Pension Protection Fund

Responsible Investment Report

2021/22

How we invest responsibly to serve our members and levy payers

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. When the employers sponsoring these schemes fail we're ready to help.

We do this by paying our members, investing sustainably and charging a levy. 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.

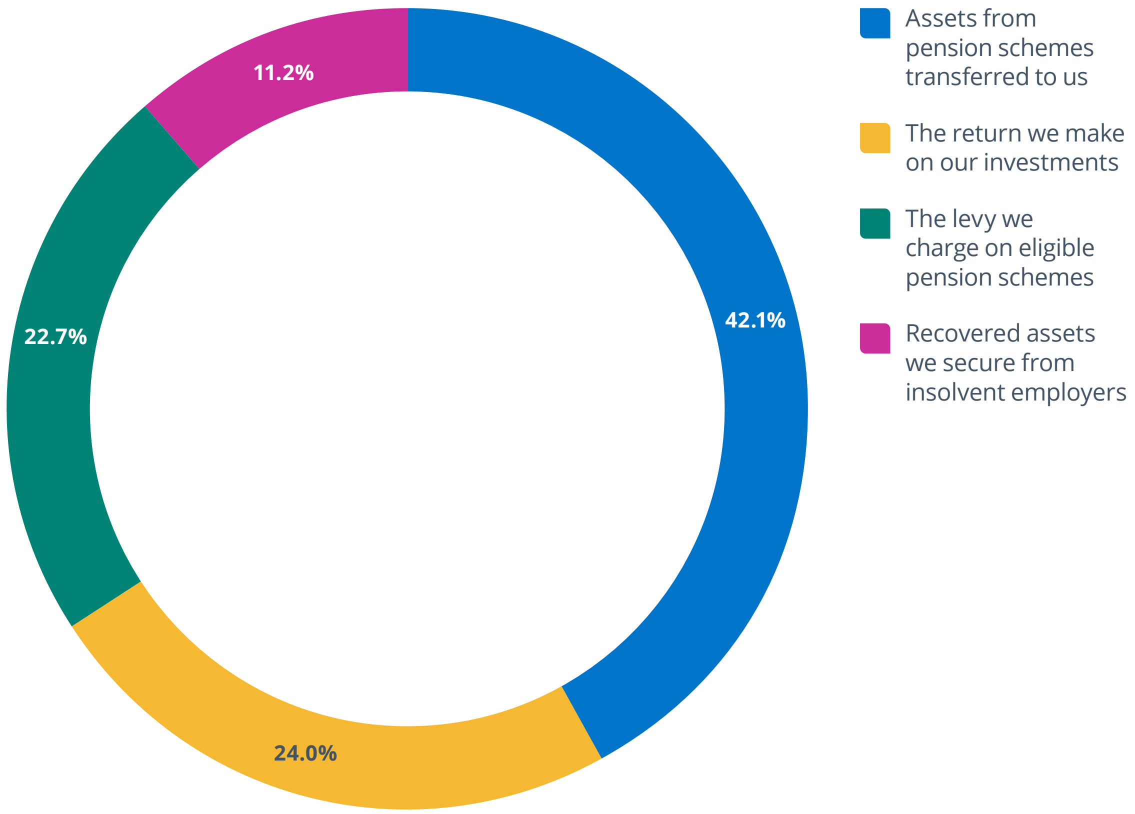
How we are funded

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, shown in the chart below.

How we invest

We hold £39 billion in our investment portfolio (31 March 2022). This amount is managed in a broadly 50/50 split by internal and external investment teams. We invest across public and private markets, seeking to capture both capital growth and reliable income generation to meet pension commitments.

Split of funding sources



The PPF in numbers

as at 31 March 2022

9.7 million
members of schemes we protect

5,220
DB pension schemes protected

294,847
PPF members*

£39 billion
of assets under management

* 187,039 members in payment and 107,808 deferred members with an average age of 66.

Contents

Message from our Chair

We are constantly adapting to a changing world. We have learned – and will continue to learn – a great deal on our journey, and have much to share, which may be of benefit to others. Our intention is to share our insights transparently while also learning from others in the industry. This report is a demonstration of that intention.

Continuing our commitment to transparency, we recently published our second Climate Change Report in line with guidance from the Task Force on Climate-related Financial Disclosures (TCFD). We see stewardship as essential to managing climate risks, and aim to encourage companies to deliver measurable outcomes and make use of market-leading tools to move towards a net zero pathway.

However, we don't just focus on climate. The topics of human and labour rights, such as modern slavery and Diversity & Inclusion (D&I), remain particularly important to us, along with Board structure and remuneration. Over the past year, we continued to use our rights to exercise our voice, including escalation and voting against management in cases of unfruitful engagement.

We will continue working in close collaboration with our asset managers and partners to implement our priorities in responsible investment. These include continuing to develop our stewardship practices in a way that we believe will reduce the thematic risks to which our investments are exposed – enabling us to help safeguard our members' financial futures and a better future for all.

> "We have learned – and will continue to learn – a great deal on our journey, and have much to share, which may be of benefit to others."

Kate Jones
Chair

Key highlights of the year

Over the year, we continued to improve ESG risk disclosure across our portfolio, set new voting guidelines and aligned our policies and tools with more ambitious climate transition targets.

Putting good stewardship at the heart of what we do

- Accepted by the FRC as a 2021 signatory to the UK Stewardship Code

Signatory of: STEWARDSHIP CODE | 2021

- Shortlisted for the inaugural Pensions for Purpose Paris Aligned Awards 2021 for best Climate Governance & Strategy statement

PENSIONS FOR PURPOSE

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

- Updated climate policy and tools to reflect scenarios based on global action to limit global warming to 1.5°C — **1.5°C**
- Pushed all our external managers for greater ESG risk disclosure, and stipulated more sophisticated analysis on climate risks from managers of listed securities

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Encouraging our investments to contribute to a fairer, sustainable future

- Contributed to the evolution of tools to support Net Zero stewardship, including the IIGCC Net Zero Stewardship Toolkit

IIGCC The Institutional Investors Group on Climate Change

- Engaged with 196 companies on specific issues & objectives during the year[1] — **196**
- Close to 50% of our engagement objectives progressed by at least one milestone during the year, across regions and themes[1] — **45%**

Using our voice to deliver positive change

- Votes cast on our behalf at company annual general meetings (AGMs)[2] — **54,053**
- Number of meetings voted at[2] — **4,923**
- Opposed management on at least one resolution at 67 per cent of meetings
- Introduced new company voting guidelines on three key themes, and consolidated more voting decisions to reflect our priorities

Awards and recognition 2021/22

Professional Pensions Rising Star Awards 2021
Our Contact Centre won Team of the Year; Lauren Aitchison-Turner won the Excellence in Customer Service and Communication Award; Hannah Swallow was Highly Commended for the Excellence in Customer Service and Communication Award

Investments and Pensions Europe (IPE) Awards 2021
We won European Pension Fund of the Year, Fixed Income Strategy and Long Term Investment Strategy

Professional Pensions Women in Pensions Awards 2021
Claire Curtin won Investment Manager of the Year; Georgina Howes was Highly Commended for the Rising Star Award

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

Taking a holistic approach **to sustainability**

At the PPF, we are committed to demonstrating best practice in sustainability across our organisation. As climate change, social inequality and corporate ethics receive unprecedented global attention, it's important that we embed environmental, social and governance considerations not only into our investment decisions, but across all our operations.

This year we launched our new three-year Strategic Plan for 2022/25. One of our strategic priorities – to 'make a difference' – includes our aspirations to develop a holistic sustainability strategy, continuing to build on our established approach to responsible investment, and reducing our own environmental impact as an organisation.

To support this strategy, we have formed a Senior Leaders Sponsorship Group for non-executive and executive committee members to provide input and direction as our work progresses. We are also creating internal working groups to address specific development and implementation initiatives. We will continue pushing ourselves to further the sustainability of our investments, as well as managing our own operational impact – both directly and indirectly through our suppliers where we can.

> "We'll push ourselves to further the sustainability of our investments, as well as managing our own operational impact."

Oliver Morley
Chief Executive

Strengthening our stewardship commitment

Our Responsible Investment strategy puts ESG integration at its heart, reflecting the fact that our investments can be influenced by environmental and social factors to make a real difference. We view stewardship as one of the most powerful ways we can drive companies to transform, generating real world impact.

"Every day, we look to exercise our rights and engage with the issuers we invest in to make sure they're fully accountable to shareholders and other stakeholders."

Barry Kenneth
Chief Investment Officer

Our new Stewardship Policy underlines this belief and commitment. Every day, we look to exercise our rights and engage with the issuers we invest in to make sure they're fully accountable to shareholders and other stakeholders. Equally, we rigorously monitor the stewardship activities of the external fund managers we appoint – holding them to the same standards we hold ourselves.

Reflecting this commitment, we were delighted to be accepted by the Financial Reporting Council in March 2022 as a signatory to the UK Stewardship Code 2020. The UK Stewardship Code sets high standards for those investing money on behalf of UK savers and pensioners, and those that support them. We are committed to striving to meet its principles in all our activities.

Escalating our engagement through voting is a critical element of our stewardship activities. We drafted new voting guidelines during the year to inform our voting decisions in the upcoming AGM seasons. The guidelines summarise situations where we will consider voting against management on key issues relating to climate change, modern slavery and D&I, reflecting our own focus areas as an organisation.

During the year, we decided to further consolidate our voting processes across our different equity mandates by bringing more under the remit of our stewardship services provider EOS. We hope this will give us better oversight and consistency across our voting decisions, allowing for greater alignment with our stewardship priorities.

Our progress at a glance

How we advanced our plans in 2021/22

Stewardship

We said we would...	So we...
Implement bespoke voting policies for key themes	- Introduced new company voting guidelines for climate change, modern slavery and D&I See page 11
Actively support stewardship initiatives and peer collaboration to drive long-lasting change in our focus areas	- Actively participated in a working group for the newly launched IIGCC Net Zero Stewardship Toolkit See page 26 - Continued our participation in the PRI's collaboration on Modern Slavery compliance in UK listed companies See page 26 - Helped to develop a cross-body industry-standard TCFD template for managers to report carbon emissions See page 26

Climate change

We said we would...	So we...
Conduct a climate alignment assessment of our entire portfolio	- Carried out a Net Zero alignment project across our complete portfolio to assess our alignment with the Paris Agreement and identify highest priority engagement targets See page 27
Act to reduce exposure to climate risks across our portfolios	- Transitioned to our new equity benchmark to drive a significant reduction in the carbon exposure of our equity mandates See page 10

Reporting

We said we would...	So we...
Continue to develop our analysis and understanding of ESG risks	- Further improved our access to underlying ESG data via our portfolio management systems, especially for private markets See page 16
Seek continued improvement in transparency and reporting across our mandates	- Started requiring regular ESG and climate data from our Alternatives managers See page 23 - Expanded the range of TCFD-related metrics on which our Liquids[1] managers report to us See page 23 - Improved the transparency on our managers' voting activities for listed equities See page 28

Identifying opportunities

We said we would...	So we...
Explore opportunities for investment in sustainable assets within forestry and infrastructure	- Invested in a pioneering urban resilience fund to support cities in delivering critical resilience infrastructure projects - Grew our investments in forestry by 20 per cent and participated in the seeding of a new afforestation fund during the year

1 'Liquids' refers to Global Credit, Public Equity, Absolute Return, Emerging Market Debt and Strategic Cash. All of these, apart from Strategic Cash, are managed externally.

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 investing for two main 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 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.

Taking action

Culture is considered to be a key enterprise risk so our Executive Committee is now actively tracking a KPI on culture on a regular basis that reflects the FCA's culture measurements of purpose, governance, leadership and people policies. An indicator measuring our performance for responsible investment and active stewardship is a key component of the purpose element. This aims to ensure that our beliefs and culture are continually enabling effective stewardship.

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

Our approach to Responsible Investment (RI) and stewardship

Our RI Framework puts our core beliefs into practice:

RI Framework

Governance & accountability	Strategic direction & policy	Risk management	Metrics & transparency

Priorities

Climate change	Stewardship	Reporting
Climate & sustainability policies & strategies	Engaging with fund managers	Internal ESG Dashboards
Climate stewardship	Engaging with issuers	Investment Committee & Board reporting
Climate risk assessments & sustainability reporting	Voting of shares	External RI reporting
Climate opportunities	Collaborative engagement & public policy	External Climate reporting

OUR PURPOSE AND GOVERNANCE CONTINUED

Whenever we make investment decisions and consider our investment strategy, we also apply these 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 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 RI strategy as well as our overall long-term investment objectives. Teams at every level of our governance structure have been highly active this year in helping to advance greater transparency on the sustainability of our portfolio investments, strong stewardship across our assets, and productive engagement with the companies and issuers we invest in.

