2022
Publish a voting policy to share with asset management partners and be used as a framework to assess their voting practices.

2023
Test the voting policy in a synthetic environment for the meetings of 100 focus companies[1].

Beyond
Consider in-sourcing all voting in passive and enhanced index strategies in segregated mandates while continuing to monitor our managers' votes in active strategies and collective funds.

1 The list includes all the companies on our engagement lists for climate, human rights and UNGC-related controversies in addition to companies we have high financial exposure to.

Case study: Fostering vote transparency

In 2022, we joined the Vote Reporting Group convened by the FCA including asset owners, as well as vote service providers and corporates. The Group is tasked with establishing a framework for asset manager vote reporting in the UK to better meet the needs of asset owners and the wider market. We are members of the main Group, as well as a subgroup discussing best practices in reporting of vote rationales. In particular, we contributed to the development of a vote disclosure template for asset managers. We also participated in discussions on proposals for future public consultation and shared views on the preferred implementation and oversight of a vote disclosure platform. More work will be developed in 2023.

Case study: Our share lending programme

Securities lending is a strategy in which beneficial owners of securities temporarily lend their assets to approved borrowers for a fee. The lender retains all economic benefits of lent securities, including dividend and corporate action entitlement.

Our asset management partners monitor where a loan position impacts an upcoming shareholder meeting. When we and our asset management partners judge a vote to be particularly controversial or strongly linked to preserve the long-term value of the holding, the asset management partners can request to recall the stock out on loan for voting purposes within 24 hours. This is generally in exceptional cases and not for all positions. Our goal is to maximise our voting positions alongside the additional revenues for underlying beneficiaries, balancing the benefits of lending alongside our stewardship strategy.

Our current securities lending programme covers With Profits and Unit Linked fund assets in Phoenix Unit Trust Managers funds covering equities, corporate bonds and sovereign bonds. New lending proposals require specific internal approvals and a maximum threshold of 20% of holdings per fund available for lending is applied. In 2022, we lent 77 securities across asset classes and did not issue any recall of loan positions.

Insights from our asset management partners' practices

From the analysis we conducted on our level 1 asset managers, we have assessed that:

- they have a customised voting policy and do not follow default policies from proxy voting advisers;
- they publicly disclose their voting records and 60% also disclose the rationale for their votes against management. We make links to these voting records available to our customers through our websites
  Standard Life →
  ReAssure →
  Phoenix Life →
- they allow clients to comment on their voting policy (either through client meetings or formal annual feedback events on ESG views to input in voting and engagement programmes); and
- they were open to accommodate clients' voting instructions for segregated mandates

For the compilation of this report, we also asked ten of our asset management partners invested in listed equity to share quantitative information with us on the voting activities they conducted on our behalf in 2022 (see appendix 3 →). The statistics show a consistent strong percentage of votes cast on our behalf out of the total eligible (i.e. between 96 and 100%). Reasons for the small percentage of ballots which were not voted on were typically related to shareblocking or power of attorney issues. We have also noticed that the voting direction in support or against management and ESG resolutions change significantly across managers with a clear distinction between managers with headquarters in the US and European investors. We will keep monitoring these trends and engage with managers to see more alignment with our voting principles and provide an update on this in our 2023 report.

We noticed that 90% of the disclosing managers have developed a definition of significant votes. However, boundaries and criteria used in this definition vary significantly across firms.

The case studies in this chapter provide examples of how our asset management partners have engaged with companies to inform their voting decisions and reflect on the quality of the progress made against their recommendations. The cases show how dialogue has informed decisions to either support or challenge corporate management.

The case studies on The Brewery and Elfelagið SEV on pages 83 and 84 show how Phoenix worked with asset managers to structure private market sustainability-linked loans. The case study on Telereal Securitisation on page 84 provides an example of how one of our asset managers has sought amendments to terms and conditions in indentures in fixed income. Chapter 5 provides more case studies showing how our managers have used other investor rights in private assets. →

Insights from our asset management partners' practices continued

Case study: Fostering stronger diversity at board level in the United States

Asset management partner: Legal and General Investment Management ('LGIM')

Voting policy override: No

Issuer: Universal Health Services

Sector: Healthcare

Country: United States of America

ESG issues addressed: Board Diversity

Significant vote for the manager: Yes

Context and actions

Lack of ethnically diverse representation at board level was a concern as several studies have demonstrated that a good level of diversity can improve business decision-making, minimise business risk, improve the sustainability of profit growth and consequently maximise long-term returns for investors. In the US, the asset manager expects the boards of the largest companies to include a minimum of one ethnically diverse director.

In August 2020, LGIM announced its minimum expectations for ethnic diversity on corporate boards and began its engagement campaign by focusing on the largest UK- and US-based companies. Of the 79 companies engaged since September 2020, by March 2022 51 had added at least one ethnically diverse director (with a total of 54 individual ethnically diverse directors added). Ahead of the main AGM season in 2022, LGIM had expected to vote against seven companies for a lack of ethnic diversity. Upon further improvements made, following the main AGM season, the asset manager had in fact voted against only Universal Health Services.

As part of this campaign, LGIM wrote to Universal Health Services at each stage.

In the company's 2022 AGM, LGIM voted against Resolution 1 (the re-election of Maria R. Singer), due to Ms Singer's role on the nominating and governance committee.

Outcomes

- As of November 2022, the company was still not meeting the asset manager's minimum requirement on ethnic diversity. LGIM will continue to engage with the company and publicly advocate its position on this issue.
- At the 2022 AGM, more votes against than in favour of the re-election of Maria R. Singer were cast by shareholders.

Case study: A holistic engagement to inform voting decisions across ESG issues

Asset management partner: BlackRock

Asset class: Listed Equity

Voting policy override: No

Issuer: Ocado Group Plc

Sector: Consumer Staples

Country: United Kingdom

ESG issues addressed: Remuneration/Human capital management/Board Diversity/Reporting

Significant vote for the manager: Yes

Context and actions

Ocado Group Plc ('Ocado') is a UK online grocery retailer that specialises in developing and supplying online retailing technology to other grocers. The company's CEO is one of the founders and owns more than 3% of Ocado's share capital. BlackRock has engaged regularly with Ocado over the last several years to discuss a range of corporate governance and sustainable business matters considered material to deliver long-term shareholder returns. This has included conversations about remuneration, board diversity and human capital management, as well as the development of the company's broader sustainability agenda. Its engagements in 2022 have been with the new board chair, and the company's head of corporate responsibility. BlackRock used these discussions to explore the chair's priorities for continuing to evolve the company's governance, as well as to understand the key elements of the company's new sustainability strategy, 'Ocado Unlimited'. The asset manager also exchanged views with the board about the proposals for the renewal of the executive remuneration policy.

Outcomes

- At the 2022 AGM, BlackRock voted against the extension of the company's Value Creation Plan introduced in 2019 and the remuneration policy of which it formed a significant part, due to concerns about its appropriateness as a tool for measuring performance and incentivising management.
- BlackRock voted against the re-election of members of the remuneration committee to reflect its concerns about remuneration practices at the company.
- BlackRock voted against a director who is also the chair of the audit committee in part because of the committee's responsibility to review the company's sustainability reporting (and advise on whether it provides necessary information to shareholders) and the current lack of progress in this area. Despite the business having evaluated established reporting frameworks such as the Global Reporting Initiative or the Sustainability Accounting Standards Board Standards, no progress had yet been made in reporting under such frameworks.
- Finally, Blackrock voted against the re-election of the chair of the nomination committee (who is also on the remuneration committee). At the time of the AGM only three of the board's 13 members were female – far from the 33% female representation target of the UK Hampton-Alexander Review. However, BlackRock recognised that the single appointment to the board in the last meeting cycle was of a female director, and with this appointment the company reported meeting the UK Parker Review target in respect to minority ethnic group representation.
- Ocado also disclosed that it was committed to increasing further the percentage of women and ethnically diverse individuals on the board and at the senior management level, with a specific plan to recruit an additional female director in the short term. Based on this thoughtful approach to increasing diversity, BlackRock supported the re-election of the remaining members of Ocado's nomination committee.
- At the 2022 AGM, 29% of votes were cast against the company's remuneration policy and against the proposal to approve the Value Creation Plan. The re-election of remuneration committee members and the audit committee chair was not supported by 3.5% of votes cast, while the re-election of the nomination committee chair received nearly 7% of votes against by shareholders.

