Phoenix

Climate Report 2022

Prepared in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosures ('TCFD')

We are proud to present Phoenix Group's 2022 Climate Report, prepared in accordance with the recommendations and recommended disclosures of the Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD'). It aims to provide stakeholders with a clear overview of the Group's strong and continued progress towards managing the impacts of climate-related risks on our business and unlocking climate-related opportunities.

We aim to be a net zero business by 2050.

Our 2022 reporting suite

Annual Report

Sustainability Report

Climate Report

Further reports to be published in May:
Net Zero Transition Plan
Stewardship Report

Access the full reporting suite at thephoenixgroup.com →

Assurance
The Group has appointed Ernst & Young LLP 'EY' to provide limited independent assurance over selected climate-related disclosures content within this report marked with ^ as at and for the year ended 31 December 2022. The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagements 'ISAE' 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. A limited assurance opinion was issued and is available on page 66 of this report.

Key terms
Please see the glossary on page 63 for an explanation of key terms used throughout this report.

In this report

Introduction

"Maximising the opportunities and managing the risks associated with climate change are critical in fulfilling our responsibilities to our customers and stakeholders and ultimately delivering our purpose. I am proud of the strong progress we have made in 2022, demonstrating our continued commitment to action."

Andy Briggs,
Group Chief Executive Officer

Our purpose and climate ambition

We are a purpose-led organisation, aiming to help people secure a life of possibilities. Underlying this purpose is a societal responsibility to address the current climate emergency and play a leading role in supporting the transition to a net zero economy.

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

To measure progress and deliver this ambition, we have set interim and long-term targets

2025

25% reduction in carbon intensity of listed equity and credit assets[1].

Net zero across our operations

2030

At least 50% reduction in carbon intensity of all investment assets[1]

50% reduction in carbon intensity of our supply chain

2050

Net zero across our business

1. Where Phoenix can exercise control and influence.

At a glance

Who we are

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

Our vision

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

Our purpose drives everything we do:

Helping people secure a life of possibilities.

Our business

c.£259bn
total assets under administration

c.12m
customers

c.6,800
colleagues as at 1 March 2023

FTSE 100
and FTSE All World

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

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

Our family of brands

Standard Life
Part of Phoenix Group

SunLife
Part of Phoenix Group

PHOENIX LIFE
Part of Phoenix Group

ReAssure
Part of Phoenix Group

Our values

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

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

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

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

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

Continued momentum to deliver our climate ambition

Rakesh Thakrar
Group Chief Financial Officer

Jonathan Pears
Group Chief Risk Officer

The continuing challenge and opportunity

We continue to operate in a global environment with a climate crisis increasing in intensity and reach. The past eight years were the warmest on record globally (World Meteorological Organisation, 2023) and 2022 was marked by a number of defining moments including persistent heat waves in Europe, severe flooding in South Asia and instability in the global energy market due to the war in Ukraine.

The COP27 climate summit held in Egypt concluded with an important agreement on the establishment of a dedicated loss and damage fund to help vulnerable countries; however, progress on mitigation and adaptation was less advanced. The Intergovernmental Panel on Climate Change ('IPCC') highlights the wide-scale negative impacts if we fail to halve greenhouse gas emissions this decade and immediately scale up adaptation (IPCC Report, 2022). There still remains a significant gap between current national emissions reduction plans and what is needed to limit temperature rise to 1.5 C.

Since Mark Carney's defining speech in September 2015 warning about the financial risk of climate change and the development and publication of the TCFD framework that followed in 2017, recognition of climate as a significant risk has grown; and support for the framework has been increasing in momentum. We recognise tackling climate change is core to our business as it is essential to managing financial risk for our customers.

As of November 2022, the number of TCFD supporters surpassed over 4,000 companies across more than 100 countries; with a combined market capitalisation of over US$27 trillion (TCFD Status Report, 2022). Through this widespread adoption, climate considerations are becoming increasingly embedded in the governance, strategic, risk management and reporting processes of organisations.

At Phoenix, we have complied with the TCFD recommendations, using them as a framework to assess, measure and manage climate-related impacts on our business and as a catalyst for change to help reshape our strategy.

2022 a year of strong progress

In 2021, we developed our climate strategy and made ambitious commitments that support achieving net zero by 2050. Since then, we have been focused on delivery and progress has been strong.

Throughout 2022, we have continued to hone our governance structure and risk management approach to incorporate climate considerations. Within our investment strategy, we successfully transitioned c.£15 billion of assets and c.1.5 million customers to our new Sustainable Multi Asset default solution; and we are in the process of designing equity benchmarks for UK and US-listed equity exposures, which we believe will help reduce the carbon intensity of our portfolio and make it more resilient. £483 million was invested in illiquid assets with a positive environmental impact[1] and we also delivered an 80% reduction in operational carbon intensity (against 2019).

COP15 provided a global platform to further highlight that the degradation of nature is happening at an unprecedented rate. The reality of the role that climate change plays, both as a driver and a consequence of this degradation, has become increasingly stark.

With US$44 trillion of economic value generation (or over half the world's total GDP) moderately or highly dependent on nature (World Economic Forum, 2020), global economic and financial stability are at risk due to nature loss. We are potentially exposed to companies that both depend on and impact the ecosystem services that nature provides. These risks can be material and unrecognised. Nature is also emerging as a new asset class, with the latest research outlining how natural capital solutions are some of the most effective strategies for mitigating negative climate-related impacts. It is becoming clear that the solution lies in both rapidly decarbonising our economies and unlocking natural climate solutions.

Phoenix is pleased to have published our Statement on Nature last year and we have partnered with three of our asset managers and three data providers to pilot the emerging Taskforce on Nature-related Financial Disclosures ('TNFD') framework. We are at the start of this journey but recognise that managing climate (and the wider nature) risk and opportunity is critical in ensuring our long-term sustainability as a business.

Looking ahead with focus

The continuing work of the ISSB on International Financial Reporting Standard S1 (General Sustainability-related Disclosures) and IFRS S2 (Climate-change reporting) and the evolving regulatory framework are critical. We hope they will provide an incentive for organisations to act. In addition, it should allow better harmonisation of approaches and should provide more consistent, transparent and 'decision-useful' information for the benefit of all stakeholders.

As we develop our Net Zero Transition Plan for publication in May 2023, we welcomed the first draft disclosure framework of the UK's Transition Plan Taskforce in November and the finalised framework and sector guidance to follow. With the formalisation of the TNFD framework expected in 2023, we will look to build on the lessons learnt through our climate journey to date, developing our nature approach and strategy further.

We remain focused on the significant work still ahead to deliver a net zero economy. As the UK's largest long-term savings and retirement business, we have a strategically important role to act and take a leadership role. We believe this is in the best economic interest of our customers and our shareholders; fulfils our wider duty to our colleagues and communities and other stakeholders; and helps to ensure the long-term resilience, stability and security of our global economy, financial system and wider society. It remains a key measure of our success as a business and will define how we will be judged by future generations.

1 As defined by Phoenix Group's Sustainability Framework.

The case for climate action at Phoenix

Managing financial risk and tackling climate change are defining challenges for our business

Failing to act would create significant risk for our customers and our business.

Embedding climate in all our decision-making helps us manage the risk and seize the opportunity.

Phoenix area	Predominant risk	Transition risks
Phoenix Group	Strategic	High
Operations	Operational	Medium
Heritage business	Insurance	Medium
Growth businesses	Insurance/ Market/ Customer	Medium
Investments	Market/Credit	High

If we do not address the challenge of reducing our emissions, we face medium or high impacts across our business.

Action must be taken to reduce our large carbon footprint.

Investments is the most material area (c. 99%) of our overall carbon footprint. Achieving our net zero targets can help deliver material real world impact.

Investments CO_2e
24m tonnes^

• Emissions from our baselined assets of £238 billion to date (includes listed equities, listed credit, sovereign debt and real estate).

Supply chain CO_2e
c.0.2m tonnes

• Indicative supply chain estimated emissions from the purchase of IT and other services.

Operations CO_2e
c.10,000 tonnes^

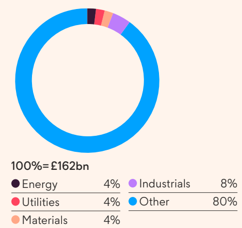
• Emissions from electricity supply, heating and cooling our buildings and business travel.

By taking action, we can help drive the transition to net zero and protect our customers' and shareholders' future

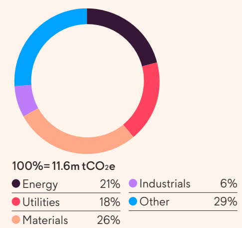
We can manage risk and accelerate change by focusing on high-emitting sectors.

Supporting leaders in the transition and net zero plans will help deliver this change.

Sector exposure as % of listed assets AUA^



Sector exposure (weighted by AUA) as % of listed asset absolute emissions

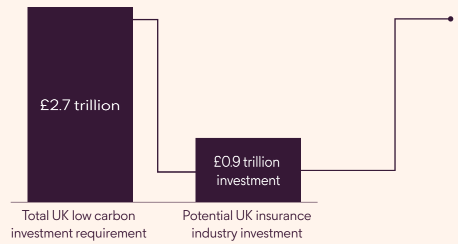


High transition risk sectors such as energy, utilities, industrials and materials make up c.20% of our listed assets, but account for 71% of absolute emissions.

Net zero provides a huge opportunity for long-term investment.

Phoenix is increasing investment in net zero solutions. With the right market conditions we can increase this further.

Capital investment required for net zero, 2021–2035



With the right policy and regulatory changes, the insurance sector could finance one-third of the £2.7 trillion low carbon investment required in the UK over 2021 to 2035.

Source: ABI

Our climate action model

As the UK's largest long-term savings and retirement business, we have a strategically important role in supporting global efforts to transition to a net zero economy for the benefit of all our stakeholders. Our strategy is to deliver real economy emissions reduction while decarbonising our own business, to deliver strong financial outcomes for customers and shareholders.

Tackling climate change is core to our business, for three reasons:

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

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

It is the right thing to do: We have a comprehensive sustainability strategy that is fully aligned with our purpose of helping people secure a life of possibilities. Ensuring we play our part in tackling the climate crisis is a crucial part of this.

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

We are committed to setting clear targets and transparently reporting on our progress through our Climate Report and Net Zero Transition Plan.

Our purpose
Helping people secure a life of possibilities

Our climate ambition

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

Governance

Read more on page 12 →

Risk management

Read more on page 40 →

Scenario analysis, people capability, data and technology

Read more on page 33 →

Invest

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

Read more on page 20 →

Engage

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

Read more on page 25 →

Lead

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

Read more on page 28 →

Metrics and targets

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

Read more on page 45 →

Timeline of progress and climate action

2020

- Supported TCFD framework.
- First TCFD disclosure published.
- Established a TCFD Implementation Programme co-sponsored by the Group CFO and CRO.
- Establishment of Responsible Investment Philosophy.
- Committed to becoming operationally net zero by 2025.
- Committed to be a net zero business by 2050.

Signatory of:

- Signatory of the PRI.

2021

- First life insurer to sign up to PCAF UK.
- £220 million invested in renewable energy production projects.
- Set interim targets to reduce the carbon intensity of listed equity and credit investment portfolio by 25% by 2025[1] and to reduce the carbon intensity of all investment assets by at least 50% by 2030[1].
- ESG metrics incorporated within the 2022 Long Term Incentive Plan.
- Listed equities and credit portfolio carbon footprint 2019 baselined at c.15 million tonnes of CO_2e.
- Completed Round I of the Bank of England's CBES exercise.
- Further embedded our Group Exclusion Policy, including our approach to thermal coal, oil sands, and arctic drilling.
- Published open letter to financial partners, including asset management partners.

- Signatory of Climate Action 100+.
- Became member of Net Zero Asset Owners Alliance.
- Joined the Glasgow Financial Alliance for Net Zero.
- Hosted major event in run-up to COP26 'The Power of Pensions: Accelerating action towards net zero'.

- Strategic partner for Green Horizon Summit at COP26.
- Supported TNFD and Get Nature Positive Campaign.

- 'B' Carbon Disclosure Project 'CDP' grade awarded.
- 34% reduction in operational emissions intensity from 2020.
- 84% of key suppliers[2] engaged[3] on climate change.
- First insurer to publish an open letter on ESG to 1,500 suppliers.
- Sustainable Markets Initiative Insurance Supply Chain Pledge.

1. Where Phoenix can exercise control and influence.
2. Key suppliers include: strategic (those that we work closely with due to the strategic nature of the services they provide), critical (suppliers where the goods or services provided is limited in the market and barriers to change are complex) and financially important with spend ≥£1m (suppliers which are numerous but where value to Phoenix is significant).
3. Engaged is defined as having completed Phoenix Group ESG Supply Chain Standards gap analysis, outlining their progress on their climate change strategy including carbon reduction targets and procurement of renewable energy and or participated in the CDP suppliers survey.

Timeline of progress and climate action continued

2022

Key highlights

c. £15bn^
of assets and c.1.5 million^ customers transferred into our Sustainable Multi Asset default solution.

£483m
invested in illiquid assets with positive environmental impact.[2]

£338m
multi-asset climate solutions mandate to deploy policyholder assets in 2023.

25 companies prioritised
through our stewardship engagement representing c. 40% of our financed emissions in high-emitting sectors

Science based targets
developed and being validated by the SBTi

COP27
representation in Sharm El Sheikh along with peers, policymakers and civil society.

80%
reduction in operational carbon emissions intensity (from occupied premises per FTE against 2019).

82%^
of suppliers committed to either an SBTi based target or target based on the UN's Race to Zero initiative.

A- CDP grade
awarded.

- Published inaugural standalone Climate Report (in line with recommendations of the TCFD).
- Increased baseline Scope 3 financed emissions portfolio coverage to 77%.
- Commenced design of equity benchmarks for UK and US-listed equity exposures to reduce investments carbon intensity.
- Approved Global Voting Principles including expectations of companies on managing climate-related impacts.
- Completed Round II of the Bank of England's CBES exercise.
- Further honed our climate risk modelling and scenario analysis approaches.
- Set our indicative estimated supply chain baseline of c.0.2m tCO_2e and pathway to decarbonisation.[1]

1 This is an indicative supply chain emission footprint data modelled on current visibility of our supply chain and spend to provide context around our current scope of supply chain emissions. This has not yet been assured.

2 As defined in our sustainability framework.

^ Data assured by EY. See page 66 for the EY assurance statement.

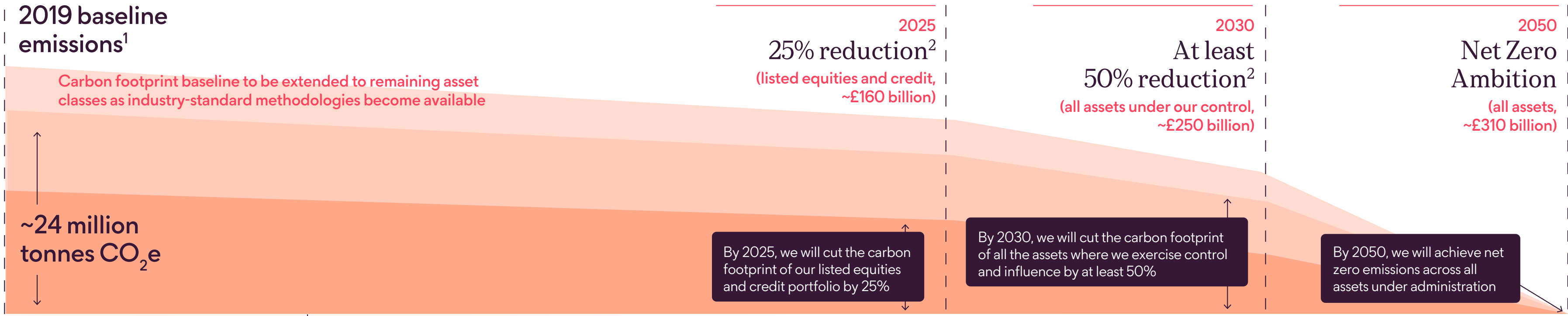
2023 and beyond

- Develop and publish Net Zero Transition Plan.
- Review our decarbonisation performance against a net-zero glide path for 2023.
- Continue to evolve the design of UK and US equity benchmarks aimed at reducing the carbon intensity of our investment portfolio.
- Become signatory to the UK Stewardship Code and publish our first Stewardship Report highlighting our plans and progress on engaging with high-emitting companies.
- Increase sustainable investments, with focus on climate and nature-related solutions.
- Engage with decision makers, our peers and other key stakeholders and deliver impactful thought leadership to help drive the wider system change needed to enable the net zero transition.
- Continue to seek further opportunities to manage our operational carbon footprint.
- Evolve our supply chain decarbonisation programme to develop a more targeted approach for our top 100 material suppliers.
- Roll out standardised ESG clauses into contracts with key suppliers to help drive positive behaviour change around net zero.
- Meet all interim and long-term net zero targets across investments, operations and supply chain.

Our roadmap to net zero

Later this year, we will set out and publish our Net Zero Transition Plan – providing a clear pathway outlining how we will deliver on our climate action model and pivot our investment portfolio, operations, supply chain and entire business model to meet our targets. For this report we have provided a high-level overview of the investment pillar of the plan, which is set out below.

Investments carbon emissions



Activities

	2021– 2022	2023–2025	2025-2030	2030–2050
Decarbonise investment portfolio	Measured 2019 carbon footprint of the listed equity and credit portfolio, sovereign bonds, and real estate assets Piloted listed equity and credit strategies with asset managers Developed strategy for listed equity and credit decarbonisation	Listed equity and credit portfolio: deliver 25% reduction in emissions Broaden scope of carbon footprint measurement Roll out of equity decarbonisation benchmark Apply exclusions policy where appropriate	Full investment portfolio: deliver 50% reduction in emissions Develop 20-year roadmap to achieve net zero across the full investment portfolio by 2050	Full investment portfolio: deliver net zero emissions
Effective stewardship	Defined and established stewardship framework Developed stewardship programme for 25 companies representing >30% of emissions from listed assets	Engage with investee companies/asset managers under initial three-year engagement programme	Monitor delivery and set up new three-year engagement programme Consider selective divestment for under-performers	
Investment in climate solutions	Invested c. £2.3 billion in sustainable assets[3]	Develop classification framework and identify preferred sectors Invest at least £10 billion over five years into sustainable assets (subject to market conditions)		

- Listed equities and credit
- Other assets under control and influence – illustrative
- Other assets – illustrative

1 Our emissions baseline currently covers 100% of the assets in scope of our 2025 target and 95% of the assets in scope of our 2030 target. Carbon footprint baseline to be extended to remaining asset classes as industry-standard methodologies become available.
2 Where Phoenix can exercise control and influence.
3 Not all investments in sustainable assets are climate related.
Asset values as at year-end 2021.

Progress and key future priorities against the TCFD framework

Phoenix publicly committed to support the Financial Stability Board's TCFD recommendations in 2020. Since then we have made significant progress in assessing climate-related risks and opportunities and developing and embedding our climate strategy, our governance and risk management processes, as well as our metrics and targets framework.

We confirm that we have made climate-related financial disclosures for the year end 2022 that are consistent with the recommendations and recommended disclosures of the TCFD. A reference table of these is included in the appendix. Below we have clearly identified our priorities to ensure future focus.