Function	Roles & responsibilities	Taking action: RI activities in 2021/22				
PPF Board	Highest governing body with oversight for responsible investing (RI) and stewardship activities (including climate-related)	Approved our new voting guidelines in March 2022 (see Appendix E)	Discussed in detail the RI activities and progress taking place throughout the year, including outcomes from the transition to a new lower-carbon equity benchmark and the Paris Portfolio Alignment Project	Undertook training to expand the Board's knowledge of climate change risks and how these can be monitored and managed through engagement and voting	More training scheduled in 2022/23 around our sustainability strategy	
Investment Committee	Responsible for developing and maintaining the PPF's RI and stewardship principles and policies (including climate-related)	Approved the update to our Climate Change Policy in December 2021 (see page 11); reviewed and approved our Stewardship Policy and the new voting guidelines in March 2022	Reviewed the RI report ahead of submission to the FRC, and reviewed the TCFD report	Our RI and climate-related activities and progress were reported on and discussed at four IC meetings during the year, ensuring the committee had regular oversight on implementation of our policies	Undertook the triennial review of our Manager Selection Framework, including approving our recommendation to carve out a more explicit ESG score	
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	ESG reviews of the portfolio discussed with our CIO and Head of Investment Strategy through monthly dashboards	ESG and climate assessments continued to be formal components of all investment due diligence and manager monitoring processes	A number of teach-ins held with in-house portfolio managers, including dedicated workshops on the Paris Portfolio Alignment Project for each desk	In-house portfolio managers given access to more ESG and climate-related resources from external providers through our investment risk systems	PPF shortlisted in November 2021 for the Pensions for Purpose Paris Aligned Award for the Best Climate Governance and Strategy Statement
ESG 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 our new voting guidelines during the year	Provided updates in the daily Investment team meetings on ESG issues and trends throughout the year	Saw our dedicated ESG resourcing expand with the addition of an ESG data analyst to help streamline and improve efficiencies within our ESG data management	Reviewed all managers and stewardship provider at least annually	Our Head of ESG was one of the first participants to sit the CFA's pilot of its new Certificate in Climate and Investing qualification and was awarded the certificate in early 2022
Asset Managers and Stewardship Services Provider*	Follows the PPF's RI Framework and stewardship policy, undertakes ESG integration and issuer engagement then reports transparently and accordingly	**Asset Managers**		**Stewardship Services Provider***		
* EOS at Federated Hermes.		Having rolled out our quarterly ESG reporting templates for Liquids managers last year, these managers are now required to report on an expanded range of TCFD metrics for portfolios	To improve disclosure from our Alternatives managers, we encouraged a number of managers to join the ESG Data Outreach project initiated by eFront (see more on page 21)	We further consolidated our voting processes by bringing more under the remit of EOS, giving us better oversight of our voting decisions	For pooled equity funds, we have a split voting set-up that allows us to override on significant votes which we have used during the year	

OUR PURPOSE AND GOVERNANCE CONTINUED

Key governance actions this year

1. Reviewing our principles and policies

Our Board has committed that the Investment Committee will review our Statement of Investment Principles (SIP) and all responsible investment policies annually to ensure they stay relevant and ambitious.

During the year, the Investment Committee reviewed our SIP, our Climate Change Policy, our Stewardship Policy and our Exclusion Policy. The committee also approved our new voting guidelines. All policies are available on our website.

2. Setting our 2022 voting guidelines

During the year under review, our Investment Committee approved the new PPF voting guidelines, which provide clarity on our intentions for voting decisions during the annual general meeting (AGM) season around a few core stewardship issues. Developed by our ESG team, the guidelines leveraged best practice, as demonstrated by our stewardship services provider EOS and closely align with its global voting guidelines.

Our key themes for 2022 have been guided by our own organisational priorities. They include: management of climate-related risks, modern slavery, board diversity in terms of gender and ethnicity, and executive committee diversity.

The aim of our guidelines is not to duplicate the EOS global voting guidelines, but rather to provide stakeholders with a concise document outlining areas of focus on issues that are material to us. On matters related to good governance such as board independence, competent leadership, and separation of the governance roles, we primarily look to leverage the deep expertise and recommendations of EOS.

3. 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. This 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 Report 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 and carbon intensity by asset class.

We provide monthly updates on the management of our climate-related and other ESG risks to our CIO and the Head of Investment Strategy. We also highlight portfolio-relevant information or events as they arise in our daily investment meetings.

"Keeping every level of our governance structure informed of our RI and stewardship activities is essential to monitoring our progress."

OUR PURPOSE AND GOVERNANCE CONTINUED

Developing our people

Resources and training

During the year, we have focused on continual development and training across the entire Investment team on ESG matters and stewardship activities. Within the ESG team specifically, we have hired an ESG data analyst to improve our efficiency of collecting, assimilating and reporting on ESG and stewardship. More recently, we have also created a full-time dedicated Stewardship Manager role as we recognise the need for a senior person with specialist experience to lead our strategy and activities in this area.

However, we continue also to work with an external specialist stewardship services provider with its own extensive, diverse and experienced stewardship team. We regularly assess whether this provider (EOS) and our external fund managers have the right expertise, policies, research and resources to carry out day-to-day stewardship activities on our behalf. See page 17 for more detail on how we thoroughly review our stewardship services provider and our fund managers' capabilities within our appointment and monitoring processes.

Training sessions and teach-ins for the Investment team have been provided on an ongoing basis. Our Talent & Development department is fully supportive of our investment staff sitting ESG-specific certifications including the CFA Certificate in ESG Investing and the recently-launched CFA Certificate in Climate and Investing. Our Head of ESG participated in and passed the pilot exam for the latter qualification in early 2022.

Our Board and Executive Committee received dedicated training in autumn 2021 to expand their knowledge of climate change risks and how these can be monitored and managed through engagement and voting.

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 accounts 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 the culture assessment mentioned earlier on page 8.

Our commitment to industry-leading diversity

We're actively building a diverse and inclusive workplace, where everyone can feel able to be themselves and is valued for their differences.

Over the past three years, we've done a lot of work to make our structural processes more inclusive. For example:

- Rather than assume our recruitment processes aren't disadvantageous to anyone, we've thoroughly reviewed them to check for and prevent any inadvertent barriers and bias
- We've continued to nurture, develop and promote internal talent, investing in future leaders, specialist training and flexible working
- We aim for all groups, regardless of background, to be fully represented at all levels of our organisation.

Today, 79 per cent of employees agree with the statement that, 'the culture at the PPF allows people like me to be myself' and 86 per cent agree that we actively encourage diversity in all its aspects, with strong agreement in certain under-represented groups. We're confident that we're doing a lot to support and increase diversity, but we're aware that this work takes time to come to fruition, particularly as we have low levels of staff turnover.

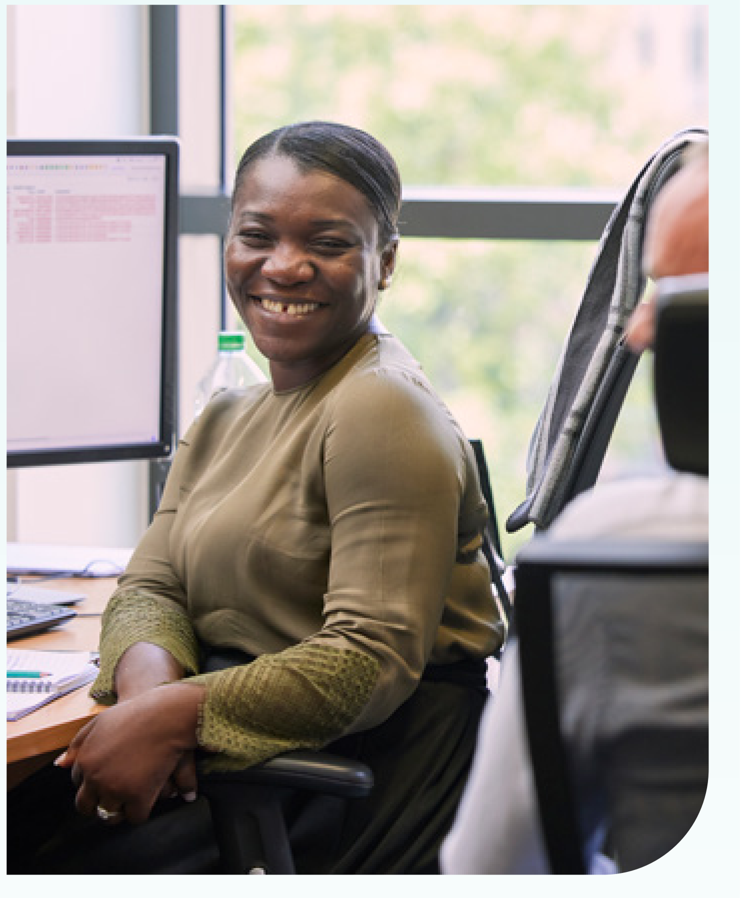
86%

of PPF employees agree the organisation actively encourages diversity

Next steps:

Our ambition is to increase ethnic minority representation at all levels of our organisation. As we shared in our Diversity Pay Gap report, we also have specific targets to increase the number of black people who we hire as new joiners and in senior roles, to reflect the ethnic diversity of Croydon where we're headquartered.

While we've increased ethnic minority representation at Board and Executive Committee level, our overall low staff turnover hasn't allowed us to drive change as fast as we would like. To address this, we continue to run apprenticeship programmes, build our talent pipeline and nurture, develop and promote people internally.



OUR PURPOSE AND GOVERNANCE CONTINUED

Reviewing our processes and assessing their effectiveness

Our stewardship programme is subject to internal and external review, and is overseen by the Investment Committee. Policies, approaches and outcomes are presented quarterly to the committee with action points recorded. Regulatory developments are monitored to ensure that emerging themes and potential regulatory expectations are evaluated. Externally, we participate in the PRI's annual transparency reporting and assessment process, which provides external validation on our RI and stewardship processes. We also confer with our peers and industry stakeholders on a regular basis and share our practices through these forums.

Currently, the PPF Internal Assurance team does not explicitly review the work undertaken by the ESG team. However, in relation to external manager selection, pre-investment sign-off must be provided by the ESG team and this is then reviewed by the Operational Due Diligence team and the Asset & Liability Committee before any investment can be approved.

The ESG team undertakes an annual review of EOS's services, as the principal external stewardship services provider. A summary of this review is then provided to the Investment Committee. We are currently reviewing the need for a structured internal audit or external assurance of the ESG and stewardship activities and an update will be provided in the next reporting round.

This Responsible Investment Report has been approved on behalf of the Board by the Chair of the Board and signed 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 monthly updates to the Chief Investment Officer and Head of Investment Strategy.

> "We place individual accountability high up on our cultural agenda, and it is one of our core values."

Taking action

Improving our process on split votes

During the year, our robust review process meant we became aware of certain high-profile shareholder votes in which the vote direction of our external investment managers differed from one another. We have since established a process to identify and evaluate significant votes internally and then ensure that our desired vote direction is implemented consistently across each of our external investment managers and our stewardship services provider, EOS.

We do not expect this process to fully eradicate situations in which our votes are split, although a significant reduction in these instances is expected.

Managing conflicts of interest

Conflicts of Interest policy

The PPF has a Conflicts of Interests 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 them. We place individual accountability high up on our cultural agenda, and it is one of our core values. 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 and Ethics team. We also have other related policies such as a Code of Conduct & 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 fund 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 it comes to specific decisions, we include provisions for declaring interests at Board and committee meetings.

In practice, 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 the companies. We did this as we were aware that some of the companies in question were 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 D and G for example terms, including 1.4 and 1.8.4). This includes a requirement for our managers to attest that they have adhered to our policies and expectations on a quarterly basis.

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 our agent, and to this end review voting proposals ahead of AGMs, we are satisfied that our voting and engagement agent has suitable expertise, policies, research and resources to carry out stewardship activities on a day-to-day basis on our behalf. Therefore, where conflicts of interest arise, we adopt an arm's length approach and aim not to influence or override the voting decision of our agent.

EOS takes steps to avoid conflicts of interest between us and any other clients, and between us and EOS or its affiliates, and comply with our Conflicts of Interest Policy. EOS notifies us without undue delay of any conflict of interest or potential conflict of interest of which it becomes aware or to which it may be subject and the implications of such conflict of interests for the Board. Read more about how EOS approaches conflicts of interest here.

In practice, over the year EOS has provided transparency of potential conflicts of interest in their communications to us relating to their voting recommendations for a company that might be one of their clients (or affiliated with a client of EOS or Federated Hermes).

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 and accounts. We've also published our second dedicated Climate Change Report this year in line with Task Force on Climate-related Financial Disclosures (TCFD) requirements. Our Head of ESG frequently speaks at industry conferences and events.

More broadly, we actively seek our members' and stakeholders' views and feedback by a number of 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.

Assessing receptiveness to our RI approach

Our latest review of the views and feedback received during our annual PPF Opinion Formers research assessed their receptiveness to the PPF's approach regarding ESG and diversity & inclusion. We also asked about their familiarity with our various sustainability reports, including our RI reports. We are considering the findings from this in the context of our overall sustainability communications strategy and exploring how to further improve the usefulness of our reporting to our stakeholders.

Capturing levy payer feedback

We know that 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, over the past three years we've introduced biannual structured SME Forums, along with ongoing informal meetings, surveys, focus groups and email newsletters to gather feedback and share information. These communication channels have been very valuable.

96%

Average levy payer satisfaction

Our levy payers sponsor a total of 5,220 schemes, comprising 9.7 million members. We're pleased to have exceeded our target of 80 per cent customer satisfaction this year, with over 96 per cent of levy payers feeling satisfied with the combined customer services offered by the PPF and our insolvency risk scores provider Dun & Bradstreet (D&B).

Engaging our employees

The PPF has a unique role spanning both public and private sectors. This gives us a culture and working environment that our people are proud to be a part of. Our staff consistently say they would recommend working here to family and friends and, despite the phenomenon of the 'Great Resignation' following the Covid-19 pandemic, our employee turnover to date has remained low.