Insights from our asset management partners' practices continued

Case study: Encouraging faster action on deforestation

Asset management partner: Janus Henderson Investors ('JHI')

Voting policy override: No

Issuer: Home Depot

Sector: Consumer discretionary

Country: United States of America

ESG issues addressed: Natural resource use

Significant vote for the manager: JHI does not apply a definition of significant votes

Context and actions

At the 2022 AGM, a shareholder proposal has called on the company to report on efforts to eliminate deforestation in the supply chain. Home Depot is a major purchaser of wood products and demand for such products is a leading driver of deforestation and forest degradation. JHI considered the issue to be material as public consciousness of environmental impacts is increasing and poor supply chain sustainability practices have the potential to cause reputational harm and impact on consumers' demand. The investor reviewed the proxy materials, company disclosures and third-party NGO assessments of company performance. The initial analysis led JHI to conclude that the proponents raised valid issues over the company performance on natural resources' management relative to peers. Subsequently, the manager organised a call with the company management involving both the investment teams and the central stewardship team. After the call, JHI decided that it was in shareholders' interests for the company to move faster to improve supply chain initiatives, reduce the risk of deforestation and forest degradation, and adopt industry best practices.

In 2022, JHI voted in favour of the shareholder proposal.

Outcomes

- The company's 2022 ESG report included more disclosures on forestry issues and the company has committed to participate in the annual CDP Forestry survey.
- JHI intends to continue to engage with management on this issue and monitor progress ahead of the 2023 AGM.
- At the 2022 AGM, the shareholder proposal on deforestation was supported by 65% of votes cast by shareholders.

Case study: Incentivising action by changing the language in loan documentation

Asset management partner: Barings Asset Management

Asset class: Real estate

Issuer: The Brewery, a retail and leisure park in Romford (Borrower)

Country: United Kingdom

ESG issues addressed: Climate change

Context and actions

Both the borrower and the sponsor (made up of a 50/50 joint venture between Schroders Capital UK Real Estate Fund and Immobilien Europa Direkt) agreed on the importance of improving the properties' Energy Performance Certificate ('EPC') ratings and maintaining an 'Excellent' BREEAM rating. Therefore, Barings AM, in collaboration with Phoenix Group, the borrower and the sponsor, structured a sustainability-linked loan allowing for the loan margin to be reduced if established ESG targets are met, thereby reducing the cost of debt (service) for the borrower. These ESG targets were captured within the executed loan documentation (i.e. the borrower facility agreement).

The borrower and sponsor's business plan for the property includes investing capital into the property to meet the agreed sustainability/ESG objectives. Notably, within the first three years of the financing, the borrower will need to ensure that at least 75% of The Brewery's assets achieve an EPC rating profile of C (or better).

Outcomes

- Barings will monitor the borrower's performance against the established ESG targets on a recurring basis. The loan margin steps down to the reduced level if the manager confirms that the ESG targets have been met (and continue to be). However, if such targets are not met, the loan margin remains at its initial level, without any reduction.

Insights from our asset management partners' practices continued

Case study: Increasing the share of renewable power

Asset management partner: MetLife Investment Management

Asset class: Infrastructure, private debt

Issuer: Elfelagið SEV

Country: Faroe Islands, Denmark

ESG issues addressed: Climate change

Context and actions

Elfelagið SEV is a Municipalities-owned utility company that owns and operates the electric generation, distribution and transmission grid of the Faroe Islands. The management has a goal of achieving 100% of renewable electricity in the Faroe Islands by 2030. To this end, the funding will be used for general corporate purposes, and to support the issuer's green projects and efforts to transition to renewable power. At the time of the financing, Elfelagið SEV owned and operated 20 power plants, of which 14 where fossil fuel power plants (two large scale plants and twelve smaller plants) and six hydroelectric power plants. In addition, two 100% owned subsidiaries of the Company owned and operated three onshore windfarms with a total of 25 wind turbines.

MetLife Investment Management and Phoenix Group worked together to negotiate and structure Sustainability-Linked Bonds linking the coupon rates to the achievement of annual sustainability performance targets ('SPTs') for one KPI. Such terms were captured in the loan documentation (i.e. in the Note Purchase Agreement).

The KPI encompassed electricity generation from renewable energy including wind, hydroelectric, tidal, biogas and solar. The SPTs were set at increasing the share of renewable electricity generation on an annual basis from 2022 and in line with the company's roadmap to 2030.

Outcomes

- Elfelagio SEV will publish a sustainability-linked progress report on an annual basis disclosing development and achievement against the KPI and SPTs.
- The company also committed to seeking an independent and external verification on the published KPI performance figures at least once a year .
- The recurring sustainability-linked progress report will form the basis for any changes in the bond coupon rates (as/when warranted).

Case study: Seeking amendments to fixed income contracts

Asset management partner: Janus Henderson Investors ('JHI')

Asset class: Fixed income

Issuer: Telereal Securitisation

Sector: Real estate

Country: United Kingdom

Context and actions

In early 2022, the company was seeking to extend the average life of two securities by converting them into bonds maturing in December 2031 instead of being fully amortising bonds. If amendments had been approved, no fixed rate amortisation amounts would have been payable from (and including) the interest payment date falling in March 2022. The notes would have converted into a bullet structure and would be repayable in full in December 2031. The average life of both bonds would have been extended from 5.05 years to 9.75 years. JHI found the economics of the transaction unfavourable for bondholders and arranged calls with the company on this matter. The manager then decided not to consent to the proposed changes.

Outcomes

- Telereal Securitisation was unable to get sufficient bondholders' consent to pass the amendment.

8. Addressing market-wide and systemic risks

What we have achieved in 2022:

- Identified and assessed principal and emerging systemic risks and relevant mitigating actions
- Engaged with regulators and industry collaborations to address identified systemic risks
- Developed an internal tool to assess our involvement in industry initiatives and progress made

Key future priorities:

- Enhance our internal tracking system to define and assess management actions linked to emerging systemic risks
- Continue dialogue with policyholders and standard setters to address relevant risks

Throughout this document we highlight activities across our key priorities: climate change; nature; human rights; controversies; and corporate governance. We also disclose activities delivered directly by Phoenix and indirectly by our asset management partners.
These are signified by:

Key priorities

Climate change | Nature | Human rights | Controversies | Corporate governance

Assessing and acting on market and systemic risks through our Group's Risk Management Framework

From ongoing inflationary pressures to the cost-of-living crisis and geopolitical instability, we are facing an unprecedented level of systemic risks, all of which impact Phoenix as a company, but also our employees, our customers, broader society and the markets we invest in.

As these risks cannot be fully avoided or diversified and they will or are already impacting the economy as a whole, we have a responsibility to mitigate their impact, align investments accordingly and work with policymakers and standard setters to address them in the long term.

Our Risk Management Framework ('RMF') allows for proactive and effective risk management across Phoenix. It seeks to ensure that all material risks are identified, assessed, controlled, monitored, managed within approved risk appetites and reported through agreed governance routes in line with delegated authorities. The RMF is an enabler to delivering the Group's risk strategy which is centred on taking rewarded risks which are understood, managed effectively and consistent with our social purpose and strategy.

