



Sustainability at the PPF

Sustainability Report 2024/25



Winner of the Limited Partner category
at the BVCA Excellence in ESG Awards.



Protecting people's futures

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

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

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

The PPF in numbers

Members of schemes we protect at 31 March 2024

8.8m 

PPF assets under management at 31 March 2025

£31.2bn 

Members in PPF assessment at 31 March 2025

34,601 

PPF members at 31 March 2025

289,469

Of which:

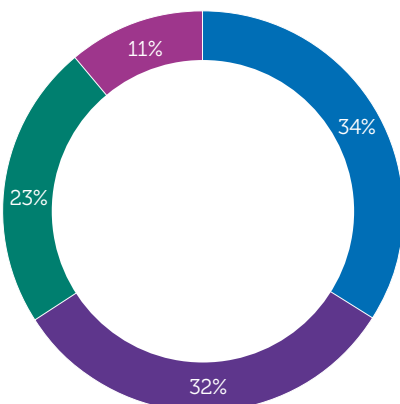
 200,504 in payment

 88,965 deferred

How we are funded

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

How we are funded

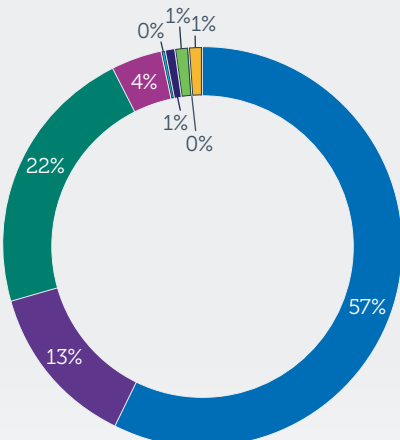


- Assets from pension schemes transferred to us
- The return we make on our investments
- The levy we charge on eligible pension schemes
- Assets recovered from insolvent employers

How we are invested

Our assets are managed with an integrated approach to funding and investment. We seek to deliver investment performance consistent with targets set by the PPF Board within our strategic risk budget.

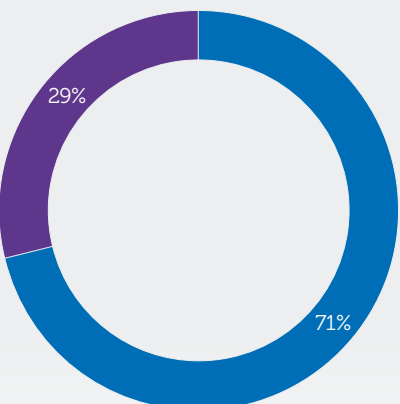
Locations of our investments



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

To this end, we have implemented a funding framework that separates current and future funding requirements.

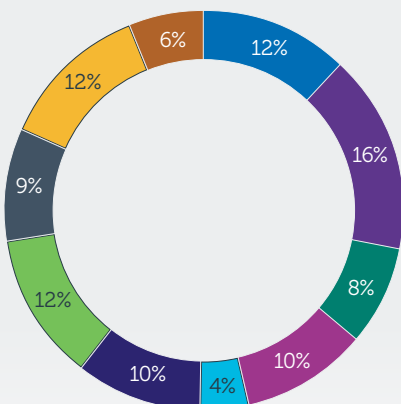
Asset allocation – PPF Matching Portfolio



- Liability-driven investment (LDI)*
- Hedging Assets with Illiquid characteristics (HAIL)**
- * Includes Government Bonds (UK Gilts), Derivatives and Cash.
- ** HAIL assets include UK Public Credit and Private Credit.

Assets under management are now split into two portfolios: a Matching Portfolio to meet the funding requirements of current members and a Growth Portfolio to meet future claims.

Asset allocation – PPF Growth Portfolio



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

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The structure of this report

This report combines three elements of the PPF’s sustainability reporting: our UK Stewardship Code submission to the FRC, which focuses on our investment stewardship practices, our Climate Change Report, which aligns with Task Force for Climate-related Financial Disclosures (TCFD) recommendations, and our Corporate Sustainability reporting on the PPF as an organisation. This single document aims to provide an integrated and comprehensive view of the PPF’s approach, activities and outcomes to advance sustainability both in our investments and our operations.

As a signatory to the UK Stewardship Code, we are required to explain how we have applied the Code. Although this report addresses all the expectations as in prior years, it does not follow the UK Stewardship Code Principles in order. To the right we provide a table explaining how this reports aligns to each section of the 2020 UK Stewardship Code, and also to TCFD requirements as defined by the Department for Work and Pensions in relation to occupational pension funds.

Following the FRC’s Stewardship Code

As a 2024 signatory to the Financial Reporting Council (FRC)’s UK Stewardship Code, our report seeks to meet the reporting expectations set out by the Code’s 12 principles. The table below provides a guide to where each principle of the Code is discussed within this report.

1

Signatories’ purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

→ See pages 04 to 12

2

Signatories’ governance, resources and incentives support stewardship

→ See pages 05 to 08

3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

→ See pages 07 and 69

4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

→ See pages 26 to 28

5

Signatories review their policies, assure their processes and assess the effectiveness of their activities

→ See pages 08, 14 to 16 and 62

6

Signatories take account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them

→ See page 08

7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change to fulfil their responsibilities

→ See pages 10 to 17 and 35 to 60

8

Signatories monitor and hold to account managers and/or service providers

→ See pages 14 to 16 and 22

9

Signatories engage with issuers to maintain or enhance the value of assets

→ See pages 16 to 26

10

Signatories, where necessary, participate in collaborative engagement to influence issuers

→ See pages 26 to 28

11

Signatories, where necessary, escalate stewardship activities to influence issuers

→ See page 29

12

Signatories actively exercise their rights and responsibilities

→ See pages 30 to 34

Introduction from our Chair



Working in a responsible and transparent manner is a commitment that has long been woven into the PPF’s values. A focus on sustainability goes hand in hand with our purpose to protect people’s futures.

As a supporter of the Task Force on Climate-related Financial Disclosures (TCFD), we report on our climate-related governance, strategy, risk management, and metrics and targets across the business. Until this year, we have reported on our responsible investment activities in a separate publication. This, our first Sustainability Report, brings together our climate change and responsible investment reports to provide a comprehensive view in one place.

While there has been a global shift in the prioritisation of corporate sustainability goals in the last year, our commitment to the goals in our Sustainability Strategy remains unchanged. We believe operating in a sustainable way provides value for all our stakeholders – protecting our assets and our members’ futures, and benefiting both the pensions industry and the world around us.

During the last year, we have made firm progress against our sustainability goals, from developing ESG dashboards for managing investment risk, to surveying our Private Markets managers about their climate transition strategies for greater transparency on the effects of climate change within our investments.

I’m proud that our ESG team received recognition this year at the BVCA Excellence in ESG Awards. We were also shortlisted for Best Climate Change Policy at the Pensions for Purpose Awards and for the Stewardship Disclosure award and the Overall Paris Alignment Award at the Asset Owners Awards.

Throughout the PPF, teams have been embedding sustainable practices across our operations, from exploring the use of a travel booking platform for more informed decision making on lower-carbon methods of travel, to encouraging our suppliers to consider sustainable approaches. Our ESG team has been working to build deeper understanding within the organisation so that all our people can play a part in reducing our environmental impact.

A fundamental part of our sustainability goal to champion collaboration and lead by example is Diversity, Equity and Inclusion (DEI). We’re proud of the progress we’ve made in this area in the last five years, with female representation in senior management rising from 41 per cent in March 2020 to 53 per cent in March 2025.

Our new [DEI Strategy for 2025–28](#) builds on the achievements we’ve delivered, and introduces our growing focus on equity – the idea that different people need different things to be their best.

Our aim is to ensure everyone has access to the same opportunities regardless of their background. This strategy reaffirms our commitment to being an inclusive employer and will help us to ensure that everyone has the opportunity to thrive at the PPF, setting us up for success in years to come.

Kate Jones
Chair

“Our first Sustainability Report brings together our climate change and responsible investment reports to provide a comprehensive view in one place.”



Making an impact

There has been a great deal of collaborative work across the PPF in the last year to help us progress against the goals in our Sustainability strategy. One way in which we can all contribute is by using our skills and experience to make an impact in the communities and industries we operate in. Our successful Community impact programme enables us to find ways to support local charities and community organisations.

Our people have found countless opportunities to make a difference this year, from offering their professional skills and speaking at local schools and colleges, through to making meals for the homeless and maintaining community gardens.

I’ve enjoyed some rewarding days lending a hand at local donation hubs with the Executive Committee team, and I’ve also had great fun joining people from all over the business on their own volunteering days. I’m so very proud that, with everyone’s efforts combined, we surpassed our organisational target of carrying out 500 days of volunteering this year.

Michelle Ostermann
Chief Executive

Key achievements of the year

Applying our Sustainability strategy has enhanced our decision-making by providing us with an additional way of considering risks and benefits that we may face, whether in relation to our investment portfolio or within our own operations.

We continued to take clear and practical action to deliver our Responsible Investment (RI) strategy, seeking to maximise long-term risk-adjusted returns by building resilient portfolios.

Investment stewardship

We put good stewardship at the heart of what we do to manage exposure to financially material risks across our portfolios

- Accepted by the Financial Reporting Council (FRC) as a 2024 signatory to the UK Stewardship Code – our fourth consecutive year as a signatory.



- Developed our internal portfolio ESG dashboards to cover portfolios and improve the delivery of this information to our internal Investment team.

→ See page 15

- Undertook significant work to ensure potential external investment managers meet our expected standards and worked with several to develop their stewardship processes.

→ See page 16

Climate change & transition

We focused on the effects of climate change within our investments to provide transparency for all stakeholders

- Undertook a survey of all our external investment Private Markets managers to understand their climate transition strategies.

→ See page 60

- Reviewed and developed our Climate Watchlist of companies with high carbon emissions. Progress was recorded and engagement requirements for new companies allocated to respective investment managers.

→ See page 41

- Expanded our bespoke Transition & Sustainable Assets framework to include Private Equity, Real Estate, and UK Private Credit for the first year, along with Infrastructure for the second year.

→ See page 60

Our Corporate sustainability

We took further steps to improve our sustainability as an organisation – and build understanding internally to reduce our environmental impact

- Collaborated with our Internal Communications team to provide a Lunch & Learn session for all employees to address climate change myths and basic principles of sustainability. Also delivered separate line manager training on adopting sustainability initiatives internally.

→ See page 62

- Worked with our Office Services team to introduce new food waste bins in both PPF offices, ensuring collected waste is sent to an anaerobic digestion plant to generate green energy.

→ See page 64

- Undertook an annual review of the PPF’s Sustainability Strategy and shared key progress since its launch in July 2023. Also updated the Board on our progress in minimising the PPF’s operational environmental impact.

→ See page 62

Recognition for our ESG team



BVCA Excellence in ESG Award

Top recognition in the Limited Partner (LP) category



Pensions for Purpose Pension Fund Awards 2024

Shortlisted in the Best Climate Change Policy category



Asset Owners Awards 2024

Shortlisted for the Stewardship Disclosure Award and the Overall Paris Alignment Award

Overview of the Pension Protection Fund

Our purpose and governance

The PPF Sustainability Strategy

At the PPF, sustainability and strong stewardship of our investments involve a continuous and steadfast process of improvement and learning.

We are committed to operating in a sustainable way to protect our assets and our members' futures, as well as the wider pensions industry and the world around us. The aim of our [Sustainability Strategy](#) is to lead by example on corporate sustainability and responsible investment.

Informed by the [Five Capitals framework for sustainability](#) and our most material environmental, social and governance (ESG) risks as a business, our Sustainability Strategy features four outcomes-focused sustainability goals for our organisation, focusing on areas where we believe we can make a measurable difference.

The aim of these goals is not only to guide stewardship of our investment portfolio but also foster a culture of teamwork, responsibility, mutual respect, high performance and standards of conduct throughout our organisation and across all our external interactions. Year-on-year progress on these goals is detailed in each of the following sections of this report: Investment Stewardship, Climate Change & Transition, and Our Corporate Sustainability.

Sustainability governance

The PPF has established strong governance processes to manage the risks and opportunities presented by the different aspects of sustainability above. Our Board has oversight of our organisational Sustainability strategy and how we manage risks and opportunities across the business. Our internal sustainability working groups continued to drive development and implementation of the strategy throughout the year. See a summary of our governance structure for sustainability, including responsible investment, right.

Four sustainability goals

Demonstrating **excellence** in responsible investment

- Looking after our assets

Financial Capital

Ensuring effective stakeholder engagement with **integrity** and **respect**

- Community impact
- Employee and stakeholder engagement

Human & Social Capital

Championing **collaboration** and leading by example

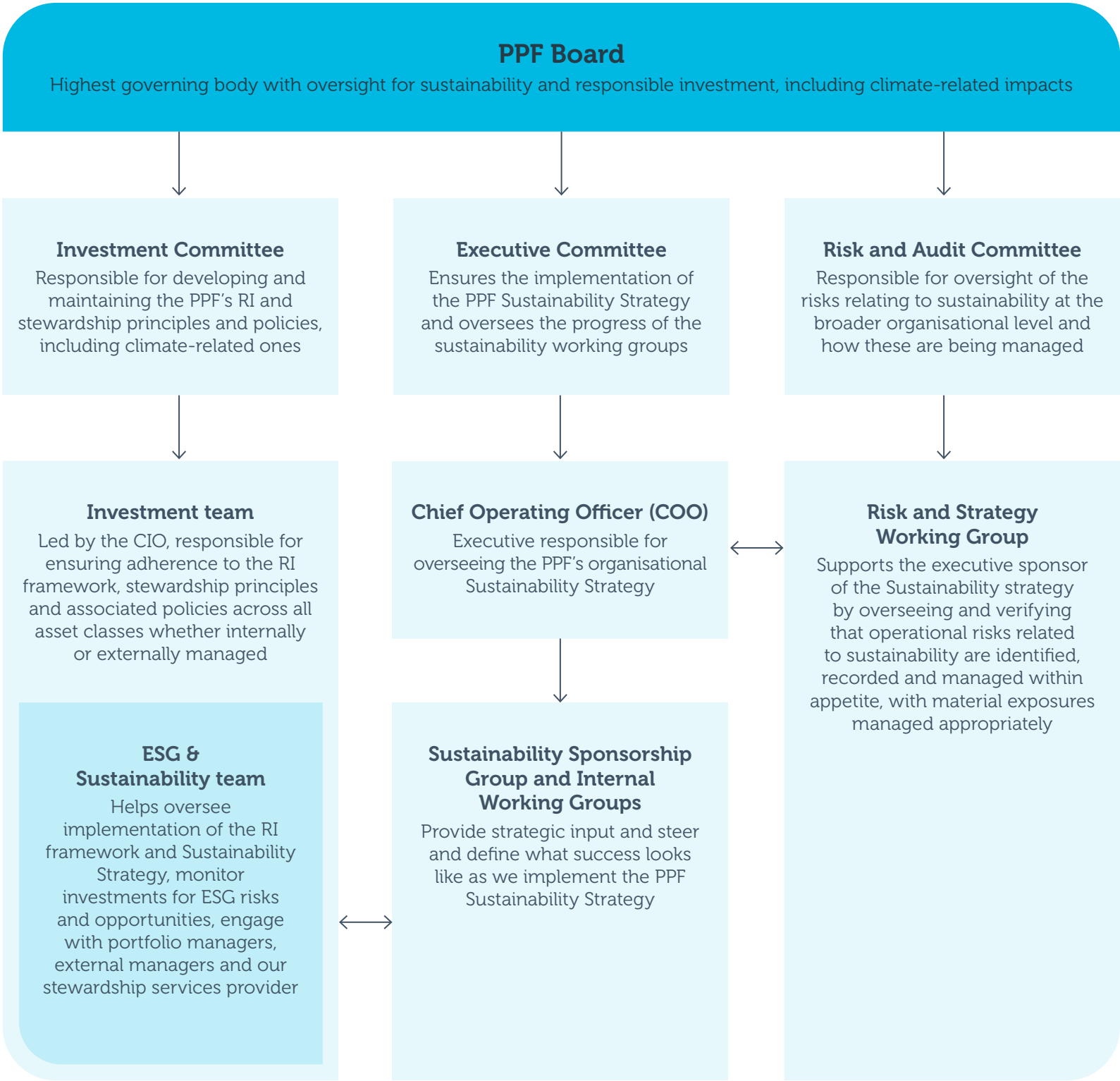
- Diversity & inclusion
- Business ethics

Social Capital

Natural & Manufactured Capital

Being **accountable** for minimising our own environmental impacts

- Operations
- Supply chain



Overview of the Pension Protection Fund continued

Our governance structure and activities

Our Sustainability governance-related activities through the year

Function and responsibilities		Key activities in 2024/25			
PPF Board Highest governing body with oversight for sustainability and responsible investment, including climate-related impacts.	Undertook an annual review of the PPF Sustainability Strategy and shared key progress and outcomes since launching the strategy with the Board	Updated the Board on our progress in minimising our environmental impact	Undertook an annual review of RI progress and activities	Provided TCFD training for the PPF Board, including external presenters from The Pensions Regulator and MSCI	
Investment Committee Responsible for developing and maintaining the PPF’s RI and stewardship principles and policies (including climate-related ones).	Conducted annual review of our Minimum Standards, Climate Change and Stewardship policies	Presented an update to the Committee on our progress for assessing Diversity and Inclusion practices across our external managers. Provided quarterly reviews of ESG reporting on RI and climate-related activities, metrics and progress used in TCFD and UK Stewardship Code reporting			
Sustainability Sponsorship Group and Internal Working Groups Provide strategic input to steer and define what success looks like as we implement the PPF Sustainability Strategy.	Risk and Strategy working group supported the Chief Operating Officer (COO), as executive sponsor of the Sustainability Strategy, by verifying that operational risk exposures related to sustainability are identified, recorded and managed within agreed parameters	Board risk appetite has been extended to include maintenance of sustainable and resilient operations	Provided quarterly risk profile reports to the Executive Committee (ExCo), addressing all operational risks, including any that may have climate change factors as a contributory cause	Received approval to adopt a travel booking platform in 2025/26 to improve management of carbon emissions related to PPF business travel	Worked with the facilities managers of both PPF leased offices to ensure timely water, waste and electricity data is provided to support our own PPF sustainability data submissions
Investment team Led by the CIO, responsible for ensuring adherence to the RI framework, stewardship principles and associated policies across all asset classes whether internally or externally managed.	Discussed specific investment opportunities with the ESG & Sustainability team and conducted analysis of ESG risks and opportunities to inform investment decision-making	Presented updates at Investment team meetings on ESG issues, including updates on companies on our Climate Watchlist and how our managers are dealing with the energy transition	Leveraged internal investment expertise to support PPF responses to regulatory consultations and external best-practice working groups during the year	Applied specific ESG objectives for each investment desk within their personal performance targets	
ESG & Sustainability team Part of the Investment team, helping to oversee implementation of the RI framework, monitor investments for ESG risks and opportunities, engage with portfolio managers, external managers and our stewardship services provider.	Developed and rolled out PowerBI portfolio ESG analysis tools for our internal portfolios managers	Created a quantitative manager scoring model to ensure consistency and stability of manager analysis	Collaborated with the Internal Communications team to organise a Lunch & Learn session for all employees to address climate change myths and the basics of sustainability, and a separate line manager training session on sustainability	Worked with our Office Services team to introduce new food waste bins in both PPF leased offices, ensuring collected waste is sent to an anaerobic digestion plant to generate green energy	Presented the PPF’s transition readiness assessment to our ExCo, based on a thorough internal gap analysis, utilising the Transition Plan Taskforce (TPT) for Asset Owners
Asset manager and service providers (e.g. Equity Ownership Service (EOS) at Federated Hermes for stewardship services provision) Follow the PPF’s RI framework and Stewardship Policy, undertake ESG integration and issuer engagement then report regularly and transparently.	Asset managers Reported progress to us on their engagement with companies on our Climate Watchlist as part of quarterly disclosure	Took part in collective engagement with an asset manager invested in a global energy company	Continued to encourage our Private Markets managers to provide annual ESG data on portfolio companies to the eFront® ESG Data Service project	Service providers Engaged with EOS on policy updates, public consultation responses and setting future strategic engagement priorities, particularly in relation to voting policy changes	

Overview of the Pension Protection Fund continued

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

Our values

We believe that establishing the right values, culture and accountability is key to delivering the best outcomes for our stakeholders. Our 'ICARE' values define how we conduct business across the organisation. They are integrated into every employee's performance development review and annual goals, as well as at a directorate and overall organisation level.

Our 'ICARE' values are also at the heart of the PPF Sustainability Strategy, which reflects our ambition to drive the growth of a sustainable pensions industry.

Managing conflicts of interest

Conflicts of Interest Policy

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

Recording conflicts

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

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

Conflicts and externally-managed assets

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

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

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

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

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

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

Overview of the Pension Protection Fund continued

Stakeholder engagement

Keeping our stakeholders updated

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

- We regularly update our website with our **latest voting and engagement activities** and our responses to industry and government consultations
- We publish **annual RI reports and provide ESG and sustainability disclosure** in our Annual Report & Accounts
- Until this year, we have published a separate dedicated **Climate Change Report to align with Task Force on Climate-Related Financial Disclosures** (TCFD) recommendations. This year, we have chosen to combine that information within this report
- Our Head of ESG & Sustainability, Stewardship Manager and other senior members of the Investment team **frequently speak at industry conferences and events**.

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

Taking action

Reducing the PPF levy

We have decided not to charge the PPF levy for 2025/26, saving £45m for UK defined benefit (DB) pension schemes and benefiting 5,000 DB schemes and their sponsoring employers.

The introduction of the Pension Schemes Bill includes measures which give us greater flexibility to set the levy. They enable us to move to zero levy while preserving our ability to reinstate the levy in future if it were ever needed.

Recognising the Bill’s parliamentary progress, and the broad support among policy makers and stakeholders for this change, our Board decided to move to a zero levy for 2025/26.

This marks a significant milestone in our journey to financial self-sufficiency. Our robust financial position means we can take this decision and remain confident in our ability to pay current and future members’ benefits.

Findings from our annual stakeholder research suggest that the PPF continues to be viewed as a well-managed, efficient and forward-thinking organisation, with the skills and capabilities to act as a role model for the rest of the pensions and investment industry.



Taking action

Internal audit of the Responsible Investment Report

During the year, the PPF’s Internal Audit team undertook an assessment of the processes involved in producing our Responsible Investment Report (now part of this PPF Sustainability Report). Responsible Investment reporting is one of our means to instil and maintain trust and confidence in the PPF, demonstrating how we are achieving responsible investment business goals and the authenticity of our efforts.

The PPF’s Internal Audit function provides assurance by independently evaluating the governance, risk management and internal control processes. Internal Audit’s independence is maintained primarily through their functional reporting line into the Risk and Audit Committee (RAC) who provide oversight of internal audit activities. As the relevant governing bodies, both the Executive Committee and RAC receive the final audit reports for transparency.

The Internal Audit function operates a three-year strategy taking a risk-based approach to prioritise risks that can significantly impact an organisation’s objective. As such, different aspects and processes related to Responsible Investment will be audited on a cyclical basis. The governance framework and reporting of Responsible Investment was included in the 2024/25 audit plan driven by the potential risks associated with inaccurate reporting, non-compliance with industry reporting standards and lack of transparency such as greenwashing.

The Internal Audit team met on several occasions with the Responsible Investment team and other internal stakeholders responsible for contributing content to the report. The audit identified effective controls in place over the governance arrangements with clear roles and responsibilities. Following feedback from Internal Audit, we will continue to strengthen our processes to demonstrate and evidence control effectiveness.

Investment Stewardship

Continuing to improve our understanding of climate risks

Progress made during the year

ESG Dashboards: Portfolio level ESG dashboards have been created for our liquid asset classes utilising PowerBI.
→ See page 15

Manager Oversight: Developed quantitative manager reporting scoring to ensure continuity of approach and ease of comparison.
→ See page 14

Voting Activity: Expanded and refined voting policies to reflect ESG priorities, with improved transparency on voting outcomes.
→ See page 30

Collaborative Initiatives: Participated in industry-wide collaborations to amplify influence on systemic ESG issues.
→ See page 26



As we reflect on the year and what lays ahead in these challenging times, we take the opportunity to speak with Barry Kenneth, Chief Investment Officer, on the PPF’s stewardship priorities and recent activities.

Q What stewardship activities stood out in the past year?

CIO: Our priorities are centred on enhancing the **effectiveness, transparency and impact** of our stewardship activities. In 2025, we retained our signatory status to the UK Stewardship Code and enhanced our internal reporting to improve transparency, focusing especially on climate risk, governance standards, and diversity practices. We engaged with our managers on transition planning and physical risks, reflecting our evolving ESG priorities.

We made significant progress by formalising our **quarterly stewardship reviews**, which allow us to assess how our external managers are engaging with investee companies on key ESG issues. These reviews are now a core part of our oversight process.

We’ve also expanded our use of **diversity and inclusion questionnaires** and **transition plan assessments**, helping us better understand how managers are preparing for climate-related risks and opportunities. This supports our broader goal of encouraging science-based targets and credible Net Zero pathways.

None of this happens without a strong, coordinated Investment team all pulling in the same direction. Being shortlisted for a variety of industry awards serves as external recognition of our progress.

Q Private markets are playing a larger role in institutional portfolios. How is ESG evolving in this space, and why is it important to the PPF?

CIO: ESG in Private Markets has matured significantly, and that’s a welcome development. Historically, private assets – like infrastructure, real estate and private equity – were seen as less transparent, but that’s changing.

At the PPF, we’ve made ESG integration a core part of our **due diligence and ongoing monitoring** processes. We assess managers not just on financial performance, but on how they manage environmental risks, social impact and governance standards.

This matters because Private Markets often involve long-term, illiquid investments. If ESG risks aren’t properly managed, they can compound over time. Conversely, strong ESG practices can enhance value – whether through energy-efficient buildings, inclusive employment practices, or resilient infrastructure. We’ve seen firsthand how ESG can be embedded into private investments to deliver both financial and societal returns.

Looking ahead, we’re pushing for **greater transparency**, better **data quality** and more **credible transition plans** in Private Markets. Stewardship doesn’t stop at listed equities – it must extend across all asset classes if we’re serious about long-term sustainability.

Q Collaboration is often cited as key to effective stewardship. How does the PPF engage with peers and industry?

CIO: Collaboration amplifies our stewardship impact. We participate in targeted initiatives with industry groups on systemic risks such as climate change and biodiversity loss. We also contribute to policy consultations and share best practices with other asset owners. This collective approach helps shape a more sustainable investment landscape and supports our long-term objectives. Our collaborative work with other investors in water companies stands out to me as a good example of investor collaboration. The initiative seeks to address industry wide issues such as biodiversity, affordability and climate resilience.

Q What are your stewardship and investment priorities going forward?

CIO: Looking ahead, we’re committed to improving the **quality and consistency of ESG data** across asset classes. We’ll continue to refine our stewardship frameworks to ensure they remain fit for purpose, and we’ll push for greater **real-world outcomes** – not just better disclosures, but measurable progress on climate, governance and social equity, utilising existing tools such as our Climate Watchlist and collaborative engagement efforts.

Ultimately, our stewardship priorities reflect our long-term mission: to protect members’ futures by investing responsibly.

Investment Stewardship continued

How our purpose and values feed into effective stewardship

In terms of investment stewardship, our purpose is to deliver the best financial results we can for our members. We believe this goes hand in hand with Responsible Investment for two reasons:

1.

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

2.

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

Our Responsible Investment framework (RI) puts these core beliefs into practice. Read about our [RI strategy](#) and our [RI framework](#) to learn more about our beliefs, aims and approach to being a responsible investor.

Our investment objectives

The PPF investment portfolios are managed with an integrated approach to funding and investment. The Board sets a risk budget for the Investment team, which helps to determine our Strategic Asset Allocation (SAA). We seek to deliver investment performance consistent with this risk budget, implementing any necessary changes to our portfolio to maintain financial resilience.

Our investment approach

Since 2023 we have structured our investment portfolio into two portfolios to meet separate funding requirements:

Matching Portfolio: Our Matching Portfolio is designed to meet the pension payment needs of current members. To manage the risks of fluctuating interest and inflation rates, it holds assets that behave in the same way as our liabilities as and when these rates change. These assets include Government Bonds, Derivatives, Cash and Hybrid Assets with Illiquidity characteristics (HAIL) assets.

By applying a well-managed, conservative liability-driven investment (LDI) strategy, we look to ensure that interest rate and inflation risks within our liabilities are fully hedged.

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

Changes to strategic asset allocation

Through the year we ran a risk tolerance analysis across both our Growth and Matching Portfolios. The main deviations throughout the year were consistent to the previous year, namely:

- Underweight positions relative to the benchmark in Global Real Estate and Global Corporate Credit
- Overweight positions relative to the benchmark in Private Credit and Short Duration Credit.

During the year, we performed a detailed review of our SAA and are currently transitioning the portfolio to the new allocation. At a high level we have reduced our exposure to Public Equity, Emerging Market Debt and Farmland & Forestry, increasing our exposure to Infrastructure Equity and Short Duration Investment-Grade Credit.

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

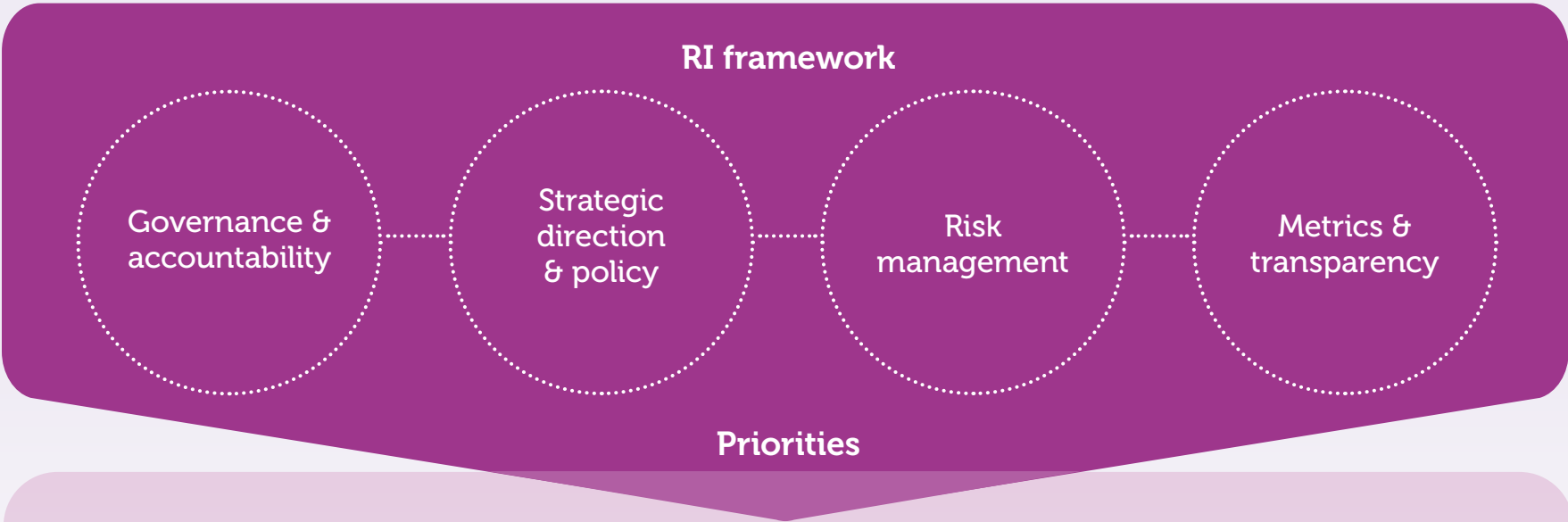
Industry recognition for our Investment team

- We won the Fixed Income Award at the Investments & Pensions Europe (IPE) Awards 2024
- Private Equity portfolio manager Courtenay Durbidge was shortlisted for Investment Manager of the Year at Professional Pensions' Women in Pensions Awards 2024
- Analyst Zoe Innerarity was shortlisted for Young Achiever of the Year at Professional Pensions' Women in Pensions Awards 2024.

→ See page 04 for recent awards for our ESG activities

Our approach to Responsible Investment (RI) and stewardship

Our RI framework puts our core beliefs into practice:



Climate Change

Climate & sustainability policies & strategies

Climate Change & Transition

Climate risks assessments & sustainability reporting

Climate opportunities

Stewardship

Engaging with fund managers

Engaging with issuers

Voting of shares

Collaborative engagement & public policy

Reporting

Internal ESG dashboards

Investment Committee & Board reporting

External RI reporting

External climate reporting

Investment Stewardship continued



How the PPF portfolio is managed

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

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

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

Geographically, nearly two-thirds of the portfolio is invested in UK assets, which is largely accounted for by our internally-managed UK LDI and Credit assets as well as our externally-managed UK Real Estate and Infrastructure allocations. The next largest regional allocations are to North America and Europe ex-UK – see chart, on page 01.

Measuring our performance

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

Considering the needs of beneficiaries in our stewardship process and activities

As mentioned, we have built our Responsible Investment and stewardship processes to safeguard sustainable returns in line with the long-term nature of our liabilities and our investment horizon. We also consider other stakeholders such as our levy payers when seeking to generate these returns in a sustainable manner. We consult with our levy payers on an ongoing basis regarding our funding strategy, as discussed on page 08.

Embedding ESG considerations across the portfolio

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

Investment Stewardship continued

Analysing climate transition of private assets

We seek to monitor how well the assets we invest in are transitioning to a Net Zero global economy. We do this using information from MSCI for Public Market assets but there is nothing comparable for Private Markets.

We have therefore developed a simple ‘Transition & Sustainable’ taxonomy to classify assets. Last year, we started by classifying our Infrastructure book, which accounts for approximately 10 per cent of our Growth Portfolio. We chose Infrastructure as it is critical to the transition to Net Zero and presents significant investment opportunities. We classified all assets in this book after analysing internal and external manager information and views. This year, we expanded this project to cover Real Estate, UK Private Credit and Private Equity. We expect to widen this review in future years to cover more asset classes. Please see page 60 for more information.

Setting exclusions

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

Engagement and voting

As detailed in our full [Stewardship Policy](#), we strive to apply our stewardship activities across our entire investment portfolio. We amend our approach depending upon the asset class or strategy, how directly we’re invested in it, and the level of control we can leverage. We believe in engagement as a path for verifiable and tangible impact regarding material stewardship issues. We are strong advocates of supporting companies, governments and other issuers in building and sustaining good governance and progressing their practices on environmental and social matters. In order to incentivise issuers, we are committed to transparent voting, following a robust assessment of a company’s practices. See more on our approach to voting on page 29 onwards.

Leading on RI standards

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

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

Taking action

Sharing private assets best practice

We have been investing in Private Markets for many years. However, the increased attention being paid to private assets by other asset owners has presented an opportunity to share our knowledge and best practices on stewardship and climate disclosure in this area more widely. We have participated in several investor roundtables to share our perspective with other asset owners in the UK and expect this work to continue throughout 2025/26.

Across all asset classes, we expect our external asset managers to influence and engage issuers on material ESG factors, and update us on their actions. This includes engagement, taking part in collaborative industry initiatives, and being transparent about voting where we have ballots. We regularly carry out in-depth reviews of our external managers’ stewardship activities to assess how they’re engaging with companies and issuers on our behalf. We particularly scrutinise their activities in relation to our key sustainability themes such as climate change, human and labour rights, corporate reporting, and executive remuneration – see page 14.

Our key ESG themes

Environment

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



Social

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



Strategy, risk and communication

- Risk management
- Corporate reporting
- Business purpose and strategy



Governance

- Shareholder protection and rights
- Executive remuneration
- Board effectiveness



Investment Stewardship continued

Ensuring our external agents are aligned with our approach

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

Oversight of our stewardship services provider

We continue to outsource stewardship activities for our segregated public issuers to EOS, part of Federated Hermes, to ensure that our shares are voted cost-efficiently and there is proper engagement with companies where ESG concerns arise. We carry out oversight of EOS’s engagement services for both our external segregated portfolios and internally managed assets. EOS also provides voting recommendations to us for our segregated Equity holdings in line with its published corporate governance principles. However, we are always in control of the vote and have the ability to exercise our voting rights on segregated holdings in line with our own policy and principles.

Taking action

Addressing stewardship misalignment

Since 2023 we have been part of a predominantly UK asset owner group, called the Asset Owner Council, that has sought to understand and try to address the misalignment of interests between asset owners and investment managers, particularly regarding Climate Change & Transition. The 2023 proxy voting season revealed that some investment managers had not challenged oil and gas companies backtracking on climate commitments through shareholder votes, despite the underlying asset owners’ recognition that unaddressed climate risks can translate into investment risks.

This discrepancy highlighted the need for dialogue between asset owners and managers. Research by Prof. Andreas Hoepner, using voting data from the group of asset owners and many large investment managers, also revealed:

- **Misalignment trends when voting at oil and gas majors**, particularly in the US
- **Voting rationales with patchy and generic commentary**, highlighting that some managers may regard voting and engagement on ESG matters as mutually exclusive
- **Inconsistent engagement styles and approaches** on a topic that is deeply systemic.

The research identified potential reasons for this inconsistent behaviour, including cultural differences, resource allocation misunderstandings, fiduciary duty conceptualisation, stewardship process disagreements and financial conflicts of interest.

Following on from this study, closed-door meetings have been held with investment managers and a statement on Climate Change & Transition was published to the investment management industry to set out a common list of agreed expectations in relation to this area. We supported this initiative throughout its development. However, we were pleased to see that the research highlighted the strength of our own investment managers’ approach to engagement with oil and gas companies, adding independent rigour to our internal assessments of our external managers when it comes to alignment with our stated RI and stewardship goals.



Investment Stewardship continued

 Taking action



ESG dashboards

Over the year, the ESG & Sustainability team has collaborated closely with our Investment team colleagues and the Development and Test team to produce portfolio-specific ESG dashboards.

These two-page, PowerBI-driven dashboards present core ESG and climate metrics relevant to each portfolio, with detailed, company-specific look-throughs available via underlying datasets.

Following several rounds of feedback from our internal portfolio managers, these dashboards are now fully operational for our Public Markets portfolios. See Appendix M for an example of a dashboard for our Equity Quantitative Portfolio.

This initiative aligns with a broader trend among leading asset owners, who increasingly view ESG integration not merely as a compliance requirement, but as a fundamental driver of long-term value creation and risk management. Our ESG dashboards directly address the growing demand for accessible, visually intuitive tools that quickly enable investment teams to identify ESG risks and opportunities at both the portfolio and issuer level. These insights support more informed investment decisions and active stewardship.

We believe these dashboards are genuinely industry-leading, as evidenced by multiple requests from UK and European asset owners to learn more about our approach. Notably, peers have highlighted the value of such tools in enhancing internal accountability, external reporting and targeted engagement. We plan to roll out similar dashboards for Private Markets portfolios, maintaining transparency and analytical depth while adapting to the unique data challenges of those asset classes.

This evolution underscores our commitment to continuous improvement and leadership in ESG integration across all investment strategies.

Investment Stewardship continued

How we appoint managers

Partnering with our external managers

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

Our manager selection process

Our initial manager selection process includes a review of current practice through disclosed materials and an ESG questionnaire. This is a scored, mandatory list of questions that prospective asset managers must answer on a pass/fail basis in order to progress through the tender process. The ESG questionnaire comprises several sections including: Governance & Alignment; Diversity & Inclusion; RI Policy & Strategy; ESG Incorporation; Integration & Risk Management; Stewardship & Active Ownership; and Reporting. Appendix F shows a sample list of questions within the Stewardship section of the questionnaire.

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

Our pre-funding and appointment process

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

Our minimum ESG and stewardship requirements of external managers

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



Case study

Emerging Market Debt: Manager engagement

Issue: Inadequate ESG disclosure process

This Emerging Market Debt manager has maintained a strong performance record and we were keen to explore working with them more closely. The desk manager identified early on in conversations that meeting our expectations for ESG disclosure could be an issue. We held calls with the manager firstly to hear about their existing processes and to understand the manager’s roadmap to improve ESG integration. We provided recommendations on data vendors that could assist them and supported them in the creation of a policy to detail how ESG factors are integrated into their investment process.



Case study

Private Credit: Manager engagement

Issue: Lack of ESG Policy prior to funding

This manager displayed a strong understanding of ESG risks and could provide numerous examples of how they consider and manage these risks in the investment process. However, they had no formalised policy or internal procedures surrounding the issues. After we shared public examples of policies and recommended a Private Markets ESG consultant, they presented us with a draft policy for review. We recommended additional governance processes relating to the oversight of the policy, which were implemented. The implementation and publication of an ESG policy has now allowed the manager to meet the PPF’s minimum expected standards.



Case study

Infrastructure: Manager due diligence

Issue: Manager succession planning

The ODD team refreshed their due diligence on an existing Infrastructure manager as part of the team’s ongoing monitoring programme. Whilst on-site, the team noted that the manager had not undertaken any formal succession planning exercises or identified succession plans for key individuals within the firm. Following our feedback, the manager held an initial workshop to formally document key roles and risks across the business and subsequently drafted a succession plan. Following the initial workshop, development plans have been produced to ensure knowledge is systematically shared and transferred. The manager has confirmed that this succession plan will be formally reviewed every year, under the oversight of its board.



Case study

Private Equity: Manager due diligence

Issue: Improving governance oversight

The ODD team conducted an operational due diligence assessment on a new Private Equity manager in 2024. This identified a small number of corporate governance risks, notably informal governance practices for committee meetings and a lack of formal representation from key non-investment leaders on certain committees. Following our feedback, the manager agreed to maintain minutes and action points for key committees and has formally added a senior non-investment leader to serve as a member on the firm’s operating committee.

Investment Stewardship continued

Our approach to engagement

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

How we engage

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

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

Given that we are an arm's-length body (ALB) of the UK government, there are specific considerations when it comes to engagement. These include ensuring that our communication is relevant to our responsibilities and does not stray into areas that are party political (or that could be misrepresented as being party political), and that it is carried out in a way that is justifiable on value-for-money grounds. We must also follow the guidance that is issued on the conduct of civil servants during a pre-election period, including making sure that activity isn't seen to compete with an election campaign for public attention.