Governance Read more on page 12 →	Strategy Read more on page 18 →	Risk management Read more on page 40 →	Metrics and targets Read more on page 45 →
Key areas of progress in 2022			
• Integrated ESG metrics and targets within the 2023 Long Term Incentive Plan and the Group Executive Directors' Strategic Scorecard. • Review of materiality and benchmarked sustainability strategy highlighting climate change as highest priority theme. • Approved the Group's 2022 sustainability strategy and related KPIs and targets; including climate-related targets. • Approval of science-based targets for validation by the SBTi. • Completed an effectiveness review of the Board Sustainability Committee. • Oversight of Group responses to an increasing demand for ESG disclosure from investors and other stakeholders. • Continued upskilling across the Group through tailored education sessions on climate change-related topics and our Net Zero Transition Plan.	• Commenced design of equity benchmarks for UK and US-listed equity exposures to reduce the investments carbon intensity. • Transferred c.1.5 million^ customers and c. £15 billion^ of assets into our Sustainable Multi Asset solution. • Developed our stewardship engagement programme. • Approved our Global Voting Principles. • Invested £483 million in illiquid assets with a positive environmental impact[1]. • Designed a multi-asset 'climate solutions' mandate to deploy £338 million policyholder assets in 2023. • Further developed our climate risk modelling and scenario analysis approaches. • Building consolidation and improved energy efficiencies driving operational emission reductions. • Engaged key partners on our ESG supply chain strategy and developed ESG supply chain standards which outline key areas of focus. • Advocated for Solvency II reform to mobilise private sector capital. • Participated in a wide range of sectoral initiatives and COP27.	• Further developed our internal climate risk reporting, reflecting the evolution of market best practice and tracking the progress made in terms of the Group's interim net zero targets for both internal operations and the investment portfolio. • Continued to review and enhance the Risk Management Framework ('RMF') as further information is developed, including through scenario analysis work. • Continued to enhance our internal climate scenario analysis capabilities. • Enhanced the data strategy and model for collecting and reporting on climate risk.	• Baselined Scope 3 financed emissions for sovereign debt and real estate, increasing investment portfolio coverage to 77%. This increased our baseline carbon footprint as at year-end 2019 to 24 million^ tCO_2e per year. • Broadened suite of climate metrics to include exposure to the fossil fuel industry and portfolio temperature score. • Submitted decarbonisation targets for validation by the Science Based Targets Initiative ('SBTi'). • 80% reduction in operational carbon emissions intensity (from occupied premises per FTE against 2019). • Set our indicative estimated supply chain baseline of c. 0.2 million tCO_2e and pathway to decarbonisation. • Engaged key partners on our ambition to halve our supply chain emissions by 2030, with 82% ^ committed to either an SBTi based target or UN's Race to Zero initiative-based target.
Looking ahead to the future			
• Support the setting and approval of 2023 sustainability targets and priorities including approval of the Net Zero Transition Plan. • Oversight of the Group's nature approach, strategy development and implementation. • Review development of the IFRS Sustainability Disclosure Standards and understand implications for governance and reporting. • Continued focus on climate and nature-related topics, deep dives and developing expertise across all levels of the organisation.	• Publish our Net Zero Transition Plan. • Continue to evolve the design and broaden the scope of UK and US equity benchmarks. • Actively engage with companies and execute wider stewardship engagement. • Scale up direct investments in climate solutions. • Enhance the analysis of our exposure to second order physical risk. • Broaden scenarios to ensure resilience under a greater diversity of outcomes, to integrate key demographic impacts arising and incorporate nature-related risks. • Seek further opportunities to manage operational footprint. • Evolve our supply chain decarbonisation programme to develop a more targeted approach for our top 100 material suppliers and regularly update ESG supply chain standards. • Enhance our sustainable multi-asset default and core solutions for customers. • Continue to advocate for sustainable climate and energy policy and supportive regulation.	• Enhance the data strategy and model for collecting and reporting on climate risk – particularly physical climate risk. • Further embed climate risk considerations in key investment decision-making and management actions. • Further integrate climate risk into the reporting of other risks rather than on a standalone basis. • Incorporate wider nature and biodiversity risks into the RMF. • Continue to review and enhance the RMF as further information is available and our understanding of the risk develops.	• Review our decarbonisation performance against a net-zero glide path for 2023. • Expand our Scope 3 financed emissions baseline to include illiquid credit assets, increasing portfolio coverage to 79%. • Secure SBTi validation and track our progress against science-based targets. • Broaden the scope of reporting and target setting to consider the Scope 3 emissions of investee companies, if deemed sufficiently robust. • Determine our approach to physical risk metrics and evaluate against them. • Continue to seek further opportunities to manage our operational carbon footprint. • Further evolution of supply chain decarbonisation plan.

1 As defined by Phoenix Group's Sustainability Framework

Governance

Robust governance ensures a foundation for accountability and action on climate change. The Group has a clear governance framework in place to oversee how it identifies, assesses and manages climate-related risks and opportunities.

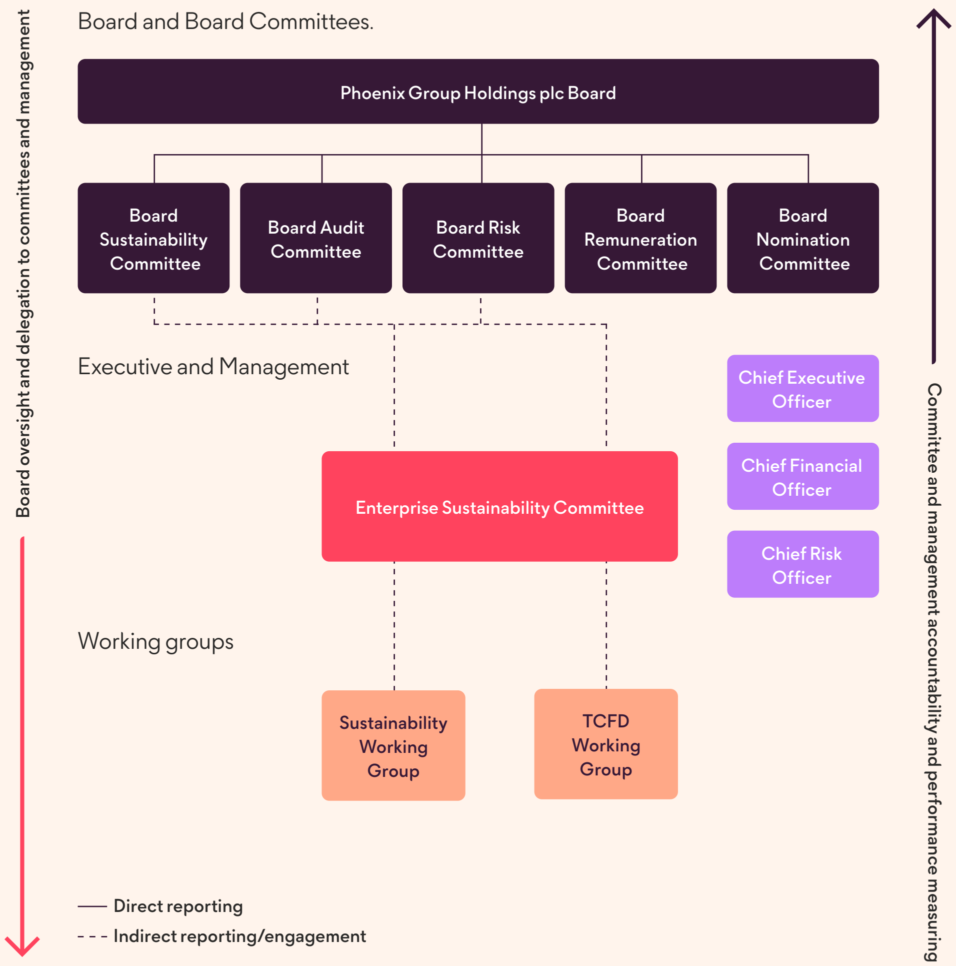
This framework has continued to evolve to reflect the growing significance of climate change and the increasing sophistication in the way we manage its impact on our business.

Board oversight and engagement

Key areas of progress

- Continued to integrate climate targets in our remuneration framework within the Executive Directors' Strategic Scorecard. See page 16 of this report for more detail.
- Simplified the Group's governance framework to drive oversight and management of climate risk and opportunities.
- Approved the Group's 2022 Sustainability Strategy and related KPIs and targets, including climate-related targets to decarbonise our investment portfolio.
- Completed an annual effectiveness review of the Board Sustainability Committee.
- Phoenix Group representation on the UK Transition Plan Taskforce and on the Climate Risk Financial Forum.
- Oversight of Group response to an increasing demand for ESG disclosure from investors and other stakeholders including responses to ESG surveys such as the CDP Climate Change Questionnaire and the World Benchmarking Alliance.
- Continued upskilling of the Board, Executive and the wider Group through tailored education sessions including some related to the Net Zero Transition Plan. See pages 94-95 of the Group's Annual Report and Accounts for details of the Board's education programme, skills and expertise.

Our Climate Governance Framework



Phoenix Group Holdings plc Board Oversight

In accordance with its matters reserved, the Board of PGH plc is responsible for the overall strategy of the Group, including the Group's sustainability strategy. The Board has oversight of the Group's strategic approach to climate change (including the management of climate-related risks and opportunities) supported by the Board Sustainability Committee. The Board is also responsible for setting the Group's risk appetite and risk appetite levels covering business and financial risks acceptable to the Group. The Board and its Committees consider climate related issues as part of discussions on the annual operating plan which may include investment projects and acquisitions and divestment strategies.

The Board recognises that climate impact and mitigation is a significant matter to be addressed by Phoenix from the top down. As such, the consideration of climate change is embedded within our governance framework and processes.

The Board has a robust Board Committee structure to assist in the discharge of its responsibilities, through delegations within approved terms of reference. Climate-related responsibilities are allocated to certain committees dependent on their overall purpose and remit.

During 2022, the Group Board met formally on eight occasions and considered climate change on seven occasions (including education sessions and updates on TCFD implementation, the Net Zero Transition Plan and Climate Change from its Board Committee Chairs and management). In addition, the Board Sustainability Committee met formally on six occasions.

See page 92 of the Group's Annual Report and Accounts for details of the Board's skills and expertise →

Cross-committee engagement

The following Board committees have defined roles and responsibilities relating to the management, oversight and reporting of climate risk and opportunities.

The Board Sustainability Committee is responsible for:

- oversight of the Group's sustainability strategy, related activity and approach to ESG matters; including oversight of the Group's approach to climate risk and opportunity within its sustainability strategy; and
- review and oversight of the content of the Group's sustainability reporting, including but not limited to the Group's annual Sustainability Report and TCFD disclosures, recommending the approval by the Board of PGH plc.

During 2022, the Board Sustainability Committee met six times, including joint meetings with the Board

The Board Audit Committee is responsible for:

- reviewing reporting in the Annual Report and Accounts and such other material documents in respect of climate change and ESG matters for compliance with relevant regulations and legislation and standards set by the Board Sustainability Committee; and
- engagement with the Board Sustainability Committee and Board Risk Committee, as appropriate, to drive a consistent approach to the execution of the sustainability strategy across the Group and to ensure appropriate ESG reporting – this includes matters on climate change.

Connectivity across our Governance Framework

Although defined roles and responsibilities are assigned to respective Board committees, cross-committee membership and engagement between the committees drive consistency of climate strategy and risk management across the Group's governance framework.

This connectivity is further supported through the articulation of operating principles which govern the way in which boards and committees across the Group's entire governance framework (including at the Group's subsidiary level) interact and share information on matters relating to sustainability, including climate risk and opportunities.

The Board Sustainability Committee and Board Risk Committee met jointly during 2022 to review and discuss feedback from the PRA in respect of the Bank of England's Climate Biennial Exploratory Scenario ('CBES') Round II submissions.

The Board Risk Committee is responsible for:

- consideration of climate change risk (a principal risk for Phoenix) as part of the bi-annual review of principal and emerging risks;
- oversight of the identification, assessment, management and reporting of climate-related risks within the Group Risk Management Framework (including oversight of the Group's climate-related stress and scenario testing);
- oversight of the Group's climate-related risk disclosures, coordinating with the Board Sustainability Committee and Board Audit Committee as appropriate; and
- reviewing the appropriateness of Phoenix's culture, and the extent to which the culture is embedded at all levels of the Group, including management of climate risk.

The Board Remuneration Committee is responsible for:

- engagement with the Board Sustainability Committee and Board Risk Committee, as appropriate, to drive a consistent approach to the execution of the sustainability strategy across the Group; and to ensure appropriate ESG elements (including climate-related targets) are included within the Group remuneration framework.

The Board Nomination Committee is responsible for:

- engagement with the Board Sustainability Committee, as appropriate, in particular in relation to Diversity and Inclusion matters, to drive a consistent approach to the execution of the sustainability strategy across the Group and to ensure appropriate ESG reporting on matters within the remit of the Committee.

Further details on our governance structure and committee activities can be found in the Group's Annual Report on pages 78 and 79 →

Key Board and Board Committee climate-related actions, discussions and decisions

Education and training

During 2022, a programme of climate-related education and deep dive sessions were provided for the Group Board and Board committees, covering the following areas:

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

Outcome/Impact

The education and deep dive sessions highlighted in the table above have enhanced the Board's and wider Group's knowledge and understanding of climate change risk and opportunities, connected regulation and market practice, and strengthened the Group's approach to addressing these matters. The enhanced knowledge and understanding ensure robust oversight, challenge and support at the highest level of our governance structure.

Strategy

During 2022, the Group Board approved the 2022 Phoenix Group Holdings plc Sustainability Strategy. The strategy was recommended for approval by the Group Board following review and recommendation by the Board Sustainability Committee. This strategy included the Group's approach to reaching its net zero targets and actions in relation to climate change, with the goal of a more climate-aligned investment portfolio.

Outcome/Impact

Approval of the 2022 Sustainability Strategy served as a catalyst for management to implement in relation to climate risk and opportunities and enabled the Group's Sustainability Strategy to evolve to respond to the changing needs of stakeholders. This resulted in the refinement of the Group's key pillars and enhancing the metrics used for monitoring progress towards the Group's sustainability commitments.

Risk management and controls

During 2022, the Group Board Risk Committee considered and oversaw integration of climate change and climate change-related risks into the Group's broader risk policies and updates including: climate change risk analysis and climate risk appetite of the Group being included as a part of the Consolidated Risk Report and the Group's Annual Operating Plan, and consideration of financial risks resulting from climate change.

Outcome/Impact

This enabled a holistic view of the Group's management of climate change risk and consideration of material climate-related risks as a part of the Group's Risk Management Framework and other risk policies.

Reporting

The Group Board reviewed and approved the Phoenix Group Holdings plc YE21 Sustainability Report, ESG Report, and TCFD Report within the Annual Report and Accounts, ensuring transparent and meaningful external reporting. The Board was supported by the Board Audit Committee and Board Sustainability Committee in reviewing these reports, in accordance with their terms of reference. The Group Board also reviewed and approved the Group's CBES Report Round II submission, following a review and recommendation for approval by the Board Risk Committee and Board Sustainability Committee.

Outcome/Impact

Approval of the YE21 reporting, as outlined above, has ensured regulatory compliance and transparent reporting about the Group's activities relating to climate change as part of the wider sustainability agenda.

Approval of the Group's CBES Report and the work undertaken in relation to this exercise has enabled Phoenix to baseline carbon emissions, develop our understanding of the potential impact of climate change scenarios, and enhance our ability to develop strategies and management actions to address risks relating to climate change.

Key Board and Board Committee climate-related actions, discussions and decisions continued

Regulatory Engagement
During 2022, the Group Board engaged with the Prudential Regulation Authority ('PRA') on progress with all climate change and sustainability-related deliverables and matters including Phoenix's preparedness for climate change regulatory and reporting requirements; and climate change risk management.

Outcome/Impact
The engagement above facilitated the Board's awareness of the regulator's view of Phoenix's progress on climate change risk management, ensuring that the Board was able to suitably oversee and challenge related management action, as appropriate. The active engagement also contributed to the PRA removing climate change as one of the key risks for the Group.

Remuneration
During 2022, the following ESG-related targets approved by the Group Remuneration Committee were included within the Group Executive Directors' strategic scorecard. This overall scorecard accounted for 20% of the Group Chief Executive Officer's and Group Chief Financial Officer's annual incentive plans, with Sustainability metrics accounting for 20% and 10% of this scorecard respectively. In addition, there were other ESG metrics in the scorecard, including specific Diversity, Equity and Inclusion ('DEI') targets. Further details are available in the PGH plc Directors' Remuneration Report on pages 129-130.

Outcome/Impact
See the Group's Annual Report and Accounts, Directors' Remuneration Report on page 131 for further details of performance against the targets above.

Executive Director's sustainability-related remuneration targets

Objective	CEO	CFO	Description	Base	Performance	Outcome
Sustainability	20%	10%	Launch financial inclusion strategy, focused on a specific underserved customer group, providing targeted support to empower better financial decisions	Launched financial inclusion strategy	Complete	90% outperformance or successful delivery against all metrics, building on the momentum from 2021. We remain committed to being a leading responsible business, with sustainability embedded throughout.
			Number of Phoenix Group customers that are directly offered the chance to review our Digital Literacy materials and/or initiatives	1m customers	Complete – 1.2 million customers^	
			% of SLAL customers in our Sustainable Multi Asset default solution	c. £15bn AUA and c. 1.5m customers^	Complete	
			Develop and submit for validation emission reduction targets in line with the SBTi financial sector guidance	Developed and submitted	Complete	
			% of originated illiquid investments into sustainable investments	60%	53%^	
			Reduce Scope 1 and 2 tonnes CO_2/FTE for occupied premises	0.79 CO_2/FTE	0.73^	
			% of colleagues involved in community activities	40%	42%^	
			% of key suppliers committed to SBTi or Race to zero	75%	82%^	

Performance measures for the 2022 Long Term Incentive Plan ('LTIP') were designed to incorporate an ESG metric relating to the Group's external commitments for decarbonisation of Phoenix's operations and investment portfolio. This ESG element of the 2022 LTIP has a 20% weighting (10% for decarbonisation of operations and 10% for decarbonisation of investment portfolio) to the long-term plan, linked to quantitative achievements against our decarbonisation commitments. These metrics will continue to be included within the 2023 scheme.

LTIP awards are granted to certain senior management employees and include the CEO and CFO.

Targets for the 2023 LTIP
These will focus on progress towards our interim decarbonisation targets to:

- Achieve a reduction of 25% in the carbon emission intensity of our investments by 2025, to cover all listed equity and credit assets where we can exercise control and influence (c.£160bn).
- Achieve net zero carbon emissions in the Group's Operations by 2025 – the scope for this target, set using science-based techniques, is Scope 1 and 2 emissions from our occupied premises and Scope 3 emissions from business travel.

The 2023 LTIP outcomes will be set by reference to delivery as at the end of 2025 with awards vesting in 2026.

Executive and management's role

Individual accountability
The Group's Chief Executive Officer, Andy Briggs, is the Executive Board Director responsible for implementation and delivery of the Group's overall strategy. The sustainability strategy forms part of the Group strategy, which includes climate change. In addition to this Group responsibility, Andy was also appointed as Chair of the Association of British Insurers' new Board Climate Change Committee in 2022 and led the co-ordination and collective focus on climate change across the insurance industry.

Individual responsibility for ensuring the appropriate identification, assessment, management and reporting of climate-related financial risks and opportunities that could impact the Group sits with the Group's Chief Financial Officer ('CFO') and the Group's Chief Risk Officer ('CRO'), both appointed as joint Senior Managers responsible for climate-related financial risk under the UK Prudential Regulation Authority's ('PRA') and Financial Conduct Authority's ('FCA') Senior Managers and Certification Regime.

As part of wider financial reporting responsibilities, the Group CFO is responsible for reporting metrics and targets and external disclosures, and as part of wider risk responsibilities, the CRO is responsible for ensuring that climate-related risks are incorporated into the existing risk management framework.

Other individuals within the Group's Executive team have accountability for other aspects of the wider sustainability strategy and pillars which interact with the climate strategy. Details of this are included within the Group's Sustainability Report.

Management/operational level groups
A number of key groups also have specific accountabilities for climate-related matters, as shown in the table below:

Committees/ Group	Responsibilities
Enterprise Sustainability Committee	• Ensures implementation of the Phoenix sustainability strategy and associated initiatives, including related to climate change. • Membership comprises key Executive Committee members, including sustainability pillar, risk and TCFD sponsors. The Committee's membership also comprises the Corporate Affairs and Investor Relations Director (Chair) and the Chief Sustainability Officer. The Committee meets at least five times a year (it met on six occasions in 2022) and supports the Board Sustainability Committee, providing updates on progress against strategy, KPIs and targets.
TCFD Steering Committee	• Until March 2022, this committee oversaw the TCFD implementation programme, including progress against the recommendations and the publication of the annual disclosure. Its broader aim was to ensure Phoenix has an integrated approach to managing climate-related risk and opportunities and a strategic approach to managing climate change. • Membership comprised key executive representatives from across the business including the CFO and CRO, the Chief Investment Officer, Chief Operating Officer, Director of Corporate Affairs and Investor Relations, Chief Sustainability Officer and Group Company Secretary. The group was chaired by the Head of Climate and Nature Risk and met monthly. • As the TCFD Implementation programme concluded in 2022 (as all activities have been embedded across the business), ongoing responsibility for climate risk and opportunity transitioned to the Enterprise Sustainability Committee.
TCFD Working Group	• Ensures the implementation and embedding of the recommendations of the TCFD at a Group level. In addition, it is responsible for delivery of locally agreed climate-related action; development and delivery of such actions in line with the Group's sustainability strategy; and consideration and recommendation of action on external influences relevant to sustainability challenges, including planned regulation and movements in industry practice. The Working Group also ensures appropriate internal and external communication of key TCFD-related activities. • Membership comprises of key functional representatives from across the business including Risk, Strategy, Investment and Governance; and meets monthly.
Sustainability Working Group	• Ensures day-to-day delivery of the Group's sustainability agenda and debates connected topical and emerging issues. The Working Group ensures that information provided to the Group Board Sustainability Committee and Enterprise Sustainability Committee is consistent with the approved Group Sustainability Strategy and aligned with relevant risk appetites. • Membership comprises key functional representatives from across the business covering the areas of Customer, Investment, Environment, People, Communities, Suppliers, Risk, TCFD and Strategy, and meets monthly.

Key future priorities for

- Support the setting and approval of 2023 sustainability targets and priorities including approval of the Net Zero Transition Plan.
- Oversight of the Group's nature approach,strategy development and implementation action.
- Review development of the IFRS Sustainability Disclosure Standards and understand implications for governance and reporting.
- Continued focus on climate and nature-related topics, deep dives and developing expertise across all levels of the organisation.

Strategy

As the UK's largest long-term savings and retirement business, we have a strategically important role in supporting global efforts to transition to a net zero economy for the benefit of our customers, shareholders, society and all stakeholders.

We have continued to understand and integrate climate-related impacts into the Group's strategic and financial planning decision-making processes over the short, medium and longer term.