98%

of our people feel we make a positive difference

We have a strong and clear sense of purpose, which is attracting people who are motivated to make an impact in the world. Ninety-eight per cent of our people feel we make a positive difference and 88 per cent say they and their teams regularly discuss how to improve our service and performance.

Implementing the SM&CR regime

Publishing and implementing our version of the FCA's Senior Managers and Certification Regime is one key way we hold ourselves to a high standard across all that we do. This 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 first published our version of the SM&CR in 2019 and it's now become an integral part of our organisation and how we conduct ourselves. It has helped shine a light on exactly who and what senior managers are accountable to and for, so it's easy to find that information and work effectively on processes across the organisation.

One of the functions is ESG, where 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 and underlined the importance of a clear and effective governance structure. We expect all staff to perform their activities in line with the standards we stipulate. As detailed on page 8, our ICARE values set the foundation for how our staff behave and adhere to the conduct rules.

> "We have a strong and clear sense of purpose, which is attracting people who are motivated to make an impact in the world."

Following an external review in 2021/22 of our SM&CR approach, we're pleased to have received a very positive report on our progress. The reviewers were satisfied that we're implementing the regime in a way that's reasonable and proportionate, and that our senior managers are overseeing their responsibilities appropriately.

Our investment approach and incorporating ESG

Our investment objectives

The PPF portfolio is currently managed to achieve two long-term objectives:

- Grow assets at cash + 1.5 per cent annualised over the long term
- Allocate a risk budget to assets in our investment universe as efficiently as possible, while ensuring that the interest-rate and inflation risks within our liabilities are fully hedged through our Liability Driven Investment (LDI) strategy.

The Board sets a risk budget for the Investment team which drives the process for determining our strategic asset allocation. The non-LDI (growth) part of our portfolio is a diversified portfolio of public and private assets with allocations that are optimised against the risk budget. This approach is taken to ensure that we can pay cashflows to our members as they fall due.

> "We manage around half of our assets in-house through a team of portfolio managers. The remaining 50 per cent is managed by external fund managers across a range of vehicles."

How the fund is managed

We manage around half of our assets in-house through a team of portfolio managers across UK LDI hedging strategies, hybrid assets[1] and strategic cash. The remaining 50 per cent is managed by external fund managers across a range of vehicles, including segregated accounts, pooled funds, closed-end funds, co-investments and passive instruments.

We have a highly diversified portfolio of 'growth' assets that are expected to deliver returns in excess of the risk-free rate of return. As well as investing in public market assets, we take advantage of the long-term nature of the fund by accessing illiquidity premia through private markets. We take a considered approach when implementing exposures to asset classes, some of which are non-traditional, to ensure that we optimise our risk budget.

Geographically, a significant portion of the portfolio is invested in UK assets (over 60 per cent), which is largely driven by our internally-managed UK LDI, hedging and cash assets. The next largest regional allocations are to North America and Europe ex-UK.

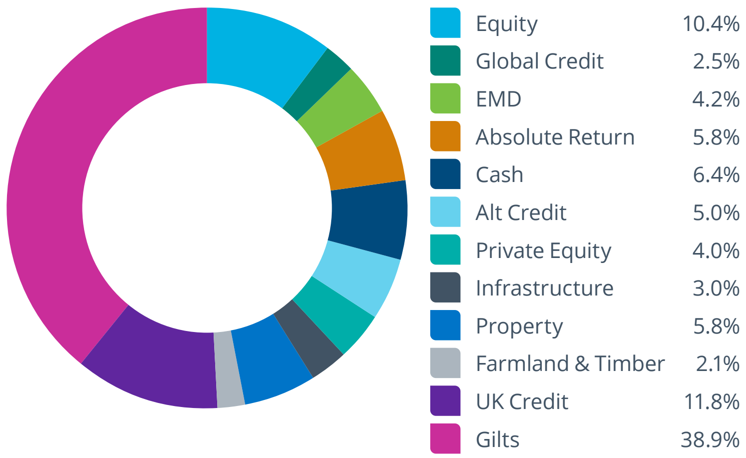
Measuring our performance

We measure the performance of our investment portfolio over five-year rolling targets, which we consider to be an appropriate investment time horizon to deliver the cashflows required to our members. This long-term perspective 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.

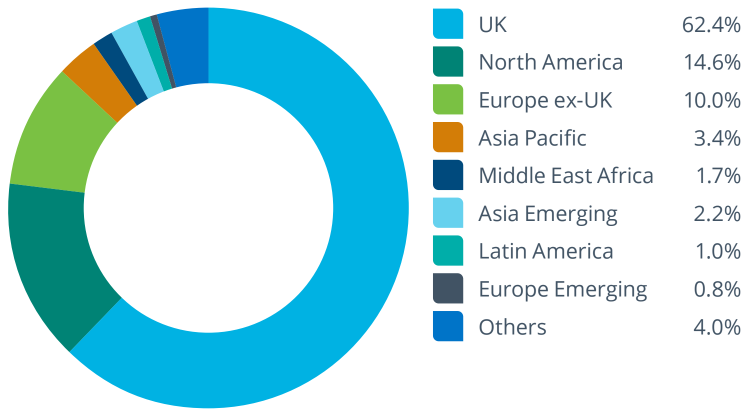
Considering the needs of beneficiaries in our stewardship process and activities

As mentioned, we have built our responsible investment and stewardship processes to safeguard sustainable returns in the long term, 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 striving to generate these returns in a sustainable manner, and consult with our levy payers on an ongoing basis regarding our funding strategy.

Asset allocation of the PPF portfolio



Regional breakdown of the PPF portfolio



1 Investments which possess attributes of both liability hedging and growth assets.

OUR INVESTMENT APPROACH AND INCORPORATING ESG CONTINUED

Our approach to ESG integration

Embedding ESG considerations across the portfolio

In line with our RI strategy, detailed in our first RI report and on our website, we embed material ESG considerations right across our investments and our work with external managers, from selection through to ongoing monitoring and reporting. We also engage with our underlying issuers and use our voting powers to advocate for strong ESG practices.

Increasing our internal access to portfolio data

We regularly review the services of our main ESG data provider, MSCI, which is rapidly expanding its breadth and depth of analysis, especially within climate-related scenario analysis. Much of this expansion feeds directly into our main portfolio management system (Aladdin), so we can run comprehensive ESG assessments for our listed Equity and Credit portfolios on the fly. We have broader ESG data and scores available through our portfolio management systems for 70 per cent of the Fund's net asset value (NAV), accounting for almost all of our listed holdings.

We have more recently acquired access to a new sustainability insight module in our private markets investment software, eFront, which allows us to conduct key ESG risk analysis for our Alternatives funds. Data availability is still limited, however, and more progress is needed, especially on carbon emissions and company exposure to transition and physical risks. See below and more detail in the case study on page 21.

Taking action

We have joined eFront's ESG Outreach pilot project, which is working with private equity and credit managers to collect relevant ESG metrics on their underlying portfolio companies to feed into investor reporting – an important step in addressing the lack of ESG data and reporting from private companies.

> We strive to extend our stewardship activities across our entire investment portfolio, amending our approach depending upon the asset class or strategy managers across a range of vehicles.

Setting exclusions

We insist on a high level of responsible conduct from our underlying issuers, and 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 our fund as far as is practically possible.

Engagement and voting

As outlined in our full Stewardship Policy, we strive to extend 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've been granted.

We believe in engagement as a path for verifiable and tangible impact, focused on material issues. We're strong advocates for supporting companies in building and sustaining good governance and progressing their practices on environmental and social matters. In order to incentivise our issuers and companies, we are committed to transparent voting following a robust assessment and review of the practices of a company. As discussed later in this report (from page 31), we are currently looking at ways to share detail on our voting behaviour via our members website.

Leading on RI standards

Given our size and the global reach of our assets under management, we have the opportunity to encourage improvements in our investment portfolio across the world. We see this as an area where we can influence and help set new standards for the asset management industry, particularly among private market asset classes with less-developed stewardship practices.

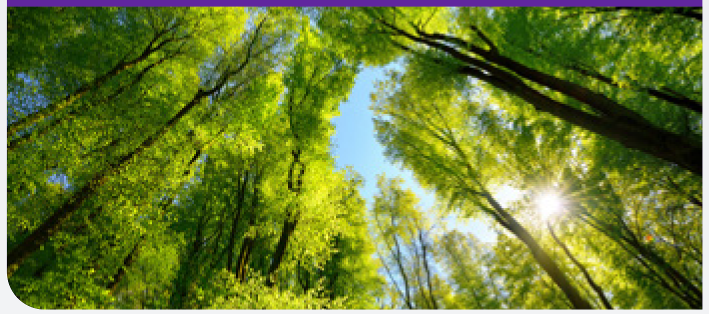
Listed equities have the best-established stewardship practices. But – as shown on page 15 – they only make up a relatively small component of our portfolio. In asset classes where good stewardship isn't fully established, we aim to identify and encourage the most efficient approaches. Our regular review meetings with our fund managers often include education around these approaches and emerging developments.

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

Our key themes

Environment

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



Social

- Conduct, culture and ethics
- 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

OUR INVESTMENT APPROACH AND INCORPORATING ESG CONTINUED

Ensuring our external agents are aligned with our approach

External agents such as third-party investment managers and a specialist stewardship services provider are critical to helping us manage our investment portfolio efficiently and responsibly. We continually monitor our agents' practices in order to keep improving the quality and coverage of their stewardship activities and ensure consistency with our own investment beliefs, policies and guidelines.

A holistic oversight of our external agents is carried out across the Investment team, ESG team, Operational Due Diligence (ODD) team and the Commercial Services team, ensuring robust analysis in the selection process and throughout the life of the relationship.

Oversight of our stewardship services provider

We have chosen 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 companies are engaged with 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 equities, in line with their 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

We monitor EOS's activities through regular contact via email and calls, more formal quarterly client meetings and have fed back to them extensively on the usability of their client portal over the last year. We also participate in their semi-annual client advisory council meetings.

This year we discussed the findings from our Paris Portfolio Alignment Project (see page 27) to see how we can incorporate some of our action points around Net Zero stewardship into their service, especially in relation to engaging with emerging markets companies where there is still little disclosure on these issues. We also discussed the votes around climate transition plans in more detail ahead of the AGM season and how best to hold companies to account against our expectations.

Oversight of our external investment managers

Generally speaking, we expect our fund managers to focus on the next link in the investment chain (i.e. which underlying companies or fund managers they are allocating to).

We apply robust RI requirements that all our external managers must meet prior to investment (and on an ongoing basis), to ensure we are all aligned. We will not appoint or allocate more capital to managers that fall short of these standards. See page 22 for further detail on our manager appointment process, including our minimum requirements and examples of how we have engaged with managers prior to funding.

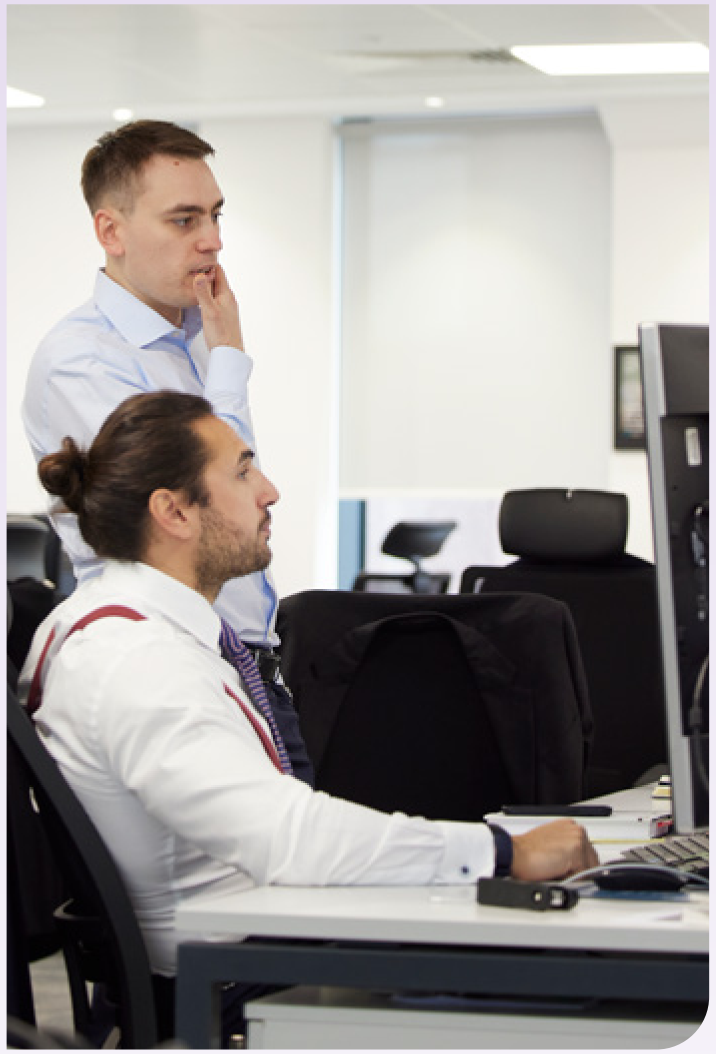
We require disclosure of all existing and potential managers' policies, ESG integration and stewardship processes and reporting to ensure they meet our evolving expectations (see Appendix H). Regular stewardship reporting is already required from all managers of our public markets strategies, and the quality of this reporting feeds into our ongoing monitoring and ratings process. We are now asking the managers of our private markets strategies to provide this reporting as well.

