Stewardship policy

As the UK's largest long-term savings and retirement business, Phoenix is committed to making a positive contribution to society for the benefit of all stakeholders, in line with our purpose of helping people secure a life of possibilities. In this context, one of the areas we can have the biggest impact is through stewardship.

Introduction

We believe that institutional investors bear a responsibility to engage with investee companies to drive better corporate behaviours, which is expected to also lead to stronger and more sustainable financial outcomes for our customers.

This policy outlines our definition of stewardship and our commitment to support effective engagement and voting through internal and outsourced activities in collaboration with our asset managers and service providers.

We believe that this policy fulfils the stewardship requirements of the Financial Conduct Authority's ('FCA's') PS 19/13 to implement the European Union's Shareholder Rights Directive II ('SDRII') on effective stewardship and long-term investment decision-making. We believe that this policy is also aligned with the United Nations-supported Principles for Responsible Investment ('PRI') and the 2020 UK Stewardship Code.

Coverage

Our approach to stewardship applies to Phoenix Group's investment portfolios in shareholders' and policyholders' assets across the with-profits, unit-linked, and non-profit non-linked product ranges and wherever we have the ability to set the investment strategy or investment solutions. This policy covers all investments including assets in passive, enhanced-index and active strategies across listed equity, fixed income, private equity and debt, infrastructure and real estate.

For the scope of this document, asset management partners refer to managers of investment mandates we have direct influence of.

We also offer our customers access to funds, known as external fund links ('EFLs'), which are set up and managed by external asset managers who are responsible for setting the investment strategy and guidelines. That means we have no direct control over how these funds are managed and we apply a different assessment process. However, we expect these funds to be aligned with high standards of stewardship. Any content referring to EFLs or EFLs managers in this document is specifically marked in dedicated sections.

Governance

The Phoenix Group Holdings plc Board ('the Board') approves the Group sustainability strategy as part of the Group's wider corporate strategy. However, the implementation and monitoring of our sustainable investment practices, including stewardship, sits with the Life Companies' Board Investment Committee ('BIC') and relevant subcommittees.

The Group Chief Investment Officer who reports directly to Phoenix Group's Chief Executive Officer is accountable for the Group's Sustainable Investment activities, including stewardship.

The asset management division is responsible for ensuring that Phoenix Group's stewardship policy is embedded in the organisation and our relationships with asset management partners. Our dedicated stewardship team within asset management helps support this through its own activities and our asset management partners' due diligence process.

Stewardship policies and activities are also regularly reviewed and critically challenged by the asset management's risk and compliance department. Additionally, stewardship policies and activities are subject to periodic internal audit reviews.

While this policy is designed for the long term, it will be reviewed annually and updated when needed.

Stewardship – terminology and our beliefs

We embrace the UK Financial Reporting Council ('FRC')'s definition that stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Stewardship is the use of the rights and position of ownership to influence the activity or behaviour of investee companies. For listed equities it includes both engagement and (proxy) voting (including filing shareholder resolutions). For other asset classes, engagement is still relevant while voting is not.

We believe that stewardship strategies and approaches to enhance long-term value of investment for the benefits of our customers should not materially differ across asset classes and geographies. For example, investors can increase their ability to influence when speaking with one voice (i.e. as both shareholders and bondholders) in discussions with companies. Equally, companies in both developed and emerging markets should be encouraged to achieve the same level of best practice on environmental, social, and governance ('ESG') issues, although access to corporate management and information can vary. In private assets, whilst availability of ESG data to assess companies' practices can be more challenging, investors' more concentrated financial exposure and higher possibility of securing board representation in addition to the ability to negotiate additional covenants and use of proceeds, can increase leverage with corporate management to achieve stronger ESG performance. In real estate assets, engagement with occupiers and property managers can also improve energy efficiency, resources management and sustainability credentials of buildings.

Different interpretations of engagement exist in the market. Phoenix Group believes that engagement refers to a two-way interaction between the investor and investees in relation to the corporate business strategy and ESG practices. Engagements are undertaken to influence (or identify the need to influence) corporate practices and improve disclosure. Asking a question on ESG issues during a meeting does not necessarily characterise the interaction as an engagement. Providing feedback on information collected, sharing best practice by peers and defining engagement objectives with focus companies better define an engagement activity.

Voting includes both voting on management and/or shareholder resolutions as well as filing shareholder resolutions during annual general meetings ('AGMs') or general meetings ('GMs').

We believe that effective stewardship is characterised by robust ESG research on material risks and opportunities using internal and external data, dialogue with corporate top decision-makers, setting of goals, continuous evaluation of progress against objectives and influence on investment decision-making. Solid preparation, geographical and sector expertise, correct timing and commitment to continuous dialogue are other strategies we support to increase the possibility to influence business practices.