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

Investment Stewardship continued

Engagement approach for assets managed internally

As explained earlier, we manage approximately half of our assets by value internally, the majority of which are in fixed income strategies. Industry-wide engagement with fixed-income issuers is still less evolved than for Equity, partly due to investors’ limited influence in many areas. However, engagement is developing and its importance is becoming increasingly appreciated. We take a variety of approaches to engagement with fixed-income issuers, largely depending on the size of our investment, maturity of the fixed-income asset and whether the issuer is corporate or sovereign/quasi-sovereign. During 2024, we also brought a proportion of our Equity portfolio in-house. This portfolio benefits from a combination of internal stewardship oversight and wider external engagement provided by EOS.

Engaging with UK Gilt assets

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

Engaging with UK Credit and Strategic Cash assets

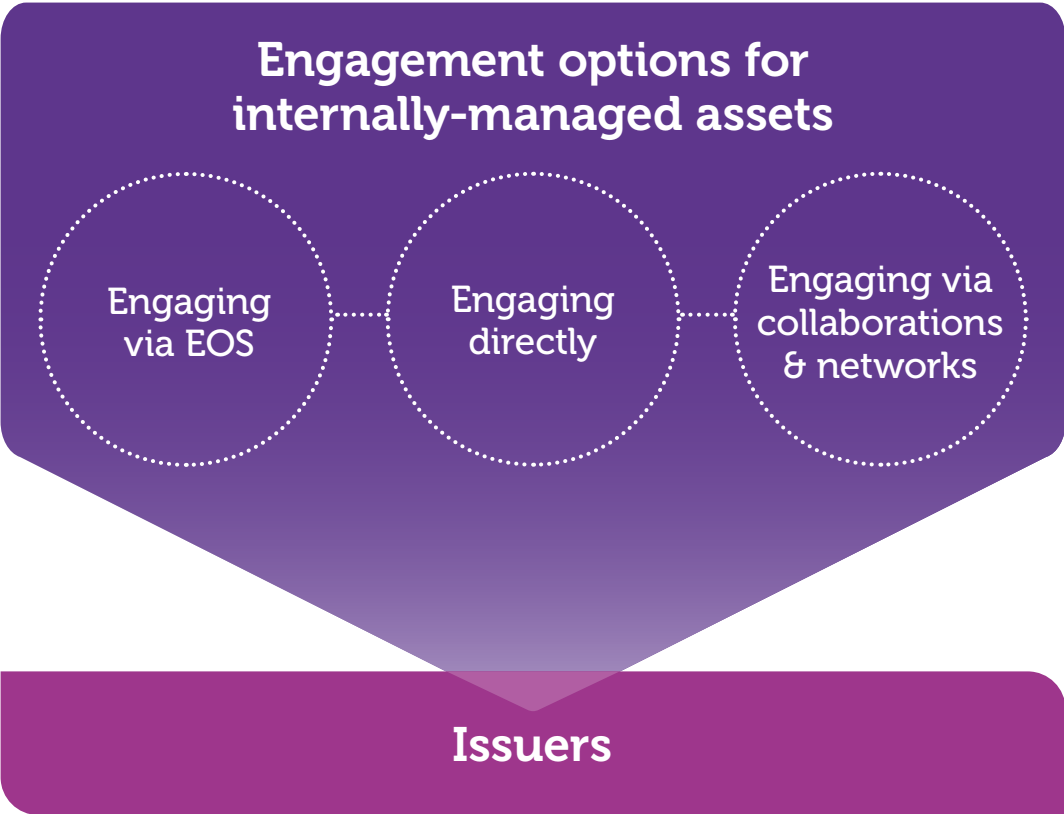
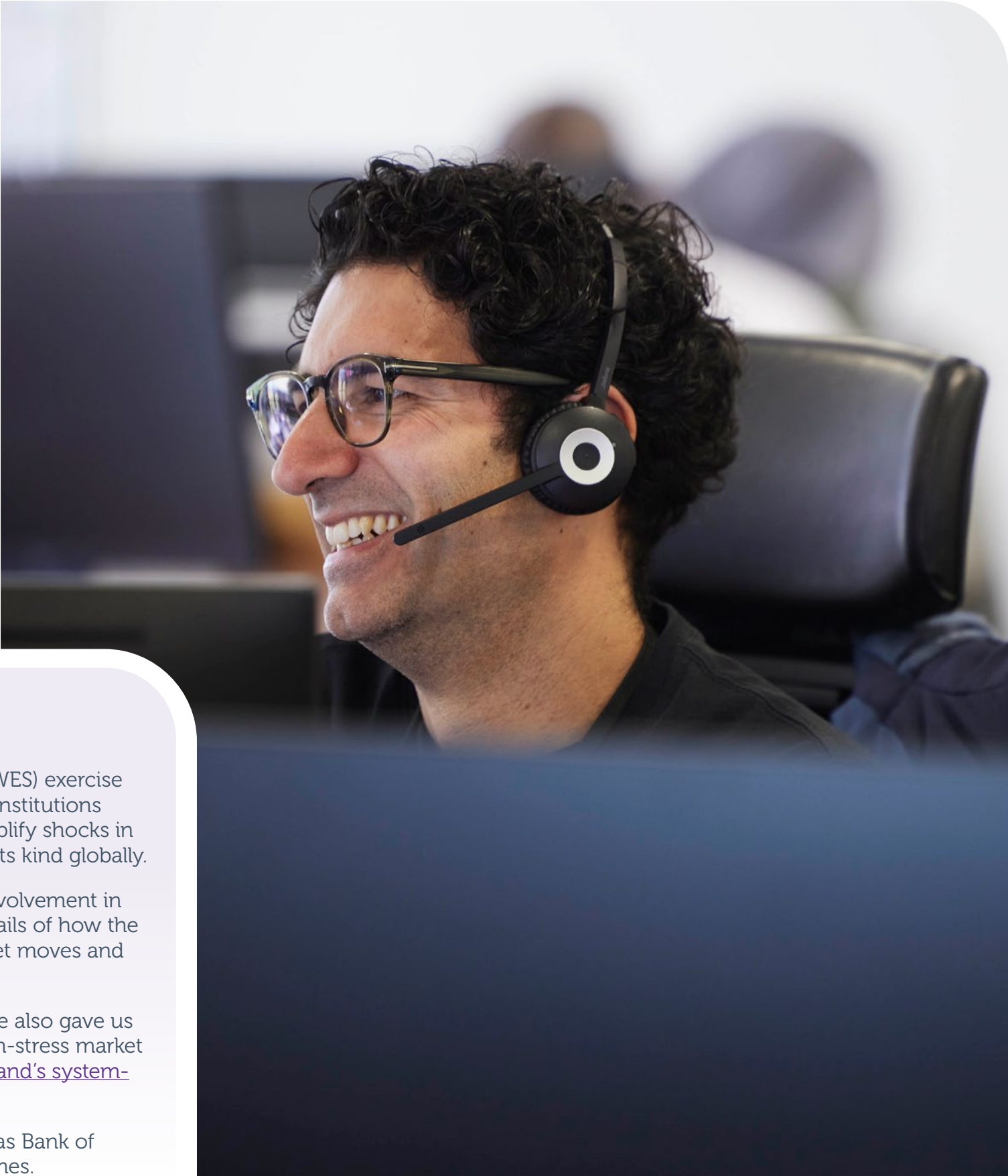
We take a nuanced approach to engagement with our UK Credit strategy, given that the book is invested in both Public and Private Credit issuers. These are generally longer-duration assets, so differ from our Strategic Cash book, which is much shorter in duration.

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

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

Engaging with Private Credit assets

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



Taking action

Taking part in the System-Wide Exploratory Scenario

The Bank of England recently conducted a System-Wide Exploratory Scenario (SWES) exercise to improve its understanding of the behaviours of banks and non-bank financial institutions during stressed financial market conditions and how those behaviours might amplify shocks in financial markets that are core to UK financial stability. It was the first exercise of its kind globally.

Having participated in the first round of SWES in June 2023, we continued our involvement in the second round in June – July 2024. This involved providing the Bank with details of how the PPF portfolio would be affected by a specific hypothetical scenario of large market moves and what investment decisions we would take as a result.

As well as providing vital insight to help support UK financial markets, the exercise also gave us a valuable opportunity to test our investment decision-making capabilities in high-stress market situations. The Bank’s final report on the SWES exercise is here: [The Bank of England’s system-wide exploratory scenario exercise final report | Bank of England](#)

We continue to engage on a bilateral basis with other parts of government such as Bank of England and Debt Management Office as part of their market outreach programmes.

Investment Stewardship continued



Case study

Strategic Cash:
Credit issuer engagement

Sector: Financials
Issue: Climate transition plan

Background: The company, a multinational financial institution, announced its ambition to become a Net Zero bank by 2050. This commitment included developing a comprehensive plan with clear timelines for intermediate targets to reduce emissions and criteria to limit risks associated with financing high-carbon businesses. Enhanced reporting on progress towards real-world emissions reductions was also a key objective.

Action: In 2020, the company engaged with stakeholders, led by its global head of sustainable finance, to address concerns about its financial exposure to coal financing. At its 2021 AGM, the company proposed its own climate resolution, committing to phase out financing for coal-fired power and thermal coal mining by 2030 in the EU/OECD, and by 2040 in other markets. The company continued to update its sectoral decarbonisation pathways and energy policies, reflecting new commitments to oil, gas and coal financing. In early 2024, the company released its first Net Zero transition plan, detailing its approach to supporting sector transitions and embedding Net Zero into its business operations.

Outcome: The bank released its first Net Zero transition plan in early 2024, including targets to reduce financed emissions from oil and gas by 34 per cent by 2030 compared to 2019 levels. The transition plan provides transparency for external stakeholders, facilitating ongoing engagement and highlighting areas for further progress. The company remains focused on implementing its transition plan and refining its overall approach to achieving Net Zero emissions.

Case study

UK Credit:
Credit issuer engagement

Sector: Utilities
Issue: Executive pay

Background: In 2018, the company was approached to introduce a climate metric to its executive remuneration incentive plans as part of the Climate Action 100+ (CA100+) initiative. Stakeholders pushed for the integration of near-term decarbonisation targets into remuneration. By 2020, the chair confirmed that a climate metric would be added by the 2021 AGM. This was followed by a joint CA100+ letter to the chair and the board to encourage progress.

Action: Around the 2021 AGM, the company included climate-related metrics in its short-term incentive plan (STIP), focusing on reducing greenhouse gas emissions from electricity production. Stakeholders encouraged the company to introduce similar metrics to the long-term incentive plan (LTIP). From 2022 to 2024, climate-related metrics were gradually incorporated into both STIP and LTIP. Stakeholders continued to push for greater clarity on the quantitative criteria used and their relation to vesting thresholds, communicating their expectations ahead of AGMs.

Outcome: At the 2022 AGM, two climate-related metrics were introduced to the LTIP: increasing the proportion of renewable capacities and reducing CO₂ from power generation. In 2023, stakeholders requested disclosure of all thresholds for the climate-related metrics in both STIP and LTIP. By 2024, the company expanded its climate-related metrics to include its gas distribution business in LTIP too. Stakeholders received reassurances on how these metrics are tested and continued to encourage full disclosure in line with best practices.

Investment Stewardship continued

Engagement approach for assets managed externally

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

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

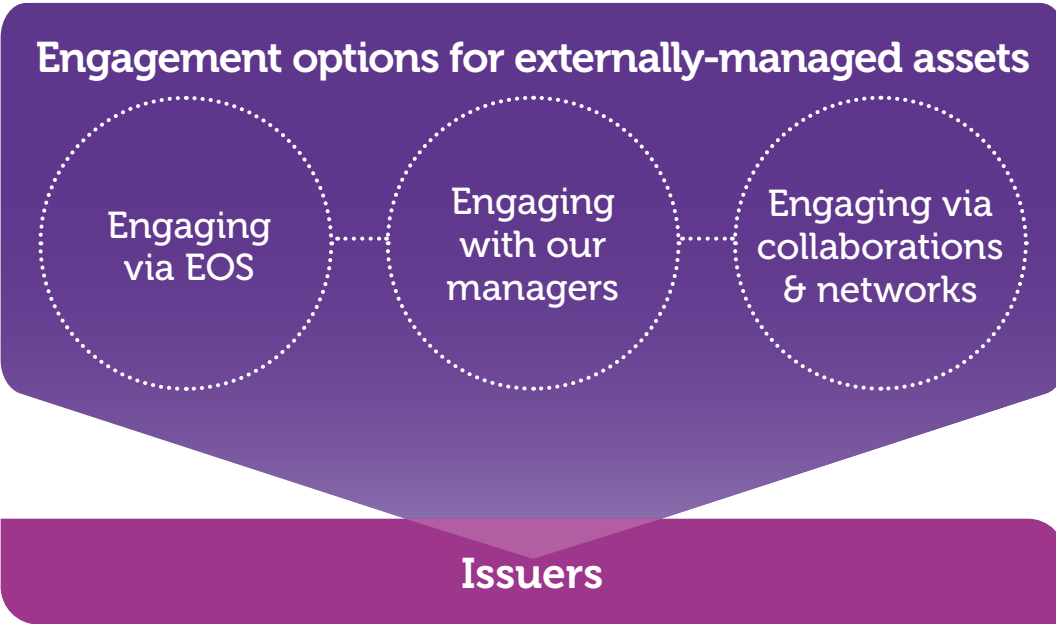
How we engage with Public Equity issuers

Engagement with our Public Equity issuers depends on the mandate construction. For segregated Equity portfolios, EOS engages on our behalf, and we have full access to the EOS database and reports for monitoring the progress of these engagements. We also have the opportunity to join specific meetings where appropriate. Our internally-managed Equity portfolio also benefits from EOS engagement. See page 24 for how we engage with our issuers and progress on our Public Equity engagement.

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

Ongoing collaboration with external managers

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



Case study

Equity issuer engagement

Sector: Semiconductor
Issue: Climate change

Background: The company, a leading player in the memory chip industry, was identified by the manager as a prime candidate for engagement due to its significant market share and support for climate action and greenhouse gas emissions disclosure. Despite its cooperation in transitioning away from fossil fuels, the company continued to support the use of unabated liquified natural gas (LNG) and had limited engagement with climate change policy in its home market of South Korea. Initial engagement focused on Scope 1 emissions, supplier and physical risks, and the extent and detail of the company’s disclosures.

Action: Engagement began in late-2023, led by the manager’s Head of Asia Investment Stewardship and Active Credit analysts. Initial conversations with the company’s ESG specialists revolved around its ESG commitments, actions and challenges in the renewable energy transition, including setting a methodology for calculating Scope 3 emissions. The external manager’s team shared their evaluation of the company’s ESG performance, pushing for further disclosures on physical risks and supply chains, and challenging the company’s path to reach its Scope 1 and 2 emission reduction goals.

Outcome: The engagement has been positive so far. Following the initial conversation, the company held an ESG seminar to discuss its 2023 TCFD report. The company has been receptive to the manager’s input, confirming its intention to increase the depth of analysis and disclosure in physical and supplier risks. It also committed to taking a leadership role in climate advocacy and developing a calculation methodology for Scope 3 emissions. More detailed disclosures are expected in future.

Case study

Equity issuer engagement

Sector: Insurance
Issue: Climate change

Background: Following the disposal of its Netherlands insurance activities, the company transformed into an international insurance and asset management entity. With over 99.5 per cent of its insurance business outside Solvency II jurisdictions, the company decided to redomicile in Bermuda under the Bermuda Supervision Authority. This move required shareholder approval at an EGM on 30 September. Concerns arose regarding the new regulatory framework’s impact on shareholder rights and the company’s capital position, including the lack of pre-emptive rights for existing shareholders, and the absence of any shareholder approval requirement for share buybacks or annual final dividend payments.

Action: Ahead of the EGM, the company engaged with stakeholders to address concerns about the weakening of shareholder rights under the proposed redomicile. Meetings were held with the CEO and management team, including discussions with global proxy advisory firms, that recommended voting against the proposal. Our external manager highlighted their concerns and pushed for enhanced shareholder rights. Follow-up meetings were conducted to discuss potential changes to the proposals.

Outcome: The company announced amended proposals to provide enhanced shareholder rights that align more closely with previous provisions, especially around capital management authorities. This led both global proxy advisors to change their vote recommendations. Our external manager successfully pushed for improved shareholder rights and amended terms, resulting in the redomicile being overwhelmingly approved by shareholders with 98.7 per cent of shares voted in favour.

Case study

Equity issuer engagement

Sector: Oil & Gas
Issue: Emissions reduction plans

Background: The company, a prominent Italian integrated oil and gas entity, located primarily in Africa and Europe, is a leading operator in the refining and marketing of petroleum products in Italy, holding approximately 25 per cent of the retail market. The PPF assessed the financed emissions embedded in its investments and the company was added to our Climate Watchlist of high-emitting companies, prompting the relevant equity manager to engage with the company regarding its emissions reduction plans.

Action: The manager was able to organise a joint company meeting that the PPF team were able to attend in person. We were encouraged by the company’s commitments to short, medium, and long-term emissions reduction goals, which began in 2015 and that aim for carbon neutrality by 2050. This engagement was an opportunity to test that the company had credible initiatives in place to meet its goals (and was directing sufficient capital expenditure towards them) and that business operations were fully aligned with these commitments. It also allowed us to encourage the company to seek third-party validation for its emissions reduction goals.

Outcome: The company has made significant progress towards its emissions reduction targets, including implementing a new goal to achieve Net Zero emissions for its upstream business by 2030 and for the entire group by 2035. The company has maintained its targets, but our external asset manager remains vigilant about timelines being extended, given external challenges. The company has positioned itself to benefit from continued demand for its traditional business while investing in low-carbon offerings. We remain confident in its ability to achieve its long-term goal by 2050, but will monitor for any changes to interim goal timelines and continue to keep the company on our Climate Watchlist.

Investment Stewardship continued

How we engage with publicly listed Credit and other debt securities

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

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

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

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

Case study

IG Credit issuer engagement

Sector: Telecommunications
Issue: Environmental disclosure

Background: In the early era of telecommunications infrastructure, it was common practice to sheath telephone cables in lead. In recent years, environmental groups have raised concerns about pollution from these lead-clad cables and their potential impact on human health. In 2021, this particular company settled a lawsuit with environmentalists who claimed its cables were leaking lead into a large freshwater lake, a source of drinking water and a popular tourist destination. Although the company no longer owned the cables, it agreed to spend up to \$1.5 million to remove eight miles of lead-clad cables.

Action: In 2023, a media report highlighted the health impacts of lead contamination from these cables, causing the company’s stock price to plummet. The company paused its agreement to remove the cables to allow for further scientific testing. The manager’s Global and US Credit team engaged with the company to determine the extent of lead-clad cables in the network and remediation steps. The company confirmed less than 10 per cent of its 2 million miles of copper cabling is lead-clad, with most either buried or in conduit. The estimated cost to remove all lead-clad cables would be billions of dollars, but removal could be integrated into 5G upgrades, providing tax rebates.

Outcome: The company is working with the Environmental Protection Agency (EPA) to re-test lead pollution levels in the lake. It has also implemented comprehensive health and safety measures. The engagement confirmed the company’s commitment to addressing potential pollution from lead-clad cables and to disclosing ongoing information.

Case study

Sovereign issuer engagement

Sector: EM Sovereign Debt
Issue: Debt restructuring and governance

Background: In early 2023, Ghana defaulted on its external liabilities, prompting our external asset manager’s Emerging Markets Debt team to join the International Bondholders’ Committee in order to be able to engage on the issue and drive extensive governance improvements as part of debt restructuring negotiations.

Action: The asset manager engaged in extensive discussions with senior members of Ghana’s Ministry of Finance. They sought commitments to publish semi-annual reports on the aggregate external debt owed by the government and key public sector companies, including details on interest rates, maturities, principal amortisation schedules, and any external debt restructuring. Additionally, the manager pushed for the publication of all IMF financing staff reports and IMF Article IV surveillance staff reports. The importance of amending the Fiscal Responsibility Act in line with IMF recommendations was repeatedly emphasised, with assurances from the Ghanaian government to secure parliamentary approval for these measures following IMF technical assistance.

Outcome: The Ghanaian government agreed to the semi-annual debt disclosures and committed to releasing IMF reports, thereby exceeding standard market practices for sovereign issuers. This commitment is seen as a significant step towards sustaining economic and governance reforms and establishing credible fiscal and debt anchors. The asset manager subsequently continued to monitor the progress in amending the Fiscal Responsibility Act and other reforms aimed at enhancing energy sector sustainability, transparency, and improving revenue collections and expenditure controls ahead of the December 2024 general elections.

Case study

Absolute Return issuer engagement

Sector: Technology
Issue: Corporate restructuring

Background: The European headquartered company is a global IT services provider that entered 2024 in financial distress following governance failures, strategic missteps and leadership turnover. With significant gross debt and no access to traditional financing, the company faced a liquidity crisis that threatened its continuity. Despite its challenges, the company retained valuable assets and strong client relationships, particularly in cybersecurity and high-performance computing.

Action: The manager, leveraging deep familiarity with the company’s capital structure, identified a compelling restructuring opportunity. The manager formed a Debt Committee with other creditors, proposed a maturity extension, and ultimately led an innovative interim financing package secured by US assets. This move stabilised liquidity and positioned creditors to drive the restructuring. The manager also spearheaded governance reforms, resulting in the appointment of a new CEO and Chairman. A debt-to-equity swap and capital increase incentivised creditor participation and restored balance sheet viability.

Outcome: By early 2025, the company had successfully restructured its balance sheet, raised new capital and regained market confidence. Its stock traded above the capital raise price, and the company was no longer under financial stress.

Investment Stewardship continued

How we engage with Private Markets and illiquid or unlisted assets

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

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

Private Equity – Private Equity managers have a central role to play in the global transition to low-carbon energy, given their ability to invest in and support businesses across the energy value chain. We have seen an improvement in Private Equity managers’ ESG reporting in recent years with some strong examples of progress being presented at meetings.

Alternative Credit – Our Alternative Credit managers are less likely to have significant control or leverage with underlying portfolio companies as debt investors or lenders. However, we still expect them to engage where they do have access to management.

Sanjay Mistry, our Head of Alternative Credit, continues to serve on the UN-supported Principles for Responsible Investment (PRI) Private Debt Advisory Committee. In addition, he has joined the Institutional Limited Partners Association (ILPA) Open Responsible Investment Group.

We welcome opportunities for our senior investment team members to join or contribute to external RI initiatives, bringing deep practitioner knowledge to these groups. Sanjay also contributed to the [PRI’s Stewardship in Private Debt: A Technical Guide](#), released in July 2025.

Real Estate – Our Real Estate managers are highly advanced when it comes to evaluating and incorporating ESG risks and opportunities into investment strategies and reporting. Real Estate managers are often more advanced than other private markets in their ESG practices due to a combination of regulatory pressures, investor expectations and the sector’s intrinsic environmental impact. Real Estate activities contribute significantly to global carbon emissions and energy consumption. This makes ESG reporting especially critical for the sector.

Infrastructure – Our engagement with our Infrastructure managers has evolved significantly over the past few years. Projects such as the eFront® ESG Data Service and our in-house transition assessments have enabled us to hold detailed discussions with our managers and capture thorough analysis of our portfolios.

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

We continue to expect our Forestry assets to meet the highest international certification standards Forest Stewardship Council and/or Programme for the Endorsement of Forest Certification, which can be found on page 59. A small percentage is not certified, either because it is allocated to new planting sites (and the manager is expecting the area to be certified when planting is completed) or ownership restrictions prevent such certification.

This year, we again obtained carbon sequestration data from our Forestry managers. We again note that there remains a lack of industry standardisation on this data, which continues to hinder cross-manager comparisons and overall data aggregation. Despite this, we welcome the commitment of our Forestry managers to engage with us on this issue.

Case study

Private Equity company engagement

Sector: Healthcare
Issue: Initiating a climate strategy

Background: This year, one of our Private Equity managers engaged with a UK-based Healthcare company to implement a climate strategy that was important to secure contracts with a potential public sector client.

Action: The company, with the help of our manager, started to monitor emissions and set a Net Zero commitment and completed their potential client’s supplier assessment.

Outcome: The healthcare company completed the assessment successfully and secured the contract. It continues to monitor its emissions and is exploring options for a full decarbonisation plan.

Case study

Alternative Credit issuer engagement

Sector: Software
Issue: Margin reduction incentives

During the year, one company in our Alternative Credit portfolio agreed an ESG margin reduction incentive scheme, whereby investors in its Credit agree to a reduced margin on the yield they receive in return for the debt issuer achieving certain key performance indicators (KPIs).

These KPIs included an inclusive recruitment process, tracking of diversity statistics, increasing the ratio of female employees, completion of the manager’s proprietary cybersecurity assessment, and monitoring adherence to GDPR regulations. The company met three out of five KPIs and therefore was able to reduce the margin to be paid on its debt. This initiative has led to increased focus and better management of ESG risks over the life of the investment.

Case study

Real Estate fund engagement

Sector: Real Estate funds
Issue: Sustainability scoring

Background: GRESB (Global Real Estate Sustainability Benchmark) is an investor-led organisation that provides standardised and validated ESG data to capital markets, specifically for Real Estate and Infrastructure investments. Our manager for a Real Estate multi-manager fund engaged with an underlying fund that was facing challenges with poor GRESB score progression and minimal advancements in carbon, energy, water and waste collection.

Action: To address these issues and ensure adherence both to Net Zero Asset Managers (NZAM) commitments and TCFD reporting obligations, a meeting was held with the underlying fund management team. The manager presented a plan of action and agreed to collaborate with a sustainability consultant for a full gap analysis to better integrate data collection and performance into their investment process.

Outcome: By 2024, the fund manager had hired a consultant, completed a Net Zero Construction baseline, committed to developing a pathway to get to Net Zero, and established a robust process to enhance asset-level environmental data collection. This ongoing engagement aims to further improve sustainability practices, with additional updates expected in their 2025 sustainability reporting.

Case study

Infrastructure company engagement

Sector: Road networks
Issue: Managing weather-related costs

One of our Infrastructure managers has been engaging with a Road Network company to ensure that climate events such as extreme weather do not lead to unplanned additional spending. The company recently had to deal with pavements needing to be replaced earlier than planned due to heavy rainfall which has led to significant budgets overruns. To help prevent this in the future, the company is seeking advice on proactive maintenance strategies, such as using special surface treatments to reduce water retention in pavement structures after heavy rainfall.

Investment Stewardship continued

Engaging through our stewardship services provider

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

Latest activity and themes

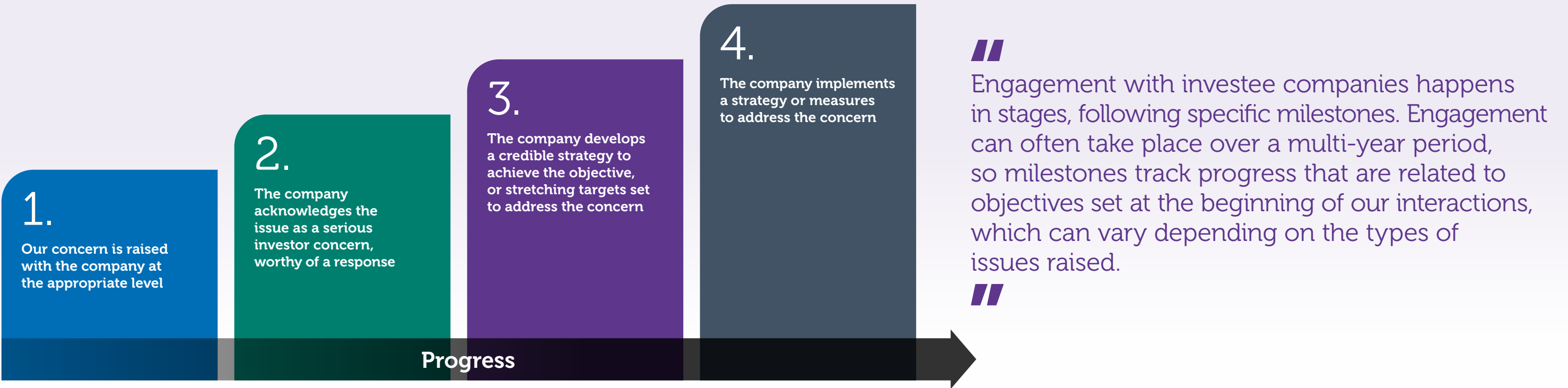
EOS focuses its stewardship activities on the issues that it believes have the greatest potential to deliver long-term sustainable wealth creation for investors and better outcomes for the environment and society. Currently it is focused on six outcomes: environmentally, these are Climate Change, Natural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

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

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



Summary of the EOS engagement milestone process



Investment Stewardship continued

Our issuer engagement progress and outcomes

Progress and outcomes from EOS-overseen assets

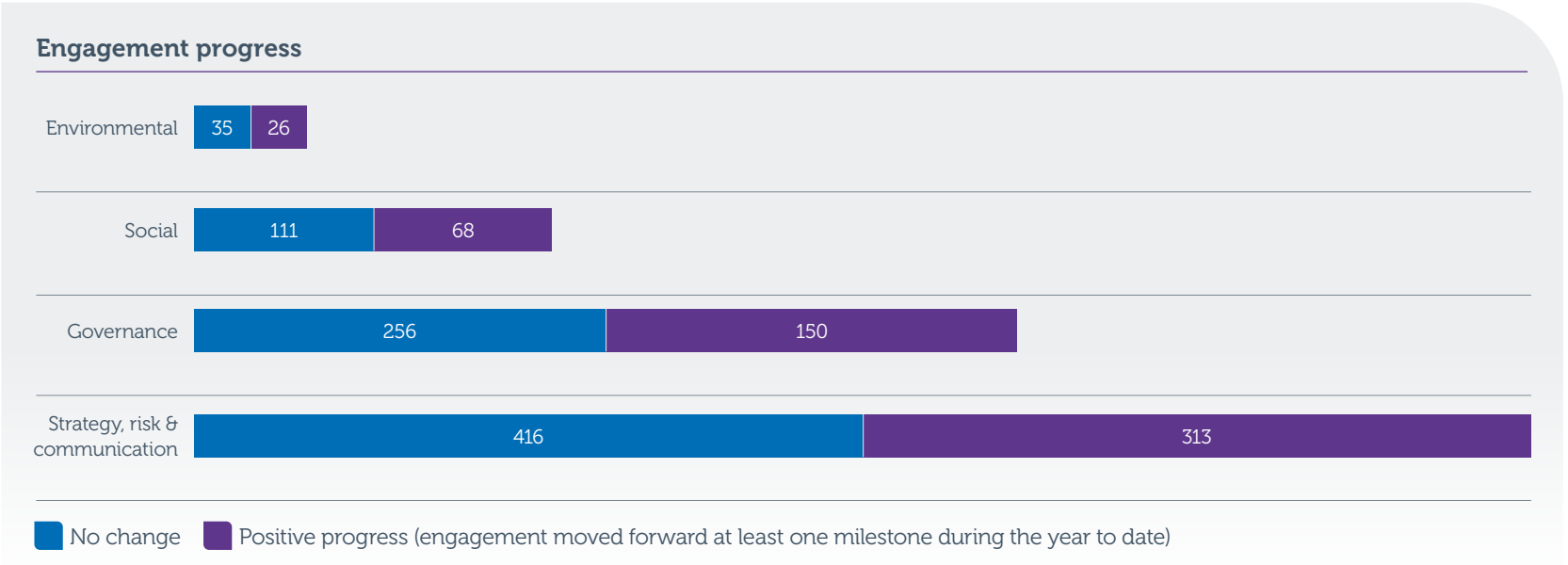
In 2024/25, EOS engaged with 697 companies that we invest in (667 in 2023/24) on 1,375 pre-determined objectives. Its holistic approach to engagement means that it typically engages with companies on more than one topic simultaneously.

Engagement by theme

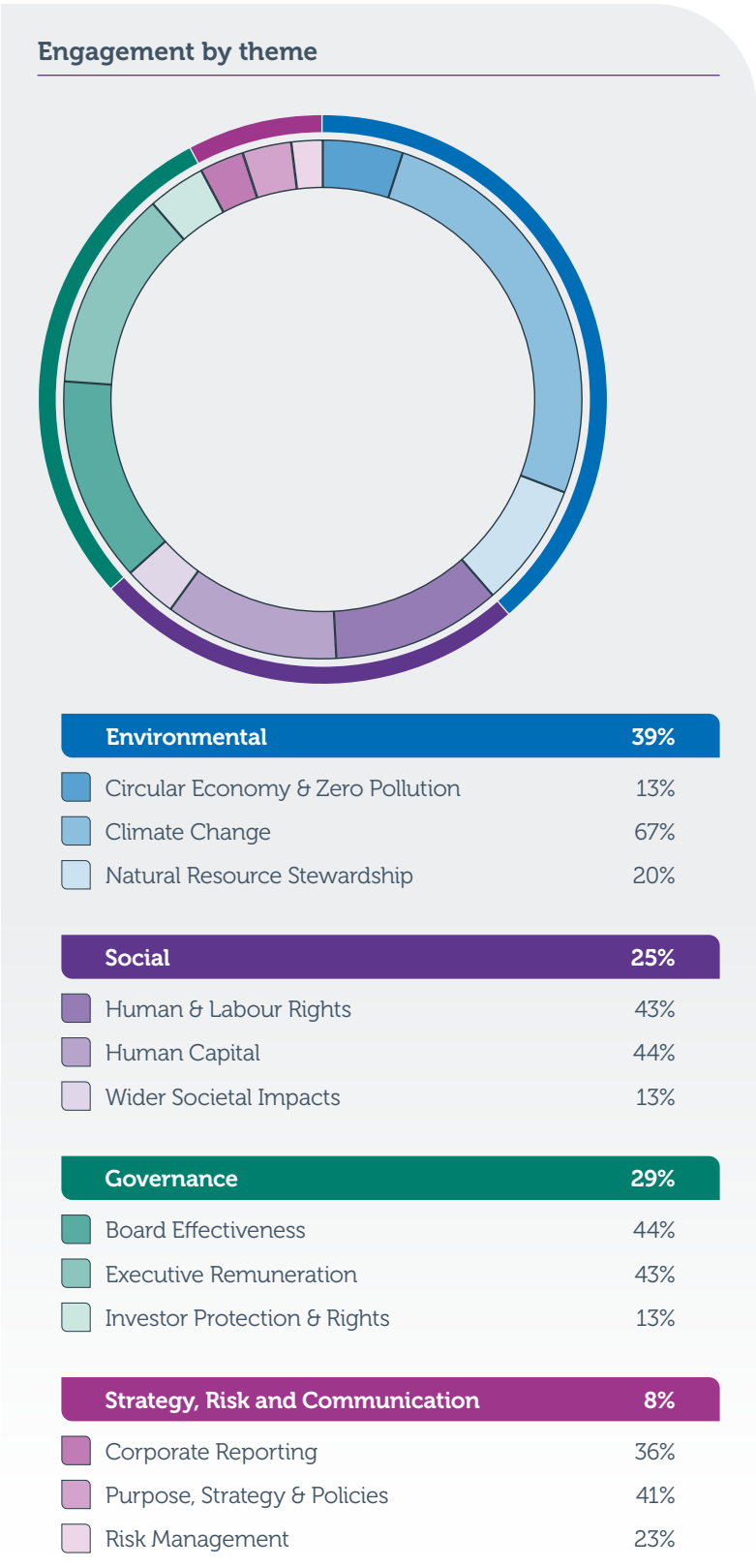
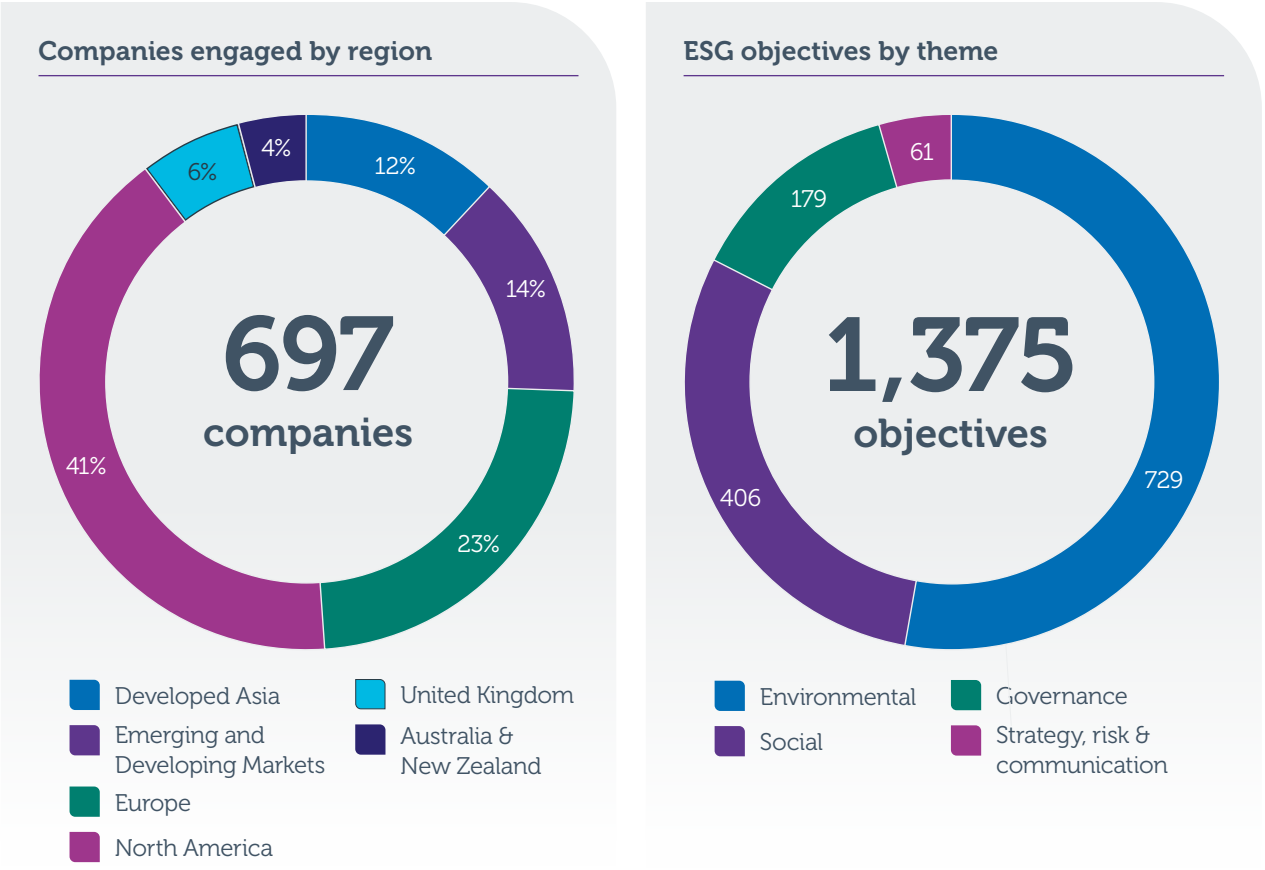
A summary of the issues and objectives on which EOS engaged with companies in 2024/25 is shown right.

Engagement progress in 2024/25

As shown on the previous page, EOS carries out engagement through a four-step ‘milestone’ process. This begins by raising a concern that EOS follows up diligently until it achieves a measurable outcome. The process can span quarters or even years. EOS had another strong year of delivering engagement objectives. During the year, progress on 557 of the outstanding objectives moved forward at least one milestone in the EOS process. The chart below describes how much progress has been made in achieving the milestones set for each engagement theme. During the year, 127 objectives were marked as complete and seven objectives had progress during the year but have since been discontinued. 255 were new objectives established during the year. Of the 818 objectives without progress during the year, 23 were discontinued and none were deemed to have completed the objective. The remaining 795 objectives stayed at the same milestone stage.



Source: EOS



Investment Stewardship continued

Examples of EOS corporate engagement on our behalf



Case study

Equity: Multi-utilities

Issue: Climate strategy

Background: This US utility company supplies electricity and natural gas to nearly 7 million customers across 15 states. The company operates through its power delivery, power generation, and gas infrastructure business segments. Since 2011, there has been ongoing engagement with it regarding its climate strategy, particularly through Climate Action 100+ (CA100+). In 2020, the company committed to achieving Net Zero emissions by 2050 and planned to phase out its coal-fired plants.

Action: To support the transition away from coal and protect shareholder value, the company was asked to develop a decarbonisation strategy incorporating ‘Just Transition’ principles to mitigate adverse impacts on workers and the community. Engagements in 2020 and subsequent years involved private meetings and discussions organised by CA100+, focusing on the challenges and acceleration of coal plant phase-outs, especially in South Carolina. The company outlined its Just Transition plan, emphasising workforce planning, well-paid jobs and clean energy. Follow-up engagements in 2021, 2023 and 2024 reviewed progress and continued to push for comprehensive strategies.

Outcome: By 2023, the company had updated its environmental justice policy and developed a more comprehensive strategy addressing Just Transition concerns. This included reskilling workers for renewable energy roles, collaborating with local businesses, and ensuring reliable and affordable energy access. The company also managed the closure of two coal units, preparing workers for solar energy roles and enhancing retraining programmes. The 2023 sustainability report expanded disclosures on the Just Transition strategy, including legislative language to prioritise local hires and minorities. The company also planned numerous hiring events and trained over 1,000 employees in environmental justice processes. Monitoring of the company’s energy transition strategy continues, focusing on key performance indicators and the quality of community engagement.

Case study

Equity and Credit: Responsible tax principles

Issue: Responsible tax practices

Background: In 2024, EOS published its Responsible Tax Principles, emphasising the importance of responsible tax practices and transparency. The principles urge investors to consider the tax implications of their investments and ensure that companies in their portfolios adhere to responsible tax practices to mitigate financial and reputational risks.

Action: EOS engaged with companies to promote responsible tax practices, focusing on policy, governance, stakeholder engagement and transparency. They interacted with tax experts from companies including General Motors, Coca-Cola, Barclays and Bayer to understand and encourage best practices. The engagement included discussions on country-by-country reporting and compliance with international standards such as the GRI Tax 207.

Outcome: The engagement led to several milestones, including increased tax transparency from companies like Chevron and detailed reporting from Barclays. EOS aligned its 2025 regional vote policies and corporate governance principles with its Responsible Tax Principles, continuing to push for greater transparency and responsible tax practices in its portfolio companies.