A key component of the RMF is the risk universe, which represents the complete set of risks to which the Group and its customers are exposed and is central to the structure and operation of many of our risk management processes. The Group's risk universe includes a category on sustainability covering ESG issues and the Group Board-approved sustainability risk appetite statement. A Group-wide Sustainability Risk Policy (see chapter 2 →) has been developed to identify the Group's key inherent risks, risk appetite for running these risks, and the controls to mitigate those risks to operate within the Board appetite.

In 2022, our Board Risk Committee carried out a robust assessment of principal risks and emerging risks. A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of the Group, including risks that would threaten its business model, future performance, solvency or liquidity. An emerging risk (or opportunity) is as an event that is perceived to be potentially significant but is not yet fully understood. These risks often stem from changes in economic, environmental, societal, technological or political circumstances.

Assessing and acting on market and systemic risks through our Group's Risk Management Framework continued

An overview of our RMF

The diagram opposite summarises the key components of our RMF and how climate change and other ESG risks are reflected across it (as further explained in our 2022 Climate Report → and 2022 Annual Report →).

1. **Risk strategy and culture**
   Managing sustainability impacts is a key component of the Group's strategy. We have a specific sustainability strategy and set net zero carbon targets for the investment portfolio, as well as specific annual goals such as sustainable origination targets for private markets.

2. **Risk appetite**
   The sustainability risk appetite statement is approved by the Board and was updated during 2022 to reflect our latest sustainability and sustainable investing strategy. We have approved supporting climate risk appetite statements and metrics with footprints throughout the risk universe.

3. **Risk universe**
   Climate risk is treated as a cross-cutting risk, rather than a standalone risk, as it can potentially impact all risk categories underlying the risk universe. Broader sustainability risk is captured as a risk universe component due to its potential impact on our strategy.

4. **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.

5. **Governance and organisation**
   Governance is led by the Board Risk and Board Sustainability Committees plus supporting management committees. There is clarity on roles and responsibilities across the three lines of defence.

6. **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 supports the forward-looking Own Risk and Solvency Assessment ('ORSA') monitoring.

7. **Strategic risk management:**
   Climate and other ESG risks are a principal risk and considered as part of Line 2 oversight of strategic developments, e.g. annual operating plan development, project reviews, ORSA, management actions and regular risk reporting.

8. **Risk and capital models**
   External tools have been sourced to support carbon footprinting, climate scenario analysis and other portfolio analysis on ESG issues. Models have been developed for internal climate scenario analysis with enhancements made in 2022 and planned for 2023.

9. **Risk and control processes and reporting**
   A climate risk dashboard covering key level 1 risks is integrated into our regular risk reporting. Minimum control standards and risk metrics are also in place for key policies, including the Sustainability Risk Policy.

Assessing and acting on market and systemic risks through our Group's Risk Management Framework continued

As outlined in our 2022 Annual Report, 13 principal risks and relevant mitigating actions have been identified (see pages 56 to 67 of our Annual Report →). Table 9 provides an overview of principal risks linked to climate change and ESG risks, failing to deliver fair outcomes for our customers and market risks.

ESG-related litigation, the impact of nature risks, the Solvency II reform, the use of algorithms and artificial intelligence to help customers to make decisions, socio-economic inequality and the increase of pension pausers (i.e. one in twenty UK adults say they have stopped contributing into their company pension due to the cost-of-living crunch) are examples of emerging risks and opportunities identified in 2022. In addition to internal mitigating actions, the next sections show examples of how we have also contributed to addressing principal and emerging systemic risks through our dialogue with policy makers and participation in industry initiatives.

Throughout 2022, we have made good progress in enhancing our identification and management of systemic risks. However, we recognise the need to strengthen the coordination of activities across the group.

Table 9 – Actions to mitigate our principal risks

Description of risk	Strategic risk: the Group fails to appropriately prepare for and manage the effects of climate change and wider ESG risks		Customer risk: the Group fails to deliver fair outcomes for its customers or fails to deliver propositions that continue to meet the evolving needs of customers	Market risk: presence of adverse investment market movements or broader economic forces
Potential impact	We are exposed to market risk, credit risk, strategic risk and operational risk related to climate change because of the potential implications of a transition to a low-carbon economy. A failure to manage these risks could result in a loss in the value of policyholder and shareholder assets or significant reputational damage.	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).	This risk could lead to adverse customer experience and potential harm. This could also result in the Group failing to deliver its purpose of helping people secure a life of possibilities.	This risk can impact the Group's ability to meet its cash flow targets, along with the potential to negatively impact customer investments or sentiment.
Actions taken to mitigate the risk	• Further strengthening of climate risks in the Group's RMF. • Updating the sustainability risk and sustainable investing risk policies and ensuring regular reporting to keep ongoing visibility of exposure to the risks. • Evolving the sustainability and sustainable investing strategy in response to the changing needs of stakeholders and setting targets to monitor progress. • Enhancing our assessment of climate and ESG risks by asset class/sector and geography, supported through enhancing modelling capabilities. • Applying an investment exclusion policy across both policyholder and shareholder assets. See chapter 2 → • Continuing to develop a range of ESG and sustainable customer solutions available to our policyholders. See chapter 3 → • Developing decisions on changing investment strategies and launching climate solutions while meeting customer demand. See chapter 5 →	• Monitoring alignment with decarbonisation targets. See chapter 5 → • Supporting internal and delegate stewardship with investee companies. See chapter 6 → • Developing a Net Zero Transition Plan (to be published in 2023) to capture our proposed approach to meeting our targets. • Undertaking annual climate-related stress and scenario testing for the Group. • Measuring and disclosing actions according to the TCFD and preparing for the TNFD guidance ahead of the launch of the framework in 2023. • Engaging with regulators, suppliers and asset managers on progress with all climate change and sustainability-related deliverables. See section in this chapter → • Continue supporting third party organisations and continue to work collaboratively with peers and industry bodies. See section in this chapter →	The Group's conduct strategy, which overarches the risk universe and all risk policies, is designed to detect where customers are at risk of poor outcomes, minimise conduct risks, and respond with timely and appropriate mitigating actions. The Group has a suite of customer policies which set out key customer risks and mitigating actions. We are also monitoring the impacts of the cost-of-living crisis on our customers through behavioural research and analysis to provide the support and help they need during this period of economic uncertainty. We are taking several actions to make sure that our products are accessible and continue to provide support to customers both when paying out on their protection plans and when making decisions about their life savings, taking into consideration potential pension gaps. See chapter 3 → Proactive action to support customers, including those most vulnerable, is a priority.	We undertake regular monitoring activities on market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. The increase in exposure to residential property and private investments, as a result of our BPA investment strategy, is actively monitored. We continue to implement de-risking strategies and control enhancements to mitigate unwanted customer and shareholder outcomes from certain market movements, such as equities, interest rates, inflation and foreign currencies. Our strategy continues to involve hedging the major market risks and in 2022 our stress and scenario testing programme continued to demonstrate the resilience of our balance sheet to market stresses. Contingency actions remain available to help manage the Group's capital and liquidity position in the event of unanticipated market movements such as those following the mini-budget in the UK.

Engaging with governments and regulators to support financial markets

Companies' and investors' disclosure and actions on ESG issues and sustainable investment are heavily influenced and constrained by regional, national and international regulatory environments. Policy engagement is a critical lever through which Phoenix can lend its voice, alongside other stakeholders, in calling for action from policymakers to address the technological and regulatory hurdles preventing the solution of negative externalities and systemic risks such as climate change, nature loss, human rights violations and inequality.

