Phoenix

Our expectations of companies on key sustainability issues

Our focus Environmental, Social and Governance ('ESG') themes

Our ESG focus themes for stewardship activities are defined by taking into consideration:
- customer views collected through both qualitative and quantitative research;
- insights from Phoenix Group's materiality assessments using inputs from multiple stakeholders;
- the nature and materiality of the topic as representing a negative externality to portfolios across regions and sectors;
- availability of data to monitor and assess companies' performance; and
- existence of collaborative initiatives which intend to tackle the issue by supporting a co-ordinated action from investors.

Following the criteria above, we have identified climate change, human rights, nature and controversies linked to United Nations Global Compact ('UNGC') breaches as key ESG priorities for stewardship activities in 2024.

This document includes more information on our expectations of companies in our lists for direct and collaborative engagements in relation to these priority ESG risks and opportunities.

Our Global Voting Principles also summarise our expectations in relation to good corporate governance practices and standards across markets.

We refer to these guidelines in the dialogue with our asset management partners for engagement activities conducted on our behalf as well.

Our expectations of companies on climate change

In an effort to avert catastrophic climate change impacts, the UN climate negotiations in Paris resulted in broad agreement that we must collectively reach global net zero emissions by 2050. From the view of a highly diversified asset owner, climate change manifests itself as both a systemic risk and opportunity within investment portfolios.

Companies will have to develop their own plans to achieve net zero emissions, a task which if managed incorrectly will pose significant transition, physical and legal risks to their businesses in the long term.

We are highly supportive of internationally recognised frameworks to guide our approach to net zero in investment portfolios and dialogue with investee companies. In particular, we refer to the Task Force on Climate-related Financial Disclosure ('TCFD') disclosure recommendations, the CA100+ Net Zero Framework and the UK's Transition Pathway Taskforce to assess the credibility of companies' transition plans.

More specifically, we expect companies to provide robust disclosure and evidence on climate change management and action across the following pillars linked to the TCFD framework:

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

We assess companies' performance on climate change through the use of internal research, external assessment and third-party analysis. More specifically, we track companies' progress against 1.5°C scenarios using tools such as the Transition Pathway Initiative ('TPI').

We believe that companies should make use of offsets to reach their decarbonisation targets only to cover residual hard to abate emissions as according to science-based methodologies. We also encourage companies to invest in the development of carbon credits to deliver beyond their value chain mitigation efforts. We expect companies to leverage their scale and abilities to engage with key stakeholders to support the development of robust offsetting standards and efficient voluntary markets.

Our expectations of companies on human rights

As an active asset owner, we recognise our responsibility to respect human rights across our value chain, including aligning our investment practices with the United Nations Guiding Principles on Business and Human Rights ('UNGPs').

We embrace the definition of human rights as from the UN Universal Declaration of Human Rights and the core conventions set out by the International Labour Organization ('ILO'). This includes individual and collective rights to life, health, education, culture, privacy, decent work, freedom of association and collective bargaining, living wage, freedom from forced and child labour, equality and non-discrimination and effective remedy.

Although exposure to human rights risk might vary by company, sectors and geographies, we believe that the responsibility to respect human rights applies to all companies. More specifically, we expect portfolio companies to:

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

When assessing corporate performance against our expectations, we use internal and third-party research, focused public benchmarks and external assessments on violations of human rights standards.

Our expectations of companies on nature

Nature is being degraded at an unprecedented rate and scale, with human activity significantly accelerating this change. We recognise that protecting and restoring the planet's natural resources is an economic and environmental imperative, which presents both an investment opportunity and a complex risk to manage. We recognise that these nature-related risks and opportunities can be material and are committed to addressing them within our portfolio monitoring and stewardship activities.

Companies will vary in their dependency on nature and impact on nature through direct operations and/or their supply chain depending on their sectors and locations. While we understand that companies might be at early stages of assessing this topic, we expect them to:

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

When assessing corporate performance against our expectations, we use internal and third-party research and focused public benchmarks.

Our expectations of companies on United Nations Global Compact ('UNGC') breaches

The UNGC initiatives promote the application of ten principles linked to international standards on human rights, labour rights, environmental and climate change issues, and anti-bribery and corruption efforts.

In the specific case of breaches of the UNGC principles, we rely on preliminary assessments provided by two leading ESG service providers to understand the severity and scale of the breach and the level of response by the companies flagged. We then complement this assessment with additional desk research and inputs collected by our asset management partners.

For companies with exposure in shareholder assets and significant exposure in policyholder assets, we commit to engage individually and collaboratively with other investors through a third-party platform to make sure that companies provide effective remediation to the controversy and set up robust policies and implementation practices to avoid the occurrence of a similar issue of concern in the future.

Human rights

Principle 1: businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

Principle 10: businesses should work against corruption in all its forms, including extortion and bribery.