Pension Protection Fund

Responsible Investment

Report 2023/24

Best UK Pension Fund
IPE Awards, December 2023

About the PPF

Protecting people's **futures**

Our purpose is to protect the future of millions of people throughout the UK who belong to defined benefit (DB) pension schemes. Should an employer sponsoring one of these schemes fail, we're ready to help.

We do this by charging pension schemes a levy, investing levies and other capital sustainably, then paying the members of schemes we protect as required.

Our work has a real impact on people's lives. So whatever we do, we strive to do it well, with integrity and members' futures in mind.

The PPF in numbers

as at 31 March 2024

8.9 million
DB scheme members protected

5,000+
DB pension schemes protected

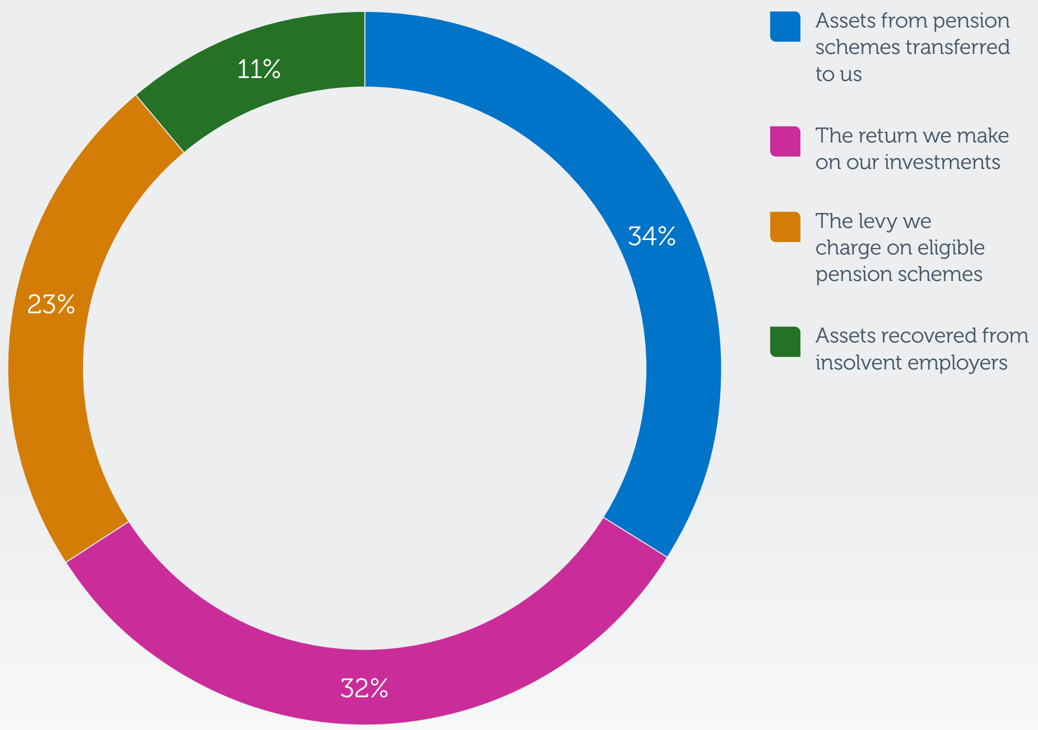
292,605
PPF members in payment or deferred

£32 billion
of assets under management

How we are funded

When an employer becomes insolvent and its pension scheme cannot afford to pay the pensions promised, we compensate scheme members for the pensions they have lost. We raise the money we need to pay PPF benefits and the cost of running the PPF in four ways:

Split of funding sources



How we are invested

Our assets are managed with an integrated approach to funding and investment. We seek to deliver investment performance consistent with targets set by the PPF Board within our strategic risk budget. To this end, we have implemented a new Strategic Asset Allocation to the structure of our portfolio to maintain financial resilience.

As detailed on page 16, this has involved separating our funding framework into current and future funding requirements. Assets under management are therefore now split into two portfolios: a Matching investment portfolio to meet the funding requirements of current members and a Growth portfolio to meet future claims.

Contents

Message from our Chair

Kate Jones
Chair

As we outlined in our Annual Report and Accounts for 2023/24, it has been a year of productive engagement for the PPF.

This includes how we collaborate with our asset managers, portfolio companies, and the wider industry to ensure alignment with our sustainability ambitions and to encourage progress wherever possible.

This year, our focus has been on implementing our Responsible Investment strategy. This strategy is based on a preference for engagement rather than divestment to drive good practice on climate-related and social issues.

As part of our stewardship efforts to manage climate risks, in 2022/23 we created a Climate Watchlist of 87 companies in our portfolio with the purpose to drive greater Net Zero action and disclosure.

Collaboration with the wider asset management industry has been essential to delivering on our climate objectives, particularly when it comes to seeing more of our Climate Watchlist companies making disclosures on their emissions.

Three industry initiatives have been instrumental in supporting our company engagement: the CDP Non-Disclosure campaign, Climate Action 100+, and the Institutional Investors Group on Climate Change (IIGCC) Net Zero Engagement Initiative.

We remain focused on how we can lead by example and help to catalyse the growth of a sustainable pensions industry that can work to the benefit of society and the planet.

We are committed to engaging with both our peers and our investment universe to drive positive change and create a better future where we can all thrive.

Driving positive change in private markets

Good quality disclosure is critical for our analysis of climate-related risks. In my first six months at the PPF, I have been impressed with our engagement work within the Private Markets space in particular – an area that is often difficult to crack when it comes to obtaining the data necessary to monitor progress against sustainability commitments.

This year, I'm pleased that we have seen an increase in the number of responses on greenhouse emissions data from the general partners and underlying portfolio companies we engaged with via the **eFront® ESG Data Service project**.

I'm also delighted that we received a 100 per cent response rate from Infrastructure managers to our new Transition & Sustainable Assets Questionnaire, which we introduced this year in order to analyse the progress of assets in their transition to a Net Zero global economy (see page 17). We hope to roll out this template to other Private Market assets. It's wonderful to see that our engagement is driving better quality disclosures.

Michelle Ostermann
Chief Executive Officer

Key highlights of the year

We continued to take clear and practical action to deliver our Responsible Investment strategy. Our integration of ESG reporting across internal portfolios continued during the year, along with strong engagement progress on our Climate Watchlist companies. During the year, we began publishing our proxy voting decisions on our website, allowing increased disclosure to our stakeholders.

Putting good stewardship at the heart of what we do

- Accepted by the Financial Reporting Council (FRC) as a 2023 signatory to the UK Stewardship Code – our third consecutive year as a signatory

UK STEWARDSHIP CODE

- Developed a new formal escalation strategy for our portfolio companies to aid engagement efforts
- Implemented full disclosure of proxy voting records on our website

Encouraging our investments to contribute to a fairer, sustainable future

- Saw progress on engagement objectives for 33 per cent of our Climate Watchlist companies in 2023

33%

- Engaged with 667 (686 in 2022/23) companies on specific issues and objectives and achieved progress on 49 per cent of these objectives

667

- Saw 90 per cent of portfolio companies on our Climate Watchlist report to disclosure organisation CDP in 2023 and 67 per cent maintaining or improving their TPI Management Quality Score

Managing and monitoring ESG factors to safeguard our members' financial futures

- Further improved ESG reporting in our portfolio, with 100 per cent of our Infrastructure managers responding to our new Transition & Sustainable Assets Questionnaire and monthly ESG reporting being rolled out for our internal Equity and HAIL portfolios

100%

- Developed a Climate Change Adaptation Strategy and conducted risk identification exercises across all PPF Sustainability Strategy working groups, reflected in risk & control self-assessments (RCSAs)
- Surveyed our largest bank counterparties for the first time to assess their ESG considerations and associated risks

Using our voice to deliver positive change

- Voted at over 99 per cent of shareholder meetings where we were eligible to vote[1] and co-filed a shareholder resolution at Shell plc (a Climate Watchlist company) in relation to its emissions reduction strategy

>99.5%

- Served as co-chair and helped to create the UK Asset Owner Council to better represent asset owner interests in sustainability across the financial sector
- Co-chaired the DWP's Taskforce for Social Factors, which published its guide on considering social factors in pension scheme investments in early 2024

Awards and recognition 2023/24

IPE Awards 2023
Named UK Pension Fund of the Year for a second year running, with our commitment to Responsible Investment highlighted.

Also highly commended in the Long-Term Investment Strategy, Multi-Employer Pension Fund and Fixed Income categories.

Corporate Reporting Awards 2023
Highly commended for the 'Most effective alignment with TCFD (Taskforce on Climate-Related Financial Disclosures)' in our Annual Report and Accounts.

Pensions for Purpose – Pension Fund Awards 2023
Highly commended in the Paris Alignment Award for Best Climate Change Policy Statement.

1 For our aggregated listed Equity (across both segregated and pooled funds).

A year of evolution and engagement

"It's long been a feature of our investment strategy that we invest for growth over the long term, and our investment strategy evolves to suit the needs of the PPF and our members."

This Responsible Investment report represents our continued commitment to the Stewardship Code, showcasing the range of stewardship activities undertaken to protect and drive value across our portfolio.

We recognise the value that the Financial Reporting Council's reporting process brings to the industry and appreciate the high bar maintained to achieve signatory status.

It's long been a feature of our investment strategy that we invest for growth over the long term, and our investment strategy evolves to suit the needs of the PPF and our members. This year has been no exception, with the implementation of our new Strategic Asset Allocation at the start of the financial year, which has resulted in creating two portfolios. These portfolios are designed to address our different stakeholder needs (see page 16 for more information). The investment team has worked hard to deliver this strategic change whilst maintaining focus on our investments and stewardship commitments.

This has very much been a year of engagement for the PPF, particularly in relation to the current shape and future opportunities of the pension industry. These topics are being widely discussed. Our experience and unique position in the industry allows us to offer insight into this and many other areas of industry development. I was pleased that the PPF could serve as a co-chair on DWP's Taskforce for Social Factors and the UK Asset Owner Council during its formation earlier this year. Both initiatives look to drive UK pension funds forward in important areas of stewardship for years to come.

As I've discussed in prior reports, the importance of us understanding the risks to our portfolio, using evidence-based data, has never been more important.

The progress made throughout the year on internal desk ESG reporting and external manager reporting has been welcomed by all in the investment team. The significant progress our private asset managers have made by participating in the eFront® ESG Data Service project as discussed on page 24 of this report is a huge leap forward in transparency and efficiency for our team and I look forward to seeing this project yield results going forward. These projects would not have delivered the results in terms of engagement with our managers without the collective effort across the whole investment team. It is this sense of collective ownership for stewardship activities that makes me positive for the coming year.

Finally, seeing the Climate Watchlist develop and progress has been a strong example of how asset owners and their external investment managers can work together to achieve important goals. As the PPF's Sustainability Strategy evolves, the support and alignment with our external managers will be imperative in achieving our targets.

Barry Kenneth
Chief Investment Officer

Our progress at a glance

How we advanced our plans in 2023/24

Industry standards

We said we would…	So we…
Focus on building an inclusive pensions industry	Represented the PPF on several industry discussion panels focusing on diversity and inclusion. See page 12
	Served as co-chair and helped create the UK Asset Owner Council to better represent asset owner interests in sustainability across the financial sector. See page 32
Increase the PPF's involvement in collaborative engagement initiatives across Private and Public Markets	Co-chaired the DWP's Taskforce for Social Factors which published its report in early 2024. See page 33
	Continued participation in several collaborative industry initiatives to improve engagement with high-emitting companies. See page 31
	Joined the RLAM-led Water Utility engagement initiative. See page 39
	Our Head of Alternative Credit sat on two ESG-focused industry committees. See page 24

Portfolio disclosure

We said we would…	So we…
Continue to focus on improving disclosure	Developed our own template to collect carbon emissions data for Private Credit and Real Estate. See page 18
	Engaged companies in our portfolio as part of the CDP Non-Disclosure Campaign. See page 32
Ensure at least 80 per cent of our Climate Watchlist companies are making disclosures on emissions, with a view to standardising how this is reported	Ninety per cent of portfolio companies on our Climate Watchlist reported to CDP in 2023. See page 32
	Worked with external managers to engage with companies on our Climate Watchlist effectively. See page 31
Continue to work with our Alternatives managers and on eFront® ESG Data Service project to improve ESG data disclosure across unlisted markets	Continued to support the **eFront® ESG Data Service project** by engaging our managers to collect Private Markets ESG data throughout the year. See page 24
Enhance Investment Committee reporting using bottom-up manager and asset ESG reporting	Issued our bespoke ESG reporting template for Private Markets (i.e. Private Equity and Alternative Credit) and received responses from all managers that we contacted. See page 18
Undertake detailed ESG analysis of our bank counterparty sustainability profiles	Surveyed our largest bank counterparties for the first time to assess their ESG considerations and associated risks. See page 20

Reporting

We said we would…	So we…
Provide greater transparency on our website of our proxy voting behaviour	Implemented full disclosure of proxy voting records on our website. See page 38
Extend our portfolio ESG reporting to cover all Public Credit portfolios	Continued the roll-out of monthly internal ESG reporting for our internal Equity and Hedging Assets with Illiquid characteristics (HAIL) portfolios. See page 17
Undertake an ESG service provider review to ensure our climate data providers remain fit for purpose	Reviewed our climate data sources and onboarded MSCI's Climate Lab Enterprise to enhance our reporting and oversight capabilities. See page 17

Our purpose and governance

What we stand for

Our purpose is to deliver the best financial results for our members. We believe this goes hand in hand with Responsible Investment for two reasons:

1. Good corporate governance and management of ESG risks is a strong indicator of how an organisation manages risk as a whole.

2. Exercising our ownership rights is not only a key part of being a responsible owner but also helps safeguard sustainable returns in the long term.

Our RI Framework puts these core beliefs into practice.

Read about our Responsible Investment (RI) strategy and our RI Framework to learn more about our beliefs, aims and approach to being a responsible investor.

How our purpose and values feed into effective stewardship

Our organisation's values

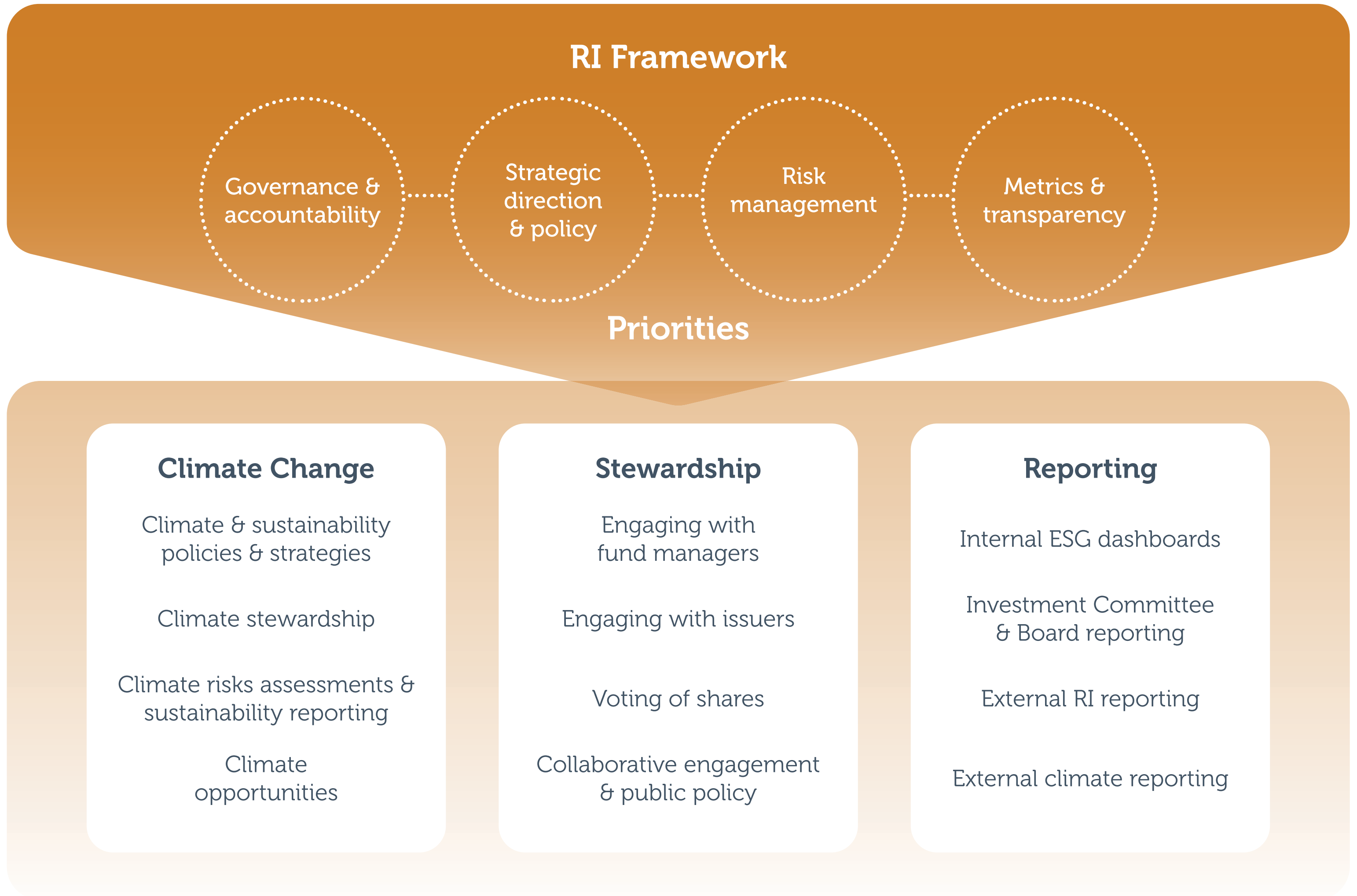
At the PPF, we lead by example and demonstrate our values from the top down. We believe that establishing the right values, culture and accountability is key to delivering the best outcomes for our stakeholders. Our 'ICARE' values (see overleaf) define how we conduct business across the organisation. They are integrated into every employee's performance development review and annual goals, as well as at a directorate and overall organisation level.

Our 'ICARE' values are also at the heart of the PPF Sustainability Strategy, which reflects our ambition to drive the growth of a socially and environmentally sustainable pensions industry. Informed by the Five Capitals framework of Sustainability and our most material environmental, social and governance (ESG) risks as a business, the strategy comprises four sustainability goals (see page 10) to create real impact.

In this way we aim to ensure that our sustainability focus and priorities not only guide stewardship of our investment portfolio but also foster a culture of teamwork, responsibility, mutual respect, high performance and standards of conduct throughout our organisation and in all our external interactions.

Our approach to Responsible Investment (RI) and stewardship

Our RI framework puts our core beliefs into practice:



OUR PURPOSE AND GOVERNANCE CONTINUED

Delivering on our purpose

Whenever we make investment decisions and consider our investment strategy, we also apply our 'ICARE' values. The table below shows how we translate these five values into performing our duty as a responsible investor.

Our values	Our investment approach
Integrity Doing the right thing	We consider all material ESG risks when we assess investment opportunities
Collaboration Working as one	We work collaboratively with peer organisations and partners
Accountability Owning our actions and their outcomes	We enact our shareholder rights and push our fund managers to deliver best practice on ESG risk management and transparency
Respect Valuing every voice	We encourage our fund managers and other stakeholders to deepen Diversity and Inclusion (D&I) practices
Excellence Being our best	We're never complacent – we strive to grow our RI practices and set new standards

OUR PURPOSE AND GOVERNANCE CONTINUED

Our governance structure and activities

Strong governance, with clear oversight, responsibility and accountability, is key to delivering on our Responsible Investment goals as well as our long-term financial commitments to our members. The governance structure of our organisation is designed to ensure constant and robust assessment of how we incorporate RI considerations into our investment process and how this might be improved. Although challenges remain, particularly around capturing ESG data for alternative asset classes, appetite for further progress remains high.

Function	Roles & responsibilities	Taking action: RI activities in 2023/24			
PPF Board	Highest governing body with oversight for Responsible Investment (RI) and stewardship activities (including climate-related ones)	Approved the PPF Sustainability Strategy in June 2023, including a Net Zero target for our operations and business plan objectives relating to sustainability	PPF Board and relevant Board sub-committees provided a steer and oversight for delivering the PPF Sustainability Strategy (each of the four sustainability goals are mapped to at least one sub-committee)	Implemented ongoing board-level ESG training programme involving external consultants during the year	Undertook an annual review of RI progress and activities
Investment Committee	Responsible for developing and maintaining the PPF's RI and stewardship principles and policies (including climate-related ones)	Annual review of Minimum Standards, Climate Change and Stewardship policies	Quarterly review of ESG reporting on RI and climate-related activities, metrics and progress used in TCFD and UK Stewardship Code reporting	Approved updated voting guidelines for the 2024 AGM season	Approved a new formal escalation strategy for portfolio companies when engagement efforts are not delivering
Sustainability Strategy Group and internal working groups	To provide strategic input and steer and define what success looks like as we implement the PPF Sustainability Strategy	Clear line of leadership and accountability established for developing and delivering on PPF sustainability priorities	Internal working groups ensured sustainability is embedded across the PPF's decision-making	New Risk & Strategy sustainability working group given oversight to manage climate-related risks at an enterprise level, including overall PPF risk management	Risk identification sessions conducted across working groups and outputs fed into departmental risk & control self-assessments (RCSAs) and a new Sustainability RCSA
Investment team	Led by the CIO, responsible for ensuring adherence to the RI Framework, stewardship principles and associated policies across all asset classes, whether internally or externally managed	Continued the roll-out of monthly internal ESG reporting for our internal Equity and HAIL portfolios	Discussed specific investment opportunities with the ESG & Sustainability team and declined a number of deals due to specific ESG concerns that contributed to the overall investment decision. Updates given at Investment team meetings on ESG issues, including company updates relevant to the Climate Watchlist	Leveraged asset class expertise in PPF responses to regulatory consultations and external best practice working groups during the year	Applied specific ESG objectives for each investment desk within their personal performance targets
ESG & Sustainability team	Part of the Investment team, helping to oversee implementation of the RI Framework, monitor investments for ESG risks and opportunities, engage with portfolio managers, external managers and our stewardship services provider	Developed a formal escalation strategy for company engagement during the year and sought input from relevant internal portfolio managers in relation to co-filing a shareholder resolution at Shell plc	Chaired the ESG in Investments sustainability working group and provided oversight and coordination of other working groups, collating regular Executive Committee updates and business plan KPI updates	Produced monthly portfolio ESG reports for internal portfolio managers, including key ESG and climate metrics.	Engaged in a PPF-wide Lunch & Learn session on the new PPF Sustainability Strategy, and specific training for Finance and Scheme & Members Services teams
Asset manager and service providers (e.g. Equity Ownership Service (EOS) at Federated Hermes for stewardship services provision)	Follow the PPF's RI Framework and Stewardship Policy, undertake ESG integration and issuer engagement then report transparently and accordingly	**Asset managers** Allocated companies on our Climate Watchlist to our external managers to ensure high-quality engagement and reporting on progress. Collaborated with one manager to undertake joint engagement with issuers on climate-related issues	Continued to encourage our Private Markets managers to provide ESG data to the **eFront® ESG Data Service project**	**Service providers** Engaged with EOS on policy updates, public consultation responses and setting future strategic engagement priorities	Added a further company to EOS's engagement focus list to support our Climate Watchlist of priority engagement targets

OUR PURPOSE AND GOVERNANCE CONTINUED

Key governance actions this year

Reviewing our principles and policies

The Investment Committee has approval from the PPF Board to review annually our Statement of Investment Principles (SIP) and all Responsible Investment policies to ensure they stay relevant and ambitious to the PPF's activities. During the year, the Investment Committee reviewed our SIP, our Climate Change Policy, our Stewardship Policy and our Minimum Standards Policy. The committee also approved our new voting guidelines. All policies are available on our website at ppf.co.uk.

Escalation Policy approval

Company engagement is our principal tool for fostering greater social, Governance or environmental responsibility among the companies and other assets in which we invest. As detailed on page 34, this year we published our escalation policy, which details our process for progressing an engagement with a company when the hoped-for outcome is not being achieved. The creation of a formal policy allows all parties in the PPF to understand the agreed process and gives the Investment team clarity on the governance surrounding escalation.

Tools in our escalation process range from using voting rights at shareholder meetings (where possible) to filing a shareholder resolution. Ultimately, there can be situations where our recommendation, following failed engagement, is to exit our position in a company, either from a particular asset class or all asset classes (depending on the mandate situation and resulting risk). It could also be the case that the restriction only applies to future investments (depending on the situation).

Embedding sustainability across our business

In July 2023, we published the PPF Sustainability Strategy to formalise the PPF's commitment to long-term environmental and social responsibility across all of our activities. Our aim is to lead by example, with an ambition to catalyse the growth of a sustainable pensions industry where securing the financial well-being of pension savers is fully aligned with the need to safeguard the world they will retire into. Last year saw us achieve some crucial short-term milestones, including the first steps to directing our supply-chain impact towards Net Zero by 2035.

This year, our internal sustainability working groups have ensured that we embed sustainability across our decision-making processes. We have established a clear line of leadership and accountability to the Board to address six areas that we consider to be material to the PPF's business: organisational emissions, climate risk management, diversity & inclusion, employee engagement & community impact, Responsible Investment, and sustainable procurement.

Taking action

Throughout the year, our Risk & Strategy sustainability working group conducted risk assessment sessions to identify existing and potential sustainability risks in many areas of our business, including Responsible Investment. Some of these include but are not limited to extreme weather disrupting operational and investment supply chain decisions, reputational damage from unmet publicly disclosed sustainability targets and poor D&I performance, regulatory non-compliance with FCA, reporting non-compliance with DWP, stewardship code and other financial reporting requirements and financial losses from asset value decline due to climate change. We have used the findings to help understand our sustainability risk exposure, and our appetite for those risks, to support our decision making.

This is a clear example of how our wider Sustainability Strategy is helping to provide a systems-led approach to how we consider climate risks as a business.