Participation in industry initiatives and policy consultations is also crucial to shape the development of universally recognised ESG standards for companies and investors.

We are an apolitical organisation, but we think it is important that we engage with policymakers, governments and standard setters to be part of driving positive change for our stakeholders. We are using our insight and knowledge to debate around key societal and environmental challenges, working with government, nongovernmental organisations and across our industry and the economy. We actively contribute to policy developments impacting long-term savings and insurance, and these are often linked to sustainability-related topics.

We engage with various political stakeholders at Westminster and Holyrood, along with key trade bodies representing the insurance industry. We also have a comprehensive and robust programme of proactive engagement across all regulators, which is co-ordinated through our centralised regulatory relationships team. Our Regulatory Change Management Framework and public affairs team also identify policy and regulatory changes that will have an impact on our business and stakeholders, and we have a risk process which looks further ahead to any proposed changes. Key areas of focus for 2022 were climate change, Solvency II and addressing the savings gap.
See chapter 3 →

In 2022, we assessed 21 regulatory consultations and calls for evidence and responded to 12, either directly (nine) or through relevant industry associations (three). These responses were prepared by the relevant business areas focused on customers, finance, workplace, asset management, pension and savings. Examples of issues of focus are the Solvency II reform, pension dashboards for pension providers, normal minimum pension age, artificial intelligence, investment opportunities of defined contribution pension schemes and proposed regulatory framework for pensions dashboard service firms.

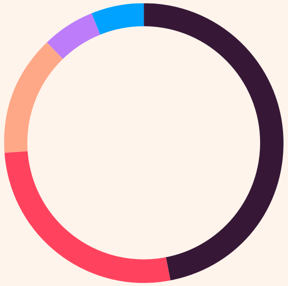
Collaborating with other investors to enhance standards and policymaking

In 2022, Phoenix Group was a member of 54 industry initiatives through its sustainable investment, central sustainability, supply chain operations, human resources and community relations teams.

Of these initiatives, 29 were more focused on sustainable investment or a specific ESG systemic risk. See the full list in appendix 5 →

In 2022, we created an internal tracking system with individual owners assigned for each organisation we joined, to assess on an annual basis progress, contributions and lessons learnt through these collaborations. According to this exercise, at the end of 2022, we assigned a neutral assessment to 15 memberships and a positive view on 14. Neutrality could be a sign of limited involvement from us (often as we have just joined a group) or low level of activities from the initiative for members to be involved in. Positive assessments stem from an active contribution from us or high level of activities/opportunities offered by an initiative to progress a common goal. Chart 27 shows an overview of the issues tackled through these initiatives. Instead of listing our contributions and participation in each of the 29 initiatives, we have provided overleaf examples of the most salient actions we have taken in 2022 to address systemic issues through collaborations.

Chart 27 – ESG issues tackled by our industry collaborations



Climate change	47%
Sustainable Investing	27%
Nature	14%
Social/diversity and inclusion	6%
Corporate governance	6%

Collaborating with other investors to enhance standards and policymaking continued

Case study: Tackling the climate change crisis through policy dialogue and standard setting

In 2022, we actively participated in several industry initiatives to develop solutions, shape frameworks and influence policymaking to address the current climate change crisis. We have also developed our thought leadership strategy focusing on the areas where we can add most value in identifying and addressing barriers to investment, and ensuring we are enabling change not just in Phoenix but across the sector. In 2022, we focused on the economic case for net zero, our role as investors in innovation and clean growth, and alignment of response to the cost of living and energy crises.

2022 Global Investor Statement to Governments on Climate Change →

Ahead of COP27 we, alongside hundreds of investors around the world, signed the 2022 Global Investor Statement to Governments on the Climate Crisis. The statement called on governments to entrench five priority climate asks into their national legislation. Effective policies, in line with limiting global warming to no more than 1.5°C, are essential for accelerating and scaling up private capital flows needed for a climate-resilient, net zero transition.

Net Zero Asset Owner Alliance (NZAOA) →

We have contributed to the NZAOA working group looking at the strategy for net zero implementation, the Engagement Track to set position papers on effective stewardship and hold collaborative dialogue with asset managers, and the policy dialogue working group to contribute to shape regulation internationally to facilitate the decarbonisation of the economy. In 2022, we have also co-led a working group that published a call to action to develop and uptake net zero aligned benchmarks. Through this membership we are supportive of the Race to Zero campaign.

Solvency II Reform →

Solvency II (SII) reforms will have significant implications for our business and the wider industry. Phoenix supports the UK Government's proposals to remove some of the existing barriers to investment in sustainable assets. We believe the proposals can increase investment from the pensions and insurance industry and help the UK government to achieve its goal of protecting policyholders and spurring investment in the UK. In 2022, Phoenix worked with Her Majesty's Treasury ('HMT'), the Department for Work and Pensions, the Department for Business, Energy and Industrial Strategy, the Department for Levelling Up, Housing and Communities, and the Department for International Trade on issues such as Solvency II, green finance and energy policy in order to address the barriers to accelerating investment in sustainable assets. Work on Solvency II will continue with both HMT and the PRA towards implementation in 2023. It is our desire to see more flexibility introduced into the regulations to help meet our net zero ambitions.

Association of British Insurers ('ABI') →

We are members of the ABI and actively contributed to the insurance industry's response to the proposed Solvency II reforms. As part of our engagement on Solvency II reform throughout 2022, we sponsored the Policy Exchange 'Unleashing Capital' Report. This report considers the opportunities for pensions and insurance firms to invest more in productive and sustainable assets, and makes a series of recommendations aimed to spur investment in the UK. Our CEO is also a member of the ABI Board Climate Change Committee and actively contributed to the delivery of the 2022 ABI Climate Change Roadmap, which is being used by the sector to develop climate change strategies that can support the UK green industrial revolution.

The Transition Pathway Initiative ('TPI') →

We are board members of the TPI and proactively shape the methodology and framework used to assess corporate preparedness to transition to a low-carbon economy. We use the TPI tool to guide our engagement dialogue with investee companies.

UK Transition Plan Taskforce →

We have contributed to the TPT as members in three workstreams to shape the overarching framework currently open for consultation, share how transition plans can be used for portfolio monitoring and stewardship activities, and provide inputs in future guidance across sectors.

Institutional Investor Group on Climate Change ('IIGCC') →

Within the IIGCC, we are members of the Net Zero Stewardship Working Group, the Asset Owner Alignment Working Group (see chapter 6 →) and the Bondholder Stewardship Working Group to integrate climate change considerations in stewardship activities by institutional investors across asset classes and in the relationship between asset owners and asset managers. Phoenix is also co-chair of the real estate working group to support the implementation of the current real estate component for the IIGCC Net Zero Investment Framework. In 2022, we contributed to the content of toolkits and frameworks which will be further developed by these working groups in 2023.

Collaborating with other investors to enhance standards and policymaking continued

Case study: Taking action to address nature loss through investor collaboration

As the foundation of all human wellbeing, the magnitude of nature's current degradation can potentially result in a tipping point beyond which it may be impossible for the world to recover. Consequently, in 2022, we have supported several initiatives and statements to shape frameworks, encourage effective policy development and actions on this topic.