Pillars of our climate strategy

The key areas of progress across the three pillars of our climate strategy

Invest

- Progressed the design of equity benchmarks for UK and US listed equity exposures to reduce climate risk and carbon intensity of our investment portfolio.
- Transferred c. 1.5 million^ customers and c. £15 billion^ of assets into our Sustainable Multi Asset default solution.
- Developed a stewardship programme for a focused list of 25 companies representing more than 40% of our financed emissions in highly-emitting sectors across our listed equity and credit portfolio.
- Approved our Global Voting Principles, which includes our expectations of companies on managing climate and nature-related risks and opportunities.
- Invested £483 million invested in illiquid assets with a positive environmental impact[1].
- Designed a multi-asset 'climate solutions' mandate to deploy £338m of policyholder assets in 2023.
- Further developed our climate risk modelling and scenario analysis approaches

1. As defined by our sustainable asset framework

Engage

- Ongoing engagement to ensure we have latest customer views and insights.
- Advocated for Solvency II reform to mobilise private sector capital and increase future investment in sustainable assets.
- Responded to key policy consultations on the Government's Green Finance Strategy and Net Zero Transition Plan requirements in partnership with the ABI and CBI.
- Participated in a wide range of sectoral initiatives including the ABI, CFRF, IIGCC, and the UK Government Transition Plan Taskforce and representation at Investment COP27.
- Engaged colleagues through our Environmental Network and Champions Group, 'meet the experts' sessions and interactive sessions with 400 of our most senior colleagues.

Lead

- Actioned operational building consolidation and improved energy efficiencies to achieve an 80% reduction in carbon emissions intensity from occupied premises per FTE in 2022 against 2019.
- Engaged our key partners on our ESG supply chain strategy to ensure they set out a clear climate action plan, with 82%^ committed to either a Science Based Target Initiative ('SBTi') based target or target based on the UN's Race to Zero initiative.
- Integrated key climate risk factors into the Supplier Management Model (which covers oversight of all key third parties) to actively monitor their performance and ensure they are following requirements set out in our ESG supply chain standards.

Overview

During 2020, we undertook an exercise to help identify and understand the climate-related risks and opportunities that could potentially materially impact the Group over the short, medium and long term. Details of this are included in the Risk Management section on page 40. This assessment of climate-related risks and opportunities has informed the initial development of our climate strategy in 2021 which we have evolved in 2022.

Our climate strategy comprises three pillars: Invest for the future, Engage to multiply impact and Lead by example; which are outlined in the sections that follow.

We will continue to review and hone our strategy as climate-related risks and opportunities evolve.

UN Sustainable Development Goals

We also strive to make a positive contribution towards the 17 non-legally binding UN Sustainable Development Goals ('UN SDGs') when considering our strategy and we have identified six priority goals below.

These are included as indicative guidance for Phoenix's ambition to align its strategy to the UN SDGs. Phoenix makes no representation, warranty, or assurance of any kind, express or implied, or takes no responsibility or liability as to whether Phoenix's strategy furthers the objective or achieves the purpose of the indicated SDG.

Our six priority UN SDGs

Invest

We are focused on investing for the future.

We are responsible for managing c.£259 billion of assets and the size of our portfolio means it is the area of our business with the greatest exposure to climate-related risks. It is also a source of opportunity, giving us transformative power to allocate capital in a sustainable way.

Our 2019 absolute financed emissions baseline[1] is 24 million^ tCO_2e. We have set a target to cut the emissions intensity of all assets where we can exercise control and influence by at least 50% by 2030.

Our investment strategy is focused on three areas:

1. **Decarbonising our investment portfolio;**
2. **Effective stewardship of our assets; and**
3. **Investment in climate solutions.**

The actions we are taking to deliver this strategy are set out below.

Risk/Opportunity considered:

- Climate risk exposures within investments
- Changing demand for products, funds and solutions
- Emerging government policy, regulatory and legal changes
- Reputational damage

1 Covering listed equity and credit, sovereign debt and real estate assets.

1 Decarbonising our investment portfolio

Approach

Our approach to decarbonising our investment portfolio involves considering how we maintain the existing risk-return profile, whilst overlaying carbon emission reductions, our exclusions policy and other constraints. It aims to improve portfolio resilience and support long-term growth.

Expanding our carbon emissions baseline

In 2021 we evaluated the emissions of our listed credit and listed equity assets across our shareholder and policyholder funds. When including cash (which is considered to have zero carbon emissions in line with industry guidance), this amounts to c.62% of total assets under administration ('AUA') or £191 billion (based on the year-end 2021 position). In 2022, we have extended our carbon emission baseline to include sovereign debt and real estate assets. This has increased the coverage of our carbon emission baseline to c.77% or £238 billion (based on the year-end 2021 position). Our expanded baseline is 24 million ^ tCO_2e as at year-end 2019 (our baseline year). This has reduced to 21 million tCO_2e as at year-end 2021, reflective of the global economic slow down due to COVID-19.

In 2023, we will conduct counterparty and sectoral analysis to understand where further action may be necessary to meet our 2025 decarbonisation target. Insights from this analysis will help to inform our stewardship and engagement approach.

Reducing the carbon intensity of our investment portfolio

Last year we started to integrate decarbonisation strategies into listed equity portfolios with the launch of our Sustainable Multi Asset ('SMA') Default Solution.

We plan to expand our scope beyond the SMA by applying customised decarbonising equity benchmarks to all our equity funds in our control. We are in the process of designing equity benchmarks for UK and US-listed equity exposures, which we believe will reduce the carbon intensity of our investment portfolio and make it more resilient over the long-term. It is critical that any changes to listed equity benchmarks are well tested and managed so that we can continue to protect customers' financial outcomes. We will continue to evolve our approach in 2023 before ultimately rolling out equivalent benchmarks across other regions and asset classes where this is in the best interest of customers.

In 2022, we also developed a climate transition strategy for liquid credit assets in our shareholder portfolio (representing c.£13 billion of AUA). The strategy aims to deliver the decarbonisation trajectory required for these assets to meet our interim 2025 and 2030 decarbonisation targets; and also increase the proportion of liquid credit assets in the shareholder portfolio which are 'net-zero aligned' per the IIGCC's Net Zero Investment Framework.

Our Net Zero Transition Plan will provide an overarching roadmap of the actions we will take on our journey to decarbonise our investment portfolio, and will help us to track our progress towards our 2025 and 2030 decarbonisation targets and ensure we continue to take the necessary actions. We have regular monitoring frameworks in place and will work with our asset management partners to deliver this strategy.

Sustainable Multi Asset ('SMA')

In 2022, SMA became our default solution for new workplace customers. To make sure our existing customers could also benefit from this, we moved over c.1.5 million^ customers and c.£15 billion ^ of assets from our existing default options to ones that reflect the same thinking and outcomes-based approach to SMA equivalents.

We aim to give customers the income they need in retirement, by focusing on investments that can generate the growth needed while also taking into account material ESG factors. We have set clear targets for the equity allocations in the SMA that aim to reduce carbon intensity (a measure of the carbon emissions of all the companies invested in) by 50% compared to the parent market index, increase green technology revenues by 50% compared to the parent market index and enhance ESG scores by 10%–20% compared to the parent market index.

Exclusions policy

In 2022 we published our updated exclusions policy which screens out companies that generate more than 20% of revenues from thermal coal, arctic drilling and oil sands (amongst other restrictions). This helps to mitigate our exposure to activities that could translate into material transition or 'stranded' assets risk. The updated version of the policy has introduced a new waiver rule adopted where companies have between 20-30% coal revenues and have Paris aligned science based targets approved by the Science Based Targets Initiative. Over time, we expect the thresholds for exclusion to tighten and the sectors excluded to widen.

Invest

2 Effective stewardship of our assets

Approach

Beyond the thresholds of our exclusion policy, Phoenix Group embraces an 'engagement first' stewardship approach to support investee companies' action towards developing short, medium and long-term plans to transition to net zero and bring real world change. While divesting from high carbon assets is the most straightforward way of cutting portfolio emissions, our approach is not to apply exclusions as a blunt tool and to use this approach only as a last resort when corporate practices are incompatible with our climate strategy and engagement is deemed difficult or unsuccessful.

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

As a large asset owner, we recognise and take our stewardship responsibilities seriously and have committed to become signatories to the UK Stewardship Code in 2023. Our inaugural Stewardship Report (which will be published later in 2023) sets out our focus on ambitious and outcome-oriented engagement, with tangible examples of how we seek to effect positive change on climate change action and other ESG priority topics.

Engagement strategy

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

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

We have defined our focused engagement list of 25 companies, which account for 40% of our financed emissions in material sectors in corporate fixed income and listed equity holdings (using our 2019 carbon footprint baseline as reference). High-emitting sectors are defined using the Net Zero Asset Owner Alliance classification. Nineteen companies in our list are also targeted by CA100+, the largest collaborative initiative to engage with high emitting companies on climate change. We have been asked to lead on four of these coalitions and are progressively joining another fifteen as active participants.

In 2022, we have completed our analysis on each of these companies against our in-house climate change scorecard to define tailored engagement objectives. Our framework is tailored by sectors and builds on the TCFD pillars.

Our expectations of corporate management on key ESG topics include a summary of the principles underpinning our internal scorecard and research on climate change.

Coverage of targeted companies

The following charts illustrate the sector and regional coverage of the 25 companies targeted by direct and collaborative engagements conducted by our Stewardship team.

In selecting our focus list, we have given priority to companies associated with high financed emissions from the most material sectors in our corporate bond and equity portfolios; and performing poorly on forward-looking assessments such as temperature alignment scores, presence of accredited science-based targets assessments from the CA100+ Net Zero Framework and indicators on carbon performance from the Transition Pathway Initiative ('TPI').

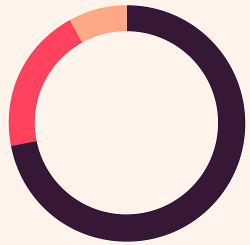
In relation to delegated engagement, periodic dialogue with our asset managers will ensure agreement on target setting, assessment of progress by companies, coordination of expectations in case of overlapping engagements, and escalation strategies in case of lack of progress.

In our Stewardship Report we will share more information on the percent of financed emissions in material sectors linked to corporate engagements by our asset management partners.

Sector coverage of 25 targeted companies

Multi-Utilities and Electric Utilities	7
Integrated Oil & Gas	6
Airlines	2
Diversified Metals & Mining	2
Steel	2
Diversified chemicals and speciality chemicals	2
Hotels, Resorts & Cruise Lines	1
Construction Materials	1
Fertilizers & Agricultural Chemicals	1
Paper Products	1

Regional coverage of 25 targeted companies



Europe	18
North America	5
Asia	2

Invest

Effective stewardship of our assets continued

Through our selection and monitoring processes, we regularly assess the consideration of climate change risks and opportunities in policies and reporting activities of our asset management partners. We also closely monitor the inclusion of climate expectations in customised proxy voting policies and voting on climate change resolutions.

In 2022, we have assessed and scored asset management partners against our expectations, covering more than 90% of the assets we have control and influence on sustainable investing.

Global Voting Principles

We approved our Global Voting Principles in March 2023 which summarise our framework for good corporate governance practices and standards for managing climate and nature-related risks and opportunities.

We are not involved in voting decisions directly, either by casting votes or sending voting instructions to our asset management partners. We will therefore:

- monitor the voting directions of our asset managers using our voting principles as a framework after the votes are cast;
- engage with our asset management partners to reduce the divergence of their voting from the expectations; and
- where possible, bring voting activities in-house for passive and enhanced index strategies in segregated mandates in the future.

Escalation

Progress towards tailored objectives by our focused list of companies will be regularly monitored through an internal tracking system. In case of insufficient progress against our objectives, we will consider escalation strategies such as writing letters to the board, public statements, recommending voting against management and as a last resort, divestment.

Where our engagement does not lead to change after more than three years of dialogue, we are committed to recommending the exclusion of assets that do not align with our climate and sustainability strategy. This is an important part of our approach to effectively managing the financial risks to which our customers are exposed.

Case study: Asset manager abrdn's engagement with Enel

During 2022 abrdn (our asset management partner) engaged with Enel (a multinational manufacturer and distributor of electricity and gas) directly and collectively as part of the CA100+ initiative. abrdn welcomed that Enel's net zero target had been brought forward from 2050 to 2040, that the company planned to disclose emissions across all scopes and that targets had been submitted to SBTi. However, they had concerns the ESG weighting of the Long Term Incentive Plan ('LTIP') was to be reduced from 25% to 20%, and as a consequence the metric related to renewable energy was to be removed.

The key objective of abrdn's collaborative engagement was to seek alignment of Enel's disclosures to the Net Zero Benchmark, which was launched by CA100+ in March 2021, and calls for robust and comparable information on how companies are realigning their business strategies and operations with the goals of the Paris Agreement.

In view of abrdn's concerns regarding the removal of the renewables metric, they decided to vote against the LTIP at the AGM. They will review any changes made to the LTIP structure prior to voting at the 2023 AGM.

Together with the two CA100+ co-leads, abrdn were pleased to acknowledge that in November 2022, Enel became the first and only company to fully align their corporate disclosures with the CA100+ Net Zero Company Benchmark.

Note: Company selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

Invest

3 Investment in climate solutions

Approach
We are committed to investing in climate-solutions which will enable net zero to be delivered. The opportunity is huge: it is estimated that around £2.7 trillion of investment will be required by 2035 to meet the UK's emission reduction goals, and that the insurance sector has the potential to fund a third of this investment.

Illiquid assets investments
In 2022, we invested c.£1.0 billion in sustainable assets, representing 53%^ of illiquid assets originated in sustainable opportunities for the shareholder portfolio. As a result, we have made good progress against our long-term ambition to deploy £10 billion in direct investments in sustainable opportunities by 2026. To date we have originated c.£0.7bn in climate solutions. Looking ahead, we welcome the reforms to Solvency II regulations as an important component of the changes needed to the wider UK investment landscape to enable us to meet our ambition to invest more in the future.

The UK lags behind other major developed nations in terms of its investment in alternative assets. Currently, only 9% of assets in UK pension funds are invested in this way compared to 23% in the other major pension markets. With the right regulatory framework and access to transformative investment projects that offer an attractive returns profile, Phoenix could invest up to £40bn in sustainable and/ or productive assets to support economic growth, levelling up and the climate change agenda.

As ever, our key priority will be to deliver good outcomes for our customers and this will continue to inform our investment decision-making process.

Investment in climate solution funds
Last year we selected an asset management partner to support us in designing a multi-asset 'climate solutions' mandate, which we will deploy c.£338 million of policyholder assets in 2023. The portfolio will allocate capital to enable the net zero transition, through both reducing emissions (mitigation) and increasing climate change resilience (adaptation). The portfolio will have an overarching Sustainable Development Goal ('SDG') alignment which will be skewed towards companies that have a high positive SDG score on environmental SDGs.

Investments in venture capital funds
We have a dedicated venture capital fund with an initial allocation in excess of £100 million. This is the first allocation to Venture Capital in our policyholder funds, and the first allocation to patient capital in our unit linked funds. The fund will follow a thematic ESG approach within a number of sectors including Fintech, Green Energy and Healthcare, to provide attractive risk-adjusted returns. The investments made through the venture capital fund will help businesses to scale-up companies and enable them to focus on growing out their workforce, whilst giving them access to the expertise that they require.

Advocating for Solvency II reform
We have worked with our insurance industry peers to help shape HM Treasury's proposed reforms to Solvency II. The proposed reforms present a very significant opportunity to ensure more private sector capital can be directed by insurers into the real economy, and ensure we better mobilise pension wealth.

These proposed regulatory reforms are an important component of the changes needed to the wider UK investment landscape, and will enable us to meet our ambition to invest more into sustainable assets in the future.

Climate solutions
Climate solutions are investments in economic activities that contribute substantially to climate change mitigation or adaptation. These are solutions that reduce greenhouse gases by avoiding emissions and/or by sequestering carbon dioxide already in the atmosphere, or investments in climate change adaptation that contribute to enhancing adaptive capacity, strengthen resilience and reduce vulnerability to climate change.

Sustainable asset framework
To achieve a successful transition, finance will have to be targeted to key areas. Hence, we consider it particularly important to be clear on our definition of sustainable investments. In 2023 we will publish our Sustainable Asset Framework for increased transparency of our approach, and will continue to review and evolve our framework as standards mature.

Key future priorities
- Publish our inaugural Net Zero Transition Plan.
- Review our decarbonisation performance against a net-zero glide path for 2023.
- Continue to evolve the design of UK and US equity benchmarks aimed at reducing the carbon intensity of our investment portfolio.
- Execute our stewardship engagement programme and adopt a similar approach for other priority themes, such as nature.
- Ensure the expectations of our asset managers remain ambitious through actions such as regularly updating our ESG due diligence questionnaire.
- Further direct investments in sustainable opportunities.
- Further integrate climate data into our internal data platform.

Invest

Investment in climate solutions continued

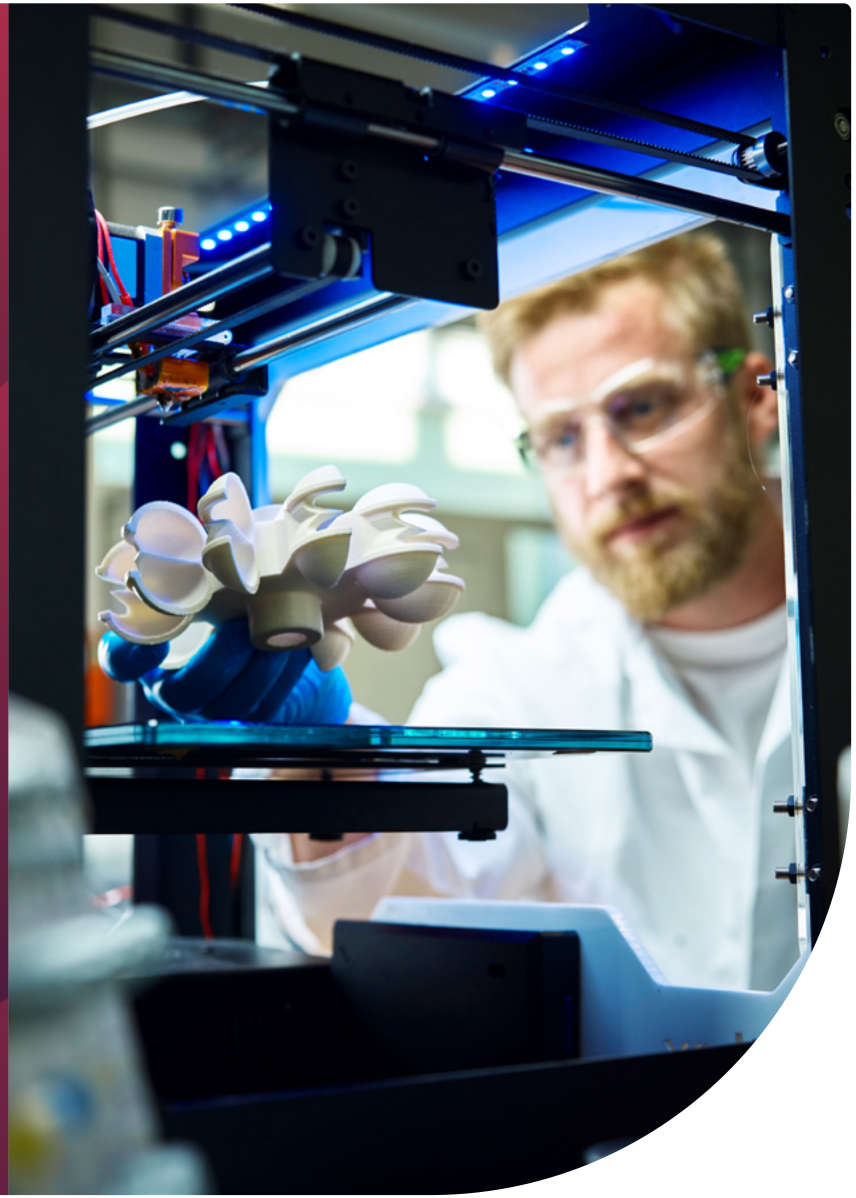
Case study: £111 million investment in IP Group

In October, we invested £111m in IP Group by way of long maturity private loan notes as part of our plans to expand our portfolio of science-based innovations. IP Group develops world-changing science and technology businesses across life sciences and technology and has spent many years working on a unique approach to building businesses and providing support along the journey from start-up to maturity.

The financing will be used for investments including in cleantech and other sustainable assets linked to the United Nations Sustainable Development Goals.

"We are delighted to support IP Group in the further expansion of its portfolio of impactful, science-based innovations. Phoenix Group actively looks to support sustainable businesses through our private debt portfolio, and our asset management team works with first time issuers to develop flexible financing solutions. This transaction further demonstrates our ability to support companies like IP Group, in developing pioneering solutions in climate action, healthcare and nano-technology which will provide us all with a better future."

Chris Palmer
Head of Illiquid Assets Origination
Phoenix Asset Management



Engage

We are focused on engaging to multiply impact.

At Phoenix we use our insight and knowledge to lead the debate on key climate-related challenges: engaging with customers, employees, peers, the wider industry, government and non-governmental organisations to remove the barriers to net zero investment and define best practice.