Four Sustainability Goals

Demonstrating **excellence** in responsible investment	Ensuring effective stakeholder engagement with **integrity** and **respect**
• Looking after our assets	• Community impact • Employee and stakeholder engagement
Financial Capital	Human & Social Capital
Social Capital	Natural & Manufactured Capital
Championing **collaboration** and leading by example	Being **accountable** for minimising our own environmental impacts
• Diversity & inclusion • Business ethics	• Operations • Supply chain

Supporting the UN SDGs

The commitments and priority areas outlined in our Sustainability Strategy support several of the United Nation's Sustainable Development Goals (SDGs). The SDGs are 17 interlinked objectives that provide UN Member States with a blueprint for sustainable development. We've published a blog on our website, where Amina Mimi, our Sustainability Analyst, shares how our sustainability strategy is supportive of the ambitions of seven of the SDGs.

Sustainability Community Hub

Throughout the year, our internal Sustainability Community Hub continued to spark employee discussions on sustainability. The hub serves as a collaborative learning platform where employees have exchanged practical tips for positive environmental impact, such as using reusable coffee cups and second-hand clothing, installing solar panels, minimising food waste, buying electric cars, and embracing sustainable ideas for festive celebrations.

> "Our aim is to lead by example, with an ambition to catalyse the growth of a sustainable pensions industry where securing the financial well-being of pension savers is fully aligned with the need to safeguard the world they will retire into."

OUR PURPOSE AND GOVERNANCE CONTINUED

Setting our 2024 voting guidelines

During the year under review, our Investment Committee approved updates to our PPF voting guidelines. These provide clarity on our intentions for voting decisions around core stewardship issues during the Annual General Meeting (AGM) season.

Developed by our ESG & Sustainability team, the guidelines leverage best practice, as demonstrated by our stewardship services provider EOS, and closely align with its global voting guidelines. Our key stewardship themes for 2024 are guided by our own organisational priorities and therefore continue to focus on: management of climate-related risks, modern slavery, board diversity in terms of gender and ethnicity, and executive committee diversity.

Our voting guidelines can be seen in full in Appendix E. The aim of these guidelines is not to duplicate EOS's own global voting guidelines. Rather, they provide stakeholders with a concise document outlining areas of focus that are material to us. On matters related to good governance such as board independence, competent leadership, and separation of governance roles, we primarily look to draw on EOS's expertise and recommendations while retaining the ability to amend any voting instruction that we consider better aligns with our interests.

Building board knowledge

Members of the PPF Board received several formal training sessions throughout the year to enhance their knowledge on various subjects. These included: Sustainability Strategy, Cyber Security, Funding Strategy, Board Member Roles and Responsibilities, Compliance, and Member Website Functionality.

We are planning more Board training on climate-related topics, including demystifying climate and TCFD metrics. We will also review levels of climate change understanding across PPF committees and identify where learning sessions may be of value.

Reporting on RI and stewardship to our committees

Keeping every level of our governance structure informed of, and able to feed back on, our RI and stewardship activities is essential to monitoring our progress. Robust internal reporting ensures we remain aligned with agreed actions and principles and can spot any challenges or conflicts of interest at an early stage.

Every quarter, our Investment Committee ESG Update provides the committee with a review of our RI policies, processes and policy review schedule. It also gives updates on stewardship, manager appointments and monitoring, as well as key quantitative metrics such as ESG scores of companies and the carbon intensity of our investment portfolios by asset class. We provide regular updates to our CIO and the Head of Investment Strategy on the management of our climate-related and other ESG risks. We also highlight portfolio-relevant information or events as they arise in our daily investment meetings.

Developing our people

Resources and training

Throughout the year, we continued to focus on employee development across the PPF, including building internal knowledge and understanding of sustainability and climate change. During 2023/24, we have ensured that employees are aware of and engaged with our Sustainability Strategy through internal webinars, blogs and published interviews with key internal people. In July 2023, a Lunch & Learn session on the PPF Sustainability Strategy was held for the whole organisation. Departmental training for our Finance and Scheme & Member Services teams was also held through the year. A session for all investment desk heads to discuss our ESG and climate-related investment priorities was held at the start of 2024. Ongoing sessions were held with individual desks to define collectively what we mean by sustainable and transition assets.

In 2023/24, we reviewed our current mental health initiatives and support offered against the CCLA Corporate Mental Health Benchmark. PPF employees have 24/7 support via the Employee Assistance Programme, and they can also contact one of the PPF's internal mental health first-aiders. During the year, we rolled out more mental health first-aider training, and increased our total number of mental health first-aiders to 15.

In our most recent employee survey, 80 per cent of employees said there are good opportunities for them to learn and grow at the PPF. This year, 23 employees began our talent development and management development programmes, and eight joined the Future Leaders programme to develop their skills.

Performance incentivisation

We set performance incentivisation for both employees and external agents. For all our staff, performance is measured against a balanced scorecard of objectives covering business-as-usual activities, initiatives, and behaviours, the latter of which account for a specific percentage of an employee's annual performance assessment. This includes a review of an employee's performance with reference to their core behaviours across our ICARE values (see page 8). We also have an investment directorate balanced scorecard with specific RI and stewardship KPIs that the Investment team is measured on, as well as a culture assessment.

> "Robust internal reporting ensures we remain aligned with agreed actions and principles."

Key findings of our employee survey

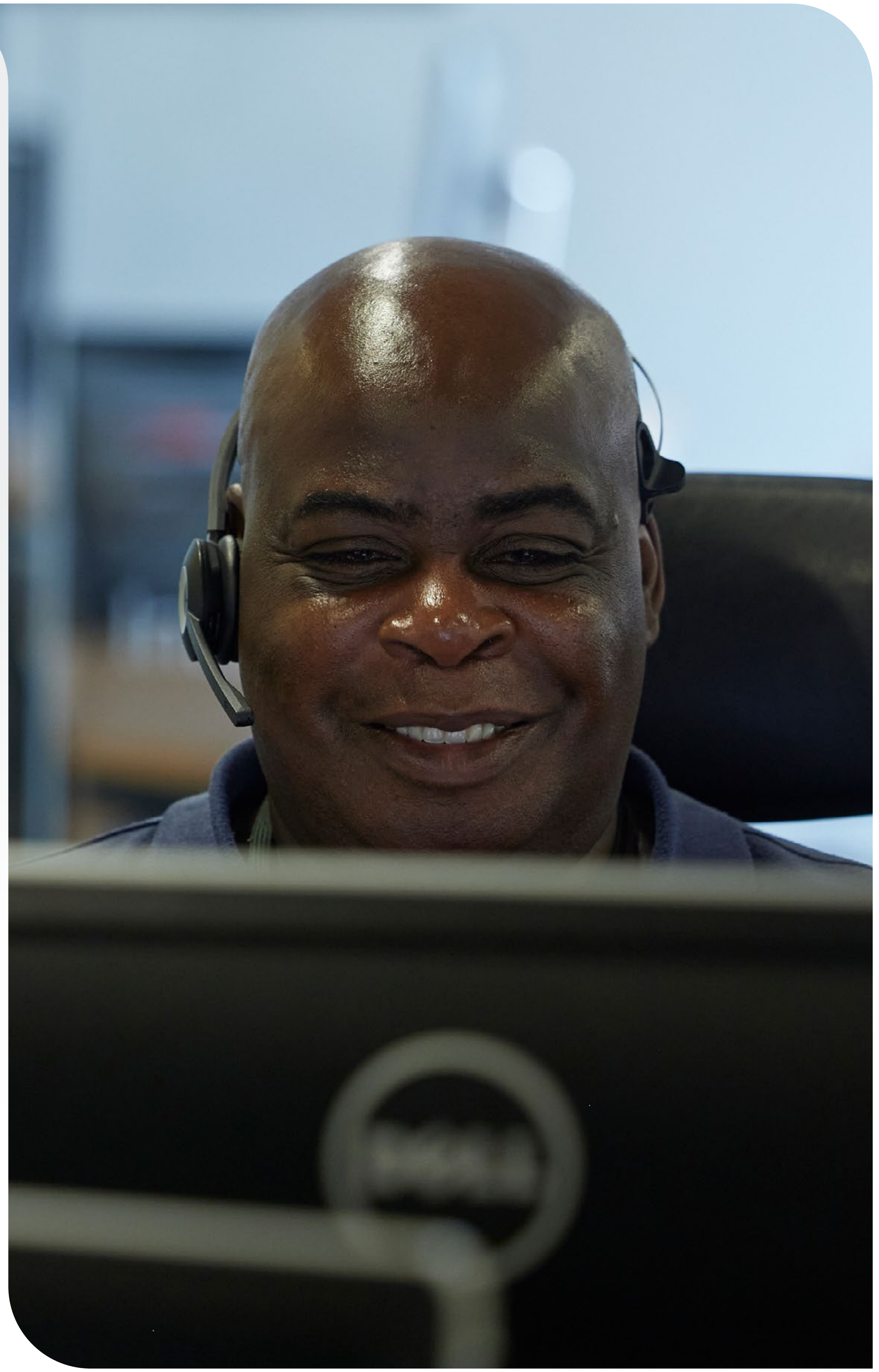
80% of employees said there are good opportunities for them to learn and grow at the PPF

85% are happy with their work-life balance

95% believe the PPF makes a positive difference to the world we live in

79% of PPF employees said they feel the PPF's culture allows them to be themselves

83% of employees agreed that the PPF actively encourages diversity in all its aspects



OUR PURPOSE AND GOVERNANCE CONTINUED

"We believe that having a diverse workforce is not just the right thing to do, it also improves our performance and our ability to identify risk by bringing different perspectives and diverse problem-solving abilities."

Continuing our commitment to industry-leading diversity

We believe that having a diverse workforce is not just the right thing to do, it also improves our performance and our ability to identify risk by bringing different perspectives and diverse problem-solving abilities. A diverse and inclusive workplace is central to our ability to attract, develop and retain the breadth and depth of talent we need to succeed.

- We're a Level 3 Disability Confident Leader under the Disability Confident Employer Scheme. As of 31 March 2024, we actively support the employment and development of 108 employees who consider themselves to have a disability or long-term health condition.
- We have nine employee-led communities, including our Race Action Group (RAG), which leads our reverse mentoring initiative. These groups offer a platform for employees to exchange views and foster a culture that values diverse experiences, skills, and ideas, thereby enhancing awareness of challenges faced by ethnic minority employees.
- Our Diversity Pay Gap report seeks to highlight the progress PPF has made in addressing the imbalances in pay across gender, race and disability and long-term health condition pay gaps. The PPF has gone beyond statutory requirements to report on its ethnicity and disability and long-term health condition pay gaps. Our commitment to improve equality and inclusivity in the workplace is reflected on the report.

Next steps:

- We'll continue to focus on developing directorate people plans to support the development of inclusive teams.
- Through our apprenticeship schemes we'll continue to provide career opportunities for people in the communities in which our offices are based and open up careers in the asset management industry to underrepresented groups.

Taking action

This year we took action to improve the gender diversity across the Risk directorate, traditionally an area that lacks gender diversity.

We carefully considered the language used in our job advertisements to ensure it was inclusive and committed to gender diversity in the interview process. We also worked with a coaching organisation that specialises in enabling the return to work of experienced professionals after an extended career break. This contributed to the team being able to fill two vacancies with very experienced female professionals, including one looking to return to work.

Taking action

As noted on page 13, the December 2022 Department of Work and Pensions (DWP) review of the PPF recommended that the PPF take a higher public profile and share more information on its approach to investment management, particularly in relation to its industry-leading commitment to Responsible Investment.

While we have embraced this recommendation across all areas of the PPF, a notable area of focus has been speaking at external events on diversity and inclusion. Events this year have varied from addressing investment professionals from across the industry to speaking to students at Durham University.

Supporting asset manager diversity

Asset managers are key part of our investment supply chain, and we recognise the benefits that diversity can bring to the asset management community. This year, for the third consecutive year, we asked diversity and inclusion (D&I) related questions as part of our asset manager oversight process.

By analysing responses year on year and incorporating findings into our manager assessments, we aim to contribute to the broader industry's progress on diversity and inclusion. Although we are not setting specific targets at this stage, we recognise that much further progress is needed on D&I throughout the asset management industry, especially within investment teams and senior roles.

Taking action

This year, one asset manager that had previously refused to disclose D&I information, citing GDPR restrictions, chose to share information with us. This came about after we provided examples to their compliance team of similar organisations that had shared diversity data without contravening GDPR requirements, which inspired them to contribute to our findings.

The results of our asset manager D&I review were shared internally at our March 2024 Investment Town Hall.

OUR PURPOSE AND GOVERNANCE CONTINUED

Reviewing our processes and assessing their effectiveness

Reviewing our stewardship programme

Our stewardship programme is subject to internal and external review, and is ultimately overseen by our Investment Committee. Policies, approaches and outcomes are presented quarterly to this committee and action points recorded. Regulatory developments are monitored to ensure that emerging themes and potential regulatory expectations are evaluated.

Meeting industry best practice

Externally, we participate in global working groups that seek to align and redefine best practice with the aim of simplifying complex reporting and transparency requirements. In 2022, the Department for Work and Pensions (DWP) instructed an independent review of the PPF, including its activities relating to Responsible Investment. This review recommended that the PPF should take a higher public profile and share more information on its approach to investment management, particularly in relation to its industry-leading commitment to Responsible Investment. We also confer with our peers and industry stakeholders regularly and share our practices through various forums.

Approving external manager selection

In relation to external manager selection, pre-investment sign-off regarding certain ESG minimum requirements must be provided by the ESG & Sustainability team. This is then reviewed by the Operational Due Diligence team and the Asset & Liability Committee before any investment can be approved.

Reviewing our stewardship services provider

The ESG & Sustainability team undertakes an annual review of the services provided by EOS, our principal external stewardship services provider. This year, a quarterly meeting schedule was agreed with EOS's parent, Federated Hermes, to enable in-depth, strategic conversations about EOS's work for the PPF.

This Responsible Investment Report has been approved on behalf of the Board by the CEO following review by members of the Board and Executive Committee. It is informed by ongoing reporting throughout the year to the Board, Investment Committee, Asset and Liability Committee and regular updates to the Chief Investment Officer and Head of Investment Strategy.

Taking action

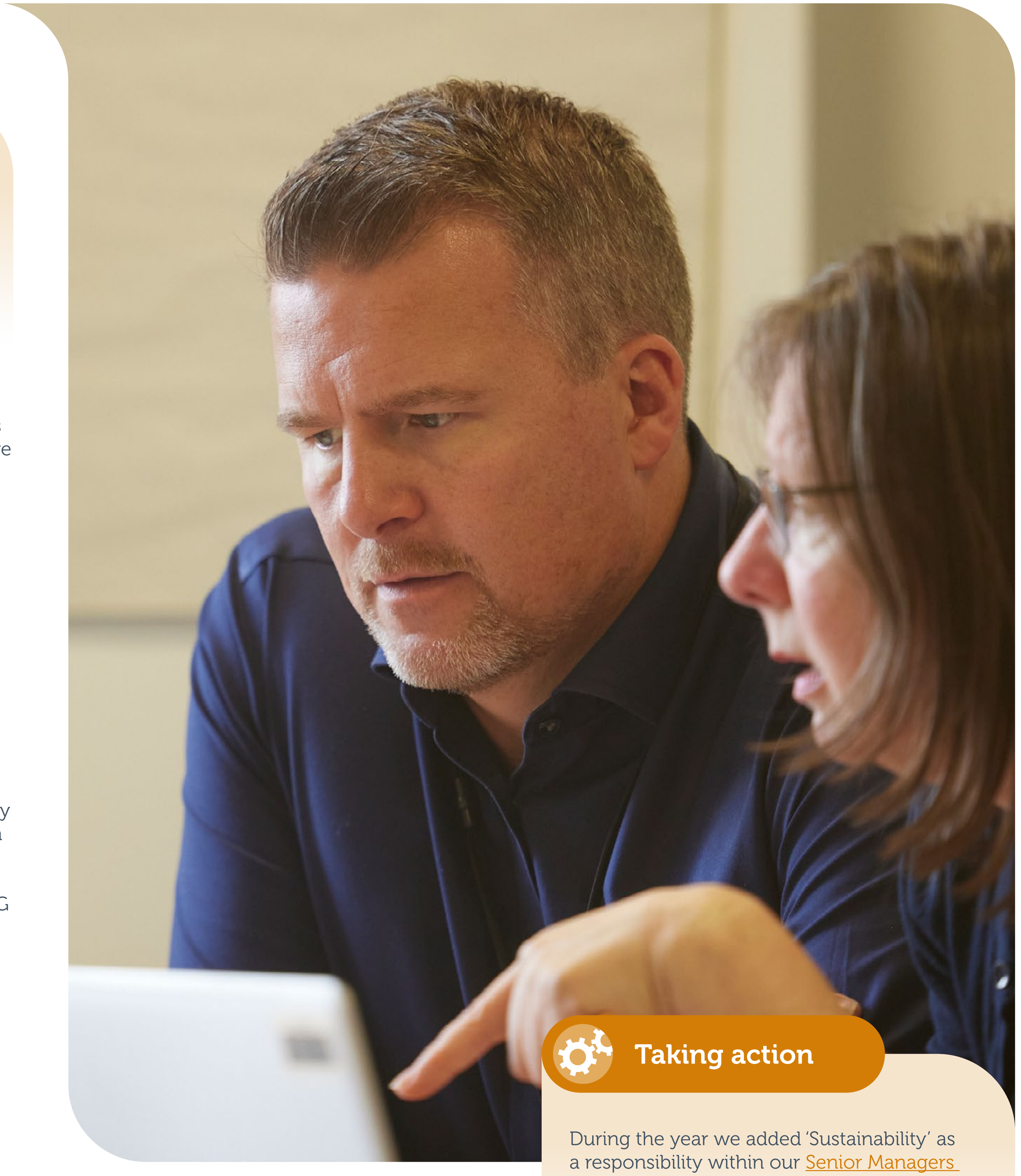
This year, we engaged with numerous asset owners across the industry to compare our approach to budgeting, tracking and reporting of investment fees. Our analysis showed we are broadly consistent with others in terms of our processes.

Implementing the SM&CR regime

The FCA's Senior Managers and Certification Regime (SM&CR) is the system that regulated financial organisations use to define their managerial responsibilities and encourage staff at all levels to take personal responsibility for their actions. We publish and implement our own version of the SM&CR to hold ourselves to a high standard across everything we do (as detailed on page 8, our ICARE values set the foundation for how our staff behave and adhere to the conduct rules).

We first published our version of the SM&CR in 2019. It's since become an integral part of our organisation and how we conduct ourselves. For example, it has helped to highlight exactly who and what senior managers are accountable to and for. As a result, it is easy to find that information and work effectively on processes across the organisation.

One area covered is ESG. Our CIO has overall responsibility for ensuring the implementation of our ESG strategy (with stewardship a key priority of this) within our investments. SM&CR, and our adoption of it, has helped to clarify and enhance personal accountability and responsibility for ESG and underlined the importance of a clear and effective governance structure for this area.



Taking action

During the year we added 'Sustainability' as a responsibility within our Senior Managers and Certification Regime (SM&CR). It now sits within the remit of our Chief People Officer who is responsible for overseeing the PPF's Sustainability Strategy.

OUR PURPOSE AND GOVERNANCE CONTINUED

Managing conflicts of interest

Conflicts of Interest Policy

The PPF has a Conflicts of Interest Policy (see Appendix C) to identify where a conflict of interest may arise and how conflicts should be monitored and managed. We're committed to conducting business and our investment activities in the best interests of our beneficiaries, and have comprehensive controls across the organisation to prevent conflicts of interest from affecting these activities. We place individual accountability high up on our cultural agenda as one of our core values (see page 8). All reasonable steps must be taken to prevent potential or actual conflicts of interest, or situations that might be perceived as giving rise to a conflict of interest. Under the policy, our staff are required to disclose any interest in any company, or other entity, in which the PPF has an ownership interest.

Recording conflicts

Details of conflicts and notifications are recorded in the Conflicts Register which is maintained by the Compliance & Ethics team. We also have other related policies such as a Code of Conduct and Conduct Rules Policy (for both employees and our suppliers), a Handling Non-Public Information Policy, and a Personal Account Dealing Policy. Our non-executive Board members may hold other director positions, or have connections with external asset managers. We share all Board members' outside interests on our website, and update any Board expenses quarterly on the website.

If there is a conflict of interest when making a specific decision, we include provisions for declaring interests at Board and committee meetings. For example, we approached our internal levy teams to inform them of our participation in the PRI's FTSE 350 modern slavery initiative in advance of engaging with companies. We did this as we were aware that some of the companies under assessment by the PRI initiative were PPF levy payers.

Externally-managed assets

Regarding stewardship of assets managed externally on our behalf, we expect our external agents to identify and manage any conflicts of interest in accordance with Principle 3 of the FRC's UK Stewardship Code 2020, putting the best interests of clients and beneficiaries first.

Conflicts of interest policies are reviewed as part of our appointment of any fund manager through our operational due diligence (ODD) assessments.

Our expectations are explicitly referenced within our investment management agreements and side letters (see Appendix F for example terms). This includes a quarterly requirement for external managers to confirm that they have adhered to our policies and expectations.

Conflicts are also considered by our stewardship services provider EOS when undertaking voting and engagement on our behalf. Although we reserve the right to amend any votes proposed by EOS – and also to review voting proposals ahead of AGMs – we are satisfied that EOS has suitable expertise, policies, research and resources to carry out daily stewardship activities on our behalf. Where conflicts of interest arise, we adopt an arm's length approach and aim not to influence or override EOS's voting decision.

EOS also takes steps to avoid conflicts of interest between us and any other clients, or between us and EOS or its affiliates, and comply with our Conflicts of Interest Policy. EOS notifies us as soon as possible of any conflict of interest, or potential conflict of interest of which it becomes aware or to which it may be subject, and the potential implications for the Board. Read more about how EOS approaches conflicts of interest here.

In practice, EOS has been highly transparent regarding potential conflicts of interest relating to its voting recommendations for companies that might be EOS clients (or affiliated to a client of EOS or Federated Hermes). There were no situations during the year where we felt a conflict of interest had a negative impact on a decision involving PPF assets.

Taking action

Our Operational Due Diligence (ODD) team refreshed their due diligence on a property manager as part of the team's ongoing monitoring programme. While on-site, the team identified a potential conflict of interest in relation to an independent adviser that is used by the firm for the benefit of the fund.

The independent adviser feeds into the investment process and is party to confidential information but is not bound by the firm's compliance policies. Our concerns were fed back to the manager while on-site and subsequently remediated through the implementation of an annual process whereby the adviser must attest to and abide by the property manager's conduct of business rules and market conduct policies. As part of this review, our ODD team also made recommendations to enhance the manager's personal account dealing policy and political donation controls, both of which were accepted.

OUR PURPOSE AND GOVERNANCE CONTINUED

Stakeholder engagement

Keeping our stakeholders updated

We're committed to regular reporting and transparency so that our members and other stakeholders such as levy payers can be aware of our progress and activities in all areas, including stewardship:

- We regularly update our website with our latest voting and engagement activities and our responses to industry and government consultations.
- We publish annual RI reports and provide ESG and sustainability disclosure in our Annual Report & Accounts.
- We published our fourth dedicated Climate Change Report this year in line with Task Force on Climate-Related Financial Disclosures (TCFD) requirements.
- Our Head of ESG & Sustainability, Stewardship Manager and other senior members of the investment team frequently speak at industry conferences and events.

More broadly, we actively seek our members' and stakeholders' views and feedback by methods including quantitative surveys, consultations, focus groups, one-to-one interviews and our Member Forum. We know that our stakeholders expect us to invest responsibly, and we believe we have a duty to set the highest standards of practice. Findings from our annual stakeholder research suggest that the PPF continues to be viewed as a well-managed, efficient and forward-thinking organisation, with the skills and capabilities to act as a role model for the rest of the industry.

> "We know that our stakeholders expect us to invest responsibly, and we believe we have a duty to set the highest standards of practice."

Views on our work on sustainability

A role model for the rest of the industry

- Larger schemes and organisations like the PPF are perceived as **ahead of the curve** when it comes to issues related to ESG and D&I.
- We're viewed as a **well-managed, efficient** and **forward-thinking organisation** with the funds available to act as a role model for the rest of the industry.
- But opinion formers stress that we shouldn't put too much focus on this work at the expense of our core objectives.

Our regular publications

- Responsible Investment Report
- Climate Change Report
- Diversity Pay Gap Report
- Diversity and Inclusion Strategy

Taking action

We actively participate in the Department for Work and Pensions – Arm's Length Body (DWP-ALB) sustainability delivery working group, which serves both as an advisory body and a knowledge-sharing platform. Our involvement allows us to contribute insights, share best practice in sustainability reporting and assurance processes, and align our own sustainability efforts with industry peers. During one of these meetings, we presented the PPF Sustainability Strategy, including our commitment to reach Net Zero for our operations, which was appreciated by the DWP sustainability team. We also proactively engaged with various external organisations to learn and share approaches to reducing Scope 3 organisational emissions. This included arranging one-on-one conversations with the DWP (our reporting body), and with peer ALBs, asset managers, and suppliers.

Capturing levy payer feedback

We know that pension schemes don't choose to use our service, but this reinforces our ambition to listen carefully to what levy payers want, understand where we can do better, and then take action. In addition to our annual consultation on our levy approach, in recent years we've introduced biannual structured forums for small and medium-sized enterprises (SMEs), along with ongoing informal meetings, surveys, focus groups and email newsletters to gather feedback and share information. These communication channels have been very valuable.

Taking action

In our levy consultation in September 2022, we outlined our proposal to halve the levy from £200 million in 2023/24 to £100 million for the year 2024/25.

In order to achieve the £100 million estimate, we proposed a small adjustment to the levy scaling factor and a corresponding adjustment to the scheme-based levy multiplier to ensure that the proportion of the levy that is scheme based does not exceed 20 per≈cent, as required by law.