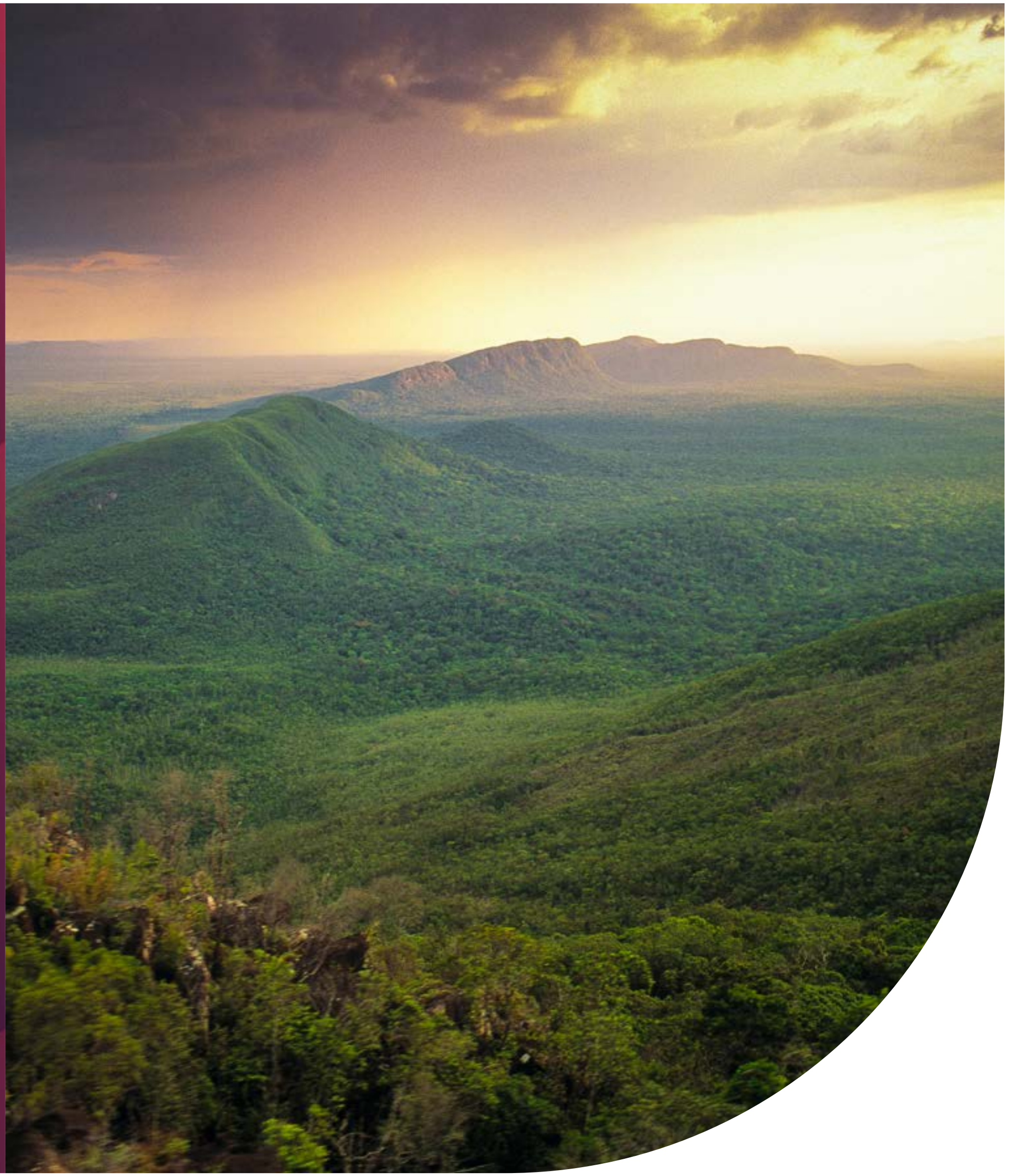
Investor Statement on Nature →
We signed a public letter, co-ordinated by the UNEP FI, UN PRI and Finance for Biodiversity Foundation, which called on world leaders at COP15 to agree a global biodiversity framework for halting and reversing nature loss.

TNFD →
We are members of the TNFD forum and are leading a pilot testing project of the TNFD beta framework with support from our asset management partners and data providers.
See chapter 5 →

Get Nature Positive Campaign →
We support the Get Nature Positive Campaign, led by the Council for Sustainable Business. The campaign calls on businesses to start the journey to achieve nature positivity by 2030, and maps out ten 'Actions for Nature' to drive forward activity.

Deforestation Free Finance Initiative →
We contributed to the working group which developed deforestation free pensions guidance in collaboration with Global Canopy, Make My Money Matter and SYSTEMIQ. We continue to participate as a member of this working group, focusing on effective solutions to the guidance's implementation.

Make it Mandatory Campaign →
We are a signatory to Business for Nature's Make it Mandatory Campaign Statement, which calls for mandatory requirements for large companies to assess and disclose their impacts and dependencies on nature by 2030. In November 2022, we hosted the Make My Money Matter Deforestation Free Roundtable, which convened firms from across our industry to discuss and share emerging best practice on how to achieve a deforestation-free investment portfolio. We will continue to develop our approach in 2023, using the Deforestation Free Finance Initiative Pensions Guidance.



Collaborating with other investors to enhance standards and policymaking continued

Case study: How our managers are tackling nature loss

Nature Action 100 ('NA100') is a new global investor engagement initiative, launched at COP15, which aims to drive greater corporate ambition and action on tackling nature loss and biodiversity decline. Investors will focus on companies deemed to be the most systemically important for reversing nature loss by 2030.

Early in 2021, a group of investors[1], and two of our asset management partners (BNP Paribas Asset Management and Robeco) came together to build Nature Action 100, emulating the success factors from CA100+. The group concluded that with mounting evidence of nature's decline and the crucial role of natural ecosystems in sustaining business operations and livelihoods, the need for global financial markets and firms to address nature loss is urgent. The investors also believed that there was a clear need for a new initiative. Although there are a number of effective collaborative investor initiatives focused on aspects of the problem, none focus squarely on the preservation of nature.

The past two years were used to build a coalition of investors and investor networks that are able to deliver a large collaboration that can drive change by companies.

In November 2022, the Launching Investor Group selected four organisations to run the programme. The global secretariat and corporate engagement workstream are co-led by the organisations Ceres and IIGCC. Finance for Biodiversity Foundation and Planet Tracker will co-ordinate the NA100's technical advisory group, designed to ensure that the effort remains science-based and takes advantage of the range of tools that are now available or in development to assess corporate impacts on nature. A public policy workstream is also being contemplated, with an expected launch after initial corporate engagements are underway.

Investor signatories will focus on 100 companies in key sectors with the largest impacts and dependencies on nature to ensure they are taking timely and necessary actions to protect and restore nature and ecosystems.

Companies in the food sector have the largest impact on nature while also being the most dependent. The initial engagements will be guided by an overarching set of investor expectations, which cover a range of aspects including governance, reporting and lobbying. The secretariat and technical advisory group will complete the final list of companies and the initial research in 2023, with engagement expected to start with the first group of companies in the second half of 2023.

1 The initiative was first conceived by the following group of investors (the Launching Investor Group), with support from the Finance for Biodiversity Foundation: AXA Investment Managers; Columbia Threadneedle Investments; BNP Paribas Asset Management; Church Commissioners for England; Christian Brothers Investment Services; Domini Impact Investments; Federated Hermes Limited; Karner Blue Capital; Robeco; Storebrand Asset Management; and Vancity Investment Management.

9. Appendices

Appendix 1 – The UK Stewardship Code Principles and corresponding content in this report

The table below provides an indicative mapping of the content of this report against the reporting requirements of the Code. When applicable, we have provided reference to specific chapter sections. We have also explicitly mentioned when the content of an entire chapter is relevant.