Case study

Equity and Credit: Pharmaceuticals

Issue: Board effectiveness and succession planning

Background: The company is one of Europe’s leading pharmaceutical firms. In 2014, as part of its defence against a takeover bid, it announced an ambitious revenue target. However, concerns were raised about the robustness of succession planning at the company and how compensation should be aligned to ensure long-term strategic goals were met.

Action: Starting in 2014, engagement focused on the company’s long-term revenue target and the importance of holding the board accountable. Regular meetings were held from 2015 to 2024, including with the company’s chair, to ensure management incentives were tied to long-term targets. By 2019, improvements were made in bonus structure simplification and greater disclosure on performance metrics. Concerns about CEO succession planning were raised, emphasising the need for robust internal talent development.

Outcome: In 2023, the company appointed an existing board director as chair and achieved its ambitious revenue target. The new chair ensured a strong internal pipeline for CEO succession, with a focus on diversity and external candidates. Despite concerns about high variable pay, the company justified it to retain top talent. The engagement led to a vote against the proposed remuneration policy at the 2024 AGM.

Investment Stewardship continued

Engaging with issuers through investor collaboration

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

For example, on climate change, we actively participate in the programmes run by the Institutional Investors Group on Climate Change (IIGCC) – see page 27 – and continued to participate in key IIGCC projects throughout the year. We also work closely with UK policymakers and market stakeholders, such as the Pensions and Lifetime Savings Association (now called Pensions UK), Investment Association, the UK Debt Management Office and the Department for Work and Pensions. We are involved with a range of investor organisations to help drive industrial and legislative change to encourage higher levels of stewardship and greater disclosure of ESG risks across the investment industry or within specific sectors.

The PPF is a member of the following initiatives:

- We’ve been a signatory to the **UN-supported Principles for Responsible Investment (PRI)** since 2007; our Head of Alternative Credit sits on the PRI’s Private Debt Advisory Committee and we’re members of its Collaboration platform.
- The **Asset Owner Council** was created in 2024 and was co-chaired by Claire Curtin, Head of ESG and Our Corporate Sustainability, until early 2025.
- Our Stewardship Manager, Daniel Jarman, serves on the **Investment Association’s Remuneration and Share Schemes Committee** and its Stewardship Committee.
- As an investor member of the IIGCC, we’ve been an active member of its UK Policy Working Group, the development of the **Net Zero Stewardship Toolkit, the Asset Owner Stewardship Working Group, the Proxy Advisor Working Group**, and its Stewardship Code Working Group, which has provided input to the UK Financial Reporting Council’s consultation on the UK Stewardship Code. We also participate in the IIGCC’s collective responses to consultations.
- We also encourage greater disclosure of environmental impact by companies, governments and other institutions by supporting organisations such as **the global disclosure systems provider CDP**.



Case study

Net Zero Engagement Initiative

Sector: Waste recycling
Issue: Improving climate action plans

Background: Since February 2023, the PPF has been one of seven investors leading engagement with French water, energy and waste recycling company, Veolia Environnement SA, which operates globally on five continents with 215,000 employees. The company was included in the focus list for the IIGCC’s Net Zero Engagement Initiative (NZEI) and also on the PPF’s own Climate Watchlist. We worked with Veolia in support of a shared goal: a climate action plan aligned to the growth objectives of its ‘Green Up’ strategic programme. The ultimate aim was to contribute to global efforts to reduce greenhouse emissions while also improving risk-adjusted returns for investors.

Action: The engagement took place over several meetings and workshops with various Veolia representatives, including board members. Our aim was to work with the company to strengthen its climate action plan, focusing on a number of specific areas. The company welcomed the opportunity to receive input on its plan, providing the engagement group with a strong platform to build an open working relationship to outline investor expectations of a climate transition plan, including:

- A clear explanation and breakdown for each business’s emissions strategy
- The planned emissions trajectory and contributing actions
- Disclosures of coal assets in Central and Eastern Europe (CEE) and China
- Related climate governance.

Outcome: Veolia published its climate strategy report in 2024 which included targets for a 50 per cent reduction in Scope 1 and 2 emissions by 2032 and a 30 per cent reduction in Scope 3 emissions by the same year, compared to 2021 levels. This signalled an important step towards the company’s 2050 Net Zero commitment. The strategy was approved in July 2024 by the Science Based Targets initiative (SBTi) and rated ‘Advanced’ by Moody’s.

The company and NZEI signatories have agreed to continue dialogue and encourage progress on: the role of avoided emissions (known as Scope 4 emissions); the European coal exit plan and decarbonisation of coal assets in China; improvements in methane capture; and how different parts of the transition are reflected in the company’s investments.

Given the success of the engagement, a joint statement was released on the engagement process which will hopefully provide comfort and inspiration to other companies to embrace engagement with investors.



Transition
Pathway
Initiative



UKSIF
UK Sustainable Investment
and Finance Association



TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES



Investment Stewardship continued

Key industry collaborations during the year

 Taking action

Engaging on modern slavery statements

A company in which we have a significant equity investment moved to the FTSE 350 during the year and, as a result, began to be covered by the Votes on Slavery campaign. Concerns were raised that the company’s published modern slavery statement did not meet the initiative’s expectations and was technically not compliant with UK modern slavery legislation.

Given our relationship with the company, we volunteered to lead Votes on Slavery’s outreach to address the issue. We met with the company and explained the initiative and the issue highlighted. The company welcomed the input and identified that the issue was one of disclosure rather than practice. The statement was subsequently updated to be compliant with UK legislation.

Climate Action 100+

The PPF continues to be a signatory to Climate Action 100+, the largest-ever investor engagement initiative on climate change. The initiative aims to put pressure on 169 of the world’s largest greenhouse gas emitters, responsible for approximately 80 per cent of global industrial emissions. Largely as a result of Climate Action 100+, 80 per cent of focus companies (77 per cent in 2023) have now committed to Net Zero by 2050 or sooner across at least Scope 1 and 2 emissions, and 90 per cent now have board committee oversight of climate change risks and opportunities.

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

IIGCC Net Zero Engagement Initiative

The Institutional Investors Group on Climate Change (IIGCC)’s Net Zero Engagement Initiative (NZEI) was launched in spring 2023 to build on and extend the reach of investor engagement beyond the Climate Action 100+ list to include more companies that are heavy users of fossil fuels. NZEI has grown from 93 to 115 signatories since its 2023 launch, highlighting the importance of climate risks and opportunities to institutional investors.

We continue to leverage NZEI activities to support work on our own Climate Watchlist (which emerged from our Paris Portfolio Alignment Project). For example, we lead engagement with one company on our Climate Watchlist that has also been identified as a heavy carbon emitter by the NZEI.

PRI Votes on Slavery

We were a continuing member of the Votes on Slavery initiative for its 2024 campaign, run by the PRI. This initiative again focused on FTSE 350 and Alternative Investment Market (AIM) companies that lack disclosure compliant with UK modern slavery legislation. Of the 26 FTSE 350 companies that were non-compliant prior to the 2025 proxy season, 23 became fully compliant, with another one committing to make changes. Only one company required further monitoring.

We monitored progress through the 2025 voting season and were prepared to use our votes to signal concern on non-compliance where necessary. We will continue to support this campaign as modern slavery continues to be a key theme in our voting guidelines.

Find it, Fix it, Prevent it

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

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

CCLA Mental Health project

This project analyses and ranks corporate disclosure on mental health policies and practices. During the year under review, the project focused on a list of global companies that scored poorly in its index. The PPF is in the process of engaging companies on the most recent CCLA Corporate Mental Health Benchmark report assessing how companies are managing and reporting on workplace mental health.

PRI’s Advance

The PRI’s Advance Investor Group is a collaborative stewardship initiative focused on human rights and social issues. Launched in 2022, it mobilises institutional investors to influence companies and decision-makers to drive positive outcomes for workers, communities and society. The initiative targets sectors like metals, mining, and renewables, using frameworks like the World Benchmarking Alliance’s Social Transformation Framework to track progress. We are a signatory to the initiative and participate in investor sessions where possible to inform our approach to social issues.

Nature Action 100

This is a global investor engagement initiative aiming to help institutional investors drive corporate action on nature and biodiversity loss. It is supported by more than 230 investors managing assets worth more than \$30 trillion. The initiative targets companies with the greatest potential impact on biodiversity, including biotechnology, chemicals and food production. It sets high-level agendas and expectations for corporate ambition, aiming to reverse nature loss by 2030. We are a signatory to the initiative and, where possible, participate in investor sessions to inform our approach.

The Pension Regulator’s (TPR) Financial Stability Advisory Panel

We have joined the newly formed TPR Financial Stability Advisory Panel, comprising market participants alongside TPR representatives. The aim of the panel is to help ensure that TPR is well-informed about key topics in markets and potential vulnerabilities well ahead of time, so it is able to take appropriate action in a timely manner.

CDP Non-Disclosure Campaign

Again this year, we supported global disclosure organisation CDP’s annual campaign to engage with major companies that have failed to respond to its climate change, forestry and/or water security questionnaires. We led company engagement with six companies located around the world. Two of these companies then submitted climate data to CDP in summer 2024, one of which is a significant holding that we have engaged in recent years on several topics, including CDP submission.

Investment Stewardship continued

Considering and promoting well-functioning markets

Collaborating to promote and improve market-wide risks

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

As mentioned in the previous section, we believe our involvement in key industry initiatives and collaborations, and tracking market consultations, helps us to identify and consider these risks. With the global investment landscape facing growing scepticism towards ESG activities from different areas, this work is more important than ever to create value for our stakeholders and manage future risks.

Our direct policy engagement during the year

FCA Vote Reporting Working Group – Shareholder voting is a powerful tool that investors can use to both support and challenge the companies they invest in. Greater transparency as to how asset managers vote on behalf of their clients can help investors to hold them to account on their stewardship practices.

This working group comprises a range of market participants interested in developing a more comprehensive and standardised vote disclosure regime. Specific focus has been on developing a voluntary, comprehensive and standardised vote reporting template. Following industry consultation on this, the group published a [Feedback Statement](#) in March 2025. The PPF continues to play a significant role in shaping the template and engaging with the FCA and other parties on its use. Our next steps include helping to create a guidance document on the template’s application, taking full account of feedback from consultees.

DWP Taskforce on Social Factors – In 2021, the DWP held a consultation on consideration of social risks and opportunities by occupational pension schemes, to which we responded. A taskforce of asset owners and industry participants was subsequently established to develop a guidance document to help trustees consider social factors within their investment portfolios. We are one of three sub-group chairs leading the taskforce, which published its report in early 2024, and can be found [here](#). Further meetings have been held following publication, notably with various standard-setting bodies interested in understanding how they can leverage the research.

Policy engagement through EOS

Europe – This year, EOS continued to emphasise the need for greater access to board directors, beyond just the chair, in regions including Scandinavia, Italy and Spain. They also stressed the importance of companies clearly reflecting their Paris Agreement-aligned climate transition plans in their audited accounts. Companies should confirm what is included in these accounts, how it is assessed and the implications.

Additionally, EOS provided feedback to the Finance Sector Deforestation Action (FSDA) initiative and the IIGCC regarding draft deforestation investor guidelines for commercial banks. Banks face deforestation risks through the financial services they offer to companies involved in deforestation-related activities. We believe that failure to address these risks exposes banks to financial threats, including physical risk, transition risk and non-alignment with Net Zero goals.

Developed Asia – In 2024, EOS introduced a policy to address corporate governance concerns in companies with equity trading below a price-to-book valuation of one. This valuation suggests that investors view the company as worth more liquidated than operational, indicating potential value destruction by directors. EOS assessed 29 major markets and found Japan and South Korea had higher prevalence of such undervaluation, pointing to systemic issues.

Japan has begun addressing this through the Tokyo Stock Exchange’s requirements for companies to explain their undervaluation.

South Korea, however, lacked a similar policy, with companies often dismissing concerns. In Q1 2024, South Korea launched the ‘Value-Up Programme’ to reform capital markets and address undervaluation. Some companies have since published Value-Up plans, and the Korean Stock Exchange introduced the Value-Up Index in Q4 2024 to incentivise improved valuations. We invest in both Japan and South Korea and the importance of companies maximising shareholder value is of paramount importance to us, so we will continue to monitor steps to improve company valuations closely.

US – In the US, EOS are active in the Human Capital Management Coalition (HCMC), with their North America regional team lead, Emily DeMasi, serving as vice-chair. The HCMC, comprising influential institutional investors, aims to elevate the recruitment, development and retention of employees as a key factor in company performance. It has sent a letter to the chair of the SEC, urging it to act on the Investor Advisory Committee’s recommendations for standardising human capital management disclosures. The group also participated in the Workforce Valuation Summit, focusing on how climate change and AI are affecting workforces. The HCMC advocates for improved workforce data access through four foundational disclosures: workforce composition, total workforce cost, turnover, and diversity data. Local governments and economists seek robust skillset data for a Just Transition. EOS will continue to engage in public policy discussions and encourage companies to disclose their human capital strategies to support long-term shareholder value creation.



Investment Stewardship continued



Exercising our ownership rights

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

How we utilise our ownership rights

As an engaged investor, it is important that we use the rights we have as providers of capital to full effect, when considered appropriate. Although our preference is to prioritise direct, confidential engagement, in cases where the desired progress does not materialise, it can be appropriate to escalate our engagement effort.

Escalation is the process by which investors apply progressively more targeted, public or more stringent approaches and tools to influence a company on an issue of concern. In 2023, we developed a formal escalation policy, outlining our approach and the potential methods we will use if engagement fails. Our policy provides the structure for determining objectives and internal processes to be followed.

When considering an escalation strategy, the PPF will explore the following levels of action:

- **Level One – Private escalation:** The PPF organises a private collective engagement or group letter to send to the company management or board. This level may involve voting against management if there is lack of progress in an initial engagement.
- **Level Two – Public low visibility escalation (e.g. speaking at an AGM):** The PPF organises or participates in a collective engagement or group letter that is undertaken as a public action, i.e. press coverage may be encouraged.

- **Level Three – Public high-visibility escalation:** The PPF takes deliberate action to attract attention to our concerns such as filing a shareholder resolution, or organising and publicising a ‘Vote No’ campaign against one or more directors. Pursuing (leading or supporting) litigation outside of the established class action strategy already in place would also fall into this category.

Implementation

The above methods can be implemented across asset classes, and across both internally and externally-managed portfolios. As noted, voting rights can be used to elevate our concerns. This is most commonly done for Equity holdings in line with the implemented proxy voting policy – see overleaf for more details. Where we hold both the Debt and Equity of a company, we will consider using our Equity voting rights to escalate. However, when the opportunity arises, voting rights can also be used in other asset classes at the individual manager’s discretion.

Governance of escalation

We maintain robust internal controls to oversee and approve each level of escalation:

- **Level One – Private escalation:** Relevant internal manager(s) to be informed of an issue by the ESG team to agree and approve an escalation approach.

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

Recourse

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

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

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

Investment Stewardship continued

How we approach voting

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

During the year under review, our Investment Committee approved updates to our PPF voting guidelines. These provide clarity on our intentions for voting decisions around core stewardship issues during the Annual General Meeting (AGM) season. Developed by our ESG & Sustainability team, the guidelines leverage best practice, as demonstrated by our stewardship services provider EOS, and closely align with its global voting guidelines. Our voting guidelines can be seen in full in Appendix E. The aim of these guidelines is not to duplicate EOS’s own global voting guidelines. Rather, they provide stakeholders with a concise document outlining areas of focus that are material to us.

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

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

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

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

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

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

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

Total Meetings	3,773
Total Resolutions	41,714
How many meetings did we vote at?	3,746
How many resolutions did we vote on?	41,504
What % of resolutions did we vote on for which we were eligible?	99.5%
Of the resolutions on which we voted, what % did we vote with management?	82.1%
Of the resolutions on which we voted, what % did we vote against management?	15.2%
Of the resolutions on which we voted, what % did we abstain from voting?	2.3%
Of the resolutions on which we voted, what % did we withhold from voting?	0.4%
Of the meetings at which we voted, what % did we vote at least once against management?	63.2%

Taking action

Voting in India

During the year under review we were able to secure power of attorney (PoA) for India, a market that has grown in importance to us in recent years. With PoA established, we are able to vote our shares whereas previously our votes would not have been accepted by a company.

Taking action

Standardising vote reporting

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

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

During the year under review a small, more focused working group was created for this project. We are part of this group, which is tasked with ensuring a smooth process is implemented to launch the initiative. It has been agreed that the reporting template will form part of the already-established Pensions UK (previously called the PLSA) vote reporting template.

Voting activity 2024/25

The charts and table on page 31 present our global approach to voting throughout the year under review. In terms of numbers, the PPF voted at fewer meetings than in 2023/24 due to allocation changes in the structure of our Equity portfolio.

Of the meetings we potentially were eligible to vote at, we voted at a similar number, percentage-wise. Share blocking and complex power of attorney requirements can still present challenges to our ability to vote. However, the situation continues to improve globally. In particular, we have seen a significant reduction in share blocking in Europe thanks to the EU’s Shareholder Rights Directive II (SRD II).

The proportion of management proposals that we supported rose in 2024/25 to 82 per cent. Votes against management fell 3 per cent to just over 15 per cent.

Looking at key markets, we saw an increased number of shareholder resolutions in the US, up around 5 per cent among Russell 3000 companies. This included a growing number of shareholder proposals addressing digital rights issues such as privacy, freedom of expression and responsible artificial intelligence. We predict that this topic will continue to receive focus in coming years.

The most significant change in vote instructions for the year under review has been the increase in abstain votes. This is primarily the result of an increase in our holdings in Saudi Arabia where directors are elected via a method called cumulative voting.

Essentially, instead of using our votes to elect all directors, we will target our votes towards the directors we absolutely want to see re-elected. For example, if we had 100 shares and there were 10 directors standing for elections, we would not use 10 shares on each director. We would instead target our votes by using 50 votes on each of the two directors we most want elected and none on the other directors. For the other directors, we abstain, and it is this action that results in a higher percentage of abstain votes.

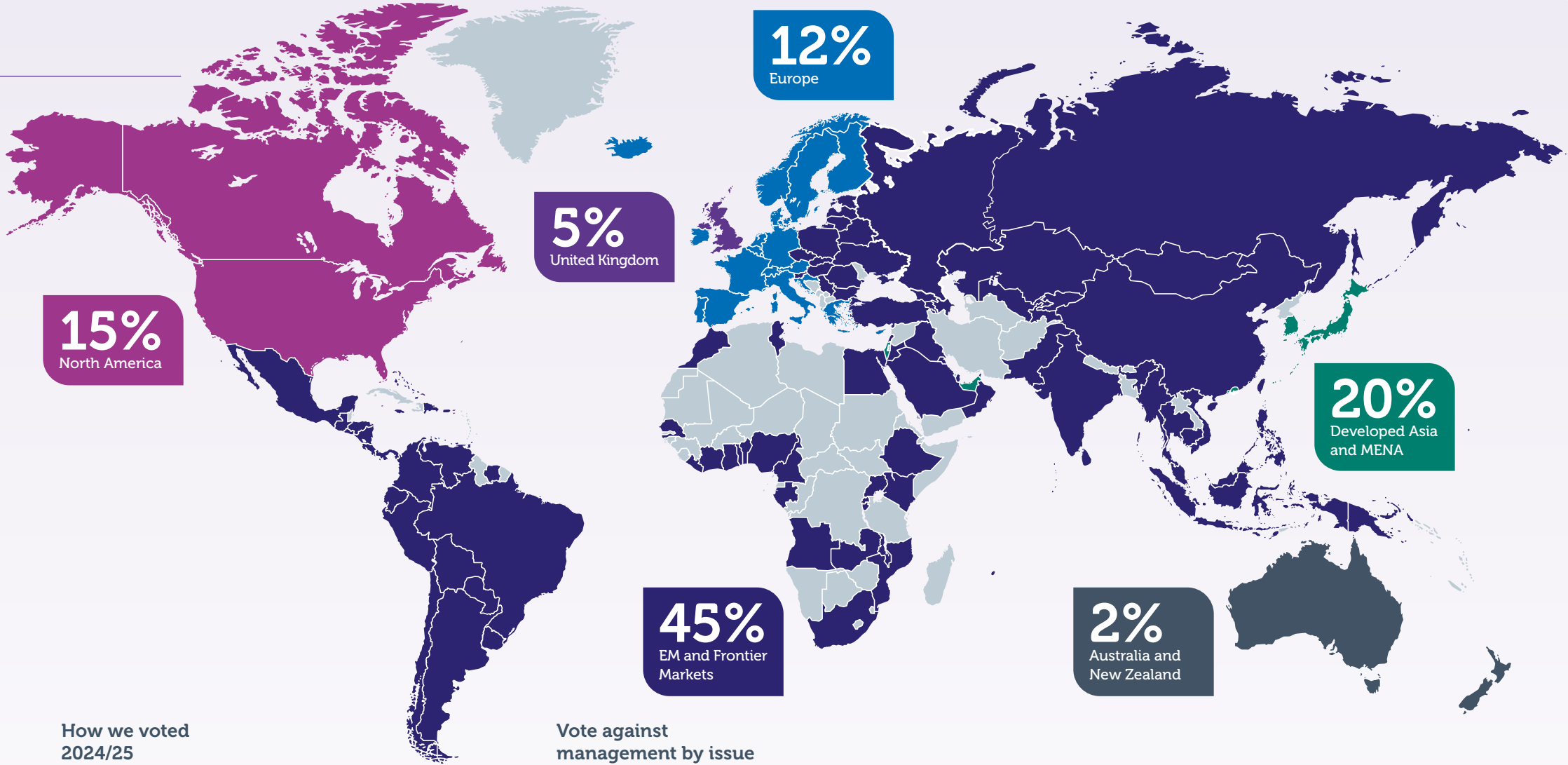
This year also saw another significant rise in the number of ‘anti-ESG’ proposals (e.g. opposing Net Zero goals or Diversity, Equity & Inclusion (DEI) initiatives). However, average support for such proposals was just 2 per cent, indicating limited investor backing. Our general approach is to consider resolutions of this nature on their individual merits. We have concluded that many are fundamentally misaligned with our investment beliefs, and appear more aimed at making political statements than achieving shareholder consensus. Also of concern are the challenges some shareholders experienced this year attempting to exercise their rights, as some companies resisted investor proposals such as Exxon Mobil – see page 32.

In Europe, resolutions addressing biodiversity were a growing trend with a focus on chemicals (including pesticides), deforestation, deep-sea mining, plastics, anti-microbial resistance (AMR) and animal welfare. In Asia and some emerging markets, signs of improvement in company boards’ gender diversity and independence were a positive. However, additional progress is still required and EOS will continue to engage on these issues.

Investment Stewardship continued

Voting activity 2024/25

Regional breakdown of meetings



Meetings with at least one vote against management



Meetings with at least one vote against management 63%

Meetings with management 37%

How we voted 2024/25



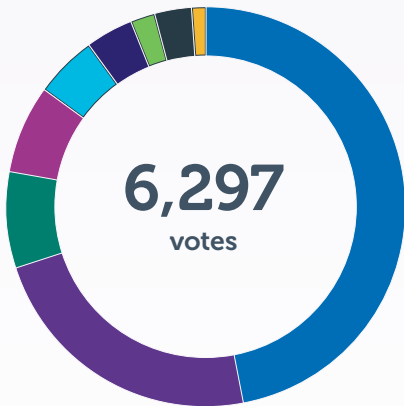
Against management 15%

With management 82%

Abstain 2%

Withhold <1%

Vote against management by issue



Board Structure 47%

Remuneration 23%

Capital Structure + Dividends 8%

Amend Articles 7%

Audit + Accounts 5%

Shareholder Resolution – Governance 4%

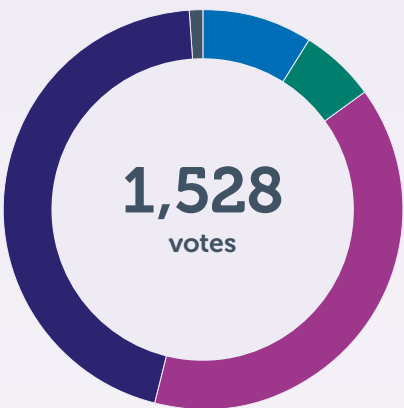
Shareholder Resolution – Social & Ethical 2%

Other 3%

Shareholder Resolution Environment 1%

Shareholder resolutions

Votes on shareholder resolutions per region



Europe 9%

United Kingdom 0%

Developed Asia and MENA 6%

North America 39%

EM and Frontier Markets 45%

Australia & New Zealand 1%

Report Category	ISS Category	Abstain	Against Management	With Management	Grand Total
Governance	Corporate Governance	0	39	18	57
Other	Miscellaneous	0	4	187	191
Environmental and Social	E&S Blended	0	23	60	83
Climate & Environment	Environmental	0	78	49	127
Compensation	Compensation	0	22	38	60
Social Proposal	Social	0	140	57	197
Routine Business	Audit Related	3	0	134	137
Directors Related	Director Related	0	39	55	94
Economic Issues	Non-Routine Business	0	11	11	22
Directors Related	Director Election	30	137	323	490
Routine Business	Company Articles	0	5	32	37
Routine Business	Routine Business	0	8	25	33
Economic Issues	Capitalisation	0	0	0	0
Grand total		33	506	989	1,528

Investment Stewardship continued

Voting on climate issues

We continue to consider climate change to be a significant voting issue. We believe that, given the nature of the risk, long-term strategic consideration should be given to this risk factor.

Since 2020, we have seen an increase in management and shareholder resolutions focusing on climate. The majority of these have been shareholder proposals, although in recent years, Say on Climate* management proposals have become more common. However, the 2024 voting season highlighted a growing investor scepticism toward Say on Climate votes, especially when proposals lacked specificity or credible transition plans. Support was stronger for company-led initiatives with clear frameworks, while shareholder proposals struggled to gain traction.

Globally, the number of management-proposed Say on Climate proposals stabilised, having peaked in 2022. In 2023, we held shares and voted at 11 companies that had management-sponsored Say on Climate resolutions. In 2024, this was similar to 2023 with nine resolutions. This is down from the high of 41 in 2022 but does indicate a stabilisation. Europe continues to be a focus area for Say on Climate resolutions, continuing a regional trend where firms are more likely to engage shareholders on climate strategy through advisory votes. The reduced volume and support seen in cases suggest a shift in investor priorities, with a focus on substance over symbolic voting. We continue to support shareholder-related proposals on climate primarily where companies have failed to demonstrate a clear decarbonisation strategy. In this respect, the increase in management-led Say on Climate proposals mentioned above has been very welcome.

As mentioned, 2024 also saw a significant increase in the number of ‘anti-ESG’ resolutions related to climate proposed at shareholder meetings. In 2023 we voted against the proposal on six such resolutions. This increased to 19 in 2024. These resolutions focus on North American companies and have generally garnered a low level of shareholder support.

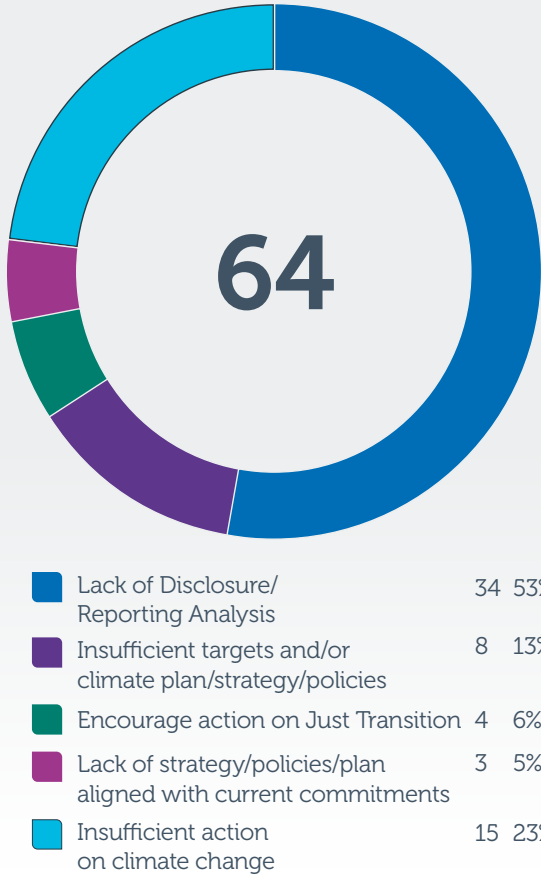
Taking action

As highlighted earlier in the report, work in relation to the Asset Owner Council collaborative study of how asset managers vote at Oil & Gas industry shareholder meetings continued. We co-signed a letter along with 25 asset owners addressed to investment managers. The statement set out expectations on Climate Change & Transition, providing greater clarity on both individual and collective engagement and proxy voting. Public policy engagement also formed part of the statement.

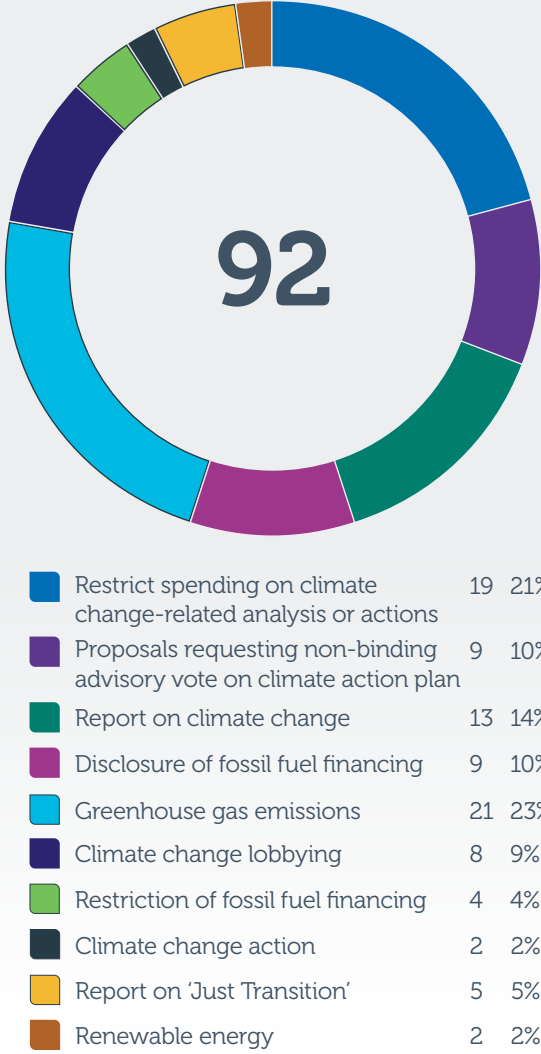
Supporting this statement, several meetings were also held with investment managers to discuss the statement and their approach to Climate Change & Transition.

We continue to support shareholder-related proposals on climate action primarily where companies have failed to demonstrate a clear decarbonisation strategy.

Shareholder Resolutions on Climate: Against Management



Votes on shareholder resolutions by climate theme



Case study

ExxonMobil – Director elections

The 2024 AGM for US oil and gas major ExxonMobil was particularly fractious due to its handling of a shareholder resolution related to climate change. Exxon’s decision to proceed with a lawsuit against shareholders Follow This and Arjuna Capital over a climate-related shareholder proposal that they had withdrawn, was widely criticised by many institutional investors. Subsequently, a judge ruled that the case could not proceed against Follow This, a Netherlands based organisation, due to jurisdictional reasons, while the case against Arjuna Capital was dismissed.

The withdrawn shareholder resolution related to Scope 3 emissions, a topic that had been raised in previous resolutions. The co-filers committed not to refile it early in legal proceedings. However, Exxon decided to continue the suit, stating that it wanted to gain clarity on the SEC’s filing process for potential shareholder resolutions. Prior to the AGM there was significant shareholder unease with some large institutions raising concerns on what was being perceived as an attack on shareholder democracy.

At the time of considering our vote, not only did the reaction by Exxon appear excessive, but it also seemed likely to become a significant distraction to the board and an indication of poor use of capital given the threat to the company was largely non-existent in the first place (due to the non-binding nature of the resolution).

We contacted Exxon to attempt to engage on the topic. However, the company was unwilling to discuss the issue and simply referred to existing documents on its website. Given its collective responsibility for this course of action, our shares were voted against the whole board as a result of the board decision.

* An initiative of the Children’s Investment Fund Foundation encouraging companies to submit their climate transition plans and strategies to an advisory shareholder vote.

Investment Stewardship continued

Our criteria for significant votes

The importance of being able to control our votes has never been more important. Along with guidance from Pensions UK around significant votes, we also use our own criteria to flag material votes that we need to scrutinise carefully.

As mentioned, we have created a voting watchlist of companies for which we get particular coverage from our stewardship services provider EOS. We also have an agreed timeline for action to execute votes proactively for significant and material positions in our portfolio. After deciding our voting intentions, we access the voting platforms of our asset managers for any pooled mandates and submit our vote instructions.

- Our voting watchlist includes:**
- Companies where we own over 1 per cent of equity
 - Companies that we hold directly (which we escalate to our CIO for a voting decision)
 - Companies with specific issues of concern (e.g. practices that are non-compliant with the UN Global Compact)
 - Companies that feature on our Climate Watchlist
 - Votes related to a specific initiative in which we’re involved (e.g. companies on the Climate Action 100+ list).

Public disclosure of voting records

Each quarter, our segregated voting and engagement reports are uploaded to our public website. They can be viewed here: [Reporting and investing transparently | Pension Protection Fund](#).

As noted in last year’s report, we have been working to provide a public record of our voting disclosures (line by line voting, more detailed than voting reports) on our website. The disclosure of this information will allow stakeholders to review how we voted on specific resolutions at shareholder meetings.

Taking action

Stock lending

We have participated in stock lending programmes for several years, which are administered by our Investment Operations team. We believe PPF members benefit from the additional income that this generates and that stock lending has benefits for market liquidity and efficiency. To ensure we are always able to vote on company issues, we never lend out our whole shareholding in a company.

Summary of some of our significant vote outcomes

Date of Vote	Company name and significance	Resolution(s)	For/Against management	Reasoning for vote decision	Vote outcome	Outcome and next steps
30 April 2024	Wells Fargo & Co, widely held in equity and credit portfolios	1K – Elect Director Ronald L. Sargent	Against director	At Wells Fargo’s 2024 Annual Meeting we voted against the human resources committee chair, in accordance with our human rights voting policy. The company has long been engaged by EOS, our engagement service provider on labour issues and corporate culture, following a sales practices scandal. More recently, we have been concerned by allegations relating to discrimination, unpaid overtime, freedom of association and other human capital issues, at various company branches and locations.	5% of shares were voted against his re-election	Further direct engagement took place through our stewardship services provider EOS on the company’s climate strategy.
30 April 2024	ArcelorMittal SA	7 – Approve Discharge of Directors	Against	We voted against the discharge of the board of directors on the basis of poor health and safety performance, evidenced by the high number of fatalities in the year under review, notably resulting from an explosion in Kazakhstan. This event, along with the company’s track record of fatalities in previous years, is a serious cause for concern. The board holds collective responsibility for health and safety and a vote against the discharge of the board was warranted, given its poor performance on this issue.	10% vote against	Our engagement service provider, EOS, has engaged constructively with the company on health and safety in previous years and following the Kazakhstan incident. We welcome the external safety audit undertaken in 2024 and the recent launch by the company of its Making Zero Happen campaign targeting zero fatalities.
18 June 2024	Toyota Motor Corp, included on our Climate Watchlist	Resolutions 1.1 and 1.2 – Director Elections	Against	Following reports that the company had falsified data relating to engine emissions and fuel performance, we voted against the re-election of the chair and a long-serving executive director. We were especially concerned about the failure to oversee internal controls relating to various instances of non-compliance with safety testing procedures.	1.1 – board chair – 28% against; 1.2 – executive director – 10% against.	Engagement via our service provider, EOS, is ongoing.
21 May 2024	Shell plc, included on our Climate Watchlist. The PPF co-filed resolution 23	Resolution 23 – Advise Shell to Align its Medium-Term Emissions Reduction Targets Covering the Greenhouse Gas (GHG) Emissions of the Use of its Energy Products (Scope 3) with the Goal of the Paris Climate Agreement	Against	We were one of the investors that co-filed the resolution and hence supported it at the meeting.	19% support for proposal	Engagement has continued with Shell via EOS. However, we no longer hold an equity position due to rebalancing in our benchmark. Given that we still have Credit holdings, we continue to support engagement with the company.

Investment Stewardship continued

Exercising our rights in other assets

Fixed income

Our rights as a provider of fixed income debt to a company differ markedly from those as an equity shareholder. We find that achieving large-scale change among fixed income issuers can often be more effectively managed through industry-led initiatives rather than as a single investor. However, we have developed a fully integrated approach to the assessment and oversight of our potential and ongoing fixed income investments. For example, in UK Private Credit, where data can be less readily available, we rely heavily on our internal due diligence process. This involves significant engagement with management of private companies. ESG considerations, in addition to commercial and risk-related analysis, are evaluated and concerns are addressed within the process. Ultimately, if we are not comfortable with the terms of a deal, we will not participate. However, we will often seek to propose amendments to the terms of the agreement to ensure that any requests we have are incorporated into the deal and – where appropriate – the future structure of the company. As part of the ongoing management of fixed income assets, we will often continue to seek positive change after entering into an agreement.

When investing in alternative assets through external investment vehicles, no voting rights are attached to the underlying assets. However, we can vote on issues relating to the fund itself. In these circumstances the portfolio manager will vote directly with input from the PPF ESG & Sustainability team.

Private assets

The majority of investments for Private Equity, Debt and Infrastructure are made through limited partnership arrangements. These do not provide voting rights in the same way that public assets do. Where appropriate, we seek to have representation on a Limited Partnership Advisory Committee (LPAC), giving us approval rights on specific issues such as amending contractual terms and approving the appointment of other committee members. It is almost impossible to change retrospectively any contracts or side letter terms that were signed historically.

We therefore look to obtain sufficient recourse in our side letters at the outset. By doing this, if we determine that we no longer wish to remain invested in a portfolio company due to an unmitigable risk, we have the option to transfer out of the whole fund.

Case study

Private Equity escalation

Issue: Governance of investments

Background: It is vital for asset owners to understand the valuation process of their underlying assets to ensure transparency, assess risk accurately and make informed decisions. Clear insight into valuation methods enhances governance, supports effective oversight and helps safeguard long-term value, especially in complex or illiquid investments.

In September 2024, the PPF identified a discrepancy in the valuation of one of its co-investments. The valuation of the asset in the co-investment fund (established to hold the asset for a group of limited partners) had begun to diverge materially from the valuation of the asset in the manager’s flagship fund.

Action: The PPF raised this issue with the manager’s finance team but, having received an unsatisfactory reply, elevated the issue to their CEO. The CEO quickly acknowledged the issue, noting the seriousness with which the PPF was treating the discrepancy, reflecting the PPF’s responsibility to maintain accurate valuations for its investments at all times.

Outcome: Following this interaction, a fuller investigation was conducted by the manager’s CFO and the head of the Valuations team. The weakness in the manager’s processes which led to the inaccurate valuation were identified and rectified. The manager implemented an enhanced verification process involving more senior professionals and mandating additional confirmatory steps prior to releasing valuations to the co-investment fund LPs. Since this interaction, there have been no further issues with the valuation process used for this asset.



Climate Change & Transition

Progress made during the year: Our Head of ESG & Sustainability discusses our progress on transition in Private Markets



This year, we conducted a pulse survey for all our Private Markets managers, encompassing Private Equity, Alternative Credit, Real Estate, Infrastructure, and Farmland & Forestry. Our intent was to gauge where they are in their journey to transition away from fossil fuels.

We gathered information across three levels: manager, portfolio, and asset. The questionnaire included questions on having a transition plan or strategy and whether this covers our portfolios and assets. It also addressed underlying assets, such as the percentage of assets covered by transition and physical risk assessment, emission reduction targets, and whether there are any assets deemed unable to transition.

From the survey, we discovered that 66 per cent of our managers have a transition plan for the entire firm, and 51 per cent of our PPF mandates have a relevant transition plan in place. 28 per cent of our individual PPF assets have credible transition plans, indicating some room for improvement.

Our managers identified approximately 5 per cent of the total assets held as “unable to transition”. This is mostly due to the sectors they operate in, such as Oil and Gas or Hard to Abate sectors.

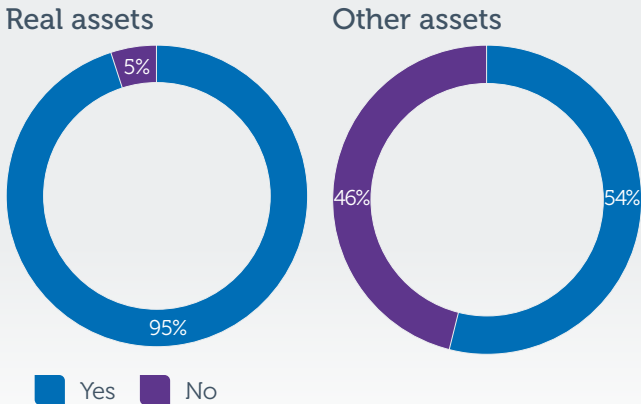
Additionally, 95 per cent of our managers for real assets (i.e. those managing Real Estate and Infrastructure) have performed physical risk assessments and 83 per cent have conducted transition analyses.

It is evident that Real Assets managers tend to be more advanced in their transition journey, with many of those without a plan or strategy already considering it. In contrast, only about half of our Private Equity and Alternative Credit managers are doing so.

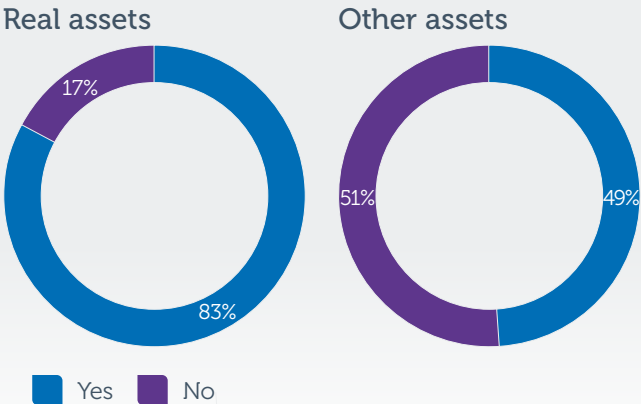
We will continue to engage with our Private Markets managers to understand the progress of our portfolios and the impacts of the transition.