We invited views from levy payers and industry experts on our proposed estimate. We confirmed next year's levy estimate of £100 million in our levy rules for 2024/25, which we published in December. This will be the lowest estimate we've ever set, and it means that we will have reduced the levy by almost 85 per cent since 2020/21.

To maintain a levy of £100 million in future years, we expect that changes will need to be made to our approach in order to ensure there is not an increasing burden on a declining group of schemes that continue to pay a risk-based levy.

Engaging our employees

Our most recent employee survey had an engagement rate of 93 per cent, and our employee feedback scores remain high compared to industry benchmarks.

Taking action

We created a sustainability-focused internal communications plan to engage all PPF employees. Questions were added to our Employee Viewpoint survey this year to evaluate employees' understanding of sustainability and inform activities to promote the PPF Sustainability Strategy.

93% engagement rate in our most recent employee survey

Our investment approach and incorporating ESG

Our investment objectives

The PPF portfolios are managed with an integrated approach to funding and investment:

The Board sets a risk budget for the Investment team, which drives the process for determining our Strategic Asset Allocation (SAA).

The Board sets a risk budget for the Investment team, which drives the process for determining our Strategic Asset Allocation (SAA). We seek to deliver investment performance consistent with targets set by the PPF Board within our strategic risk budget and implement the changes to our portfolio to align it to our funding objective of maintaining our financial resilience.

Restructuring our investment approach

As we outlined in September 2023, our new funding framework, which went live on 1 April 2023, separates the funding requirements for current members from those of future claims. To align with these separate funding requirements, we've established a new investment framework that splits our portfolio in two:

Matching portfolio: Our approach to managing the risk of fluctuating interest and inflation rates has always been to hold assets that behave in the same way as our liabilities as and when these rates change.

This approach is commonly referred to as a liability-driven investment (LDI) strategy, or interest-rate and inflation hedging strategy. Our Matching Portfolio therefore has a long-term objective to be a fully-funded interest rate and inflation hedging portfolio to meet the needs of current members.

The Matching Portfolio contains Government Bonds, Derivatives, Cash and Hedging Assets with Illiquid characteristics (HAIL) assets.[1] We will continue to use a well-managed, conservative LDI strategy to ensure that interest rate and inflation risks within our liabilities are fully hedged.

Growth portfolio: This is primarily focused on protecting our longevity and claims reserves and conservatively building up additional reserves to meet the needs of future members. The Growth Portfolio contains Public Equity, Emerging Market Debt, Investment Grade Corporate Bonds, Absolute Return strategies, Private Equity, Real Estate, Alternative Credit, Infrastructure, and Farmland and Forestry.

We will continue to use a well-managed, conservative LDI strategy to ensure that interest rate and inflation risks within our liabilities are fully hedged.

Changes to Strategic Asset Allocation (SAA)

Over the last year, the main changes to our strategic asset allocation were an increase in Sterling Short Duration Credit, Cash and Private Credit (the latter sits in the Matching Portfolio).

The ESG & Sustainability team continues to work with all asset classes to ensure our stewardship approach is fully integrated into all portfolios.

How the investment fund is managed

We manage just over half of our assets[2] (UK LDI hedging strategies, Hybrid Assets and Strategic Cash) in-house through a team of portfolio managers. During the year, we have also begun to manage a small percentage of our Equity portfolio in-house. The remainder is managed by external fund managers across a range of vehicles, including segregated accounts, pooled funds, closed-end funds, co-investments and passive instruments.

As well as investing in Public Market assets, we take advantage of the long-term nature of the PPF to invest in Private Market assets, which tend to offer returns at a premium to Public Markets to reflect their illiquidity.

We take a highly considered approach when allocating to different asset classes, especially non-traditional and illiquid asset classes, to ensure that we optimise our risk budget.

Geographically, nearly two-thirds of the portfolio is invested in UK assets, which is largely driven by our internally-managed UK LDI and Credit assets as well as our externally-managed UK Real Estate and Infrastructure allocations. The next largest regional allocations are to North America and Europe ex-UK – see chart, below left.

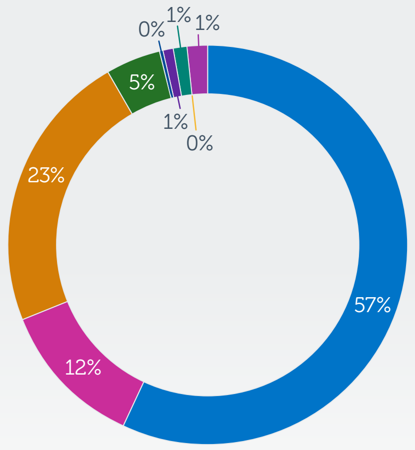
Measuring our performance

We measure the performance of our investment portfolios over five-year rolling periods which we consider to be an appropriate investment time horizon to deliver the cashflows required for our members. This longer-term perspective also aligns well with our stewardship expectations, as we recognise that engagements with companies and other issuers can take a number of years to bear fruit.

Considering the needs of beneficiaries in our stewardship process and activities

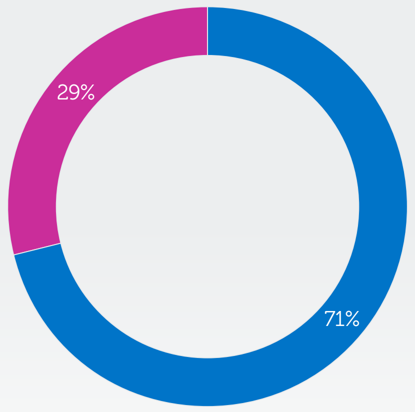
As mentioned, we have built our Responsible Investment and stewardship processes to safeguard sustainable returns in line with the long-term nature of our liabilities and our investment horizon. We also consider other stakeholders such as our levy payers when seeking to generate these returns in a sustainable manner. We also consult with our levy payers on an ongoing basis regarding our funding strategy, as discussed on page 15.

Split of geographical breakdown



- United Kingdom
- Europe ex UK
- North America
- Asia Pacific
- Asia Emerging
- Middle East & Africa
- Latin America
- Europe Emerging
- Other

Asset allocation – PPF Matching Portfolio

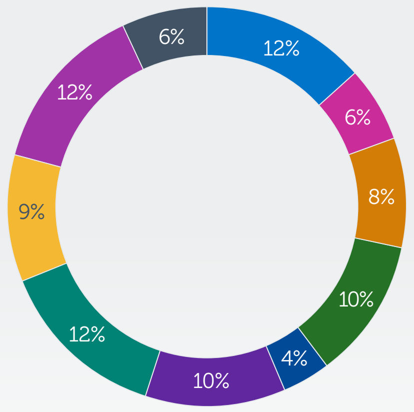


- Liability Driven Investment (LDI)*
- Hedging Assets with Illiquid characteristics (HAIL)**

* Includes Government Bonds (UK Gilts), Derivatives and Cash.

** HAIL assets include UK Public Credit and Private Credit.

Asset allocation – PPF Growth Portfolio



- Equity
- Global Credit
- Emerging Market Debt
- Absolute Return
- Cash
- Alternative Credit
- Private Equity
- Infrastructure
- Real Estate
- Farmland & Forestry

Data as at 31 March 2024

Taking action

The insourcing of some of our equity portfolio took place following an extensive review of the specific needs of the PPF. Because of the way we invest within Equity, sourcing active managers who are willing to tailor their investment approach to our needs was becoming increasingly difficult.

Our investment universe is very broad and global in nature, and low volatility in style. This makes finding active managers with a strong track record and a scalable investment process hard, particularly as off-the-shelf products could not meet our criteria for tracking error, expected alpha and ESG targets. Thanks to the growth in our assets and our investment team, we have been able to develop our internal capabilities. Therefore, insourcing active management has become increasingly attractive. An internal strategy allows us to have full control of the investment process, tailored to our specific investment universe and benchmark. It also complements the other active strategies that are managed externally, ultimately offering our stakeholders better value.

1 HAIL: HAIL/Hybrid assets – Investments which possess attributes of both liability hedging and growth assets.

2 Investments that possess attributes of both liability hedging and growth assets.

Our approach to ESG integration

Embedding ESG considerations across the portfolio

In line with our Responsible Investment (RI) strategy, we embed material ESG considerations right across our investments and across our work with external managers, from manager selection through to ongoing monitoring and reporting. We also engage with underlying issuers in our portfolios and use our voting powers to advocate for strong ESG practices. We will also engage on a policy level with regulators and governments around the world as we deem necessary.

Improving ESG data across our portfolio

This year, we have managed to increase carbon emissions coverage of the PPF portfolio from 55 per cent to 74 per cent. The increase is mainly from private assets and more specifically the success of the **eFront® ESG Data Service project** in improving ESG data coverage in Private Markets. For the first time, through **eFront®**, we have a carbon footprint for most private asset classes. In those asset classes where **eFront®** doesn't provide a carbon footprint (e.g. for Real Estate and Private HAIL assets), we have sourced data from our managers through our own custom questionnaires. Whilst Forestry and Farmland data is available via **eFront®**, due to the complexities of data, we have not used this data for reporting at present.

In Public Markets, MSCI has enhanced the specificity of its ESG data by providing point-in-time portfolio reports, and we have therefore restated previous years' data for consistency[1]. To supplement our analysis, we added another MSCI product to our toolkit called Climate Lab Enterprise (CLE). With CLE, we are able to conduct attribution analysis for various climate metrics, such as carbon emissions, and identify which portfolios and which issuers contribute the most. We use this analysis mainly for our internal reporting to the PPF's Executive and Investment Committees.

We will continue to assess the services provided by MSCI and the wider ESG data market to ensure that we make highly informed decisions regarding future data services.

Taking action

Our work to have all our internally-managed public assets covered by monthly ESG reporting continued this year.

These reports are used by the relevant desk manager to analyse individual holdings and understand any ESG risks, as well as report our portfolios' exposures to our Investment Committee. We use MSCI data to provide an analysis of the individual holdings in the portfolios and then overlay this with qualitative internal analysis of outliers flagged by MSCI.

Prior to the year under review, we had established monthly ESG reporting for our Strategic Cash portfolios. We have now been able to roll out these reports to our public HAIL and internal Equity portfolios. The reports, created in conjunction with the desk managers, provide consistent and comparable ESG metrics that provide desk and individual company-level ESG insight. Any ESG issues that arise are discussed between teams and appropriate action taken where necessary.

Analysing climate transition of private assets

We seek to monitor how well the assets we invest in are transitioning to a Net Zero global economy. We get this information from MSCI for Public Market assets but there is nothing comparable for Private Markets. We have therefore developed a simple 'Transition & Sustainable' taxonomy to classify assets.

We have started by classifying our Infrastructure book, which accounts for just under 10 per cent of our Growth Portfolio. We chose Infrastructure as it's critical to the transition to Net Zero and presents significant investment opportunities. We have managed to classify all assets in this book after analysing internal and external manager information and views. See our Climate Change Report 2023/24 for more details.

We are planning to conduct similar Sustainable & Transition Assets taxonomy analysis for other private asset classes in the coming years.

Setting exclusions

We insist on a high level of responsible conduct from our underlying issuers. We seek to avoid investing in issuers that contravene international conventions or norms for controversial activities that are ratified into UK law – for example, the production of specific controversial weapons. We implement this through a small exclusion list, which is applied across the fund as far as is practically possible.

Engagement and voting

As detailed in our full Stewardship Policy, we strive to apply our stewardship activities across our entire investment portfolio. We amend our approach depending upon the asset class or strategy, how directly we're invested in it, and the level of control we can leverage. We believe in engagement as a path for verifiable and tangible impact regarding material stewardship issues. We are strong advocates for supporting companies, governments and other issuers in building and sustaining good governance and progressing their practices on environmental and social matters. In order to incentivise issuers, we are committed to transparent voting following a robust assessment of a company's practices. See more on our approach to voting on page 34 onwards.

Leading on RI standards

Given our size and the global nature of the investments in our portfolio, we believe we have the opportunity to improve standards of responsibility and stewardship among companies, issuers and assets across the world. We also see this as an area where we can influence and help raise standards for the asset management industry, particularly in Private Markets where good stewardship practices are less developed than they are in, say, listed equity markets.

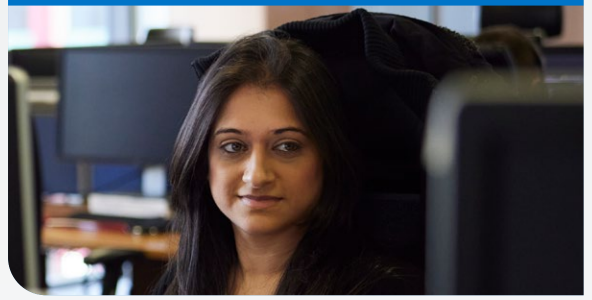
So, for example, we aim to identify and encourage the most thorough and efficient approaches to good stewardship for asset managers, and use our regular review meetings with our Private Market asset managers to explore new developments in the field.

We expect our external asset managers to influence issuers where possible, regardless of asset class, and update us on their actions. This includes engagement, taking part in collaborative industry initiatives, and being transparent about voting where we have ballots. We regularly carry out in-depth reviews of our external managers' stewardship activities to assess how they're engaging with companies and issuers on our behalf. We particularly scrutinise their activities in relation to our key sustainability themes such as climate change, human and labour rights, D&I board governance, and executive remuneration – see page 32.

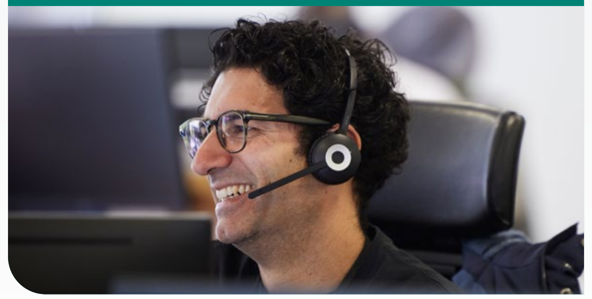
Our key ESG themes

Environment
- Climate change
- Natural resource stewardship
- Pollution, waste and circular economy

Social
- Wider societal impacts
- Human capital management
- Human and labour rights



Strategy, risk and communication
- Risk management
- Corporate reporting
- Business purpose and strategy



Governance
- Shareholder protection and rights
- Executive remuneration
- Board effectiveness

1 This means that we now get data for the exact year-end. Before the availability of point-in-time reports, we would get latest available data in the system and were not able to specify exact dates.

OUR APPROACH TO ESG INTEGRATION CONTINUED

Ensuring our external agents are aligned with our approach

External agents, such as third-party asset managers and our specialist stewardship services provider EOS, are critical to helping us manage our investment portfolio efficiently and responsibly. We continually monitor these agents' practices in order to keep improving the quality and coverage of their stewardship activities and to ensure consistency with our own investment beliefs, policies and guidelines. Holistic oversight of our external agents is carried out across the Investment team, ESG & Sustainability team, Operational Due Diligence (ODD) team and the Commercial Services team. This ensures robust analysis in the selection process and throughout the life of our relationship with a manager or provider.

Oversight of our stewardship services provider

We continue to outsource stewardship activities for our segregated listed issuers to EOS, part of Federated Hermes, to ensure that our shares are voted cost-efficiently and there is proper engagement with companies where ESG concerns arise. Our 2020/21 RI Report provided more detail on our selection process for these services. We carry out oversight of EOS's engagement services for both our segregated and direct investments. EOS also provides voting recommendations to us for our segregated Equity holdings in line with its published corporate governance principles. However, we are always in control of the vote and have the ability to exercise our voting rights in segregated holdings in line with our own policy and principles.

Taking action

During the year we undertook a review of our internal and external portfolios covered by EOS's stewardship services. As a result, we have increased the holdings assigned to the EOS platform. This will allow us to monitor and understand our exposure to company-specific engagement issues more effectively. We have also been able to connect our newly-created internal Equity portfolio (see page 16) to EOS to make use of its voting and engagement services.

Oversight of our external investment managers

We apply robust RI requirements that all our external managers must meet prior to investment (and on an ongoing basis), to ensure we are fully aligned in our commitment to robust RI reporting. We will not appoint or allocate more capital to managers that fall short of these standards. See page 44 for further detail on our manager appointment process, including our minimum requirements and case studies of how we have engaged with managers prior to funding.

We require disclosure of all existing and potential managers' policies, ESG integration and stewardship processes and reporting to ensure they meet our evolving expectations (see Appendix F). Quarterly stewardship reporting is required from all Public Markets managers, and the quality of this reporting feeds into our ongoing monitoring and ratings process. We also expect our Private Markets managers to provide this reporting, albeit less frequently.

Our external managers are also reviewed by our dedicated ODD team on a scheduled basis. The ESG & Sustainability team works closely with the ODD team to ensure that ESG considerations are fed into the review process. The ODD team screen for reputational risks associated with personnel and request updates on their firm's D&I metrics in our annual ODD questionnaire, which is sent to all external managers. The ODD team also reviews managers' policies in key areas such as ethics, business continuity, disaster recovery and money laundering.

Internal ESG disclosure scoring model of our external managers

We have a thorough internal process to monitor and track progress of all our external managers regarding ESG, with a focus on the bespoke ESG disclosure and reporting they provide for funds we hold with them. We identify laggards and leaders within each asset class, and we score managers by asset class accordingly from one to three:

- **Funds that score '1'** do not meet our minimum requirements and will not be considered for further funding if they do not show improvement. Funds with this score are usually legacy holdings of funds in wind-down.
- **Funds that score '2'** meet our minimum requirements and are broadly satisfactory in their ESG practices and reporting.
- **Funds that score '3'** are leaders in the asset class and showcase excellence.

External managers are reviewed quarterly. We report the distribution for the quarter to our Investment Committee and our Head of ESG & Sustainability raises any identified risks.

The ESG & Sustainability team and the relevant internal portfolio manager attend quarterly calls with external public markets managers (the manager provides ESG reporting in advance of the call). In the call, we engage with managers on their overall ESG efforts, we exchange views, and we raise requests with them. We have seen a big evolution in ESG reporting across our public market managers. The first round of reporting we received in 2021 included basic analysis of the fund's ESG profile and a few climate metrics. By the end of Q1 2023 – thanks partly to engagement and the bespoke reporting templates we provided to managers – we were receiving detailed reporting about each fund's ESG profile and outlook, stewardship and due diligence, carbon analysis and climate stress-testing and alignment.

On the right are the average ESG disclosure scores within our public market portfolios by each asset class.

Scores for ESG Disclosure by asset class

Where 1 = Lowest 2 = Satisfactory and 3 = Highest

Public Markets	Weighted average score in 2024	Weighted average score in 2023
Public Equity	2.2	2.2
Absolute Return	2.1	2.2
Global Credit	3.0	3.0
Emerging Debt	2.6	2.7

Private Markets	Weighted average score in 2024	Weighted average score in 2023
Alternative Credit	2.1	1.9
Private Equity	2.5	2.5
Infrastructure	2.5	2.5
Property	2.6	2.7
Timberland and Farmland	2.5	2.6

Across public markets, external managers largely maintained (and overall advanced) the quality of ESG disclosure compared to last year. The weighted score has slightly decreased for Absolute Return due to the introduction of two new funds of which one is under review to be upgraded to our highest score, reflecting a strong entrance into the asset class. The slight decrease in the Emerging Debt weighted score reflects changes in asset allocation. The scores across individual EM portfolios are unchanged. No change is noted for Public Equity and Global Credit.

Across Private Markets, Alternative Credit saw the biggest change in score over the year, as the largest manager within the book was upgraded from 1 to 2. This was due to a substantial improvement in their responses to our custom questionnaire, following engagement with our ESG and Alternative Credit PM team.

In the Infrastructure book, we have upgraded one manager's score from 2 to 3 as they consistently provide meaningful reporting, actively showcase how ESG is integrated into decision making and provided their advice to us when we were enhancing our reporting capabilities. The upgrade isn't reflected in the weighted score for Infrastructure due to changes in portfolio allocations.

Individual Property and Timberland & Farmland have unchanged scores so the change in the weighted score simply reflects changes in portfolio allocations.

Taking action

At present we apply a mostly qualitative review of each manager's quarterly ESG reporting that feeds into the manager's overall rating. This year we have begun working on a new methodology that will assess quantitative factors to feed into the overall score. This will increase the level of transparency in our scoring across different asset classes and allow us to identify more effectively specific areas of reporting that may need further consideration.

Our approach to engagement

Engagement with issuers is a fundamental pillar of our RI strategy and the approach by which we believe we can effect greatest change. We'll always look to exhaust the engagement process before considering divestment from a holding.

How we engage

We engage with issuers in a number of ways: directly, through our external agents, or through collaboration initiatives – when we consider it is in our beneficiaries' long-term interests to do so. We expect boards of investee companies to show responsibility, integrity, and independence. In cases where a company board deviates from principles of good practice, it should explain its reasons for so doing.

We prioritise engagement on those themes of greatest importance to us. As part of this, we work closely with our stewardship services provider EOS to define focus areas and provide feedback on them. More detail on our engagement approach is provided in our 2020/21 RI Report and on our website. However, there's still a strong need to boost transparency around engagement, especially in asset classes such as Sovereign Debt and Private Assets, both of which have great potential for positive impact. Over the past year, we've continued to encourage improvements in these areas and supported our managers to engage with relevant issuers in their portfolios.

Asset class	Owner of engagement	Integration and stewardship approach
Primarily internally-managed assets		
Liability Driven Investment (LDI)	• PPF	• We engage with borrowers, primarily during reissuance or refinancing. We have less influence with sovereign debt, although we engage on market-level issues like LIBOR, RPI, and gilt issuance
UK Public Credit & Strategic Cash	• PPF • EOS	• We engage with borrowers, more so around reissuance or refinancing • EOS also covers these portfolios for engagement services
UK Private Credit	• PPF • External managers	• We engage with borrowers, more so around reissuance or refinancing • We engage with our external managers on their activities
Primarily externally-managed assets		
Listed Equities	• EOS • External managers	• We reflect any concerns from our assessments in our voting and engagement approach • Managers can exert influences on companies through voting and engaging with company management. Approaches will differ depending on whether managers follow high-influence, systematic or active strategies • We also use intelligence from EOS's engagements to inform our oversight of our external managers' engagement activities
Listed Credit: Corporate, sovereign, emerging markets (EM)	• External managers	• Managers can engage with borrowers, more so around reissuance or refinancing – they have less influence over sovereign debt • We monitor external managers' own engagement practices and activities
Absolute Return	• External managers	• Managers can engage, but with limited influence in strategies with shorter holding periods • We monitor external managers' own engagement practices and activities
Real Estate	• External managers	• Managers with full control of assets can engage with tenants and local communities • We monitor external managers' own engagement practices and activities
Private Equity and Infrastructure	• External managers • EOS	• Managers can engage with companies or assets in primary funds, or with operating companies in Infrastructure, especially if they have board seats. We monitor external managers' own engagement practices and activities • EOS engages on our listed Infrastructure holdings
Alternative Credit	• External managers	• Managers can have ongoing dialogue with borrowers, but have limited control over management. We monitor external managers' own engagement practices and activities
Secondaries/ Fund of Funds	• External managers	• We monitor external managers' own engagement practices and activities

OUR APPROACH TO ENGAGEMENT CONTINUED

Engagement approach for assets we manage internally

As explained earlier, we manage approximately half of our assets by value internally, the majority of which are in various fixed income strategies. Industry-wide, engagement with fixed-income issuers is still at an earlier stage of evolution, partly due to investors' limited influence in many areas. However, engagement is developing and its importance is becoming increasingly appreciated. We take a variety of approaches to engagement in this area, largely depending on the size of our investment, maturity of the fixed-income asset and whether the issuer is corporate or sovereign/quasi-sovereign. During the year we also brought a proportion of our equity portfolio in-house. This portfolio benefits from a combination of internal stewardship oversight and wider external engagement provided by EOS.

Engagement with our UK LDI assets

One of our aims is to improve the efficiency and functioning of markets through collaboration with stakeholders and policymakers on important issues. As a major participant in the UK Government Gilt market within our LDI assets, we regularly engage with the UK Debt Management Office (DMO) and HM Treasury on a range of issues. This involves taking part in annual consultations, forums and investor roundtables.

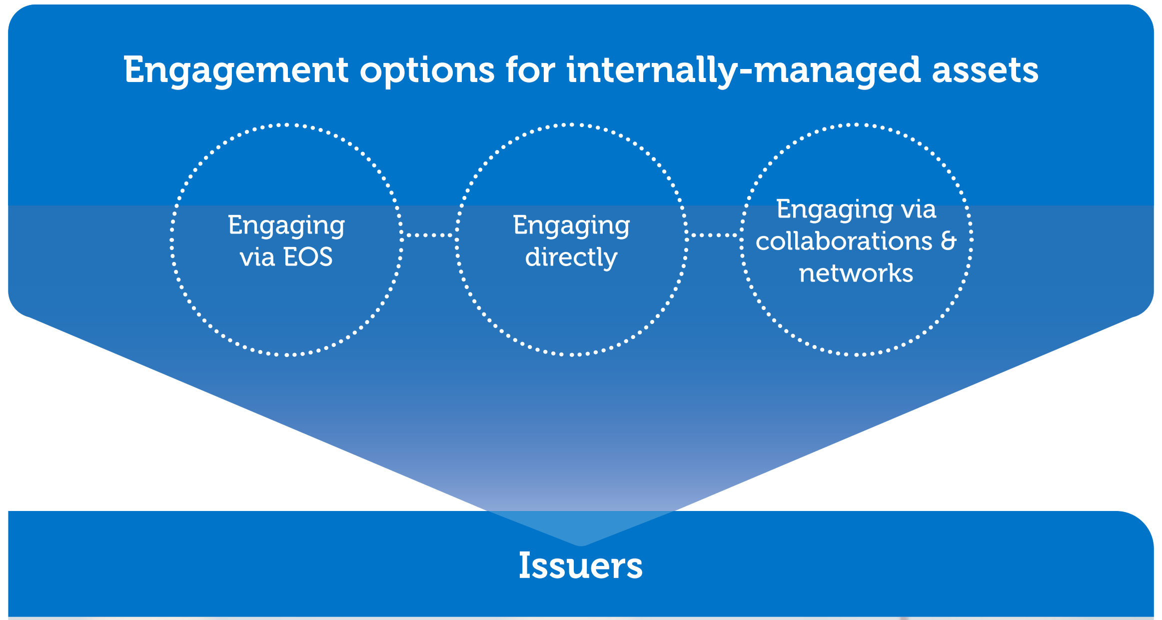
Given that we are an arm's-length body (ALB) of the UK government, there are specific considerations we must consider when it comes to engagement.