Risk/Opportunity addressed:

- Changing demand for products, funds and solutions given evolving customer needs
- Emerging government policy, regulatory and legal changes
- Reputational damage

Engaging our customers

We are passionate about engaging customers on the impact their savings can have. As we decarbonise our portfolio, we must consider the views of our customers and ensure the continued delivery of good customer outcomes.

Customer insight

It is important that we use customer insight to inform the propositions we create. Customer surveys tell us that returns and managing risk are top priorities when it comes to responsible investing. Most customers also want to avoid causing harm and to help drive positive change, while some want to support specific sustainable goals, with 80% of customers specifically concerned about climate change.

Despite this, customers are not fully aware of the impact their investments have in helping to shape our future world, with only 44% of customers having heard about responsible investing in relation to their financial products. However, 60% of our customers tell us that they would like to understand more about responsible investing and the decisions they can make.

This research has led to changes in our fund factsheets, the launch of a range of sustainable investment solutions and the replacement of our workplace default offering with a solution that focuses on growth while considering ESG factors.

Throughout 2023 we will continue to undertake customer research to understand changing appetites and develop innovative solutions. We also aim to reach 1.5 million people to raise awareness about the impact of their investments, whilst ensuring that we use clear and consistent language so that it is easy to understand.

Evolving our fund factsheets

As factsheets are one of our single largest touchpoints, with around 80,000 downloads each quarter, they are an ideal place to begin showing ESG information. Factsheets help us ensure customers' expectations are aligned to likely outcomes at all times and that customers have an appropriate level of information to make informed decisions about their investments.

In 2022, we evolved our factsheets for our core Standard Life workplace solutions, and re-designed them with customers in mind, providing ESG metrics aligned to our responsible investment targets, behavioural economic overlays, action-orientated headers and visual icons and cues.

We continue to assess this and other ways to improve our reporting for our customers.

Investment design

We know that the vast majority of our customers, especially those who have been auto-enrolled, have little understanding of and involvement with their pensions. This is why so many of them keep their money in a default pension option. As well as continuing to educate and engage customers about the investments in their pension, we want all our customers (existing and new) to benefit from our best ideas that aim to help them to grow their pension pots over the longer term while investing responsibly.

Further details of our Sustainable Multi Asset default solution are included on page 20. During 2023, we will continue to enhance our Sustainable Multi Asset default solution and our core solutions for customers, while integrating ESG more broadly across the customer journeys and solutions.

Engage

Engaging our colleagues
We have continued to engage colleagues across the Group through our Environmental Network and Champions Group launched in 2021. The Network and Champions Group aim to engage and empower colleagues on positive environmental behaviour. During the year, we also held a number of 'meet the experts' sessions which were live presentations led by subject matter experts in the business, to help raise awareness of climate and sustainability issues.

In June, we held a workshop with our 400 most senior colleagues across the Group as part of our Leading with Purpose training programme. The session was a follow-up from one held in December 2021 and supported by the Cambridge Institute for Sustainability Leadership to understand how the Group can undertake action to become a responsible business, with a specific focus on climate action.

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

Case study: Employee electric vehicle scheme

We launched our Electric Vehicle Scheme in 2022 to offer our colleagues the option of leasing an electric vehicle as part of the sustainability benefits we offer. This initiative enhances the suite of opportunities our colleagues have for reducing the impact of their commute to the office. We believe it to be an effective way to promote lower emissions and cleaner air on a local level and to support a wider acceleration for the adoption of electric vehicles worldwide. Our other longer-standing incentives include season ticket support and cycle to work schemes.

> "We know sustainability is important to our colleagues. So implementing an electric vehicle leasing scheme that helps them switch to more environmentally friendly vehicles and reduce their carbon footprint has proved popular. We launched the scheme in May 2021 and so far over 145 cars have been ordered."

Sara Thompson,
Group HR Director

Engaging with Government
We work to understand public policy barriers which prohibit our investing into green and sustainable assets.

In 2022, Phoenix worked with Her Majesty's Treasury ('HMT'), the Department of Work and Pensions, the Department for Business, Energy and Industrial Strategy, the Department for Levelling Up, Housing and Communities and the Department for International Trade; on issues such as Solvency II, green finance and energy policy in order to address the barriers to accelerating investment in sustainable assets.

Work on Solvency II continues with both HMT and the PRA towards implementation in 2023. It is our desire to see more flexibility introduced into the regulations to help meet our net zero ambitions.

Engagement with government broadly seeks to communicate Phoenix's social and climate aims and influence public policy to meet those objectives. Our appetite is to invest more under the right regulatory and investment landscape in order to deliver customer outcomes, while supporting societal and climate goals.

Engage

Engaging with peers and industry decision-makers
In 2022, we participated in a wide range of collaborative forums and partnerships, allowing us to amplify impact and promote transparency and best practice across the industry. These are outlined below:

Association of British Insurers ('ABI'): We are members of the ABI and actively contributed to the insurance industry's response to the proposed Solvency II reforms, which promise to unleash investment to support the transition to net zero. Our Chief Executive Andy Briggs is Chair of the Board sub-group on Climate Change and has helped coordinate and drive collective focus on climate change and sustainability over 2022.

Institutional Investor Group on Climate Change ('IIGCC'): We are members of the Net Zero Stewardship Working Group to integrate climate change considerations in engagement and voting practices by institutional investors.

Climate Action 100+: We are collaborating with other asset owners to create best practice stewardship approaches to hold companies to account, and conducting coordinated engagement to increase the power of our influence.

Partnership for Carbon Accounting Financials ('PCAF'): Phoenix was the first UK insurance company to join PCAF, a global collaboration of financial institutions that work together to develop harmonised methods to assess and disclose the GHG emissions associated with their loan and investment portfolios. In calculating Phoenix's financed emissions, we seek to adhere to the PCAF framework insofar as possible.

The Net-Zero Asset Owners Alliance ('NZAOA'): We have contributed to the NZAOA working group looking at the strategy for net zero implementation. Through this membership we are supportive of the Race to Zero campaign.

The Transition Pathway Initiative ('TPI'): We are Board members of the TPI and proactively shape the methodology and framework used to assess corporate preparedness to transition to a low-carbon economy.

UK Government Transition Plan Taskforce ('TPT'): We have contributed to the TPT to help shape guidance for developing effective net zero transition plans within financial services.

Chamber of Commerce in Edinburgh: We collaborate to support a just transition to a low-carbon economy, as part of an eight-year commitment through to 2030.

UK Sustainable Investment & Finance Association ('UKSIF'): Through this association, we are connected, influence policy, share knowledge and new opportunities with other members in the sustainable finance industry.

Sustainable Markets Initiative ('SMI'): As a member of the Sustainable Markets Initiative Insurance Taskforce, we are driving progress and accelerating the pace of industry transition towards a more resilient and sustainable.

FCA's Climate Financial Risk Forum ('CFRF'): Phoenix representatives sat on this forum which brought together senior financial sector representatives to share their experiences and develop financial sector industry guidance papers in managing climate-related risks and opportunities.

Scottish Government Green Finance Taskforce: We joined as a member of a new taskforce set up by the Global Ethical Finance Initiative, Scottish Government and Scottish Financial Enterprise to develop Scotland's position as a global centre of excellence for green and sustainable finance. The Taskforce brings together industry leaders and will report to Scotland's Financial Services Growth and Development Board.

Key future priorities

- Enhance our Sustainable Multi Asset default solution and our core solutions for customers, while integrating ESG more broadly across customer journeys and solutions.
- Launch an all-colleague sustainability training programme that focuses on climate action.
- Continue to work with industry decision-makers and government to advocate for sustainable climate and energy policy and supportive regulation.

Lead

We are focused on leading by example.

As at 2022, our operational emissions are 11,062 ^ tCO_2e (market based) and our indicative estimated supply chain emissions baseline is c. 0.2 million tCO_2e.

We have reduced our operational carbon intensity per FTE by 80% overall and absolute emissions by 59% from our 2019 baseline.

We have set targets to achieve net zero in our own operations by 2025 and to achieve a 50% reduction in the carbon intensity of our supply chain emissions by 2030.

Our operational and supply chain strategy allow us to drive change and positive impact, helping us mitigate against climate-related risks of disruption to our business.

Risk/Opportunity addressed:

- Disruptions to our business operations
- Reputational damage

Leading in our operational activities

Operational decarbonisation strategy

1. First eliminate

- Influence business decisions to prevent GHG emissions across the business
- Identify premises rationalisation opportunities
- Identify new business models available

2. Then reduce

- Real and relative (per FTE) carbon reduction
- Efficiency in operation and energy management
- Optimise approaches in technology and digital upgrades

3. Substitute where possible

- Lower-carbon technologies
- Reduce carbon intensity of energy used
- Purchase energy and services with lower-carbon intensity

4. Compensate for what is left

- Compensate unavoidable residual emissions through carbon removal projects
- Investigate land management value chain

Approach

Phoenix's operational carbon reduction strategy is based on the Eliminate-Reduce-Substitute-Compensate model. This model supported our financial planning, decision making and spending on a number of activities in 2022 to manage our carbon footprint.

For example:

- We accelerated the replacement of roof glazing in our Wythall office with photovoltaic glass, the largest of its kind in Europe, and completed it in 2022 (ahead of its original schedule). To date this has produced 1,880kWh of renewable electricity.
- We continue to roll out higher efficiency LED lighting across our applicable buildings and we make sure that any new installations are the most energy efficient by default.
- Building control systems have been upgraded to allow for greater flexibility and operational efficiency (we expect to begin seeing savings from these in 2023).
- Within ventilation systems, fans have been upgraded and inverter controls have been retrofitted.
- Inefficient gas boilers have been replaced in two buildings in 2022 (options appraisals were undertaken for fossil fuel replacement options; however, they were deemed technically unfeasible within the constraints of the buildings in question). This has resulted in gas consumption savings of 1,950MWh per year over the applicable buildings.
- Feasibility studies and design work have continued to assess options for heat pumps, electric boilers or hybrid combinations to replace gas boilers in two applicable properties.
- As part of future financial planning, we will consider further building consolidation opportunities to improve the effectiveness of our current use of space and will seek to source new technologies to further enhance our ability to reduce our business travel.

Lead

Leading in our operational activities continued

Internal Carbon Price

In 2022 we developed an Internal Carbon Price ('ICP') for Phoenix to show the best estimate of applicable operational activities (e.g. capital expenditure, energy efficiency and energy procurement). The current price is based on the United Nations Global Compact ('UNGC') review of the ICP implementations of 70 companies which suggests that ICPs should be $100/ £90 per tonne to incentivise sustainable options, unlock investment, and shift market signals in the industry to push towards a net positive carbon future. We consider our shadow ICP to be of high enough value to provide appropriate influence when applied to business decisions covering the most appropriate and impactful emissions sources with respect to emissions within our operational control. As the carbon market fluctuates and grows over time, our ICP will be reviewed to ensure it remains appropriate.

Renewable electricity

The supply of renewable electricity is a key element of the Group's net zero carbon hierarchy. In the first instance we determine the opportunities for generating energy directly from our operational sites by assessing all renewable and low-carbon technologies available (e.g. micro-generation and passive renewable systems).

Where we cannot generate our own energy and in situations where the energy we do produce is insufficient for the entire building, we employ a renewable electricity procurement hierarchy to maximise the benefits of renewable energy purchasing and use.

We consider power purchase agreements to be the preferred option followed by high quality, preferred renewable contracts with Renewable Energy Guarantees Origin and standard green tariffs as the least preferable options. We continue to procure approximately 24.1GWh (100%) of our building electricity from high quality renewable sources, which is why our Scope 2 emissions are significantly lower than the location-based emissions.

Carbon credits

For unavoidable residual operational emissions, we aim to purchase 'high quality' carbon credits generated from carbon removal projects. High quality relates to additionality, permanence and verifiability – defined by Oxford Principles and others as carbon credits earned from projects that sequester carbon from the atmosphere either through nature-based solutions ('NbS'), natural climate solutions ('NCS'), or technological solutions. Carbon offset credits generated from NbS/NCS projects can also deliver important environmental and social co-benefits in addition to carbon sequestration.

We adopt the Core Carbon Principles ('CCP') as developed by the Integrity Council for the Voluntary Carbon Market ('ICVCM'), to assess and ensure the quality of our carbon offset credits. We apply the Verified Carbon Standards ('VCS') and Climate, Community and Biodiversity Standards ('CCB') as a minimum to verify the quality of the carbon offset credits we purchase, and we regularly review this approach against emerging best practice.

To date we have not directly bought any carbon credits to offset our emissions and intend to reduce our carbon emissions by as much as possible from our 2019 baseline before we begin to purchase and retire any credits. At present we have reduced our carbon intensity per FTE by 80% overall and absolute emissions by 59% from our 2019 baselines. As such, we are at a position to start considering carbon removal credits as the next step in our net zero journey.

As part of our natural gas procurement contract our supplier has purchased approximately 1, 994 Gold Standard carbon credit offsets on our behalf. These have been reported separately.

Contributing to a circular economy

Contributing to a circular economy is part of our wider resource management strategy to help reduce our environmental impact. In particular, we follow a waste management hierarchy that adopts the following principles listed in order of preference:

- First avoid and reduce waste by identifying efficiencies in the overall products used and purchased for the Group.
- Re-use waste by adopting processes to repair and donate resources.
- Recycle waste by adopting practices that encourage the procurement of more recyclable product alternatives.
- Recover energy through partnerships with waste contractors that use waste as energy.
- Dispose of and divert waste from landfill through our waste contractor agreements or resource donation programme.

We see waste management as forming the disposal part of the resource cycle and are in the motion of adopting processes that will also address the ways in which we source, use, re-use and dispose of materials across the Group.

We are actively increasing recycling of waste from our operations and are utilising site-specific minimisation and management plans alongside circular economy initiatives to enhance our waste management. All our core operational sites across the Group continue to have 100% waste diverted from landfill and our resource donation programme resulted in an additional 95m^3 of waste used and entered back into the economy across the year, benefiting community groups, schools and charities in our communities.

Lead

Leading in our supply chain

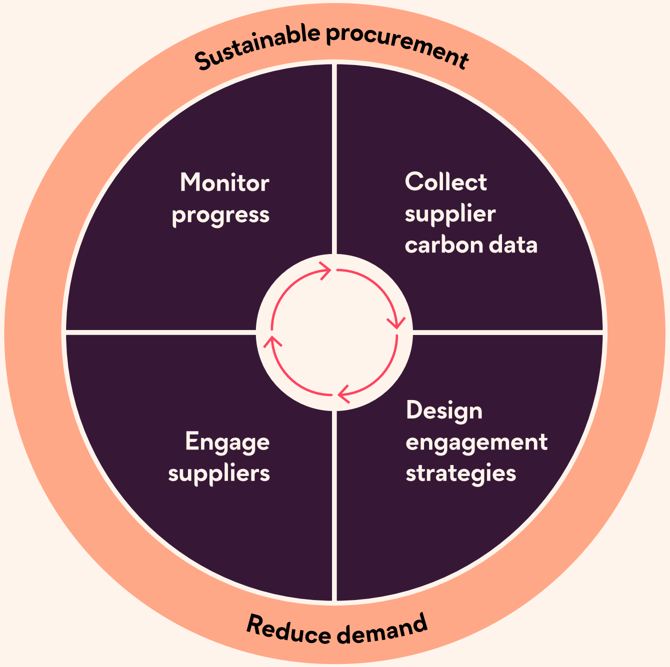
Approach
Phoenix operates an outsourced business model and we work with around 1,500 partners and suppliers. The majority of our spend is with suppliers of fully managed outsourced services, IT, professional services and goods and services related to management of our premises.

We want to work with our supply chain to generate value for all of our partners and stakeholders and deliver meaningful action to create a more just and sustainable world. Central to this is the transition to a net zero supply chain by 2050 with an interim objective to halve supply chain emissions by 2030.

Our supply chain decarbonisation strategy is aligned to SBTi guidance, based on the SBTi and Gold Standards framework: Value Change in the Value Chain: Best Practices in Scope 3 Greenhouse Gas Management.

It focuses on a dual approach of implementing sustainable procurement by shifting away from high-emitting suppliers; and switching to lower carbon alternatives – whilst reducing demand for high-emissions products and services.

Supply chain decarbonisation strategy



Sustainable procurement
Implement sustainable procurement by shifting away from high-emitting suppliers and switching to lower-carbon alternatives.

Reduce demand
Reduce demand for high-emissions products and services by putting a price on carbon, increasing product lifespans and implementing usage efficiencies.

1. Collect supplier carbon data
Collect and analyse supplier carbon data to understand the supply chain's most material suppliers and hot spots.

2. Design engagement strategy
Segment the supply chain, identify and prioritise key suppliers. Categorise suppliers into different maturity cohorts, and design cohort-specific engagement strategies.

3. Engage suppliers
Encourage and upskill suppliers to reduce their own emissions, in line with climate science.

Maintain an open and collaborative relationship while creating incentives for action.

4. Monitor progress
Measure progress on a quarterly and annual basis to enhance supplier engagement strategies.

Lead

Leading in our supply chain
continued

Case study: Working with Milliman

As a key partner to Phoenix, Milliman provides integral cloud-based solutions which support our actuarial activities and solutions.

An important element of our relationship over the last year has been to collaborate closely to align on Phoenix's climate change strategy, first outlined in our open letter to key suppliers in December 2021. Through regular engagement, we assisted Milliman on its carbon reduction journey by providing our perspectives on the commercial and wider benefits that positive environmental action would have on their business. In addition, we shared supplementary information on the importance of net zero in the fight against climate change and practical tools to help Milliman as they were developing their own ambitious net zero targets. This included guiding Milliman towards the SBTi framework and explaining how it could support Milliman define their own net zero targets in line with climate science.

A critical part of our engagement with Milliman was to have our executive team communicate with Milliman's leadership team to assist them in their strategic conversations. We helped them secure a more ambitious long-term commitment than the original proposal, with a motion of net zero by 2040.

"Our historical and close collaboration with Phoenix has proved hugely beneficial both in terms of identifying mutual opportunities for improvement in terms of social impact and sustainability, and ensuring that we were able to secure ambitious climate commitments with our senior leadership team. Working with Phoenix was certainly helpful in getting our net zero 2040 plan over the finish line and we look forward to our continued engagement in 2023."

Christal Morris
Chief Sustainability and DEI Officer at Milliman

Lead

Leading in our supply chain
continued

Engagement

We have focused on an extensive engagement programme with our key suppliers[1]. This aims to ensure that they are aligned with Phoenix Group's climate change strategy and the net zero ambition first set out in our open letter (published in December 2021) and to support them with their own net zero transition.

Regular engagement has allowed us to provide perspectives on the commercial and wider benefits that positive environmental action would have on our suppliers' business. We have also directed our partners to tools and frameworks to support them in developing their own net zero ambitions.

This bespoke engagement has focused on the following aspects to help deliver meaningful progress on our ambitions:

Robust external climate targets

We have engaged with our key suppliers to ensure they set out a climate change plan and targets for their business, with 82%^ committed to either a Science Based Target Initiative ('SBTi') based target (78%), or target based on the UN's Race to Zero initiative (4%). We also support key suppliers with executive engagement and stakeholder management to help them deliver on ambitious commitments which align with our decarbonisation pathway.

We have continued to encourage our suppliers to engage in our CDP supply chain programme, with participation increasing to 84%. We have also started to engage with our high-risk suppliers, which will continue to be an important focus for 2023.

Influencing behaviour and action

Educating around key behaviours and prioritised actions to support suppliers with their transition has also been an area of focus.

In addition to encouraging suppliers to set robust targets, we encourage suppliers to: commit to procuring wholly renewable energy throughout their operations as a minimum; sign up to our CDP supplier survey to provide primary emissions data; ensure that they establish or have in place a clear sustainability governance process and representative(s) to oversee the development, implementation, and review of their net zero strategy, plan, and targets, alongside working with a qualified climate, sustainability, or environmental consultant.

Providing action plan templates and sessions to help determine where a key supplier is on their journey allows us to support them with determining their strategy and prioritising actions to deliver impact. To facilitate this, we have rolled out internal training for procurement colleagues on climate and related nature and biodiversity issues.

Internal governance frameworks

We have integrated environmental risk analysis into our Supplier Management model. This model covers oversight of all key third parties to actively monitor their performance and ensure that they are following the requirements set out in our ESG Supply Chain Standards. Working through this framework enables us to monitor ESG progress via relationship managers and business functions, alongside direct supplier engagement.

We have also developed our ESG supply chain standards to reflect our expectations originally published in our open letter for partners around net zero, including a dedicated set of environmental standards for SMEs.

Key future priorities

- Continue to seek further opportunities to manage our operational carbon footprint.
- Evolve our supply chain decarbonisation programme to develop a more targeted approach for our most material 100 material suppliers.
- Regularly update our ESG Supply Chain Standards to reflect our evolving net zero approach.
- Develop a dedicated, data-driven climate programme for our partners and suppliers.
- Roll out standardised ESG clauses into contracts with key suppliers to help drive positive behaviour change among our supplier base in terms of net zero.
- Demonstrate climate leadership by sharing knowledge on good practices and engaging in constructive dialogue with suppliers to overcome barriers.
- Take an action-based, systematic and collaborative approach on net zero and meaningful climate action, particularly when it comes to rapid decarbonisation.