	UK Stewardship Code	Chapter number	Chapters and most relevant sections	Page
Principle 1	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society	1	Our purpose and strategy Entire chapter	 9–16
		–	Foreword statements	3–4
Principle 2	Signatories' governance, resources and incentives support stewardship	2	Supporting stewardship through our governance, policies and resources 'A governance framework to enabling effective stewardship' 'Allocating resources to support stewardship and sustainable investment' 'Using ESG Research Service Providers' 'Training our colleagues on ESG issues' 'Incentivising sustainable investment and effective stewardship'	 18 20 21 22 23
		4	Working with asset management partners and service providers 'Collaborating with our asset managers' 'Selecting and monitoring ESG service providers'	 36 44
		1	Our purpose and strategy 'Our business and culture' (section describing asset managers we work with)	 13
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	2	Supporting stewardship through our governance, policies and resources 'Managing conflicts of interest' 'Managing conflicts of interest in relation to stewardship'	 24 25
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	8	Addressing market-wide and systemic risks Entire chapter	 85–93
		6	Engaging with issuers to drive outcomes Entire chapter	 56–77
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities	2	Supporting stewardship through our governance, policies and resources 'Phoenix Group's policies to guide our sustainable investment and stewardship ambitions' 'Ensuring that this report is fair, balanced and understandable'	 19 26

Appendix 1 – The UK Stewardship Code Principles and corresponding content in this report continued

	UK Stewardship Code	Chapter number	Chapters and most relevant sections	Page
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them	3	Communicating with our customers and taking actions Entire chapter	27–34
		1	Our purpose and strategy 'Our business and culture' (section describing our customer base)	13
		4	Working with asset management partners and service providers Entire chapter	35–44
		6	Engaging with issuers to drive outcomes 'The engagement work conducted by our asset management partners' 'Our asset management partners' engagement with issuers on climate change'	60–66 67–69
		7	Exercising our investor rights Case study: 'Measuring voting directions from asset management partners' 'Developing our first Global Voting Principles'	79 80
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities	5	Integrating ESG issues in investment decisions Entire chapter	45–55
		4	Working with asset management partners and service providers Entire chapter	35–44
		1	Our purpose and strategy 'Our investment principles and priority ESG topics	14–15
Principle 8	Signatories monitor and hold to account managers and/or service providers	4	Working with asset management partners and service providers Entire chapter	35–44
		6	Engaging with issuers to drive outcomes 'The engagement work conducted by our asset management partners' 'Our asset management partners' engagement with issuers on climate change'	60–66 67–69
		7	Exercising our investor rights Case study: 'Measuring voting directions from asset management partners' 'Developing our first global voting principles' 'Insights from our asset management partners' practices'	79 80 81–84

Appendix 1 – The UK Stewardship Code Principles and corresponding content in this report continued

	UK Stewardship Code	Chapter number	Chapters and most relevant sections	Page
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets	6	Engaging with issuers to drive outcomes Entire chapter	56–77
		7	Exercising our investor rights Various case studies give further examples of issuer engagement	82–84
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers	6	Engaging with issuers to drive outcomes Entire chapter	56–77
		8	Addressing market-wide and systemic risks 'Collaborating with other investors to enhance standards and policy making'	90–93
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers	6	Engaging with issuers to drive outcomes Entire chapter	56–77
		7	Exercising our investor rights Entire chapter	78–84
Principle 12	Signatories actively exercise their rights and responsibilities	7	Exercising our investor rights Entire chapter	78-84
		5	Integrating ESG issues in investment decisions Various case studies provide additional examples of exercising investor rights	47–50
		6	Engaging with issuers to drive outcomes Various case studies provide additional examples of exercising investor rights	63–65
		3	Communicating with our customers and taking actions Case study: 'Piloting the Tumelo platform'	33
		4	Working with asset management partners and service providers Case study: 'Strengthening voting performance'	40

Appendix 2 – Roles and responsibilities of our committees on sustainable investment and stewardship

The **Phoenix Group Holdings plc Board** is responsible for the overall strategy of the Group, including the Group's sustainability strategy. Sustainability-related responsibilities are allocated to certain committees dependent on their overall purpose and remit.

The **Board Sustainability Committee** is responsible for assisting the Board in overseeing the achievement of the Group's sustainability strategy, including stewardship activities.

The **Board Audit Committee** is responsible for reviewing assured data in external reporting including the Sustainability, Climate and Stewardship reports.

The **Board Risk Committee** is responsible for overseeing the identification, assessment, management and reporting of ESG and climate-related risks within the Group Risk Management Framework.

The **Board Remuneration Committee** is responsible for engaging with the Board Sustainability Committee and Board Risk Committee, as appropriate, to drive a consistent approach to the execution of the sustainability strategy across the Group and to ensure that there are appropriate ESG elements included within the Group and Asset Management's remuneration framework.

The **Enterprise Sustainability Committee** acts to support the fulfilment of the Group's sustainability strategy, including stewardship. The Committee supports the Board Sustainability Committee, providing updates on progress against strategy, KPIs and targets.

The **Independent Governance Committee** works in the interests of the members of contract based workplace personal pension schemes to assess the value for money in relation to costs and charges, investments (including ESG integration and stewardship activities), communications, scheme administration, investment pathways and other relevant governance matters. It is an independent committee and provides updates on its work to the LifeCo Board.

The **LifeCo Board** is responsible for the approval and monitoring of the overall Life Companies' long-term strategy, to include, but not limited to, Investments, Asset and Liability Management, Customer (and Vulnerable Customers) and Conduct. The LifeCo Board ensures that customer/policyholder interests are properly balanced against those of its other stakeholders to deliver fair outcomes.

The **With-Profits Committee** protects the interests of with-profits policyholders and advises on the fair management of the with-profits business. This includes an assessment on investments and the implementation of ESG integration and stewardship activities. On an annual basis, it provides its independent opinion to the LifeCo Board.

The **Standard Life Master Trust Committee** is an independent board and subsidiary company of Standard Life Assurance Limited ('SLAL'). It works in the interests of members of the Standard Life Defined Contribution Master Trust and Stanplan A pension schemes by assessing value for money for members of those schemes, scrutinising SLAL's investments, costs and charges, sustainable investment commitments, TCFD disclosures, scheme administration and customer communications.

The **LifeCo Board Investment Committee ('BIC')** manages the overall investment and asset and liability strategies for Life Companies, of which there are six, to ensure that customer/policyholder interests are balanced with those of other shareholders to ensure fair outcomes. The Committee recommends Investment Managers within the Group, and overseas these arrangements and also considers new asset classes as and when appropriate. The committee reviews, oversees and approves policies, framework and activities related to sustainable investment and stewardship.

The **Enterprise Asset Management Committee ('EAMC')** provides a holistic executive direction and oversight of the Group's investment strategy (including the strategic asset allocation framework and the asset liability management strategy) and asset management activities undertaken for policyholder and shareholder funds, ensuring alignment with sustainability strategies and relevant risk appetites. The Committee reviews and recommends for approval policies and activities related to sustainable investment and stewardship.

The **Internal Credit Rating Committee (ICRC)** provides oversight of risk management activities related to credit risk governance and investment decisions. Its responsibilities include approving the framework for ESG exclusions and restrictions, acting as the escalation committee for the Portfolio and Credit Committee and providing oversight on ESG investments for shareholder assets.

The **Portfolio & Credit Committee ('PCC')** has oversight of the credit portfolio and assists the EAMC in the execution of the Group's investment strategy through oversight of risk management activities related to credit risk governance and investment decisions. The PCC oversees the integration of ESG factors in investment decisions (including overrides to ESG exclusions and restrictions) and the implementation of the Group's sustainability framework.

The **Sustainable Investment Forum** provides direction, oversight, scrutiny and challenge on sustainable investment matters, including stewardship. The purpose of the Forum is to embed ESG issues into the investment process and decision-making, ensure consistency of terminologies and strategies across the Group entities factoring customer obligations as applicable, and confirm alignment of proposals with the agreed overall Group sustainability strategy.