As an ALB, when it comes to engagement and communication there are a number of principles we need to consider. These include ensuring that our communication is relevant to our responsibilities and it does not stray into areas which are party political, or that could be misrepresented as being party political, as well as being carried out in a way that is justifiable on value-for-money grounds. In addition to these principles, as an ALB we must also follow the guidance that is issued on the conduct of civil servants during a pre-election period. This guidance sets out additional principles that ALBs must consider, including making sure that activity isn't seen to compete with an election campaign for public attention.

Taking action

During the year we contributed to the Bank of England's system-wide exploratory scenario, whereby it is seeking to assess resilience to market stress and understand interdependencies between counterparties and any sources of systemic risk. We highlighted our concerns about the changing demand dynamics in the Gilt market: specifically, the decline in demand for long-dated Gilts as DB pension schemes reach the end of their funding journey.

> "One of our aims is to improve the efficiency and functioning of markets through collaboration with stakeholders and policymakers on important issues."



Case study

Integrating ESG questionnaires for counterparty oversight

Background: As an organisation, the PPF has integrated ESG factors into its investment oversight process for several years. We recognise the significant role that our bank counterparties play as part our investment supply chain. From a stewardship perspective, we wanted to build an oversight process for our external agents that's consistent with our sustainability goal of 'Demonstrating excellence in Responsible Investment'. In 2023, we developed a questionnaire to capture relevant ESG and climate risk information to feed into our counterparty oversight process for the first time.

Action: We expanded our annual counterparty review process to incorporate a questionnaire focused on ESG factors to help us understand how our counterparties are actively engaging in the space. Initially, we reached out to other market participants to see what they are doing in terms of their counterparty oversight process. We also leveraged the questions used by the Transition Pathway Initiative (TPI) in its Net Zero Banking Assessment Framework. We then developed an ESG Questionnaire for our bank counterparties centred around the key topics of climate change, social issues, and governance. These key topics have also been aligned with our supplier sustainability questions, many of whom are financial services providers. The questionnaire was subsequently shared with six key banks in December, who were all responsive to our questions.

Outcome: Our ESG & Sustainability team analysed the responses to assess our six bank counterparties' ESG practices and prepared high-level feedback for each counterparty. The feedback was incorporated into the annual counterparty review process for the Investment team. We will monitor the progress of the counterparties throughout the next year and continue to follow up as needed. Going forward, we expect to make completion of the questionnaire an annual requirement within our counterparty oversight process. The insights gained from this practice will inform our decision-making and contribute to enhancing sustainable practices within our business relationships.

OUR APPROACH TO ENGAGEMENT CONTINUED

Engagement with our UK Credit and Strategic Cash assets

We take a nuanced approach to engagement within our UK Credit assets, given that the book is invested in both Public and Private Credit. These are generally longer-duration assets, so differ from our Strategic Cash book, which is much shorter in duration.

As largely listed instruments, our Public UK Credit and Strategic Cash books have reasonable ESG and carbon data coverage within our portfolio management systems. We use these systems to monitor both portfolios regularly along with assessments from open-source initiatives. For example, being an investor member of Climate Action 100+ has helped us understand and engage with European energy corporates on their Net Zero transition plans when reviewing their debt instruments for inclusion in our portfolio.

Our UK Credit and Cash assets are also under the remit of our external stewardship services provider EOS, which engages with issuers on our behalf. The EOS platform allows us to monitor the progress of all engagements with an issuer (regardless of where we hold it in the capital structure).

Our Private Credit assets are typically held for the long term and often have very little secondary market liquidity. This makes ESG due diligence assessments, issuer engagement, and getting the right covenants in place pre-investment absolutely critical. The continued higher interest rate environment resulting in an increased cost of borrowing has reduced the issuance of new credit. Overall, this has resulted in higher-quality issuances coming to the private market, with entities that operate in regulated sectors faring best. Where necessary, over the last year, we have continued to decline deals in Private Credit where there are governance concerns around an issuer.

Case study

Credit issuer engagements

Asset Class: Strategic Cash
Sector: Financials
Issue: Artificial Intelligence ethical principles

Background: Ethical Artificial Intelligence frameworks can assist companies in creating a structured process that helps AI project teams, in collaboration with the relevant stakeholders, identify and assess the impacts an AI system may have. It allows the company to reflect on its potential impact and to identify any harm prevention actions.

Action: EOS began engaging with a Canadian Bank on its use of AI in 2020. Meetings with the company were held to understand how the company used AI and its level of understanding of the risks associated with AI implementation. In terms of allowing investors to understand the approach taken to mitigating this risk, EOS urged the company to develop and publish its AI governance principles. This would allow investors and other stakeholders visibility on whether the company is developing AI within a responsible/ethical framework.

Outcome: EOS was pleased to be informed by the company that it had published guiding principles, which EOS was able to assess. Disclosures of this nature and the responsiveness of companies to investor requests provides investors with comfort that companies are listening to their input, increasing the quality of dialogue and trust going forward.

> "Ethical Artificial Intelligence frameworks can assist companies in creating a structured process that helps AI project teams, in collaboration with the relevant stakeholders, identify and assess the impacts an AI system may have."

Case study

Credit issuer engagements

Asset Class: Strategic Cash
Sector: Automotives
Issue: Corporate governance of cross-shareholdings

Background: Cross-shareholdings, sometimes known as strategic shareholdings, are common practice adopted by Japanese companies in the post-World War II economy. Large firms would take 'strategic' stakes in each other to serve as protection from hostile takeovers and maximise control over corporate decisions, often to the detriment of small shareholders' interests. The cross-shareholdings held by financial institutions are often with companies in its supply chain.

Action: EOS has undertaken significant engagements in Japan on a solo basis and through working groups. In this case, EOS engaged a large Japanese automotives company with the objective of discussing a roadmap to significantly reduce the number of cross-shareholdings it had in place, which exceeded 100. EOS met in person with the company in Japan to discuss this issue and others. The company was already aware of investor views on cross-shareholdings and had disclosed its intention to reduce at least one holding and undertake a review of strategically held stocks.

In further meetings that took place over the next six months, the issue continued to be discussed. As with many engagements, progress was variable, with notable reductions in some holdings, yet remaining reluctance to agree to eliminate cross-shareholders or set a target for reduction in line with Tokyo Stock Exchange guidance. In 2024, EOS worked with the Asian Corporate Governance Association to publish an open letter on 'Strategic shareholdings in Corporate Japan'. This asked companies and regulators to further promote reduction of the holdings to in principle zero. The letter was signed by more than 30 domestic and institutional asset owners and managers.

Outcome: Whilst the company recognises that these holdings played an important role in the past, there appears to be movement in terms of the role of cross-shareholdings going forward. EOS will continue to engage with the company on this and several other issues. Given the position of the company in the market and continued prevalence of cross-shareholdings, we welcome EOS's continued focus on this issue to improve capital efficiency in the market.

Taking action

As highlighted in the next 'Escalation and exercising shareholder rights' section of this report (page 34) we led engagement on two UK water utility companies held in our internally managed portfolios during the year as part of a collective engagement initiative led by Royal London Asset Management, involving other asset owners. This engagement formed part of a deep internal review of our holdings in the sector.

OUR APPROACH TO ENGAGEMENT CONTINUED

Engagement approach for assets managed externally

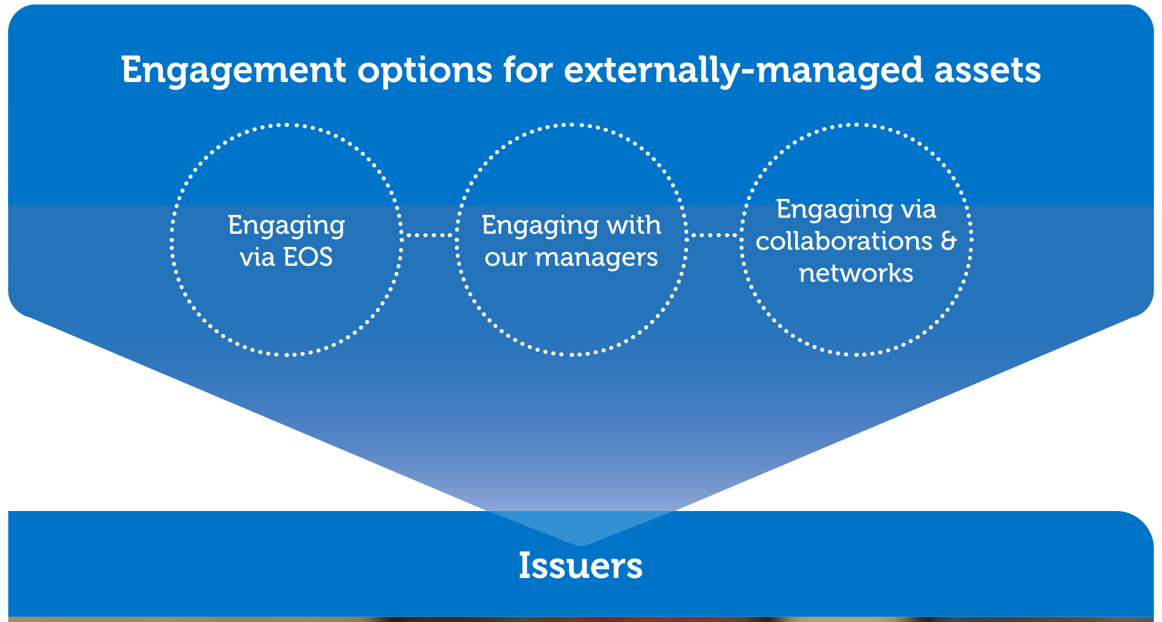
We take a multi-pronged approach to engagement for our externally-managed assets, driven by the following factors:

- We allocate across many asset classes using a range of external fund managers with whom we engage directly and instruct to engage with issuers on our behalf.
- Our asset allocation to Public Equity is much lower than most pension schemes. However, as we employ a passive strategy for some of this, we engage our external stewardship services provider, EOS, to carry out direct, issuer-level engagement where possible, for greater efficiency.
- Our Equity index is a highly-diversified, alternatively weighted index (comprising around 3,000 names). We therefore look to leverage collaborations engaging entire sectors or across companies on systemic issues (for example, climate change or modern slavery).

How we engage with listed Equity issuers

Engagement with our Public Equity issuers depends on the mandate construction. For segregated equity portfolios, EOS engages on our behalf, and we have full access to the EOS database and reports for monitoring the progress of these engagements. We also have the opportunity to join specific meetings where possible. Our internally-managed Equity fund, created during the year, also benefits from EOS engagement. See page 28 for how we engage with our issuers and progress on our listed Equity engagement.

For pooled Equity funds, the relevant external manager will engage on our behalf, so our engagement efforts tend to focus on the manager itself. Our quarterly ESG reports from these managers provide detail and allow for our oversight of their engagements, progress and outcomes – see examples right.



Case study

Equity issuer engagement

Sector: Automotives
Issue: Human rights

Background: A major automotive manufacturer with a significant presence in China faced allegations of forced labour at one of its Chinese plants. One of our external managers engaged with the company in order to understand its operations in the plant and where the controversies came from. The manager was keen to work with the company to find long-term solutions to prevent future controversies related to human rights or labour practices.

Action: The manager has had continuous dialogue with the company for many years, which intensified after they were flagged by a major ESG data provider for apparent breaches of UN Global Compact principles. The engagement has involved discussions on human rights with senior management, including the CFO and Head of Treasury, as well as investor relations.

Outcome: The company has taken the allegations seriously and acted proactively to resolve the situation. After discussions with our external manager and other stakeholders, the company obtained an independent audit of its plant in late-2023. The audit reported on the main concerns about the plant's operations, leading to the removal of its Red Flag status by the major ESG data provider. Our manager will continue its engagement with the company, focusing on human rights and other governance topics, including the long-term future of the plant where issues were originally raised.

Case study

Equity issuer engagement

Sector: Technology
Issue: Executive pay and fair pay

Background: Our manager engaged with a US hardware manufacturer after identifying the company as a target for the living wage engagement campaign due to its high CEO-to-median-pay ratio. The company directly employs staff in emerging markets including China, Malaysia, Thailand and Philippines, which has implications for its median pay, given the lower average pay received in many of these countries.

Action: When our manager engaged with the company, they raised concerns about executive pay and encouraged the company to address living wage and employee welfare issues. The engagement objectives were to: increase company awareness on the material importance of fair wages for lowest-paid employees, increase company reporting around key employee-related metrics, and commit to safeguarding freedom of association and collective bargaining.

Outcome: Some positive progress was noted after our manager engaged with the company. More specifically, the company's management shared enthusiasm for a living wage assessment, added examples of employee feedback in its sustainability report and expanded disclosure relating to its global benefits and well-being programme. The company is yet to improve its CEO-to-median-pay ratio, a concern that our manager is continuing to raise with the company.

OUR APPROACH TO ENGAGEMENT CONTINUED

How we engage with publicly-listed Debt and other securities

Investment Grade (IG) Credit – We are pleased to say that all of our managers in this asset class regularly report their stewardship progress to us and that the depth of disclosure has improved over the year. We see engagement with debt issuers as a longer-term focus, given their ongoing need to reissue debt, which is well suited to our investment profile.

Case study

IG Credit issuer engagement

Sector: Banking
Issue: Remuneration and Net Zero

Background: Our external manager has previously engaged with this UK bank on the topics of Net Zero and senior executive remuneration.

Action: This year, our external manager discussed the bank's anti-money laundering practices and the improvements required to bring this in line with peers. The manager also encouraged the bank to provide better disclosure on its green mortgage products, its ESG assessment framework for clients, its engagement strategy with clients, and its escalation processes for situations where engagement isn't having the desired effect. It also held further discussions on linking senior remuneration to sectoral targets, expectations on addressing methane emissions associated with its lending activities, and details on grievances and remediation in upcoming human rights work.

Outcome: This year, notable progress has been made on many issues, including improved financed carbon emissions disclosure, more details on the bank's engagement strategy and enhanced human rights due diligence. Progress will be monitored going forward.

> "We are pleased to say that all of our managers in this asset class regularly report their stewardship progress to us and that the depth of disclosure has improved over the year."

Sovereign Debt – Debt issued by governments is a fundamental asset class for many asset owners, including ourselves, as well as being a pillar of a well-functioning economy. In Emerging Market Debt (EMD), successful engagement with governments often requires a concerted effort over a long period of time. However, debt investors are vital for engaging governments on a range of topics, including transitioning to clean energy and stopping deforestation.

The evolution of tools and data sets that deepen the ability of investors to measure climate-related and other ESG risks presented by Sovereign Bonds has been welcomed. We strongly encourage our managers to contribute their knowledge and resources to drive this progress further. We support our managers participating in collective initiatives such as the Investor Policy Dialogue on Deforestation (IPDD) and the Emerging Markets Investors Alliance (EMIA).

Case study

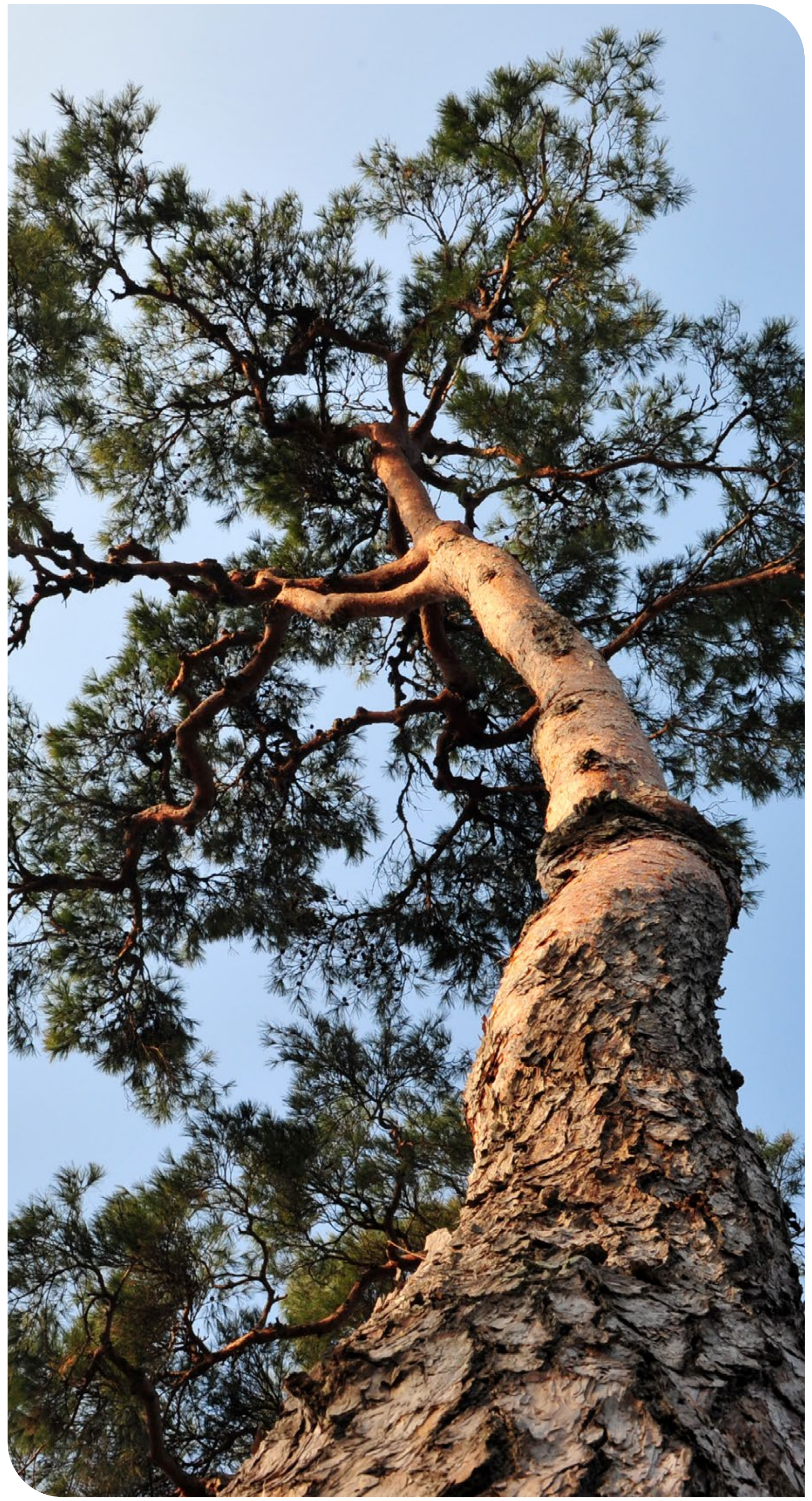
Sovereign issuer engagement

Asset Class: Sovereign Debt
Issue: Fossil fuel subsidies

Background: A sovereign issuer in Africa was heavily subsidising fossil fuels, which was a financial burden to the country and meant that the issuer was not on track to cut emissions consistent with the Paris Agreement on Climate Change (which aims to keep global warming within 1.5°C of pre-industrial levels).

Action: Our manager met with the issuer's policymakers at IMF meetings and spoke with the new central bank governor. These discussions indicated that the new government was interested in improving its environmental credentials and restoring macroeconomic stability.

Outcome: Following the manager's discussions with the issuer's representatives, the president reaffirmed his government's commitment publicly at COP28 to end the country's gas flaring. The country also announced the establishment of a special committee to help draft a national carbon market strategy. Although this is not a shift away from the economy's dependence on fossil fuels, important steps are being taken towards removing subsidy-incentivised fossil fuel consumption, and greater consideration is being given to reducing the negative environmental externalities from fossil fuel activities. These moves are part of a wider initiative to attract additional international investment and serve as a foundation for building a greener and more robust and resilient economy for the country.



Absolute Return – For our Absolute Return mandates, we have so far predominantly monitored our physical investments (leaving derivatives or synthetic instruments aside for now). The two areas of most relevance are positions in long/short equity or credit and event-driven strategies, where our managers have engaged directly with corporate issuers.

Case study

Absolute Return issuer engagement

Sector: Software
Issue: Sustainability-linked pay and diversity & inclusion (D&I)

Background: An external Absolute Return manager took a US-based software company's forthcoming issue of a convertible bond as an opportunity to engage and ensure that the issuer has appropriately considered material ESG factors to be included in the portfolio.

Action: The investment management team chose to engage with the company mainly on governance issues, such as executive compensation packages and social issues, like D&I, which were deemed priority issues for a company in this sector. The manager had not been able to get sufficient insight from standard ESG data providers on the issuer's management of ESG risks and therefore engaged with the company directly to get further information.

Outcome: Our manager started engagement with the software company four years ago. The company has subsequently added an ESG link to compensation packages and hired a D&I director to work with its human resources department to improve its diversity metrics. The company has set a target for 18 per cent of US employees to come from marginalised communities and 35 per cent of total employees to be women.

OUR APPROACH TO ENGAGEMENT CONTINUED

How we engage with Private Markets and unlisted assets

Given the diverse nature of Private Markets, we take a nuanced approach to engagement within these asset classes. We have continued to work with our managers in this space to improve their stewardship and engagement processes. Although progress is not always positive, we have been pleased by the progress seen during the year and have been able to identify the leaders and laggards on ESG issues within our portfolio. This helps us assess future investment opportunities more effectively.

We look to our appointed managers to drive improvement in the companies and managers in which they invest. We encourage managers to provide us with information on progress and demonstrate to companies the value of more stringent ESG practices. Our interactions with general partners (GPs) and expectations of how they engage with portfolio companies will differ from our expectations of our secondary managers, and how they engage with underlying GPs. In terms of control, we have greater expectations around stewardship where GPs hold board seats or controlling stakes in companies.

Private Equity – Private Equity managers have a central role to play in the global transition to low-carbon energy, given their ability to invest in and support businesses across the energy value chain. For example, one of our external Private Equity managers assisted a portfolio company in improving its climate change mitigation and setting Net Zero targets.

Taking action

We have begun a process to understand better how our Private Markets managers are considering transition pathways to Net Zero for individual investments. We are working with each manager to capture the current position for portfolio companies and will plan a strategy based on this information. We will share more on this initiative in next year's RI Report.

> "We encourage managers to provide us with information on progress and demonstrate to companies the value of more stringent ESG practices."

Case study

Private Equity engagement

Sector: Electrical Equipment
Issue: Sustainability-linked pay and diversity & inclusion

Background: One of our Private Equity portfolio companies is a leading manufacturer of smart building components. Its products enable energy-efficient building management, resulting in up to 50 per cent energy savings for customers.

Action: Our external GP engaged with the company to support it in aligning its revenue with EU Taxonomy goals, concluding that 91 per cent of revenue contributes to climate change mitigation. With the help of our GP and an external consultant, the company assessed its Scope 1 and 2 emissions, identified reduction goals aligned with the Paris Agreement on Climate Change, and set science-based targets to reduce Scope 1 and 2 emissions by 42 per cent by 2030 compared to 2021 levels. These targets were verified by the Science Based Targets Initiative (SBTi).

Outcome: The engagement is already seeing success, with the company reducing its emissions by almost 40 per cent. This has been achieved by transitioning to 100 per cent green electricity sources. There are further decarbonisation measures in progress, including heat pump system installation, on-site solar power generation, and fleet electrification.

40% reduction in emissions

100% green electricity sources

Private Debt – Our Private Debt managers are less likely to have significant control or leverage with underlying portfolio companies. However, we still expect them to engage where they do have access to management.

Sanjay Mistry, our Head of Alternative Credit, continues to serve on the UN-supported Principles for Responsible Investment (PRI) Private Debt Advisory Committee. In addition, he has joined the Institutional Limited Partners Association (ILPA) Open Responsible Investment Group. We welcome opportunities for our senior investment team members to join or contribute to external Responsible Investment initiatives, bringing deep practitioner knowledge to these groups.

Case study

Alternative Credit engagement

Asset class: Alternative Credit
Issue: ESG targets set to protect the reputation of the company

Background: A challenge often shared in the Private Debt space is how managers influence change within portfolio companies once the credit has been issued. One manager is demonstrating ESG excellence, and exercising its power as a credit investor, by introducing ESG margin discounts to some portfolio companies. These have included a Swedish digi-physical healthcare provider that is on track to become a European market leader.

Action: In this example, the manager was able to introduce an ESG-linked margin discount to ensure the company will manage its reputation appropriately by meeting relevant targets. The manager has put three ESG KPIs in place, namely:

- percentage of patient meetings within care guarantee;
- patient satisfaction of 85 per cent and a score of 4.72/5; and
- customers per doctor.

Outcome: The company met only two out of three of these ESG measures and therefore continues to pay the higher margin on its credit. However, it continues to work on increasing its patient satisfaction score in order to qualify for the agreed discount.

Update on the eFront® ESG Data Service project

As an **eFront®** client, in late-2021 we subscribed to its project to start capturing ESG data for Private Markets on a voluntary basis from general partners (GPs) and underlying portfolio companies. During 2023, the project was significantly expanded across GPs on the **eFront®** platform and is now supported by 19 investor clients, including the PPF.

As a result, this year approximately half of the PPF's GPs provided data to the project, compared with 17 per cent for the overall campaign (last year's campaign for 2021 data saw a success rate of 60 per cent for the PPF versus 15 per cent overall).

We have now received data for approximately 550 portfolio companies across core ESG and carbon metrics, including Scope 1, 2 and 3 emissions, biodiversity impacts and UN Global Compact violations.[1] Further details on this project can be found in the PPF Climate Change Report 2023/24 (page 18).