Our external managers are also reviewed by our dedicated ODD team on a scheduled review basis. The ESG team works closely with the ODD team to ensure that ESG considerations are fed into the review process. We 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 managers. The ODD team also reviews managers' policies in key areas such as ethics, business continuity, disaster recovery and money laundering.

Assuring manager alignment with our principles

Our ESG review process (see Appendix H and F for more detail) is an essential part of selecting, appointing and monitoring our managers to ensure that their activities align with our principles. We continuously monitor our managers' progress through regular reports on stewardship activities, ESG-related risks and climate-related information. When we raise issues with specific managers, we report this to our Investment Committee.

During the year, we recommended carving out a more explicit ESG score in the RFP evaluation stage, to increase accountability and transparency. This was approved by our Investment Committee.



"We apply robust RI requirements that all our external managers must meet. We will not appoint or allocate more capital to managers that fall short of these standards."

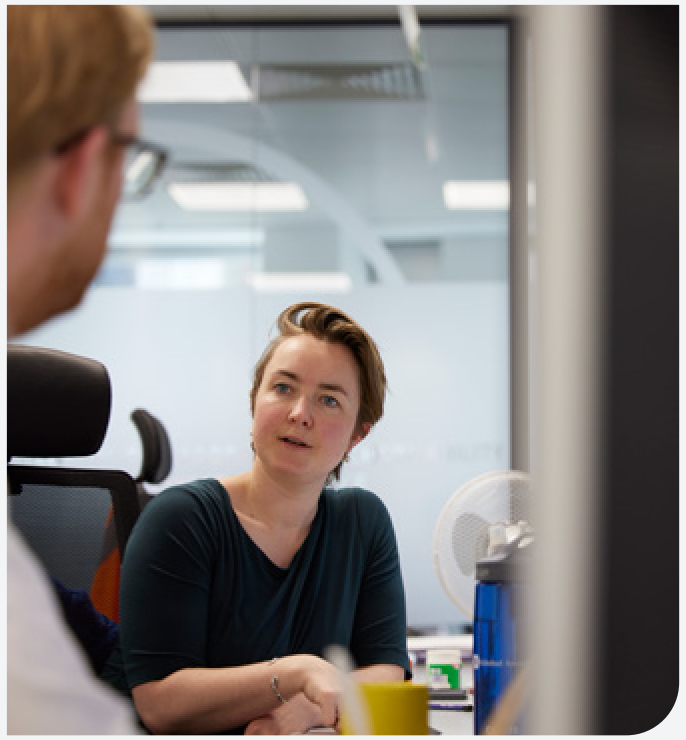
CASE STUDY

Embedding social value into our procurement process

We are now trying to ensure alignment with our principles beyond just our investments, with our largest suppliers too. During the year we piloted an approach to evaluating social value within our own procurement process. These pilots have achieved positive outcomes, with bidders demonstrating actions they're taking in areas including employee wellbeing, community engagement, social capital and the environment.

For example, when the contract with our investment custodian was up for review, we took the opportunity to make social value an important part of the tender. Proposals were scored on metrics including suppliers' carbon reduction plans and commitments to D&I.

The evaluating panel assessed the practices and commitments from the successful bidder, Northern Trust, including their net-zero commitment, carbon reduction plan, commitment to ESG reporting to meet TCFD requirements, and D&I reporting. Although we're in the early stages of this journey, we're building a clear picture of how our procurement practices can impact society and the environment, and what actions we can take to reduce negative impacts.



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 in 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 was provided in our first RI report and on our website.

However, there's still a big 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 the entities in their portfolios.

> "We prioritise engagement in themes of greatest importance to us. As part of this, we work closely with our stewardship services provider to define focus areas."

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 External manager monitoring. We also use intelligence from EOS's engagements to inform our oversight of our managers' activities
Listed Credit: Corporate, sovereign, emerging markets (EM)	External managers	Managers can engage with borrowers, more so around reissuance or refinancing – less influence with 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 community 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

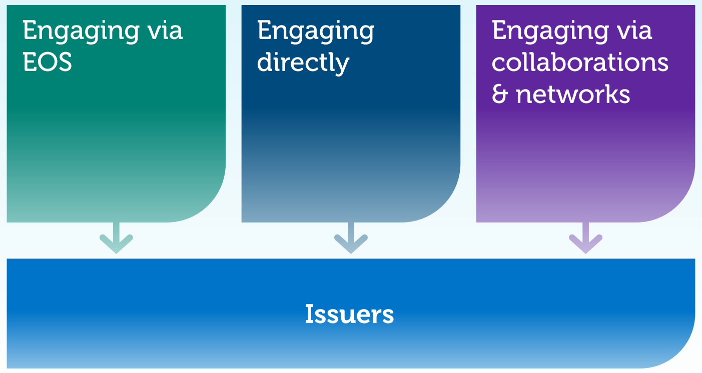
OUR APPROACH TO ENGAGEMENT CONTINUED

Engagement approach for assets we manage internally

We manage approximately half of our assets by value internally (see page 15), all of which are in various forms of fixed income assets. Industry-wide, engagement with fixed-income issuers is at a very early stage of development, 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 engaging on these asset classes, largely depending on the maturity of the asset and whether the issuer is corporate or sovereign/quasi-sovereign.

Engagement options for internally-managed assets



Engagement in 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.

CASE STUDY

Update on the UK's Green Gilts

During the year, after previously engaging with the DMO through investor roundtables and being part of collaborative engagements through the Institutional Investors Group on Climate Change (IIGCC) and the Impact Investing Institute, we participated in the DMO's two autumn green gilt issuances. These were both heavily oversubscribed after seeing unprecedented demand, and we have continued to evaluate how we think the 'greenium' will play out over time.

However, being an active owner, our attention does not end there. We expect there to be continuous engagement between investors and Government to discuss project progress over the lifetime of the debt, especially in terms of the use of proceeds. We are awaiting the publication of the annual allocation report for the inaugural issuances, which should provide more detail to investors on where the proceeds have been allocated (or not) and the share of proceeds used to finance existing versus future expenditures. There will also be an impact report published in the following year detailing the environmental and social impact objectives that have been achieved so far.

As a participant in derivatives markets, we already have an established risk oversight process for our bank counterparties. However, we are exploring how to further embed ESG considerations and ESG practices of banks in order to strengthen our ongoing assessments of counterparty risks related to ESG issues.

Through our Paris Portfolio Alignment Project, we have identified that the downstream activities of many banks are likely to be misaligned with a 1.5°C pathway (especially their lending portfolios). Therefore, we feel that a sector-based approach to engaging on this issue will likely be the most effective. We are currently reviewing ways to carry this out for our counterparties and financials holdings across the fund, including evaluating the recent IIGCC framework that assesses banks on the transition to Net Zero.

Engagement in our UK hybrid and strategic cash assets

We take a nuanced approach to engagement within our UK Hybrid Assets, given that part of the book is invested in public credit and part in 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 can use these systems to monitor the portfolio 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 transition plans when reviewing their debt instruments for inclusion in our portfolio.

We have placed our Public UK Credit and Cash assets under the remit of our external stewardship services provider EOS, who engage with debt issuers on our behalf. EOS are also broadening out their service and platforms to allow 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 pre-investment due diligence, ESG assessments, issuer engagement, and getting the right covenants in place absolutely critical.

Over the last year, we have continued to decline a number of deals in private credit due to governance concerns with an issuer, or we have restructured deals to provide an acceptable level of governance. See case study on page 32 as an example of how we have done this in practice over the year.

Internal credit issuer engagements

Some examples of credit issuer engagements carried out during the period:

Example 1: Engaging with a US financial services issuer on D&I

EOS has been engaging with one of our US financial services credit issuers on D&I since 2019, when they highlighted a need for greater diversity in senior management at a meeting with the corporate secretary. Following this and subsequent correspondence, in November 2021 the company announced the appointment of a second ethnic minority member to the executive committee. The company's operating committee now contains several non-white members. The company also agreed that work still needed to be done with its employees and to increase its non-white supplier spend and its commitments to non-white customers.

Example 2: Engaging with a strategic cash issuer on its climate strategy

EOS engaged a large Japanese financial institution on its climate-aligned financing strategy. The company adopted a policy in 2019 that included a ban on lending to certain new coal power generation projects. However, the company was not clear on what qualified as exceptions. EOS engaged the company, welcoming the target to reduce its project financing on coal power by half by 2030 and to zero by 2040, but pointed out the lack of specific targets. EOS encouraged a strategy with targets in alignment with the Paris goals. EOS also strongly encouraged the company to incorporate a threshold on coal into its policy for corporate lending.

Following this engagement, the financial institution has committed to carbon neutrality in its financing portfolio by 2050 and in its own operations by 2030. It has also updated its policy to ban financing for new coal power plants and expansion of existing facilities, although with some specific exceptions. Its strategy with targets to reduce exposure to high-impact sectors is now also published.

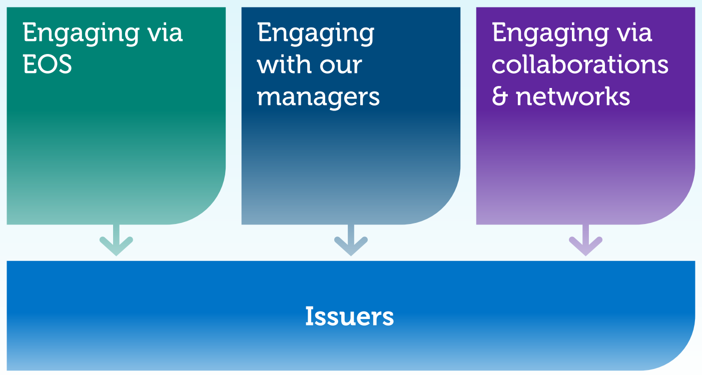
OUR APPROACH TO ENGAGEMENT CONTINUED

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 whom we engage with directly and instruct to engage with issuers on our behalf
- Our asset allocation to Public Equities is much lower than most pension schemes, however we do employ a passive strategy for some of this, so we engage an external stewardship services provider (EOS) to carry out direct, issuer-level engagement 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 (e.g. climate change and modern slavery)

Engagement options for externally-managed assets



How we engage with listed equity issuers

Engagement with our Public Equity issuers will depend 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, as well as the opportunity to join specific meetings where possible. See the section on page 24 for how we engage with our issuers and progress on our listed equities engagement.

For pooled equity funds, the relevant manager will engage on our behalf, so our engagement efforts 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 the following examples.

Equity issuer engagements

Some examples of Equity issuer engagements during the period

Example 1: Driving for regenerative practices in the Food sector

Equity Manager A has challenged companies in the Food sector to adopt comprehensive deforestation and regenerative agriculture policies. The manager has seen progress on regenerative farming and limited net-zero target setting covering scope 3 emissions. However, it reports it is yet to see comprehensive deforestation policies in place. The manager has therefore escalated the engagement by voting against the chair of the board of these companies and naming the companies publicly.

Example 2: Addressing sustainability and forced labour in the Textiles, Apparel and Luxury Goods sector

Equity Manager B has engaged in two consecutive quarters with a leading Textiles, Apparel and Luxury Goods company. In the first call, the goal was to understand the company's targets on sustainable sourcing and waste prevention initiatives. In the second call, the manager challenged the company on forced labour. The company confirmed that it expects its suppliers to adhere to its code of conduct, which has forced labour as a key risk to consider.

Example 3: Encouraging climate targets in the Industrial Engineering sector

Equity Manager B also has engaged with a Japanese industrial machinery company to encourage alignment with Japan's recent climate announcements. Following this engagement, the company announced targets to produce net zero emissions by 2050 and interim targets for Scope 1 and 2 emissions and its largest source of Scope 3 emissions, achieving the engagement objective.

How we engage with publicly-listed debt and other securities

Investment Grade (IG) Credit – We continue to be encouraged by the progress in engagement practices among IG Credit managers. We're pleased that all of our managers in this asset class regularly report their stewardship progress to us. We see engagement with debt issuers as having a longer-term focus, given their ongoing need to reissue debt, which is well suited to our investment profile.

IG credit issuer engagements

Example 1: Pushing for better due diligence in the European water sector

IG Credit Manager A engaged with a large European Water company to understand its sustainability journey. Management showed little ambition to strengthen its existing targets for renewable energy or reduce its carbon intensity (CO_2et/USD million sales), which was higher than some oil majors. Given these factors plus poor governance in one country in which the company currently operates due to a recent acquisition, the manager decided to sell its position entirely.

Example 2: Pursuing and promoting climate opportunities

IG Credit Manager B met with a European Utility company to discuss opportunities to improve sustainability. The manager was pleased to see that the company was committed to reaching carbon neutrality by 2050 and to issuing sustainable-labelled debt.

The company outlined opportunities to improve energy recovery from waste, recycling, and material recovery, and presented capital expenditure plans aligned with the UN Sustainable Development Goals. Despite the company's legacy exposure to coal (currently 2 per cent of EBITDA) the manager is comfortable with the Utility's sustainability targets and believes the company is on the right path to achieve its goals.

Sovereign Debt – Debt issued by governments is a fundamental asset class for nearly every asset owner and a pillar of a well-functioning economy. Engagement in emerging market debt (EMD) is crucial where dialogue with governments requires a concerted effort over time. Investors' voices are also vital for pressing topics such as addressing the energy transition and deforestation.

