



Our approach to ESG integration



Scope of this document

Who are we?

Phoenix Group is the UK's largest long-term savings and retirement business with c. £259bn assets under administration and c.12 million customers. We offer a broad range of pensions and savings products to support people across all stages of the savings life cycle.

Our purpose is to help people secure a life of possibilities and our vision is to grow a strong and sustainable business to help more people on their journey to and through retirement. Our sustainable investing and stewardship strategies are key enablers to fulfil this vision.

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 business actively markets 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'.

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

Scope of this document

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

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

What is ESG integration?

ESG integration is the process of including environmental, social, and governance factors in investment analysis and decision-making. By doing so it helps to better ensure that financially material risks and opportunities are managed as part of the investment process. Examples of ESG factors include, but are not limited to, carbon emission, human rights and board diversity.

Our approach

Integration of ESG factors within investment processes is central to Phoenix Group's purpose of helping people secure a life of possibilities and, as a long-term investor, safeguarding the interests of our customers, shareholders, and other stakeholders. We believe ESG integration makes our portfolio more resilient. Our approach includes risk management for all investment portfolios, seeking investment opportunities and Stewardship

Our approach is aligned to the United Nations-supported Principles for Responsible Investing (PRI) approach that material ESG factors should be incorporated into investment analysis and investment decisions¹. We have taken into consideration current in force and imminent regulations within the UK. We believe that ESG integration is now part of traditional financial analysis by identifying and analysing material ESG factors alongside traditional economic factors.

We aim to adhere to the PRI's signatories' commitment and are working on embedding the six principles in our approach to ESG integration:

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time)².

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

- Principle 1**
We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2**
We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3**
We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4**
We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5**
We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6**
We will each report on our activities and progress towards implementing the Principles.

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

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

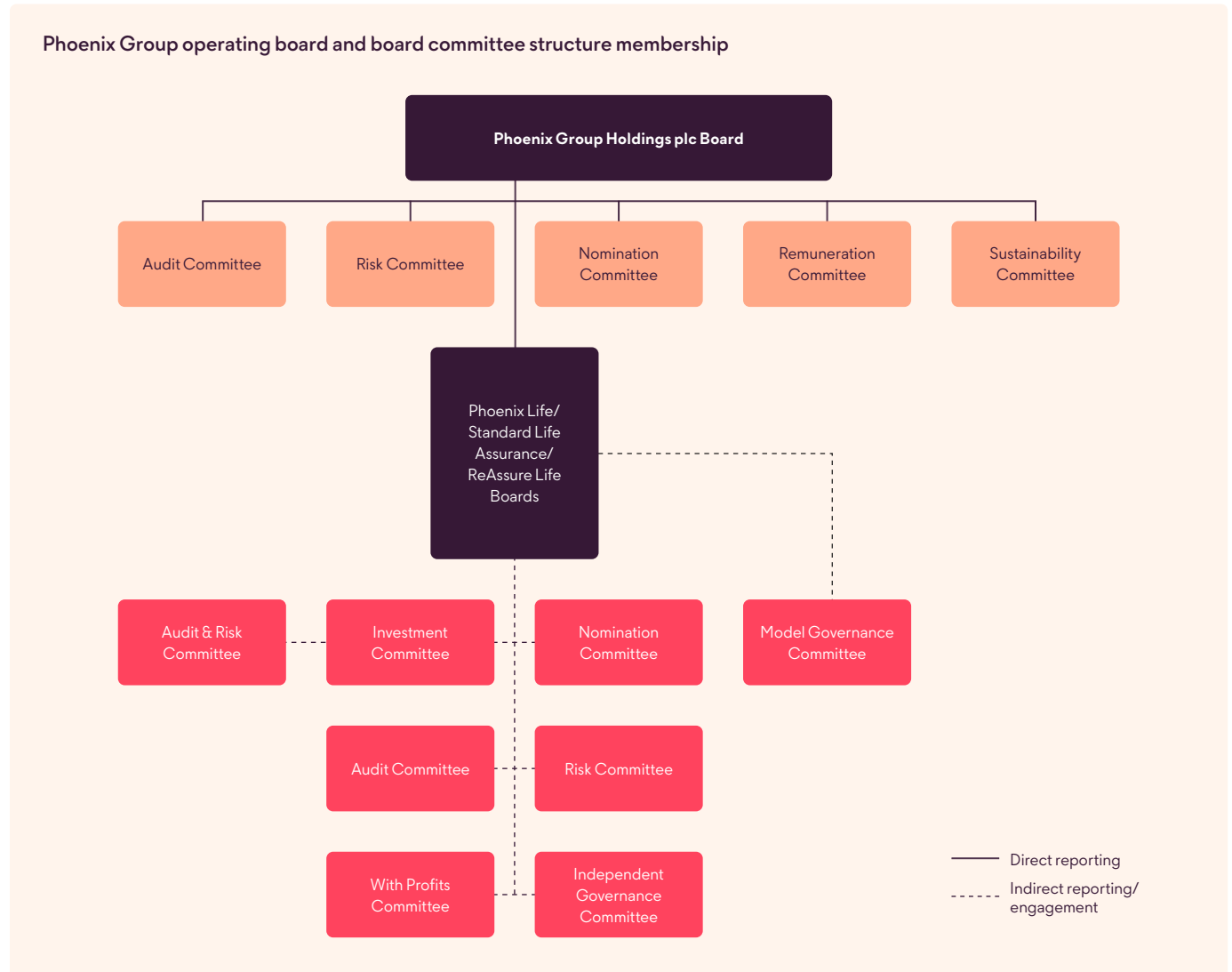
¹ <https://www.unpri.org/fixed-income/what-is-esg-integration/3052.article>