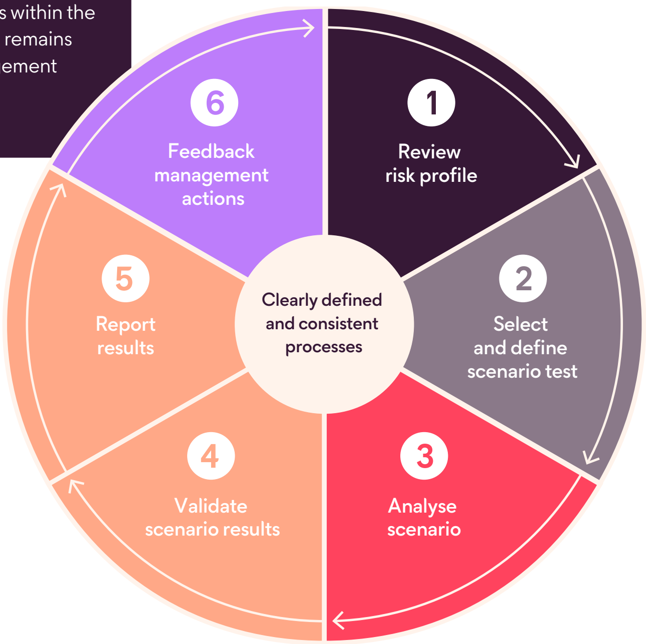
Scenario analysis

Key insights

- Climate scenario analysis is a critical tool for testing the potential impact of a range of possible future climate pathways and helping inform actions to reduce climate-related risks to our business.
- How and when climate risk will crystallise is highly uncertain, but it could have a significant impact on the value of our assets, our customers' assets and our operations.
- Within the investment portfolio, potential impacts differ between sectors and individual counterparties as there will be 'winners' and 'losers' under each potential outcome.
- Appropriate decarbonisation of the investment portfolio, engaging with key emitters within the portfolio, and ensuring the portfolio remains well diversified will all aid the management of climate risk over the long term.

The Group's approach to modelling climate-related financial risk is in line with its overall approach to stress and scenario testing – a key feature of which is the feedback loop from the scenario results through to developing and refining management actions, as shown below.

Phoenix Group's approach to climate scenario analysis



During 2022, we continued to build on the significant progress made last year in our climate analysis approach. We utilise both quantitative and qualitative analysis to assess our exposure and mitigating actions for climate risk.

Quantitative analysis

Quantitative scenario testing has been primarily used to assess financial impacts on our assets and liabilities of a variety of potential climate-related pathways. Since participating in the Bank of England's 2021 Climate Biennial Exploratory Scenario ('CBES') exercise, we have updated and adjusted our quantitative climate modelling results and approach. For example, we have:

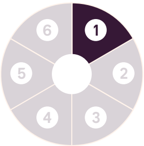
- utilised a greater number of climate related scenarios, including three developed by the Network for Greening the Financial System ('NGFS') and two developed by the Inevitable Policy Response ('IPR');
- utilised a bottom-up assessment of climate change risks impacts on individual asset holdings much more widely across our investment portfolio in order to allow for their idiosyncratic nature and the individual actions they may take to decarbonise; and
- developed a dynamic balance sheet capability (in contrast to the fixed balance sheet approach specified by CBES). This capability allows the expected evolution of the business to be modelled to reflect the evolution of our balance sheet in line with our annual operating plan, e.g. (i) the run-off of in-force policies, and (ii) expected new business volumes.

These improvements have led to more robust and representative results, thereby providing greater confidence in the potential mitigating actions that may be taken to manage our exposure over time. Climate-related scenario testing is also used to inform our Net Zero Transition Plan and the development of climate-related management actions for investment portfolios.

Qualitative analysis

Qualitative scenario testing has been used to assess wider business impacts for scenarios which are not as effectively explored using financial modelling. In 2022 we qualitatively assessed physical risk and transition risk events to aid our broader understanding of their potential impacts on our operations, our customers and our reputation, all of which are key to ensuring an ongoing viable business.

Key scenario analysis steps



1. Review risk profile

We first consider the areas of our business that may be the most exposed to climate risk impacts. We then consider where detailed stress and scenario analysis would add the most value in better understanding their climate-related risk exposures.

Relative materiality of risks and opportunities across Phoenix Group

Phoenix area	Predominant Level 1 risk type	Physical risks	Transition risks
Phoenix Group	Strategic	Medium	High
Operations	Operational	Medium	Medium
Heritage business	Insurance	Medium	Medium
Growth businesses	Insurance / Market / Customer[1]	Low	Medium
Investments	Market / Credit	Low	High

Significance and relevance of climate impact
- High
- Medium
- Low

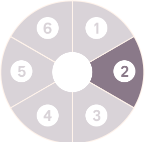
1 Although physical and transition risks lead to changes in mortality and persistency changes, the predominant risks are driven by market and customer risks in these business units.

Risks and opportunities across Phoenix Group
For our scenario analysis in 2022, we focused on our investment portfolio and balance sheet. Given its size and varied holdings, our investment portfolio is the key area in which climate risk may materialise through deteriorations in asset values and credit quality. This flows through to our balance sheet and solvency.

We have also focused on our operations. Phoenix operates a diverse multi-site business with varied suppliers, all of which may be exposed to climate risk in different ways.

Climate risk could emerge in many other areas of the business, such as through litigation or demographic changes. Different potential exposures will be examined in future years to ensure we continue to have a comprehensive view of climate risk across the business.

Key scenario analysis steps continued



2. Select and define scenario test

The next step in our approach is to select and define climate scenarios. Climate scenarios each explore different possible climate change-driven pathways over the long term and depend on aspects such as government policy and the transition speed.

How and when climate risk will emerge remains highly uncertain. The scenarios have been chosen as they cover a wide range of possible outcomes, but each covers only one possible pathway through which climate risk may emerge and they are not comprehensive. Real-life impacts may be more or less severe than those explored.

Scenarios selected to analyse transition and physical risks

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

Quantitative analysis

- For our main quantitative analysis, we used three scenarios provided by the Network for Greening the Financial System ('NGFS') and two scenarios provided by the Inevitable Policy Response ('IPR') to consider both transitional and physical risks over a 30-year time horizon.
- We utilised the equivalent NGFS scenarios that were adopted for the CBES exercise as these are widely used in the industry and provide a direct comparison with last year. The IPR scenarios were utilised to further test our resilience to different transition risk pathways, and to ensure that using just one provider did not bias our results.
- The scenarios allowed for stresses across economic variables including adverse impacts on GDP (where transition to a low-carbon economy results in broader economic slowdown), increasing yields to recognise the potential fall in value of fixed income assets and falls in the value of real assets held in equity and property investments.

Qualitative analysis

- Our qualitative scenario explored a range of physical and transition impacts including acute physical events such as flooding, chronic physical changes such as temperature rises, and transition risks such as adverse reputational events.
- The scenario was intentionally kept broad to allow a variety of avenues to be explored so climate risk sources and impacts could be identified and discussed with subject matter experts from across the business.

Key scenario analysis steps continued

3. Analyse scenario

The third step in our process is the scenario analysis itself.

For quantitative scenarios we use counterparty-specific data to build up the potential impact on our investment portfolios of the scenarios emerging. This is combined with estimated liability impacts to assess the overall effect on our balance sheet.

Key considerations and limitations in this analysis include:

Data

- The Group has sourced climate data from a number of leading data providers. Data was most readily available for investments in quoted counterparties. Obtaining 'look-through' data to identify the underlying investments in respect of some of our funds invested in collective investment vehicles was more challenging and some data gaps remain.
- Non-quoted investments are a small, but increasing, proportion of our asset portfolio. More approximate methods were used to estimate the climate change impact on these investments.
- The potential impacts of the climate scenarios on our investment holdings allow for potential abatement and adaptation actions that companies and governments may take as the scenarios unfold. How and if these actions would emerge is uncertain so the ultimate impacts under each scenario may be more or less significant than modelled. In future iterations we plan to break out these actions and their impacts to provide a wider spectrum of possible outcomes.
- As the accessibility and reliability of climate data improves, this will enhance future iterations of our analysis.

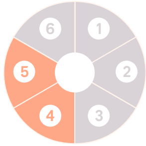
Modelling insurance risks

- As an authorised insurer we have considered carefully how our insurance risks might be impacted by climate change. Our long-term savings and retirement business could be impacted by changes in mortality, longevity and morbidity as a result of the physical impacts of climate change. At this stage the evidence for the potential impact of these factors on the UK population (the Group's major market) is inconclusive and so we have chosen not to model the risk of changes in mortality/longevity/morbidity as part of the climate change scenarios considered.
- As research into the potential impact of climate change on UK mortality continues, we will review the position carefully. It should be noted that as a life and pensions provider, the Group is not directly exposed to physical risks via our insurance contracts other than the potential for increased mortality experience from climate events.

Other limitations

- How climate risk will emerge, the speed at which it will emerge, and when it will emerge are all highly uncertain. We use a wide range of scenarios to test these different variables but it is highly unlikely that climate outcomes will crystallise exactly in line with any of the scenarios modelled. In particular, we believe there is further work to be done to understand systemic impacts and the second-order impacts of physical risk events on the wider economy, our balance sheet and our operations. This is a key area of uncertainty in our scenario testing analysis.
- Qualitative scenarios are primarily assessed using a range of workshops with subject matter experts. This approach has a much-reduced reliance on data and allows various potential manifestations of the risk and their mitigating actions to be explored in detail.

Key scenario analysis steps continued



4. & 5. Validate and report results

The projected impact of the five quantitative scenarios indicates that we must act to reduce risk or there may be significant losses in investment asset value arising due to climate change.

These impacts do not take into account mitigating actions we may take to decarbonise and meet our net nero targets or the expected changes in our asset mix over time.

Indicative estimated Group asset impacts

	Net Zero 2050			Delayed Transition			Current Policies			Forecast Policy Response			Required Policy Response		
Year	2025	2030	2050	2025	2030	2050	2025	2030	2050	2025	2030	2050	2025	2030	2050
Total Group assets impact	Low	Low	Medium	Low	Low	High	Low	Low	Moderate	Low	Low	Moderate	Low	Low	Moderate
Estimated impact on asset classes															
Equity	Low	Low	High	Low	Low	High	Low	Low	Low	Low	Low	Medium	Low	Low	Medium
Property	Medium	Medium	High	Moderate	Moderate	High	Moderate	Moderate	High	Moderate	Moderate	Medium	Moderate	Moderate	Medium
Government debt	Low	Low	Low	Low	Low	High	Low	Low	Moderate	Low	Low	Low	Low	Low	Low
Corporate debt	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low

Indicative climate change impact	Indicative estimated quantitative impact
High	>5%
Medium	3.5-5%
Moderate	2-3.5%
Low	<2%

Key: The scale shows the indicative estimated short, medium and longer-term climate impact on the Group's asset portfolio relative to time zero. It allows for the anticipated actions that the underlying individual counterparties will take to decarbonise, including adaptation and abatement actions. However, it makes no allowance for the expected impact of the Group's decarbonisation strategy and other management actions to meet the Group's net zero targets.

Quantitative insights

- Results of the scenarios where climate policy action is taken (either early or late as shown above), highlight the Group's more material exposure is to transition risks in the nearer term.
- Impacts are more muted under the two IPR transition risk scenarios (forecast and required policy response) relative to the comparable NGFS scenarios (Net Zero 2050 and Delayed transition). This arises from differences in the formation of the scenarios, including their allowance for future policy changes. The IPR scenarios are driven by potential 'real world' policy decisions which incentivise greater economic investment in renewables and other cleantech solutions; and dampens the realisation of short term transition risks that arise from a rapid rise in carbon prices in the NGFS scenarios. Overall this reduces the cumulative stress under these scenarios out to 2050. This highlights the varied ways that climate change impacts could unfold, and shows the importance of exploring multiple scenario narratives.
- The investment portfolio has limited exposure to sectors and counterparties with direct physical risk such as property, energy, manufacturing and transport industries (see metrics and targets section). However, there will be second order and systemic impacts on other sectors and counterparties of physical risk events which have not yet been fully captured in the modelling due to their complexities. This is an area we plan to develop for next year.
- Exposure to climate risk exists across the full investment portfolio. Steps to decarbonise the portfolio in line with our net zero targets is therefore key to build resilience to this risk. This will help to mitigate exposure to transition risks in particular, and better position the Group to exploit new opportunities.

Key scenario analysis steps continued

4. & 5. Validate and report results continued

Climate change presents opportunities as well as risks. As our investment portfolio has exposure to a wide variety of sectors and counterparties, there will be 'winners' that gain value as the scenarios unfold and 'losers' that lose value as the scenarios unfold. This leads to offsetting movements in values within the portfolio.

Average impacts at portfolio level hide the turbulence between, and within, the key sectors that produce the highest levels of emissions and so present the greatest risks and opportunities.

Indicative sector and counterparty impacts

	Net Zero 2050			Delayed Transition		
Year	2025	2030	2050	2025	2030	2050
Sample Sector Impacts						
Energy	-10 to +10%	-20 to -10%	-50% to -20%	-10 to +10%	-10 to +10%	-50% to -20%
Materials	-20 to -10%	-20 to -10%	-20 to -10%	-10 to +10%	-10 to +10%	-20 to -10%
Information Technology	-10 to +10%	-10 to +10%	-10 to +10%	-10 to +10%	-10 to +10%	-10 to +10%
Consumer Discretionary	-10 to +10%	-10 to +10%	-20 to -10%	-10 to +10%	-10 to +10%	-20 to -10%
Sample Counterparty Impacts						
UK Energy Firm 1	+20% to +50%	>+50%	+10 to +20%	-10 to +10%	-10 to +10%	+10 to +20%
UK Energy Firm 2	+10 to +20%	-20 to -10%	<-50%	-10 to +10%	-10 to +10%	<-50%

Indicative climate change impact	Indicative estimated quantitative impact
●	<-50%
●	-50% to -20%
●	-20 to -10%
●	-10 to +10%
●	+10 to +20%
●	+20% to +50%
●	>+50%

Key: The scale shows the indicative estimated short, medium and longer-term climate impact on the values of sample sectors and counterparties relative to time zero. It allows for the anticipated actions that the underlying individual counterparties will take to decarbonise, including adaption and abatement actions.

Quantitative insights

- The table above provides insight into the areas of high risk within our portfolio but also warns against a 'one size fits all' approach for managing counterparties within a sector as some companies are more willing or able to adapt to the green transition.
- Engagement and stewardship will be key tools to help distinguish between counterparties and this is key to our sustainability strategy going forward.
- The importance of our Net Zero Transition Plan and stewardship activities to our strategy is also clear as they are key mitigants to ensure that our investments decarbonise appropriately over time, either through the actions of the companies in which we are invested, or by changes to our investment strategies. This is key to building resilience to climate risk as it will help manage and reduce exposure to transition risks and better position the Group to exploit new opportunities.

Qualitative insights

- More frequent and more severe climate-related events have been seen over the past few years in the UK and worldwide.
- There are various ways such future events may impact Phoenix and our customers, including significant disruption to company operations from extreme and/or prolonged climate-related events impacting our office locations, employees and supply chains; negative impacts on the health, wealth and income of customers from climate change may impact their propensity to save for the long term, e.g. due to the need to make expensive upgrades to improve household energy efficiency; and negative reputational and legal impacts may arise if climate actions are not appropriately communicated or managed.
- Various mitigations are in place to reduce the potential impact of these risks crystallising, but further deep dives will be undertaken to ensure these remain robust as climate risk events continue to emerge and our knowledge of the risks increases over time.

Key scenario analysis steps continued

6. Feedback and mitigating management actions

Within the current quantitative analysis, no allowance is made for the expected impact of management actions designed by Phoenix to limit the impact of climate change on the business.

It is expected that actions taken to deliver the Group's net zero targets will progressively reduce our exposure and significantly dampen the impact of climate change shocks on the asset portfolio. Our Net Zero Transition Plan is therefore key to the Group's strategy and our future resilience to climate risks.

Insights from the scenario analysis are incorporated in strategy, risk management and investment decisions and further details are included within these sections of the report.

Portfolio flexibility
A significant majority of our assets are listed on major exchanges, which supports our stewardship policy of active engagement with investee companies and also enables the Group to trade flexibly to reposition our investment portfolio where necessary. However, we also note that we have more limited control over the assets backing our unit-linked business, where policyholders determine investment choices from the range of underlying investment funds available to them. This year we launched our Sustainable Multi Asset Default solution and further activity is underway to increase the 'climate friendly' investment options available to policyholders. For further details, please refer to the strategy section on page 18.

Portfolio diversification
Our investment portfolios are well diversified across a number of dimensions (asset classes, economies, counterparties, etc.) which means we have a portfolio that is expected to be more stable in the face of changing investment conditions (compared to a more concentrated portfolio). The results of our scenario analysis work indicates that we do not have a concentration of investments in sectors of the economy that are considered to be high risk from a climate change perspective. For further details, please refer to the metrics and targets section on page 45.

Shareholder assets in fixed interest investments
Although we are focused on the management of our total investment portfolio, shareholder assets represent under 20% of our total investment portfolio and are largely invested in investment grade fixed interest securities (corporate and sovereign bonds). Over the short term, these instruments are expected to be less susceptible to climate transition risks than, for example, equities.

Climate solutions and exclusions
We have put in place a number of tactical actions to manage climate risk, such as investment of our policyholder funds into climate solutions. We also have in place an exclusion policy which can result in a bar on investments into certain sub-sectors and counterparties that do not meet our sustainable investment policies. For further details, please refer to the strategy section on page 18.

Our operational footprint and supply chain
We are aiming to be net zero in our operations by 2025 and to halve supply chain emissions intensity by 2030. Progress in these areas is actively monitored to help ensure our operations will be resilient to future climate risks, particularly physical risk events. For further details, please refer to the metrics and targets section on page 45.

Key future priorities

- Broaden scenarios used to ensure resilience under a greater diversity of outcomes and integrate key expected demographic impacts arising under scenarios, e.g. changes to mortality and longevity rates.
- Enhancement of the analysis of our exposure to second-order physical risks.
- Incorporation of wider nature-related risks into scenario analysis.

Risk management

The Group's Risk Management Framework has been enhanced to support the identification, assessment and mitigation of the impact of climate risk and support the achievement of our net zero climate ambition.

It continues to mature, to reflect both our increased understanding of these risks and evolving market practice.

Identification and assessment of climate-related risks

Key areas of progress

- Further developed our internal climate risk reporting, reflecting the evolution of market best practice and tracking the progress made in terms of the Group's interim net zero targets for both internal operations and the investment portfolio.
- Continued to review and enhance the Risk Management Framework ('RMF') as further information is developed, including through scenario analysis work.
- Continued to enhance our internal climate scenario analysis capabilities.
- Enhanced the data strategy and model for collecting and reporting on climate risk.

The Group first reported climate risk as an emerging risk in 2018. Since then, we have increased the focus and integration of climate risk within the Group's Risk Management Framework. In particular we have classified Sustainability Risk as a principal risk to the Group since 2019, with climate change being a specific sub-risk under this heading. We treat climate risk as a 'cross-cutting' risk across our Risk Universe to reflect its likely emergence through, and aggravation of, existing risks.

In 2020, we performed an initial assessment of risks and opportunities of climate change across Phoenix's business areas using a series of workshops with representatives across the business. This informed a qualitative assessment of risks and opportunities facing the business, which we have built on over 2021 and 2022 as our understanding and assessment of the risk has matured. Our current view of our exposure can be found on page 34.

Identification of climate-related risks has been embedded into the components of the RMF which support the identification of risks both quantitatively and qualitatively and from a top-down and bottom-up perspective. Key to our understanding of our climate risk exposure is:

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

The analysis also feeds into the prioritisation of climate risks and the Group's approach to managing those risks, e.g. mitigate, transfer or accept.

Key climate-related risks and opportunities that might impact Phoenix Group

Risk or opportunity	Drivers	Potential impacts
Transition Risk Associated with the transition to a low-carbon economy	Policy and legal	• Increased compliance costs, regulatory changes, stranded assets, asset impairment, restrictions and limitations on carbon-intensive assets and asset depreciation.
	Market and economic	• Adverse impact on company valuation, asset impairment, viability of business model and credit rating implications.
	Technology	• Write-offs of investments in disrupted technologies, required investment in new technologies and process change costs to accommodate new technologies.
	Reputation	• Reputational or brand value damage resulting in lost income and additional expenditures, for example through future litigation and capital charges.
Physical Risk Related to the physical impacts of climate change	Acute physical	• Disruptions to business operations due to short-lived extreme weather impacts. • Damage to physical assets and impacts on insurance liabilities.
	Chronic physical	• Greater energy consumption needs due to chronic changes, such as temperature rise, impacting cooling/heating requirements. • Risk to the workforce due to illness and mortality or disrupted working patterns due to changing climatic conditions.
Opportunities produced through efforts to adapt to climate change	Internal and external	• Reduced operating costs through greater resource and energy efficiency. • Demand and development of new products, investment and market opportunities.