Claire Curtin
Head of ESG & Sustainability

Physical risk assessment of our assets

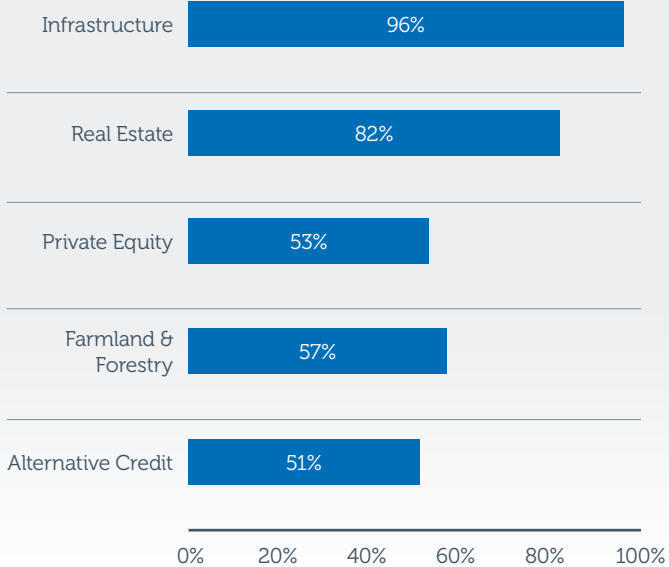


Transition risk assessment of our assets

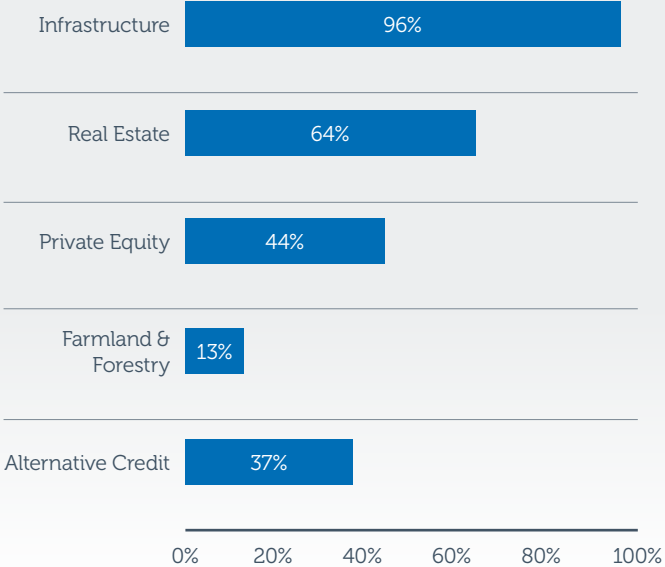


Source: PPF

Transition plan/strategy at firm level



Transition plan/strategy for PPF mandates



Climate Change & Transition continued

Our progress at a glance

Climate change is one of the most significant issues on the global agenda, with the potential to impact businesses, economies and people everywhere. The PPF is committed to assessing and managing climate-related risks and opportunities across its investment portfolio, supporting important industry initiatives, and driving transparency and disclosure among issuers and investors.

Data for 2024/25

Achieving high-quality disclosure in all asset classes

76%

of Fund’s total net asset value covered by carbon footprint metrics (2023/24: 74%)

98%

of our Credit portfolio and 95% of UK Credit portfolio now covered by carbon data (2023/24: 97% & 96%)

Over 50%

of portfolio companies in eFront®’s ESG Data Service project for Private Markets covered by carbon data

→ See page 45

Climate Watchlist companies progress

Over 85%

of portfolio companies on our Climate Watchlist reported to CDP in the 2024 cycle (2023/24: 90%)

32%

of our original Climate Watchlist companies saw engagement progress (2023/24: 33%)

86%

of Climate Watchlist companies maintained or improved their TPI Management Quality Score (2023/24: 67%)

→ See page 41

Portfolio Alignment and Transition analysis

62%

of total portfolio considered Net Zero, Aligned, Aligning or Committed to Align with the Paris Agreement (Dec 2020 baseline: 59%)

79%

of Private Markets assets now assessed using our Transition & Sustainable Assets framework (Infrastructure for 2nd year, plus expansion into Private Equity, Real Estate and UK Private Credit)

76%

of Infrastructure assets have been identified as Green or Orange according to our Transition & Sustainable Assets framework (2023/24: 78%)

→ See page 56

Being accountable for our own organisational emissions

44% reduction

in our offices’ Scope 2 location-based emissions and 31% reduction in energy consumption (since 2019/20 baseline)

Engaged

with the facilities managers of the PPF offices to ensure that water, waste and electricity data is available on a timely basis

Introduced

new food waste bins in both the PPF offices, ensuring collected waste is sent to an anaerobic digestion plant to generate green energy

→ See page 64

We consider climate risk management as an ever-evolving strategic journey that requires us continuously to refine processes and set new standards in how these risks are assessed and managed. We champion investor organisations that drive transparency in climate-related risks and support several disclosure initiatives such as the PRI, CDP, IIGCC, Climate Action 100+, and the Transition Pathway Initiative (TPI). Additionally, the PPF has been a formal supporter of the Task Force on Climate-related Financial Disclosures (TCFD) for a number of years, which provides guidance to help companies and investors disclose climate-related financial risks in a clear, consistent and reliable way.

Assessing risks and opportunities

We have multiple measures in place to identify various types of climate-related risks that could impact how our portfolio performs, both in the short and long term. These risks include transition risks arising from policy changes such as carbon pricing or taxes, technology risks and opportunities as companies develop or fail to adopt superior technologies, and physical risks that may impact assets such as Infrastructure and Real Estate in certain locations. We also recognise opportunities within some asset classes, such as sustainable forestry assets that offer viable nature-based solutions to climate change.

Private Markets assets

We have developed a Transition & Sustainable Assets framework to categorise Private Markets assets based on their status in transitioning away from fossil fuels. We identify assets as: transitioning; presenting climate or transition opportunities; or lacking a clear transition link. This framework, informed by established taxonomies, has already been implemented for Infrastructure assets and is being extended to other asset classes. From a top-down perspective, a survey of Private Markets managers has also provided insights into the transition-readiness of our investment portfolios, thereby guiding our stewardship activities.

We actively implement the TCFD framework across our portfolio and have published a dedicated Climate Change Report annually since 2021, demonstrating progress on managing climate-related risks in line with TCFD. Although we have chosen to combine our TCFD aligned reporting within this Sustainability Report this year, our focus and prioritisation of the impact of climate risks on our portfolio continues in the same way.

Climate Change & Transition continued

Strategy and risk management

This year we continued to develop and implement our organisation-wide Sustainability Strategy. We continued our approach to analysing climate-related risks and opportunities within our investments and considered climate risks and opportunities across all of our organisational processes.

Considering the impact of climate on our strategy and resilience

As well as a global concern, we consider climate change to be a major systemic risk that can affect the value of our investments across the short, medium and long term. We have taken steps to address key climate-related risks facing our portfolio and to pursue a market-leading approach in this area. We believe the [Climate Change Policy](#) that we have laid out for our investments is fundamental to our long-term investment goals and we are committed to improving our understanding of, and mitigating, these risks and opportunities on behalf of our members.

With the launch of the [PPF Sustainability Strategy](#) in 2023, we extended this focus to our operations as well. Our Risk and Strategy working group provides support in the implementation of the Sustainability strategy by ensuring that sustainability is kept in mind when considering operational risk and developing new strategic objectives and goals for the business. The group supports the Executive Sponsor of the Strategy by overseeing and verifying that operational risks related to sustainability are identified, recorded and managed within appetite, with material exposures managed appropriately.

From an operations perspective, we consider climate change to be an emerging risk for the PPF, with the potential to cause physical disruptions to our operations and supply chain, thereby affecting critical business services.

We’ve taken important steps to address key climate-related risks facing our operations and pursue a market-leading approach in this area.

We reviewed our Climate Change Adaptation Strategy (CCAS), owned by our Chief Risk Officer, outlining how climate-related risks are assessed within our operations. One of the actions identified in last year’s CCAS review has been completed: the creation of playbooks for adverse weather conditions. We now have a suite of playbooks for emergency responses, and our Business Continuity Plans include responses to extreme weather events, managed locally by team leaders.

On an annual basis, we perform a Climate Change Risk Assessment (CCRA) to evaluate operational risks from climate change factors, using established risk and control self-assessment protocols. The risks identified in the CCRA feed into the CCAS.

A Sustainability Risk Report was developed in 2024/25 to identify and provide an overview of the risks related to the PPF meeting its Sustainability strategy commitments. The report provides assurance that PPF risk management activities capture sustainability risks. Following its annual review of Board Risk appetite statements, the Risk and Strategy working group noted that the statement in relation to operations had been updated to reference the need to maintain sustainable and resilient operations. This change ensures that sustainability remains at the forefront of strategic and tactical decisions in respect of our operations.

The PPF risk universe outlines all the types of risk to which the PPF may be exposed, including external climate change and business continuity/operational resilience risks owned by the Chief Governance, Risk and Legal Officer (CGRLO). Our risk preference acknowledges that we are subject to external climate change risk and must accept the risk. We have little appetite for interruption of our operations resulting from any risk factor, including changing and challenging climate conditions. To manage this risk within our risk appetite, we monitor risk exposure, plan for challenging events and respond appropriately. Emerging and external risk reports to ExCo and RAC include consideration of climate change factors. Quarterly risk profile reports to ExCo include all operational risks, including any which may have climate change factors as a contributory cause, and CGRLO reports to RAC highlight all material risk exposures, including any which may have climate change factors as a contributory cause.

See more on implementation of the PPF Sustainability Strategy on page 62.

Climate and our investments

Climate-related risks (and opportunities) can have different likelihoods or magnitude of impact on our investment portfolio, depending on the asset class. The principal risks and opportunities we have identified are:



1 Updated [Statement of investment Principles](#).
2 Hybrid assets have hedging characteristics but also generate excess returns that help to finance the limited leverage in this portfolio.

Climate Change & Transition continued

How we assess climate risks and opportunities

To assess climate-related risks in our investment portfolio, we use a variety of measurement and scenario analysis tools from our data providers. We continue to take a bottom-up perspective when assessing our portfolio for climate-related risks, as we believe these risks will play out in different ways, depending on the asset class. We also focus on forward-looking alignment with global goals such as the Paris Agreement on Climate Change.

Why we measure climate risk scenarios

Climate change presents a wide range of threats and opportunities to the value of the assets we hold in our investment portfolio. These range from the impact that the physical effects of a changing climate, such as flood, hurricane and drought, can have on a company's interests and profitability, to the commercial impact of legislation introduced to try to mitigate global warming (such as requiring firms to cut their carbon emissions).

By assessing the impact of a spectrum of scenarios that could play out as countries and businesses take very different approaches to responding to climate change, we can assess how vulnerable different assets are to potential loss. This can inform both the assets we choose to hold and how we engage with companies, bond issuers and other assets to improve their own resilience against these scenarios.

Our climate transition scenarios

When stress-testing the Climate Value-at-Risk (Climate VaR) of our portfolios, our data provider MSCI applies a number of climate transition scenarios that largely align with those developed by the [Network for Greening the Financial System \(NGFS\)](#). Although the scenarios only cover a small number of plausible pathways and have known limitations, they can still provide a useful starting point in starting to understand value-at-risk assessments. MSCI have incorporated the most recent scenario updates from the NGFS, see right, as well as continuing to provide the Divergent Net Zero scenario for continuity.

The NGFS scenarios provide strong evidence that early action to deliver an orderly transition to achieve global Net Zero emissions by 2050 is likely to be the optimal pathway for minimising climate-related physical risks and losses globally.

Portraits of two opposite global warming scenarios

+1.4°C

More transition risks

Net Zero 2050

Reaching Net Zero global CO₂ emissions by 2050 will require an ambitious transition across all sectors of the economy. Scenarios tend to emphasise the increasing importance of decarbonising the electricity supply, increasing electricity use, increasing energy efficiency and developing new technologies to tackle hard-to-abate emissions. Transition risks to the economy could include higher emissions costs and changes in business and consumer preferences. Physical risks would be minimised.

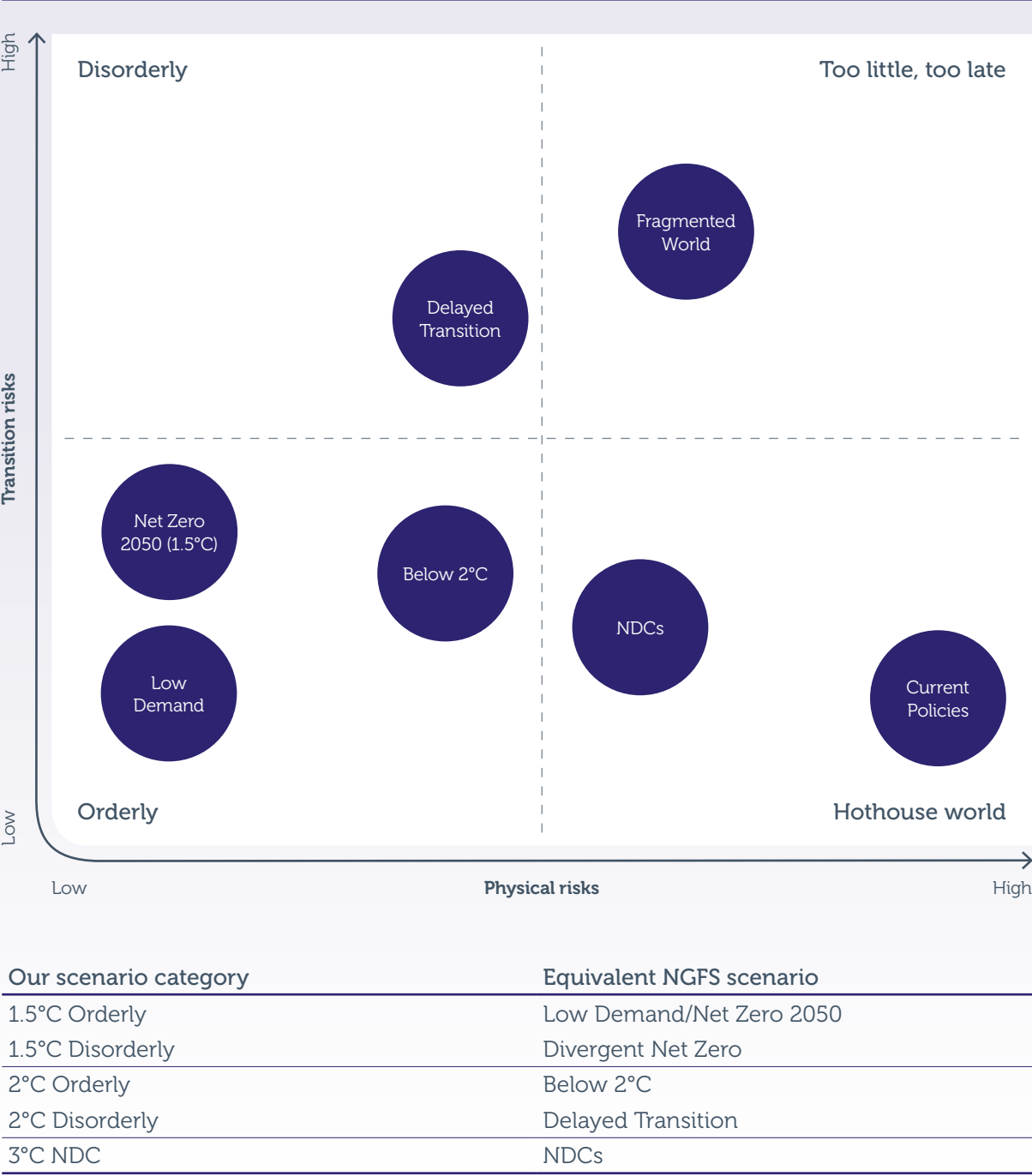
+3°C

More physical risks

Current Policies

Although many countries have started to introduce climate policies, they are not yet sufficient to achieve official commitments and targets. If no further measures are introduced, 3°C or more of warming could occur by 2100. This would likely result in deteriorating living conditions in many parts of the world and lead to some irreversible impacts like sea-level rise. Physical risks to the economy could result from disruption to ecosystems, health, infrastructure and supply chains.

How our climate transition scenarios map to the NGFS scenario framework:



Source: NGFS, MSCI

Net Zero 2050	Net Zero 2050 is an ambitious scenario that limits global warming to 1.5°C above pre-industrial levels through stringent climate policies and innovation, reaching Net Zero CO ₂ emissions around 2050. It assumes some jurisdictions such as the US, EU and Japan reach Net Zero for all greenhouse gases by this point.
Low Demand	The Low Demand scenario assumes that significant behavioural changes, which reduce energy demand, mitigate the pressure on the global economic system to reach global Net Zero CO ₂ emissions around 2050.
Below 2°C	Below 2°C gradually increases the stringency of climate policies, giving a 67% chance of limiting warming to below 2°C.
Delayed Transition	Delayed Transition assumes global annual emissions do not decrease until 2030. Strong policies are then needed to limit warming to below 2°C. Negative emissions are limited.
Nationally Determined Contributions	Nationally Determined Contributions (NDCs) includes all pledged policies by countries to reduce their greenhouse gas emissions, even if not yet implemented.
Current Policies	Current policies assumes that only currently implemented policies are preserved, leading to high physical risks.
Fragmented World	The Fragmented World scenario assumes delayed and divergent climate policy ambition globally, leading to elevated transition risks in some countries and high physical risks everywhere due to the overall ineffectiveness of the transition.

Climate Change & Transition continued

The NGFS climate transition scenarios on page 53 fall into four groups:

Orderly scenarios assume climate policies are introduced early and become gradually more stringent. Both physical and transition risks are relatively subdued.

Disorderly scenarios explore higher transition risk due to climate policies being delayed or divergent across countries and sectors. Carbon prices are typically higher for a given temperature outcome.

Hothouse world scenarios assume that some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming. Critical temperature thresholds are exceeded, leading to severe physical risks and irreversible impacts, such as sea-level rise.

Too little, too late scenarios reflect delays and international divergences in climate policy ambition that imply elevated transition risks in some countries and high physical risks in all countries due to the overall ineffectiveness of the transition.

As well as assessing risks that climate change poses to the value of our investments, we look ahead to see how opportunities in a Net Zero world might benefit our portfolio holdings.

Updates to NGFS climate transition scenarios

The NGFS long-term scenarios were updated in November 2024 to reflect the latest economic and climate data, policy commitments, latest technologies and geopolitical implications. As part of this update, NGFS also introduced short-term scenarios to overcome some of the limitations around time horizons in macroeconomic and financial risk analysis and policymaking. Key changes to these ‘Phase 5’ scenarios are:

- **Updated data and models:** Phase 5 includes updated socioeconomic data from the latest Shared Socioeconomic Pathways (SSP 3.0), enhancing baseline assumptions. Energy system and emissions data were recalibrated with 2020 as the new base year, and fixed values for 2025 ensure short-term projections align with recent policy trends and sectoral activity.
- **Scenario refinements:** Each scenario now incorporates the latest national climate commitments, as published by the United Nations Framework Convention on Climate Change (UNFCCC) up to March 2024, including 36 new submissions. This update aims to reflect a more accurate trajectory for countries’ climate goals.
- **Transition pathways:** Phase 5 scenarios reduce the reliance on Carbon Dioxide Removal (CDR) technology compared to Phase 4, particularly in scenarios like ‘Delayed Transition’, which depicts a more disorderly pathway. Carbon pricing assumptions, policy implementation timelines, and the feasibility of transition pathways were updated, impacting carbon price projections and mitigation timelines.
- **Policy assumptions and harmonisation:** Aligned with updated NDCs and mid-century strategies, countries are now assumed to achieve partial fulfilment of domestic targets in the ‘Current Policies’ and ‘NDCs’ scenarios. Sectoral emissions were benchmarked against historical data to 2020 for improved consistency across sectors.

MSCI Climate VaR models enhancements

Our external data provider, MSCI, has updated its overall Climate VaR models by incorporating a number of enhancements to improve the comprehensiveness and accuracy of data and reflect evolving risks.

Transition VaR model

MSCI has introduced two new climate scenarios, Low Demand and Fragmented World, to align with the latest update from NGFS mentioned above. The Low Demand scenario is a new 1.5°C orderly scenario that emphasises lower energy demand and significant behavioural changes, demonstrating that energy sobriety, electrification and efficiency can achieve a 1.5°C target at a lower cost. The Fragmented World scenario, aligned with just above 2°C by 2100, explores the negative impacts of a delayed and fragmented climate policy starting in 2030. This scenario serves as a baseline for climate stress tests, highlighting the severe consequences of failing to implement early and orderly climate mitigation policies.

Technology opportunities model

As well as assessing risks that climate change poses to the value of our investments, we look ahead to see how opportunities in a Net Zero world might benefit our portfolio holdings. The technology opportunities model now reflects a greater emphasis on electricity generation, with a greater need for renewable energy to compensate the lower use of carbon dioxide removal.

Physical VaR model

MSCI increased its physical risk coverage of companies and asset locations by 457 and 198,350 respectively since our last analysis. It also extended and updated their flood model to increase accuracy by adopting the [Fathom Global Flood Map](#), one of the most robust and comprehensive flood datasets in the world.



Climate Change & Transition continued

Summary of our processes and tools for assessing climate risks across asset classes

This table summarises how we are measuring climate risks in each asset class and how much of the total PPF portfolio value is currently covered.

Metric		Asset class covered	What is measured	Why we have chosen this
Carbon emissions	76% of total PPF portfolio value covered	Public Markets (Equity, Credit, UK Credit, Sovereign Debt)	Absolute carbon emissions apportioned using EVIC to the PPF’s holdings (tonnes CO ₂ e)	Absolute carbon emissions indicate the total amount of greenhouse gases (GHGs) emitted that are associated with our investments.
			Relative carbon intensity apportioned using EVIC to the PPF’s holdings and normalised by amount invested (tonnes CO ₂ e)	Relative carbon intensity measures how carbon intensive an investment in a portfolio is, based on the value of our investments.
			Weighted average carbon intensity (WACI) weighted by the PPF’s holdings and normalised by revenues (corporates) or PPP-GDP (sovereigns) (tonnes CO ₂ e)	WACI (revenue based) allows us to perform cross-sector comparisons and evaluate exposure to carbon-intensive companies.
		Private Markets (Infrastructure, Private Equity, Alternative Credit, UK Private Credit, Real Estate)	Absolute carbon emissions apportioned using Fair Market Value and Enterprise Value (or % ownership if not available) to the PPF’s holdings (tonnes CO ₂ e)	As this is the first year we have been able to assess our Private Markets assets, we have started by measuring the absolute emissions associated with these investments.
Climate Value-at-Risk (Climate VaR)	49% of total PPF portfolio value covered	Equity, Credit, UK Credit	Transition risks (Climate VaR) includes policy risk costs and technology opportunities (% of Enterprise Value)	Transition risks are the business-related risks (e.g. policy, legal, technological and market) that arise as society and the global economy transition to a low-carbon/Net Zero economy.
			Physical risks (Climate VaR) includes acute and chronic risks (% of Enterprise Value)	Physical risks arise from the impact of climate change on physical assets such as land, real estate and infrastructure. These risks can be event driven (acute – e.g. hurricane) or associated with longer-term shifts in climate patterns (chronic – e.g. rising heat).
		Sovereign Debt	Country-level Climate VaR metrics	Climate Value-at-Risk (VaR) metrics are forward-looking estimates of the loss or gain an asset or portfolio may experience under different climate scenarios within a given time horizon.
Portfolio Alignment	89% of total PPF portfolio value covered	All asset classes*	Binary target: % portfolio committed to the Science Based Target initiative (SBTi) or other science-based targets (% of portfolio by market value)	We assess the percentage of portfolio companies committed to using robust science-based targets to understand how much and how quickly they must decarbonise to prevent the worst impacts of climate change.
			Implied Temperature Rise (ITR) expressed in °C (by 2100)	The ITR metric indicates how our investment portfolio aligns to global climate targets, such as the Paris Agreement. It estimates the global implied temperature rise by the year 2100 if the whole global economy had the same carbon budget over-/undershoot level as our portfolio.
		* See page 56 for what is considered in-scope or out-of-scope.	MSCI Paris Aligned Investment Initiative (PAII) Net Zero Investment Framework (NZIF) tool	This is the company’s alignment category in the Paris Aligned Investment Initiative (PAII)’s Net Zero Investment Framework (NZIF), according to the mapping implemented by MSCI ESG Research. There are five NZIF alignment categories: Achieving Net Zero; Aligned; Aligning; Committed; and Not Aligning.
Sustainability & transition exposure**	79% of total PPF portfolio value covered	Equity and Corporate Credit	Green revenues/exposure to low-carbon solutions	
		Sovereign and Corporate Credit	Green bonds, social bonds, sustainability bonds and sustainability-linked bonds	
		Real Estate	PPF Transition & Sustainable Assets framework	Explained on page 58
		Infrastructure, Private Equity, Real Estate, UK Private Credit	PPF Transition & Sustainable Assets framework	Explained on page 58
		Forestry	Percentage of timberland certified in accordance with the FSC and/or PEFC	
		Remaining asset classes	Work in Progress	

** See page 60 for definitions.

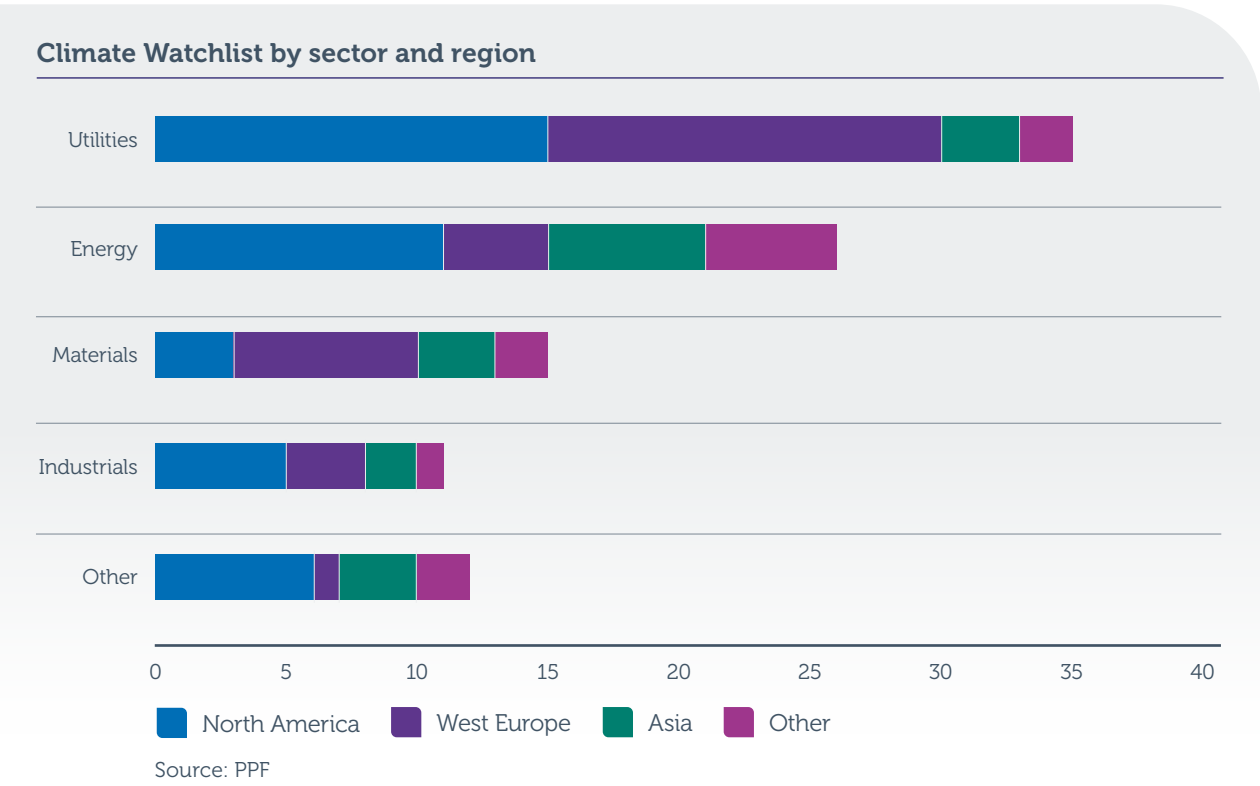
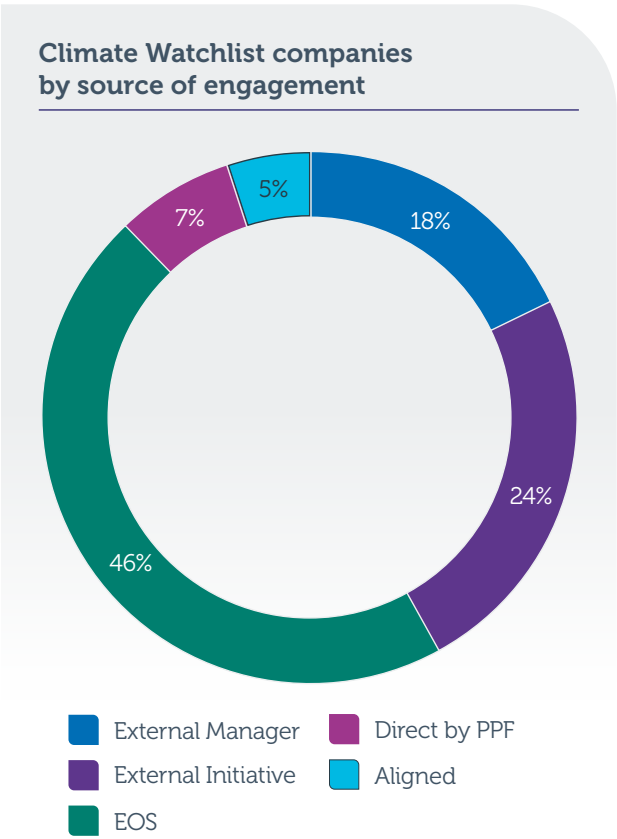
Climate Change & Transition continued

Engaging with our Climate Watchlist companies to manage climate risks

New Climate Watchlist

This year, we are replacing our original Climate Watchlist with an updated version that reflects our changes in asset allocation over the past two years. The new Climate Watchlist will still represent at least 70 per cent of the material financed emissions for our Public Markets holdings. Of the 99 companies in the new Climate Watchlist, 51 have been carried over from the original watchlist.

Of the 99 companies on the updated Climate Watchlist, 45 will be engaged through our stewardship provider, 24 through external investor initiatives, 18 companies engaged by our external managers and seven directly by the PPF. Five companies on the list are already marked as ‘Aligned’ according to the PAII’s Net Zero Investment Framework, assessed by MSCI, so will require lighter effort in terms of engagement and monitoring.

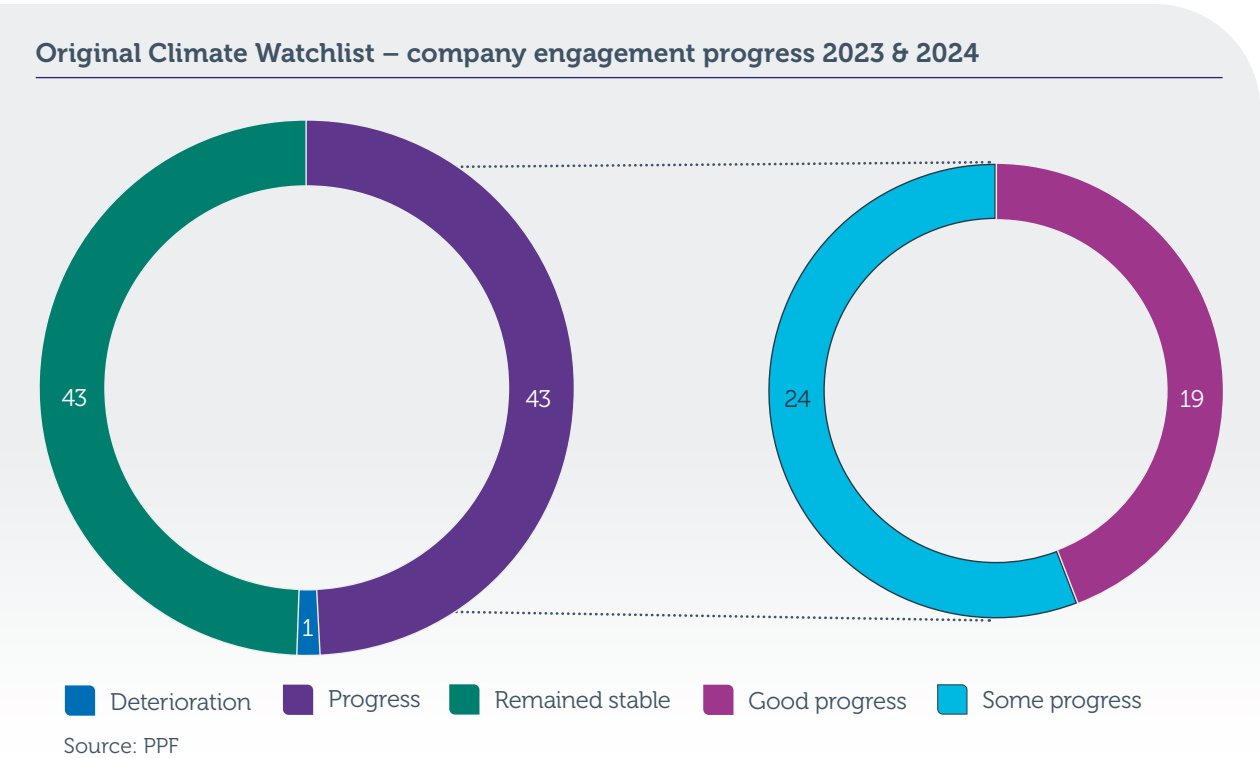
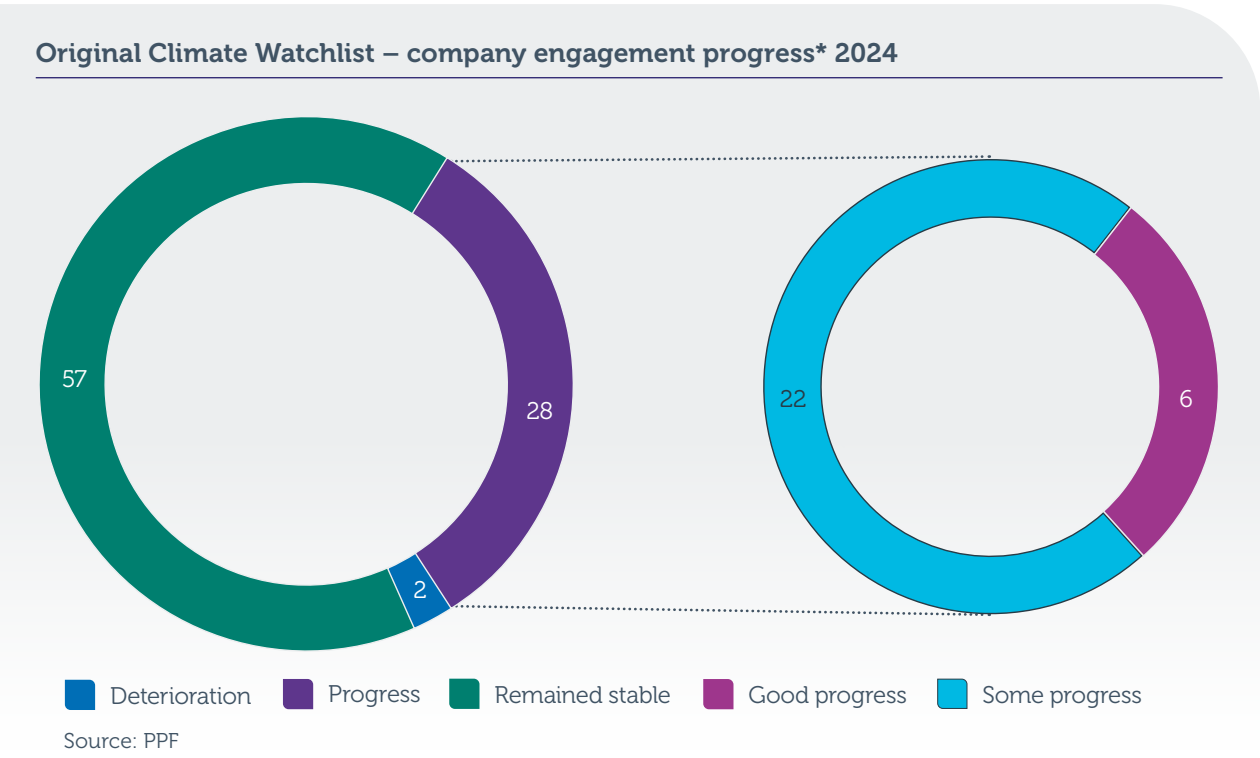


Original Climate Watchlist: Progress on engagement

The original Climate Watchlist comprised 87 companies that contributed to at least 70 per cent of financed emissions from our Public Markets book (at the time of creation) and were therefore subject to a higher level of engagement and monitoring. Some of these companies are further along on their emissions reduction journey than others. We therefore grouped objectives by level of progress, e.g. from requesting disclosure to encouraging better quality disclosure to urging science-based targets to be set.

Engagement on climate issues with portfolio companies is a lengthy process that requires proper monitoring and resourcing. It usually takes many rounds of engagement over years for serious change to happen and the results to be obvious. To help with this process and track progress, we have applied EOS’s milestone system – see right. Applying this system, 28 companies on our Climate Watchlist (32 per cent) made progress* on engagement objectives throughout the year – see charts, top right.

The original Climate Watchlist was live for 2023 and 2024. Over these two years, approximately half of the companies saw progress with 19 achieving good progress (moving at least two milestones during the past two years). The remaining half did not see any progress and one moved backwards. The greater success seen in the second year seems to corroborate our understanding that successful engagements can take multiple years to play out and see the desired progress from companies.



* A company has achieved ‘Some progress’ when they have moved one milestone on at least one engagement objective and ‘Good progress’ when they have moved on average two milestones on engagement objectives.

Climate Change & Transition continued

Progress on our original Climate Watchlist companies

Engaged by EOS

- National Grid completed its objective to align its greenhouse gas emissions targets with the Paris Agreement target on global heating of 1.5°C and has made progress on disclosing intensity of its methane emissions.
- China Petroleum and Chemical Corp completed its objective to disclose and measure methane emissions.
- Petroleo Brasileiro completed its objective to have medium-term carbon reduction targets and made progress with its decarbonisation strategy.

Engaged by Climate Action 100+

- Petroleos Mexicanos has improved on four objectives laid out by the Climate Action 100+ initiative, and now partially meets six out of 10 CA100+ criteria.
- China Shenhua received a reduced engagement score due to a deterioration in its capital allocation criterion.

Engaged by our external asset managers

- An American steel producer, Steel Dynamics, achieved its objectives to seek third-party validation of its science-based targets and has set targets to reduce its Scope 3 emissions.
- A major US airline, Delta Airlines, has deteriorated in the following areas: low-carbon R&D disclosure, strength of its environmental policy and Climate Value-at-Risk. The external manager that leads engagement is in the early stages of building its relationship with the company and will keep engaging in areas where there is room for improvement.

Engaged directly through the PPF

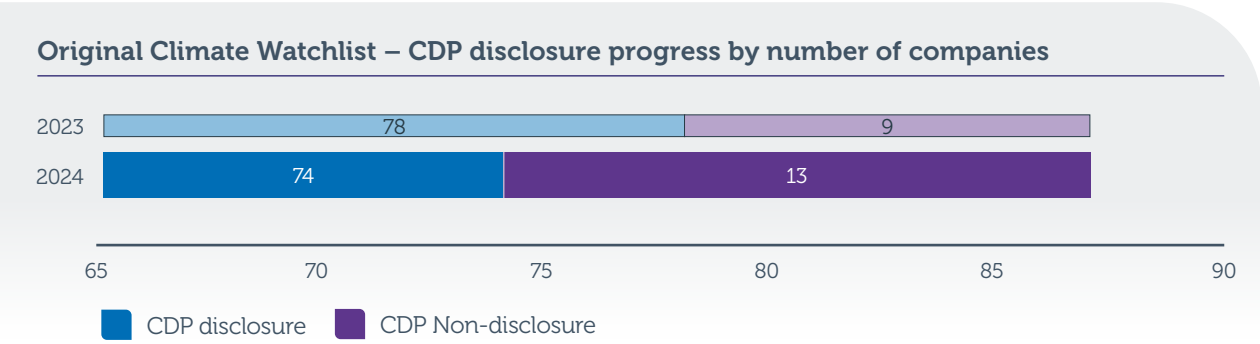
- Veolia, which was engaged by the PPF through the IIGCC’s Net Zero Engagement Initiative, achieved approval for its science-based emissions reduction targets, enhanced its emissions disclosure and accelerated deployment of sustainable solutions, thereby meeting all our key engagement goals for its climate disclosure and policies.

Our Climate Watchlist and CDP disclosure

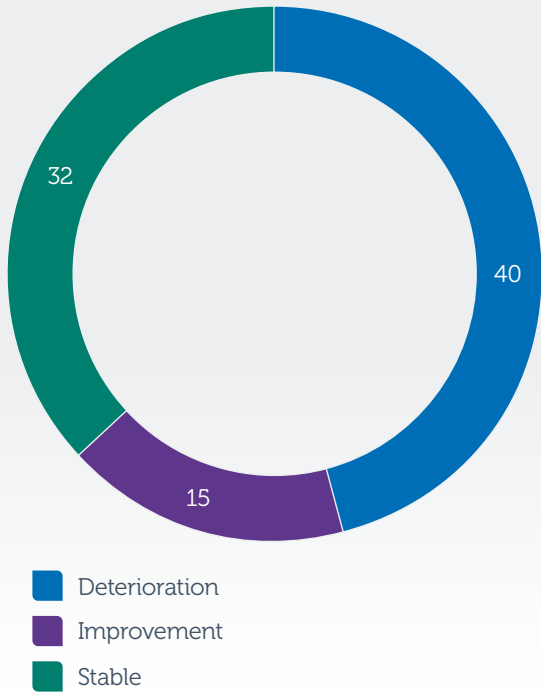
Alongside welcoming disclosure on carbon emissions from companies, it is equally important to us that data disclosed is high quality. As part of the PPF Sustainability Strategy, we are committed to ensuring that at least 80 per cent of companies on our Climate Watchlist are making disclosures on emissions, with a view to standardising how this is reported.