² <https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment>

Governance

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

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



Stewardship

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

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

We require our asset managers to:

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

- track systematically and report regularly on their voting activities including details on use of proxy advisors, votes against management, topics addressed by voting, support of ESG shareholder resolutions and voting rationales.

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

Engagement priorities

Phoenix has identified climate change, nature, human rights and controversies linked to the United Nations Global Compact principles as key engagement topics. In addition to our direct efforts on these issues, we also expect our asset managers to engage on other ESG topics such as (but not limited to) human capital, cyber security, corporate governance and remuneration.

Voting

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

Please see our separate [Group Stewardship Policy, Global Voting Principles and Expectations of companies on key ESG issues for more details](#) →

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Integrated ESG management

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

At Phoenix Group we believe that a top-down approach coupled with bottom up analysis is more effective than either approach in isolation, which is why we also consider ESG factors in the Group's investment framework including in the design of investment strategies, manager selection and ongoing monitoring and reporting.

ESG integration is not just about mitigating risk, we believe that ESG data can also be used to look for investment opportunities. As an example, Phoenix Group has assigned £338m of with-profits investment funds to a multi asset climate solutions fund, as at February 2023. This solution forms part of Phoenix Life and Standard Life's wider with-profits strategic asset allocation. The solution will invest in the climate change leaders of today and the future, and companies pursuing a net-zero decarbonisation strategy.