Management of climate-related risks

By adopting a proactive approach towards climate change, the Group believes its actions can help to mitigate against climate-related risks. The most material areas of risk for Phoenix and the actions being taken to manage them are identified below. The Strategy section on page 18 gives more detail on the management actions being taken. Many of these actions are expected to have a positive impact across a number of the risk areas in our Risk Universe.

Phoenix is a long-term savings business and many of our customers are invested with us over many years to their retirement. When considering the time horizon of when the climate-related risks are likely to materialise, Phoenix has categorised short, medium and long term according to the following timescales: Short term 0–1 year: This is consistent with our liquidity monitoring time horizon, which is used for setting capital requirements under Solvency II. Medium term 1–5 years: This is consistent with our financial planning process, which considers the medium term plans and strategy for the business. Long term over 5 years: This captures the long term nature of our business and the risks that may emerge beyond the financial planning process.

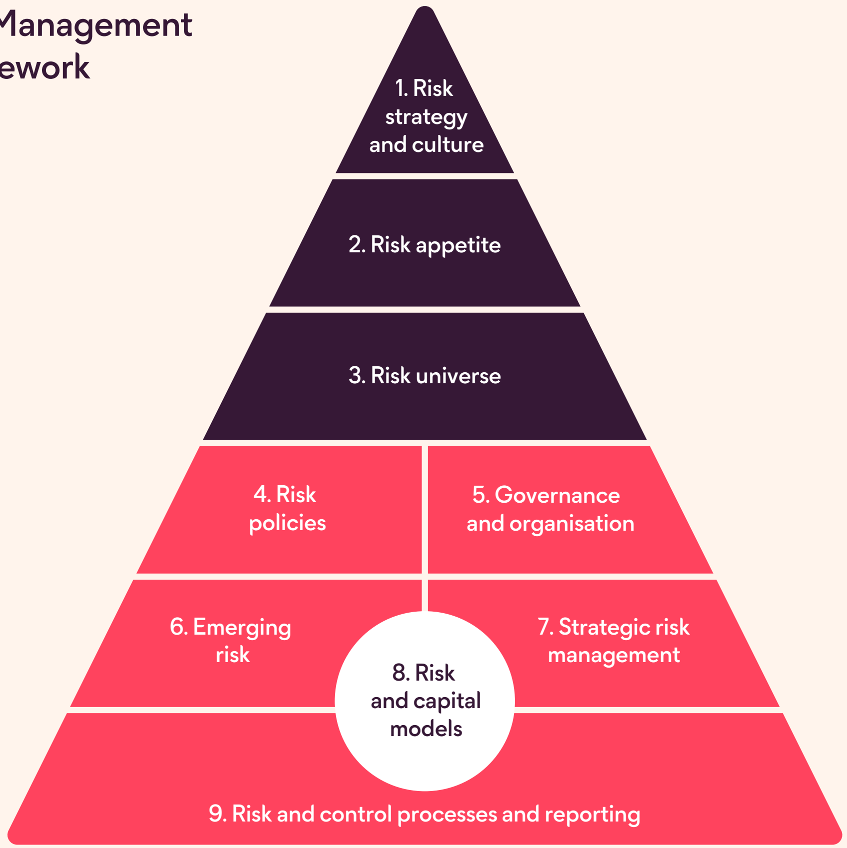
Overview of potential material climate-related risks and opportunities to Phoenix Group and mitigating actions

Potential Material Risk/ Opportunity Areas	Phoenix impacted risk areas	Time horizon	Actions to mitigate
Climate risk exposures within our investment portfolios (Physical and Transition)	• Market • Credit • Financial Soundness	Short-Medium-Long	• We continue to enhance our assessment of climate risks by asset class/sector and geography, supported through procuring new data sets and enhancing modelling capabilities. • Interim decarbonisation targets for 2025 and 2030 have been set to support our 2050 net zero carbon commitment. Progress against targets is regularly reviewed to monitor delivery and customer outcomes. • Net Zero Transition Plan being developed to capture proposed pathway to meeting our targets and reducing climate risk for customers and the Group. • We continue to pursue a policy of engagement and stewardship with counterparties through asset managers. This is supported by an approved Group exclusion policy.
Changing demand for products, funds and solutions given evolving customer needs (Transition)	• Customer • Strategic • Insurance	Short-Medium-Long	• Launch of our Sustainable Multi Asset default solution. • Continued development of the range of ESG and sustainable customer solutions available to our policyholders. • Decisions to change investment strategies and launch climate solutions are carefully considered to ensure they meet customer demand and appropriately balance the interest of our customers.
Emerging government policy, regulatory & legal changes (Transition)	• Strategic • Financial Soundness • Customer • Operational	Short-Medium-Long	• Monitoring climate developments within existing regulatory horizon scanning frameworks. • We update metrics annually to reflect latest climate risk evolutions to provide management with greater information to make any required adjustments to risk appetite and tolerances. • We have developed a litigation risk matrix to increase our understanding of how this risk may emerge and the mitigations available to manage it. • We produce thought leadership content to actively help inform the policy landscape.
Reputational damage if climate risks not appropriately managed (Transition)	• Strategic • Insurance • Financial Soundness • Customer	Short-Medium	• Present a positive Phoenix stance on climate change. • Set and meet public net zero commitments. • Continue supporting climate change-aligned organisations such as the Carbon Disclosure Project and continue to work collaboratively with peers and industry bodies. • Further develop climate disclosures to ensure good quality reporting and incorporate emerging best practice.
Disruptions to our business operations (Physical and Transition)	• Operational	Short-Medium	• Continue to ensure that robust business continuity and operational resilience frameworks consider all office locations, staff, systems and processes. • Continue to implement energy efficiency and carbon reduction measures in order to support the 2025 net zero commitment for operations. • Further engage with key suppliers in order that they make phased reductions in emissions to align with our commitments and increase screening of new suppliers to ensure they meet our sustainability standards.

Integration of climate risk within the Group's Risk Management Framework

The Group's Risk Management Framework ('RMF') sets out how the Group identifies, manages, monitors and reports on the risks to which it is, or could be exposed (including climate-related risks). The diagram below summarises how climate change is reflected across the Group's RMF.

Risk Management Framework



1. Risk strategy and culture
Sustainability and minimising environmental impact are a key component of the Group's strategy. We have a specific sustainability strategy and set net zero carbon commitments for operations, supply chain and the investment portfolio, as well as specific annual goals such as sustainable origination targets for private placements.

2. Risk appetite
The sustainability risk appetite statement is approved by the Board and has been updated during 2022 to reflect our latest sustainability strategy. We have approved supporting climate risk appetite statements and metrics with footprints throughout the Risk Universe.

3. Risk Universe
Climate risk is treated as cross-cutting risk, rather than standalone risk, as it can potentially impact all risk categories underlying the risk universe.

4. Risk policies
All policies have been reviewed to ensure appropriate content is included for material climate risk exposures. Policies with a potential climate impact contain specific flags to ensure climate risk is clearly considered.

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

6. Emerging risk
Climate and ESG risks continue to be monitored via the well-established emerging risk process, which also considers the evolving regulatory landscape. This is supported by forward-looking Own Risk and Solvency Assessment ('ORSA') monitoring.

7. Strategic risk management
Climate risk is a principal risk and considered as part of Line 2 oversight of strategic developments, e.g. Annual operating plan development, project reviews, ORSA, management actions and regular risk reporting.

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

9. Risk and control processes and reporting
A climate risk dashboard covering key Level 1 risks is integrated into our regular risk reporting. Minimum control standards are also in place for key policies.

Integration of climate risk within the Group's Risk Management Framework continued

Enhancement in 2022
In 2022, we have continued to enhance our assessment of climate-related risks through the development of our modelling capabilities and enhancements to our data. Climate risk reporting is now embedded into our quarterly processes to ensure ongoing awareness of our exposure to the risk and it continues to be enhanced to ensure it provides a timely and comprehensive view of the risk.

Risk appetite
The Board reviews and updates our Sustainability Risk Appetite Statement on an annual basis. The latest version was approved in November 2022: "The Group is committed to being a leader on sustainability to help deliver our corporate purpose and to protect the long-term financial interests of our customers, employees and shareholders. To manage the risks in the delivery of our sustainability strategy, the Group will monitor and take action to achieve our targets and invest in a sustainable future, engage people in better financial futures and build a leading responsible business."

Climate risk has been integrated into the risk appetite statements of other risk categories with potential material climate risk impacts such as market risk, credit risk and operational risk. These are also reviewed on an annual basis. Overall the Group has a very low appetite for failing to identify and manage impacts of climate-related risks on its investments or its operations and, also, for failing to deliver on its climate-related sustainability commitments.

Climate-related quantitative risk metrics are in place across key areas of exposure in our investment portfolio, operations and strategy. These are used to monitor climate risk exposure versus risk appetite on a regular basis and draw attention to areas of concern. The suite of metrics used is updated annually to allow for the latest internal and external developments in climate risk management and data, and to ensure appropriate coverage of the different avenues through which climate risk may emerge.

Risk Universe
Climate is treated as a cross-cutting risk as it can emerge through, or aggravate, many other risk categories. Climate risk has been embedded across the different dimensions of the Group's RMF. It is also represented on a standalone basis in a specific Climate RMF document which provides a consolidated view of how climate risks are covered across the RMF and increases focus on the overall management of these risks.

The RMF and Climate RMF will continue to evolve and mature over time as our understanding of climate risk impacts and the associated tools and approaches are embedded.

Risk policies
The Group embedded material climate risk into all Group Risk Policies during 2021. Our annual risk policy review considers climate and its impact on other risks to ensure our policies reflect new developments and remain in line with best practice.

In 2022 every Group Policy was updated to ensure the footprint of climate risk in each is clear and to highlight where climate risk is managed by individual Minimum Control Standards.

Risk and capital models
Models have been developed for internal climate scenario analysis. The scenario section above describes this work in more detail.

Our Internal Model Governance Policy requires that the impact of climate change-related risks is given specific consideration when developing and reviewing methodology and assumptions.

Key future priorities

- Enhance the data strategy and model for collecting and reporting on climate risk – particularly physical climate risk.
- Further embed climate risk considerations in key investment decision-making and management actions.
- Further integrate climate risk into the reporting of other risks rather than on a standalone basis.
- Incorporate wider nature and biodiversity risks into the RMF.
- Continue to review and enhance the risk management framework as further information is available and our understanding of the risk develops. This includes through scenario analysis work.

Metrics and targets

A comprehensive metrics framework allows us to measure and manage the impacts of climate change on our investment portfolio, operations and our supply chain. Ambitious targets help us to navigate our progress to meet our net zero ambition.

Our investment portfolio

Key areas of progress/insights

- Extended our carbon emission baseline this year to include sovereign debt and real estate assets, increasing our portfolio coverage to c.77% of total assets under AUA. This has increased our absolute carbon emissions as at year-end 2019 from 15 million tCO_2e to 24 million tCO_2e ^.
- We have experienced a reduction in absolute emissions and emissions intensity for all asset classes included in the baseline, between the year-end 2019 position and the year-end 2021 position. This is due to the 2021 year-end position using counterparty emissions data which captures the economic slowdown due to COVID-19.
- In total, 20%^ of our listed equity and credit portfolio is exposed to high transition risk industries. These industries dominate overall absolute emissions accounting for 71% of all portfolio emissions in our listed equity and credit portfolio.
- The proportion of our listed equity and credit asset portfolio exposed to the fossil fuel industry is 8% ^ at 2021 year-end.
- The top 10 emitting counterparties in our listed asset portfolio account for 5% of AUA but 33% of absolute carbon emissions.
- Portfolio temperature score targets to support our decarbonisation journey have been developed and submitted to SBTi for validation.

Investment metrics and targets framework

We have evolved our metrics framework to align with emerging best practice in evaluating exposure to climate-related risks and opportunities.

We adopt the financed emissions methodology as developed by the Partnership for Carbon Accounting Financials ('PCAF') insofar as possible. PCAF is a partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose green house gas ('GHG') emissions associated with their loans and investments. It enables transparency and accountability and has developed an open-source global GHG accounting standard for financial institutions (the Global GHG Accounting and Reporting Standard for the Financial Industry), which we use as the basis for our carbon footprinting approach.

We used the investment metrics and targets below in 2022 to measure our progress. We will continue to review and enhance our metrics and targets framework as data, methodology, industry guidance and best practice develop.

Investment metrics framework

Measure	Metric	Unit	Methodology	Overview
Carbon profile	Absolute financed emissions	**tCO_2e**	**PCAF**	Captures a portfolio's fair share of emissions of the investee companies
	Economic emissions intensity	**tCO_2e/£m invested**	**PCAF**	Expresses portfolio emissions per unit of capital invested
	Revenue emissions intensity (WACI)	tCO_2e/\$m revenue	TCFD	Expresses portfolio emissions per unit of sales revenue of the investee companies
Transition risk	Percentage of assets exposed to high-transition risk sectors	% of AUA	Bespoke	Proportion of portfolio invested in sectors that are vulnerable in a transition to a net zero economy
	Exposure to the fossil fuel industry	% of AUA	Bespoke	Proportion of portfolio invested in the fossil fuel industry based on revenue threshold
Portfolio alignment	Science Based Targets ('SBT') portfolio coverage	% of AUA	TCFD	Proportion of portfolio invested in companies that have set science-based targets
Data quality	Data quality score	**Data score from 1-5**	**PCAF**	Hierarchy which allows the scoring of the quality of emissions data of individual companies

Investment targets

Investment targets	Basis	Scope	AUA £bn	Target year	Base year
Reduce GHG economic emissions intensity by 25%	**PCAF**	Listed equity and credit sub-portfolio where we have influence and control	162	2025	2019
Reduce GHG economic emissions intensity by at least 50%	**PCAF**	All assets where we have influence and control	250	2030	2019
Achieve net zero absolute financed emissions	**PCAF**	Full investment portfolio	308	2050	2019

Our investment portfolio continued

Measuring the carbon profile of our assets

We have taken a phased approach to measuring our carbon footprint baseline for the Group's investment portfolio.

Our baseline covers the assets in scope of our 2025 interim target and we will continue to expand the baseline to cover the assets in scope of our 2030 interim target.

First phase:
In 2021 we evaluated the emissions of our listed credit and listed equity assets across our shareholder and policyholder funds. When including cash (which is considered to have zero carbon emissions in line with industry guidance), this amounted to c.62% of total AUA or £191 billion (based on data as at 2021 year-end). This is the part of the portfolio where industry practice for evaluating financed emissions is most established and where we have the greatest confidence in counterparty emissions data. It is also the basis for our 2025 interim decarbonisation target.

Second phase:
In 2022 we have extended our carbon emission baseline to include sovereign debt and real estate assets. This has increased the coverage of our carbon emission baseline to c.77% of total AUA or £238 billion (based on data as at 2021 year-end). This covered c.95% of the scope of our 2030 interim decarbonisation target. In addition, we have assessed the carbon profile of the Group's investment portfolio at the 2021 year-end position to show how this has changed from our 2019 baseline position.

Third phase:
Looking ahead, we will continue to extend our carbon emission baseline to cover all assets as methods for evaluating financed emissions become established. We expect to incorporate illiquid credit assets into our carbon emission baseline in 2023. In addition, we have started to track internally the Scope 3 emissions data of our investee companies. We will continue to monitor the quality of and evolving practice around Scope 3 emissions data, and will look to expand our analysis when data is sufficiently robust for reporting purposes.

Further extending our baseline to cover all assets will provide the basis for our 2030 interim decarbonisation target, where we aim to cut the carbon intensity of all assets where we can exercise control and influence by at least 50% by 2030. Our baseline already covers c.95% of the assets in scope of our 2030 target.

Phasing of our carbon footprint baseline (based on year end 2021 AUA figures)

<table>
<tr><th>Asset class</th><th colspan="3">Scope of portfolio decarbonisation target</th><th>£bn[1]</th><th>2021</th><th>2022</th><th>2023</th><th>2024</th><th>2025+</th></tr>
<tr><td>Listed assets[2] (equity and credit)</td><td>2025 tar get</td><td rowspan="7">2030 target</td><td rowspan="9">2050 target</td><td>162</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td colspan="2">Cash</td><td>29</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td colspan="2">Sovereign bonds</td><td>42</td><td>•</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td colspan="2">Commercial real estate (equity and loans)</td><td>5</td><td>•</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td colspan="2">Illiquid credit[3]</td><td>7</td><td>•</td><td>•</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td colspan="2">ERM</td><td>4</td><td>•</td><td>•</td><td>•</td><td>✓</td><td>✓</td></tr>
<tr><td colspan="2">Alternatives</td><td>1</td><td>•</td><td>•</td><td>•</td><td>✓</td><td>✓</td></tr>
<tr><td colspan="3">Other collective vehicles / EFLs[4]</td><td>58</td><td>•</td><td>•</td><td>•</td><td>•</td><td>✓</td></tr>
<tr><td colspan="3">AUA covered in carbon footprint baseline</td><td>308</td><td>191</td><td>238</td><td>244</td><td>250</td><td>308</td></tr>
<tr><td colspan="5">% of Total AUA covered</td><td>62%</td><td>77%</td><td>79%</td><td>81%</td><td>100%</td></tr>
</table>

Notes:
1 Figures provided are based on YE21 values from Phoenix's Report and Accounts, adjusted to reflect exposures in collective vehicles.
2 Captures listed assets within segregated portfolios, PUTM funds and certain EFLs where look-through data is available.
3 Captures infrastructure debt (including local authority loans and municipal bonds) and private placements.
4 This figure has been derived as a balancing figure to enable the total AUA to equate to YE21 balance sheet value

Our investment portfolio continued

Measuring the carbon profile of our assets continued

We have experienced a c.15% reduction in total absolute emissions across the investment portfolio, between year end 2019 and year end 2021. This is in line with expectation as our 2021 year end position uses counterparty emissions data which captured the economic slowdown due to COVID-19.

Approach

We have evaluated the carbon profile based on the 2019 year-end position which, as a pre COVID-19 year, reflects a more comparable level of global economic activity emissions. As signatories to PCAF, we have adopted its calculation methodology insofar as possible. Our primary source of counterparty carbon emissions data is ISS, an established sustainability data vendor.

Our analysis captures the Scope 1 and Scope 2 emissions of our investee companies. Whilst we recognise counterparties' Scope 3 emissions to be important, particularly in certain sectors such as financial services, we do not believe there is currently adequate corporate transparency to enable it to be measured and reported on with sufficient accuracy. We will continue to review this as best practice evolves.

Our analysis evaluates absolute portfolio emissions and two portfolio emissions intensity metrics on economic and revenue bases. Emissions intensity is an important measure for portfolio investors as this enables comparison between portfolios of different sizes and between different time periods.

We recognise that the economic emissions intensity metric is likely to be volatile year-on-year, primarily due to volatility in the Enterprise Value Including Cash ('EVIC') component of the calculation. As a result, we will continue to explore ways to adjust for this volatility in 2023.

In addition to the baseline analysis at the 2019 year-end position, we have replicated our analysis using data as at the 2021 year-end position to show how our carbon profile has evolved. Looking ahead, we will replicate this analysis on an annual basis to track the carbon performance of our investment portfolio.

Analysis of carbon emissions baseline

We have extended our carbon emission baseline this year to include sovereign debt and real estate assets. This has increased our absolute carbon emissions as at year-end 2019 from 15 million tCO_2e to 24 million ^ tCO_2e, where the increase is primarily driven by our sovereign debt assets.

We have experienced a reduction of c.15% in total absolute emissions across the investment portfolio, between the year-end 2019 and the year-end 2021 position.

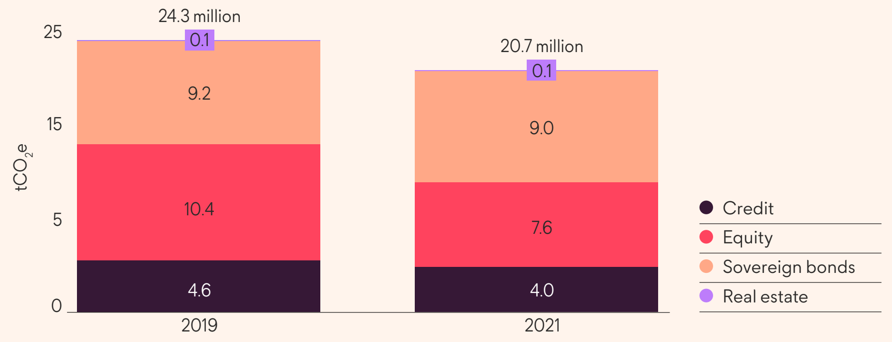
The economic emissions intensity of our investment portfolio has also reduced, with a reduction of c.30% for our total listed asset portfolio between year-end 2019 and year-end 2021.

This is in line with our expectations as our 2021 year-end position uses counterparty emissions data which captured the economic slowdown due to COVID-19, where global carbon emissions were significantly lower than expected.