Despite improvement in the availability of carbon data in Public Markets, more still needs to be done.

We have therefore continued to participate in the annual Non-Disclosure Campaign by CDP, the global standard platform for environmental data disclosure, to encourage greater corporate transparency. The campaign has been supportive in getting 85 per cent of our original Climate Watchlist names to disclose their emissions, with two companies disclosing for the first time this year. However, this still marks a small deterioration since last year, when 90 per cent of our Climate Watchlist disclosed to CDP, which we anticipate is principally due to shifting perceptions around climate reporting, particularly in the US.



Original Climate Watchlist – CDP disclosure score progress of companies



CDP’s Non-Disclosure Campaign has been supportive in getting 85 per cent of our original Climate Watchlist names to disclose their emissions, with two companies disclosing for the first time this year.

Metrics and targets

We continue to push for high-quality carbon emissions disclosure across all asset classes in our portfolio, so we can better assess our alignment with the goals of the Paris Agreement on Climate Change. We continue to see the most progress on disclosure within Public Markets, but we hope to see more disclosure for Private Markets as standardised reporting is adopted.

Why carbon emissions disclosure is so important

Understanding how much carbon is being emitted into the atmosphere by the assets in our portfolio is critical to measuring progress against our ambition of contributing to the global transition to a world of Net Zero man-made carbon emissions.

First, by determining where the largest emissions are being generated, we can engage with the underlying company, bond issuer, real estate landlord etc to take action to reduce emissions. As well as reducing the impact of our investments on the real world, this also makes our portfolio more resilient to future shocks (and potentially less likely to lose value) as the world looks to move to Net Zero.

High-quality carbon disclosure that’s reported by the assets themselves (rather than having to use approximations) is also a good sign that a company or issuer is taking measurement (and therefore action on) of their carbon emissions seriously.

Our goal is to see carbon disclosure rates for our whole portfolio increase – while over time, the emissions generated by our portfolio fall.

“ Across our Public Markets portfolios, the overall coverage of holdings has been stable at 97 per cent. In addition, over 91 per cent of total carbon emissions from these portfolios are reported rather than estimated. ”

Corporates’ disclosure rates and data quality

Good quality disclosure is critical so that our analysis of climate-related risks is as accurate and decision-useful as possible. We measure whether carbon emissions are reported by portfolio companies themselves, if they had to be estimated by our ESG data provider or whether they are classified as not covered at all. We also look at the split between reported and estimated carbon emissions data on a ‘weighted by emissions’ basis (rather than just weighted by market value). Across our Public Markets portfolios, the overall coverage of holdings has been stable at 97 per cent. In addition, over 91 per cent of total carbon emissions from these portfolios are reported rather than estimated.

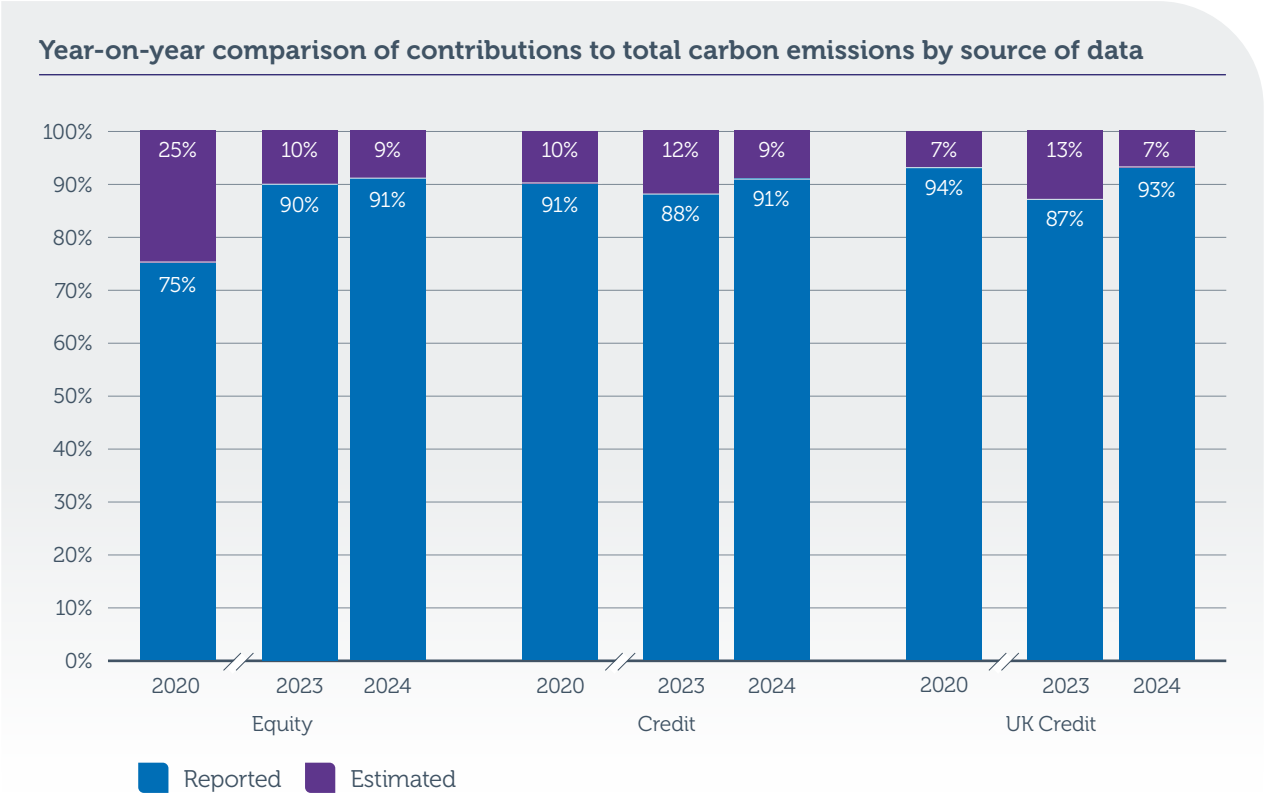
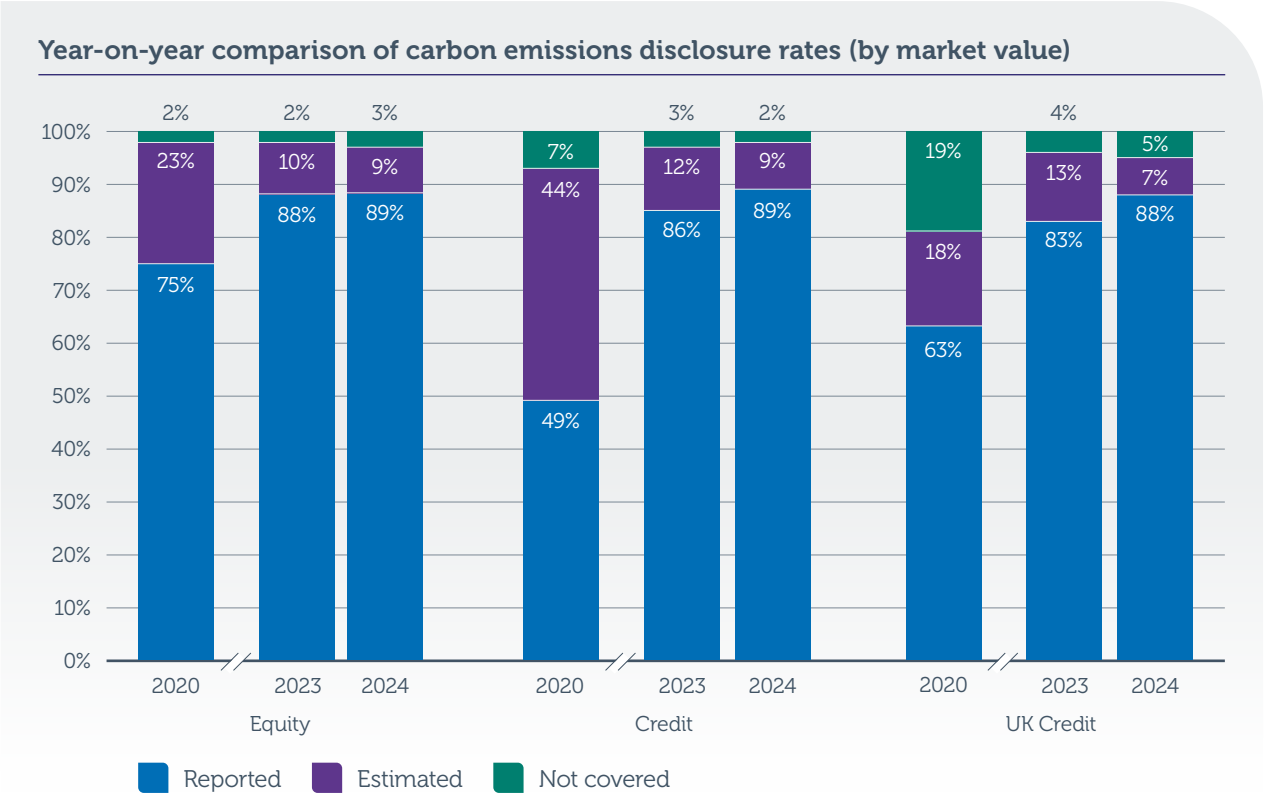
Equity – This year’s assessment of ‘Reported Emissions’ for our Equity holdings increased slightly by 1 per cent, as did the contribution to emissions by holdings with Reported Emissions. This was largely due to changes in portfolio allocation, although a small proportion of existing holdings did also initiate their own reporting of emissions.

This means that 91 per cent of total carbon emissions for our Equity holdings are now reported rather than estimated, further improving the accuracy of emissions measurement from our portfolio. However, emissions disclosure levels are still lagging in Emerging Markets, so more progress on reporting is still needed in these less developed economies.

Credit – Emissions coverage of our Global Credit portfolio (which covers global and emerging markets) also increased by 1 per cent, as MSCI continued to increase its coverage of emissions from fixed income issuers. We saw a 3 per cent reduction in Estimated Emissions, driven both by existing holdings improving their disclosure quality and new holdings with reported emissions. This also increased the contribution of Reported Emissions to Total Emissions by 3 per cent.

UK Credit – We saw a larger increase of 5 per cent in Reported Emissions from our UK Credit holdings this year, from 83 per cent to 88 per cent. Again, this was driven both by existing holdings improving their disclosure quality (so that MSCI did not need to estimate them) and new holdings that reported emissions. This has also increased the contribution of Reported Emissions to total carbon emissions, again suggesting that accuracy of the more material emissions is on an upward trajectory.

Climate Change & Transition continued



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Note 1 – PCAF Scores Quality Breakdowns comparability: Reported Emissions correspond to a PCAF Quality Score of 2, Estimated Emissions correspond to a PCAF Quality Score of 4, using [Partnership for Carbon Accounting Financials](#) (PCAF) guidance.

Note 2 – MSCI One doesn't provide 2020 Reported vs Estimated breakdown, so we have used the historical breakdowns from their previous system.

Note 3 – Totals over 100 per cent are due to rounding.

Progress on emissions coverage by asset class

The wide diversity of asset classes in which the PPF invests can make assessing and reporting on climate-related risks for our whole portfolio challenging. However, we are pleased to see steady progress on our ability to report our carbon emissions metrics across all asset classes. Following on from the launch of our original Climate Watchlist in 2023 and the creation of our new Watchlist (see page 41), we have focused especially on encouraging more disclosure from the highest-emitting names in our portfolio.

Public Markets – Financed emissions expanded coverage

Our data provider, MSCI, has introduced new EVIC (Enterprise Value Including Cash) factors for reporting Financed Emissions. Where EVIC is unavailable, it is now proxied by Total Debt plus Total Equity, where applicable. Whilst this does not affect the coverage of WACI and absolute carbon emissions, it has a significant effect of improving our coverage of Financed Emissions, particularly for Credit and UK Credit where many issuers are not listed companies. Emissions coverage for Credit increased by 11 per cent to 97 per cent and UK Credit increased by 21 per cent to 93 per cent¹.

Private Markets

As mentioned in previous years, covering emissions for private assets has been a significant challenge. However, we are starting to see some emissions data for a selection of our Private Markets funds materialising through the eFront® ESG Data Service project. This has been supported by other industry initiatives, such as the ESG Data Convergence Initiative (EDCI), which has also seen strong participation from General Partners (GPs) recently. eFront® fully captures the EDCI metrics to allow GPs and portfolio companies to report to both frameworks in a standardised way. Please see page 45 for progress year on year.

UK Private Credit

In terms of our Matching Portfolio, last year, we began collecting carbon and ESG data for our UK Private Credit assets, which also includes some real assets. We collected portfolio-level carbon emissions directly from the external managers of our largest mandates, reaching a coverage rate of 80 per cent of our UK Private Credit book. This year, we liaised directly with our external managers to then aggregate the carbon emissions of these portfolios as a whole. Our methodology was informed by PCAF's guidance using the same methodology that eFront® is using for Private Markets.

Derivatives

We have maintained the decision to keep derivatives and short positions out-of-scope of our climate reporting for now, as the tools to assess carbon emissions and climate-related risks for these instruments have not evolved sufficiently.

¹ This data is available for 2024 and is not yet available for previous years. When it becomes available, we will restate past years' figures for a like-for-like comparison.



Climate Change & Transition continued

Case study

Update on the eFront® ESG Data Service project

eFront® ESG Data Service
(2024 campaign in numbers)

Portfolio data as at Dec 2023

1,800

general partners in scope
(+25% from previous year)

400

general partners engaged & reporting asset level data
(+40% from previous year)

7,000

unique funds captured as in scope and with public proxy estimates

8,800

companies/properties with ESG asset level data available
(+49% from previous year)

We joined eFront®’s Private Markets project in late-2021 to capture ESG data from general partners (GPs) and underlying portfolio companies for a small number of Private Equity funds. Since then, the annual campaign has significantly expanded across GPs and Private Markets’ asset classes on eFront®’s platform.



For us, the number of GPs covered in our portfolios remained stable from last year, with 49 GPs in scope. We continued to dedicate time emphasising to our GPs the importance of reporting this data, in terms of regulation and the benefit of having primary data to understand the risks and opportunities facing their portfolio companies.

As a result, nearly two-thirds of the PPF’s GPs committed to providing December 2023 data to eFront® this year, compared with 22 per cent for the overall campaign. Our engagement success with our GPs represents a further increase of 24 per cent from last year’s campaign.

Similar to last year, we received GP-reported data for approximately 550 portfolio companies across core ESG and carbon metrics, including Scope 1, 2 and 3 emissions, biodiversity impacts, and UN Global Compact violations¹. The most reported metrics continued to be emissions-based metrics, with Scope 3 emissions being reported more frequently than last year, followed by reporting on policies or violations on UN Global Compact compliance. The likely driver of disclosure is whether assets are held in a fund with Article 9 status under the EU’s Sustainable Finance Disclosure Regulation.

To populate gaps in emissions data reported from by GPs, eFront® also uses Clarity AI, a tool that calculates estimated Private Markets emissions using proxies from Public Markets company emissions.

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

We have seen a significant increase in the coverage by market value of our Private Markets portfolios as a result of this enhancement. Excluding our Real Estate portfolios (where the reporting approach is still being refined), we now have coverage for over 50 per cent of market value for Scopes 1, 2 & 3 emissions, energy consumption (including renewable energy consumption) and Female Board Gender Ratio metrics, when aggregating the ESG Outreach reporting with the Clarity AI estimates.

Next steps

- We are starting to see more convergence around the most appropriate metrics to ask private companies to disclose. In Europe, the Sustainable Finance Disclosure Regulation’s ‘Principal Adverse Impact’ (PAI) metrics are strongly supported. In the US, the ESG Data Convergence Initiative (EDCI) framework has a number of indicators that largely coincide with the EU’s PAI disclosures.
- We will continue to leverage appetite for the EDCI to encourage higher response rates from US-based GPs.
- The reporting templates are being customised to recognise the nuances across different asset types, especially in real assets such as Infrastructure and Real Estate.

Example metrics coverage for PPF’s Private Markets portfolios
(excluding Real Estate)

	Based on MV including Clarity AI	
	2023	2022
Scope 1 emissions	51%	37%
Scope 2 emissions	51%	36%
Scope 3 emissions	50%	36%
Energy Consumption	50%	35%
Renewable Energy Consumption	50%	34%
Fossil Fuel Exposure	30%	20%
Sites Operations Located In Biodiversity Sensitive Areas	19%	11%
Female Board Gender Ratio	61%	43%
Policies To Monitor UNGC Principles	29%	14%
Violation Of UNGC Principles	28%	13%

Source: PPF/eFront® ESG Data Service

We have seen a significant increase in the coverage by market value of our Private Markets portfolios as a result of this enhancement.



Climate Change & Transition continued

Absolute carbon emissions

Despite improvements in the number of entities reporting on carbon emissions, across countries and companies, the world is not yet seeing significant reductions in carbon emissions. In fact, many believe global emissions are still to peak, despite the positive momentum from companies and governments in setting reduction targets. We therefore anticipate that our portfolio will not see a sharp change in decarbonisation in the next few years.

Emissions may continue to rise for some metrics in the short term, especially as our portfolio coverage of emissions data continues to increase (as we have seen last year). Paradoxically, backing companies that are looking to reduce their emissions may also increase our exposure to high-impact carbon activities, such as energy production and heavy industry. However, we firmly believe that providing capital to credibly transitioning companies is necessary in order to see real-world decarbonisation at the scale and pace now urgently required.

We continue to measure and report on the total Scope 1 and Scope 2 carbon emissions associated with our holdings in public global equity ('Equity'), global investment-grade plus emerging market credit ('Credit') and the publicly traded UK Credit sleeve within the HAIL allocation of our Matching Portfolio ('UK Credit'). Collectively, these listed assets account for around one-third of our overall assets under management.

We report relative intensities for UK and EM Sovereign Debt portfolios as well in the next section. However, these assets are excluded from our total financed emissions summary below. This is because we believe comparing country-level absolute emissions alongside corporate emissions is not logical on a like-for-like basis, due to the risk of emissions being double counted.

How emissions have changed over the year

The total financed emissions across the Equity and Credit portions of our Public Markets portfolio have decreased by 13 per cent over the year. Specifically, Equity decreased by 7 per cent, Credit by 12 per cent and UK Credit by 29 per cent year on year. In addition, total Financed emissions have fallen by 61 per cent, from 1.26m tCO₂e to 489,159 tCO₂e since our baseline of December 2020. See chart on next page.

We have also reported Scope 3 emissions, although we have chosen not to aggregate them with our Scope 1 and 2 emissions, due to the inherent double-counting involved and the fact that Scope 3 emissions are nearly all still estimated. See page 48 for more on this, and Appendix L for more on the formulae used in our emissions calculations.

Decarbonisation progress for the PPF's Public Markets holdings:

-61%

in total financed carbon emissions (tCO₂e)

Source: PPF/MSCI Change from December 2020 (baseline) to December 2024

Our total financed emissions (tonnes) for 2024 for our Equity and Credit holdings

	Scope 1+2 emissions (tCO ₂ e)	Scope 3 emissions (tonnes CO ₂ e)		PPF AUM assessed (\$m)	Scope 1+2 carbon data coverage*
		Scope 3 – upstream (tCO ₂ e)	Scope 3 – Downstream (tCO ₂ e)		
Equity	168,806	483,497	913,720	\$3,470	97%
Credit	244,628	375,083	1,206,699	\$8,004	98%
UK Credit	75,725	135,416	147,784	\$2,087	95%
Total financed emissions	489,159	993,996	2,268,203	\$13,561	97%

* This metric shows the percentage coverage of holdings that have either reported or estimated emissions data and an available figure for Enterprise Value including Cash (EVIC). EVIC is essential for apportioning absolute financed emissions, but is not always available for fixed income holdings.
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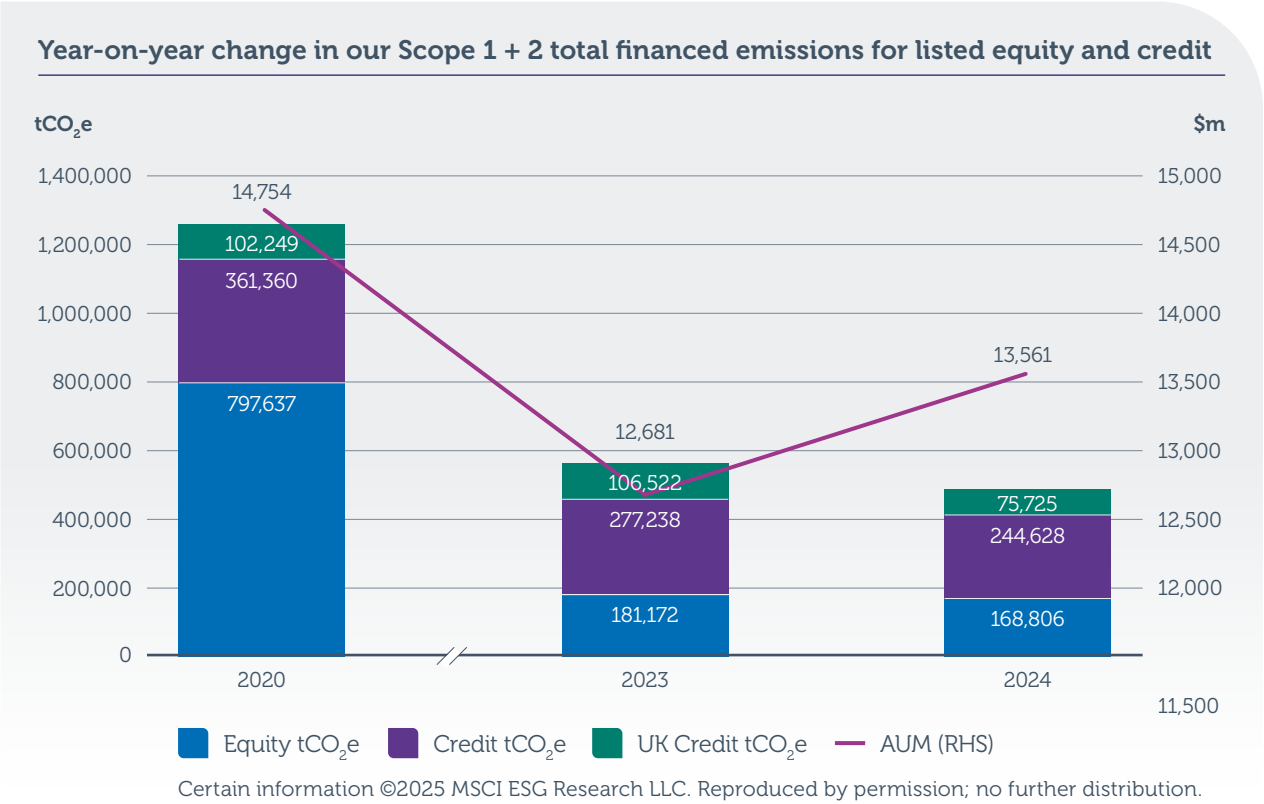


Climate Change & Transition continued



What do our emissions metrics tell us?

Metric	Tells us
Total financed emissions = Emissions ‘owned’ by our portfolio	What level of greenhouse gas emissions are we financing in total (in estimated tonnes of CO ₂ equivalent, tCO ₂ e)?
Financed carbon emissions = tCO ₂ e/\$million invested	What level of greenhouse gas emissions are we financing per \$1 million invested (tCO ₂ e/USD)?
Weighted average carbon intensity (WACI) = Weighted emissions of the portfolio/\$million sales	How carbon intensive are the business models of the companies that we are invested in (tCO ₂ e/USD)?

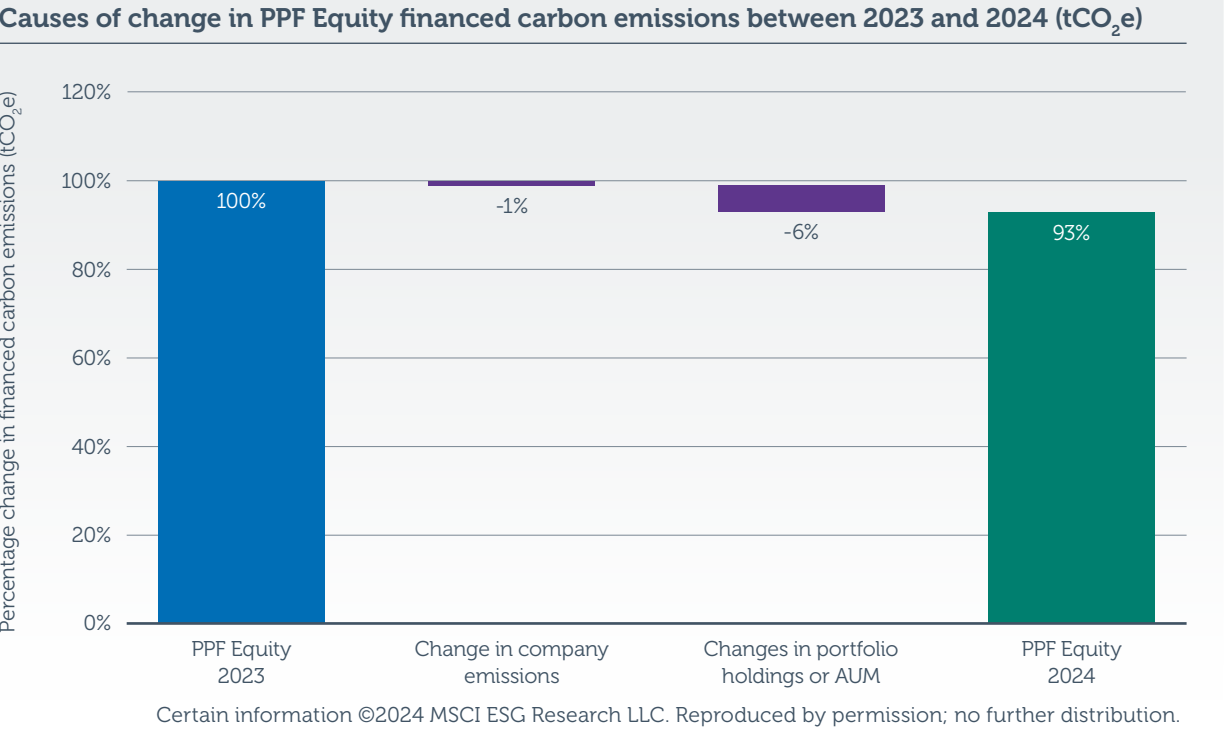


Reasons for the decrease in our Equity total financed emissions

In our Equity portfolio, total financed emissions decreased by 7 per cent, year on year. As the below chart shows, nearly all of the reduction came from changes in the portfolio holdings or AUM allocation, rather than actual changes in company emissions.

This was driven by one actively managed Equity portfolio, which contributed around two-thirds of the asset class’s emissions last year, reducing its exposure to higher-emitting names, leading to a fall in its financed emissions by over 60 per cent. For holdings that remained in the Equity portfolio across both 2023 and 2024, total financed emissions decreased mainly due to changes in the underlying holdings’ EVIC values, and only marginally due to lower carbon emissions.

Asset allocation changes throughout the year also had an impact on financed emissions. The introduction of two new Absolute Return portfolios with Equity holdings and our new internal Equity portfolio had a significant effect on financed emissions, with the new internal Equity portfolio bringing the emissions contribution lower.



Why we measure ‘causes of change’ in our total financed emissions

As the chart above shows, for our Equity portfolio, we assess not only how much carbon emissions in our portfolio have changed year on year but the cause of the change. We divide this analysis into two categories: change that has happened through companies reducing/increasing their emissions; and change that has come from altering our portfolio holdings.

This ensures that reductions or increases in emissions are fully accounted for (so we cannot, say, claim emissions reductions that don’t actually exist in the real world). Equally important, we can see if emissions reductions are actually coming from companies changing their behaviour.

Climate Change & Transition continued

Relative carbon intensity by strategy

Why we measure relative carbon intensity

As well as measuring the overall total carbon being produced by our investment portfolio – and how this is falling or rising over time – we look to assess the specific carbon exposure of individual asset classes. Financed carbon emissions tell us how much carbon is being generated per \$1 million (\$m) invested in an asset class (or company or bond etc). This allows portfolios of different sizes to be compared on a like-for-like basis.

‘Weighted average carbon intensity’ (WACI) is used to monitor our exposure to carbon-intensive companies and the ‘carbon efficiency’ of those companies. It is measured by calculating carbon emissions on a company’s revenues, then weighting the company by the size of our investment in it. The more/less carbon generated per \$1 million of revenue, the more carbon intensive/carbon efficient the business is.

We use a number of metrics to assess the relative carbon emissions intensity of our portfolios, which allows us to measure emissions from different asset classes and sizes of portfolio on a like-for-like basis (e.g. per \$1 million invested), which we expressed as ‘normalised’ financed emissions. See Appendix L for an explanation of each of these metrics.

Alongside corporate emissions from Equity and Credit holdings, we can also consider emissions from UK and Emerging Markets Sovereign Debt through relative carbon intensity analysis. As a result, we are now measuring 57 per cent of the total PPF portfolio in this way.

Equity portfolio

Carbon intensity metrics

For Equity, when normalising the total financed carbon emissions by the total amount invested, the financed carbon emissions invested decreased by 24 per cent from 2023 to 2024. This was led by one of our actively managed Equity portfolios reducing both its financed emissions and normalised financed emissions by more than 60 per cent.

The weighted average carbon intensity (WACI) for the Equity aggregate experienced a year-on-year decrease of 10 per cent. Both active and passive portfolios demonstrated a lower WACI compared to the Equity benchmark. However, the Equity positions in our Absolute Return portfolios exhibited a higher WACI than the benchmark, which resulted in shifting the overall equity WACI to be higher than the benchmark. It should be noted that our Absolute Return mandates are not measured or managed against our Equity low-carbon benchmark, so this is not unexpected.

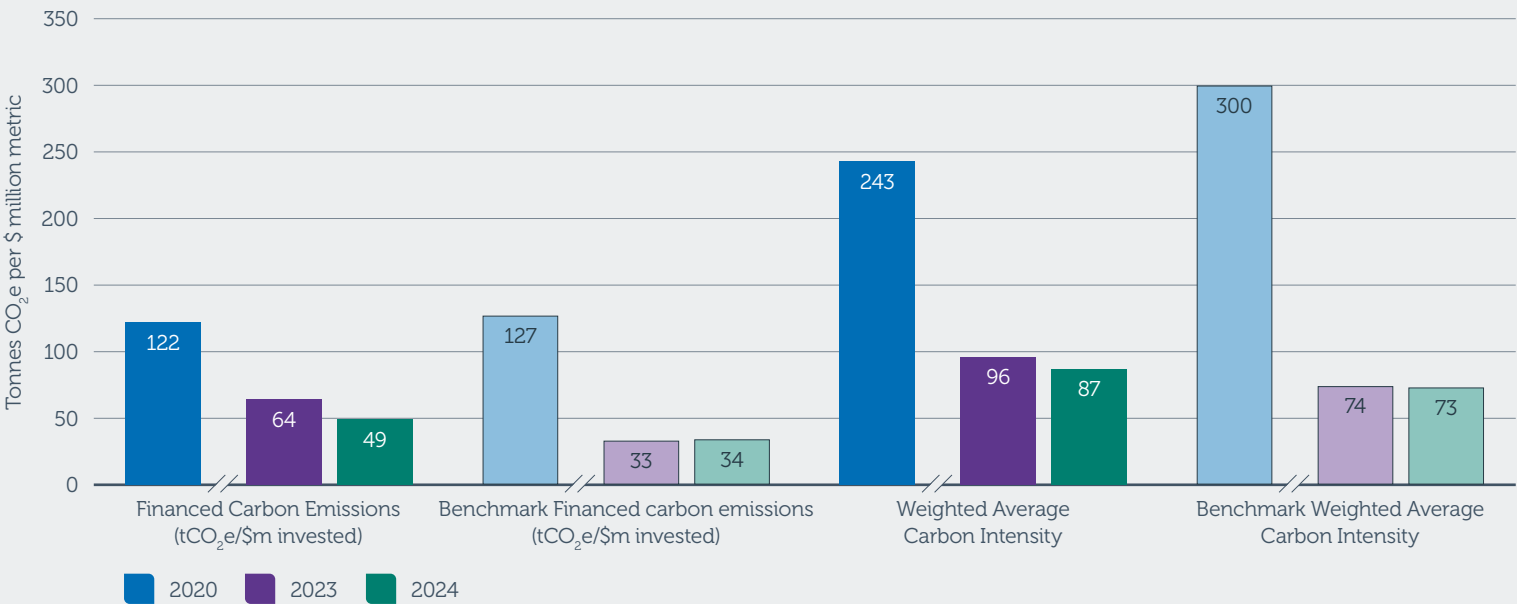
Since our baseline year of 2020, there has been an overall decline of 79 per cent in total financed emissions for Equity, as illustrated by the graph on page 47.

Additionally, the financed carbon emissions per \$m invested have decreased by 60 per cent. A similar downward trend is evident in the WACI for our Equity holdings, which is now 64 per cent lower than in 2020. Even if we had kept the holdings and weights constant since 2020, the WACI would have declined by 24 per cent, indicating significant decarbonisation progress in some names.

ACTION

Three of the top five individual contributors to financed emissions in our Equity book have been included in our new Climate Watchlist and are under engagement. The remaining two are not considered feasible for engagement due to either the portfolio strategy or the nature of the external managers specifically. For example, some manager strategies have limited engagement capabilities owing to the asset class (e.g. Absolute Return) or the mandate type, which prevents them from being included by our stewardship provider.

PPF Equity carbon metrics



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Credit portfolio

Carbon intensity metrics

In Credit, we saw a 12 per cent decrease in the total financed carbon emissions for the aggregated portfolio from 2023 to 2024. This was primarily driven by the reduction in exposure to corporate Credit holdings within one Emerging Markets portfolio. This portfolio has traditionally held several high-emitting companies, but the manager’s reduction in overall exposure to these companies has resulted in a lower contribution to financed emissions.

Normalised financed emissions per \$m invested also decreased by 17 per cent. Our internally-managed Credit portfolios maintained low normalised financed emissions (due to our large exposure to financials, which tend to have lower Scope 1 and 2 carbon emissions). The vast majority of external portfolios, representing 80 per cent of market value (of the Credit portfolio), decreased their normalised financed emissions.

The WACI for the aggregated Credit portfolio also decreased by 42 per cent year on year, and remains lower than the benchmark.

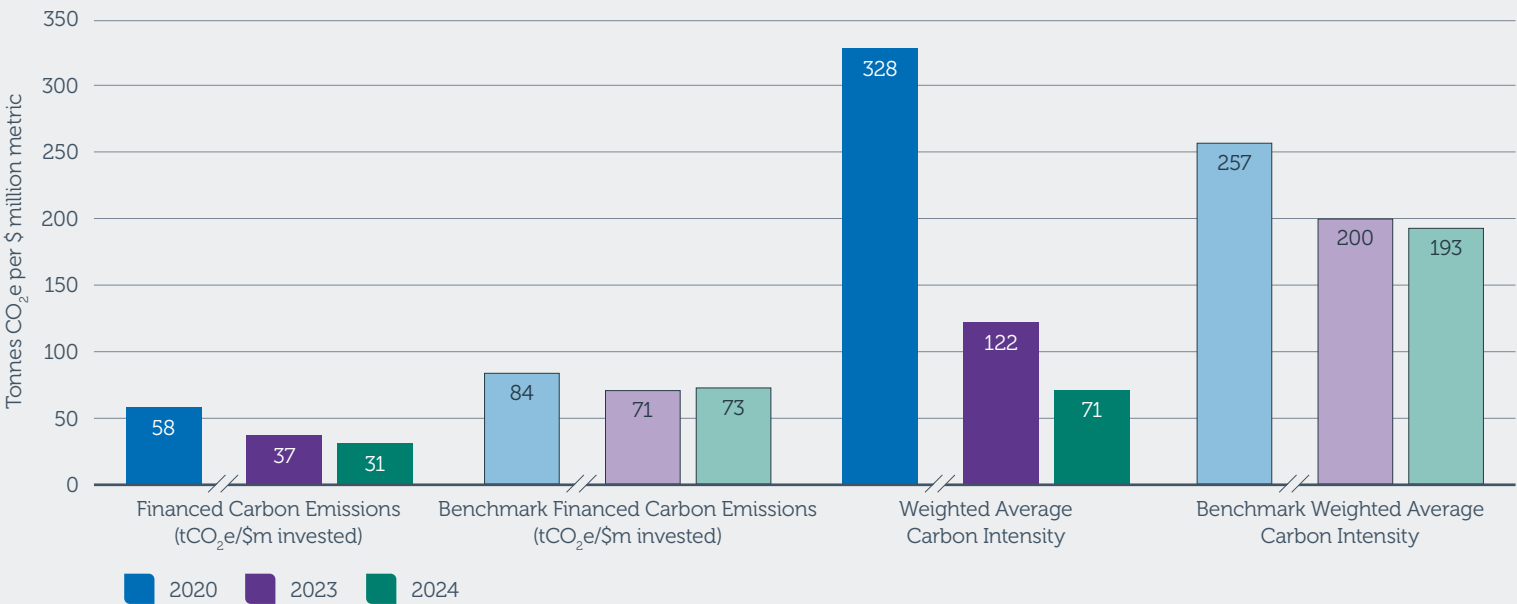
This reduction is driven by the majority of portfolios improving their carbon intensity performance year on year.

Since our baseline year of 2020, there has been an overall decline of 32 per cent in the total financed emissions from Credit and 47 per cent decline in the financed carbon emissions per \$m invested. Similar to the Equity book, the WACI for Credit is now 78 per cent lower than our baseline year of 2020. Again, this is driven in part by a greater allocation to our internally-managed portfolios over time, which have a higher exposure to Financials.

ACTION

The top five contributors to overall financed emissions within our Credit portfolios are included in our new Climate Watchlist. This will ensure that these top contributors are engaged with on their climate strategy in the coming year.

PPF Credit carbon metrics



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Climate Change & Transition continued

UK Credit portfolio

Carbon intensity metrics

Our UK Credit portfolio saw a decrease across all absolute and relative carbon metrics this year. We saw a decrease of 21 per cent in the total financed carbon emissions for UK Credit from 2023 to 2024, and a decrease of 22 per cent in financed emissions per \$m invested, as the graph below shows. The WACI for our UK Credit holdings decreased by 8 per cent from 2023 to 2024. In addition, the normalised financed emissions per \$m invested and the weighted average carbon intensity (WACI) metrics remain 29 per cent and 22 per cent lower, respectively, than our 2020 baseline.

The reduction in relative carbon emissions metrics, especially in normalised financed emissions, is mainly driven by data coverage enhancements. Notably, our data provider has recently introduced EVIC proxies for various subsidiaries that we previously had to map to their parent’s emissions data. Anecdotaly, we have seen parent proxies tend to have higher emissions than subsidiaries and as a result we see improved carbon emissions metrics year on year. When our data provider makes proxied

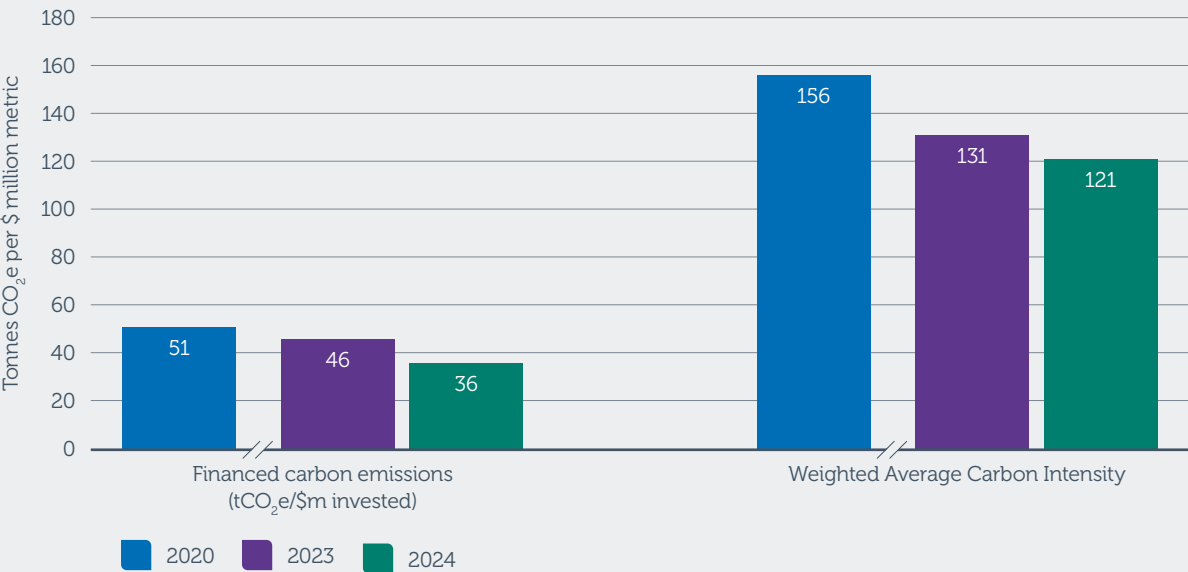
EVIC available for subsidiaries for previous years, we will be able to do a more direct year-on-year comparison.

Additionally, the top contributor to our UK Credit portfolio in terms of WACI has decreased its emissions by 6 per cent, while also increasing its revenues by a third. Our exposure to the issuer has remained broadly unchanged since last year.

ACTION

The five biggest contributors to financed emissions in our UK Credit book are included in our updated Climate Watchlist. Lead engagement groups have been assigned to four of them. The fifth issuer is already considered by our data provider to be aligned to the Paris Aligned Investment Initiative (PAII)’s Net Zero Investment Framework (NZIF).