Our in-house portfolio managers were instrumental in engaging with our external managers to encourage participation in the project.

eFront® ESG Data Service project – Campaign in number

as at 2023

19 investor clients engaged

241 asset managers engaged

674 unique funds captured

160,000+ data points collected

1 Based predominantly on the SFDR's obligatory disclosure of 14 Principal Adverse Impact Indicators (PAIs).

Note: BlackRock's eFront® platform is a financial technology platform designed for institutional use only and is not intended for end investor use. Certain Aladdin technology products and services may not be offered by BlackRock in your local jurisdiction.

OUR APPROACH TO ENGAGEMENT CONTINUED

Climate initiatives among our Real Asset managers

Real Estate – One of our European Real Estate managers was recognised this year for its innovative project to transform a stalled shopping centre development in Portugal, where only the internal structure and core had been developed. Situated in Lisbon, this project revitalised an abandoned structure, in an emerging Lisbon sub-market. The result is a cutting-edge, eco-friendly office building with minimal embodied carbon (due to the re-use of 91 per cent of its original structure) and approximately 20,000 tonnes of CO_2 were saved versus demolition.

Additionally, the manager has removed significant sections of the floor plates to allow for light throughout the building, and the upper floors have been carefully styled to allow for plentiful outdoor space, which is ideal for the local climate, so people can have meetings and lunch outdoors. Lastly, it has a rooftop garden which enhances biodiversity – see visualisation left.

Infrastructure – One of our Infrastructure managers has developed an Asset Decarbonisation Initiative. This involves engaging with all its portfolio assets to measure, analyse and identify solutions to reduce their carbon footprint, and set asset-level emissions reduction targets. The manager aims to follow best practices on the implementation of efficient decarbonisation drivers, such as state-of-the-art energy saving features and integration of on-site power generation.

Apart from engaging with assets on climate, the manager is in the process of developing a nature assessment tool that will help assets to assess nature risks in accordance with Taskforce on Nature-related Financial Disclosures (TNFD) recommendations. The manager is currently collaborating with a road asset within our portfolio to pilot test the tool.

> "The manager aims to follow best practices on the implementation of efficient decarbonisation drivers, such as state-of-the-art energy saving features and integration of on-site power generation."

Forestry – Forestry is one of the few viable nature-based investment solutions in the journey towards a Net Zero carbon world. Well-managed forests can also increase biodiversity and are more resilient to climate change.

We continue to expect our Forestry assets to meet the highest international certification standards (FSC and/or PEFC). A small percentage is not certified, either because it is allocated to new planting sites (and the manager is expecting the area to be certified when planting is completed) or ownership restrictions prevent such certification.

This year, we again obtained carbon sequestration data from our Forestry managers, with further detail provided in the PPF Climate Change Report 2023/24 (page 35). The lack of industry standardisation on this data continues to hinder cross-manager comparisons and overall aggregation of the data. Despite this, we welcome the commitment of our forestry managers to engage with us on this issue.

Taking action

We have invested in a fund whose core purpose is to create reliable and transparent carbon credits by following an afforestation strategy of new woodland creation.

Before planting began, the manager held public consultations with local communities to accommodate as many interests and concerns as possible (such as making the woodlands as aesthetically attractive as possible). It also liaised with industry standards bodies to ensure its carbon credits remain relevant, credible and will drive positive outcomes. The fund also committed to enhancing the biodiversity of all the assets in the fund by leveraging internal expertise and external ecological consultants.

The trees are growing well with the pine having had a very strong growing season. The woodland carbon scheme has also now been validated by the Soil Association and has had c92,000 Pending Issuance Units (PIUs) awarded.

By investing in this fund, we aim to contribute to the decarbonisation of the real economy.

OUR APPROACH TO ENGAGEMENT CONTINUED

Partnering with our external managers

For several years, we have engaged with our external asset managers both during our initial selection process and on an ongoing basis to ensure they can meet our high standards on stewardship and ESG integration. Throughout our relationship with managers, we encourage constant improvement in their approaches to managing ESG and climate-related risks. We also use insights from our stewardship services provider, EOS, drawn from its engagement with issuers on material ESG issues to inform our conversations with managers about their own engagement in these areas.

Our manager selection process

Our initial manager selection process includes a review of current practice through disclosed materials and an ESG Questionnaire. This is a scored, mandatory list of questions that prospective asset managers must answer on a pass/fail basis in order to progress through the tender process.

The ESG Questionnaire comprises several sections including: Governance & Alignment; Diversity & Inclusion; RI Policy & Strategy; ESG Incorporation; Integration & Risk Management; Stewardship & Active Ownership; and Reporting. Appendix G shows a sample list of questions within the Stewardship section of the questionnaire.

Responses are quantitatively scored. This feeds into the overall manager selection score for selecting new external managers. We use this as a constructive process not only to inform the manager of our expectations, but to understand the appetite and ability of the manager to improve their practices. If necessary, we regularly share best practice examples with managers to ensure a clear understanding of what is expected.

Our minimum ESG and stewardship requirements of external managers

- Should be an active signatory to the UN-supported Principles for Responsible Investment (PRI) or considering becoming a signatory.
- Must provide evidence of a Responsible Investment (RI) policy and implementation of ESG considerations within investment decision-making and active ownership that covers the proposed fund or mandate; or must have a commitment to implement such a policy no later than 12 months from the PPF's initial investment.
- Must accommodate inclusion of the PPF's standard ESG and RI clauses within the fund terms (or provide a marked-up version with any minor amendments sought by the manager's counsel) and be able to apply the PPF's exclusion lists, as appropriate.
- Must provide fund-specific ESG reporting.
- Must have a Diversity & Inclusion policy with clear implementation within relevant internal management processes.
- Must complete the PPF's ESG Questionnaire, with no significant risks or issues flagged by the PPF ESG & Sustainability team.

Taking action

During the year we engaged a potential Emerging Market Debt manager on ESG integration expectations and disclosures. The manager had a reasonably strong understanding of ESG risks and opportunities, which were already being integrated into investment decisions. However, a formal process for disclosing ESG issues and activities had not been developed.

We discussed with the EMD manager what these disclosures could contain and why we find certain pieces of information useful. The manager was able to provide assurance around improving its ESG disclosure and, as a result, successfully passed our tender process.

OUR APPROACH TO ENGAGEMENT CONTINUED

Ongoing collaboration with external managers

In addition to general oversight, we also look to work with asset managers on specific issues. This could be involvement in a wider industry project, or directly in relation to an underlying asset – see case study right.

Our pre-funding and appointment process

As mentioned, our stewardship expectations are integrated into all legal contracts. See Appendix F for examples of clauses. After managers are appointed, our Operational Due Diligence (ODD) team continue to work closely with them to ensure they continue to meet our requirements and to identify any gaps or challenges that arise.

Example 1: Protecting our investments

The ODD team conducted an operational due diligence assessment on a small boutique investment manager. Following a review of the relevant fund documentation, they identified that there was no 'key person' clause for the sole portfolio manager of the strategy. Not having a key person clause increases the potential impact of operational disruption should the firm be faced with one or more resignations, the incapacitation of an employee or an untimely and unexpected death. This may in turn impact investors, resulting in errors or failed operational processes. Following our feedback, the manager incorporated a key person provision within our side letter to facilitate a 'key person' event, should such a situation arise.

Example 2: Adapting to new risks

The ODD team refreshed their due diligence on an existing Public Market manager following some ownership changes. Whilst on-site, the team identified that the manager had not established and formalised an operational risk framework and nor did it have an incident response plan in place to help the firm detect, respond to, and recover from cyber security incidents. Whilst on site, the ODD team raised their concerns with the manager and the risk was subsequently remediated through the development of a risk register and the implementation of an incident response plan.

Case study

Partnering with an external manager on a direct company engagement

Sector: Industrials
Asset Class: Equity
Issue: Climate transition

Background: This North American company produces engines for large and mid-sized trucks, and has significant market share. Although not on our Climate Watchlist, its clean technology strategy and Scope 3 emissions profile is significant to the sector as a whole.

Action: We first engaged with this company in early 2023 alongside one of our external investment managers to assess its strategy and progress to achieve emissions reductions. This year, we met with the company again and agreed four engagement objectives. These focused on its emissions strategy, its development and adoption of clean technology, an increased capital expenditure for climate transition, and its lobbying and political advocacy activities. In addition, we sought an update on progress linking executive remuneration to ESG factors.

Outcome: The company has made progress on its Scope 1 and 2 emissions profile since our last meeting. However, given its core product, Scope 3 emissions are where the greatest impact can take place. Initiatives are in place to develop new product lines that have the potential to lower Scope 3 emissions. It is also investing in new technology development. Improving disclosure on lobbying and political contributions is also underway, with the company taking a global perspective. Post-meeting, we followed up with additional questions on the company's approach to helping to deliver a 'just transition' and received strong responses to these. Despite being in a particularly tough industry for emission reductions, we note the progress made and continue to focus on priority issues, while recognising the challenging journey ahead.

> "Initiatives are in place to develop new product lines that have the potential to lower Scope 3 emissions."

OUR APPROACH TO ENGAGEMENT CONTINUED

Engaging through our stewardship services provider

As explained earlier in this report, we use an external stewardship services provider, EOS, to engage and vote across our segregated Equity mandates and also engage with Public Credit and Cash assets. Our Stewardship Policy details how we work with EOS, its four-step engagement milestone process to drive change at companies (see below right), and the full list of themes considered.

Latest activity and themes

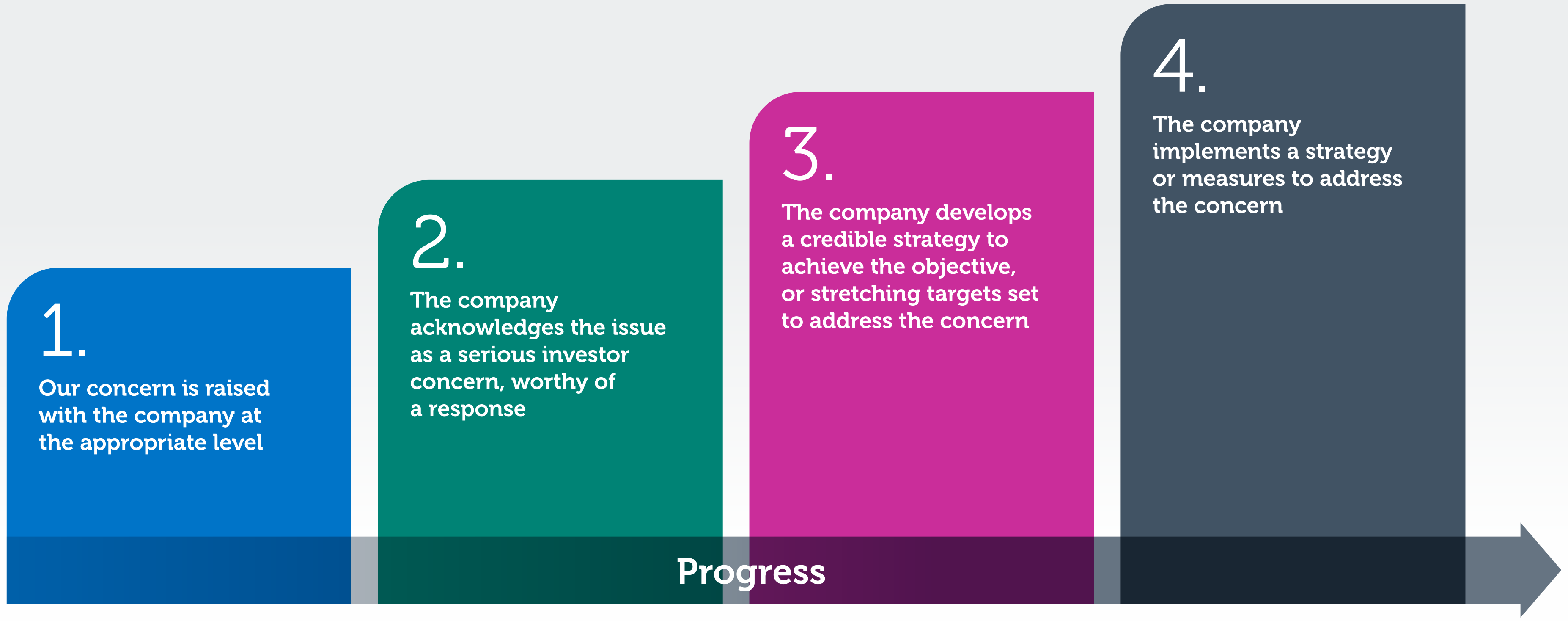
EOS focuses its stewardship activities on the issues that it believes have the greatest potential to deliver long-term sustainable wealth creation for investors and positive environmental and societal outcomes. Currently it is focused on six outcomes: environmentally, these are Climate Change Action, Natural Resource Stewardship, and Circular Economy & Zero Pollution. Societally, its focus is on Wider Societal Impacts, Human Capital, and Human & Labour Rights.

These six outcomes are priorities for EOS and are reviewed annually in conjunction with client surveys and input via biannual meetings during which topics are presented and discussed. EOS also continues to maintain a comprehensive engagement plan covering a broad range of other themes that generally lead to wider positive societal outcomes. These include: seeking to avoid the emergence of 'superbugs' through anti-microbial resistance; increasing resource efficiency through the circular economy; and reducing all forms of harmful pollution.

> "EOS focuses its stewardship activities on the issues that it believes have the greatest potential to deliver long-term sustainable wealth creation for investors and positive environmental and societal outcomes."

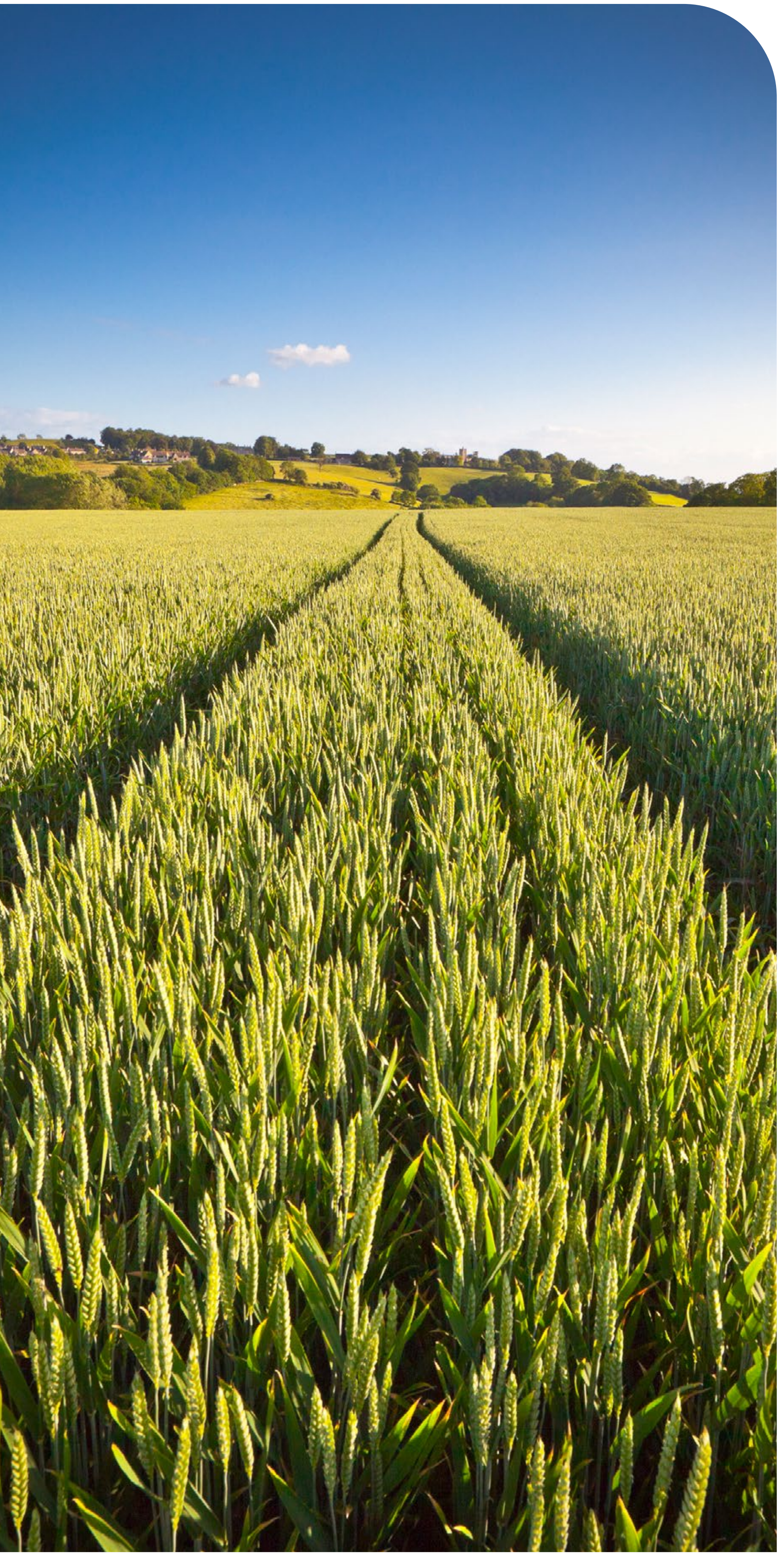
Engagement themes: Our stewardship process to achieve long-term sustainable returns on investment

Summary of the EOS engagement milestone process



> "Engagement with investee companies happens in stages, following specific milestones. Engagement can often take place over a multi-year period, so milestones track progress that are related to objectives set at the beginning of our interactions, which can vary depending on the types of issues raised."

OUR APPROACH TO ENGAGEMENT CONTINUED



Our issuer engagement progress and outcomes

Progress and outcomes from EOS-overseen assets

In 2023/24, EOS engaged with 667 companies that we invest in (686 in 2022/23) on 1,263 pre-determined objectives. Its holistic approach to engagement means that it typically engages with companies on more than one topic simultaneously.

Engagement by theme

A summary of the issues and objectives on which EOS engaged with companies in 2023/24 is shown right.

Engagement progress in 2023/24

As shown on the previous page, EOS carries out engagement through a four-step 'milestone' process. This begins by raising a concern that EOS follows up diligently until it achieves a measurable outcome. The process can span quarters or even years. EOS had another strong year of delivering engagement objectives. During the year, progress on 620 of the outstanding objectives moved forward at least one milestone in the EOS process – see right. 131 objectives were marked as complete and 40 objectives saw progress during the year but have since been discontinued; 322 were new objectives established during the year. Of the 643 objectives without progress during the year, 68 were discontinued and 9 were deemed to have completed the objective. The remaining 566 objectives stayed at the same milestone stage.

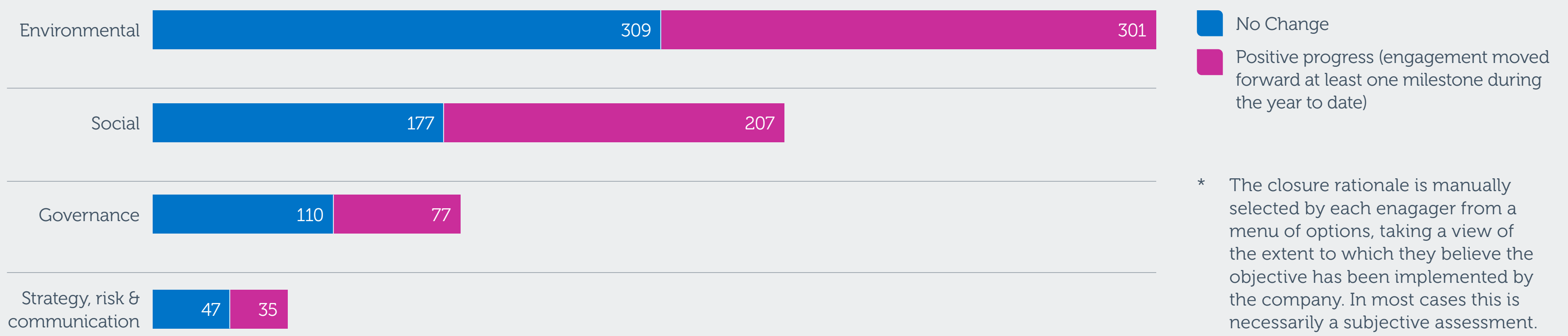
Engagement in UK Public Credit and Strategic Cash

Of the 667 companies engaged by EOS during the year, 64 companies were held in our in-house UK Credit and Strategic Cash portfolios and nearly two-thirds of these saw progress during the year.

> "During the year, progress on 620 of the outstanding objectives moved forward at least one milestone in the EOS process."

Engagement progress

EOS made solid progress in delivering objectives across regions and themes. At least one milestone was moved forward for about **49%** of its objectives during the year. The following chart describes how much progress has been made in achieving the milestones set for each engagement.



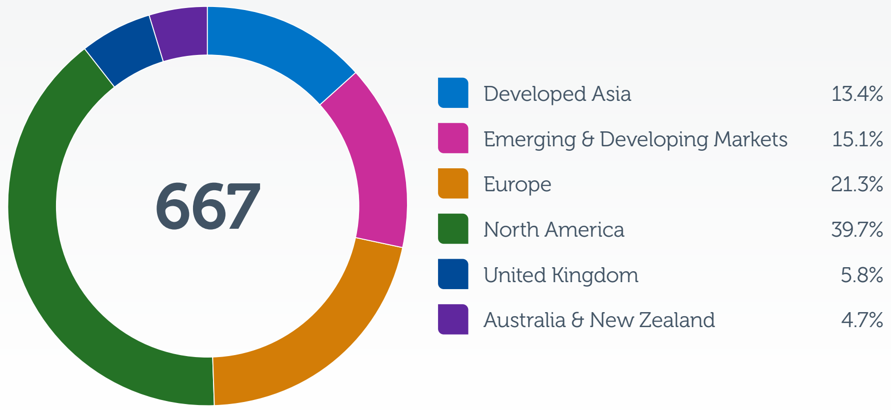
* The closure rationale is manually selected by each engager from a menu of options, taking a view of the extent to which they believe the objective has been implemented by the company. In most cases this is necessarily a subjective assessment.

Engagement overview

We engaged with **667** companies on **3,018** environmental, social, governance, strategy, risk and communication issues and objectives

667 companies engaged

Companies engaged by region



ESG objectives by theme

OUR APPROACH TO ENGAGEMENT CONTINUED

Examples of EOS corporate engagement on our behalf during the year

Case study

Transportation

Asset Class: Equity and Credit
Issues: Board structure and effectiveness

Action: EOS has engaged this Korean automotives company over several years and has previously achieved good outcomes in a difficult market to engage. The company forms part of the EOS priority engagement list, meaning it gets increased focus during the year. Areas of focus include board effectiveness and an expectation to see an external board evaluation and further disclosure of its carbon and nitrogen oxide emissions reduction strategy. Supply chain monitoring and the composition of the board have also been areas of focus during meetings.

Outcome: EOS has done a good job of consistently maintaining communication with the company throughout the year – both through calls and in person. During a meeting with an outside director, board composition was discussed, sharing EOS's view that the board had an excessive number of executive directors serving and would benefit from additional independent representation.

The meeting allowed EOS to discuss board dynamics with an independent board member and seek to better understand the decision-making process.

Case study

Automotive and suppliers

Asset Class: Equity
Issues: Supply chain climate risk and customer action on climate change

Action: This company is one of the largest tyre producers in the world and has been engaged by EOS since 2019. In addition to the bulk of emissions from its products coming downstream in the product-use phase, significant upstream climate-based risks exist in the rubber procurement supply chain. EOS began engagement by requesting that the company produce a risk assessment aligned with TCFD recommendations, to which the company was receptive.

Outcome: Since EOS's initial request, the company has continued to engage and has taken further positive steps to reduce and report on its emissions. Other outcomes over the course of the engagement include achieving accreditation from the Science Based Targets Initiative (SBTi) for its climate targets, which included Scope 3 greenhouse gas emissions. In addition, although the company does not own any rubber tree plantations, EOS welcomed the actions the company has taken as a purchaser of natural rubber. The company's enterprise and affiliate natural rubber procurement policy is aligned with the Global Platform for Sustainable Natural Rubber's policy framework. Future engagement plans include conversation around delivering a climate strategy.

Case study

Transportation

Asset Class: Equity
Issues: Climate lobbying activities

Action: EOS has engaged with this German automotives company for several years, covering numerous topics given the various scandals around emissions testing that have surrounded the company. However, EOS has strongly focused on climate lobbying since the start of 2019. EOS has asked the company to align with the IIGCC's investor expectations on climate change-related corporate lobbying and the new Global Standard on Responsible Climate Lobbying, which has partly come out of the IIGCC's work on corporate lobbying. EOS considers progress at the company to have been slow. In 2022, EOS made a supporting statement for a shareholder resolution filed by seven European investors, urging the company to explain how its lobbying activities helped to address climate risks.

Outcome: EOS stated that since the start of its engagement with the company, nearly half of the European companies in scope for the Climate Action 100+ initiative had published at least one climate lobbying review, and the majority had committed to repeating this disclosure annually.

This shareholder proposal was rejected by the company, resubmitted in 2023, and again rejected.

In February 2023, EOS met with the company's public affairs department, which confirmed that the company was planning to publish a report before the 2023 AGM in May. However, in the run-up to the meeting EOS did not see any detailed drafts or a public commitment to publish the report. For this reason, as well as concerns about the misalignment between the company's short- and medium-term emissions reduction targets and the Paris Agreement, EOS recommended a vote against the discharge of the management board ahead of the AGM. Following the effective voting deadline for shareholders and only days before the AGM in May, the company published its first Association Climate Review 2023. EOS and the PPF welcome this as a step in the right direction following four years of engagement on this issue.

OUR APPROACH TO ENGAGEMENT CONTINUED

Engaging with our Climate Watchlist

As detailed in last year's report, in line with the IIGCC's Net Zero Stewardship Toolkit's guidelines, we identified a Climate Watchlist: 87 companies in material sectors that collectively are responsible for over 70 per cent of the financed Scope 1 and 2 emissions associated with our Public Markets investments. This year, we prioritised our investor engagement efforts by further developing processes around this Climate Watchlist of companies.