We welcome the evolution of tools and data sets that deepen the ability of investors to measure climate-related and other ESG risks in relation to sovereign bonds. We encourage our managers to contribute knowledge and resources to drive this progress forward.

Sovereign issuer engagements

Example: Engaging on human rights issues

One of our EMD managers engaged with a sovereign entity to highlight the importance of the rule of law and encourage the government to act in this area. The sovereign entity did not address a pending legal case that potentially violates human rights but referred to judicial reforms and promised further improvement. Our manager left the meeting unsatisfied with the government's actions and promises. After factoring in the country's weak score on 'Rule of Law, Corruption and Voice and Accountability', the manager decided to pass over the latest bond issue and reduced its overweight and has since put the sovereign entity on its watchlist.

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

Absolute Return engagements

Example: Strengthening governance for minority shareholders

One of our Absolute Return managers is engaging with several companies on governance. Specifically, it looks to engage on the protection of minority shareholders, board independence, conflicts between management and shareholders, and to improve governance to avoid repeated accounting errors.

Companies with which the manager engaged during the period are operating in US Investment Banking and Brokerage, French Retail-Consumer Discretionary, French Software and Services, and German Semiconductors & Semiconductor Equipment sectors.

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 been working with our managers in this challenging space to increase their stewardship and engagement processes. We look to our appointed managers to drive improvement in the companies and managers they invest in, and encourage them to provide us with information on progress and demonstrate the added value of more stringent sustainability practices. See case study on the ESG Outreach project below and examples for each asset class.

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 engagement – Private Equity managers have a key role to play in the energy transition, given their ability to invest in and support businesses across the value chain. One of our Private Equity managers engaged with all its holding companies to set a decarbonisation journey and assist them in setting up sustainability KPIs and measuring them. This is part of the manager's overall commitment since 2020 to align their activities with a 1.5°C global warming scenario, which has since been validated by the Science Based Targets initiative (SBTi).

Private Debt engagement – Our Private Debt managers are less likely to have significant control or leverage with underlying issuers. However, we still expect them to engage where they do have access to management. One of our Private Debt managers negotiated with a UK company during the year to establish ESG KPIs for the ratchet that enhances credit quality, including Quality and Regulatory Inspection, Patient Satisfaction, Annual Staff Training and Carbon Emission Data requests. The latter hasn't been established yet.

Real estate engagement – One of our Property managers is responsible for the day-to-day management of our UK Property portfolio. As part of this role, they are responsible for the sustainability profile of the properties. An example of progress in the portfolio was the redevelopment of industrial units in the North of England. Both units on the site have been specified for high ESG standards with Energy Performance Certificate (EPC) ratings of A and a 'Very Good' rating from BREEAM (one of the world's leading science-based suite of validation and certification systems for a sustainable built environment). The site is also equipped with EV charging.

As the underlying client, we continue to interact with the manager on sustainability issues, particularly to avoid 'stranded asset' situations due to any buildings not meeting minimum energy efficiency standards.

Infrastructure engagement – We are invested in an Infrastructure fund that has three core investments all focused within Europe. We are pleased to note positive progress from the manager in engaging with its portfolio companies on sustainability across each of the businesses during the year under review. The manager provides standardised ESG performance tracking tables in its investor reporting along with commentary on progress. Two of the businesses have recently released sustainability reports providing significantly more insight into how they operate. We will continue to review and engage the manager on the information provided and encourage further improvements where deemed necessary.

Forestry engagement – We have been engaging extensively with our Forestry managers over the last year to increase their reporting to us on carbon sequestration, moving on from reporting on certification. Whilst we have received this from most of our managers now, the data collection and methodologies are still at very early stages so aggregation across different mandates is not yet possible. We hope to have more in our next report to share on carbon sequestration.

Taking action

Collaborating to improve ESG data in private markets

In late-2021, we joined the working group of the ESG Data Outreach project led by alternative investment technology platform eFront (part of BlackRock) to accelerate and simplify the collection, analysis and reporting of ESG data for private markets. The initiative aims to collect a range of ESG metrics on portfolio companies from a broad base of private equity and credit managers to facilitate, expand, automate and commercialise ESG reporting for private markets.

We joined in our capacity as a limited partner (LP) both to encourage our general partners (GPs) in private markets to participate, and to get access to the collected data as soon as it is available. We anticipate that this initiative will go a long way to improving the process for data collection, especially among smaller private market managers that haven't built out their own reporting functionality yet. The pilot stage has been running through 2021 and 2022. The aim is to open the product up to over 2,500 private market managers, reaching over 70,000 private companies.

eFront

Farmland assets engagement

Encouraging sustainability in a leading beef producer

We are part of an investment consortium with board representation that owns one of the largest and oldest agricultural and beef producers in Australia. This enables us to influence its strategic approach and sustainability profile.

In 2021, its inaugural sustainability framework was published, greatly improving disclosure to stakeholders. In addition, the team completed the conversion of all bores and electricity power sources to solar, significantly reducing its fossil fuel consumption. This conversion made good business sense but also has environmental and employee safety benefits.

OUR APPROACH TO ENGAGEMENT CONTINUED

Partnering with our external managers

We engage deeply with our external managers both during our initial selection process and on an ongoing basis to ensure they can meet our high standards on stewardship and ESG. Throughout our relationship with managers, we encourage constant improvement in their approaches to managing ESG and climate-related risks. In addition, we use the insights from our stewardship services provider EOS in their engagement with issuers on material ESG management to inform our conversations with our managers about their own engagement on these issues.

Our manager selection process

As part of our initial manager selection process, we include an ESG Questionnaire. This is a scored mandatory list of questions that prospective investment 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 F shows a sample list of questions within the Stewardship section of the questionnaire.

See the box on the right for our minimum requirements of managers.

> "Throughout our relationship with managers, we encourage constant improvement in their approaches to managing ESG and climate-related risks."

Our minimum requirements of external managers

- Should be an active signatory to the Principles for Responsible Investment (PRI) or considering becoming a signatory;
- Must provide evidence of a Responsible Investment (RI) policy and implementation of Environmental, Social and Governance (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 ESG team.

Our pre-funding and appointment process

From a legal perspective, our stewardship expectations are integrated into all contracts. See Appendix G for examples of clauses. Our ODD team also works closely with new and existing managers to ensure they continue to meet our requirements and identify any gaps or challenges that arise.

Examples of our ODD team working with external managers

Example 1: Ensuring operational standards

The ODD team worked closely with our Alternative Credit investment team to onboard a new service provider to play a prominent role in the sourcing and management of a new asset class. Given the prominence of the service provider's role, the ODD team extended the scope of their due diligence to include an assessment of the firm's operational and control environment. Following the review, the ODD team identified that the service provider's insurance coverage was lower than the industry standard. Following our feedback, the firm agreed to increase their coverage.

Example 2: Recommending best practice

Our ODD team conducted an assessment on a new infrastructure manager that was in a transitional state, having recently initiated a process to break away from its regulated sister company. At the point of investment, the manager had submitted a formal application for its own regulatory authorisation. The timing of the change introduced a degree of uncertainty in the ODD assessment, primarily because the manager was reliant on the policies/procedures of its regulated sister company.

The ODD team recommended a number of best practice enhancements to certain aspects of the firm's operational processes, policies and governance. More specifically, the ODD team provided guidance in relation to the manager's gifts and entertainment policy, personal account dealing policy, whistleblowing policy, valuation governance and service provider oversight model. The team continues to work with the manager to ensure best practice is being followed in these areas.

OUR APPROACH TO ENGAGEMENT CONTINUED

Driving continual improvement from our managers
We engage heavily with our external managers to encourage ongoing improvements in their approaches to managing ESG and climate-related risks and to ensure they continue to meet our high standards in this area.

Over the year, we saw significant progress in the ESG processes and stewardship capabilities of our Alternatives managers. In particular, a number of our US managers in private markets have established dedicated ESG or responsible investment resourcing and reporting, which is a step up from the function previously tending to fall under General Counsel.

The momentum around Private Markets managers becoming PRI signatories has also continued over the year, and we have seen a couple of our Real Estate managers sign up.

More specifically, we have seen impressive innovation from some of our Private Equity managers who were involved in the development of the SBTi Private Equity initiative.

Example of engaging with managers across an asset class:

How we work with our Real Estate managers

- We assess Real Estate managers' ability to measure, manage and report ESG and climate risks during the selection and appointment process
- We continuously monitor and encourage improvement in our managers' ability to manage climate risks and integrate ESG considerations into their frameworks
- We encourage the adoption of green leases and engagement with tenants and buildings occupants
- We require annual reporting from managers with detail on overall ESG credentials, stewardship and climate change risks, in alignment with the Task Force on Climate-related Financial Disclosures (TCFD) at both a fund level and for individual assets
- We use external tools such as GRESB and CRREM (Carbon Risk Real Estate Monitor) to measure and benchmark the performance of real assets and assess the risk of stranded asset properties.

Taking action

Expansion of reporting templates from our managers
We continue to push our external managers across all asset classes to step up their regular reporting to us and encourage them to set best practice reporting standards for their markets. Over the year, we have seen steady progress in their efforts to improve the quality of both ESG and climate reporting to us, which has led to much more fruitful conversations with our managers about specific material risks and potential impacts on investment theses.

On occasions where we feel managers' reporting is not sufficiently meeting our expectations, we will make clear what our expectations are. This is not just communicated by our ESG team but also our internal portfolio managers who have appointed the manager. In extreme cases, we would look to escalate this via our Head of Investment Strategy or CIO, however we did not have to take this course of action during the last year.

Assessing Liquids – We have a minimum threshold of mandatory ESG reporting for all of our Liquids managers. Acceptance of these minimum reporting requirements feeds directly into pass/fail funding decisions in advance of all new allocations and appointments.

In practice, after successfully getting our Liquids managers to implement our basic quarterly ESG reporting templates last year, we've since concentrated on expanding the range of TCFD-related metrics on which they should now report. We provided 15 months' notice of our request, in order to allow our managers sufficient time to source and onboard any new data requirements to meet this. Our Climate Change Report 2021/22 provides more detail on the new metrics requested.

Assessing Alternatives – For alternative asset classes such as real estate and private equity, there is generally far less ESG data available. However, attention on ESG is growing within private markets and real estate asset classes, especially given their importance in the global transition to Net Zero. We have now started requiring our Alternatives managers to report some basic ESG data for their funds and demonstrate their grasp on ESG strategy and managing ESG risks among portfolio companies. As mentioned earlier, we have also been asking managers to join the ESG Outreach project, led by eFront, which should enable us to receive this reporting through our eFront platform within the next one to two years.

OUR APPROACH TO ENGAGEMENT CONTINUED

Engaging through our stewardship services provider

As explained above, we use an external stewardship services provider, EOS, to engage and vote across our segregated Equity mandates plus also Public UK Credit and Cash assets. Our previous RI Reports and our Stewardship Policy detail how we work with EOS, its four-step engagement milestone process to drive change at companies and the full list of themes considered.

Latest activity and themes

EOS focuses its stewardship activities on the issues that it believes have 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. See the graphic to the right for more detail.

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

Engagement themes: EOS's stewardship process to achieve long-term sustainable returns on investment

Governance foundation

- Investor protection and rights
- Board effectiveness and ethical culture

Governance processes

- Purpose, strategy and policies
- Risk management
- Executive remuneration
- Corporate reporting

Environmental outcomes

- Climate change action
- Natural resource stewardship
- Circular economy and zero pollution

Social outcomes

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

Sustainable wealth creation

Summary of the EOS engagement milestone process

1. Our concern is raised with the company at the appropriate level
2. The company acknowledges the issue as a serious investor concern, worthy of a response
3. The company develops a credible strategy to achieve the objective, or stretching targets are set to address the concern
4. The company implements a strategy or measures to address the concern

Progress

OUR APPROACH TO ENGAGEMENT CONTINUED

Our issuer engagement progress and outcomes

Progress and outcomes from EOS-overseen assets

In 2021, EOS engaged with 196 companies on 1,540 ESG strategy, risk and communication issues and 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 our stewardship services provider EOS engaged with companies in 2021 is shown below.

Engagement progress in 2021

EOS carries out engagement through a four-step process. As shown on the previous page, it begins with raising a concern which it 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, at least one milestone moved up in the milestone scale for 163 of the outstanding objectives. The chart shown on the right describes how much progress has been made in achieving the milestone set for each engagement theme.

60 objectives were marked as complete during the year and 38 objectives progressed to the next milestone or above. 52 were new objectives established during the year.

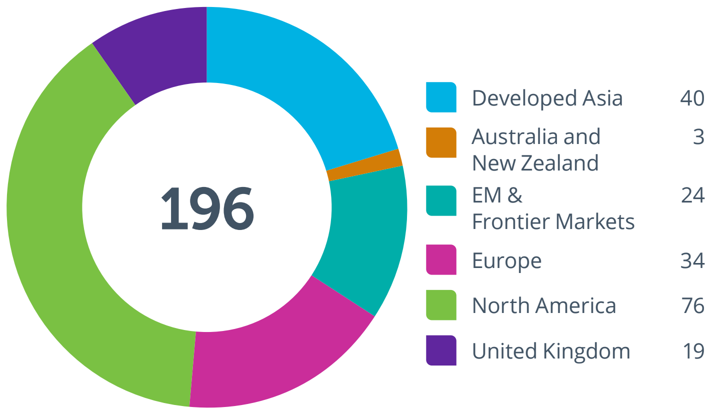
Of the 198 objectives without progress during the year, 92 were discontinued and 106 remained at the same milestone stage.