The **Stewardship Working Group** is responsible for reviewing and approving statements to be presented at company AGMs, text of letters to be sent to chairs/CEOs of companies (both private and public), public investor statements on specific companies, public investor statements on ESG topics addressed to regulators and monitoring activities of voting by asset management partners.

Appendix 3 – Voting statistics by our asset management partners

Managers have applied their own interpretations of categorisations in response to our questions included in this table.

	A	B	C	D	E	F	G	H	I	J
	Level 1 managers					Level 2 managers				
Number of meetings eligible to vote at for Phoenix Group portfolios	3,308	1,993	439	2,808	409	60	57	47	115	1,019
Number of proposals eligible to vote on for Phoenix Group portfolios	39,516	28,698	6,883	35,350	6,078	1,131	1,075	861	1,118	12,403
% of these proposals considered significant votes for the manager[1]	2%	2%	N/A	N/A	29%	5%	3 %	0 %	< 1%	N/A
% resolutions voted upon if eligible on Phoenix Group portfolios[2]	96%	100%	100%	98%	100%	98%	100%	100%	100%	97%
% of these resolutions voted with management	87%	81%	97%	93%	99%	96%	100%	82%	87%	86%
% of these resolutions voted against management	13%	19%	3%	7%	1%	4%	0%	18%	13%	14%
Number of companies' net zero plans presented at AGM the manager voted on for Phoenix Group portfolios	41	33	23	19	15	2	9	1	1	–
Number of net zero plans presented at AGM the manager voted with management for Phoenix Group portfolios	37	14	17	14	13	2	9	1	1	–
Number of climate change shareholder resolutions presented at AGM the manager voted on for Phoenix Group portfolios	89	60	18	102	3	0	2	0	1	67
% of climate change resolutions the manager supported (voting against management) for Phoenix Group portfolios	35%	48%	33%	30%	0%	N/A	0%	N/A	100%	63%
Number of other environmental shareholder resolutions presented at AGM the manager voted on for Phoenix Group portfolios	36	42	0	221	3	0	0	0	2	41
% of these environmental resolutions supported by the manager (voting against management) for Phoenix Group portfolios	31%	27%	0	19%	0%	N/A	N/A	N/A	100%	39%
Number of social and human rights shareholder resolutions presented at AGM the manager voted on for Phoenix Group portfolios	212	86	1	307	0	0	0	0	1	172
% of these social and human rights resolutions supported by the manager (voting against management) for Phoenix Group portfolios	53%	70%	0%	32%	0	N/A	N/A	N/A	0%	63%
Number of governance shareholder resolutions presented at AGM the manager voted on for Phoenix Group portfolios	660	N/A	2	558	2	2	0	8	46	260
% of these governance resolutions the manager supported (voting against management) for Phoenix Group portfolios	27%	N/A	0%	33%	0%	0%	N/A	50%	93%	57%

1 When N/A is indicated, the manager is either not applying a definition of significant votes or believes that all votes are significant.
2 We have asked our asset managers to share information on this indicator as a proxy for the proportion of shares voted on our behalf.

Appendix 4 – Our engagement focus list

1. Amazon.com, Inc.
2. ArcelorMittal SA
3. BASF SE
4. BHP Group plc
5. BP plc
6. Centrica plc
7. Chevron Corporation
8. CNAC (HK) Finbridge Co. Ltd.
9. Covestro AG
10. Delta Air Lines, Inc.
11. E.ON SE
12. easyJet plc
13. EDF
14. Enbridge Inc.
15. Enel SpA
16. Eni SpA
17. Equinor
18. Exxon Mobil Corporation
19. Glencore plc
20. Hon Hai Precision Industry Co., Ltd.
21. Mondi plc
22. National Grid plc
23. NextEra Energy, Inc.
24. Nippon Steel & Sumitomo Metal
25. NRG Energy, Inc.
26. Repsol SA
27. Rio Tinto plc
28. RWE AG
29. Shell plc
30. The Southern Company
31. Total SE
32. TUI AG
33. UltraTech Cement Ltd
34. Vale SA
35. Veolia Environnement SA
36. Volkswagen Aktiengesellschaft
37. Yara International ASA

Appendix 5 – Industry initiatives focused on ESG issues Phoenix Group is a member of or supports

1. ABI Board Climate Change Committee
2. Asset Owner Diversity Charter
3. Carbon Disclosure Project
4. Climate Action 100+
5. Deforestation Free Finance Initiative Working Group
6. DWP Taskforce on Social Factors
7. FCA Vote Reporting Group
8. FCA Working Group on Voluntary Code of Conduct for ESG Data
9. Get Nature Positive Campaign
10. Glasgow Financial Alliance for Net Zero
11. Global Impact Investing Institute
12. Green Finance Institute
13. Institutional Investor Group on Climate Change
14. International Corporate Governance Network
15. Investor Forum
16. Make My Money Matter
17. Net Zero Asset Owner Alliance
18. Paris Aligned Investment Initiative
19. Partnership for Carbon Accounting Financials
20. Principles for Responsible Investment
21. Race to Net Zero Campaign
22. Scottish Government Green Finance Taskforce
23. Science Based Targets Initiative
24. Sustainable Markets Initiative Insurance Taskforce
25. Task Force on Climate-related Financial Disclosures
26. Task Force on Nature-related Financial Disclosures
27. Transition Pathway Initiative
28. UK Sustainable Investment & Finance Association
29. UK Transition Plan Taskforce

Appendix 6 – Glossary

Advance
A collaborative engagement initiative on human rights and social issues co-ordinated by the Principles for Responsible Investment initiative.

AGM – Annual General Meeting
A yearly meeting of a company's shareholders, when board directors present an annual report containing information for shareholders about the company's performance and strategy. At an AGM, shareholders with voting rights can vote on issues, such as appointments to the company's board of directors, executive compensation, dividend payments, and the selection of auditors.

AUA – Assets Under Administration
Assets administered by or on behalf of the Group, covering both policyholder funds and shareholder assets. This includes assets recognised in the Group's IFRS consolidated statement of financial position together with certain assets administered by the Group but for which beneficial ownership resides with customers.

BREEAM
A science-based suite of validation and certification systems for the sustainable built environment.

CA100+ – Climate Action 100+
An investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Carbon footprint
The total greenhouse gas ('GHG') emissions caused by an individual, event, organisation, service, place or product, expressed as carbon dioxide equivalent (CO_2e).

CCUS – Carbon Capture, Utilisation and Storage)
Collection of GHG emissions from a GHG source for storage in a sink.

CDP – Carbon Disclosure Project
Global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

CERES
A US-based non-profit organisation working with influential capital market leaders to solve the world's greatest sustainability challenges. It drives action through networks and global collaborations of investors, companies and non-profits.

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

DEI – Diversity, Equity, and Inclusion
A term used to describe policies and programmes that promote the representation and participation of different groups of individuals of different ages, races, ethnicities, abilities, disabilities, genders, religions, cultures and sexual orientations.

EFL – External Fund Links
Collective funds in liquid assets that can be distributed publicly to customers through Phoenix Group's products. These funds are managed by external asset management groups that we do not have IMAs with and we do not have control over the way these funds are run.

ESG – Environmental, Social and Governance issues
Environmental criteria consider how a company manages risks and opportunities linked to climate change and nature loss. 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.

EPC – Energy Performance Certificate
This informs potential buyers or tenants about the energy performance of a building, so they can consider energy efficiency as part of their investment or business decision to buy or occupy that building.

EU taxonomy
The EU taxonomy is a classification system that provides companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable.

GHG – Greenhouse gases
Gases which warm the earth at different intensity levels such as water vapour, carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydro chlorofluorocarbons (HCFCs), ozone (O_3), hydrofluorocarbons (HFCs),and perfluorocarbons (PFCs).