We have so far considered only our Public Markets holdings for building the Climate Watchlist due to adequate carbon data transparency and availability. However, we are engaging with Private Markets managers through the **eFront® ESG Data Service project** (see page 24) to improve carbon data transparency for our Private Market assets as well.

Every Climate Watchlist company is engaged either by PPF directly, through one of our external managers, our stewardship services provider EOS or through Climate Action 100+ or the IIGCC Net Zero Engagement Initiative (NZEI) – see Climate Watchlist companies by source of engagement below.

As the bar-chart below shows, companies are predominantly in high-impact sectors (71 per cent in Energy, Materials and Utilities) and mainly in North America (39 per cent) and West Europe (25 per cent).

Given that companies on our Climate Watchlist are being engaged across a number of different managers and collaborative initiatives, we have created an internal methodology to standardise and record engagement objectives and monitor progress. To help with this process and track progress, we apply EOS's milestone system – see page 29. Companies also vary hugely in terms of their progress on disclosing and reducing emissions, which can determine the level and type of engagement required. We have therefore grouped objectives by level of progress, e.g. from requesting initial disclosure to encouraging better-quality disclosure to urging science-based emissions reduction targets to be set.

We acknowledge that not all engagement efforts are successful however, so our new escalation policy provides a clear process to follow if sufficient progress is not being made following engagement. This policy has already been applied at one of our largest Climate Watchlist companies, Shell plc.

We co-filed a shareholder resolution in December 2023, alongside 26 other investors, to request greater clarity from the company on how the company's medium-term targets are aligned with the Paris Agreement on Climate Change, especially for Scope 3 emissions.

Monitoring engagement progress

Progress on engagement with allocated Climate Watchlist companies is a standing item for our quarterly manager meetings. We also utilise updates from Climate Action 100+, the IIGCC's Net Zero Engagement Initiative and our stewardship services provider EOS. Engagement on climate issues with portfolio companies is a lengthy process that requires proper monitoring and resourcing. It usually takes many rounds of engagement over years for serious change to happen and the results to be obvious.

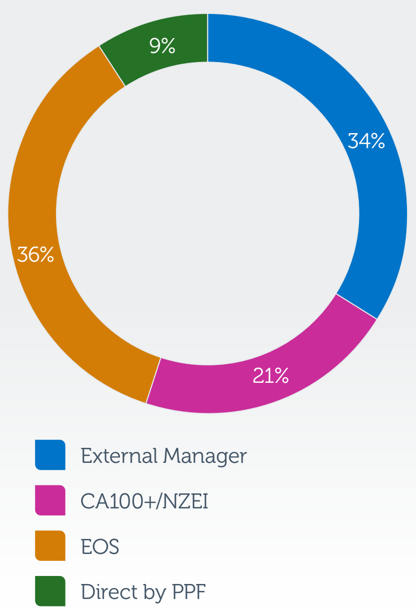
Applying our engagement standardisation methodology, 29 companies on our Climate Watchlist (33 per cent) made progress on engagement objectives throughout the year – see pie-chart, below. Mostly progress was made on Greenhouse Gas Emissions Reduction and Climate Governance Transparency, and, in a few cases, on Climate Opportunities and Physical Risk.

Despite the global investor focus on this issue, not all companies made progress. For example, during the year, Rio Tinto, one of the largest miners in the world, announced that it would not be able to meet its own 2025 target to reduce carbon emissions by 15 per cent without using carbon offsets. This step back is not the direction of travel that we would expect from a high-emitting company. One of our external managers is continuing to engage with the company and, despite technological and market challenges, remains confident of the company's commitment to its 2030 target.

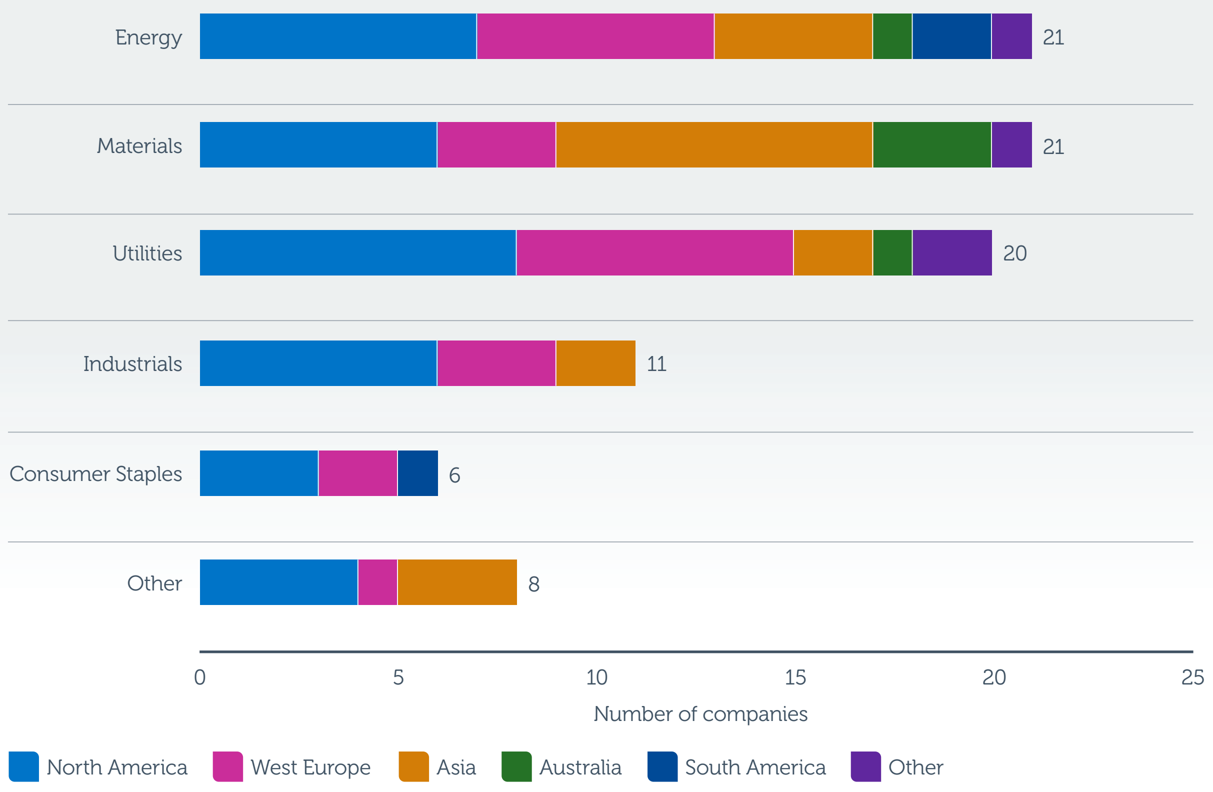
An example of good progress was seen at CK Hutchison, a Hong Kong-based conglomerate with an international presence in many sectors (e.g. infrastructure, ports and telecommunications). In the UK, it also has a strong presence in retail and utilities. Since our stewardship services provider engaged with the company, it has committed to an SBTi Net Zero target at the group level, with medium-term targets and phasing out coal-fired power generation globally by 2035. It has published its first TCFD report and is conducting scenario analysis to formulate a detailed climate transition plan for the group.

As the engagement progress chart shows below, 18 Climate Watchlist companies are still in the initial engagement phase of 'Formulating strategy'. We will move to formulating climate-based objectives for future engagement with these companies over the coming year.

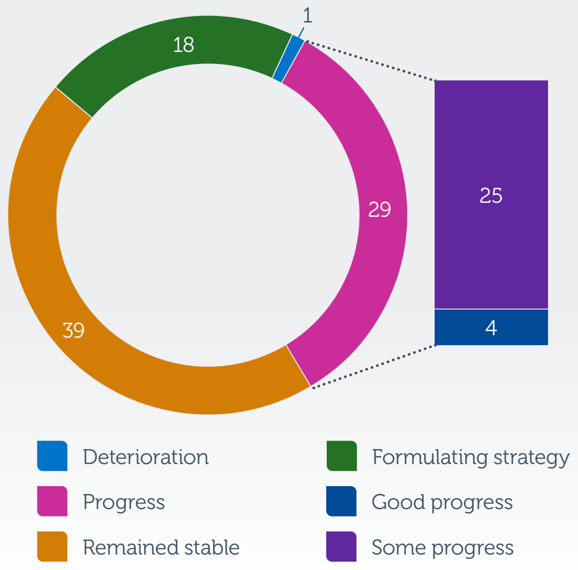
Climate Watchlist companies by source of engagement



Climate Watchlist companies by sector and region



Climate Watchlist companies – engagement progress 2023



> "Engagement on climate issues with portfolio companies is a lengthy process that requires proper monitoring and resourcing. It usually takes many rounds of engagement over years for serious change to happen and the results to be obvious."

OUR APPROACH TO ENGAGEMENT CONTINUED

Engaging with issuers through investor collaboration

Acting collaboratively with other investors to address industry, regulatory or company-specific issues has become a core pillar of our stewardship approach, given the scale, influence and efficiency it can deliver. As part of our efforts to maximise the collective voice of the investment industry, we are members of initiatives and engagements around a number of themes that are important to us. Given there are so many industry initiatives to address environmental and social challenges, we prioritise support for projects in markets where we're already active or where we can see rules are being developed to improve a market's functionality and reduce systemic risks.

For example, on climate change, we actively participate in the programmes run by the IIGCC – see right – and continued to participate in key IIGCC projects during the year under review. We also work closely with UK policymakers and market stakeholders, such as the Pensions and Lifetime Savings Association, the UK Debt Management Office and the Department for Work and Pensions. We are involved with a range of investor organisations to help drive industrial and legislative change to encourage higher levels of stewardship and greater disclosure of ESG risks across the investment industry or within specific sectors.

The PPF is a member of the following initiatives:

- We've been a signatory to the UN-supported Principles for Responsible Investment (PRI) since 2007; our Head of Alternative Credit sits on the PRI's Private Credit Committee and we're members of its Collaboration platform.
- The Asset Owner Council was created in 2024 and is co-chaired by Claire Curtin, Head of ESG and Sustainability at the PPF. See details of this initiative below.
- As an investor member of the IIGCC, we've been an active member of its Net Zero Stewardship Toolkit, the Asset Owner Stewardship Working Group, the Proxy Advisor Working Group, and the newly-formed Stewardship Code Working Group, which is providing input to the UK Financial Reporting Council's consultation on the UK Stewardship Code. We also participate in the IIGCC's collective responses to consultations.
- We also encourage greater disclosure of environmental impact by companies, governments and other institutions by supporting organisations such as the global disclosure systems provider CDP.

Taking action

The Asset Owner Council (AOC) is a group of UK-based asset owners focused on Responsible Investment. The AOC was formed in 2024 as a result of a merger between the Occupational Pensions Stewardship Council (convened by the Department for Work and Pensions), and the UK Pension Scheme Responsible Investment Roundtable. The AOC is co-chaired by Claire Curtin, Head of ESG and Sustainability at the PPF and Renata Kostrzewa, Head of Responsible Investment at BP Pension Fund. Its creation eliminates duplication of effort and results in more effective communication on RI issues within the UK asset owner community.

Key industry collaborations during the year

Find it, Fix it, Prevent it – This group focuses on modern slavery within businesses and their supply chains. Developed by CCLA, a leading manager of charitable assets, and supported by a coalition of investor bodies, academics and non-governmental organisations (NGOs), the initiative is designed to harness the power of the investment community on a key issue. For the second year running, this year the initiative's focus industry was the construction sector. Investor members collaboratively engaged with UK-listed construction companies on modern slavery risks, including the PPF, which is the lead investor for a FTSE 100 construction company.

The aim of the project is to highlight issues to the sector in question, better understand the challenges modern slavery poses to that industry, share best practice and explore potential remedies.

PRI Votes on Slavery – We were a continuing member of the Votes on Slavery initiative for its 2023 campaign, run by the PRI. This initiative again focused on FTSE 350 companies but also additionally evaluated companies in the Alternative Investment Market (AIM) that lacked disclosure compliant with UK modern slavery legislation. Of the 32 non-compliant FTSE 350 companies, prior to the 2024 proxy season 17 became fully compliant, with another 10 either committing to make changes or reviewing the evaluation. Only five either required further engagement or had not responded.

We monitored progress through the 2024 voting season and were prepared to use our votes to signal concern on non-compliance where necessary. We will continue to support this campaign as modern slavery continues to be a key theme in our voting guidelines.

Climate Action 100+ – The PPF continues to be a signatory to Climate Action 100+, the largest-ever investor engagement initiative on climate change. It aims to put pressure on 170 of the world's largest greenhouse gas emitters, responsible for approximately 80 per cent of global industrial emissions. Largely as a result of Climate Action 100+, 77 per cent (75 per cent in 2022) of focus companies have now committed to Net Zero by 2050 or sooner across at least Scope 1 and 2 emissions, and 90 per cent have explicitly committed to aligning their disclosures with TCFD.

Engagement through Climate Action 100+ has informed our analysis of company progress when voting at AGMs. Of the 87 companies on the PPF's own Climate Watchlist, 47 are engaged as part of the Climate Action 100+ programme.

CCLA Mental Health project – This project analyses and ranks corporate disclosure on mental health policies and practices. During the year under review, the project focused on a list of global companies that scored poorly in its index. We led engagement on six of these companies, which are based in the US, Europe and Asia. The initiative continued into 2024 and we are in the process of engaging companies on the most recent CCLA Corporate Mental Health Benchmark report assessing how companies are managing and reporting on workplace mental health.

IIGCC Net Zero Engagement Initiative – The Institutional Investors Group on Climate Change (IIGCC)'s Net Zero Engagement Initiative (NZEI) was launched in spring 2023 to build on and extend the reach of investor engagement beyond the Climate Action 100+ list to include more companies that are heavy users of fossil fuels.

We continue to leverage the NZEI to further align engagement expectations with our Climate Watchlist companies (which emerged from our own Paris Portfolio Alignment Project). We are a lead direct engager with one company on our Climate Watchlist that is also identified by the NZEI.

CDP Science-Based Targets (SBT) Campaign – The CDP SBT Campaign was launched in October 2022, attracting support from 318 financial institutions and multinational firms, including the PPF, representing $37 trillion in assets and spending. The campaign called on over 1,060 of the world's highest impact businesses to set emissions goals in line with the 2015 Paris Agreement on Climate Change. The 2022/23 campaign resulted in 77 targeted companies joining the ranks of 5,100+ companies committed to using science-based targets to align their emissions reduction goals with the Paris Agreement.

CDP Non-Disclosure Campaign

Again this year, we supported global disclosure organisation CDP's annual campaign to engage with major companies that have failed to respond to its climate change, forestry and/or water security questionnaires. We led company engagement on six companies spread around the world. Two of these companies then submitted climate data to CDP in summer 2023, one of which is on our Climate Watchlist. We were able to leverage foreign language skills within our workforce to communicate with the company in its native language, which may have helped us engage more effectively and led to the positive outcome.

OUR APPROACH TO ENGAGEMENT CONTINUED

Considering and promoting well-functioning markets

Collaborating to promote and improve market-wide risks

As a responsible asset owner, we feel it is important to understand and seek to mitigate risks that arise from systemic market-wide issues. Systemic issues relevant to ESG include climate change, biodiversity, disclosure and reporting. These risks are identified by our ESG, Legal and Risk & Compliance teams, and our Strategy & Policy team. They are also discussed as part of our regular 'ESG dashboard' meetings with our Chief Investment Officer and Head of Investment Strategy.

As mentioned in the previous section, we believe our involvement in key industry initiatives and collaborations, and tracking market consultations, help us to identify and consider market-wide or systemic risks relating to ESG.

Implied Temperature Rise (ITR) Assessments

As noted in prior reports, we have been developing our use of ITR as a metric across our portfolios to inform our portfolio alignment assessments. We utilise MSCI data where possible and have also worked with an external consultant on the alternative assets.

> "We feel it is important to understand and seek to mitigate risks that arise from systemic market-wide issues."

Key activities in policy engagement over the year

Regulatory standards and guidance around ESG issues are rapidly evolving. We follow these developments closely and look to contribute to their progress wherever possible. We engage with key policymakers and regulators globally on public policy that promotes and enables smooth market functioning. We carry out this engagement directly, through our stewardship services provider EOS, or through bodies such as the PRI and IIGCC.

As noted above, given that we are an arm's-length body (ALB) of the UK government, there are specific considerations we must consider when it comes to engagement.

Our direct policy engagement during the year

FCA Vote Reporting Working Group – This comprises a range of market participants with knowledge and interest in developing a more comprehensive and standardised vote disclosure regime. Industry-wide engagement has taken place over the year with consultation feedback being discussed by the group in early 2024 following a short hiatus towards the end of 2023. We are a member of one of three working groups focused on quality of vote rationales. The project is now in its second stage to develop a standardised voting template to enable transparent and comparable voting disclosures.

DWP Taskforce on Social Factors – Following the DWP's 2021 consultation on consideration of social risks and opportunities by occupational pension schemes (to which we responded), a taskforce of asset owners and industry participants was established to develop a guidance document for trustees to consider social factors within their investment portfolios.

We are one of three sub-group chairs leading the initiative. The final document was published in early 2024 and can be found here.

FCA Primary Markets Consultation – We submitted a formal response to the FCA's Primary Markets Consultation. Due to concerns around the long-term decline in the number of UK listed companies, which has fallen by 40 per cent since 2008, the FCA launched a consultation proposing to replace standard and premium listing share categories with a single listing category for commercial company issuers of equity shares. During the consultation process we participated in joint investor sessions with the FCA to discuss the thought process behind some of the more contentious proposed changes. There has been significant pushback from pension funds, some of which has been intentionally public. Areas of particular focus in our response were the extension of dual class share structures and the removal of shareholder approval rights for related party transactions and significant transactions.

FRC UK Corporate Governance Code – In May 2023 the UK's Financial Reporting Council launched a consultation on the UK Corporate Governance Code. We responded directly to the consultation, providing feedback on several issues. The UK Corporate Governance Code has been seen globally as a flagship document guiding best practice. We urged the FRC to maintain these standards in the code going forward.

IIGCC Executive Remuneration Guidance – We were asked to provide input to the work of the IIGCC on how companies' remuneration committees can factor ESG metrics into executive pay effectively. The white paper discusses best/forward governance practices and practical recommendations across the value chain from the board to executive management, effective investor engagement (also analysing recent AGM trends and investor signals), and ESG commerciality. Although the content is far from revolutionary from a UK remuneration perspective, the global reach of the IIGCC will assist in spreading good practice globally on this topic.

Our policy engagement through EOS

Europe – EOS co-signed an investor statement co-ordinated by the Farm Animal Investment Risk and Return (FAIRR) initiative calling on G20 Finance Ministers to repurpose their agricultural subsidies in line with climate and nature goals. This statement followed the Kunming-Montreal Global Biodiversity Framework (GBF), under which countries agreed to identify incentives, including subsidies harmful for biodiversity by 2025, and eliminate, phase out or reform them in an effective way.

Asia – In 2023, the Tokyo Stock Exchange addressed capital efficiency concerns related to significant cross-shareholdings by urging companies to disclose specific initiatives and policies for improvement if their price-to-book ratio was consistently below a multiple of one. EOS continues to seek a substantial reduction of cross-shareholdings and is pushing companies to set time-bound targets for doing so. EOS attended a virtual delegation meeting alongside the Asian Corporate Governance Association to provide views on the latest action plan from Japan's Financial Services Agency (FSA). EOS asked the FSA to set a requirement for companies to disclose their voting results for their cross-shareholdings. EOS noted that this practice negatively impacts capital efficiency and corporate governance, as companies mutually vote in support of each other, and support the appointment of 'independent' directors affiliated to these companies.

United States – EOS submitted a comment letter on the US Pipeline and Hazardous Materials Safety Administration's (PHMSA's) proposed rule for pipeline safety, focused on gas pipeline leak detection and repair. EOS encouraged PHMSA, a leading federal pipeline regulator, to enhance reporting, transparency, and comparability. It also called on the body to promote best operating practices, and improve public health and safety, and value chain regulatory oversight and transparency, and work closely with the US Environmental Protection Agency to close gaps in pipeline regulation.

Escalation and exercising **shareholder rights**

Company engagement is our principal tool for fostering greater social and environmental responsibility among the companies and other assets in which we invest. We primarily look to engage companies in a constructive, confidential manner. If this does not achieve the hoped-for outcome, we turn to escalation, including voting against management.

How we approach escalation

As an engaged investor, it is important that we use the rights we have as providers of capital to full effect, when considered appropriate. Although our preference is to prioritise direct, confidential engagement, in cases where the desired progress in engagement does not materialise, it may be appropriate to escalate our engagement effort. Escalation is the process by which investors use progressively more targeted, public or more stringent approaches and tools to influence a company on an issue of concern.

During the year under review, we developed a formal escalation policy, outlining our approach and the potential methods we will use if engagement fails. Our policy provides the structure for determining objectives and internal processes to be followed.

The PPF will consider the following methods when considering the escalation strategy to implement:

- **Level One – Private escalation:** The PPF organising a private collective engagement or group letter to send to the company management or board; voting against management due to lack of progress in the engagement.
- **Level Two – Public low visibility escalation (e.g. speaking at an AGM):** The PPF organising or participating in a collective engagement or group letter that is undertaken as a public engagement, i.e. press coverage may be encouraged.
- **Level Three – Public high-visibility escalation:** The PPF takes deliberate action to attract attention to our concerns such as filing a shareholder resolution, organises and publicises a 'Vote No' campaign against one or more directors. Pursuing (leading or supporting) litigation outside of the established class action strategy already in place would also form part of this category.

Implementation

The above methods could be implemented across asset classes, and across both internally and externally-managed portfolios. In addition, voting rights can be used to elevate our concerns. The use of voting rights is most commonly seen in Equity holdings and used under the implemented proxy voting policy, see below for more details. Where we hold both the Corporate Debt and Equity of a company, we will consider using the Equity voting rights to escalate.

However, when the opportunity arises, voting rights can also be used in other asset classes, at the individual manager's discretion.

Governance of Escalation

The internal control processes for each of the above categories of escalation are detailed below:

- **Level One – Private escalation:** Relevant internal manager(s) to be informed of an issue by the ESG team to agree and approve an escalation approach.
- **Level Two – Public low-visibility escalation:** Relevant internal manager(s) and CIO to be informed of an issue by the ESG team to agree and approve an escalation approach.
- **Level Three – Public high visibility escalation:** Relevant internal manager(s) and CIO to be informed of an issue by the ESG team to agree an escalation approach. The Investment Committee of the Board of the PPF will be notified in the event of a recommendation to implement a Level Three escalation and given the opportunity to provide input prior to any final approval. The Chair of the Investment Committee will also be responsible for raising awareness to the Board if an issue is assessed as sufficiently contentious to warrant the Board's consideration.

Recourse

Ultimately, there could be situations where our recommendation, following failed engagement, is that the PPF should not be investing in the company either in relation to a particular asset class or all asset classes (depending on the mandate situation and resulting risk). It could also be the case that the restriction only applies to future investments (depending on the situation).

This decision to add a company to our exclusion list would need to be signed off by our CIO for a company to be specifically listed as uninvestable.

The relevant internal manager(s) would be responsible for ensuring any necessary amendments to external manager legal contracts (e.g. investment management agreements, side letters) are carried out.

Case study

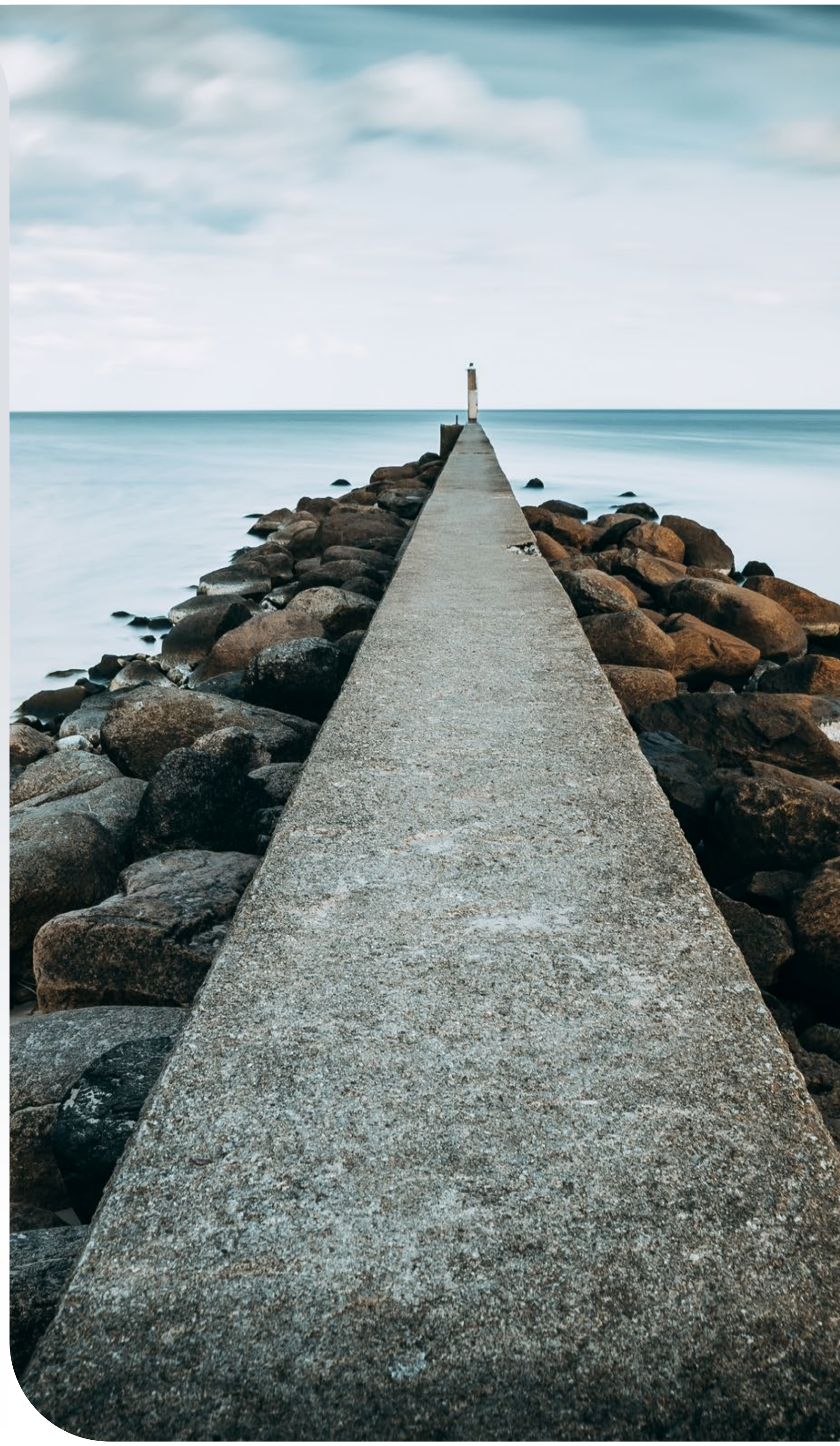
Co-filing a shareholder resolution at Shell plc's 2024 AGM

For the first time in the PPF's history, we co-filed a shareholder resolution for inclusion at the Shell 2024 AGM. The co-filing was led by Dutch shareholder group Follow This and 26 other prominent Shell shareholders, including several UK pension funds. It represented an escalation of previous stewardship efforts by investors including the PPF to encourage Shell to align with the 2015 Paris Agreement on Climate Change by disclosing interim Scope 3 carbon reduction targets.