Engagement in UK Public Credit and Strategic Cash books

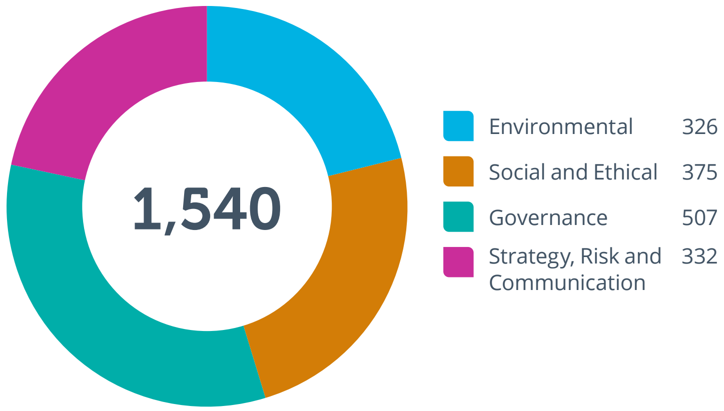
Of the 196 companies engaged by EOS during the year, 52 companies were held in our in-house UK Credit and Strategic Cash portfolios during the year and over 80 per cent of these were acted upon specifically during this time period.

We provide a couple of examples of company engagements in these portfolios on page 19.

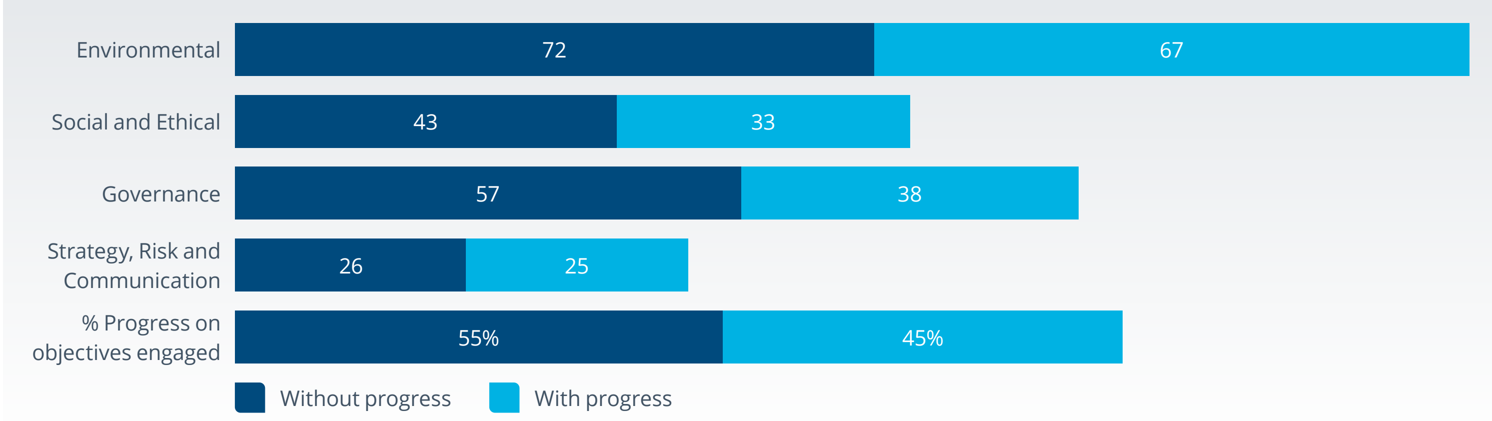
EOS engaged with 196 companies on our behalf in the following regions



Issues and objectives by theme



Progress on the 361 objectives by theme during the year



Examples of EOS corporate engagement on our behalf during the year

Alibaba in China

This year saw EOS speak with the head of investor relations and the newly appointed ESG expert at China's tech and e-commerce giant Alibaba – the first time the company has disclosed anything meaningful on ESG since 2018. Alibaba has made some positive commitments on climate change and EOS asked for more detail about its targets to be Net Zero for Scope 1 and 2 emissions by 2030 and deliver a 50 per cent reduction in Scope 3 emissions. The company confirmed it would consider incorporating ESG incentives into executive pay. EOS continues to push for more disclosure on digital rights and a review of the company's score and performance on the Ranking Digital Rights benchmark.

Progressing:

- Science-based target setting
- Customer data protection & privacy
- Ethical AI use & governance principles
- ESG reporting

Alphabet in the US

During an ESG investor call with Alphabet this year, the tech conglomerate's Chief Diversity Officer reported that the company is working to increase inclusion, meet targets of 30 per cent representation of underrepresented groups in leadership roles and double the numbers of black employees at all other levels by 2025. While gratified by the company's increased focus on diversity & inclusion, EOS will continue to scrutinise for meaningful cultural change. It plans to keep engaging the company on a range of issues, particularly digital rights.

Progressing:

- Diversity & inclusion disclosure
- Demonstration of more inclusive culture
- Human rights and business model

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. We discuss this more on page 27.

> "Acting collaboratively with other investors to address industry, regulatory or company-specific issues has become a core pillar of our stewardship approach."

For example, on climate change, we actively participate in the programmes run by the Institutional Investors Group on Climate Change (IIGCC) and have contributed to key projects focused on Net Zero frameworks and physical risks. 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 & 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 United Nations-supported **Principles for Responsible Investment (PRI)** since 2007; our Head of ESG sits on the PRI's Infrastructure Advisory Committee and we're members of its Collaboration platform.
- The Occupational Pensions Stewardship Council (OPSC) was created by the UK's Department for Work & Pensions to promote and facilitate high standards of stewardship of pensions assets. The council provides UK pension schemes with a forum for sharing experience, best practice and research, and providing practical support, which we have found very useful. It also enables opportunities for schemes to collaborate on stewardship activities such as shareholder resolutions, climate change and corporate governance.
- As an investor member of the Institutional Investors Group on Climate Change (IIGCC), we've been an active member of its **Net Zero Stewardship Toolkit** group since last year (see case study below). We also participate in its collective responses to consultations.
- We encourage greater **disclosure of environmental impact** by companies, governments and other institutions by supporting organisations such as the global disclosure systems provider CDP. (See CDP Non Disclosure Campaign below.)
- The Emerging Markets Investors Alliance (EMIA) enables institutional emerging market investors to support good governance, promote sustainable development, and improve investment performance in the governments and companies in which they invest. Our Head of ESG is involved in the Asset Owner Advisory Council for the alliance.
- We have been closely involved in the development of a **Carbon Emissions Template** through the Investment Association, the Association of British Insurers and the Pensions and Lifetime Savings Association to help fund managers calculate and report their carbon emissions to asset owners using a standardised data template. We actively shared our own extensive work with our managers to establish our quarterly ESG reporting templates. Our latest Climate Change report refers to this in more detail.

Key industry collaborations during the year

Climate Action 100+ – The Pension Protection Fund is a signatory to Climate Action 100+, the largest-ever investor engagement initiative on climate change. Involving around 700 investors in 33 markets who collectively hold half of the world's assets under management, it aims to put pressure on the world's largest emitters, which are responsible for approximately 80 per cent of global industrial emissions. Largely as a result of Climate Action 100+, 52 per cent of targeted companies have made Net Zero commitments and 72 per cent now report in line with TCFD recommendations. The majority of these companies feature in our passive portfolio.

PRI Votes on Slavery – We were a member of the 2021 Votes on Slavery collaboration initiative run by the PRI during the year. This initiative achieved close to a 100 per cent success rate in encouraging compliance with the s54 reporting requirements of the UK Modern Slavery Act for FTSE 350 companies. Only two companies, out of the 61 we engaged with, remained non-compliant by December 2021. As a result of its success, the UK Home Office asked that the initiative continue to pressure FTSE 350 companies in 2022. We will continue to support this campaign as modern slavery is a key theme in our 2022 voting guidelines.

Investor expectations letter on Net Zero aligned audits – EOS co-signed a letter to the French entities of Deloitte, EY, KPMG, and PwC following the publication of an analysis of carbon-intensive companies' 2020 financial statements by Carbon Tracker. This showed that the auditing of French companies lagged behind other countries and did not meet investor expectations for audit firms or directors on Net Zero accounting, as set out in a paper published in 2020. Indeed, no audits provided the visibility EOS sought on the potential financial implications of a 1.5°C transition pathway, which global leaders have committed to deliver. The letter requested that the companies act immediately to ensure investor expectations are met in compliance with existing regulations and standards.

Collaborations for the coming year

CDP Non-Disclosure Campaign – CDP is a global not-for-profit that helps companies and cities disclose their environmental impact. The CDP Non-Disclosure Campaign aims to persuade non-responsive companies to take action and respond to its questionnaires, depending on which of CDP's three focus areas (climate change, water security and deforestation) are material to their business activities or supply chains.

To support the campaign, we are currently encouraging over 700 non-disclosing companies in our listed portfolios to respond to CDP, either by us leading engagement or supporting it. We will assess the progress made on the campaign once the annual reporting period closes and results are published at the end of 2022.

Addressing ESG risks in intensive farming – During the year we became a member of the FAIRR Initiative. This is a collaborative investor network that raises awareness of the ESG risks and opportunities brought about by intensive livestock production.

There is extensive evidence that ESG issues can significantly impact the financial performance of companies involved in industrialised animal agriculture. The success of these companies is, therefore, contingent upon longer-term environmental, social and regulatory trends, and the ability for companies to successfully anticipate and navigate these changes. We expect to be involved in future investor collaborations by the group.

OUR APPROACH TO ENGAGEMENT CONTINUED

Taking action

Prioritising our priority engagement targets

As part of our Paris Portfolio Alignment Project, we are now identifying companies that are our highest priority engagement targets in the transition to Net Zero, which will include many in the Utilities, Energy and Materials sectors. We will work with our stewardship services provider EOS and external fund managers to ensure these companies are held to clear and measurable progress, through both company- and sector-level engagement.

Net Zero Stewardship Toolkit

We are also reviewing how to apply the IIGCC's Net Zero Stewardship Toolkit, which was launched in April 2022. We are discussing the toolkit with some of our managers to see how they intend to use it. The toolkit aims to raise the bar for investor climate stewardship by providing a systematic framework to help ensure that institutional investors such as pension funds prioritise high-impact engagement and have measures in place to hold laggard companies to account.

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 with relevance to ESG include climate change, biodiversity, ESG disclosures and reporting. These risks are identified by our ESG, Legal and Risk & Compliance teams, and our Strategy & Policy team. They are discussed as part of our monthly dashboard meetings with our Chief Investment Officer and Head of Investment Strategy.

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

One example is our **Paris Portfolio Alignment Project**, which we initiated as a result of our horizon scanning. In 2020, the DWP consulted on introducing requirements for pension funds to assess how their portfolios are aligning with the Paris Agreement. Whilst not a formal proposal then, the consultation referenced 'portfolio warming' or the implied temperature rise (ITR) of portfolios as one potential metric that could add value.

We believed there was a high likelihood that this would subsequently be proposed by the DWP (which did indeed happen in the late 2021 follow-up consultation), and wanted to be proactive in understanding the impact of this on the PPF investment portfolio. We decided that an evidence-based bottom-up approach to calculate our own portfolio alignment was best. However, the Net Zero frameworks available at that time only covered a quarter of our own asset allocation (as our significant allocation to liability hedging instruments and private markets assets were both considered out of scope).

As we were not aware of anyone else who had undertaken this for the other asset classes, we appointed an external consultant, Ortec Finance, in early 2021 to help us achieve objective baseline assessments for each of our asset class portfolios. This also allowed us to actively shape product development for this work with one of the market-leading teams in climate scenario analysis. The outcome of the DWP consultation was published in June 2022, which set out the requirement for schemes to report on portfolio alignment metrics in its amended statutory guidance. Initiating our project early back in 2021 meant that we can already demonstrate our work on our portfolio alignment. More detail on this project is provided in our Climate Change report.

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 entities globally on public policy that promotes and enables smooth market functioning. We carry this engagement out directly or through other groups such as our stewardship services provider EOS, through the PRI and IIGCC.

Our direct policy engagement during the year:

- DWP consultation on Climate and investment reporting: setting expectations and empowering savers: Climate and investment reporting Consultation DWP (ppf.co.uk)
- DWP consultation on consideration of social risks and opportunities by occupational pension schemes: DWP_2021_social factors_consultation_PPF_response.pdf
- Consultation on restoring trust in audit and corporate governance: https://www.ppf.co.uk/sites/default/files/2021-08/Restoring-trust-in-audit-and-corporate-governance-consultation-PPF-response.docx
- Consultation on proposals to update asset information collected from DB pension schemes: Asset Class Consultation Draft for Sign-off (ppf.co.uk)
- Consultation on first review of the Insolvency (England and Wales) rules 2016: call for evidence: first-review-insolvency-england-wales-rules-2016-consultation-PPF-response.pdf

Our policy engagement through EOS

SASB discussion on content governance and children's disclosures – EOS met with the Sustainability Accounting Standards Board (SASB) sector lead for technology and communications, where it learned about the planned evolution of the organisation and the trajectory of its standards. EOS offered to provide input on SASB's content governance and future projects as they emerge, and will share the EOS digital rights principles. EOS pointed out the gap in children's disclosure. SASB acknowledged this gap and believes it could be addressed in a potential future project on user safety. It shared its materials on its current content governance project, which includes a focus on the metric of financial spend and asked for EOS's feedback.