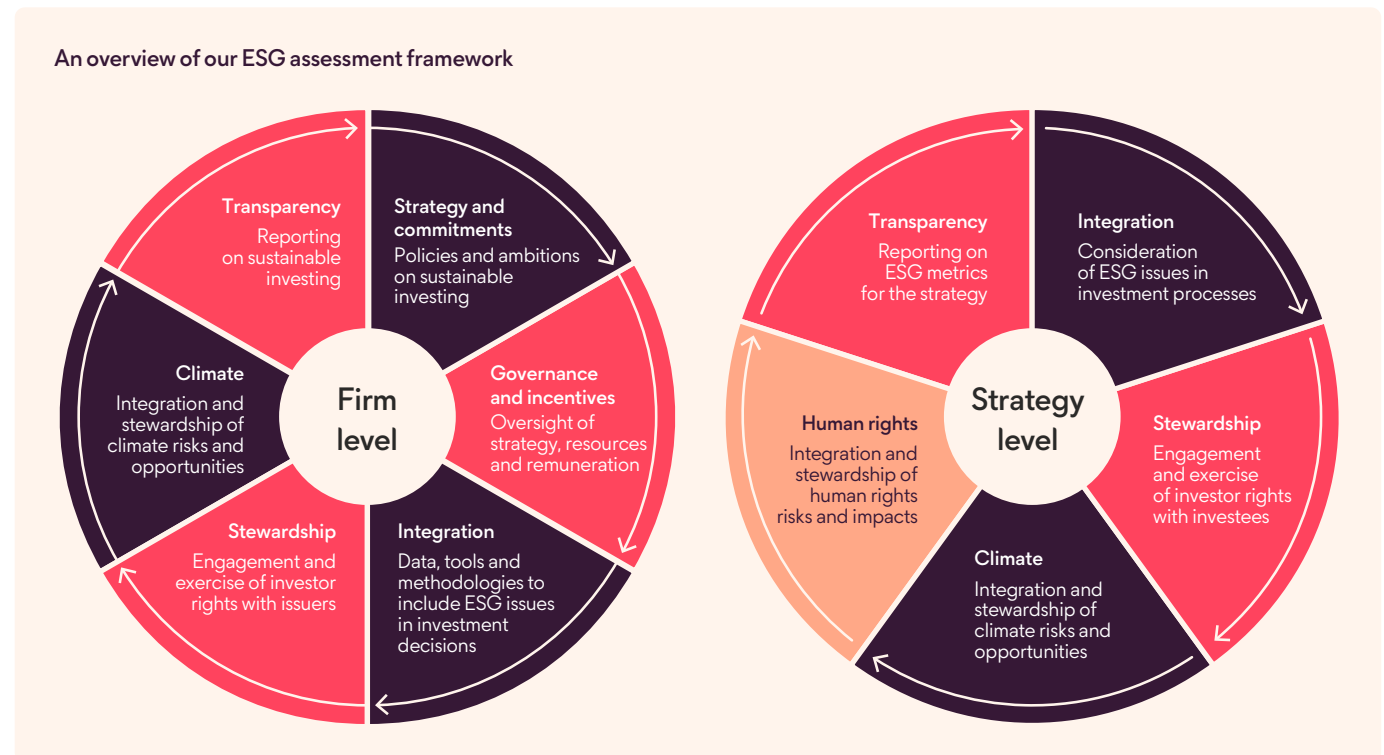


Asset manager selection and monitoring

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

As an asset owner we look not only at the policies and frameworks of the asset managers, but also the factors affecting implementation, such as staff expertise, organisational culture and reporting frequency. We expect our asset managers to be able to demonstrate how they incorporate ESG considerations into their investment process and how they ensure that material ESG factors are embedded into their overall risk and opportunity management strategy. Our asset managers are expected to notify us of any material changes to their policies and and/or governance structure.

We have a dedicated and experienced team to undertake these asset manager assessments supported by our sustainable investment team. Our ESG assessment forms part of the standard selection process of managers once decisions on specific investment strategies or asset classes have been made during our annual strategic asset allocation exercise. We also carry out periodic 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. Our ESG due diligence applies a red, amber, green rating system and areas related to ESG which we review include but are not limited to:



Asset manager selection and monitoring continued

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

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

Our minimum requirements for asset management partners¹

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.

Exclusions

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

The scope of the Exclusions policy includes all assets where we have direct control or influence over the investment mandate or solution. Examples of assets where we have no direct control or influence are External Fund Links - funds available to our customers but not managed by us. Another example would be passive funds tracking an index which has similar exclusions built in to their construction.

At present we are working to implement investment exclusions in five key areas:²

Controversial weapons

Tobacco producers

Thermal coal*

Oil sands*

Arctic drilling*

* Where over 20% of revenues come from this source.

Please see our separate Exclusions Policy for more details →

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.

² Screening based on third-party data tool. Exclusion policy applies to the assets we control and/or influence.