The company is one of 87 companies on our Climate Watchlist, being one of the top contributors to our financed carbon emissions. We have previously supported (but not co-filed) Follow This shareholder resolutions at Shell in 2016 and 2023. Our external stewardship services provider EOS has also engaged Shell on the topic, feeling the company's progress on disclosing carbon reduction targets is inadequate given the challenges faced by the Oil & Gas sector.

These concerns were amplified by a June 2023 announcement that Shell's planned decline in oil production by 2030 would be halted. Dialogue continued with the company after the announcement of our shareholder resolution and an update to its energy transition strategy was published.

We noted the disclosure of partial Scope 3 reduction targets. However, as these disclosures were lacking in breadth and did not cover all business lines, such as Liquefied Natural Gas, we chose not to withdraw the resolution.



ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

How we approach voting

The PPF sees voting as an essential tool from a stewardship perspective in supporting engagement and enforcing shareholder rights.

We commit to voting every share we hold, except when its cost is prohibitive or it is not possible to do so due to operational reasons – for example, due to share blocking (where shareowners are prohibited from trading or loaning shares that they intend to vote for a period leading up to, and sometimes following, the AGM) or overly complex power of attorney requirements). Generally, we aim to align with the voting policy of our appointed stewardship services provider EOS, but we still review voting recommendations for significant votes or high-profile ballots.

EOS, which acts as our voting overlay provider for segregated mandates, provides daily updates relating to forthcoming shareholder meetings at which we are entitled to vote. We have direct oversight of the voting execution across all our listed equity mandates. These are assessed alongside our Climate Watchlist of companies to determine which shareholder meetings and resolutions need to be reviewed by us internally. Our segregated mandates are instructed through the EOS voting service, and our pooled funds have been set up to enable split voting for our allocation of shares.

Together, this allows us to exercise our voting power and ensure much greater consistency in our strategy, especially for particularly important companies and issues.

To ensure we participate in important shareholder meetings, we manage a voting watchlist of companies. This includes companies that are: on our Climate Watchlist; flagged on a UN Global Compact controversies watchlist; are being engaged by the PPF as part of either a collective or individual engagement; or represent a significant holding as a percentage of our portfolio.

This watchlist is loaded onto EOS's voting platform (or our external managers' for pooled split-votes), which allows regular automated reports to be produced for each voting environment. This process aims to give us sufficient time to review the shareholder documentation and ensure our voting intentions are implemented.

We are able to amend voting instructions directly on the relevant manager/EOS voting platform. Where we disagree with a manager's intended voting instructions, resulting in the re-vote of our ballots, we will discuss the meeting with the manager or engagement provider as appropriate.

Recognising the importance of voting our entire shareholding at certain contentious shareholder meetings, we are able to recall lent stock when considered appropriate. This ensures the full weight of our holding is reflected at the meeting.

How we voted over the year

The following tables and charts detail our voting activity for the period 1 April 2023 to 31 March 2024.

Total Meetings	**4,080**
Total Resolutions	**44,342**
How many meetings did we vote at?	4,062
How many resolutions did we vote on?	44,121
What % of resolutions did we vote on for which we were eligible?	99.5%
Of the resolutions on which we voted, what % did we vote with management?	80.6%
Of the resolutions on which we voted, what % did we vote against management?	18.1%
Of the resolutions on which we voted, what % did we abstain[1] from voting?	0.7%
Of the resolutions on which we voted, what % did we withhold[2] from voting?	0.6%
Of the meetings at which we voted, what % did we vote at least once against management?	66.6%

1 Abstaining from a vote is voting neither for, nor against.

2 Withholding a vote is when we are unable to vote against a particular resolution.

Taking action

We look to be guided by best practice developments from around the world when updating our voting policy. Our voting principles closely align with our stewardship services provider EOS's global voting guidelines. For example, in 2024, for climate-related voting guidelines we increased the thresholds for the following measures:

Transition Pathway Initiative (TPI): The Transition Pathway Initiative's Management Quality (TPIMQ) Assessment seeks to evaluate and track the quality of companies' management of carbon emissions and other factors on a rating scale of 0 to 4*. We have raised the TPIMQ score threshold, which has been based on the TPI's expanded assessment framework (e.g. Level 4 for Automotives and Diversified Mining). Banks are now also subject to this threshold.

Forest 500: There is a continued focus on companies scoring poorly on Forest 500, which assesses companies' disclosure and management of deforestation risks. We define this as companies that score below 10 on the Forest 500 ranking, and financial institutions that score 0.

Our full voting guidelines can be found in Appendix E.

Taking action

During the year we continued our participation in the FCA Vote Reporting Group. The group includes participants from across the investment and proxy voting chain with the aim of designing a comprehensive and standardised vote reporting framework.

A standardised, industry-agreed approach should make vote reporting more consistent and easier to compare and should allow asset owners to better assess asset managers as their intermediaries.

Consultation to build industry consensus on a voluntary vote reporting template for asset managers in the UK was held June to September 2023.

Voting activity 2023/24

The charts and table on page 36 present our global approach to voting throughout the year under review.

In terms of numbers, the PPF voted at fewer meetings during 2023 than the prior year due to the structure of our portfolio. However, of the meetings we potentially were eligible to vote at, we voted at marginally more. Share blocking and complex power of attorney requirements can still present challenges to our ability to vote. However, the situation is improving globally, particularly with regard to share blocking.

With regard to shareholder resolutions in the US – a significant area of focus for investors – we saw an increased number of shareholder resolutions in the market (although we voted on fewer, again due to the structure of the portfolio.

Some US companies attracted large numbers of shareholder proposals, with 18 at Amazon and 13 at Alphabet, covering issues from climate and tax transparency to gender/racial equity pay gaps and digital rights.

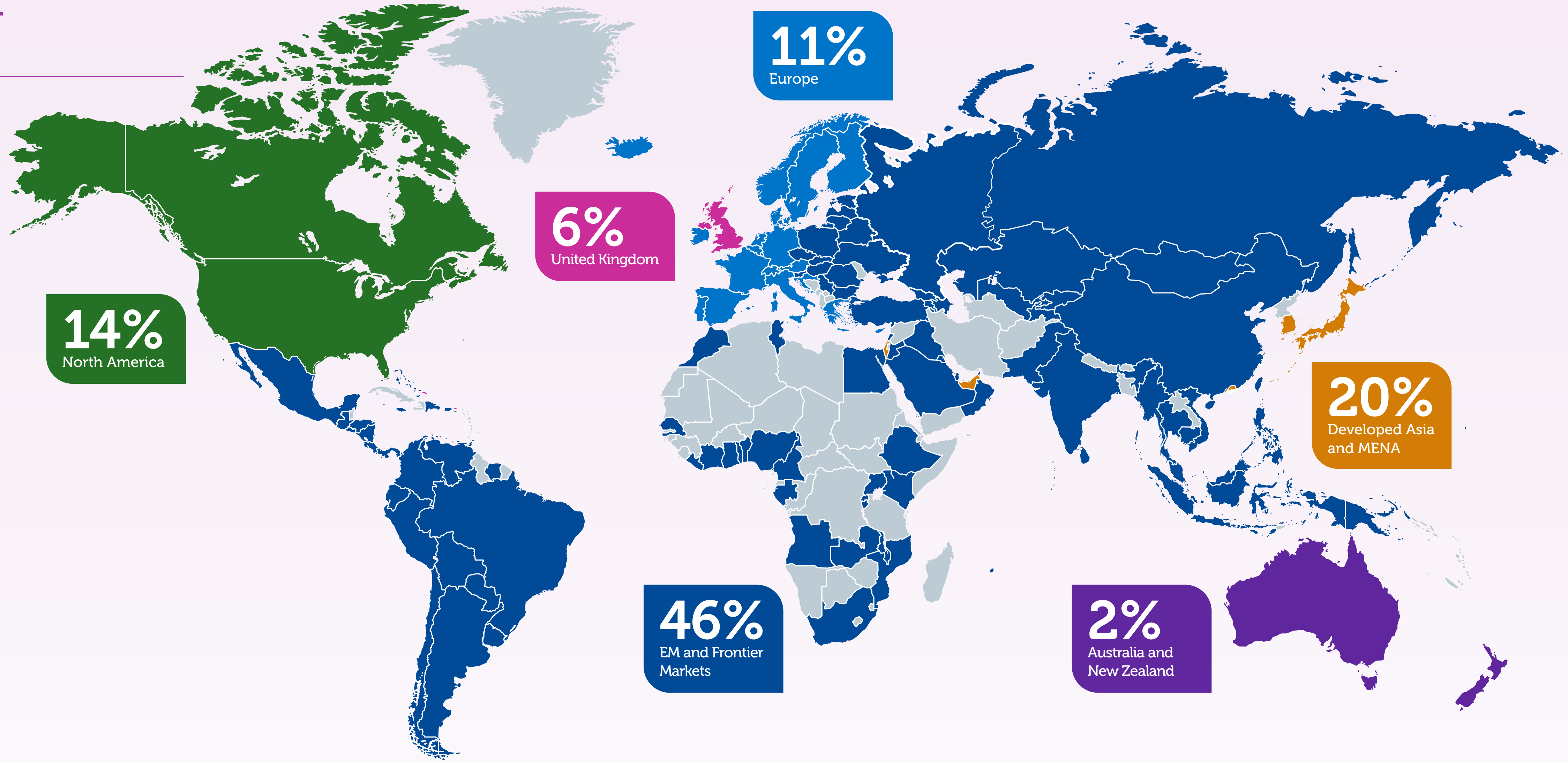
The number of resolutions filed in the US market at companies on environmental and social (E&S) topics increased by over 20 per cent year on year, including a continuation of the 'anti-ESG' movement. However, there was a sharp fall in shareholder support for E&S resolutions to an average of 20 per cent in the 2023 proxy year, from 30 per cent in 2022. No anti-ESG proposals received majority support.

Executive pay continues to be a high-profile topic around the world. 2023 also constituted a 'remuneration policy year' in the UK, with many companies seeking their triennial pay policy approval this year.

ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

Voting activity 2023/24

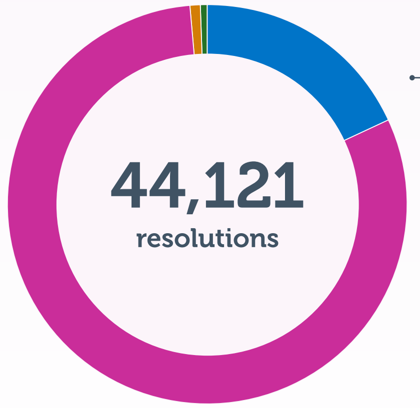
Regional breakdown of meetings



Meeting with at least one vote against management

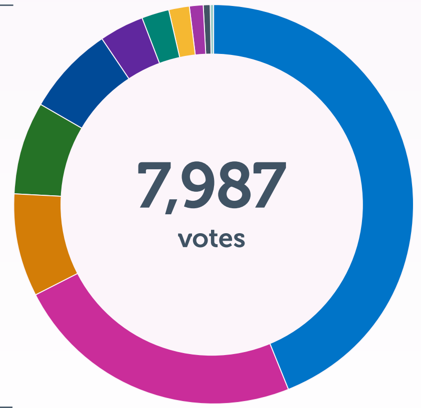
Meetings with at least one vote against management	67%
Meetings with management	33%

How we voted 2023/24



Against management	18%
With management	81%
Abstain	1%
Withhold	1%

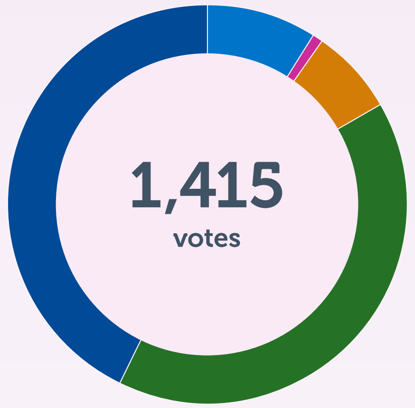
Vote against management by issue



Board Structure	3518
Remuneration	1874
Amend Articles	667
Capital Structure + Dividends	615
Audit + Accounts	561
Shareholder Resolution Governance	305
Shareholder Resolution Social	168
Other	130
Shareholder Resolution Environment	98
Investment/M&A	45
Poison Pill/Anti-takeover Device	6

Shareholder resolutions

Votes on shareholder resolutions per region

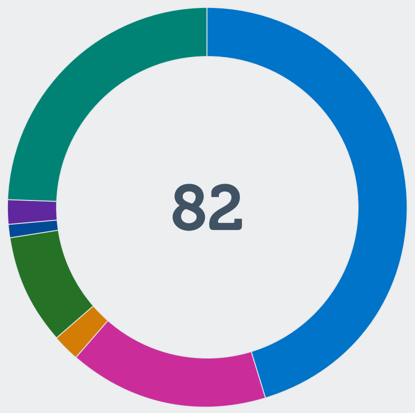


Europe	9%
United Kingdom	1%
Developed Asia and MENA	7%
North America	41%
EM and Frontier Markets	43%
Australia & New Zealand	0%

Report Category	ISS Category	Abstain	Against Management	With Management	Grand Total
Governance	Corporate Governance	0	34	17	51
Other	Miscellaneous	0	6	90	96
Environmental and Social	E&S Blended	0	14	44	58
Climate & Environment	Environmental	0	91	52	143
Compensation	Compensation	0	42	39	81
Social Proposal	Social	0	165	52	217
Routine Business	Audit Related	0	3	148	151
Directors' Related	Director Related	2	63	42	107
Economic Issues	Non-Routine Business	0	12	7	19
Directors' Related	Director Election	14	134	304	452
Routine Business	Company Articles	0	2	18	20
Routine Business	Routine Business	0	5	14	19
Economic Issues	Capitalisation	0	0	1	1
Grand total		**16**	**571**	**828**	**1,415**

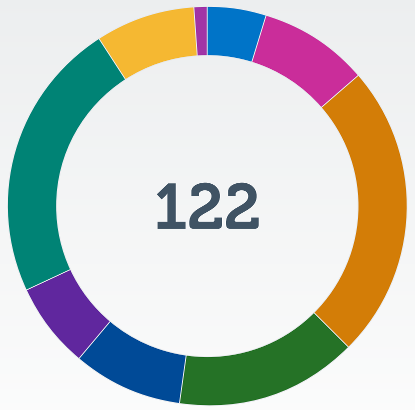
ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

Shareholder Resolutions on Climate: Against Management



Lack of Disclosure/ Reporting Analysis	37	45%
Insufficient targets and/or climate plan/ strategy/policies	13	16%
Encourage action on Just Transition	2	2%
Lack of strategy/policies/ plan aligned with current commitments	7	9%
Insufficient targets and/or climate plan/ strategy/policies	1	1%
Lack of strategy/policies/ plan aligned with current commitments	2	2%
Insufficient action on climate change	20	24%

Votes on shareholder resolutions by climate theme



Proposals Requesting Non-Binding Advisory Vote On Climate Action Plan	6	5%
Restrict Spending on Climate Change-Related Analysis or Actions	11	9%
GHG Emissions	29	24%
Restriction of Fossil Fuel Financing	18	15%
Disclosure of Fossil Fuel Financing	11	9%
Climate Change Lobbying	8	7%
Report on Climate Change	28	23%
Climate Change Action	10	8%
Renewable Energy	1	1%

> "We saw a significant increase in the number of resolutions seeking to reduce fossil fuel financing, which is an interesting uplift in terms of focusing on the providers of finance."

Voting on climate issues

The 2023 proxy voting season continued to focus on the need to drive forward the transition to low-carbon energy, particularly in Europe, where growing physical climate risk was demonstrated by high summer temperatures and wildfires.

In terms of our portfolio companies, we voted on more climate-themed shareholder resolutions than in 2022. We saw a significant increase in the number of resolutions seeking to reduce fossil fuel financing, which is an interesting uplift in terms of focusing on the providers of finance.

The number of management proposals in relation to a 'Say on Climate' (SoC) notably reduced year on year from 41 in 2022 to 19 in 2023. A large proportion of companies do not submit their plans annually and, once approved, will leave them off the ballot until material changes take place, which could explain the reduction.

In 2022 we supported only 46 per cent of SoC proposals from management but in 2023 this recovered to 63 per cent, which was a welcome improvement and mainly down to improved disclosure and the companies proposing the resolutions. Where we have voted against climate proposals by management, it is often due to a lack of alignment with the Paris Agreement to aim to keep global warming within 1.5°C of pre-industrial levels.

We continued to support shareholder-related proposals on climate primarily where companies failed to demonstrate a clear decarbonisation strategy. In this respect, the increase in management-led Say on Climate proposals mentioned above has been very welcome.

Taking action

There are continued concerns that the views of asset owners are not being fully considered when it comes to voting on issues related to climate. This has led UK asset owners to collaborate, via the Asset Owner Council, on a study of how asset managers vote at Oil & Gas industry shareholder meetings compared to asset owners like the PPF.[1]

Key findings of the research, which was released in November 2023, included:

- **Significant trends in misalignment** – Investment managers voting at US Oil & Gas companies showed a higher deviation from votes cast by asset owners, for example.
- **Lack of explanation:** Many investment managers did not provide sufficient rationales as to why they voted in a certain direction.
- **Potential reasons for the gap in alignment included** differences in approach between UK-based asset owners and US asset managers, misaligned resources, potential conflicts of interest and differences in approach to engagement and proxy voting.

The project is ongoing and will convene meetings between owners and managers that have been highlighted as having less aligned voting strategies. We hope the work by the FCA Vote Reporting Group, profiled earlier in this section, will help to standardise voting frameworks to address these problems, particularly in relation to vote decision transparency.

1 As an asset owner, we shared details of our voting decisions with Andreas Hoepener, an independent academic that led the study.

Case study

TotalEnergies – Vote against 'Say on Climate' proposal

TotalEnergies is a French multinational integrated energy and petroleum company. We recognise the progress the company has made with respect to its Net Zero commitment, specifically around its level of investment in low-carbon solutions and strengthening its carbon emissions disclosure. However, we remain concerned about the company's planned short-term upstream production growth, and the absence of detail on how such plans are consistent with the Paris Agreement on Climate Change to keep global warming as close to 1.5°C as possible.

Additionally, the company's absolute Scope 3 emissions have increased since 2019 by 7 per cent – the only European oil major with an increase in this timeframe. Moreover, its Scope 3 calculation methodology only includes emissions from sales of oil and gas that it produces (category 11). Other European peers have reported more comprehensive Scope 3 emissions, even if it has potentially resulted in some double counting. Lastly, although the company has a goal that each new investment should contribute to lowering the average intensity of its Scope 1 & 2 emissions, there is not an equivalent goal for Scope 3, so there is no evidence of alignment to the Paris Agreement.

In line with our voting policy that companies should be strategically aligned to the Paris Agreement, we voted against TotalEnergies' Say on Climate proposal.

11%
of shareholders did not support the company's SoC proposal

Engagement is ongoing through EOS to work with the company to align its capital allocation and emissions with Net Zero.

Case study

Amazon – Supported all climate shareholder proposals

Amazon is the world's largest online retailer. We have supported all three climate shareholder resolutions that were filed to Amazon in 2023 to encourage the firm to manage reputational and climate risks adequately by providing sufficient disclosure.

We supported the resolution to Report on Climate Risk in Retirement Plan Options because the company faces reputational risks if they do not offer a plan consistent with their climate action goals. We also supported the resolution to Report on Impact of Climate Change Strategy consistent with Just Transition guidelines. Although we welcome Amazon's ambitious decarbonisation strategy and its disclosure on its employee upskilling programmes, the company is yet to measure the impact of its decarbonisation strategy in terms of net job losses or gains.

Lastly, we supported the resolution on Climate Lobbying, as we want Amazon to report their climate lobbying activity in line with the Global Standard on Responsible Climate Lobbying.

19%
of shareholders on average supported the climate shareholder proposals

ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

Our criteria for significant votes

The importance of being able to control our votes has never been more important.

Along with guidance from the Pensions and Lifetime Savings Association (PLSA) around significant votes, we also use our own criteria to flag material votes that we need to scrutinise carefully. As mentioned, we have created a voting watchlist of companies for which we get particular coverage from our stewardship services provider EOS (see below). We also have an agreed timeline for action to execute votes proactively for significant and material positions in our portfolio. After deciding our voting intentions, we access the voting platforms of our asset managers for any pooled mandates and submit our vote instructions.

Our voting watchlist includes:

- companies where we own over 1 per cent of equity;
- companies that we hold directly (which we escalate to our CIO for a voting decision);
- companies with specific issues of concern (for example, practices that are non-compliant with the UN Global Compact);
- companies that feature on our Climate Watchlist; and
- votes related to a specific initiative in which we're involved (for example, companies on the Climate Action 100+ list).

Each quarter, our segregated voting and engagement reports are uploaded to our website.

Public disclosure of voting records

As noted in last year's report, we have been working to provide a public record of our voting disclosures on our website. This has now been achieved with records published quarterly. The disclosure of this information will allow stakeholders to review how we voted on specific resolutions at shareholder meetings.

Taking action

We believe that PPF members benefit from the additional income stream that derives from participating in stock-lending programmes, and that stock lending has benefits for market liquidity and efficiency.

We have participated in stock-lending programmes for several years, administered by our Investment Operations team. This year, however, we have amended our approach to ensure our whole position in a company isn't lent out. This ensures there is always a holding in a company that can be voted as and when required.

Taking action

In relation to the Shell AGM held in May 2024, we worked with our Investment Operations team to ensure our holdings in this company were not used for stock lending, given our co-filing of a shareholder resolution at the meeting. This allows us to use the full weight of our holding at the meeting.

Summary of some of our significant vote outcomes

Date of vote	Company name and significance	Resolution	For/Against management	Reasoning for vote decision	Vote outcome	Outcome and next steps
April 2023	BP plc*	Re-elect board chair	Against	In light of the reduction in medium-term emission targets and the lack of consultation on the topic with stakeholders prior the decision, we voted against the resolution to re-elect the board chair. For targets to be changed a year after having its climate emissions reduction strategy approved by shareholders, and without consultation, appears to be an error of judgement given the focus on reduction targets among the stakeholder base. Ultimately, this responsibility sits with the board chair.	10% voted against	Engagement continues with BP via EOS, our stewardship services provider, and directly via a group of asset owners. This engagement largely revolves around the resignation of the CEO and the need for the BP's climate strategy to evolve.
June 2023	Cosmo Energy	Takeover defence plan – resolution 3	Against	The company introduced a poison pill prior to the AGM to prevent a significant shareholder using its votes. This is not a practice that we would want to become established in the market.	41% voted against	Direct engagement took place through our stewardship services provider EOS. We discussed the issues around the company with EOS to ensure our concerns were understood.
December 2023	Cisco Systems	Say on Pay – resolution 3	Against	We voted against the executive officers' compensation plan due to the short-term vesting of long-term incentive plans, the recurrent use of one-time equity awards and the overall misalignment between pay and performance.	22% voted against	We continue to evaluate the company's pay practice. The company's next AGM taking place in late-2024 is expected to provide further disclosure.
May 2023	Duke Energy*	Adopt Simple Majority Vote – resolution 6	Supported shareholder proposal	The elimination of the supermajority vote requirement would enhance shareholder rights. A simple majority of voting shares should be sufficient to effect changes in a company's corporate governance.	73% voted for	The company proposed an amendment to its certificate of incorporation at the May 2024 AGM to eliminate the supermajority voting requirement. This passed comfortably at the shareholder meeting.

* Features on our Climate Watchlist of high-emitting companies that are held in our portfolio.

ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

Exercising our rights in other assets

Fixed income

Our rights as a provider of fixed income debt to a company differ markedly from those as an equity shareholder. We find that achieving large-scale change among fixed income issuers can often be more effectively managed through industry-led initiatives rather than as a single investor.

However, we have developed a fully integrated approach to the assessment and oversight of our potential and ongoing fixed income investments. For example, in UK Private Credit, where data can be less readily available, we rely heavily on our internal due diligence process. This involves significant engagement with management of private companies. ESG considerations, in addition to commercial and risk-related analysis, are evaluated and concerns are addressed within the process. Ultimately, if we are not comfortable with the terms of a deal, we will not participate. However, we will often seek to propose amendments to the terms of the agreement to ensure that any requests we have are incorporated into the deal and – where appropriate – the future structure of the company. As part of the ongoing management of fixed income assets, we will often continue to seek positive change after entering into an agreement. When investing in alternative assets through external investment vehicles, no voting rights are attached to the underlying assets. However, we can vote on issues relating to the fund itself. In these circumstances the portfolio manager will vote directly with input from the PPF ESG & Sustainability team.