We believe that engagement, voting and ESG integration are interlinked and, when relevant for a specific strategy, they should be intrinsic parts of the investment decision-making process. This is why stewardship should not be a delegated function for specialised ESG professionals only, but it should be equally undertaken by investment professionals with ESG knowledge and experience alone or in collaboration with sustainable investing/ stewardship teams and be efficiently documented.

Our approach to stewardship

As a large asset owner, we embrace the concept of effective stewardship outlined above. While we ordinarily conduct dialogue with investee companies through our asset management partners, we also:

- undertake direct engagements with corporate representatives; conducted by members of our Stewardship team; and
- join collaborative engagements with other investors.

Our asset management partners are at the forefront to interact with companies in our portfolios and we will seek alignment of efforts on key ESG strategic priorities through the exchange of information and views. The majority of our engagement activities with investee companies is conducted by our asset management partners. However, we might join direct and/or collaborative engagements with companies based on our financial exposure and internal research on priority ESG issues.

Collaborative engagements can be an efficient strategy to channel investors' concerns to investee companies. However, lack of co-ordination and preparation by coalitions could hamper the quality of dialogue. We will consider joining a collaborative engagement if the following criteria are met:

- we share the objectives of the initiative and support identified recommendations to companies;
- we are supportive of existing rules in terms of public external communications;
- we have the resources to positively contribute to the dialogue with focus companies; and
- collaborating with peers is permitted by existing regulation.

ESG priorities for engagement

ESG priorities for direct and collaborative engagements and assessments of asset management partners are defined and reviewed on an annual basis. Focus themes 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.

We make our expectations of companies in relation to these priority ESG risks and opportunities publicly available on our website.

ESG research

We use leading third-party suppliers which provide ESG scores and/or thematic research on firms, funds, companies, factors and sectors in order to:

- conduct and complement our existing internal ESG research for stewardship activities;
- identify companies in our portfolios with high ESG risks and opportunities; and
- monitor the integration and stewardship practices of our asset managers.

We rely on ESG research covering both the analysis of companies' reported data and controversies as documented by media, international and civil society's organisations.

Voting

Our Global Voting Principles summarise our high-level beliefs and expectations of good corporate governance, environmental and social practices, which we support in the long-term interest of our customers.

We are not involved in voting decisions directly, either by casting votes or sending voting instructions[1] to our asset management partners. We monitor the voting directions of our asset managers using our voting principles as a framework of reference after the votes are cast. We are committed to engaging with our asset management partners to reduce the divergence of their voting from the expectations underpinning our voting principles and engagement activities.

It is our intention, where possible, to either direct or bring voting activities in-house for selected mandates in the future.

Our stewardship team is responsible for developing and updating the Phoenix Group's voting principles. The principles are reviewed at least annually to capture evolving standards and insights from customers' research and are approved by the BIC and the Board.

Escalation of engagement

In the case that improvements by companies are not made despite several engagement efforts, we will consider forms of escalation. We expect our asset management partners to be prepared to take similar actions for engagements conducted on our behalf.

Possible escalation strategies are collaborating with other shareholders, voting against management, presenting an AGM statement, issuing a public statement, decreasing exposure and ultimately divestment of the holdings.

1 With the only exception for a small number of execution-only funds and selected sustainability-focused funds.

Selecting, appointing and monitoring our asset managers to support stewardship

We recognise the value of engaging with investee companies to promote best practices and do so through our asset management partners. As a long-term investor, we believe that it is important for our asset management partners to exercise constructive influence on companies and other issuers in our investment portfolios to encourage long-term performance, good corporate governance and sound sustainability practices.

We require asset management partners to:
- rely on internal and external research to monitor and assess investee companies': strategies; capital structure; financial and non-financial performance and risk; ESG risks and opportunities and impact;
- define a relevant engagement focus list based on the above monitoring system;
- engage with identified priority companies, set engagement objectives and, in case of lack of progress, escalate engagement to drive better medium- and long-term performance from the business as a whole;
- exercise voting rights on our behalf in companies in which we have holdings for assets and strategies in scope through the application of their customised proxy voting policy which is regularly updated to reflect clients' views and monitored;
- track systematically and report regularly on their engagement activities in relation to the assets they manage on our behalf, including details on the factors they discussed, company representatives they met, investment professionals involved, outcomes achieved and investment implications, when applicable; and
- track systematically and report regularly on their voting activities including details on use of proxy advisers, votes against management, topics addressed by voting, support of ESG shareholder resolutions and voting rationales in relation to the assets they manage on our behalf.