Portfolio decarbonisation and low-carbon transition

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

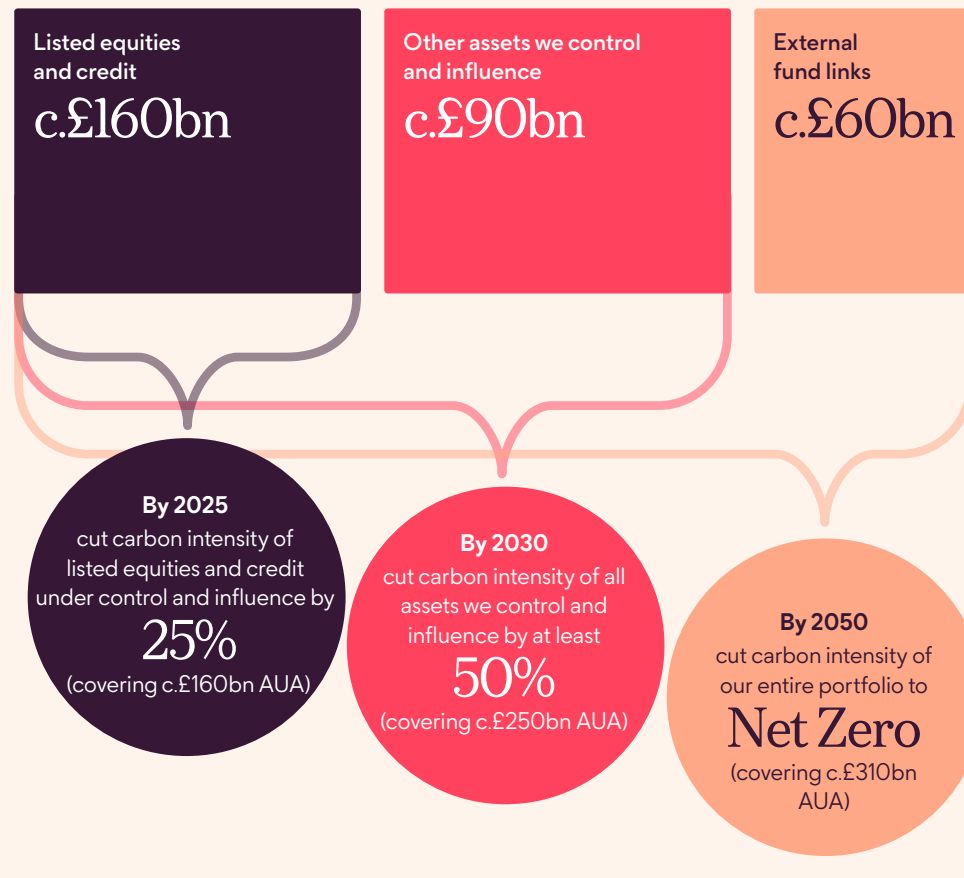
To advocate for a low carbon transition, and to collaborate on best practice with other asset owners, we are a member of the Net-Zero Asset Owner Alliance and the Institutional Investors Group on Climate Change (IIGCC) Framework. We are also a signatory to Climate Action 100+.

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

You can read more about our commitment to 'Net Zero' on our website →

Emissions reduction target coverage¹

Using the value of our AUA in 2021 for reference, the coverage of our emissions reduction targets grows from £160 billion (53%) of AUA in 2025 to c.£250 billion (81%) in 2030 and c.£310 billion (100%) in 2050.



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¹ 2025 target covers listed equity and credit under our control and influence and 2030 target covers all assets we control and influence.

Respecting human rights

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

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

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

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

[Phoenix Group's human rights policy provides more information on our commitments and approach →](#)

Halting and reversing nature loss

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

As part of our ambition to provide a life of possibilities for our customers, we recognise that we have an important role to play in helping to reverse the loss of nature and invest to restore it and the ecosystem services that nature provides. To deliver on this we are assessing options to include nature and biodiversity within our investment portfolio risk management as well as seeking out opportunities to invest in nature's restoration. The restoration of nature will increase the capacity of natural systems to absorb CO₂ from the atmosphere and thereby play an important role in enabling an orderly transition to net zero.

[Please see our Nature Statement for more details →](#)

Industry engagement and investor forums

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

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

ABI Board Climate Change Committee

Asset Owner Diversity Charter

Carbon Disclosure Project

Climate Action 100+

Coalition for Private Investment in Conservation

Deforestation Free Finance Initiative Working Group

DWP Taskforce on Social Factors

FCA Vote Reporting Group

FCA Working Group on Voluntary Code of Conduct of ESG Data

Finance for Biodiversity Pledge Signatories and Foundation Member

Get Nature Positive Campaign

Glasgow Financial Alliance for Net Zero

Global Impact Investing Network

Green Finance Institute

Institutional Investor Group on Climate Change

International Corporate Governance Network

Investor Forum

Make My Money Matter

Net Zero Asset Owner Alliance

Partnership for Carbon Accounting Financials

Principles for Responsible Investment

Race to Net Zero Campaign

Scottish Government Green Finance Taskforce

Science Based Targets Initiative

Sustainable Markets Initiative Insurance Taskforce

Task Force on Climate-related Financial Disclosures

Task Force on Nature-related Financial Disclosures

Transition Pathway Initiative

UK Sustainable Investment & Finance Association

UK Transition Plan Taskforce

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News and updates

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

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