Private assets

The majority of investments for private equity, debt and infrastructure are made through limited partnership arrangements. These do not provide voting rights in the same way that public assets do. Where appropriate, we seek to have representation on a Limited Partnership Advisory Committee (LPAC), giving us approval rights on specific issues such as amending contractual terms and approving the appointment of other committee members. In Private Market closed-ended funds managed externally, we have found that it is almost impossible to change retrospectively any contracts or side letter terms that were signed historically. We therefore look to obtain sufficient recourse in our side letters at the outset. By doing this, if we determine that we no longer wish to remain invested in a portfolio company due to an unmitigable risk, we have the option to transfer out of the whole fund.

Case study

Credit issuer escalation

Asset class: Fixed Income
Objective: Utilities

Background: The challenges facing the UK water sector have been escalating in recent years with significant public outcry regarding the operating practices of many of these companies. The dumping of raw sewage into UK rivers and seas, combined with service charge increases during the cost-of-living crisis has brought the issue to a head, with the new government promising radical steps to reform the sector.

Although our internal analysis of the sector has helped our investment team to avoid some of the more troubled names, we are providers of sterling bonds to companies in the sector and recognise the importance that these companies play in society and the environment.

Action: We took the opportunity to join a collective engagement initiative led by Royal London Asset Management (RLAM) involving asset owner peers to understand how companies in the sector are addressing areas of concern and building resilience for future challenges relating to pollution, climate change, biodiversity, affordability and anti-microbial resistance. The sector's reporting requirement to the UK water regulator, OFWAT, for 2025–2030 took place during the year under review. So, this has been a crucial time for water companies to establish strong roadmaps for the future.

The engagement project is expected to run over multiple years with the aim of influencing positive change in investor expectations. The companies involved are rated against a clear methodology to allow a performance score to be assigned. The analysis is discussed with the companies with clear objectives and areas for further improvement highlighted.

Outcome: Of the 10 water companies involved in the engagement project, the PPF are lead engagers on two. We hold sterling bonds in both of these companies and in one case, equity as well. While engagement is ongoing we will not publicise the companies that we lead on. Engagement meetings have been held with both companies in addition to other opportunities for dialogue, such as attending capital market days.

Meetings with both companies have been constructive and involved senior management and/or board members of each company. A report will be published at the end of the engagement period that will provide greater insight and clarity on the sector for asset owners.

Our aspirations **for the coming year**

We will continue to engage with our external asset managers, issuers and other stakeholders to keep advancing standards so that we can all fully understand and manage the risks we face. We will continue to develop our internal stewardship oversight and reporting capabilities to maximise the resilience of our portfolio to material ESG and climate-related risks.

Undertake a review of our ESG data providers to ensure we are accessing the most suitable data for our needs

Carry out a review of our involvement in Responsible Investment collaborations and wider industry groups to ensure alignment with our objectives and risks

Undertake a review of our Climate Watchlist to ensure it best reflects our highest-emitting portfolio companies

Operationalise internal desk ESG reporting to ensure the process is efficient and scalable

Review our external manager quarterly reporting template and create a quantitative scoring methodology of the data

Launch manager ESG tearsheets across internal desks

Undertake a climate transition survey of alternative managers along with transition mapping of our alternatives portfolio

As part of our 2024/25 business plan milestones, we will measure and report on the progress and outcomes since the launch of the PPF Sustainability Strategy, across its four key goals (including excellence in responsible investment)

Continue to work with the **eFront® ESG Data Service project** to improve Private Market ESG data access

Appendices

Appendix A

Our ESG & Sustainability team

- Claire Curtin, Head of ESG and Sustainability
- Daniel Jarman, Stewardship Manager
- Amina Mimi, Sustainability Analyst
- Anna Paschaloglou, ESG Data Analyst

Appendix B

Meeting the FRC's Stewardship Code

As a 2023 signatory to the Financial Reporting Council (FRC)'s UK Stewardship Code, our report seeks to meet the reporting expectations set out by the Code's 12 principles. The table below provides a guide to where each principle of the Code is discussed within this report.

	Stewardship code principle	Page reference
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	Pages 7 to 18
2	Signatories' governance, resources and incentives support stewardship	Pages 7 to 18 and 41
3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	Page 14, Appendices C and D
4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	Page 19 and 39
5	Signatories review their policies, assure their processes and assess the effectiveness of their activities	Pages 14 and 44
6	Signatories take account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them	Page 15
7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change to fulfil their responsibilities	Pages 16, 17 and 18
8	Signatories monitor and hold to account managers and/or service providers	Pages 18, 19, 22 and 27
9	Signatories engage with issuers to maintain or enhance the value of assets	Pages 19 to 31
10	Signatories, where necessary, participate in collaborative engagement to influence issuers	Pages 32 to 33
11	Signatories, where necessary, escalate stewardship activities to influence issuers	Pages 34 to 39
12	Signatories actively exercise their rights and responsibilities	Pages 34 to 39

APPENDICES CONTINUED

Appendix C

Our Conflicts of Interest policies

Our formal Conflicts of Interest and Code of Conduct policies set out principles and procedures for identifying, assessing and managing conflicts. These policies are reviewed at least annually by the Compliance & Ethics (C&E) team and approved by the Executive Committee.

Register of conflicts and outside business interests

The C&E team maintains a register of employees' conflicts and outside business interests, which it reviews at least once a year. We also share board members' outside interests on our website.

Ongoing training

All employees receive training on conflicts of interest when they start and as part of ongoing development. Employees are also required to attest to the PPF Code of Conduct, which includes declaring conflicts of interest, on an annual basis.

Gifts and Hospitality policy

Our Gifts and Hospitality policy requires all employees to request sign-off from their line manager and the C&E team before accepting gifts or hospitality over the value of £25. The C&E team maintains a register of all gifts and hospitality that have been accepted and declined, with regular reviews to make sure these are within acceptable levels. We also publish board member expenses quarterly on our website.

Personal accounts

Our Personal Account Dealing policy requires all transactions to be approved by line managers and the C&E team. If there's a conflict between the employee, member or the PPF's interests, we may create a list of restricted investments that our employees can't invest in.

Senior manager fitness and propriety checks

We have implemented a version of the FCA's Senior Managers and Certification Regime. As part of this regime, the C&E team meets annually with senior managers to discuss their roles and responsibilities. This includes assessing any potential conflicts and forms part of the annual assessment of their fitness and propriety to carry on their role.

Other checks, as part of this fitness and propriety assessment, include a performance review, a performance review, a personal development plan, along with credit and background checks on a rolling three-year basis plus self-assessments carried out every year.

Procurement processes

When procuring new suppliers, we are subject to the Public Contracts Regulations 2015. Our Commercial Services team makes sure new contracts follow the correct procurement process and are awarded fairly, based on objective criteria.

The Commercial Services team also maintains an ongoing assurance programme for all our suppliers.

The PPF operates a compliance programme that addresses regulatory compliance for a number of topics with which we have either chosen to comply or are required to comply. The compliance programme monitors and regularly reviews these areas to make sure we have up-to-date policies and statements in place, and that we are meeting the standards expected of us.

Appendix D

Our IMA and side letter terms relating to conflicts

IMA – Conflicts of interest

The Manager and its Associates may, subject to the principle of Best Execution and without prior reference to the Board, effect transactions in which the Manager has, directly or indirectly, a material interest or relationship of any discretion with another party which may involve a potential conflict of interest with the Manager's duty to the Board. Without prejudice to the generality of the above:

- in order to mitigate the risk of such conflicts of interest from constituting or giving rise to a material risk of damage to the interests of the Board, the Manager has implemented a conflicts of interest policy ('the Conflicts Policy') which identifies the circumstances which give rise to conflicts of interest and documents the procedures to be followed in order to manage such conflicts. Further information is available on the Manager's Conflicts Policy on request; the Board acknowledges that it has access to a copy of the Manager's Conflicts of Interest Statement within the Corporate Governance section of the Manager's website;
- where a conflict of interest is found to exist, any transaction effected by the Manager on behalf of the Board will be in the Board's best interest and on terms no less favourable to the Board than those which would have applied had there been no conflict;
- the Manager and its Associates shall make investment decisions having regard to the Portfolio's interest and shall have regard to their interests and the interests of their clients only in so far as is necessary to comply with the requirements of any financial regulatory authority;
- the Manager and its Associates may act as agent or principal in any transaction on behalf of the Board for the account of the Portfolio without prior reference to the Board provided that the terms obtained for the benefit of the Portfolio are at least as good as those generally available elsewhere;
- the Manager and its Associates are authorised in accordance with its duties under this Agreement to consider the advisability of including within the Portfolio or to effect transactions on behalf of the Portfolio in the ordinary shares of, and/or other Securities issued by the Manager or its Associates; and
- subject to the Aggregation of Deals Clause, the Manager and its Associates are authorised in any one transaction, or series of transactions, where it is in the best financial interests of the Board, to act for more than one portfolio or client collectively (including the Portfolio) without the written consent of the Board.

Side letter – Conflicts of interest

If the General Partner determines that a transaction with or by the Fund presents an actual or potential conflict of interest, the General Partner shall:

(a) disclose such conflict of interest to the Advisory Board and seek approval thereof prior to engaging in such transaction; and

(b) ensure that any such transaction is on an arm's-length basis on terms substantially similar to those which would otherwise be negotiated with an unaffiliated third party and the terms thereof are disclosed to the Advisory Board.

In relation to investments in pooled fund vehicles for which the PPF will only be able to negotiate its specific terms in a side letter, it would be more usual that the main governing document of the fund vehicle (i.e. typically a limited partnership agreement (LPA)) will nearly always have its own manager conflict of interest provisions.

Conflict of interest wording that is more prescriptive (and investor protective) than the above

In these cases, we will not seek the above side letter wording as the protection is already in the LPA that the PPF can enforce however the PPF should ensure that it has obtained a copy of the relevant manager's conflict of interest policy.

APPENDICES CONTINUED

Appendix E

Our voting principles

We are guided by the best practice as demonstrated by our stewardship provider, EOS, and our voting principles closely align with their global voting guidelines.

- **No abstentions:** We aim to take an active position on matters open to vote and aim to either vote in favour or against a resolution and only abstain in exceptional circumstances – for example, where our vote is conflicted, a resolution is to be withdrawn, or there is insufficient information upon which to base a decision.
- **Support for management:** We seek to be supportive of boards and to recommend votes in favour of proposals unless there is a good reason not to do so in accordance with our voting guidelines, global or regional governance standards or otherwise to protect long-term shareholder interests.
- **Consistency of voting:** We aspire to be consistent in our votes and positions in regards to specific companies or issues across our entire portfolio. We seek to provide clarity on our positions through our asset managers and designated stewardship services provider, in accordance with our RI Strategy and stewardship priorities. However, we recognise the limitations of investing across a range of mandates, especially the challenges of implementation within pooled funds at times, so we do this on a best-efforts basis.
- **Engagement:** Engagement is a fundamental aspect of our RI strategy, which we apply across all asset classes. Within our Public Equity portfolio, we have identified a list of high-priority companies our 'Climate Watchlist'. We endeavour to engage with these companies prior to voting against a resolution if there is a reasonable prospect that this will either generate further information to enable a better quality of voting decision or change the approach taken by the company. We also seek to inform such companies of any anticipated votes against management, together with the reasons why, through our designated stewardship services provider, EOS. For non-Climate Watchlist companies, we will inform companies on a best-efforts basis.

On matters related to good governance such as board independence, competent leadership, and separation of governance roles, we leverage the deep expertise and recommendations of our stewardship services provider EOS.

Climate change

Supporting the global transition to a low-carbon economy is a key focus for the PPF. Stewarding our portfolio companies' transition towards Net Zero is a fundamental aspect of managing climate-related risks. Through the creation of our Climate Watchlist of high-emitting portfolio companies, by working with our mandated portfolio managers and our stewardship services provider EOS, and by participating in relevant industry initiatives, we expect progress to Net Zero to be continual and measurable. In order to track and encourage progress on climate, we utilise the management quality assessment of companies provided by the Transition Pathway Initiative (TPI). We are also informed by the Climate Action 100+ Net Zero Benchmark for those companies included in this assessment.

We are also guided in our voting by leading industry initiatives around Net Zero alignment for both asset owners and our asset managers.

For 2024, we have raised our expectations for climate-related voting guidelines as noted below:

Transition Pathway Initiative (TPI): Our TPI management quality score threshold has been raised based on the expanded assessment framework (e.g. to Level 4 for Automotives and Diversified Mining). Banks are now also subject to this threshold.

Climate Action 100+ Net Zero Benchmark: We will consider voting against companies that lack a comprehensive medium-term emissions reduction target or that don't have reporting aligned with TCFD recommendations.

Coal: The coal phase-out policy that we introduced in 2023 has been further refined to target companies expanding coal infrastructure and those that are not implementing Paris Agreement-aligned phase-out plans.

Shareholder proposals: With the rise of 'anti-ESG' proposals, increased scrutiny is given to proposals and proponents to ensure voting aligns with our ESG expectations. We will continue to review internally any shareholder proposals related to climate change.

Biodiversity: From 2024, we expect to see 'Say on Nature' proposals on company agendas more frequently. These will be reviewed on a case-by-case basis.

Deforestation: We will continue to focus on companies scoring poorly on Forest 500, which assesses companies' disclosure and management of deforestation risks. This is defined as companies that score below 10 on the Forest 500 ranking (and financial institutions that score 0).

Antimicrobial resistance (AMR): We will generally seek to support shareholder proposals on this topic where they are relevant and aligned to our interests.

Assessing human rights laggards

Following significant progress in 2023 to target human rights laggards across several focus areas, the approach for 2024 will remain largely unchanged.

We may recommend a vote against responsible directors if:

1. **There are general failings:** i.e. a company is in clear breach of its applicable regulatory responsibilities (e.g. the UK's Modern Slavery Act), or has caused or contributed to egregious, adverse human rights impacts or controversies, without providing appropriate remedy. Such failings may be indicated by evaluation from the engagement manager and/or severe controversy scores by third-party ESG data providers. See more on modern slavery to the right.
2. **The company is a benchmark laggard:** i.e. a company scores significantly lower than industry peers (bottom 15–20 per cent) within credible external benchmarks of companies on human rights, without providing a sufficient explanation or a commitment to improve.

Key benchmarks we use are:

- **2023 Corporate Human Rights Benchmark** – Ranks some of the world's largest companies on the policies, processes, and practices they have in place to systematise their human rights approach and respond to serious allegation.
- **2022 Ranking Digital Rights Index** – Ranks some of the world's largest technology companies on their commitments and policies affecting users' freedom of expression and privacy rights.
- **2022 BankTrack Human Rights Benchmark** – Ranks some of the world's largest banks on their progress towards fully implementing the UN Guiding Principles on Business and Human Rights.
- **2022/2023 Know the Chain Index** – Ranks some of the world's largest companies on their current corporate practices to identify and eradicate forced labour risks in their supply chain.

Modern slavery

Modern slavery will continue to be a key focus. Given the systemic nature of modern slavery and the serious risk it poses to businesses and investors, we expect all UK businesses covered by the Modern Slavery Act to meet its reporting requirements. We further expect the members of the FTSE 350 to be leading in this area, and to take substantial action to address the prevalence of slavery within their supply chains.

The quality of reporting delivered under Section 54 of the Act can act as an important marker for how seriously senior management are taking this risk. It improves accountability and enables companies to identify the areas of their business most at risk. Companies that meet the reporting requirements and clearly disclose the areas of their businesses most susceptible to modern slavery benefit from increased investor confidence. Conversely, non-compliance with the Modern Slavery Act poses a serious risk to long-term investors.

In 2024, we will continue as members of the PRI collaboration initiative Votes Against Slavery. The purpose of this initiative historically has been to engage with FTSE 350 companies around their public disclosure in compliance with the Modern Slavery Act, by writing to the board of each non-compliant company with a targeted letter explaining the nature of non-compliance, and the steps needed to achieve compliance. For 2024, this is being expanded to cover AIM companies that fall under the remit of the Act.

We will again consider withholding our support for the approval of the annual report and accounts at a company's next annual general meeting should the required changes to achieve compliance not occur prior to the AGM. All non-compliant FTSE 350 companies held in the PPF portfolio have been contacted and details of perceived non-compliance communicated.

Diversity & inclusion

Board diversity: We believe that board members should broadly reflect the diversity of society and that there is value in diversity of thought, skills and attributes.

We will consider voting against relevant directors and/or the chair where we determine that board diversity (by gender, ethnicity, age, relevant skills and experience, or tenure) is below minimum thresholds and we determine the company is making insufficient progress to improve. Thresholds may be set at a market level (for example around gender and ethnicity) or may be applied globally (for example around skills and experience).

Building on existing voting criteria around gender diversity, in the UK we support the changes to the FCA's listing rules for board diversity and expect companies to disclose whether they comply – or, if not, why not – with the following targets: at least 40 per cent of board seats and at least one senior board position (Chair, CEO, CFO or SID) held by a woman, and at least one board seat held by someone from an ethnic minority background.

In 2024, we consider the following to be minimum expectations and will likely oppose the chair or other responsible directors if not met:

UK: FTSE 350 (previously only FTSE 100) companies will receive stricter voting outcomes for being non-compliant with FCA Listing Rules approach to gender/ethnic diversity (40 per cent female, 1 ethnic, 1 female at exec level).

Europe and Australia: Matching diversity/independence thresholds with local best practice (e.g. min 30 per cent female in all markets) and continued focus on below board-level diversity.

Asia/GEMs markets: Minimum gender expectation of 15 per cent female directors on boards rolled out across all markets.

Other board governance/remuneration and audit voting policy changes

For 2024 we are implementing several changes in relation to wider corporate governance issues:

Remuneration: We will harmonise standards across regions to improve consistency (e.g. increased focus on disclosure for all Asian, global emerging and European markets), taking a 'common rules approach'.

Board governance in Asia and global emerging markets[:] We will harmonise minimum expectations of committee independence across all markets:

- Audit committee – Must 100 per cent independent; and
- Nomination/remuneration committee – The majority of members must be independent, with an independent chair and no executives.

Japan: Given the continued issues relating to capital inefficiency in the Japanese market, our shareholding policy will be further developed to focus on promoting the wind-down of cross-shareholdings that represent more than 10 per cent of net assets via vote recommendations against directors.

Audit: In North America, 2024 sees the full implementation of our policy focused on auditor tenure and fees (recommends a voluntary auditor rotation after 20 years; non-audit fees of no more than 15 per cent). In addition, we will look at potential votes against audit committee chairs who have been in place for excessive periods of time.

APPENDICES CONTINUED

Appendix F

Our standard RI external manager contract terms

1.1. The Fund Parties acknowledge the importance that the Board places on principles of corporate governance and Responsible Investment. The Fund Parties agree to give appropriate consideration to the relevant principles which may include the Principles for Responsible Investment, to which the Board is a signatory. The Fund Parties acknowledge that they have received, read and understood the Board's Statement of Investment Principles. The Fund Parties acknowledge the Board's need to consider long-term and systemic risk factors in order to manage risks which are relevant to its long-term investment horizon and its statutory responsibilities.

1.2 The Fund Parties will have a process for monitoring current or potential investments in relation to relevant long-term factors including ESG and climate-related concerns. The Fund Parties will ensure that their staff apply due care and diligence to implementing this monitoring process, including considering the extent to which such factors generate investment risks or opportunities.

1.3. The Fund Parties will, in accordance with the Board's commitment to responsible ownership set out in its Statement of Investment Principles, engage in such activities as are appropriate in the circumstances to monitor and influence the management of the issuing entities and other underlying assets, where such activity is considered by the Fund Parties to be likely to enhance the value of such securities and in the best financial interests of the Fund.

1.4. The Fund Parties will procure the exercise of any voting rights attached to the Portfolio investments on the Board's behalf, in accordance with the Fund Parties' voting policy and any market-specific guidelines approved by the Board. The Board reserves the right to rescind, upon one day's advance written notice, the Fund Parties' authority to make voting decisions for specific companies, issues or time periods. The Fund Parties will use best endeavours to facilitate such Board voting decisions to be implemented. The Fund Parties will have in place appropriate policies to manage any conflicts of interest in relation to voting matters and shall report at least quarterly on all votes involving companies where the Fund Parties or an affiliate has a contractual relationship or other material financial interest.

1.5. The Board has put in place a Responsible Investment policy, addressing controversial weapons, company conduct and sovereign bond exposure detailed further below:

1.5.1. the Board will expect companies that are directly involved in the production of anti-personnel landmines, cluster weapons, chemical weapons and biological weapons and of essential components of these weapons to be excluded from its investment universe;

1.5.2. the Board will expect the Fund Parties to exclude from the investment universe sovereign bonds issued by countries subject to complete UN arms embargoes which the UK supports; and

1.5.3. the Fund Parties acknowledge the Board's interest in investee companies making all reasonable efforts to abide by the UN Global Compact and the OECD Guidelines for Multinational Enterprises and that the Board expects its managers to assess the significance of risks and opportunities in relation to their fund's investments. Such assessment may include, where applicable and appropriate, the consideration of the above guidelines. The Fund Parties will assist the Board as is reasonably necessary to manage reputational risk and/or investigations that may arise from individuals investments made where investee companies fail to abide by the above guidelines. Such assistance may include the sharing of the investment research or, in the extreme, divestment or future segregation of profit or loss relating to any investment for which material reputational issues arise.

1.6. In respect of clauses 1.5.1 and 1.5.2 above, the Fund Parties will be provided with a list of excluded companies and countries, which may be updated by notice given in writing from time to time using the form specified in Annex A, signed in accordance with the Board's signing authorities. Such notifications may be sent via email containing a scanned PDF copy of the instruction, sent to the Fund Parties to confirm (or such other email account as is notified by the Fund Parties to the Board in writing).

1.7. In addition, the Board will provide the Fund Parties with an Excel document confirming the constituents of the Exclusion List as provided in the scanned PDF copy. Following receipt of such instruction, the Fund Parties shall use reasonable endeavours to effect such exclusions within a reasonable timeframe and will confirm to the Board that the portfolio has been brought in line with the requested exclusions. If it will become clear to the Fund Parties that for any reason it will not be possible to bring the portfolio in line with the requested exclusions, the Fund Parties will notify the Board.

1.8. The Fund Parties shall prepare and send to the Board and such other person or persons notified from time to time to the Fund Parties in writing on behalf of the Board as soon as reasonably practicable and in any event no later than eight (8) Business Days after the end of the relevant quarter, quarterly reports on:

1.8.1. compliance with the policies and standards set out in the Statement of Investment Principles and Principles for Responsible Investment, including any instances where those policies and standards were set aside in order to achieve investment objectives;

1.8.2. the key material ESG and climate-related concerns and relevant metrics associated with Portfolio investments and an explanation of how the Fund Parties have sought to identify, monitor and manage them;

1.8.3. the stewardship activities – including issuer engagement – during the reporting period, including evidence of the effectiveness of those activities; and

1.8.4. voting activities over the reporting period, including full disclosure of any votes and an explanation of any exercises of discretion under the Fund Parties' voting guidelines and conflicts of interest.

Appendix G

Stewardship section of our ESG Questionnaire

Our ESG Questionnaire is a scored mandatory list of questions that prospective investment managers must answer on a pass/fail basis to progress through the tender process. Below is a sample list of questions within the Stewardship section of the questionnaire.

1. Are you a signatory or do you intend to apply for signatory status to the revised Stewardship Code in 2020, or other national stewardship codes? Yes/No

   (a) If you are not a signatory to the Stewardship Code, please provide rationale.

2. Please explain how active ownership practices, such as company engagement, are integrated into investment decisions.
3. How do you set objectives, measure progress and report on the outcomes of your engagement with issuers on ESG issues?
4. How do you encourage better disclosure from corporates, especially regarding climate risks?
5. For what percentage of investments (by value, over the last year) have you undertaken engagement on climate change, environmental, social and governance issues?
   - If percentage >0, please provide detail on processes (e.g. on monitoring processes, engagement strategy) by engagement topic.
   - Please provide recent examples of such engagement and your assessment of the effectiveness of your stewardship activities, e.g. instances of positive change at issuers versus the level of influence you had on the issuer.
   - If percentage = 0, please explain why engagement was not undertaken.
6. What escalation processes do you have in place for situations of continued underperformance on the engagement objective? Please give two recent examples of where this has occurred in practice.
7. Please also describe in detail your approach to voting shares, and whether your voting actions are determined internally or outsourced to a proxy voting agency. If the latter, do you ever override the agency's recommendations? Please give a recent example.
8. How do you approach ESG and climate-related ballot items in your voting decisions? Have you voted against management and/or filed or supported shareholder resolutions on ESG or climate issues? If so, please give an example of where you have done this, and your rationale for doing so.
9. How do you overcome challenges such as share blocking markets or stock lending procedures when looking to exercise your votes?
10. What customisation do you offer to clients on voting decisions – can clients retain votes to determine in line with their own policies? Please also describe the fund-specific reporting on all voting that you provide.
11. Please describe what engagement activities you carry out from a policy, market-functioning or industry perspective.

Appendix H

Our ESG review process

Our four-stage ESG review is an essential part of selecting and appointing managers that align with our principles.

RI criteria and ESG considerations as part of our investment process

Stage	ESG requirement	
1	**Request for proposal/ identification**	Evidence of firm-level and strategy-level ESG policy, PRI support, and capabilities or resources for ESG integration
2	**Selection/due diligence**	Ensure ESG processes are in place, appropriate industry guidelines are followed and reporting is available
3	**Appointment**	Binding ESG and climate risk clauses inclusion in legal documentation (e.g. IMAs and side letters)
4	**Post funding**	Ongoing monitoring and engagement with external managers, regular fund-level ESG, carbon and stewardship reporting; commitment to continuous improvement

Pension
Protection
Fund

Statement

We confirm that we have taken appropriate measures to ensure that our stewardship reporting is fair, balanced and understandable.

Michelle Ostermann,
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