PPF UK Credit carbon metrics



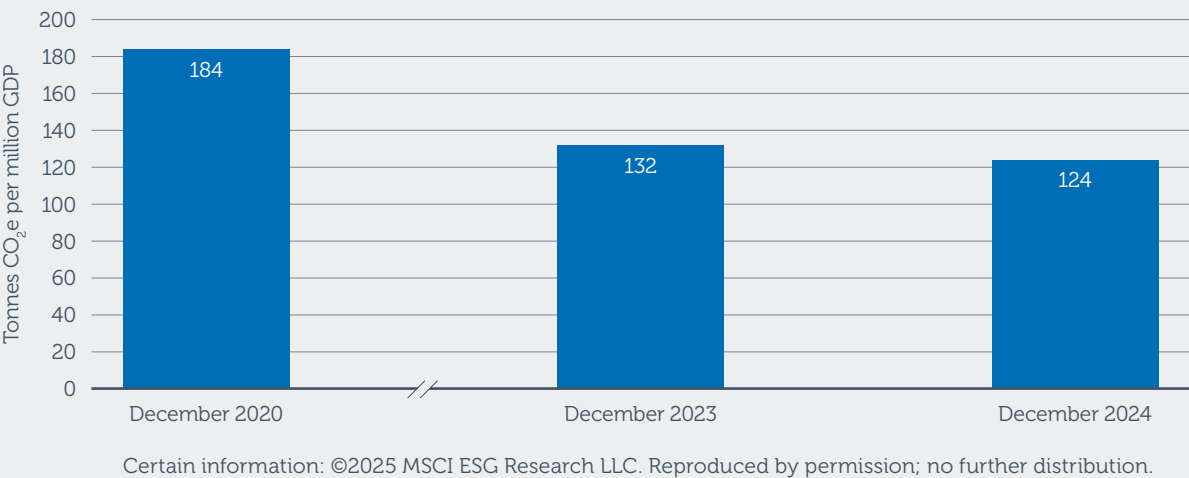
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UK Sovereign portfolio

Carbon intensity

The carbon intensity of UK Gilts in our LDI portfolio has decreased year on year by 6 per cent, due to declining UK carbon emissions at the sovereign level. This marks a continued decline in intensity and emissions in our UK Sovereign portfolio since our baseline year of 2020. Largely there is a downward trend in UK emissions due to ‘cleaner’ energy generation, led by the shift away from coal and fossil fuels, and improvements in industrial decarbonisation (e.g. blast furnaces switching to electric arc technology). The UK has set legally binding targets for Net Zero.

PPF UK Sovereign holdings: carbon intensity



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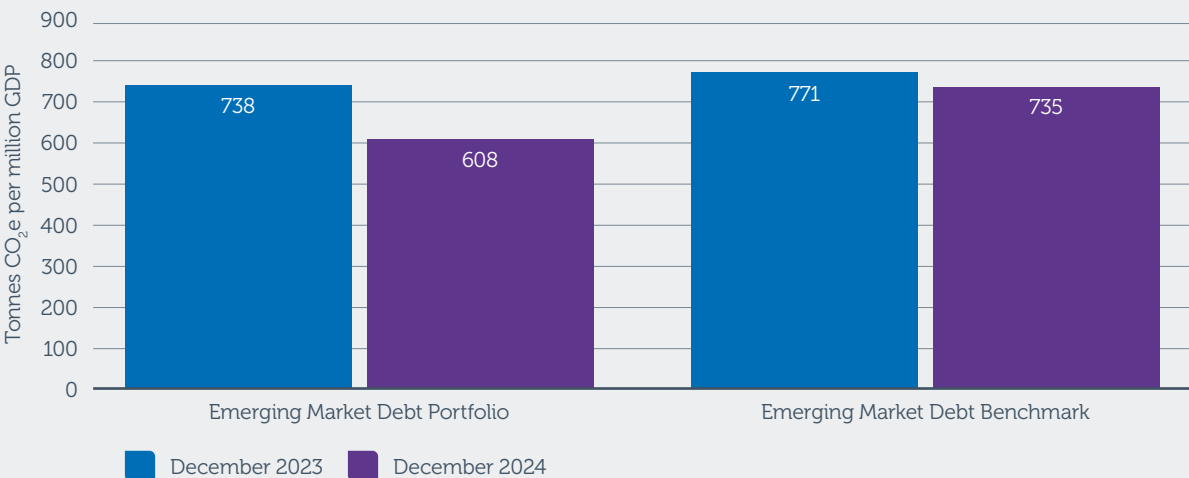
Largely there is a downward trend in UK emissions due to ‘cleaner’ energy generation, led by the shift away from coal and fossil fuels, and improvements in industrial decarbonisation.

Emerging Market Sovereigns

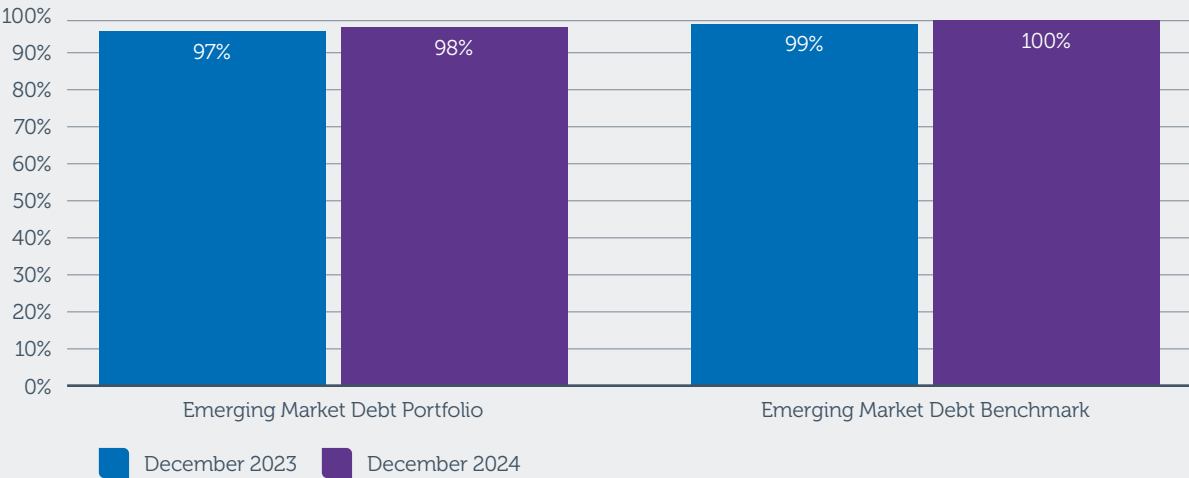
Carbon intensity

The carbon intensity of bonds issued by emerging market governments has reduced year on year by 18 per cent. This is predominantly due to existing holdings reducing their carbon intensity (a result of both reducing carbon emissions and increasing their GDP). This is especially the case among some Emerging Market issuers with high levels of fossil fuel production. According to our data provider’s new alignment assessment for sovereigns, three of the five highest contributors to sovereign carbon emissions in our Emerging Market Debt portfolio are considered to be aligned to global targets to keep global warming within 2°C of pre-industrial levels and two are considered to be misaligned to these targets.

PPF EM Sovereign holdings: carbon intensity



PPF EM Sovereign holdings: carbon intensity coverage



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Climate Change & Transition continued

Scope 3 emissions

As with the previous two years, we have opted to focus our Scope 3 emissions analysis on relative emissions metrics as we feel absolute carbon emissions can be misleading. This is because Scope 3 emissions are almost entirely estimated and there is considerable double-counting across the different scopes once Scope 3 is incorporated.

Why we measure Scope 3 emissions

Scope 3 emissions are greenhouse gas emissions that are not directly owned or controlled by the companies held in our portfolios but occur through their business activities, or ‘value chain’. ‘Upstream’ Scope 3 emissions are generated during the production of a business’s products or services, while ‘downstream’ Scope 3 emissions come from their use and disposal.

Notably ‘Scope 3 sales intensity’ refers to the level of greenhouse gas emissions associated with a company’s sales, relative to the revenue generated from those sales.

Scope 3 emissions often account for the largest (but hardest to measure) element of a business’s emissions so they cannot be ignored when assessing our portfolio’s climate impact. Attempting to measure them can also help to identify emissions ‘hotspots’ within a company’s value chain, which can inform our engagement activity with them. We are also working towards measuring our own Scope 3 emissions (see page 64) in order to manage and reduce the environmental impact of the PPF’s own operations.

Equity

This year, we observed a reduction in upstream and downstream Scope 3 sales intensities in our Equity portfolio of 13 per cent and 46 per cent respectively. The primary driver behind the reduction in downstream sales intensity was the significant increase in revenues of two holdings: one Brazilian materials company and one US electric vehicles company (due to the denominator effect where increased revenues decreases relative carbon intensity). This is because the Brazilian company experienced significant restatement of its revenues and the US company is an early-stage company experiencing relatively rapid revenue growth. The US EV company also contributed to the majority of the reduction in the upstream Scope 3 sales intensity of the Equity portfolio.

Credit

Our Credit portfolio experienced a decrease in Scope 3 sales intensity for both Scope 3 upstream and downstream emissions.

The reduction in upstream sales intensity is attributed to the removal of a US Hotels and Travel company and a US Industrial Machinery company from the portfolio, along with a reduction in exposure to a financial subsidiary of a Japanese car-maker (which also contributed to the reduction in downstream emissions intensity).

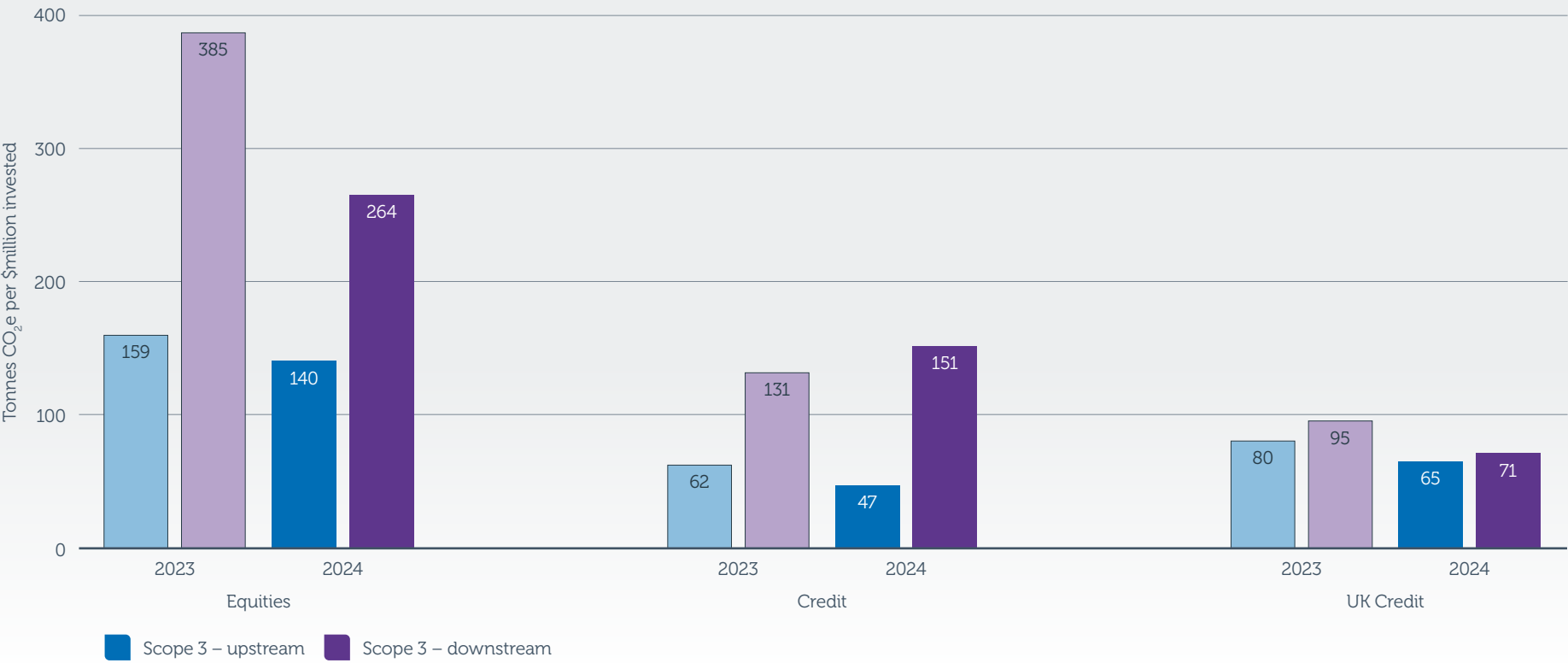
The major contributor to the reduction in Scope 3 downstream sales intensity came from an Indian state-owned export credit agency that promotes cross-border trade and investment. Although the Scope 3 downstream emissions of the agency have been reduced by 18 per cent year on year, the reduction was mainly driven by the variation in revenues (as reported by MSCI).

UK Credit

The upstream sales intensity of our UK Credit portfolio remained relatively stable year on year while the downstream sales intensity increased by 17 per cent year on year.

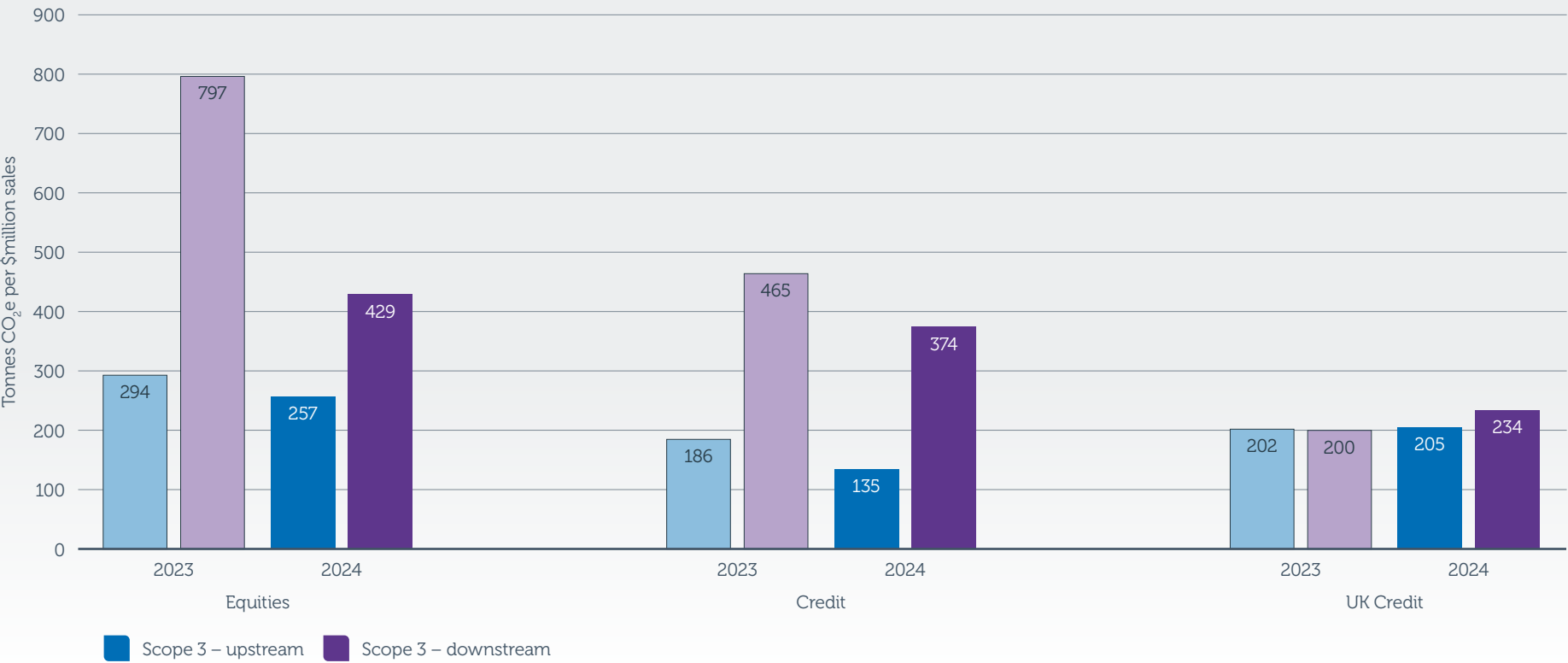
The biggest contributor to the increase in Scope 3 downstream sales intensity is a UK utilities company. This is due both to an increase in the company’s Scope 3 downstream emissions and the portfolio’s increased exposure to the company. The second-largest contributor is an Italian utilities company, which was newly introduced to the portfolio.

PPF Scope 3 emissions – financed carbon emissions (tCO₂e/\$m invested)



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PPF Scope 3 emissions – weighted average carbon intensity (tCO₂e/\$m invested)



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Climate Change & Transition continued

High-carbon impact sectors

Why we focus on high-carbon sectors

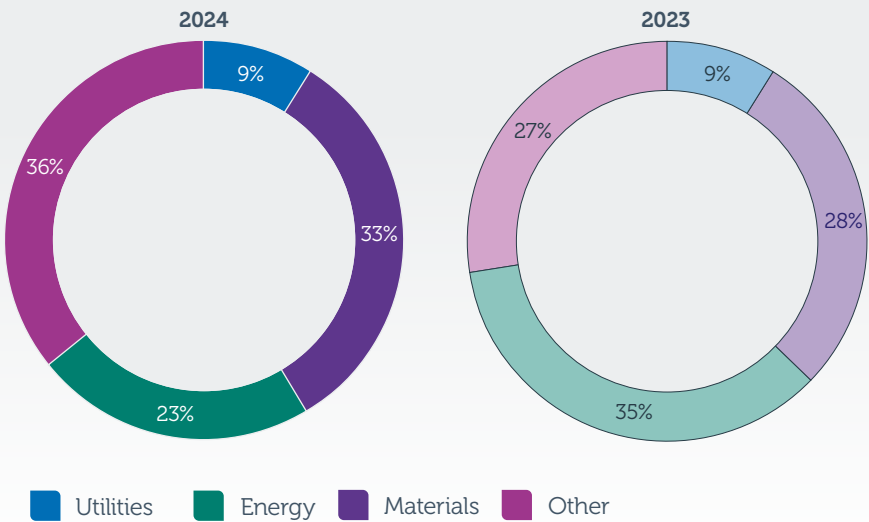
High-carbon emitting sectors such as Utilities, Materials and Energy present the biggest climate-related exposures in our portfolio but can also present some of the largest transition opportunities. We therefore pay special attention to understanding our exposure and how that is changing year on year. Even though our investment decisions are not driven by this top-down assessment, this scrutiny helps us prioritise where engagement efforts might have the greatest effect.



Equity

High-carbon impact sectors contributed less to overall emissions in our Equity portfolio this year compared to last year (65 per cent versus 73 per cent). This decrease is primarily due to a reduced exposure to the Energy sector – notably driven by a thematic shift towards less carbon-intensive names in one of our active Equity portfolios.

Equity

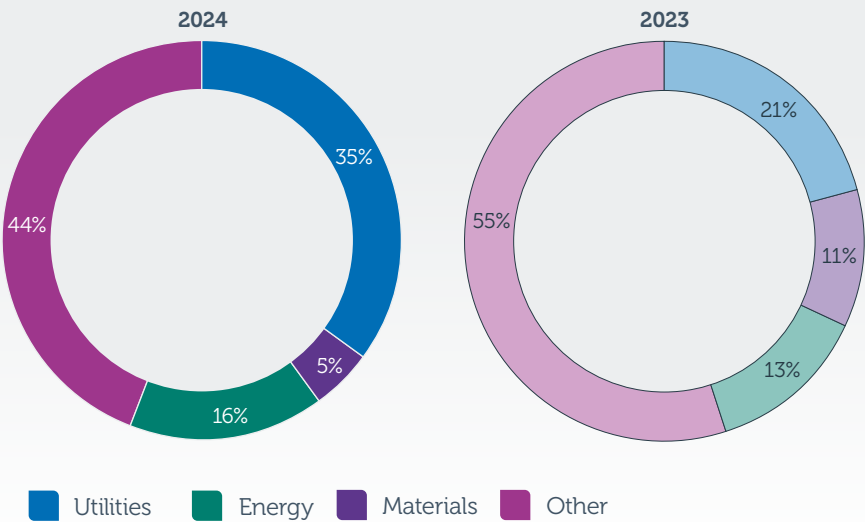


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Credit

High-carbon impact sectors contributed more to Credit this year (56 per cent) compared to last year (45 per cent). The increase is predominantly from the Utilities sector, which saw a 14 per cent rise in its contribution to emissions. This was due to a combination of new and existing Utilities holdings being included in the analysis (due to the proxied EVIC, which is essential for calculating financed emissions accurately). All top five Utilities contributors to emissions have been included in our new Climate Watchlist, and engagement teams have been assigned to engage with them on emissions reduction.

Credit

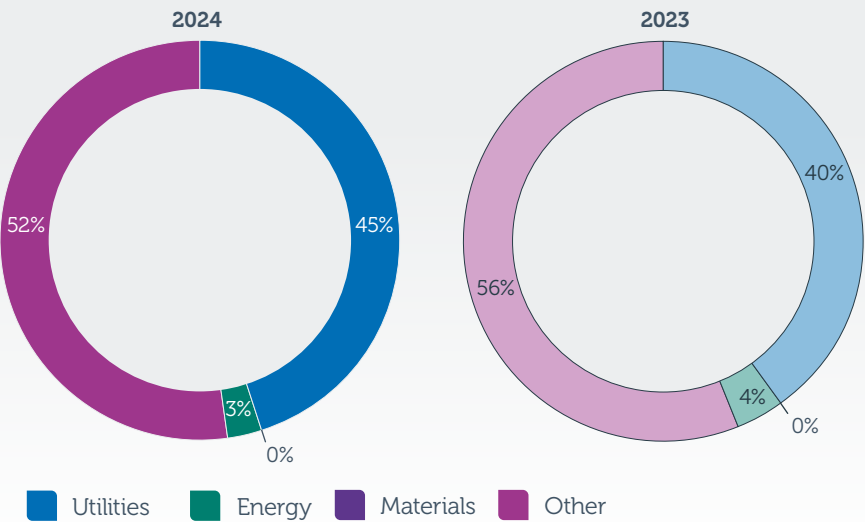


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UK Credit

Within our UK Credit portfolio, our exposure to high-carbon impact sectors has increased slightly from 44 per cent to 48 per cent. As with our other Credit portfolios, the increase has come from names in the Utilities sector providing proxied EVIC, which has allowed financed emissions to be calculated more accurately.

UK Credit



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Climate Change & Transition continued

Forward-looking scenario analysis

To manage our exposure to climate-related risks effectively, we utilise a number of forward-looking tools to assess how our portfolio might be affected by climate change in the future. These are covered in turn in the next four sub-sections.



1. MSCI Climate Value-at-Risk

As an long-term asset owner, it is important to stress-test our portfolio to see how its value might be affected in a range of scenarios and circumstances. To explore the impact of climate on our portfolio, we analyse the Climate Value-at-Risk (Climate VaR) metric from our data provider, MSCI.

Climate VaR comprises Transition VaR (comprising Policy VaR and technology opportunities) and Physical VaR, all of which we consider in our analysis. Due to the relative ease in running this analysis, we continue to conduct our analysis annually to reflect portfolio changes, even though it is common industry practice to conduct climate scenario analysis once every three years. However, we recognise the limitations within this assessment and the outputs are used to inform our views alongside a range of other considerations, rather than being acted on directly.

When stress-testing the Climate VaR of our portfolios, we look at five potential climate transition scenarios that align with those developed by the Network for Greening the Financial System (NGFS), as described earlier.

We choose to split out orderly and disorderly scenarios into a 1.5°C and a 2°C scenario to acknowledge the significant differences in these two temperature outcomes and how they might play out over the next 10 years.

Transition VaR

Policy VaR – The highest Climate VaR under a disorderly transition to a low-carbon global economy is mainly explained by the abrupt need for a higher and faster reduction in emissions. Companies would be required to achieve a bigger emission reduction and pay a higher assumed carbon price, face higher electricity costs, and absorb higher costs from their value chain, culminating in a higher Policy VaR. Conversely, a failed transition results in low Climate VaR because it assumes no/minimal policy action is taken so companies would not be required to decarbonise to the same degree. Plus, companies would not be forced to move into renewable energy as quickly or at all.

Technology opportunities – As well as assessing risks that climate change poses to the value of our investments, we look ahead to see how opportunities in a Net Zero world might benefit our portfolio. The VaR model principally assumes that, as the world moves towards Net Zero, companies with low-carbon/carbon-free technology patents, for example, are expected to see positive performance as the demand for renewable energy/low-carbon technologies increases. When calculating Transition VaR, the value gained from these opportunities can offset the value lost through Policy VaR.

Physical VaR

Physical VaR is used to assess the potential impact of the physical effects of climate change on the value of portfolio assets. The tool, developed by MSCI, covers six acute risks and five chronic risks. Acute hazards are catastrophic events such as coastal flooding, tropical cyclones, fluvial flooding low river flow, wildfire and the latest addition, pluvial flooding.

Chronic hazards are longer-term shifts in climate patterns – specifically looking at extreme heat, extreme cold, increased precipitation, extreme snowfall and wind gusts.

Throughout our Climate VaR analysis, we have selected the ‘Aggressive’ physical risk scenario throughout to assess the resilience of our portfolios, so we can see the largest potential impact on our investments of the physical consequences of climate change.

Acknowledging limitations

As mentioned, we acknowledge that there are limitations with the currently available climate scenarios and value-at-risk methodologies, which could be under-representing the risk. Recent studies have highlighted that existing scenarios do not factor in climate tipping points and feedback loops. In response, MSCI has made an initial effort last year to address the lack of integration between physical and transition risks by introducing scenario-specific physical risks.

Climate Value-at-Risk	
Transition VaR	Physical VaR
The business-related risks/opportunities of transitioning to a low-carbon economy: Policy VaR Technology opportunities	The financial risks that arise from physical impact of climate change such as extreme weather, drought and rising sea levels

Climate Change & Transition continued

Climate Value-at-Risk 2024 by asset class

Why we measure Climate Value-at-Risk

Assets, companies and industries can be affected by climate change, and the ways the world looks to respond to it, in very different ways. Climate Value-at-Risk (Climate VaR) offers a forward-looking estimate of the loss or gain an asset or portfolio could experience under different climate scenarios – from an orderly transition to keep global warming within 1.5°C to a ‘Too Little, Too Late’ scenario where climate action is delayed and uncoordinated. This allows us to assess – and take action to manage – the potential costs and/or profits that our portfolio could face in the best-case to worst-case scenario.

As mentioned on page 39, our Climate VaR data provider MSCI has updated all the scenarios according to the latest release by the Network for Greening the Financial System (NGFS). Therefore, results are not directly comparable with last year’s report. However, it is still evident that the 1.5°C Disorderly scenario continues to present the greatest Climate VaR for all three of our analysed asset classes, as it presents the highest transition risks.

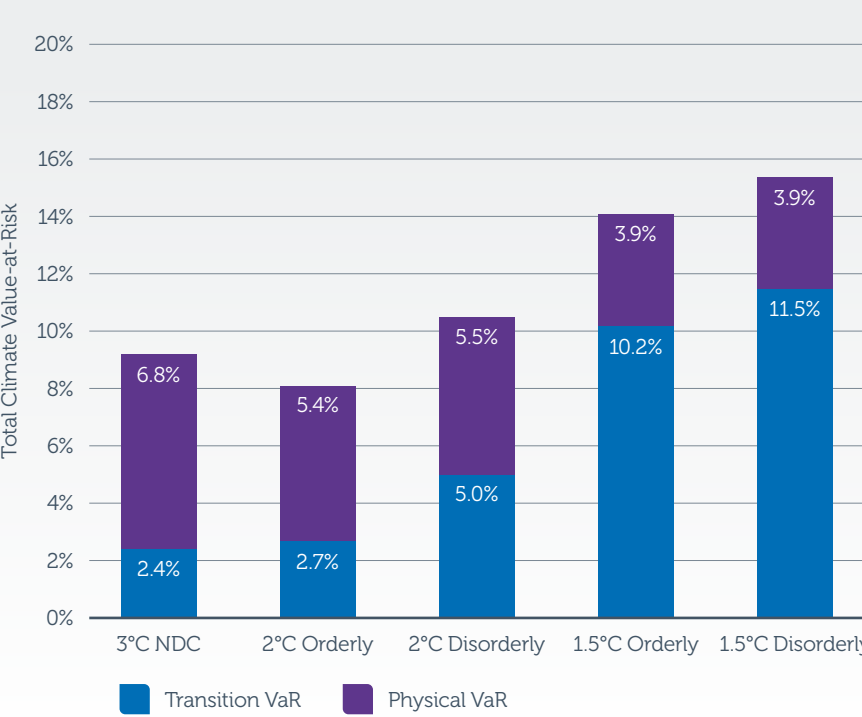
Equity

The impact from a 1.5°C Disorderly scenario is most significant for our Equity portfolio, with a Transition VaR of over 11 per cent and Physical VaR of just under 4 per cent. Although the Transition VaR is lower than last year (over 13 per cent), it suggests our Equity portfolio is still not as resilient to scenarios factoring in delayed but forceful action to keep global warming within goals set by the Paris Agreement on Climate Change.

We are engaging with our Climate Watchlist companies, to push them to consider climate change risks more widely. Energy is still the most exposed sector across all Policy VaR scenarios and the top two contributors to emissions are included in our Climate Watchlist – one engaged by one of our external asset managers and the other through CDP. Like last year, the Capital Goods sector stands to benefit the most from the technology opportunities presented by the transition to Net Zero.

Our Equity portfolio is the most exposed to physical risk under the ‘3 degrees NDC’ scenario. Across all scenarios, banks appear to be the most vulnerable to Physical VaR in our portfolio. Notably, a French diversified banking company has some operations in an island country with rising sea levels, which indicates it is potentially vulnerable to coastal flooding.

Equity Climate VaR by scenario



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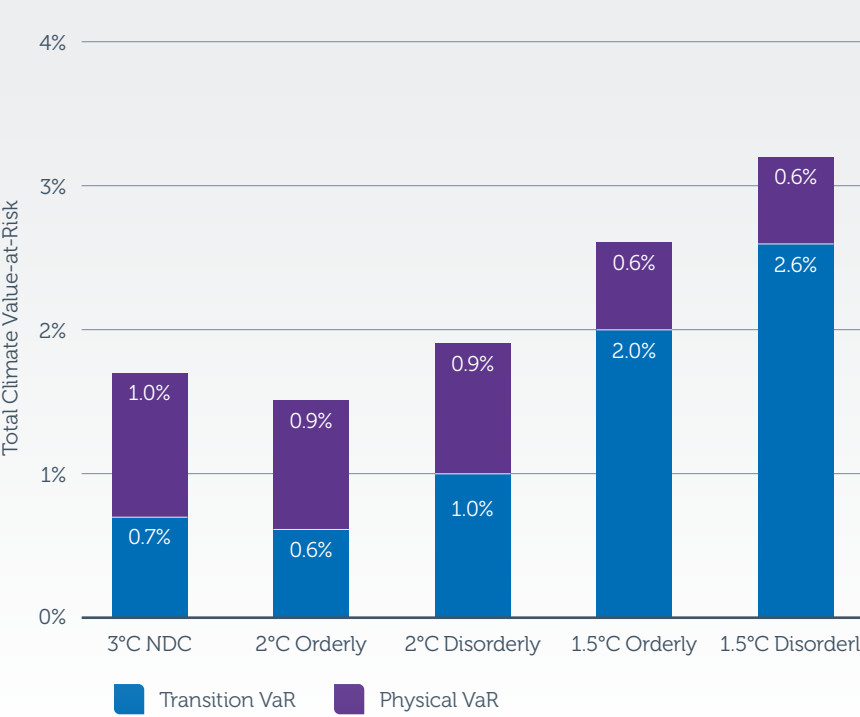
Credit

For another year, our global Credit portfolio registered a lower Climate VaR than our Equity portfolio, ranging from 2 to 3 per cent under the five scenarios when aggregating both Transition and Physical VaR. Although the results are not fully comparable with last year due to changes in methodology, we note that this year’s risks are relatively stable compared to last year.

Financial Services is the most exposed sector to Policy VaR across all five scenarios, primarily due to one particular holding. A US government-sponsored enterprise that purchases mortgages from lenders and packages them into mortgage-backed securities is currently flagged in our Credit book, due to the enterprise’s exposure to the US housing market and the sector’s associated transition costs. Asset-backed securities are now included in this analysis by our data provider, which explains why this association is being flagged for the first time. This holding also contributes the most to the physical risk of our Credit book. It is primarily exposed to extreme heat due to various United States offices being in locations that are prone to heatwaves, which pose significant health risks.

Technology opportunities contribute minimally to the Climate VaR for the Credit portfolio.

Credit Climate VaR by scenario



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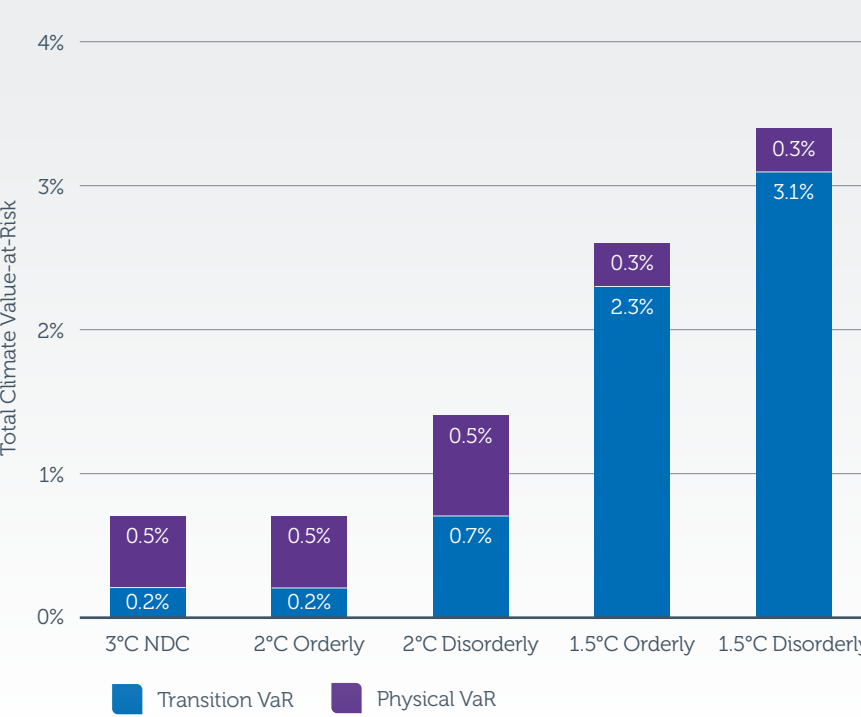
UK Credit

We have observed a significant reduction in both the Transition and Physical VaR exposure of our UK Credit book. Physical VaR now ranges between 0.3 per cent and 0.5 per cent, a substantial decrease from last year’s range of 4 to 7 per cent. Similarly, Transition VaR has fallen from a range of 1 to 11 per cent, to a new range of up to 3 per cent. We believe this can be partly explained by the analysis now considering subsidiary companies using their own (and therefore more accurate) data rather than proxy data from their parent organisations.

The most exposed sector for Policy VaR in all scenarios, except for 1.5 Disorderly, is Consumer Staples. In particular, a UK food & staples retail company is exposed to high transition risks from its supply chain and the potential need to absorb decarbonisation costs. The company also generates most to our UK Credit book’s Physical VaR, as some of its UK and US facilities are particularly susceptible to extreme heat.

Technology opportunities are mainly coming from the Utilities sector, specifically a French utility with robust decarbonisation targets that is phasing out coal and deploying innovative solutions like hydrogen.

UK Credit Climate VaR by scenario



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Climate Change & Transition continued

2. The Transition Pathway Initiative

The Transition Pathway Initiative (TPI) is a global, asset owner-led initiative which assesses companies’ preparedness for the transition to a low-carbon economy using two main assessments: a quality assessment of a company’s carbon management practices and a carbon performance assessment.

The TPI now covers approximately 2,000 companies and a total market capitalisation of \$86 trillion, representing a 50 per cent increase in coverage and an eightfold increase in market capitalisation. We continue to focus our use of TPI assessments to evaluate our Climate Watchlist, as it provides valuable supplementary analysis when assessing our progress in engaging with these companies to reduce their emissions.

TPI Management Quality assessment for Climate Watchlist companies

The [Transition Pathway Initiative’s Management Quality \(TPIMQ\) assessment](#) seeks to evaluate and track the quality of companies’ governance and management of their greenhouse gas emissions, and understanding of risks and opportunities related to transitioning away from fossil fuels.

TPI has raised the expectation for its Management Quality score by now also assessing whether companies’ transition plans include actions to achieve Net Zero. It also increased the overall number of indicators from 19 to 23 and conducts a wider assessment of material Scope 3 emissions disclosure.

Despite the stricter framework that has been implemented, the majority of our original Climate Watchlist companies have seen their TPIMQ score stay the same or improve. As the graph shows below, more than half of our Climate Watchlist companies (47 names), maintained the same TPIMQ score as last year. Of these, 18 have the highest TPIMQ score of either 4 or 5. 32 per cent (28 companies) improved their score, whilst 3 per cent saw their score fall.

A further four names are newly covered by the TPIMQ and have a score of either 3 or 4. Only five companies in our Climate Watchlist have no TPIMQ coverage.

TPI Carbon Performance assessment for Climate Watchlist companies

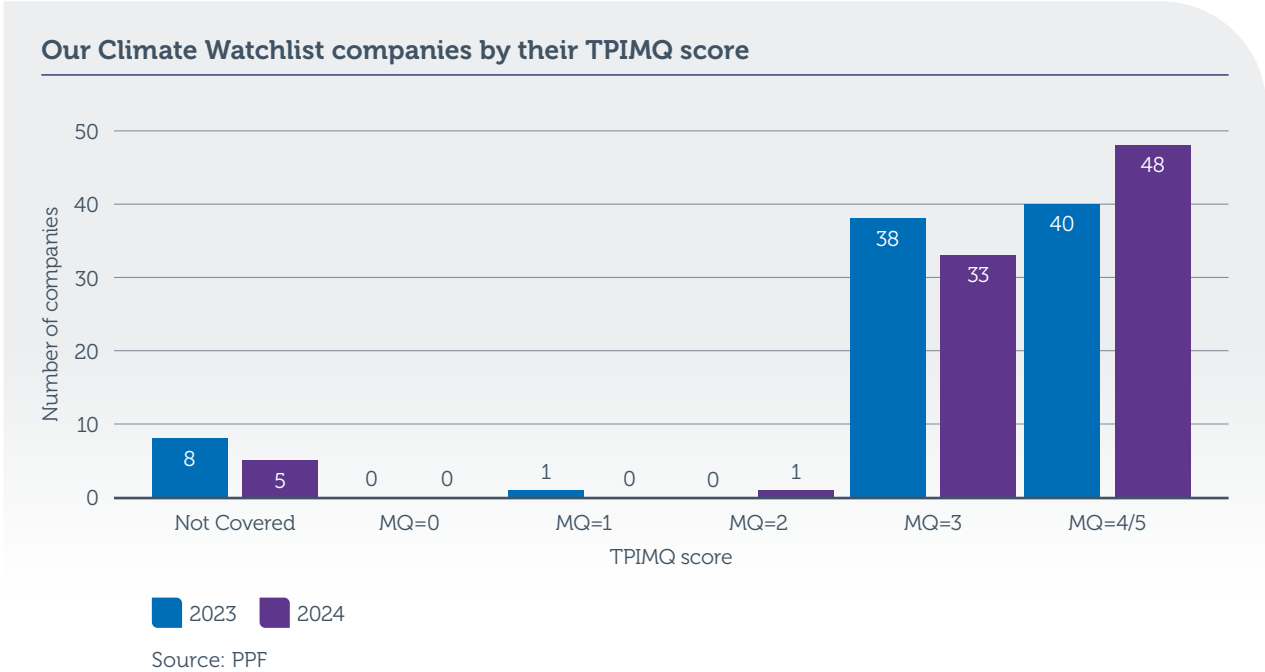
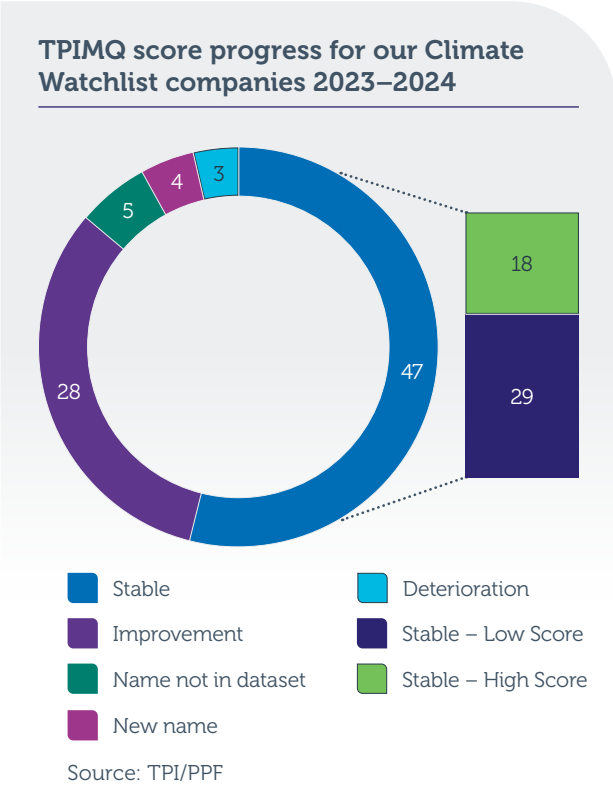
The TPI Carbon Performance (TPICP) assessment moves on from what companies are saying to what they are doing. It looks to compares a company’s emissions pathway and credibility of relevant targets against different climate scenarios consistent with the Paris Agreement on Climate Change.

Close to half the names on our Climate Watchlist (43 companies or 49 per cent) maintained the same TPICP assessment as last year, of which 25 have a reasonable assessment of ‘Paris/National Pledges’ or ‘2 Degrees and below’, and 12 are still considered ‘Not aligned’.