APPCGG meeting on ESG governance – EOS participated in an All Party Parliamentary Corporate Governance Group (APPCGG) meeting where two current and one former UK board chairs spoke on the topic of ESG governance. The discussion included reflections on the growing significance of ESG topics in UK boardrooms and a debate on whether these issues should be handled by the full board or via a separate committee.

Our policy engagement through IIGCC

As active members of the IIGCC, we often join collaborative initiatives on public policy. A couple of examples include:

- We supported the **2021 Global Investor Statement to Governments on the Climate Crisis** that was published ahead of COP26, and supported by 587 investors managing $46 trillion, urging all governments to raise their climate ambition and implement robust policies by COP26. We have since signed the 2022 Global Investor Statement, which will be formally published later in the year.
- We are part of a policy working group organised by the IIGCC on the development of the **UK Green Taxonomy**, which feeds back participants' views and inputs to the Green Technical Advisory Group (GTAG). The GTAG provides independent advice to the UK Government on implementing a UK Green Taxonomy. The objective of the taxonomy is to help tackle 'greenwashing', improve understanding of environmental impact to help companies and investors make informed green choices, support investment in sustainable projects, and boost efforts to tackle climate change.

Responding to the war in Ukraine

Russia's invasion of Ukraine has profoundly impacted countless lives whilst increasing geopolitical instability. We are not directly dependent upon any organisation based in either Ukraine or Russia. We are, however, monitoring the situation closely to identify any general risks (such as the increased threat of cyber attacks) that arise so they can be mitigated in an appropriate manner.

Operationally, the war has not had a material effect upon us. We pay compensation to members who are based in Ukraine and to other members who are based in Russia. We make payments only into accounts operated by organisations that have not been sanctioned by the UK Government. Where we have been paying into an account operated by an organisation that has been or is about to be sanctioned, we communicate with the member with the aim of moving the payment into an account operated by an organisation that has not been sanctioned.

The war in Ukraine could affect us if it affects the markets in which we invest and the sponsoring organisations of the schemes we protect. Sanctions imposed on Russia required further review of exposure to the market. Although our ongoing exposure to the market is less than 0.01 per cent of the total value of our fund, there are a limited number of holdings that we have not been able to exit due to market conditions. For equity holdings, given the risks of breaching various sanctions, we have taken the decision not to vote at shareholder meetings. This is being kept under review as industry practice develops.

Escalation and exercising shareholder rights

As discussed, we look to company engagement as our primary approach to fostering greater social or environmental responsibility among the companies and other assets we hold. If this does not achieve the hoped-for outcome, we turn to escalation, including voting.

How we approach escalation and voting

When we escalate issues

Where an engagement is not progressing at a sufficient pace privately with a company, there are a range of potential escalation strategies that we, or our external agents, can employ. These include:

- collaborating with other investors or campaign groups
- issuing a public statement
- filing a shareholder resolution.

Voting against board recommendations is an important tool we can use as part of a thoughtful escalation when necessary. However, we would try to engage with the company at board or management level to discuss this in advance.

Where we feel engagement has not been fruitful over a reasonable period of time, we may vote against management on certain resolutions, such as reports and accounts or the election of individual board members responsible for poor environmental or social performance.

For example, we closely follow the AGMs of companies selected by Climate Action 100+ and discuss with EOS or our managers if there is an important vote to be cast on our behalf. We are also reviewing the emerging Say-on-Climate trend for formal resolutions on companies' climate transition plans or reporting. However, we recognise the challenge that many shareholders are not likely to have the resources to fully assess the credibility and robustness of these plans. This could lead to shareholders simply supporting management rather than encouraging a company to be as ambitious as possible. This year, we're extending this to having conversations with the proxy advisors about their policies that inform their recommendations on Net Zero related votes.

Our voting approach for listed equities

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 markets 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.

This year, we now have direct oversight of the voting execution across all our listed equity mandates. 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, in particular for any companies and issues with significant importance.

Reporting on our equity voting

We have seen an improved level of transparency from our equity managers on voting, as a result of our ESG quarterly reporting templates. In addition, the split voting set-up gives us direct access to voting platforms so that we can run our own reports. This means that for the first time, we can present an aggregated view of our voting activity across our equity mandates. Therefore, the following voting statistics are aggregated across both our segregated and pooled equity mandates, unless otherwise stated.

How we voted over the year

The following tables and charts detail our voting activity for the period 1 April 2021 to 31 March 2022.

Voting statistics April 2021–March 2022

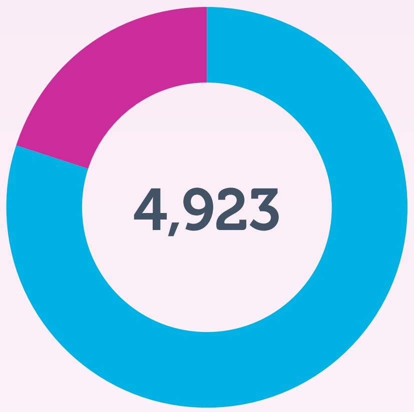
How many meetings did we vote at?	4,923
How many resolutions did we vote on?	54,053
What % of resolutions did we vote on for which we were eligible?	99.9%
Of the resolutions on which we voted, what % did we vote with management?	79.9%
Of the resolutions on which we voted, what % did we vote against management?	20.1%
Of the resolutions on which we voted, what % did we abstain from voting?	0.6%
Of the meetings at which we voted, what % did we vote at least once against management?	67.4%

> "Voting against board recommendations is an important tool as part of a thoughtful escalation when necessary. However, we would try to engage with the company in advance."

ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

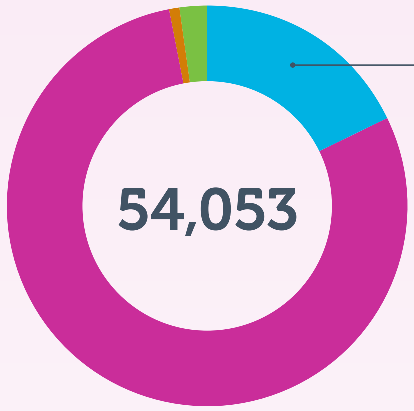
Voting activity

Meeting with at least one vote against management



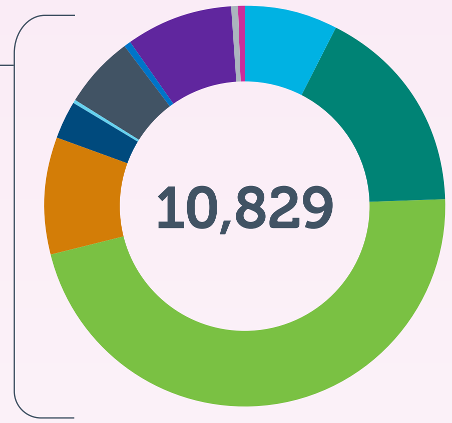
At least one vote against management	80%
Voted with management	20%

How we voted 2021



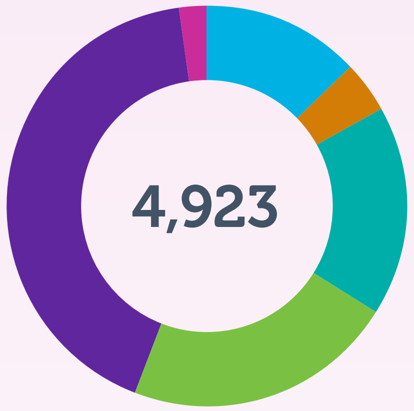
Against management	18%
With management	80%
Abstain	1%
Withhold	2%

Vote against management by issue



Audit & Accounts	832
Remuneration	1,844
Board Structure	5,028
Capital Structure & Dividends	1,041
Other	326
Poison Pill/Anti-Takeover Device	15
Amend Articles	638
Shareholder Resolution Social & Ethical	70
Shareholder Resolution Governance	933
Shareholder Resolution Environment	49
Investment/M&A	53

Regional breakdown
Meetings in six regions voted



Europe	13%
United Kingdom	4%
Developed Asia	17%
North America	22%
EM and Frontier Markets	42%
Australia & New Zealand	2%

The pie charts present our global approach to voting throughout the year under review. Climate-related proposals took the limelight through the main voting season and this is covered in more detail on the following page. In addition to climate, we saw a significant focus on diversity at board level and within senior management. Executive pay was also a focus topic in many markets given the level of disruption faced by society and knock-on effect to corporate revenue due to COVID. In the UK, as an example, shareholder dissent on executive remuneration reached a five-year high.

Shareholder resolutions

Votes on shareholder resolutions per region

Europe	9%
United Kingdom	1%
Developed Asia	7%
North America	26%
EM and Frontier Markets	55%
Australia & New Zealand	2%

Whilst the majority of shareholder proposals were seen in China (EM and Frontier Markets in the pie chart), this is a market-specific structural nuance. These proposals are not adversary in nature as seen in other markets around the world.

The largest proportion of shareholder resolutions not supported by management is seen in North America, specifically the USA. In addition to the governance-related proposals regularly seen in the USA, topics proposed by dissident shareholders included workforce diversity and racial equity, disclosure on climate transition plans and the adoption of GHG emissions targets.

Report Category	Abstain	Against Management	With Management	Grand Total
Climate & Environment	0	63	72	135
Directors' Related	32	588	371	991
Governance	1	96	47	144
Other	0	79	11	90
Social Proposal	0	5	18	23
Compensation	0	31	20	51
Routine Business	0	177	85	262
Social Equity & Human Rights	0	10	0	10
Economic Issues	0	2	0	2
Grand Total	**33**	**1,051**	**624**	**1,708**

ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

Voting on climate issues

2021 saw the emergence of Say-on-Climate (SoC) resolutions proposed by management. The majority of these proposals were proposed by companies in the UK and Europe. Most of these companies were proposing a climate plan or climate-action report that had emissions trajectories aligned with the Paris Agreement. Many of the proposals were intended to be one-time events with a minority of companies stating that a resolution would be put to shareholders at a later shareholder meeting to approve progress and/or changes to their emissions strategy.

Given the importance of the topic and the need to ensure a rigorous threshold for shareholder approval was set, we took a robust approach to voting on these resolutions. We did not support six of the 27 climate-related management proposals that we voted on during the year under review (in contrast to the main proxy advisor supporting all 27 proposals). The primary reason for voting against the Say-on-Climate proposal was the lack of ambition in setting robust short-term targets.

Shareholder proposals on climate-related matters increased year on year, exceeding the number seen in 2018 following President Trump's withdrawal from the Paris Agreement. Interestingly, despite its relatively small financial market, we voted on 17 shareholder resolutions in Australia, surpassed only by the US, where we voted on 25 climate-focused resolutions. In terms of supporting climate-focused shareholder resolutions, we voted 'For' at 53 of the 71 resolutions, of which 46 were against management and seven were supported by management.

> "The primary reason for us voting against Say-on-Climate was the lack of ambition in setting robust short-term targets."

BHP – Opposing a company's climate transition plan

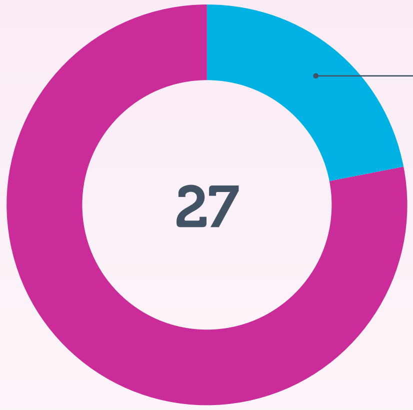
BHP Group Limited is an Australian multinational mining, metals, natural gas and petroleum public company. The company proposed its climate transition plan to shareholders at both the Australian and UK 2021 AGMs.

We recognise the substantial progress the company has made in climate reporting, transparency and scenario analysis, and the importance of the company's products in enabling a transition to a low-carbon global economy. We remain concerned that the company's interim operational emissions targets (to 2030) are insufficiently ambitious to be considered aligned with the 1.5°C trajectory. As a result, we chose not to support the transition plan at both AGMs on this occasion.

85%

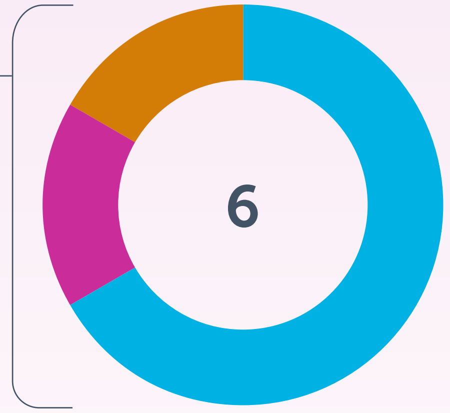
Voted 'For' across the combined Ltd and Plc AGMs

Say-on-Climate – how we voted in 2021



Against management	22%
With management	78%

Say-on-Climate votes against management by rationale



Insufficiently ambitious short-term targets	4
Lack of short-term disclosure	1
Disclosure and lack of ambition	1

AutoZone Inc – Supporting greenhouse gas emissions targets

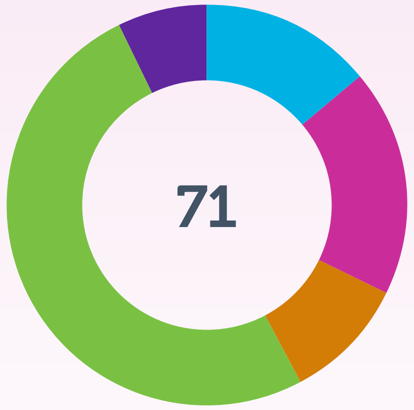
AutoZone Inc is an American retailer of aftermarket automotive parts and accessories, the largest in the United States. As You Sow, on behalf of the Elizabeth Gale Michaels Revocable Trust, submitted a precatory proposal asking the company to disclose short, medium, and long-term targets to reduce greenhouse gas emissions that are aligned with the Paris Agreement goals of limiting the global average temperature rise to 1.5°C.