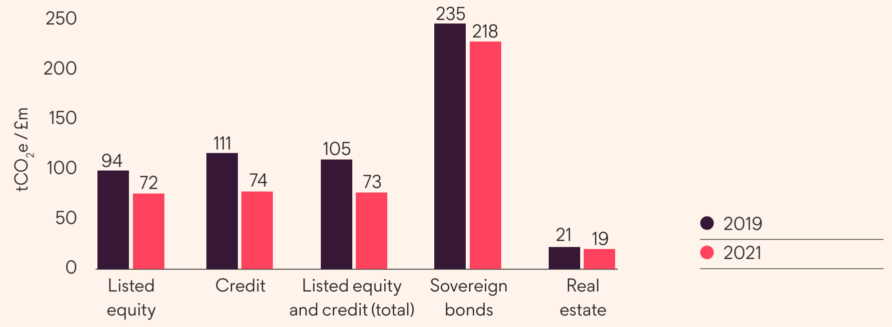
As a result, it is not appropriate to use the reduction observed between these two time points as an indicator of our future trajectory, since subsequent years may show an increase in absolute carbon emissions (relative to the 2021 year-end position) owing to the bounce-back of the global economy post COVID-19.

In 2023, we will review our decarbonisation performance against a net-zero glide-path, which will help us to better understand where our investment portfolio may need to decarbonise faster. This will also help to inform our stewardship and engagement activities for the top emitting companies in which we are invested.

Absolute carbon emissions of our baselined investment portfolio^



Economic emissions intensity of our baselined investment portfolio^



Our investment portfolio continued

Measuring the carbon profile of our assets continued

Analysis of revenue emissions intensity
In addition to calculating economic emissions intensity, we also calculate emissions intensity on a revenue basis for our listed asset portfolio in line with TCFD guidance. Revenue emissions intensity provides insight into a company's carbon efficiency per dollar of revenue earned, and is a particularly useful metric for comparing companies within sectors.

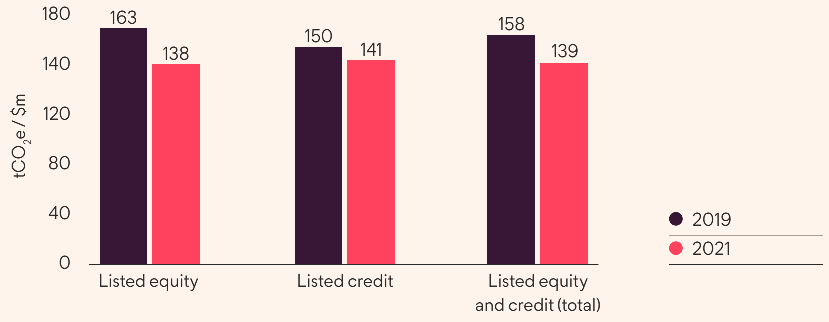
The revenue emissions intensity of our total listed asset portfolio has reduced by c.12% between year-end 2019 and year-end 2021.

Analysis of data coverage
Our data coverage metric represents the proportion of our investments that we have been able to successfully calculate financed emissions for. We calculate a data coverage metric for each asset class included in the baseline, and expect this to improve over time as data availability continues to evolve.

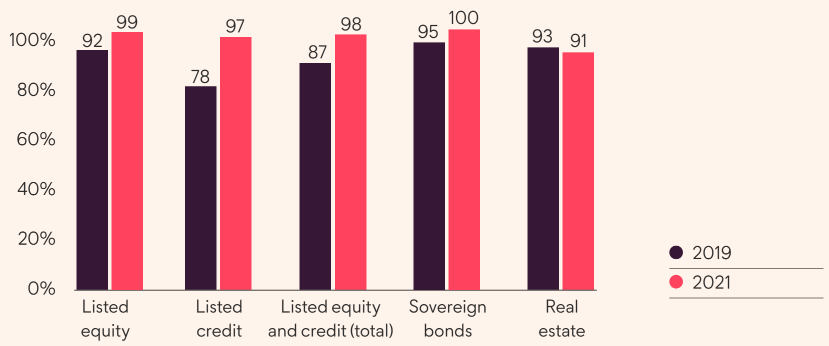
Our data coverage has generally improved significantly between year-end 2019 and year end 2021, particularly with respect to our listed assets. The data coverage of our total listed asset portfolio has improved from 87% at year end 2019 to 98% at year-end 2021.

We will continue to work with our climate data providers and asset management partners to improve data coverage across all asset classes, and we will look to identify where we can introduce additional climate data sources to fill any gaps we have.

Revenue emissions intensity for listed asset portfolio^



Change in data coverage between year end 2019 and year end 2021



Our investment portfolio continued

Exposure to high transition risk sectors

20%^ of our listed equity and credit portfolio is exposed to high transition risk sectors. These sectors dominate overall absolute emissions accounting for 71% of all listed asset emissions – indicating a concentration of transition risk.

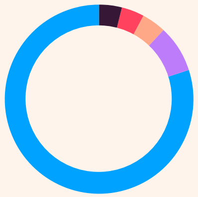
The proportion of listed asset portfolio emissions attributable to investee companies in high transition risk sectors has reduced from 89% as at year-end 2019 to 71% as at year-end 2021.

Approach

We qualitatively identified certain industry sectors as being vulnerable or susceptible to price volatility from rising carbon prices due to policy, technology or market changes. Using Global Industry Classification Standards ('GICS') methodology, we identified a number of underpinning industries within four ('GICS') sectors as being exposed to high transition risk (see Table 1).

In addition to determining our exposure to high transition risk industries, we have also calculated our exposure to the fossil fuel industry for listed equity and credit assets. To calculate this, we have applied a screen to our investment portfolio to identify investee companies which generate greater than 20% of their revenues from involvement in fossil fuels, including any exposure in fossil fuel production, exploration, distribution and services.

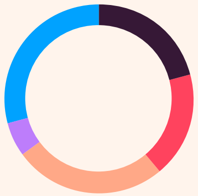
Sector exposure as % of listed assets AUA^



	2019	2021
Energy	5%	4%
Utilities	6%	4%
Materials	4%	4%
Industrials	10%	8%
Other	75%	80%

Chart reflects the listed asset portfolio (c.£162bn) as at year-end 2021

Sector exposure (weighted by AUA) as % of listed asset absolute emissions



	2019	2021
Energy	19%	21%
Utilities	38%	18%
Materials	24%	26%
Industrials	8%	6%
Other	11%	29%

Chart reflects a total of 11.6 million tCO_2e as at year-end 2021

Profile of the Top 10 emitting counterparties in our listed equity and credit portfolio

	2019	2021
% of listed portfolio AUA	5%	5%
% of listed portfolio emissions	35%	33%
Average data quality score (See data quality score section)	1.0	1.0
Number with SBTi targets	4/10	4/10

Analysis of sector exposure

In total, 20%^ of our listed equity and credit portfolio is exposed to high transition risk sectors. These sectors dominate overall absolute emissions accounting for 71% of all portfolio emissions in our listed equity and credit portfolio.

The proportion of listed asset portfolio emissions attributable to investee companies in high-transition risk sectors has reduced from 89% as at year-end 2019 to 71% as at year-end 2021. This is primarily driven by a reduction in absolute carbon emissions from the utilities sector, driven by a fall in power demand during the global pandemic.

The proportion of our listed equity and credit asset portfolio exposed to the fossil fuel industry is 8%^ at 2021 year-end. We will use this metric to monitor progress over time.

Analysis of top 10 emitting counterparties

The profile of the portfolio's Top 10 emitting counterparties is similar between the 2019 and 2021 year-ends, in that portfolio emissions are concentrated to a small number of sectors and counterparties. Our stewardship activities are therefore targeted to encourage investee companies to adopt better climate practices which should help reduce portfolio emissions intensity. We have defined our focused engagement list of 25 companies, which account for 40% of our financed emissions in material sectors in corporate fixed income and listed equity holdings. Through our engagement programme, dialogue with investee companies will be reviewed on an annual basis, in connection with our periodic monitoring of portfolio decarbonisation goals and carbon footprinting.

Exposure to high physical risk sectors

Whilst we are more materially exposed to transition risk in our investment portfolio, we do have some exposure to sectors and geographies which are susceptible to physical risk. In 2023, we will identify an appropriate suite of physical risk metrics and evaluate our investment portfolio against them.

Table 1: GICS sectors exposed to high transition risk

GICS Sector	Table 1: GICS Sub-Industry identified as exposed to high transition risk	
Energy	• Energy Equipment and Services	• Oil, Gas and Consumable Fuels
Utilities	• Electric Utilities • Gas Utilities • Multi-Utilities	• Water Utilities • Independent Power and Renewable Electricity Producers
Materials	• Chemicals • Construction Materials	• Metals and Mining
Industrials	• Aerospace and Defence • Building Products • Construction and Engineering • Electrical Equipment • Industrial Conglomerates • Machinery Trading Companies and Distributors	• Air Freight & Logistics • Airlines • Marine • Road and Rail • Transportation Infrastructure

Our investment portfolio continued

Climate alignment

As at year-end 2021, almost half of the listed investment portfolio (based on AUA) was invested in counterparties that have committed to set or already set approved science-based targets.

Approach

We have adopted two metrics to assess the climate 'alignment' of our investment portfolio: (i) the proportion of our portfolio which is invested in companies that have set science-based targets, and (ii) a portfolio temperature alignment score.

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

Analysis of climate alignment

As at year-end 2021, 47%^ of the listed portfolio (based on AUA) was invested in counterparties that had committed to set or already set approved science-based targets.

The key driver of this change is primarily with respect to our listed equity portfolio, and we will continue to engage with our investee companies to further improve this metric over time. Our expectation is that the share of the portfolio with SBTi will increase due to the growing focus on decarbonisation targets being grounded in the best available climate science.

The portfolio temperature alignment score uses SBTi methodology to assess the expected future global mean temperature that our investment portfolio is aligned to. This provides a single metric that is easy to interpret and gives an indication of the extent to which our portfolio is on track to contribute to global mean temperature change consistent with the goals of the Paris Agreement.

As part of our ongoing target validation process, we will continue to work with the SBTi in 2023 to develop our portfolio temperature alignment score and aim to disclose this in the next reporting cycle.

We will track both of these metrics over time, with the expectation that the share of the portfolio with SBTs will increase and that our portfolio temperature alignment score will decrease.

Split of the listed asset portfolio by science-based target status (based on AUA)

	2019	2021
Approved SBTi targets	15%	31%
Committed SBTi targets	13%	16%
No formal SBTs	72%	53%

Further split of listed asset portfolio with science-based targets[1]

2019	Approved SBTi targets (%)	Committed SBTi targets (%)	No formal SBTs (%)
Listed equity[2]	11	7	82
Listed credit[2]	4	6	90
Listed asset total	**15**	**13**	**72**
2021			
Listed equity[2]	25	11	64
Listed credit[2]	6	5	89
Listed asset total	**31**	**16**	**53**

1 Minor rounding differences within the table
2 As a proportion of the total listed asset portfolio

Our investment portfolio continued

Setting ambitious targets and tracking progress

In 2020, we committed to achieving net zero emissions in our investment portfolio by 2050, which would align with the UK Government's net zero goal and goals of the Paris Agreement.

In 2021 we developed two interim targets where Phoenix can exercise control and influence: a 25% reduction in the carbon intensity of listed equity and credit assets by 2025 and at least 50% reduction in carbon intensity of all investment assets by 2030.

Scope of our interim decarbonisation targets
The 2025 interim target applies to our listed equity and credit portfolio where we have control and influence. The listed assets portfolio was chosen as the first target as this is the part of the investment portfolio where methods to measure emissions and techniques for portfolio decarbonisation are most developed.

Our 2030 interim target is broader in scope as it captures all assets where we have control and influence.

Submitting our targets to SBTi for validation
In 2022 we submitted our protocol-compliant targets (which support the delivery of our external interim decarbonisation targets) to the SBTi for validation.

The SBTi is the leading international body for target setting and its validation process is performed by a team of technical experts. Our targets are currently under review by SBTi and we will continue to work together in 2023 to anchor our targets to the best available science.

Tracking progress
In 2023, we will review our decarbonisation performance against a net-zero glidepath to help identify the further actions required to meet these targets. We estimate that by meeting our 2030 target, we could deliver carbon reductions equivalent to the emissions generated by three months of UK electricity production[1].

Phoenix will continue to keep its targets under review to ensure we deliver good outcomes for our customers, our shareholders and our wider society.

Key future priorities

- Review our decarbonisation performance against a net-zero glidepath for 2023, to help identify the further actions required to meet our targets under multiple scenarios.
- Expand our Scope 3 financed emission baseline to include illiquid credit assets.
- Broaden the scope of reporting and target setting to consider the Scope 3 emissions of investee companies, when deemed sufficiently robust.
- Determine our approach to physical risk metrics and evaluate against them.
- Develop counterparty divergence analysis relative to momentum pathways.

1 This is calculated in our 2021 Climate Report based on prevailing emission figures as at that report, using BEIS figures for UK electricity generation.

Our investment portfolio continued

Data quality score

The data quality of the emissions of the assets included in our baseline analysis has a (weighted by AUA) score of 1.9 as at year-end 2021, indicating that our emissions data is much more based on reported data rather than estimated data.

Approach

Robust decision-making is enabled by the consideration of high-quality carbon profile data. However, our ability to report accurate emissions information is restricted by the quality and transparency of reporting of the investee companies.

In the interest of transparency, PCAF developed a data quality hierarchy that allows the scoring of the quality of emissions data of individual companies. Data scores range from 1 to 5 with the highest standard of disclosed and verified emissions scoring 1 whereas corporate emissions that are based on industry estimates score 5.

Analysis of data quality score

The basis for calculating the emissions of the assets included in our baseline analysis is largely reported data. PCAF considers reported data to be of better quality than estimated or extrapolated data.

When considering the portfolio emissions, the large majority is attributed to counterparties that have the highest data quality score. We have calculated a total portfolio data quality score (weighted by AUA) for assets included in our baseline. Our total portfolio score is 1.8 at year-end 2019 and 1.9 at year-end 2021 and we will continue to broaden our data scources over time as a means to help improve the quality of reported data.

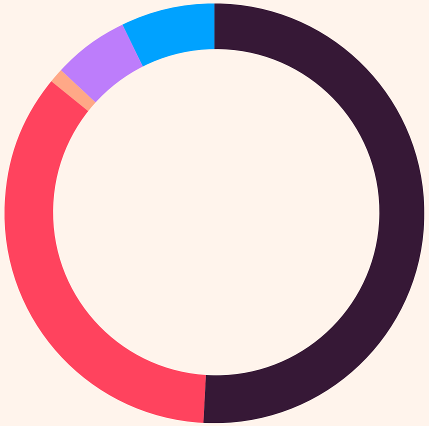
Our data quality score for sovereign debt is 2.0 due to the use of unverified GHG emissions of the issuing country. Our data quality score for real estate is lower than the other assets included in our baseline analysis, as we have had to estimate building emissions for several real estate assets in the absence of actual building emissions.

Note on limitation of data quality scores

Whilst reported climate data is generally of a higher standard than modelled data, there are challenges with the consistency, transparency and coverage of reported climate data which limits the true accuracy of the carbon profile of the portfolio. Climate reporting is still relatively nascent and so even high data quality score has limitations.

Whilst our total data quality score (for assets included in our baseline analysis) is relatively high, we are prudent with what inference we can draw as a result of climate data still being in its infancy.

Percentage of the investment portfolio (in the baseline analysis only) by data quality score



	2019	2021
Data quality 1	58%	51%
Data quality 2	30%	35%
Data quality 3	1%	1%
Data quality 4	8%	6%
Data quality 5	4%	7%

2021 figures shown in chart

Data quality score	Listed equity	Listed credit	Sovereign debt	Real estate	Total
2019	1.5	1.9	2.0	3.6	1.8
2021	1.4	2.3	2.0	3.4	1.9

Our operations

Operational metrics and targets framework

Key areas of progress

- Reduced Scope 1 and 2 emissions intensity from occupied premises by 10% on 2021 value and 80% on 2019 value
- Produced, 1, 880 kWH of on-site renewable electricity from our Wythall PV glazing project in 2022
- Continued to substitute building systems with higher efficiency alternatives saving 1, 950 MWh in energy

We are a Group with c.6,800 colleagues over 15 sites and across five countries.

We have committed to making our operations net zero by 2025 to support our Group 2050 net zero target.

Operational metrics and targets framework

We have evolved our metrics framework to align with emerging best practice in evaluating exposure to climate-related risks and opportunities. We will continue to review and enhance our metrics framework as data, methodology, industry guidance and best practice develop.

We used the following operational metrics and targets in 2022 to measure our progress:

Operational metrics

Operational metrics	Measure	Metric	Unit	Methodology	Overview
	Carbon footprint	Scopes 1, 2 and selected Scope 3 absolute emissions	tCO_2e	Greenhouse Gas Protocol, EcoAct Homeworking Emissions Whitepaper	Measures Scopes 1, 2 and selected Scope 3 absolute emissions
		Intensity metric for Scopes 1 and 2 emissions per full-time equivalent employee ('FTE')	tCO_2e/FTE		Measures Scopes 1 and 2 carbon emissions intensity per FTE accounting for renewable energy to promote carbon reduction
		Intensity metric for Scopes 1 and 2 emissions from occupied premises per floor area	$kgCO_2e/m^2$		Measures Scopes 1 and 2 carbon emissions intensity per floor area, without accounting for renewable energy to promote energy savings actions

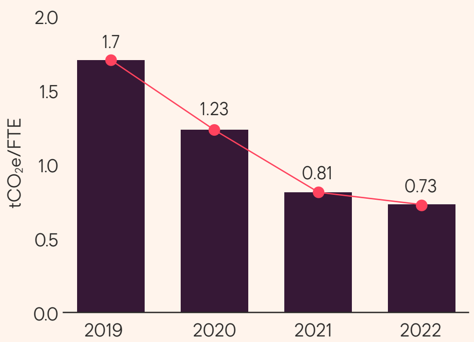
Operational targets

Operational targets	Basis	Scope	Carbon target	Target Year	Base year
Reduce Scope 1 and 2 emissions by 20% year on year	Bespoke	Scope 1 and 2 from occupied premises per FTE – renewable energy procurement to be taken into account (market based emissions) from 2022 onwards.	0.98 tCO_2e/FTE	2021	2019
			0.79 tCO_2e/FTE	2022	2019
			0.63 tCO_2e/FTE	2023	2019
			0.5 tCO_2e/FTE	2024	2019
			0.4 tCO_2e/FTE	2025	2019
Achieve net zero absolute operational emissions	Bespoke	Scope 1, Scope 2 and Scope 3 category 6 Business Travel emissions (market based) Minimum absolute reduction before retiring carbon credits to achieve net zero	60%	2025	2019

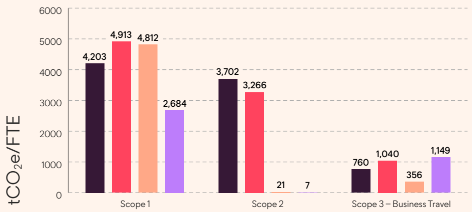
Our operations continued

Measuring our operational emissions

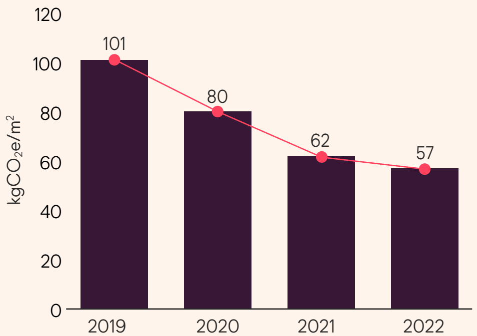
Intensity metric for Scopes 1 and 2 emissions per FTE (location based)



Intensity metric for Scope 1 and 2 emissions per FTE (market based) – accounting for renewable energy purchasing as a carbon reduction method ^



Intensity metric for Scope 1 and 2 emissions from occupied premises per floor area (location based)



Actual
Target

Analysis of operational emissions
Our operational emissions targets cover Scope 1 and 2 emissions from occupied premises and Scope 3 emissions from our business travel.

We track our operational emissions through intensity metrics per full time employee ('FTE') and have reported both market based performance as well as location based performance. In addition, we use a location based per floor area metric to track the impact of efficiency initiatives undertaken within our buildings.

The Scope 1 and 2 emissions intensity (from occupied premises per FTE) in 2022 has decreased by 10% from 2021. We have also seen a reduction in our absolute emissions (location-based Scope 1 and 2) which have decreased by 46% from 2021 and 59% from our 2019 baseline., in part due to a more consistent methodology.

Taking into account the contribution renewable energy makes to our carbon reduction strategy, we have achieved an 80% reduction in our operational carbon per FTE intensity metric from the 2019 baseline. This reduction is equivalent to the 20% year-on-year target set for 2025 before carbon credits can be considered for the residual 20% of emissions.

This was driven by our continued assessment of office utilisation, building consolidation and energy efficiency improvements, particularly as a significant proportion of our workforce continues to work in a hybrid manner. In addition, we have consolidated our approach to carbon reporting for our operations on disclosing Scope 1 and 2 emissions from activities where we have operational control.

All financed emissions, including any that were previously reported under Scope 1 and 2 under the financial control metric, continue to be accounted for in Scope 3 category 15 reporting.

Environmental Management System
Central to managing our impact is the Environmental Management System ('EMS') that we have adopted to facilitate sustained greenhouse gas reductions. Throughout 2022, in line with our target to begin a certification process, we have created, updated and collated a number of internal plans and processes to align our EMS against the requirements of the International Standards ISO 14001. We began internal auditing to the Standard in 2022 and expect to complete the external auditing and certification processes in 2023.