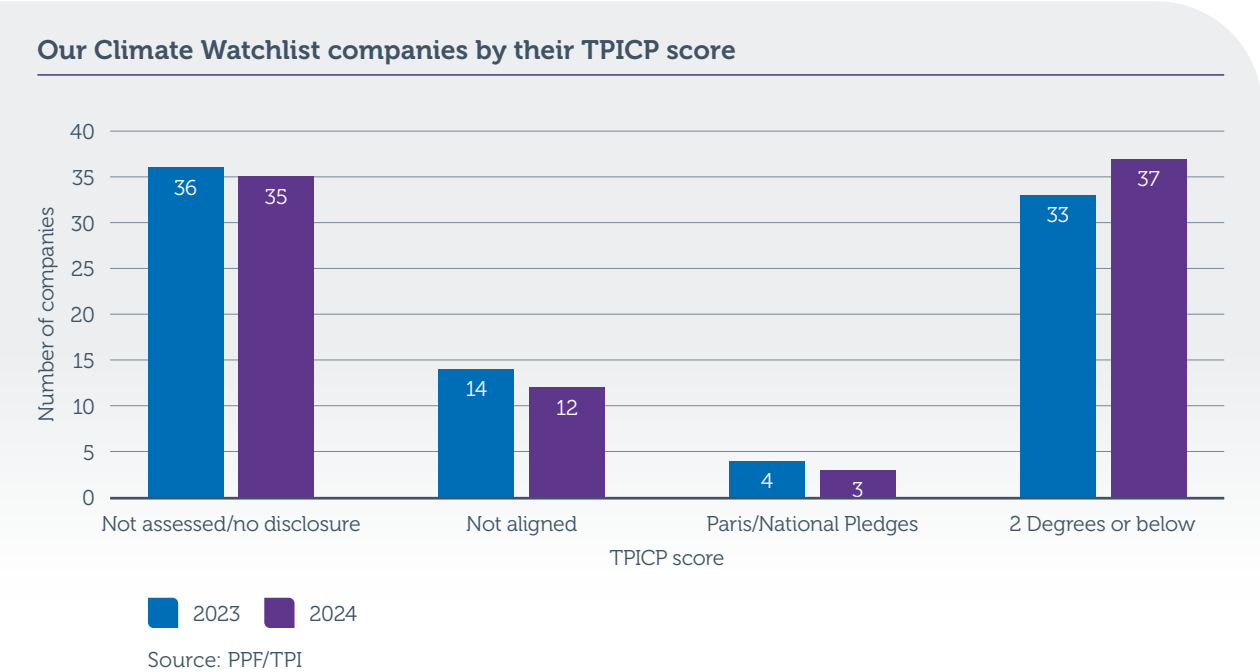
Seven names improved their assessment and only one name received a worse assessment than last year. One name has been newly assessed.

Overall, more companies on our Climate Watchlist are now aligned with the pathway of ‘2 Degrees or below’ compared to last year. The name with the deteriorating carbon performance assessment, a South African Diversified Chemicals company, dropped from ‘1.5 Degrees Aligned’ to ‘Below 2 Degrees’. Despite the slight decline in its carbon performance, the company has improved its Management Quality score, achieving the highest score of 5. Additionally, the company partially or fully meets Climate Action 100+ criteria.

The number of names on our Climate Watchlist that are not aligned or not assessed has fallen but is still high, with about 40 per cent of companies still being not assessed by TPI for their carbon performance. We generally see a lower level of coverage for the TPI Carbon Performance score than for the TPI Management Quality score because it requires historical reported year-on-year emissions to measure the company’s alignment. Therefore, we hope the number of companies being assessed/providing disclosure will continue to improve as companies are able to provide more historical reported emissions.

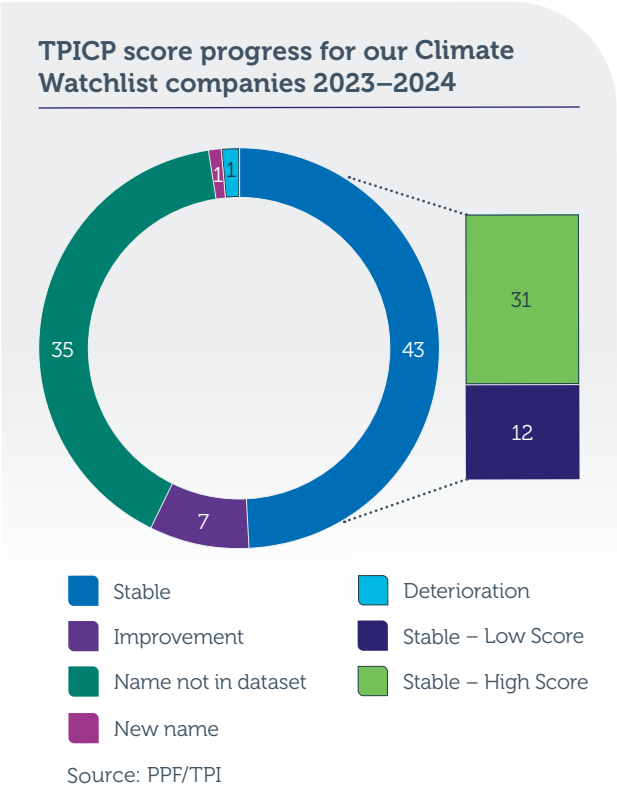


TPIMQ scores
0 – Unaware of (or not Acknowledging) Climate Change as a Business Issue; 1 – Acknowledging Climate Change as a Business Issue; 2 – Building Capacity; 3 – Integrated into Operational Decision-making; 4 – Strategic Assessment; 5 – Companies with transition planning and implementation.
Please note the TPI Management Quality and Carbon Performance Methodology was updated to version 5.0 in November 2023 and is applied to this year’s PPF Sustainability Report.
As the graph above shows, the majority of our Climate Watchlist companies have a TPIMQ score of 3 or better, indicating that the governance of greenhouse gas emissions and transition risks is reasonable. The lowest TPIMQ Score in our Climate Watchlist is scored 2 – this company is under engagement with our stewardship provider. The company has indicated that it is planning to start its climate reporting, set targets aligned with 1.5 degrees and commit to ceasing all coal-fired power.



What the TPI Climate Performance (TPICP) scores mean:
Not Aligned: Not Aligned with the goals of the 2015 Paris Agreement on Climate Change to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.
Paris/National Pledges: Consistent with the global aggregate of emissions reductions pledged by countries up to at least mid-2020, depending on the sector.
According to the IEA, this aggregate is currently insufficient to put the world on a path to limit warming to 2°C, even if it will constitute a departure from a business-as-usual trend. This scenario is consistent with a carbon budget that limits the global mean temperature rise to 2.6°C by 2100 with a 50 per cent probability.
2 Degrees or below:
1.5 Degrees scenario: Consistent with the overall aim of the Paris Agreement on Climate Change to hold the increase in the global average temperature to well below 2°C above pre-industrial

levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. This scenario is consistent with a carbon budget that limits the global mean temperature rise to 1.5°C with a 50 per cent probability.
Below 2 Degrees scenario: Also consistent with the overall aim of the Paris Agreement to limit warming, albeit at the middle of the range of ambition. This scenario is consistent with a carbon budget that limits the global mean temperature rise to 1.65°C with a 50 per cent probability.



Climate Change & Transition continued

3. The Science Based Targets initiative (SBTi)

The [Science Based Targets initiative \(SBTi\)](#) aims to provide companies with a clearly defined path to reduce emissions in line with the Paris Agreement on Climate Change by setting ambitious emissions reduction targets based on rigorous scientific assessment.

We view a commitment to setting an SBTi target or SBTi-approved target as a key indicator for evaluating a company’s ambitions to reduce their carbon emissions. The initiative has been instrumental in assessing alignment with the Paris Agreement on Climate Change for many of our portfolio companies.

This year, we continue using the dataset within the MSCI ESG platform to analyse our portfolio exposure to companies that have either formally committed to SBTi targets or had their targets approved by the initiative.

Science-based target commitments: update on approvals and removals

We continue to observe a number of companies withdrawing their commitments to SBTi targets. This is often due to companies taking too long to develop their targets (they have up to 24 months), disagreements with the SBTi methodology, or changes following a review of the SBTi methodology.

Despite some companies retracting their SBTi commitments, the initiative still boasts approximately 11,000 companies with targets or commitments. Of these, over 8,000 have validated targets, approximately 2,000 have Net Zero targets, and about 2,900 have other active commitments.

Our external stewardship services provider, EOS, takes SBTi targets into account in their engagement and will consider engaging with companies if commitments to SBTi targets have been removed. The aim is to understand the rationale to remove a target and encourage companies to revisit the benefits of a science-based approach.

However, we do acknowledge that, for some sectors, there are not clear means of adopting SBTi-approved approaches so companies might seek other science-based approaches to reach Net Zero/align with the Paris Agreement.

Progress on SBTi coverage

The percentage of companies with approved SBTi targets (rather than simply committing to targets) increased over the year for both our Credit and Equity portfolios. We expect to see the number of approved targets continue to increase as the second version of the SBTi’s Corporate Net Zero standard is finalised to reflect a more realistic approach to decarbonising companies’ operations and value chains.

Equity

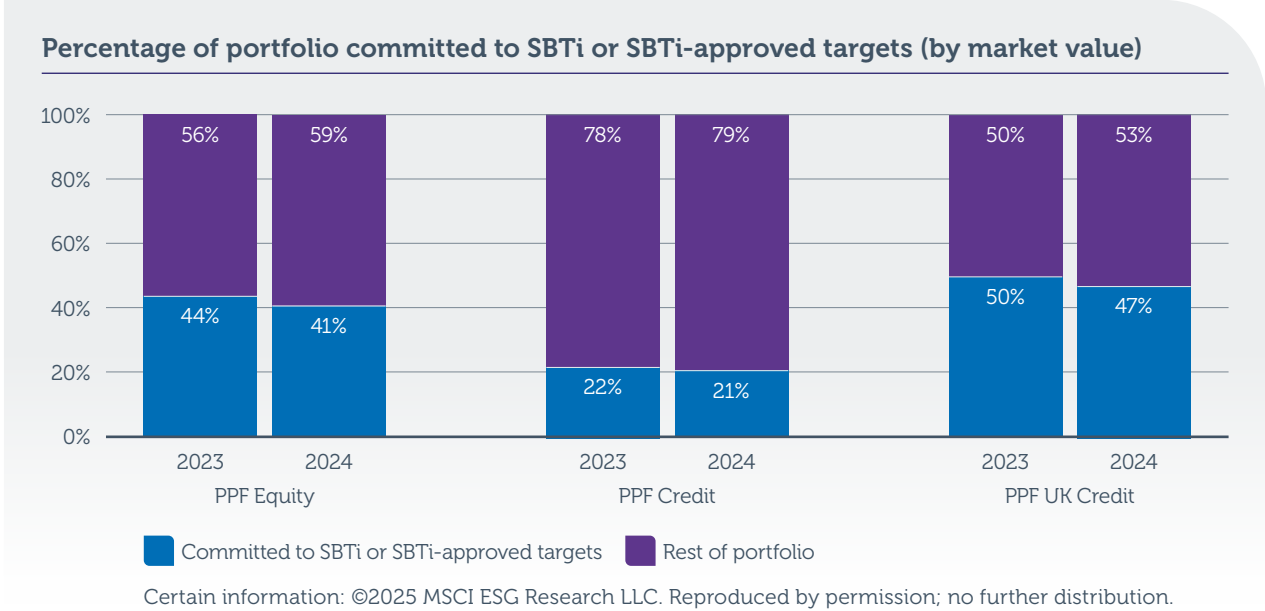
Overall, the Equity portfolio has a slightly lower exposure to companies with ‘Approved’ or ‘Committed’ SBTi targets compared to last year, however most of the difference arises from changes in holdings within the strategy.

Credit

Progress on SBTi targets among our Credit holdings has been relatively stable year on year. Again, our Credit portfolio has a slightly lower exposure to companies with ‘Approved’ or ‘Committed’ SBTi targets than last year, which is more due to changes in portfolio allocation than companies dropping their targets.

UK Credit

This year, we observe a slight decrease in UK Credit holdings with SBTi ‘Approved’ or ‘Committed’ targets. Existing holdings have either maintained or improved their status, and again the changes result from a combination of adjustments in portfolio allocation and the use of subsidiary information versus parent information (for the reasons mentioned on page 49).



Climate Change & Transition continued

4. Portfolio ‘Paris Agreement’ alignment

Why we assess our portfolio’s alignment with the Paris Agreement

We are committed to considering how our investment portfolio can support the transition and align with the Paris Agreement on Climate Change, which seeks to keep average global warming within 2°C (and ideally close to 1.5°C) of pre-industrial levels. By analysing our portfolio’s carbon emissions using tools such as Implied Temperature Rise (see page 57) we can take steps to identify which of our assets are on course to keep their own climate impact within 1.5°C/2°C and which assets are lagging.

This is important, first, to enable us do what we can to help keep global warming within internationally agreed levels. We also recognise that assets aligned, or on course to being aligned, with the Paris goals are likely to be more financially resilient in the face of future action by governments to address climate change.

Following the initiation of our Paris Portfolio Alignment Project in 2021, we have continued to measure our investment portfolio’s alignment to the goals of the Paris Agreement using the best available assessment tools. We remain focused on refining our assessments from a bottom-up, asset-level approach where possible, and continue to see most improvement in our Public Market investments, where corporate coverage and transparency is still greatest.

One alignment metric we have been using for a number of years is Implied Temperature Rise (ITR) (see below). However, we acknowledge there are still limitations in terms of its methodology/assumptions and, in particular, its reliance on the credibility of a target or commitment made by a company. Both these factors also mean ITR can be quite volatile and challenging to compare year on year. In addition, at the portfolio level, ITR doesn’t pinpoint exactly where progress is being made. However, the ITR metric does allow us to aggregate our assessments across asset classes and provides a simple way of indicating the forward-looking behaviour of our portfolio.

Over the past year, we have seen the underlying ITR for Equity remaining stable, and slightly increasing for Credit and slightly decreasing for UK Credit. Overall, the ITR of our portfolio has remained stable, reflecting small changes across the ITRs of different strategies.

Together, the ITR assessments and portfolio coverage assessments of SBTi targets are fed into our portfolio alignment metric. This allows us to measure the percentage of AUM across different Paris Agreement alignment categories (see ‘PPF portfolio alignment to Paris Agreement goals’ right) and track year-on-year progress. This approach also acknowledges that portfolio holdings are at different stages on their alignment journey and therefore helps inform our engagement strategies for different asset classes, so we can push for progress at companies and issuers at both ends of the alignment spectrum.

Paris Agreement alignment progress

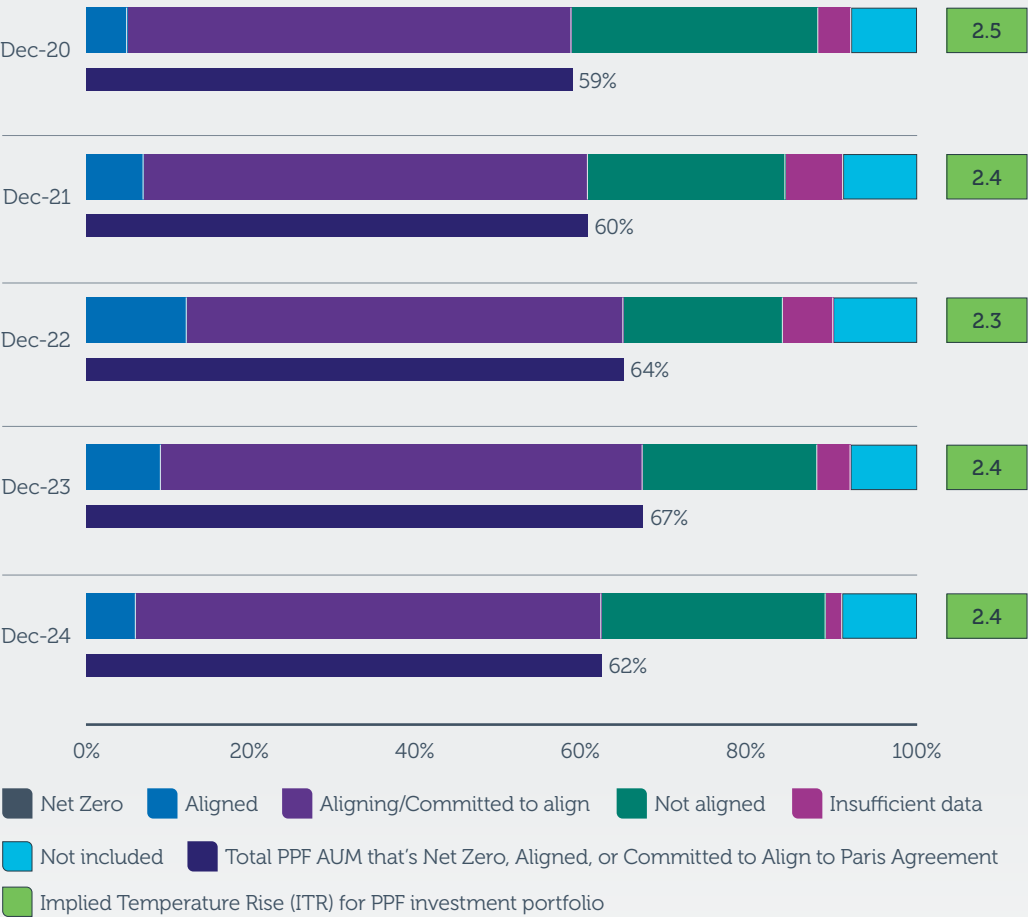
We have been assessing our overall alignment since setting our 2020 baseline, and each year measured our progress across our portfolio’s alignment with the Paris Agreement goals. As part of this, we have continued to review which are the best approaches available each year. Although this means that direct year-on-year comparisons are not always methodologically possible, it does mean that we have the confidence that we are using the best possible tools today.

This year, MSCI, our data provider, revised its Net Zero Alignment assessment methodology to reflect the updated version of the IIGCC’s Net Zero Investment Framework, which has imposed more stringent requirements for its Aligned and Committed to Align/Aligning statuses. The framework has updated its criteria for setting targets and emissions performance, as well as defining best practice to ensure actions are taken to achieve real-world reductions in carbon emissions and maximise positive impact. The Net Zero Investment Framework offers a more comprehensive and robust approach than ITR and SBTi targets, owing to its broader set of criteria.

Whereas ITR focuses solely on emissions and targets, the Net Zero Investment Framework also evaluates capital allocation and decarbonisation strategies, making it a vital tool for assessing genuine alignment with Net Zero objectives.

As a result of this, we have observed some companies being downgraded in their alignment status from last year to this year, primarily due to these methodological changes rather than actual performance deterioration. This is most noticeably seen in some of the portfolio holdings resulting in a shift back to ‘Not aligned’ from ‘Aligning’ or ‘Committed to align’. Over the longer period since 2020, the PPF portfolio’s overall exposure to assets that are ‘Aligned’, ‘Aligning’ or ‘Committed to align’ has increased by 3 per cent to 62 per cent. No assets are deemed to have reached ‘Net Zero’ emissions yet.

PPF portfolio alignment to Paris Agreement goals



Source: PPF/MSCI ESG Research

How we have categorised our alignment assessments:

Net Zero: Typically, this refers to when assets meet all relevant criteria and have an emissions performance at Net Zero which can be expected to continue.

Aligned: Refers to assets that have science-based targets, a decarbonisation plan and current absolute or emissions intensity at least equal to a relevant Net Zero pathway. This category broadly signifies that transition risk is being managed at an asset level.

Committed to align/aligning: Refers to assets with a long-term decarbonisation goal consistent with achieving global Net Zero by 2050; Refers to assets with emissions performance not equal to a contextually relevant Net Zero pathway. However, importantly they have science-based targets and a decarbonisation plan and are thus ready to transition.

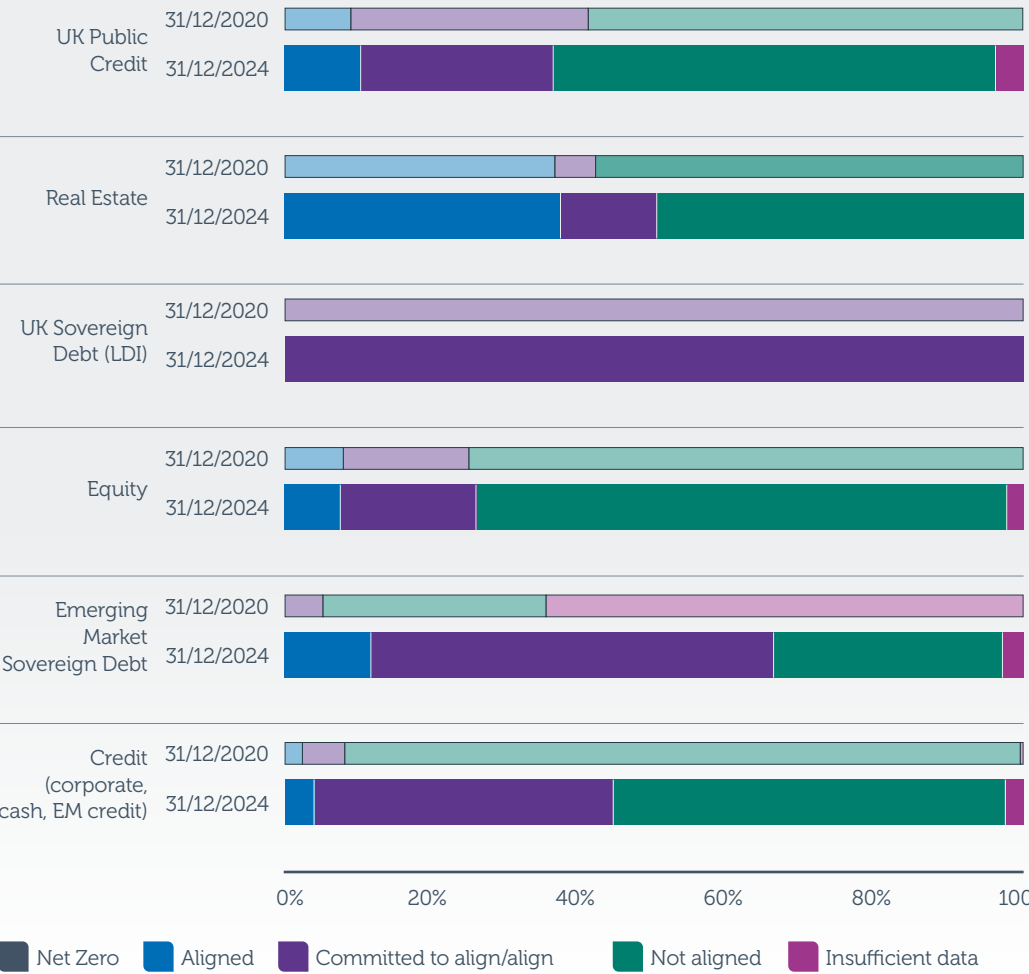
Not aligned: Refers to assets without a commitment to decarbonise in a manner consistent with achieving global Net Zero.

Insufficient data: Assets that we are unable to model.

Not included: Assets or asset classes considered out-of-scope for the project (e.g. derivatives, short positions, physical cash).

Note: PPF ESG team’s in-house alignment assessments are based on Ortec 2020+2021 results, MSCI ITR 2022+2023 analysis, SBTi approved targets and countries’ targets. Alignment categories are based on those used in the IIGCC Net Zero Investment Framework, and has been updated since the second version of the NZIF was published. ITR coverage differs slightly from alignment coverage, due to proxies applied in ITR calculations.

Progress of PPF portfolio Paris Agreement alignment by asset class since Dec 2020 baseline



Source: PPF/MSCI ESG Research

Asset class progress

Despite the more stringent assessment criteria for corporates, we observed a greater number of our Credit holdings ‘Aligning’ or ‘Committing to align’, with a smaller percentage falling into the ‘Not aligned’ category (from 91 per cent to 53 per cent). This improvement is driven by the portfolio reallocation towards our internally-managed Credit portfolios and reduced exposure to Emerging Market Credit.

The ability to assess the alignment of Sovereign debt has also been greatly enhanced this year. Just 3 per cent of Sovereign assets were unable to be assessed this year (compared to 65 per cent the previous year). We have used the assessment of Climate Action Tracker in the first instance where available, and the Net Zero Alignment assessment from MSCI if not. This is the first version of this assessment that MSCI has performed, and we expect it to mature further in coming years to be more comprehensive.

Climate Change & Transition continued

5. Implied Temperature Rise (ITR)

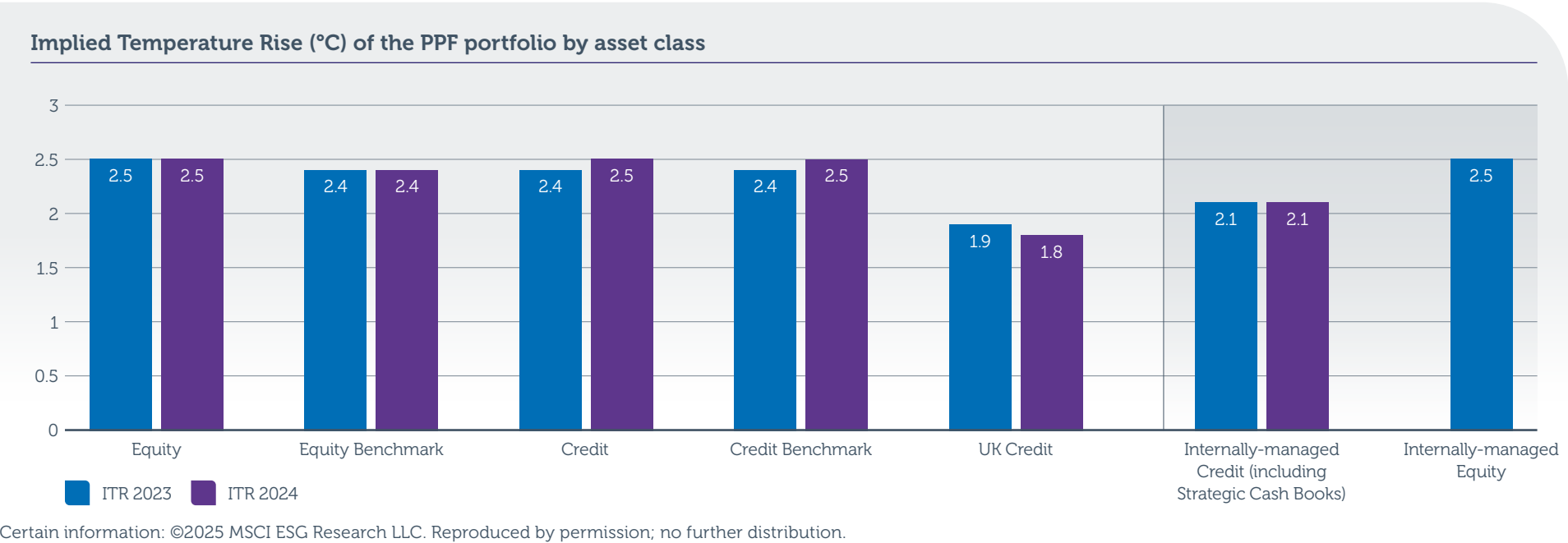


Why we assess our portfolio's Implied Temperature Rise

Implied Temperature Rise (ITR) allows us to show the temperature alignment (or misalignment) of our portfolio with global temperature goals such as the Paris Agreement on Climate Change which seeks to keep man-made global warming below 2°C of pre-industrial levels. ITR assesses the carbon emissions generated by a company, fund or portfolio to estimate the temperature rise the world would see by the year 2100 if the whole global economy had the same carbon budget over-/undershoot as the asset in question. This can be used to help set decarbonisation targets and inform engagement with portfolio companies on climate risk.

Although we have now begun utilising MSCI's PAII NZIF assessment, we continue to report the ITR results to maintain consistency and allow us to monitor progress over the years. ITR from MSCI ESG Research is a forward-looking metric, expressed in degrees Celsius, designed to show the temperature alignment of companies, portfolios and funds with global temperature goals – notably, in our case, the aim of the UN Paris Agreement to keep global average heating within 2°C (and ideally close to 1.5°C) of pre-industrial levels.

The ITR methodology that MSCI uses continues to follow best practice recommendations on measuring portfolio alignment as set out by the Glasgow Financial Alliance for Net Zero (GFANZ) in late-2022. This included tightening the contribution from corporate targets so that only credible targets are reflected in the projection of future emissions and, in turn, the resulting ITR score for a company.



Equity

Our Equity book has an ITR of 2.5°C, which is at the lower end of the misaligned category and has remained stable since 2023. Specifically, 47 per cent of the book (by market value) has an ITR of between 1.5 and 2°C, 33 per cent has an ITR of between 2 and 3.2°C, and 17 per cent has an ITR of over 3.2°C. The distribution across these bands remains largely unchanged since last year.

Equity name with high ITR impact: The Equity portfolio includes a US Consumer Services company with an ITR of over 3.2°C. Although the company has absolute emissions reduction targets, it does not include Scope 3 emissions, from which most of the impact comes, hence the high ITR Score. The company is not currently on our Climate Watchlist as it is not in a sector with materially high carbon emissions.

Credit

Our Credit book has an ITR of 2.4°C which is at the lower end of the misaligned category and has remained stable since 2023. Specifically, 48 per cent of the book has an ITR of between 1.5 and 2°C, 39 per cent has an ITR of between 2 and 3.2°C and 11 per cent has an ITR of over 3.2°C (the remaining percentage is not covered). The distribution across these bands remains largely unchanged since last year.

Credit name with high ITR impact: One of the biggest contributors to our Credit book's ITR year on year is a US Consumer Services company. Its high ITR is due to higher current and expected Scope 3 emissions than what would be needed to keep global warming within 1.5°C. However, the company has an SBTi-approved target to achieve Net Zero emissions across its value chain by 2040. The company's track record shows that it has partially met targets in the past.

UK Credit

Our UK Credit book has an ITR of 1.8°C, which is considered aligned and has decreased from 1.9°C in 2023. Specifically, 59 per cent of the book (by market value) has an ITR of between 1.5 and 2°C, 29 per cent has an ITR of between 2 and 3.2°C, and 7 per cent has an ITR of over 3.2°C (the remaining percentage is not covered). The distribution across these bands has improved, with a 6 per cent increase in exposure to assets with ITRs of between 1.5 and 2°C.

UK Credit name with high ITR impact: One of the biggest contributors to our UK Credit book is a road and rail transport company. The high ITR score is due to its Scope 3 emissions, which are not included in the company's emissions reduction target although they account for the majority of its emissions.

Climate Change & Transition continued

Other asset classes – Private Markets

As reported earlier in this report, we continue to participate in the eFront® ESG Data Service project to capture key ESG data from Private Markets funds. eFront® incorporates the data received via the campaign to calculate financed Scope 1, 2 and 3 emissions for the Infrastructure, Private Equity, Alternative Credit, Real Estate and Farmland & Forestry funds in our Growth Portfolio. We have now been able to include our Real Estate book within our financed emissions analysis this year, due to the development of an in-house methodology and data availability for the asset class.

We have chosen to exclude Farmland & Forestry from our financed emissions. Many of these assets have negative emissions (acting as carbon credits or have large carbon sequestration) and we would not like these to distort the emissions calculations for other parts of our Private Markets portfolio.

Progress on Private Markets emissions coverage

The eFront® ESG Data Service project has been instrumental in helping us increase the carbon emissions coverage of our portfolio. Private Market assets account for about half of the PPF Growth Portfolio (see page 01). We are now able to assess our financed emissions for approximately one half of the Private Markets AUM.

We have seen nearly full disclosure of emissions for our Infrastructure book (98 per cent for Scopes 1, 2 & 3) and medium coverage for our Private Equity book (48 per cent for Scopes 1, 2 & 3). Coverage remains lower for Alternative Credit (25 per cent for Scope 1 & 2 and 22 per cent for Scope 3 emissions), which is mainly due to lack of control or influence of the underlying assets. However, there has been a significant improvement to the level of coverage for Alternative Credit last year (which was 14 per cent and 9 per cent respectively).

Thanks to the eFront® ESG Data Service project, we are seeing good levels of emissions reporting through the eFront® platform. In particular, the majority of Scope 1 & 2 emissions for our Infrastructure book were actual reported data this year (54 per cent). However, in many cases, it has not been defined if emissions were provided directly by portfolio companies or not. As mentioned on page 45, eFront® has overlayed gaps with estimates from Clarity AI, a machine learning tool that generates proxies from Public Markets that can be used as Private Markets proxies, where appropriate.

Private Markets – Coverage of Emissions (by % of Market Value)

	Scope 1 & 2	Scope 3
Private Equity	48%	48%
Alternative Credit	25%	22%
Infrastructure	98%	98%
Real Estate	38%	55%

Private Markets – Reported vs. Estimated Scope 1 & 2 Emissions

	Emissions reported by Manager	Emissions estimated by GP or Clarity AI
Private Equity	14%	34%
Alternative Credit	4%	20%
Infrastructure	54%	42%
Real Estate	24%	14%

Private Markets – Reported vs. Estimated Scope 3 Emissions

	Emissions reported by Manager	Emissions estimated by GP or Clarity AI
Private Equity	7%	41%
Alternative Credit	1%	21%
Infrastructure	40%	58%
Real Estate	44%	11%

Private Markets – Financed Emissions (tCO₂e)

	Scope 1 & 2 (tCO ₂ e)	Scope 3 (tCO ₂ e)
Private Equity	50,389	383,053
Alternative Credit	8,607	53,696
Infrastructure	256,926	1,154,984
Real Estate	7,650	28,522
Total Financed Emissions (in bold)	323,573	1,620,255

Source: PPF/eFront® ESG Data Service including Clarity AI

Note: If the manager has not defined if the emissions are reported or estimated, we have defaulted to estimated. Aggregate reported/estimated percentages may be slightly different from coverage percentages due to rounding.

“The eFront® ESG Data Service project has been instrumental in helping us increase the carbon emissions coverage of our Private Markets holdings.”



Climate Change & Transition continued

Using internally-developed templates to report emissions from other assets

UK Private Credit assets

Our externally-managed UK Private Credit sleeve within the ‘HAIL’ allocation of our Matching Portfolio consists of a mix of Private Credit issuers and real assets, and accounts for about 14 per cent of the Matching Portfolio. It is a challenging asset class to report aggregated emissions for due to its hybrid nature. It is not covered by MSCI, our Public Markets data provider, nor by the eFront® ESG Data Service project to assess Private Markets assets.

Therefore, we continue to use our own template to collect emissions data for our UK Private Credit exposure. This year, we have managed to aggregate the results of our two largest external managers, accounting for roughly 80 per cent of our Private Credit exposure.

Emissions data for our UK Private Credit assets
(80 per cent of AUM assessed)

	Scope 1 & 2 emissions (tCO ₂ e)	Scope 3 emissions (tCO ₂ e)
UK Private Credit assets	21,576	30,884

	Reported	Estimated	No Data
UK Private Credit Scope 1 & 2	37%	26%	37%

	Reported	Estimated	No Data
UK Private Credit Scope 3	16%	0%	84%

Source: PPF. HAIL – Hybrid Assets with Illiquidity characteristics

Private Credit assets – emissions data coverage

In terms of emissions disclosure, Private Credit is still facing challenges with the majority of data being unavailable to lenders, so gaps are proxied with estimates from our managers where possible. Emissions from corporate issuers within Private Credit can be challenging to secure because of the lack of investor control over underlying holdings (a challenge we have also encountered in our Alternative Credit book). As expected, Scope 1 & 2 emissions have greater availability with 63 per cent being covered overall and 37 per cent using actual emissions.

The largest contributor to reported emissions in our UK Private Credit book is an offshore wind farm. This is because operationally wind farms need fuel for transport, electricity for offshore assets and electricity for buildings and onshore assets to operate. Despite the asset’s high contribution, the asset is important for enabling the energy transition and has potential to significantly reduce its reliance on fossil fuels. The second-highest contributor is a UK city council with a Net Zero target and plan in place. The emissions are mainly from electricity being consumed across the sub-properties collateralised in the loan, being a mix of hotels, offices and warehouses.

Forestry

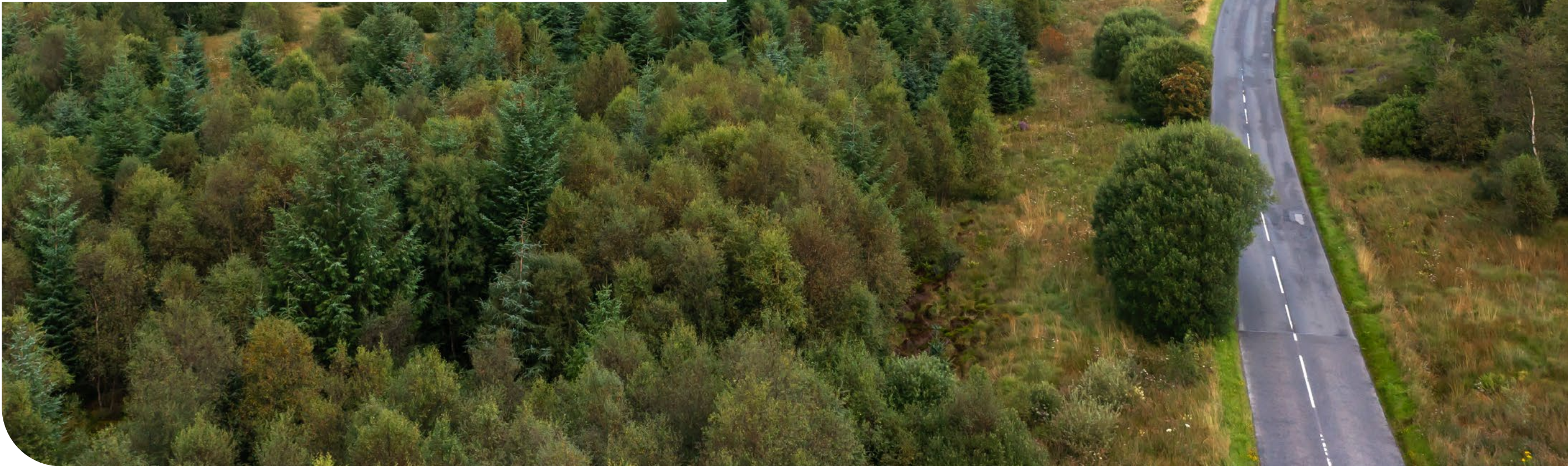
Forestry is an asset class where sustainable investment opportunities are unequivocal. It helps to mitigate CO₂ emissions by storing carbon, making it one of the few viable nature-based investment solutions that can help progress towards a Net Zero world. Well-managed forests can also increase biodiversity.

Certification of Forestry (PPF’s share)

	2024	2023
Certified timberland in accordance with the FSC and/or PEFC	99.41%	99.99%
Timberland in the process of certification in accordance with the FSC and/or PEFC	0.29%	0.00%
Land that is sustainably managed in accordance with the FSC and/or PEFC, but that cannot be certified	0.01%	0.01%
Other	0.29%	0.00%

We continue to see a strong percentage (>99 per cent) of our assets being classified in accordance with FSC and/or PEFC certification standards. There is a slight decrease of 0.5 per cent year on year, which is due to new land being acquired. Our external manager has committed to certify the new land, and part of it is already in the process of being certified.

As well as certification, we ask our forestry managers to report carbon sequestration data. All of them have done so – however, as there is no standardised methodology for this data, we are unable to compare and aggregate data.



Climate Change & Transition continued

Sustainable assets & transitioning assets

Our assessment of how our portfolio aligns with international goals to limit global warming has focused on sector-level alignment to date. But we recognise the need to also assess alignment bottom-up asset by asset (especially for Private Markets where companies’ activities can be much more nuanced than a generalised sector), if we want a more complete assessment of how ready our assets are for the transition to a Net Zero global economy.

This year, we have also continued to provide a high-level snapshot of our exposure to assets that can be clearly classified as ‘sustainable’ – see below. This focuses primarily on Public Markets, where we can use the assessment from MSCI, where their framework seeks to align with best practice. We also included our Forestry assets as they are almost entirely certified by reputable certification schemes (see page 59 for full sustainability certification details of our Forestry assets). We have seen increases in our exposure to sustainable assets within Equity (\$178 million in 2023) and UK Credit (\$156 million in 2023) year on year.

PPF exposure to sustainable assets per asset class

	Exposure to sustainable assets	AUM (\$m) 2024
Equity	6.6%	\$229m
Credit	2.1%	\$168m
UK Credit	9.0%	\$188m
Forestry	99.4%	\$1,298m

What we have classified as ‘sustainable’:

Equity, Credit, UK Credit: Companies with green revenue exposure or exposure to products and services classified as low-carbon solutions.

Forestry: Forests that are certified by international bodies and/or managed in a sustainable manner.

Source: PPF/MSCI

Expanding our Transition & Sustainable Assets framework

For Private Markets, assessing assets individually can be trickier as most asset-level analysis is not yet available from data providers. Therefore, we developed an in-house framework to help us identify sustainable and transitioning assets, in collaboration with our internal and external portfolio managers.

Last year, we piloted our framework using our Infrastructure book with a simple taxonomy developed in-house by the ESG team. We chose to start with Infrastructure, as it is an asset class in which a range of opportunities for sustainable and transitioning investments exist. This year, we expanded our analysis to Private Equity, Real Estate and UK Private Credit – see results right. Please note the Transition & Sustainable Assets taxonomy has been adjusted to allow us to include Real Estate assets (see above, right).

PPF Transition & Sustainable Assets taxonomy

Green	Assets with a clear sustainable product link (or green/sustainable buildings with relevant certificates and energy rankings)
Orange	Assets with clear targets and/or transition plans (e.g. CRREM, Better Building Partnership for Real Estate) to decarbonise. Targets are either self-declared Net Zero targets or SBTi targets
Red	High-impact sector assets or buildings with no clear targets and/or plans to transition to decarbonise
Grey	Neutral/no direct transition/sustainable contribution and non-material sectors

Infrastructure: Using this framework, 76 per cent of our 2024 Infrastructure book has been identified as sustainable or transition opportunities (a slight decline from 78% in 2023). Thirty per cent has remained classified as Green due to the nature of the assets’ operations (mainly renewable energy companies and electric trains). Some new Infrastructure assets added since 2023 are considered climate solutions, such as carbon capture, battery factories and renewable energy. However, a few of the new assets are in sectors that are harder to decarbonise, or don’t have a clear transition plan in place at present, therefore we have classified them as Red. Lastly, there are new social infrastructure assets (e.g. hospitals) that we have classified as Grey because there is no direct link to transition activities, but we recognise that they have strong sustainability credentials like the LEED Gold Standard Certification.