Whilst the company disclosed some short-term targets for GHG emissions reductions, no comprehensive GHG emissions reductions targets had been provided. In light of the disclosure provided, a vote in favour of the shareholder proposal was therefore justified.

70%

Voted 'For' the shareholder resolution

Votes on shareholder resolutions by climate theme



Climate Change Action	10
GHG Emissions	13
Renewable Energy	7
Report on Climate Change	36
Advisory vote on Climate Action Plan	5

ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

Our criteria for significant votes

Along with guidance from the PLSA around significant votes, we also use our own criteria to flag material votes that we need to scrutinise carefully. We have created a voting watchlist of companies (see below) for which we get particular coverage from EOS and have an agreed timescale for action to execute votes proactively for significant and material positions in our portfolio. After deciding our vote intentions, we access the voting platforms of our investment managers for any pooled mandates and submit vote instructions. This process was enhanced during the year under review as part of our voting consolidation.

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 (e.g., practices that are non-compliant with the UN Global Compact)
- Votes related to a specific initiative in which we're involved (e.g., companies on the Climate Action 100+ list)

Each quarter, our segregated voting and engagement reports are uploaded to our website. We currently do not publish resolution-specific vote reporting. However, we will respond to individual requests from members and other stakeholders directly if a request for this information is made following a vote.

Next steps

We are currently looking at ways to share detail on our voting behaviour to all of our members via our members website. Given the PPF aims to provide a high level of transparency to all our stakeholders, we want to assess the feasibility of providing information on a resolution-by-resolution basis to ensure that it can be easily digested and understood.

Summary of some of our significant vote outcomes

Date of Vote	Company	Resolution	For/Against Management	Reasoning for voting decision	Outcome of the vote
2 June 2021	Alphabet Inc (US)	3, 4, 5, 6, 7	Against management on all noted resolutions	Five of the eight shareholder proposals were deemed to warrant support including the proposals relating to equal voting rights across all types of stock. Other governance-related shareholder proposals were supported, including appointing a director with human and/or civil rights experience and a report of whistle-blower policies and practices to assist in the analysis of underlying culture and employee morale.	Level of dissent by resolution: Applicable to B Stock: 3 – 16.19% 4 – 31.51% 5 – 10.51% 6 – 12.4% 7 – 13.58%
4 March 2022	Apple Inc (US)	9 – Report on Civil Rights Audit	Against	Our manager supported proposals related to diversity and inclusion policies as we consider these issues to be a material risk to companies.	53.6% support for proposal
18 November 2021	Goodman Group (Australia)	Elect Rebecca McGrath as Director	Against	A vote against was applied due to a lack of diversity at board level. It is expected that a company should have a diverse board, with at least 25% of board members being women. Companies are expected to increase female participation both on the board and in leadership positions over time.	20.8% against
17 September 2021	Alibaba Group (China)	1.1 – Elect Director Joseph C. Tsai	Against	Our manager has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences.	16.4% against

Apple Inc has committed to undertake a civil rights audit following a majority of investors voting in favour of the shareholder resolution. Goodman Group has appointed a second woman to the board in June 2022 resulting in 25% female board representation. No other notable outcomes have been recorded.

ESCALATION AND EXERCISING SHAREHOLDER RIGHTS CONTINUED

Exercising our rights in other assets

Our rights as a provider of fixed income debt to a company differ markedly from those as a 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. As an 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 and ensure that any additional 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 once entering into an agreement (see case study, right).

In private market closed-ended funds managed externally, we have found that it is almost impossible to retrospectively change any contracts or side letter terms that were signed historically. Therefore, we look to obtain sufficient recourse in our side letters, so that 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 fund.

CASE STUDY

Negotiating best governance as a private credit investor

PPF funded the development of 155 new social housing units in a London borough. The investment will be serviced by securitised lease payments ringfenced within a legal structure.

We set out to simplify what was a complex structure by delineating responsibilities to ensure all foreseeable risks were addressed in a timely way. In particular, we were keen to ensure that the local authority backing this deal was set up contractually as the ultimate safety net.

To achieve rating parity between the structure and the sponsoring local authority, we ensured that construction risk was removed from our transaction and debt service payments benefited from statutory protections available to traditional borrowing in that sector.

Construction risk was addressed by establishing a risk control framework. This included fixed cost contracting, contractual guarantees to the constructor from its ultimate parent, insurance protection and, if all else fails, the council standing as ultimate guarantor.

Key to our investment thesis was the self-supportive nature of the asset. This was deemed important to mitigate reputational risk and ensure the collateral can provide meaningful protection enhancement.

Our aspirations for the coming year

We will continue to engage with our external 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 work on expanding and deepening our stewardship efforts, to maximise the resilience of our portfolio to material ESG and climate-related risks.

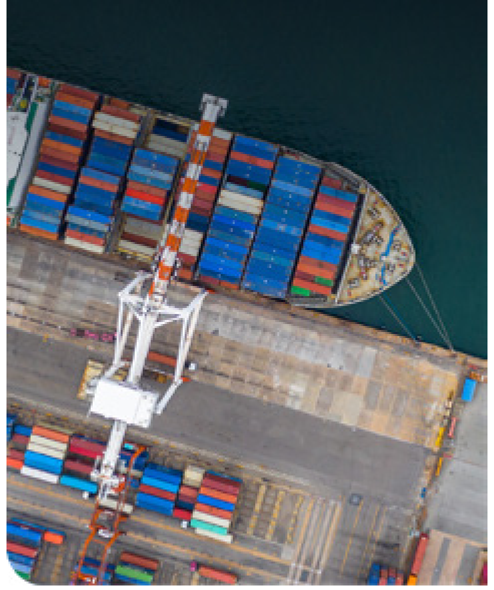
Continue to work with our managers to improve their ESG and stewardship disclosures in line with our own evolving reporting requirements and industry-led standardisation initiatives

Using the findings from our Portfolio Paris Alignment Project, develop a stewardship strategy to engage with the subset of portfolios, sectors and companies identified as our highest priority engagement targets

Continue to integrate our focus on 1.5°C global warming limits across all our investment, analysis and reporting activities, including pre-investment due diligence

Continue our work to report on and reduce the PPF's own operational environmental impact

Continue to work with industry initiatives to drive positive societal and environmental action among market participants



Engage with our managers, issuers and public policymakers to explore ways to improve the level and quality of ESG data disclosure for credit and private markets

Work with our managers, especially in real assets, to explore how to improve physical and adaptation risk analysis and understanding

Develop a holistic sustainability strategy as part of the PPF's three-year Strategy Plan

Continue to work with our Alternatives managers and on the eFront Outreach project to improve ESG data disclosure in unlisted markets

Appendices

Appendix A

Our ESG team

- Claire Curtin, Head of ESG and Sustainability
- Daniel Jarman, Stewardship Manager
- Iliana Lazarova, Senior ESG Analyst (currently on secondment)
- Anna Paschaloglou, ESG Data Analyst

Appendix B

Meeting the FRC's Stewardship Code

As a 2021 signatory to the Financial Reporting Council (FRC)'s UK Stewardship Code, our report is seeking to meet the reporting expectations set out by the Code's 12 principles. The table on the right aims to provide a guide on our compliance with the Code and where each principle 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, 8, 9, 12, 14
2	Signatories' governance, resources and incentives support stewardship	Pages 10, 11, 12
3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	Page 13, Appendices C & D
4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	Page 27
5	Signatories review their policies, assure their processes and assess the effectiveness of their activities	Pages 13, 39
6	Signatories take account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them	Page 14
7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change to fulfil their responsibilities	Pages 15, 16, 17
8	Signatories monitor and hold to account managers and/or service providers	Pages 18, 22, 23
9	Signatories engage with issuers to maintain or enhance the value of assets	Pages 18, 19, 20, 21, 24, 25
10	Signatories, where necessary, participate in collaborative engagement to influence issuers	Pages 26, 27
11	Signatories, where necessary, escalate stewardship activities to influence issuers	Pages 29, 30, 31, 32, 33
12	Signatories actively exercise their rights and responsibilities	Pages 29, 30, 31, 32, 33

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 team and approved by the Executive Committee.

Register of conflicts and outside business interests

The Compliance and Ethics (C&E) team maintains a register of employees' conflicts and outside business interests, which they review 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. They also sign to say they've read, understood and followed these policies every year.

Gifts and Hospitality policy

Our Gifts and Hospitality (G&H) 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 PPF 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 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 performance review (PDP) along with credit and background checks on a rolling three-year basis with 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 with. 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.

APPENDICES CONTINUED

Appendix E

Our voting guidelines 2022

Our voting principles

We're guided by the best practice as demonstrated by our stewardship services 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, such as 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 of our positions through our asset managers and designated stewardship 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, and we do this on a best effort 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 ('watchlist' companies) we'll endeavour to engage with 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 to change the approach taken by the company. We'll also seek to inform such companies of any anticipated votes against management, together with the reasons why, through our designated stewardship provider. For non-watchlist companies, we'll inform companies on a best effort basis.

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

Key themes for 2022

With a specific focus on material issues, we identify key ESG matters that are of particular importance in a specific AGM season and highlight them through targeted engagement. Where we feel that companies are consistently unreceptive to engagement on certain issues, we will consider employing escalation techniques such as voting to oppose relevant board members or resolutions.

Climate change

Climate change is a key area of focus for us, and Net Zero stewardship is a fundamental part of our approach to management of climate-related risks. Read our Climate change policy for more details. Through our stewardship services provider and participation in collaborative initiatives, we expect tangible progress around Net Zero and work with both our managers and companies to encourage the transition to a low-carbon economy.

In order to measurably track and encourage progress on climate, we utilise the management quality assessment of companies that are analysed 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 also will be guided in our voting by the industry initiatives around Net Zero alignment for both asset owners and our asset managers.

We will consider opposing the chair or responsible directors of companies which:

- Rank below a level 4 (i.e. 3, 2, 1 or 0) in the latest Management Quality assessment by the Transition Pathway Initiative (TPI)
- Have been downgraded from a level 4 to 3 by TPI over the previous assessment cycle
- Have a strategy that is materially misaligned with the goals of the Paris Agreement.

We'll also consider voting against the management of a company in cases when they are not disclosing adequate climate-related information, not only to the standards of the Task Force on Climate-related Financial Disclosures (TCFD), but to the first tier of climate disclosure such as CDP. Transparency is the first building block for any progress on climate and we wish to see real improvements in the level of disclosure in the market globally.

Modern Slavery

Modern Slavery is a topic of key focus in the UK, with the Modern Slavery Act 2015 being the first globally leading piece of legislation passed as an Act of the Parliament of the UK. 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 Act to meet the reporting requirements of the Modern Slavery Act. 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.

We are a member of the PRI collaboration initiative Votes Against Slavery. The purpose of this initiative is to engage with FTSE 350 companies around their public disclosure in compliance with the 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.

We will consider withholding our support for the approval of the annual report and accounts at the company's next AGM, should the required changes to achieve compliance not occur.

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'll 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 on diversity. 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).

Around gender diversity more specifically, in the UK we will consider opposing the nomination committee chair of any FTSE 350 company where women comprise materially less than 33 per cent of the board. For companies outside the FTSE 350, we will do the same where there are no female board members. We are likely to vote against the chair of the board of any FTSE 100 company that does not have at least one director from an ethnic minority background and has no credible plan to rapidly achieve this.

In Japan, we are likely to vote against the nomination committee chair or board chair if less than 10 per cent of directors are female, regardless of company size. In China, ASEAN, Brazil, India, Mexico, Russia, South Africa and Taiwan, we will consider taking a similar approach if companies have less than 20 per cent women on the board and the company fails to demonstrate a credible plan has been put in place to meet this expectation. In the largest US companies, we expect at least 30 per cent gender diversity and one or more ethnically or racially diverse directors.

Executive committee diversity – We extend our expectations around diversity on boards to executive committees or senior management as well.

In the UK, this includes a policy of opposing chairs of any FTSE 100 company with an all-male executive committee, and we will consider a similar approach in Australia, Denmark, France, Germany, Italy, the Netherlands, Spain and Sweden. We will also consider voting against the chair of any FTSE 100 company with materially less than 20 per cent female representation in the combined population of the executive committee and its direct reports.

APPENDICES CONTINUED

Appendix F

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 shareblocking 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 G

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 environmental, social and governance (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's 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's 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.

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).

APPENDICES CONTINUED

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 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	1. Request for proposal/ identification	2. Selection/ due diligence	3. Appointment	4. Post funding
ESG requirement	Evidence of firm-level and strategy-level ESG policy; PRI support; and capabilities or resources for ESG integration	Ensure ESG processes are in place, appropriate industry guidelines are followed and reporting is available	Binding ESG and climate risk clauses inclusion in legal documentation (e.g. IMAs, side letters)	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.

Oliver Morley,
Chief Executive

Thank you to our members and employees for allowing their photos to be used in this document.

Renaissance
12 Dingwall Road
Croydon
CR0 2NA

T: 020 8406 2107

www.ppf.co.uk