ISO 14001 focuses on the processes and procedures that an organisation has in place, rather than on specific parameters, targets, or performance indicators and is an excellent framework to demonstrate a commitment to continuous improvements in environmental performance and control of pollution. We use it to set detailed internal objectives by carrying out materiality assessments to identify significant sustainable aspects and impacts, legal requirements, technological options, financial, business, and operational requirements and the views of the Group's internal and external stakeholders.

The targets we set are measurable, practicable, and consistent with the objectives and our environmental policy. In addition, the standard helps the Group comply with relevant legal and other requirements, helping to reduce associated risk.

Our operations continued

Scopes 1,2 and 3 operations emissions summary

Methodology

We have used the main requirements of the GHG Protocol Corporate Standard (revised edition), together with International Energy Agency ('IEA') and DEFRA UK Government Conversion Factors 2022, as the basis to report on any GHG emissions in tonnes of carbon dioxide equivalent (tCO_2e). Further details of the methodology are included in the appendix to this report.

Absolute GHG emissions in tonnes of CO_2e

	Market based			Location based		
	tCO_2e					
	2022	2021	2020	2022	2021	2020
Scope 1 & 2	2,692^	4,833	8,178	7,121	13,145	14,978
Scope 3						
Category 3: Fuel and Energy Related Activities (transition and distribution)	356^	1	1,040	356	722	3,129
Category 6: Business Travel	1,149^	356		1,149	356	
Category 8: Upstream Leased Assets (where Phoenix Group is the lessee)	2,018^	2,051		1,826	1,765	
Category 13: Downstream Leased Assets (where Phoenix Group is the lessor)	–^	312		313	2,723	
Category 7: Employee Commuting	77	33	N/A	77	33	N/A
Category 7: Homeworking Emissions	4, 770^	5,454	4,272	4, 554	5,261	4,129
Total Emissions	11,062^	13,040	13,490	15,395	24,014	22,236
Carbon Offsets purchased	1, 994	2,453		1, 994	2,453	
Net Emissions	9, 068	10,587	13,490	13, 401	21,561	22,236

Property investment portfolio

In 2022, we made the decision to consider all investment property portfolios managed by our asset management partners as indirect emissions (Scope 3 – Category 15) and adopt the operational approach for consolidation as referenced in the PCAF Global Carbon Accounting and Reporting Standard for the Financial Industry 'PCAF Global Standard' as it refines and extends the GHG Protocol's accounting rules for Scope 3, category 15 (investments).

Prior to 2022, a portion of assets within the investment property portfolios were accounted for as direct (Scope 1 and 2) as the approach for those assets was historically that of financial control.

Concurrently, reporting of properties managed by other asset management partners were reported under operational control. As of 2022 and to provide consistency, any direct investment assets, including those that historically adopted a financial control approach, will now be reviewed through a number of appropriate operational control screening questions and will be reported accordingly.

We have included the occupied premises in UK, Ireland, Germany, Austria and Bermuda.

Homeworking emissions

We continue to include estimated employee home working emissions which fall under Scope 3, using the EcoAct Homeworking Emissions Whitepaper 2020.

Carbon offsets

For natural gas consumed in our owned and occupied assets, we recognise the challenges in further reducing this emissions source. In 2022, our supplier purchased gold standard certified carbon offsets as part of our contract, constituting approximately 1,994 tCO_2e. This is a decrease of about 19% from 2021 due to energy efficiency improvement projects completed in 2022.

Intensity calculation

The per floor area metric takes the total floor area for occupied buildings which are like-for-like comparable was summed and then divided by the total Scope 1 and 2 emissions for these buildings. For emissions from occupied premises per FTE, the total number of FTEs per occupied premises were summed and divided by the total Scope 1 and 2 emissions for the relevant buildings. Buildings that did not contribute to Scope 1 and 2 emissions or that were not occupied by Phoenix employees were not included in the metric. Going forward, and to acknowledge the impact that appropriate renewable energy adoption has on our carbon emissions, we will be reporting our emissions from occupied premises per FTE as a market-based metric.

Our operations continued

Setting ambitious targets and tracking progress

Tracking progress
In 2022, we achieved a 10% reduction in our operational emissions intensity from 2021, exceeding our target for 2022 when excluding renewable energy.

This was driven primarily by building consolidation and improved energy efficiency. As renewable energy forms an integral part of carbon reduction, we will continue to assess our performance, based on our market-based emissions going forward. Under this metric, we have achieved a significant reduction of 80% from the 2019 baseline putting us on a par with the 2025 target before the use of carbon removal credits to achieve net zero.

Business travel has significantly increased in 2020 compared to 2021. This is the result of continued easing of worldwide travel restrictions, following two years of limitations as well as the continuation of Phoenix business operations across our world wide presence. We are continuing to investigate and invest in technological solutions to reduce business travel where possible as well as providing more opportunities for lower carbon travel through our Green Travel Plan.

We recognise the ability to meet our organisational goals will depend on a number of factors including the adoption of progressive climate and energy policy and innovation and advances in technology.

Key future priorities

- Continue to seek further opportunities to manage our operational carbon footprint. For example, through building consolidation opportunities, new technologies; and continuing our building improvement works.
- Continue to investigate potential solutions to reduce business travel emissions.
- Adopt an approach for continual improvement for our EMS in line with ISO 14001 processes.

Our supply chain

Supply chain metrics and targets framework

Key areas of progress/ insights

- Engaged key partners on our ambition to halve our supply chain emissions by 2030, with 82%^ committed to either an SBTi based target the UN's Race to Zero initiative-based target.
- Set our indicative estimated supply chain baseline of c. 0.2 million tCO_2e
- Our indicative estimated supply chain emissions are heavily concentrated, with the top 10 suppliers accounting for c. 65% and the top 100 suppliers accounting for c. 95% of purchased goods and services emissions.

Phoenix Group operates an outsourced business model and our supply chain is critical in the delivery of our strategic objectives. Delivering our net zero ambition will require the support of our partners and suppliers and we have been engaging them to build a clear climate change strategy including a plan to set a carbon reduction target.

We aim to halve supply chain emissions by 2030 to support our Group-wide 2050 net zero target.

Supply chain metrics and targets framework

We have evolved our metrics framework to align with emerging best practice in evaluating exposure to climate-related risks and opportunities. We will continue to review and enhance our metrics framework as data, methodology, industry guidance and best practice develop.

We used the supply chain metrics and targets below in 2022 to measure our progress:

Supply chain metrics

Measure	Metric	Unit	Methodology	Overview
Carbon footprint	Scope 3 purchased good and services and capital goods	tCO_2e	Greenhouse Gas Protocol hybrid approach using 'EEIO' analysis of spend industry average emission factor. Enhanced with primary supplier CDP data where available	Measures Scope 3 cat 1 or 2 footprint in tCO_2e (emissions from purchased goods and services and purchased fixed assets)

Supply chain targets

Supply chain targets	Target year
75% of key suppliers signed up to either SBTi or committed to UN's Race to Zero initiative	2022
90% of key suppliers signed up to either SBTi or committed to UN's Race to Zero initiative	2023
25% of top suppliers (based on emissions) with SBTi-based target in line with net zero roadmap	2025
90% of suppliers (by spend) to be fully aligned with Phoenix Group's net zero targets	2027
Reduce supply chain carbon intensity by 50% (from indicative estimated 2019 baseline)	2030
Net zero supply chain (from indicative estimated 2019 baseline)	2050

Our supply chain continued

Measuring our supply chain emissions

Approach

In 2022, we worked with our partners Carbon Intelligence to set an indicative 2019 baseline for our supply chain of circa 0.2 million tCO_2e. We calculated our indicative 2019 baseline using a hybrid methodology, which involved a combination of EEIO analysis, where an industry average emissions factor is applied per pound spend, supplemented with CDP data inputs from suppliers where available. Further details of the methodology are included in the appendix to this report.

This is indicative supply chain emission footprint data modelled on current visibility of our supply chain and spend to provide context around our current scope of supply chain emissions, which has not yet been assured. Phoenix Group is currently undergoing an extensive exercise to enhance supply chain spend data quality and categorisation and align this more closely with Phoenix Group's taxonomy within our procurement and finance tools, in order to calculate supply chain emissions more accurately.

In line with the above, we will be re-baselining our 2019 footprint to more accurately account for mergers and acquisitions ('M&A') that have taken place in the business since 2019 and to capture changes related to the enhancement of our supply chain data quality. We expect to publish updated and assured supply chain emission footprint data in the next 18-36 months, alongside comparative trends and annual progress on emissions reduction.

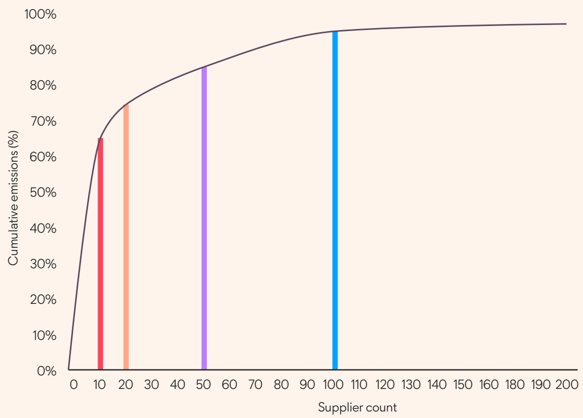
Analysis of supply chain emissions

Emissions footprint work to date has identified that the concentration of supply chain emissions are from purchased goods and services ('PG&S') (over 90% versus less than 10% for capital goods). It also identified that the top ten suppliers account for c. 65% and the top 100 suppliers account for c.95% of our purchased goods and services emissions.

It is possible however that there will be some variation on these trends once we undertake modelling with enhanced data quality and categorisation. Nonetheless, the current indicative baseline has provided a good basis to identify and engage with our most material emitters within our supply chain.

In addition, current modelling is based on the assumption that there is no change to our supplier base and hence, the growth and impact of emissions within our supply chain. We are looking however, to better understand how M&A could potentially impact our supply chain emissions and will be looking to integrate this impact into our supply chain decarbonisation modelling from 2023 onwards.

2019 estimated PG&S emissions assessment based on data from the top 755 PG&S suppliers



100 suppliers are considered to be materially significant at this stage of the carbon reduction journey. Based on 2022 available data, we estimate that:

- **Top 10 Suppliers =** c.65% of PG&S emissions
- **Top 20 Suppliers =** c.75% of PG&S emissions
- **Top 50 Suppliers =** c.85c.% of PG&S emissions
- **Top 100 Suppliers = c.**95% of PG&S emissions

This graph depicts indicative supply chain emission footprint data modelled on current visibility of our supply chain and spend to provide context around our current scope of supply chain emissions, which has not yet been assured. Phoenix Group is currently undergoing an extensive exercise to enhance supply chain spend data quality and categorisation and align this more closely with Phoenix Group's taxonomy within our procurement and finance tools, in order to calculate supply chain emissions more accurately.

Our supply chain continued

Pathway to decarbonisation and tracking progress

Pathway to decarbonisation
We have set our pathway to decarbonisation with a short-term target of halving supply chain emissions intensity by 2030, aligned with 1.5°C. With this scenario, we would look to reduce supply chain emissions intensity by 78% by 2050 vs. our indicative, estimated baseline.

We are looking to achieve this through maintained material supplier engagement, assuming all of the top 100 material suppliers step up their decarbonisation ambitions every two years. We will also require our top five material suppliers and the most mature suppliers to decarbonise at a faster rate than required by SBTi from 2024 onwards, while less mature suppliers set a science-based target between 2024 and 2026 and reduce emissions at a faster rate than required by SBTi, from 2026 or 2028.

Similarly, we will engage more widely with relationship managers and employees across the Group to support more responsible and emissions-friendly purchasing decisions, including bespoke engagement around M&A.

Tracking progress
We have exceeded our 2022 target to ensure that 75% of key suppliers committed to a robust carbon reduction target, with 82%^ committing to either a Science Based Target Initiative based target or target based on the UN's Race to Zero initiative and reaching our target to increase primary data collection via CDP.

Additionally, we continue to encourage our key suppliers to submit their carbon emissions data via the CDP suppliers survey, with 84% of our surveyed key suppliers submitting data in 2022.

As we roll out our net zero transition plan, we will develop an emissions reduction target for 2023, alongside meaningful engagement and interim targets for our material suppliers. We will also look to develop more robust procurement processes for the organisation to encourage more responsible practices in relation to emissions reduction.

Key future priorities

- Refine supply chain baseline based on enhanced data quality and categorisation.
- Deliver a more robust data-driven approach to supply chain decarbonisation that focuses on short- and medium-term emissions reductions targets
- Ensure our material and key suppliers are decarbonising at a rate that supports our long-term net zero ambitions.
- Reduce our reliance on EEIO estimations by engaging suppliers around primary data collection
- Publish supply chain net zero transition plan and engage 100 most material suppliers in bespoke decarbonisation strategy and targets.

Appendix

Compliance with the TCFD framework

Phoenix Group confirms that it has made climate-related financial disclosures for the year ended December 31, 2022 that it believes are consistent with TCFD Recommendations and Recommended Disclosures (as defined in the FCA's Listing Rules). In the table below, we cross-refer to where the disclosures are located.

TCFD elements	TCFD recommended disclosures	Cross-reference
Governance	a. Describe the board's oversight of climate-related risks and opportunities.	**Governance section – pages 13 to 16**
	b. Describe management's role in assessing and managing climate-related risks and opportunities.	**Governance section – pages 13 and 17**
Strategy	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	**Introduction section – page 6** **Strategy section – pages 20, 25, 28 and 34** **Risk management section – pages 41 and 42**
	b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	**Introduction section – pages 7 and 10** **Strategy section – pages 19 to 39** **Risk management section – pages 41 to 44**
	c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	**Strategy section – pages 33 to 39**
Risk Management	a. Describe the organisation's processes for identifying and assessing climate-related risks.	**Strategy section – page 34** **Risk management section – page 41**
	b. Describe the organisation's processes for managing climate-related risks.	**Risk management section – page 42**
	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	**Risk management section – pages 43 and 44**
Metrics and Targets	a. Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.	**Metrics and targets section – pages 46 to 60** **Methodology section – pages 64 and 65**
	b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	**Introduction section – page 6** **Metrics and targets section – pages 46 to 60** **Methodology section – pages 64 and 65**
	c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	**Introduction section – pages 3 and 10** **Metrics and targets section – pages 46 to 60**

Glossary

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

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

Carbon offsets
A reduction or removal of emissions of carbon dioxide or other greenhouse gases made in order to compensate for emissions made elsewhere.

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

CBES (Climate Biennial Exploratory Scenario exercise)
Bank of England exercise to explore the financial risks posed by climate change for the largest UK banks and insurers.

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

COP27 (UN Climate Change Conference of the Parties)
The 27th UN Climate Change Conference of the Parties held in Egypt in November 2022.

EEIO (Environmentally-extended input output)
Models used to estimate energy use and/or GHG emissions resulting from the production and upstream value chain activities of different sectors and products within an economy.

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

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

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

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

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

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

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

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

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

Scope 1, 2 and 3 emissions
Greenhouse gas emissions are categorised into three groups or 'Scopes'. Scope 1 covers direct emissions e.g. use of natural gas, company car vehicle emissions. Scope 2 covers indirect emissions from the generation of purchased electricity, steam and heating. Scope 3 includes 15 other categories of indirect emissions in a company's value chain e.g. business travel and investments.

SECR (Streamlined Energy and Carbon Reporting)
Reporting of emissions sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

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

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

Methodology

Calculating absolute emissions

Measuring financed emissions (Scope 1 and 2) in absolute terms, i.e. metric tonnes of CO_2e, provides a baseline for climate action to align with the Paris Agreement. The financed emissions are calculated by multiplying our proportion of any given exposure, by the emissions of the respective investee company, country or underlying asset (depending on the asset class in question):

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

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

We calculate the absolute emissions for real estate in line with the waterfall of choices outlined by PCAF, which varies dependent on the availability of actual data versus approximations.

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

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

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

Where for listed debt and equity:

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

Where for real estate:

$$\text{Carbon Emissions Intensity (Economic)}_c = \frac{\text{Carbon Emissions}_c}{\text{Asset value}_c}$$

Where for sovereign debt:

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

We also calculate the weighted average of revenue intensity for listed equity and credit assets:

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

Where for listed debt and equity:

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

Other metrics

Calculating SBTi-aligned companies

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

Data quality scores

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

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

The weighted average score is calculated as follows:

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

Methodology continued

High transition risk
'Transition risk' – the technological, market, legal and reputational risk of a transition to a net zero economy – is the key climate change risk that affects the Group's investments portfolio. A number of sub-industries within 4 carbon intensive GICS sectors were qualitatively identified as being exposed to elevated levels of transition risk. The metric is evaluated by expressing the value of these holdings as a % of AUA of the listed assets portfolio.

Fossil fuel exposure
This metric determines the proportion of our listed equity and credit AUA that is invested in investee companies which generate >= 20% of their recent-year revenues from involvement in fossil fuels, including any exposure in fossil fuel production, exploration, distribution and services.

The revenue values are based on the best available data from ISS, which may include reported revenues, reported percentage of revenues, or estimated revenues based on available information. We include any counterparties whose maximum percentage of revenues (obtained from ISS) are greater than or equal to 20%.

We have selected a 20% threshold to align with the threshold we apply in our Group Exclusion Policy, and to ensure that we capture large conglomerates with diversified revenues.

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

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

Please note that calculations such as those described in this Methodology section require the application of a number of key judgements, and also requires assumptions and best estimates to be made at a given point in time which relate to data that may be imperfect or subject to change.

Independent assurance statement to Phoenix Group Holdings PLC ('Phoenix Group') management – EY

Scope
We have been engaged by Phoenix Group Holdings plc ('Phoenix') to perform a 'limited assurance engagement,' as defined by International Standards on Assurance Engagements, here after referred to as the engagement, to report on Phoenix's selected sustainability data (the 'Subject Matter') indicated with a '^' symbol on pages 6, 9, 11, 16, 19, 20, 23, 28, 32, 46, 48, 49, 50, 51, 55, 56, 58 and 60 in Phoenix's 2022 Climate Report (the 'Report'):

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

Criteria applied by Phoenix
In preparing the Subject Matter, Phoenix applied the criteria as featured in Phoenix's 'Our Investment Portfolio' section (Climate Report pages 46-51); 'Methodology (Climate Report pages 64-65); and Phoenix's 'Sustainable Finance Classification Framework' (collectively the 'Criteria').

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

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

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

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

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

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

Description of procedures performed
Procedures performed in a limited assurance engagement vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

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

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

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

- Interviewed a selection of specialists responsible for managing environmental, responsible investment and supplier performance in the business, and for collating and checking sustainability data for internal and public reporting purposes. We did this to obtain an understanding of the internal control environment for the data, performance of KPIs in the period and reporting processes both at a group and site level.
- Checked a selection of management documentation and reporting tools, including guidance documents, to understand internal controls, reporting processes and policies to further inform our assurance approach and procedures.
- Performed analytical reviews to understand trends in the data and whether they align to our expectations based on our knowledge gained from the procedures above.
- Reperformed calculations to check the accuracy of the data collation and KPIs reported.
- Tested underlying documentation for a sample, based on professional judgement, of environmental, responsible investment and supplier data points to determine the accuracy and completeness of data points within the data sets.

Independent assurance statement to Phoenix Group Holdings PLC (Phoenix Group') management – EY continued

- Evaluated the suitability and application of the Criteria and that the Criteria have been applied appropriately to the Subject Matter.
- Challenged the validation and collation processes undertaken by Phoenix management in relation to the Subject Matter.
- Examined the Report for the appropriate presentation of the Subject Matter, including the discussion of limitations and assumptions relating to the data presented.

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

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

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

Ernst & Young LLP
10th March 2023
London

Forward looking statements

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

The preparation of this report requires the application of a number of key judgements and also requires assumptions and best estimates to be made at a given point in time. The key areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to this report, include: financed emissions, operational emissions and climate scenario analysis. There is a risk that the judgement exercised, or the estimates or assumptions used, may subsequently turn out to be incorrect. These judgements and resulting data presented in this report are not a substitute for judgements and analysis made independently by the reader;

Climate disclosures in the 2022 Climate Report use a greater number and level of judgements, assumptions and estimates, including with respect to the classification of climate related activities, than the Group's reporting of historical financial information. These judgements, assumptions and estimates are highly likely to change over time, and, when coupled with the longer time frames used in these disclosures, make any assessment of materiality inherently uncertain. In addition, the Group's climate risk analysis and net zero transition planning will continue to evolve and the data underlying the Group's analysis and strategy remain subject to change over time. As a result, the Group expects that certain climate and ESG disclosures made in this report are likely to be amended, updated, recalculated or restated in the future;

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

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

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

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

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

Forward looking statements may be affected by:

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

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

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

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

Contact us

News and updates
In line with our Sustainability Programme and our commitment to reduce our environmental impact, you can view key information on our website: thephoenixgroup.com

To stay up-to-date with Phoenix Group news and other changes to our site's content, you can sign up for email alerts, which will notify you when content is added.
https://www.thephoenixgroup.com/site-services/email-alerts

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