GICS – Global Industry Classification Standard
A four-tiered, hierarchical industry classification system.

Greenhouse Gas Protocol
Global standard for companies and organisations to measure and manage their GHG emissions.

IIGCC – Institutional Investor Group on Climate Change
A European membership body for investor collaboration on climate change. IIGCC members are mainly pension funds and asset managers.

IMA – Investment Management Agreement
Legal documents that give investment managers the authority to manage capital on behalf of client investors.

LTIP – Long Term Incentive Plan
A plan to reward employees usually based on the achievement of specific goals which support increased shareholder value.

Appendix 6 – Glossary continued

Material sectors
Highly emitting sectors responsible for high owned-carbon emissions in portfolios.

NA100 – Nature Action 100
A new global investor engagement initiative, launched at COP15, which aims to drive greater corporate ambition and action on tackling nature loss and biodiversity decline.

Negative externality
It occurs when the consumption or production of goods or services causes a harmful effect to a third party. In the context of global portfolios, climate change, deforestation and social inequality are traditional examples of negative externalities.

Net zero
A state where we add no incremental greenhouse gases to the atmosphere. Emissions output is balanced with removal of carbon from the atmosphere.

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

PRA – Prudential Regulation Authority
The authority responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

PRI – Principles for Responsible Investment initiative
An investor initiative supported by the United Nations to promote the consideration of ESG issues in investment processes by institutional investors and service providers.

REIT – Real Estate Investment Trust
A company that owns or finances income-producing real estate across a range of property sectors.

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, under recommendations by the SBT Institute.

SLL – Sustainability-linked loan
Types of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) which incentivise the borrower's achievement of predetermined sustainability performance objectives.

TCFD – Task Force on Climate-related Financial Disclosures
The TCFD was created in 2015 by the Financial Stability Board to develop consistent climate-related financial risk disclosures by companies to shareholders and stakeholders.

TNFD – Task Force on Nature-related Financial Disclosures
A framework for organisations to report and act on evolving nature-related risks, building on the success of the TCFD. The TNFD has developed an integrated assessment process for nature-related risk and opportunity management called LEAP (Locate, Evaluate, Assess, Prepare) that has also been adapted for financial institutions through LEAP FI.

UK Stewardship Code
A set of 12 stewardship principles for those investing money on behalf of UK savers and pensioners, and those that support them. The Financial Reporting Council is responsible for developing and reviewing the text of the Code and assessing if an applying organisation can be considered a signatory to the Code.

UNGC – United National Global Compact Principles
A set of ten corporate principles aligned with international standards on human rights, labour rights, environmental and climate change issues, and anti-bribery and corruption efforts.

UNGP – the United Nations Guiding Principles on Business and Human Rights
The global framework on business and human rights, which stipulates investors' responsibility for preventing, mitigating and accounting for how they address adverse human rights impacts.

UN SDGs – United Nations Sustainable Development Goals
Seventeen goals adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

Appendix 7 – Assured data methodology

This section sets out accompanying assumptions, scope and definitions used to calculate the metrics assured externally.

Absolute financed emissions (tCO_2e)
Defined as the investment portfolio's fair share of emissions of investee companies, calculated using the PCAF methodology for 2019 and 2021 baselines. For further details please see the "Investments Metrics Framework" section in our Climate Report.

AOA – Asset Owner Alliance
A United Nations-convened, voluntary, non-profit, membership-based initiative that supports asset owners to commit to net-zero by 2050, and issue 5-year intermediary targets.

Economic emissions intensity (EVIC) (tCO_2e/£m invested)
Expresses portfolio emissions per unit of capital invested – calculated using the PCAF methodology for 2019 and 2021 baselines.

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 for financial institutions like Phoenix Group. In calculating Phoenix's financed emissions, we seek to adhere to the PCAF framework where possible. For Listed Companies (equities and bonds), financed emissions are calculated as

$$\sum_c \frac{\text{Outstanding amount}_c}{\text{Enterprise Value Including Cash}_c}$$

Greenhouse Gas Protocol
Global standard for companies and organisations to measure and manage their GHG emissions.

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.

Scope 1, 2 and 3 emissions
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.

Total percentage of financed emissions in high emitting sectors associated with target list of companies for climate engagement
High emitting sectors as defined by the UN convened Asset Owner Alliance Protocol.

Total percentage of financed emissions in high emitting sectors associated with companies for climate engagements conducted by Asset Management Partners in 2022
High emitting sectors as defined by the UN convened Asset Owner Alliance Protocol.

Appendix 8 – Independent Assurance Statement to Phoenix Group Holdings PLC management

Scope
We have been engaged by Phoenix Group Holdings plc ('Phoenix') to perform a 'limited assurance engagement,' as defined by International Standards on Assurance Engagements, here after referred to as the engagement, to report on Phoenix's selected data (the "Subject Matter") indicated with a ^ symbol throughout Phoenix's Stewardship Report 2022 (the "Report").

We have only sought evidence to support the performance data indicated. We do not provide conclusions on any data from other years. Other than as described in the preceding paragraph, which sets out the scope of our engagement, we did not perform assurance procedures on the remaining information included in the Report, and accordingly, we do not express a conclusion on this information.

Criteria applied by Phoenix
In preparing the Subject Matter, Phoenix applied the criteria as featured in Phoenix's "(Appendix 7 of the Report) (collectively the 'Criteria').

Phoenix's responsibilities
Phoenix's management is responsible for selecting the Criteria, and for presenting the Subject Matter in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the Subject Matter, such that it is free from material misstatement, whether due to fraud or error.

EY's responsibilities
Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the *International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ('ISAE 3000' Revised), and the terms of reference for this engagement as agreed with Phoenix on 24th November 2022. Those standards require that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the Subject Matter is presented in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Our Independence and Quality Control
We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Description of procedures performed
Procedures performed in a limited assurance engagement vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the Subject Matter and related information and applying analytical and other appropriate procedures.

The procedures we performed were based on our professional judgement and included the steps outlined below:

- Interviewed a selection of specialists responsible for managing stewardship performance in the business, and for collating and checking sustainability data for internal and public reporting purposes. We did this to obtain an understanding of the internal control environment for the data, performance of KPIs in the period and reporting processes both at a group and site level.
- Checked a selection of management documentation and reporting tools, including guidance documents, to understand internal controls, reporting processes and policies to further inform our assurance approach and procedures.
- Performed analytical reviews to understand trends in the data and whether they align to our expectations based on our knowledge gained from the procedures above.
- Reperformed calculations to check the accuracy of the data collation and KPIs reported.
- Evaluated the suitability and application of the Criteria and that the Criteria have been applied appropriately to the Subject Matter.
- Challenged the validation and collation processes undertaken by Phoenix management in relation to the Subject Matter.
- Examined the Report for the appropriate presentation of the Subject Matter, including the discussion of limitations and assumptions relating to the data presented.

We also performed such other procedures as we considered necessary in the circumstances.

Conclusion
Based on our procedures and the evidence obtained, we are not aware of any material modifications that need to be made to the Subject Matter as of 31st December 2022, in order for it to be in accordance with the Criteria.

Use of our Assurance Statement
We disclaim any assumption of responsibility for any reliance on this assurance report or its conclusions to any persons other than Phoenix, or for any purpose other than that for which it was prepared. Accordingly, we accept no liability whatsoever, whether in contract, tort or otherwise, to any third party for any consequences of the use or misuse of this assurance report or its conclusions.

Ernst & Young LLP
23rd May 2023
London

Contact us

News and updates
In line with our stewardship programme and our commitment to reduce our environmental impact, you can view key information on our website
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
www.thephoenixgroup.com/site-services/email-alerts

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