We also expect our asset management partners to be aligned with our minimum requirements as specified below.

For managers with mandates in public markets:
- being a signatory to the PRI;
- adopting the 2020 UK Stewardship Code or an equivalent local stewardship code applicable in their jurisdictions;
- supporting our net zero strategy and portfolio decarbonisation goals; and
- implementing our Exclusion Policy.

For managers with mandates in private markets:
- being a signatory to the PRI;
- implementing our exclusion policy; and
- supporting our net zero strategy.

We acknowledge that some managers may be on a journey to achieve these minimum requirements and we are able to provide them with a grace period subject to demonstrable commitment to achieve these standards within the agreed time frame.

During our manager selection process we assess, amongst many other factors, how capable an asset manager is to vote and engage on our behalf in accordance with our sustainable investment strategy. We then establish a contract between us and the manager to formally delegate these activities to them. Managers that fail to comply with our minimum standards within agreed timelines will not be appointed for new mandates.

We also conduct a regular due diligence exercise on all of our asset management partners to evaluate whether their approach to stewardship and sustainable investment more broadly is meeting our expectations. As signatories to the Asset Owner Diversity Charter ('AO'), we also ask our asset management partners to respond to the initiative's diversity charter questionnaire.

In line with good governance, if any of our current asset management partners do not adhere to our minimum requirements and fall short of the expectations incorporated in our ESG due diligence questionnaire, they will be put on notice to improve within agreed timelines and on the understanding that both a cessation of new investments or, in extreme cases, a termination of the mandate may be required should they fail to improve as agreed.

External fund links

Phoenix Group does not have direct control over how EFLs are managed by external asset managers. We assess the sustainable investment standards of managers for the majority of assets under management in EFLs through a combination of tailored due diligence process, third-party assessments and ratings. If the assessed managers do not meet our standards, we would look to engage with them further to seek improvements and influence positive change. In cases of unsuccessful progress, this assessment will be taken in consideration with other factors to protect the long-term interests of our customers and may result in removal of funds from our platform. Additionally, we track whether EFL managers are signatories to the PRI and invite them to sign up to the initiative through private letters. We make available to our customers the list of EFL managers that are signatories to the PRI initiative through our dedicated client websites.

Selecting, appointing and monitoring our service providers to support stewardship

When selecting and monitoring ESG service providers, we consider the following criteria:
- the firm's years of experience in the industry;
- coverage in terms of asset class, sector and geographies;
- quality and type of underlying data;
- number, qualifications and expertise of researchers;
- transparency and clarity of the underlying methodology for ESG scoring;
- ability to provide information aligned with our needs and issues of focus;
- complementarity and additionality in comparison with similar offerings by other industry peers; and
- alignment of data service and models with external disclosure and reporting requirements.

Conflicts of interest

When engaging with a company or monitoring voting we need to ensure that we are acting in the interests of our customers at all times and manage any associated conflicts of interest that arise in the course of our activities.

Phoenix Group's conflicts of interest policy sets out the minimum operating standards relating to the management of conflicts of interest risk throughout the Group.

Conflicts which can arise through stewardship activities conducted directly by our stewardship team are related to engaging with or monitoring voting at a listed company's AGM or GM where:

- the company is a shareholder in Phoenix Group, a client or a supplier; and
- Asset Management employees or members of Phoenix Boards have personal investments or board seats in companies engaged or receiving a vote.

Our approach to conflicts of interest related to stewardship activities outlines in detail the processes in place to manage such conflicts when they arise.

Dialogue with policymakers and advocacy

Companies' and investors' disclosure and actions on ESG issues and sustainable investment are heavily influenced and constrained by regional, national and international regulatory environments.

Policy engagement is a critical lever through which Phoenix Group can lend its voice, alongside other stakeholders, in calling for action from policymakers to address the technological and regulatory hurdles preventing the solution at sufficient speed of negative externalities and systemic risks such as climate change, nature loss, human rights violations and inequality.

Participation in industry initiatives and policy consultations is also crucial to shape the development of universally recognised ESG standards for companies and investors.

Phoenix Group is active in a number of fora and investors initiatives through its central sustainability team, public affairs team, sustainable investing team and stewardship team. A full list of these initiatives and an assessment of our contributions is available in our annual stewardship report.

Transparency

We seek appropriate disclosures on stewardship practices from the asset management partners with whom we invest and partner on a regular basis. We are also working closely with our managers to agree on adequate engagement and voting information to be delivered at fund level. Through our individual brands' websites, we share our asset management partners' voting and engagement policies and stewardship reports.

We also report on activities and progress relating to our own principles and practices of stewardship in an open and transparent way through our Group website and annual stewardship report.