UK Private Credit: Just over two-thirds of our UK Private Credit assets have been identified as sustainable or transition opportunities. Most of the assets (55 per cent) are classified as Orange, with varying degrees of maturity. Some of these assets have a Net Zero target accompanied by a transition plan, a transition strategy, or an SBTi-approved target. 13 per cent of the portfolio is allocated to financing Green opportunities, primarily in renewable sectors such as wind and solar energy, electric rail fleets, and green buildings.

Another 13 per cent of the portfolio is classified as Grey, predominantly comprising assets in the healthcare facilities sector, student accommodation and other low-impact sectors.

Lastly, about 19 per cent of the UK Private Credit portfolio has been identified as Red, due to a small number of assets and properties currently lacking a transition path. Given the nature of Private Credit information is limited, and we have relied predominately on our managers to classify the assets in accordance with our taxonomy.

Private Equity: We have begun analysing Private Equity core assets that are direct funds or holdings and not secondaries, due to the lack of or limited information available on the latter. This analysis covers about half of our book. Nearly one-third of the book has been identified as sustainable or transition opportunities. We have identified that 2 per cent is invested in Green opportunities, such as providing plant nutrition solutions using green hydrogen, smart building products and efficient water management. We are proud to finance innovative solutions to climate change where the investment thesis supports our requirements. A further 28 per cent are transitioning, many with commitments to Net Zero, and some of these assets already have an SBTi target.

Most assets, over two-fifths, fall under the Grey transition category as they are primarily invested in Information Security, Healthcare and Financials.

Lastly, 27 per cent of the book is invested in Red assets that are in high-impact sectors. Some of these assets have already taken steps to address climate change by exploring climate solutions, committing to minimise their carbon footprint, or achieving carbon neutrality. Although these steps are welcomed, they are not sufficient to be given a better rating in our analysis as yet. A small part of our Private Equity book is invested in legacy assets within the Oil & Gas sector that currently lack a transition path. Therefore, these have all been classified as Red, and account for 12 per cent of the overall 27 per cent identified as Red in the book.

Transition Category	Infrastructure 2024 (2023)	UK Private Credit	Private Equity*	Real Estate
Green	30% (30%)	13%	2%	28%
Orange	45% (48%)	55%	28%	53%
Red	14% (13%)	19%	27%	10%
Grey	11% (9%)	13%	43%	9%
AUM assessed (£m)	£1,490m (£1,435m for 2023)	£1,768m	£1,243m	£1,166m

Source: PPF

* Only direct funds/holdings have been assessed for Private Equity so far, excluding Secondaries and indirect funds. These percentages have been adjusted to reflect only what has been assessed.

Next steps

- We have found that this new Transition & Sustainable Assets Analysis is further enhancing our understanding of the climate position of our current assets, which helps to inform our future portfolio construction.
- Our collaboration with internal and external asset managers has been very rewarding, enabling us to exchange ideas and complement each other’s knowledge and helping us to have enough information to classify each of our Infrastructure assets correctly.
- We look forward to conducting this process for other asset classes in future years.

Real Estate: We have moved to using the Transition & Sustainable Assets framework, rather than just EPC certificates, for assessing our Real Estate holdings this year.

Just over 76 per cent of the Real Estate portfolio was assessed in this first year. Of this 76 per cent, over 80 per cent of assets have been identified as sustainable or transition opportunities, the highest across all of our Private Markets asset classes that have been assessed to-date.

Our Corporate Sustainability

Embedding sustainability across our business



Across the PPF, we’re committed to operating in a responsible and transparent manner. The goals in our Sustainability Strategy focus on areas where we believe we can make a real difference: responsible investment; our operations and supply chain; DEI and business ethics; community impact and stakeholder engagement. By delivering in each of these areas, we can create value for our employees, members and our local community.

As a public corporation, we have a role to play in helping achieve the UK government’s goal of Net Zero greenhouse gas emissions by 2050. We aim to reach Net Zero for our operations by 2035 or sooner.

We have achieved a 31 per cent reduction in our energy consumption since our baseline year (2019/20). Our location-based emissions have reduced by 44 per cent compared to our baseline, and we continue to source electricity via 100 per cent renewable electricity tariffs for both our offices. This year we introduced food waste collection services at both our office locations. The waste is sent to an anaerobic digestion plant to create green energy.

Ensuring all our people understand they have a part to play in reducing our operational impact is key. We have delivered training to line managers to encourage them to consider how they can adopt sustainable initiatives within their own teams. We have also created a crucial role in our newly formed Shared Services directorate to develop and implement our corporate sustainability plan, ensuring our sustainability goals are aligned with our core business operations.

The rise in international business flights taken this year reflects an essential element of in-person due diligence of our investments and key suppliers. We remain fully committed to aligning our operational practices with our long-term sustainability goals. Employees strive to visit multiple locations within the same international trip to make these visits as efficient as possible. The implementation of a travel booking platform will provide our people with better data on alternative, lower-carbon methods of travel to aid decision-making. We intend to begin using this platform in 2025/26.

We have been reducing the paper we use in our communications for several years. All of our corporate publications are now digital-only and we have reduced the amount of physical paperwork we need to send to members by making the retirement process and many other transactions available on our member website.

We aim to meet our need for goods and services in a way that delivers long-term value whilst benefiting society and minimising impact on the environment. To achieve this, we seek to influence our suppliers to adopt sustainable practices and disclosures, within their own organisations and throughout their own supply chains. We are currently developing dashboards that show to what extent our key suppliers align to our sustainability principles, which will help us to identify strengths and risks in our supply chain.

Richard Beavan
Chief Operating Officer

“ We aim to meet our need for goods and services in a way that delivers long-term value whilst benefiting society and minimising impact on the environment. ”

Our Corporate Sustainability continued

Summary of progress since the launch of our Sustainability Strategy (July 2023)

Demonstrating excellence in responsible investment

- Improved reporting rates across our asset managers. Our engagement with our Private Market managers has encouraged an 89 per cent response rate for ESG portfolio reporting
- Launched ESG dashboard across our internal liquid funds and externally managed investments
- Improved disclosure rates for financed emissions, with well over 80% of companies in our Climate Watchlist reporting to CDP in their 2023 and 2024 annual cycles (achieving our target of over 80 per cent)
- Surveyed our Private Markets managers to understand how they are currently thinking about transition plans (both as a firm overall, and for our investments)
- Carried out a thorough assessment of the PPF’s readiness for a transition plan aligned to the HM Treasury Transition Plan Taskforce, which indicated we are in a strong position across many areas.

Ensuring effective stakeholder engagement with integrity and respect

- Developed an internal communications plan for sustainability, including detailed action for engaging our employees
- Expanded our 2023/24 employee Viewpoint survey to include questions that capture employees’ views on sustainability in addition to DEI, development opportunities and our organisational culture
- Invited a carbon literacy trainer to deliver a climate change myth-busting session for all employees
- Held a manager forum on sustainability to enhance our line managers’ understanding of our Sustainability strategy and its implementation
- Supported 1,065 employee volunteering days over the last two financial years 2023 and 2024.

Championing collaboration and leading by example

- Improved our governance and oversight of corporate sustainability by adding sustainability as an important role within our [Senior Managers and Certification Regime \(SMCR\)](#)
- Demonstrated to the Risk and Audit Committee that the PPF’s compliance on D&I regulations mirrors the [FCA/PRA consultation paper](#)
- Reformed our D&I working group as a D&I sponsorship group with a focus on developing the next Diversity, Equity & Inclusion (DEI) Strategy for 2025–28
- Conducted a DEI research project and shared the key findings with all staff at a town hall meeting
- Participated in the 10,000 Interns programme for underrepresented talent by offering internships within our Legal and IT teams.

Being accountable for minimising our own environmental impacts and those of the industry

- Created an enhanced sustainable procurement policy, updated our supplier code of conduct and published both on our public website for transparency
- Completed a Climate Change Risk Assessment (CCRA), which outlines the risks to PPF operations resulting from climate change, and developed a Climate Change Adaptation Strategy (CCAS) in response
- Developed a sustainability risk report to provide an overview of risks relating to the PPF’s Sustainability Strategy commitments and to ensure these integrate into the PPF’s broader risk management activities
- Investigated how to use long-term risk modelling to provide insight into the potential impact of climate change on projections of the pension scheme universe, future claims and the PPF funding position
- Identified the value of using a travel booking platform to manage and report on emissions relating to our business travel (to be implemented in 2025/26).

Accountability for our Sustainability Strategy

We have established strong climate governance to manage sustainability and climate-related risks and opportunities across both our investments and our operations. The PPF Board has oversight of our corporate Sustainability Strategy in terms of considering and managing climate-related risks and opportunities across the business. Our sustainability working groups continued to drive development and implementation of the PPF Sustainability Strategy throughout the year. See page 05 for our climate and sustainability governance structure at a glance.

To further boost accountability, the Sustainability strategy has been added to the Chief Operating Officer’s Statements of Responsibilities (SoR) under the Senior Managers and Certification Regime (SMCR). The COO is the executive sponsor of the strategy and is also responsible for its oversight and ensuring consistency among strategies that fall under the sustainability umbrella such as community impact. Our Risk and Strategy group supports this work by verifying that operational risks related to sustainability are identified, recorded and managed within our agreed risk appetite, and that material exposures are managed appropriately, and report this to the Risk and Audit Committee.

Climate risk management in our operations

Following our routine annual review of Board Risk Appetite Statements, our statement in relation to operations was updated to reference explicitly the need to maintain sustainable and resilient operations (previously the statement referred only to resilient operations). Risk appetite is used to guide and inform decision-making and so this change ensures that sustainability remains at the forefront of all operational decisions at the PPF.

Climate and sustainability training

Board training on climate-related topics, including demystifying climate and TCFD reporting metrics was held at our June 2025 Board meeting. This included two external speakers from MSCI, our ESG and climate data provider, and from The Pensions Regulator. During the reporting year, we invited an external carbon literacy trainer to present a Lunch & Learn session for our employees to debunk climate change myths and misunderstandings.

The session also led us through the basics of understanding sustainability, before delving into the collective change that is needed to help make positive change. In February 2025, we held a workshop with the PPF’s line managers to build their understanding around implementing the PPF Sustainability Strategy, aiming to help them motivate their teams to adopt sustainable practices.

Sustainability engagement

We keep employees up to date with sustainability issues and developments across the business through regular webinars, blogs and interviews. Our digital Sustainability Community Hub continues to serve as a collaborative knowledge-sharing platform for employees.

Performance incentivisation

We set performance incentivisation for both employees and external agents. Staff performance is measured against annual objectives and demonstration of behaviour aligned to our ICARE values (see page 07). Sustainability-related objectives have been embedded into organisational scorecards for the last three years, and the Investment team’s performance is measured against specific RI and stewardship key performance indicators.

Taking action

Extreme weather continuity

Our Climate Change Adaptation Strategy (CCAS) was developed in 2023/24 to align with the Greening Government Commitments (GGC). Following a review of the strategy by our Risk and Strategy sustainability working group, we created a suite of playbooks for emergency responses to extreme weather conditions, with business continuity plans managed locally by team leaders.

Our Corporate Sustainability continued

Our commitment to creating a diverse organisation

Our aim is to foster a culture at the PPF where everyone can be themselves and feel respected and valued for their differences. This year we continued to go beyond statutory requirements to report on our disability and long-term health condition pay gap in addition to our gender and ethnicity pay gaps. We are proud to be recognised as a Disability Confident Leader and all our external vacancies are advertised on the job board of disability equality charity Scope.

Representation progress during 2024/25

- Ethnic minority representation at senior manager level increased during 2024/25, from 17 per cent in March 2024 to 21 per cent in March 2025.
- Female representation in senior manager roles increased during 2024/25, from 45 per cent in March 2024 to 53 per cent in March 2025.

We continue to have high levels of employee engagement. Our most recent employee survey had a response rate of 91 per cent. Nine in 10 employees agree that the PPF actively encourages diversity in all its aspects.

“We want to ensure everyone has access to the same opportunities and resources regardless of their background. We’ll be working to improve our understanding of the impact of social mobility so that we can address the challenges people from lower socioeconomic backgrounds face when accessing opportunities.”

Shalin Bhagwan
Chief actuary

Developing our people

This year, 22 employees completed our talent development and management development programmes to enhance their professional skills. We also offer employees the opportunity to join the [Young England and Wales programme](#), which helps participants to improve their communication and presentation skills.

Investing in future generations

During 2024/25 we continued to support the [10,000 Interns Foundation](#), which champions underrepresented talent and promotes equity of opportunity. In July 2024, we welcomed three interns across our Technology, Strategy and Legal teams.

We have also partnered with [Investment 20/20](#) to help aspiring professionals to start a career in investment management. We fully support its aim to drive forward a diverse and inclusive investment industry, building workforces that are reflective of the investors and communities they serve.

Monitoring asset manager diversity

This year we continued to review the D&I progress of our external asset managers as organisations. By analysing responses year on year and incorporating findings into engagement with our managers, we aim to show our support for the broader industry’s progress in this area.

Although we do not set specific targets, we recognise the need for much greater progression in D&I throughout the asset management industry, especially within investment teams and senior roles.

Our community impact programme

We recognise the importance of how we give back to our local community. Over the last two years, we’ve partnered with south London charity [Lives Not Knives](#) to help support the work they do to prevent knife crime and school exclusions. In May 2025 we began a new three-year partnership with [Reedham Children’s Trust](#), which provides support for vulnerable and disadvantaged children.

We also encourage our people to use their annual volunteering allowance to support any charities of their choice. In 2024/25, 508 volunteering days were carried out, with PPF employees lending their skills and support to more than 50 local charities and community organisations.

Our Diversity, Equity & Inclusion strategy

We believe making the PPF a diverse and inclusive environment benefits both our employees and our members. We’re proud of the progress we’ve made in the last five years in delivering against the goals of our 2020–2025 Diversity & Inclusion (D&I) strategy. In June 2025, we published our [Diversity, Equity & Inclusion strategy for 2025–28](#).

This strategy will build on the progress we have made in our existing three focus areas, gender, ethnicity and diverse ability (disability), and introduces two new focus areas: **social mobility and LGBTQ+**. We will work to build our understanding of these two areas to allow us to support more aspects of our people’s identities and backgrounds.

Our employee-run D&I community groups are key to our success. Each of our five focus areas has a sponsor and co-sponsor from the Executive Committee who will support our D&I community groups in setting their direction and helping deliver our goals for the next three years.

Underpinning our 2025–28 DEI strategy is a roadmap of actions. As part of our objectives for year one of our strategy, we will prioritise data-related actions, including establishing clear metrics for success and the direction we want to take our employee representation targets within our new focus areas of social mobility and LGBTQ+.

91%
of employees agree that the PPF actively encourages diversity in all its aspects

83%

of employees say the PPF’s culture allows them to be themselves

“We presented to three classes at Westminster Kingsway College, giving students an insight into the world of pensions, the role of the PPF, and the wide range of roles in the finance industry. The aim was to help demystify the world of finance a little and encourage students that it could be for them.”

Evan Guppy
Head of LDI



Taking action

Supporting inclusive hiring

In May 2024 we began trialling the use of CV redaction technology for applications. This approach was requested by our Race Action Group (RAG) to ensure that when a CV is reviewed, personal identifiers such as the candidate’s name, date of birth, nationality and gender are concealed. This supports our work in ensuring we’re promoting a fair and equitable hiring process that focuses on a candidate’s competencies, experience and overall fit for the role.



Our Corporate Sustainability continued

Measuring and managing the impact of our operations

Working with external stakeholders to address Scope 3 emissions:

As set out in our [Sustainability Strategy](#), our ultimate ambition is to catalyse the growth of a sustainable pensions industry. We want to support the system to make a difference in a range of ways. Since the launch of the strategy and throughout the year 2024/25, we have proactively engaged with our suppliers and various organisations to learn and share approaches to reducing operational emissions. We continued to be an active member of the Department for Work and Pensions’ arm’s-length body (ALB) sustainability delivery working group, which acts as a knowledge-sharing forum. We have also engaged with other stakeholders including UK Export Finance, The Pensions Regulator, our asset managers and suppliers. Our Commercial Services team presented our supplier sustainability initiatives at the LSE Regulators’ Commercial Forum, attended by approximately 30 other organisations. By fostering these connections, we aim to champion collaboration and deepen our understanding of sustainability and how to achieve it.

Influencing our supply chain

We aim to procure the goods and services we need at the PPF in a way that minimises impact on the environment. Our [Sustainable Procurement Policy Statement](#) sets out our approach and fully aligns with our wider Sustainability Strategy. We encourage all our suppliers to adopt sustainable practices and disclosures and to explore opportunities to extend good practice throughout their own supply chains.

We also recognise that, on our own, we only have a certain amount of direct influence over how our suppliers operate. Therefore, our current focus is on strengthening our engagement with our most material suppliers (which aligns with the SBTi’s supplier engagement target recommendations) while we wait for advances in supplier sustainability reporting and measurement. In line with our 2024/25 Business Plan objective, we have shared our Supplier Code of Conduct with our Group 1 suppliers and responses have been positive (see ‘Taking action’, above right). We have updated our Supplier Sustainability questionnaire in line with our core themes, including environmental impact, and issued it to our most material suppliers.

Lowering our carbon footprint through technology:

Our call-recording services were migrated to the cloud during the year 2024/25, joining the majority of services within our technical estate. An ongoing assessment is underway to use a serverless model with the aim to further reduce our virtual carbon footprint. In the year we introduced data platform and data visualisation services to our Member Services, Commercial Services, ESG Investment and Credit Risk teams to improve internal efficiencies. We will continue to deliver more energy-efficient data solutions across the PPF in 2025/26, including for Member Services, Credit Risk, Investment Risk, and Operational Due Diligence.

Reviewing our office space

We completed a review of our office space, including sustainability considerations, and made some layout changes to our London office to create more space for staff at the end of 2024. We continue to work with government on a potential additional role for the PPF in the future. If we receive confirmation that our remit is going to be broadened, we will review and adapt our office space accordingly.



 Taking action

Improving our office impact data

The PPF offices in Croydon and Cannon Street are based in shared-lease buildings so we have limited control over them, nor complete access to activity data and systems. We rely on our building managers to ensure accurate reporting of our operational emissions from our office energy, water and waste. During the year, we worked to improve our relationships with the building management teams at our offices, in particular at our London office. Through a combined effort by colleagues across various teams, we have established a robust communication channel and reached a mutual agreement with the landlord on the timely provision of emissions and sustainability data for our reports.

 Taking action

Assessing supply chain sustainability

During the year, 90 per cent of Group 1 and High Sustainability Impact Suppliers returned our Supplier Sustainability Report and responded to our Supplier Code of Conduct. Work has begun to design a new dashboard to assess to what extent key suppliers align to PPF sustainability principles, in order to identify strengths and risks in our supply chain.

Key activities in 2024/25 to reduce our environmental impact

- We added food waste bins in both buildings to collect food waste, which is sent to an anaerobic digestion plant to create green energy.
- We have been reducing the paper we use in our corporate publications and communications for several years:
 - All of our corporate publications are now digital-only
 - As the retirement process and many transactions can now be completed on our member website, we have reduced the amount of physical paperwork we need to send to members
 - We continue to encourage members to complete online registration so we can send them a digital version of the annual PPF member newsletter instead of a paper copy.
- We have also implemented a contract variation with our print management services supplier to reduce the weight of the paper we use, resulting in an 11 per cent reduction in paper consumption.
- The number of international business flights being taken is higher than our 2019/20 pre-Covid baseline. We recognise that business travel is an essential element of our business, particularly when carrying out essential due diligence of our investments and key suppliers. However, we will still encourage employees to consider alternatives or to combine trips where possible.
- We investigated how the implementation of a travel booking platform could provide our people with better data on alternative, lower-carbon methods of travel to aid decision-making when booking travel. Data collection from this would also allow more granular reporting on travel emissions. We intend to begin using a travel booking platform in 2025/26.
- Over the year, we continued to source electricity via 100 per cent renewable electricity tariffs for both our offices. This means our operational Scope 1 and Scope 2 market-based greenhouse gas emissions are effectively zero. Although our electricity use is backed by renewables, we are still working hard to reduce our energy consumption.
- As the table overleaf shows, our Scope 2 location-based emissions have steadily fallen as energy efficiency has improved, marking a 44 per cent reduction since our 2019/20 baseline year. We have taken steps to minimise our physical data footprint by continuing to migrate data, documentation and technology services to the cloud. During the year, we also achieved 31 per cent reductions in our energy consumption since our baseline year.

Our Corporate Sustainability continued

Summary of the PPF’s organisational Scope 1, 2 and 3 emissions

PPF operations – summary of carbon emissions

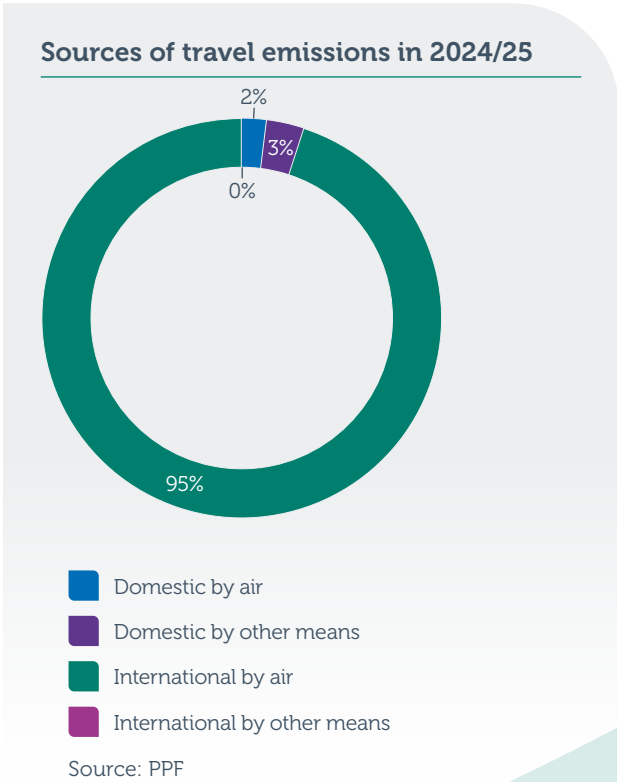
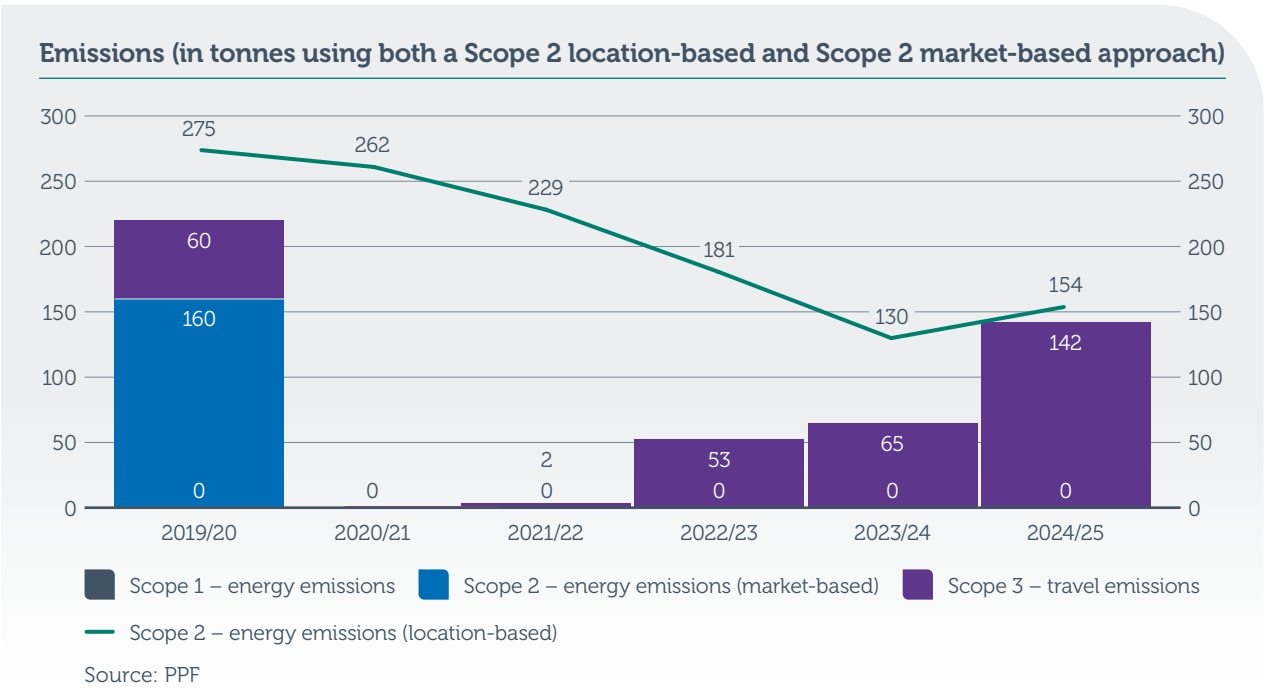
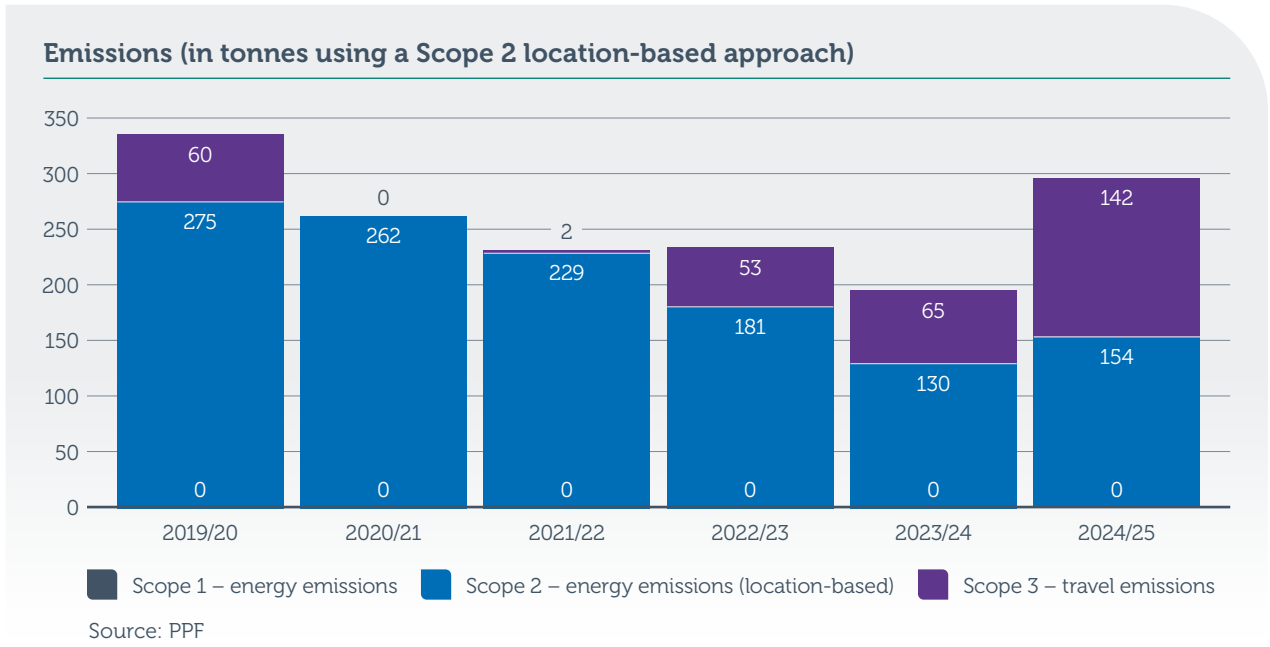
All emissions units in tonnes of carbon dioxide equivalent (tCO₂e) unless stated otherwise

PPF Operations	Comment	2019/20 (baseline)	2020/21	2021/22	2022/23	2023/24	2024/25	% Change 2019/20 baseline
Energy consumption used to calculate emissions in kWh		1,076,231	1,123,197	1,076,948	936,935	631,321	741,865	-31%
Scope 1 emissions	See footnote 1	0	0	0	0	0	0	–
Scope 2 emissions	Location-based (See footnote 2)	275.1	261.9	228.7	181.2	130.2	153.6	-44%
Scope 2 emissions	Market-based (See footnote 3 & 4)	160.5	0	0	0	0	0	-100%
Scope 3 emissions	See footnote 5 (excludes 34.3 tonnes of CO ₂ e emissions from travel paid for by third parties (2023/24: 21.1 tonnes))	60.3	0.2	2.3	53.2	65.4	141.7	135%
Total Scope 1, 2 and 3 emissions (gross)	See footnote 6	335.4	262.1	231.0	234.4	195.6	295.3	-12%
Total Scope 1, 2 and 3 emissions (net)	See footnote 7	220.8	0.2	2.3	53.2	65.4	141.7	-36%

Source: PPF

Notes:

- 1 Scope 1 covers direct emissions from owned or controlled sources. Our two shared-lease office buildings are already efficient, with no direct combustion facilities on-site, and BREEAM ratings of ‘Excellent’ or ‘Very Good’ respectively. So, our Scope 1 Greenhouse Gas Emissions from fossil fuel combustion are zero (0).
- 2 A location-based method reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data).
- 3 A market-based method reflects emissions from electricity that companies have purposefully chosen (or their lack of choice). It derives emission factors from contractual instruments, which include any type of contract between two parties for the sale and purchase of energy bundled with attributes about the energy generation, or for unbundled attribute claims.
- 4 All the electricity our offices use is sourced via 100 per cent renewable electricity tariffs, which have been in place in both offices since the end of October 2019. For the seven months April to October 2019 we calculated our market-based emissions as: 275.10*(7/12) = 160.48 (tCO₂e), where total location-based emissions for 2019/20 were 275.10 tCO₂e.
- 5 Our Scope 3 organisational emissions include emissions from business travel only at present. For 2024/25, the reported business travel emissions exclude 34.3 tonnes of CO₂e emissions from travel paid for by third parties.
- 6 Our total gross emissions are calculated by aggregating our Scope 1, Scope 2 location-based and Scope 3 business travel emissions.
- 7 Our total net emissions are calculated by aggregating our Scope 1, Scope 2 market-based and Scope 3 business travel emissions.
- 8 Emissions are calculated using DESNZ conversion factors.



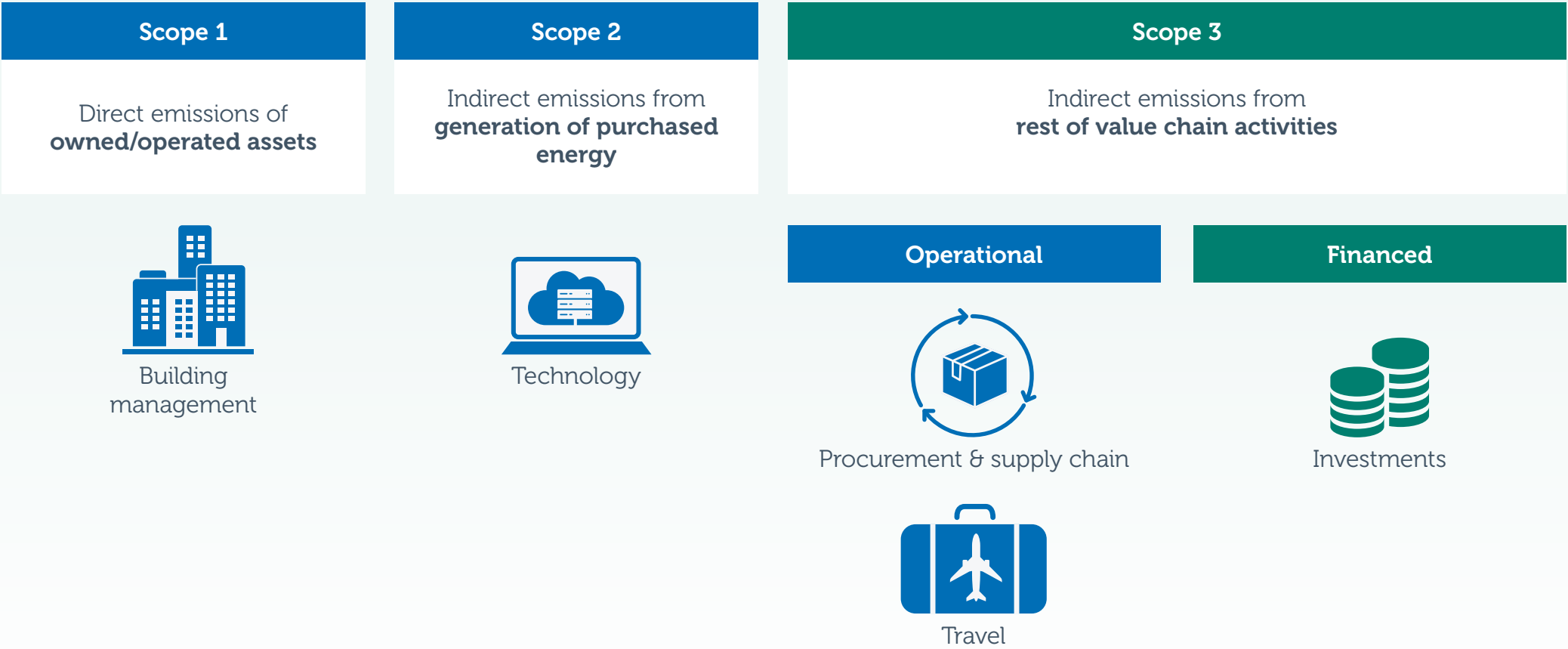
Our Corporate Sustainability continued

Update on our organisational climate-related targets

Every year, we look to use the findings that come out of the analysis of our investment stewardship, Climate Change & Transition and corporate sustainability reporting to see how we might improve how we monitor, manage and reduce the carbon emissions connected to our investments and organisational activities.

This year, we have reported our progress against last year’s climate-related KPIs and objectives, and set new objectives to reflect our ambition for the year ahead.

Scope 1, 2 & 3 emissions explained



Our progress against climate-related KPIs

for the 2024/25 financial year

1.

Outline our path to alignment for transition using the guidance from the HM Treasury Transition Plan Taskforce (TPT) for asset owners

- We aimed to understand which assets and investment mandates we do or do not have influence over, and how this might affect the future implementation of a transition plan.
- As part of this, we conducted a survey across our Private Markets managers to understand their transition readiness:
 - Of managers surveyed, 66 per cent have developed a firm-level transition plan, and 52 per cent verified that this extends to our specific mandates.
 - Adoption is strongest across the Infrastructure and Real Estate managers (96 per cent and 82 per cent respectively at a firm level).
- We also conducted a thorough assessment of the PPF’s readiness for a TPT-aligned transition plan, which demonstrated that we are in a strong position across many areas.
- Although a significant amount of the TPT framework is already in place within the PPF, we plan to continue building and strengthening our capabilities within certain sub-elements. Some examples include:
 - Aiming to obtain a detailed understanding of the materiality of our full Scope 3 emissions across the organisation.
 - Leveraging collaborative opportunities to engage, support and influence our asset managers in transitioning towards a low-carbon economy.

2.

Publish the reductions in our environmental footprint over the strategic plan period of 2022 to 2025

- Please refer to ‘Measuring and managing the impact of our operations’ on page 64 for the outcome of this.

3.

Ninety per cent of Group 1 and High-Sustainability Impact Suppliers to return our Supplier Sustainability Report and respond to our Supplier Code of Conduct by 31 March 2025

- Please refer to ‘Influencing our supply chain’ on page 64 for the outcome of this.

Climate-related objectives for the 2025/26 financial year

As mentioned left, our key business initiative for the coming year is to expand our focus on understanding the materiality of our Scope 3 emissions across the organisation (beyond Scope 3 Category 15 investments, which we have been measuring for several years).

Therefore, our objective is to extend our measurement of our operational carbon footprint to our supply chain by the end of the financial year, which will facilitate our understanding of which other Scope 3 categories are material to us as a business. Our 2025/26 Business Plan reflects this under our strategic theme of ‘Building on our strong foundations’.

Aspirations for the coming year

We will continue to engage with our external asset managers, issuers and other stakeholders to keep advancing standards so that we can understand and manage the risks we face. We will continue to develop our internal stewardship oversight and reporting capabilities to maximise the resilience of our portfolio to material ESG and climate-related risks, whilst exploiting new opportunities for efficiencies via technology and process improvements.

Continue to understand our organisation’s environmental impact by extending the measurement of our carbon footprint to our supply chain

Continue progress on our climate change transition pathway project by ensuring we have the best possible assessment of our investments

Support the PPF in shaping industry change that delivers measurable benefits for our members, levy payers and the UK



Undertake a full analysis and implementation of the 2026 Stewardship Code, to strive to publish reporting that continues to meet the standards set by the FRC and stakeholder needs

Maintain a high level of stewardship acumen in efficiently assessing new funding opportunities in Private Markets

Undertake our annual diversity and inclusion questionnaire for external managers as part of our wider organisational Sustainability strategy



Continue to evolve our internal dashboards to ensure maximised integration of portfolio and manager monitoring within external investment platforms

Utilise our expertise to provide input to external consultations relating to the development of industry standards and best practice

Undertake our biennial trading counterparty ESG review, with results shared across relevant internal investment desks

Appendices

Appendix A

Our commitment to the TCFD

The Task Force on Climate-Related Financial Disclosures (TCFD) guidance was created by the Financial Stability Board to help companies and investors voluntarily disclose climate-related financial risks clearly, consistently and reliability to help lenders, insurers and investors make informed decisions.

We’ve formally supported the TCFD framework since 2018 and have continually implemented it across our investment process. We share our progress in our annual RI reports, which also detail our stewardship activities and work as an active owner of securities and real assets.

Considering the impacts of climate change on our investments is one of the three priorities within our RI strategy.

- We’re committed to:
- **Implementing the TCFD**
We’re continuously applying and implementing TCFD recommendations – and are always looking for ways to improve transparency and management of climate risks in our portfolio.
 - **Assessing transition risks and physical risks**
We take a phased approach to analysing how exposed our portfolio is to risk in the global transition to a low-carbon economy, optimising relevant data as and when it becomes available. We are also starting to assess the physical risks that climate change presents to our portfolio, while recognising that data on this is at a very early stage.
 - **Engaging with our fund managers**
We work tirelessly with our fund managers across all strategies, asset classes and markets to ensure they consider, manage and report to us the climate-related risks and opportunities our investments might face.
 - **Collaborating with industry**
We are committed to engaging with our industry peers, policymakers, regulators and the wider investor community to further best practice in climate-related risk disclosure – supporting not only the TCFD but also Climate Action 100+, the PAII and CDP.

A summary of where each TCFD recommendation is covered within this climate disclosure

TCFD Pillars	Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term.	Climate disclosure references
Governance Disclose the organisation’s governance around climate-related issues and opportunities.	a. Describe the board’s oversight of climate-related risks and opportunities.	Pages 05 to 07
	b. Describe management’s role in assessing and managing climate-related risks and opportunities.	Pages 05 to 07 and 37 to 38
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s business, strategy and financial planning where such information is material.	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term.	Page 37
	b. Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning.	Pages 37 to 38
	c. Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2 degree or lower scenario.	Pages 52 to 53
Risk Management Disclose how the organisation identifies, assesses and manages climate-related risks.	a. Describe the organisation’s processes for identifying and assessing climate-related risks.	Pages 37 to 39 and 64
	b. Describe the organisation’s processes for managing climate-related risks.	Pages 37 and 40 to 42
	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management.	Pages 05, 37 and 64
Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Pages 43 to 60 and 65 to 66
	b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks.	Pages 46 to 50, 58 to 59 and 65
	c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Page 66

Appendices continued

Appendix B

Meeting the FRC’s Stewardship Code

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

Stewardship Code Principle		Page reference
1	Signatories’ purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society	Pages 04 to 12
2	Signatories’ governance, resources and incentives support stewardship	Pages 05 to 08
3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	Pages 07 and 69
4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	Pages 26 to 28
5	Signatories review their policies, assure their processes and assess the effectiveness of their activities	Pages 08, 14 to 16 and 62
6	Signatories take account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them	Page 08
7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change to fulfil their responsibilities	Pages 10 to 17 and 35 to 60
8	Signatories monitor and hold to account managers and/or service providers	Pages 14 to 16 and 22
9	Signatories engage with issuers to maintain or enhance the value of assets	Pages 16 to 26
10	Signatories, where necessary, participate in collaborative engagement to influence issuers	Pages 26 to 28
11	Signatories, where necessary, escalate stewardship activities to influence issuers	Page 29
12	Signatories actively exercise their rights and responsibilities	Pages 30 to 34

Appendix C

Our Conflicts of Interest policies

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

Register of conflicts and outside business interests

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

Ongoing training

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

Gifts and Hospitality policy

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

Personal accounts

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

Senior manager fitness and propriety checks

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

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

Procurement processes

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

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

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

Appendix D

Our IMA and side letter terms relating to conflicts

1.1. Conflicts

- (a) The Manager and its Associates may, subject to, and in accordance with, clause 5.9 (*Best Execution*), effect transactions in which the Manager, any of its Associates, or any of its or their respective other clients has, directly or indirectly, a material interest or relationship of any discretion with another party which may involve a conflict or potential conflict of interest with the Manager’s duty to the Board.

(b) Without prejudice to the generality of the above, the Manager confirms as follows:

(i) in order to mitigate the risk of such conflicts of interest from constituting or giving rise to a material risk of damage to the interests of the Board, the Manager has implemented, and complies with, a conflicts of interest policy that identifies the circumstances which give rise to conflicts of interest and documents the procedures to be followed in order to manage such conflicts, and a copy of such policy is set out in SCHEDULE 8 (*Conflicts Policy*) (the ‘Conflicts Policy’) and the Manager will promptly notify the Board of any material changes to the Conflicts Policy;

(ii) where a conflict or potential conflict of interest is found to exist, any transaction effected by the Manager on behalf of the Board will be in the Board’s best interest and on terms no less favourable to the Board than those which would have applied had there been no conflict or potential conflict;

(iii) the Manager will promptly disclose to the Board any conflict arising which the Manager is not able to prevent or manage effectively;
- (iv) the Manager and its Associates shall make investment decisions having regard to the Portfolio’s interest without regard to their own interests or the interests of their other clients, save to the extent required by the FCA Rules (or any other analogous laws, rules or regulations) only insofar as is necessary to comply with the requirements of any financial regulatory authority;

(v) the Manager and its Associates are authorised, subject to the terms of this Agreement, to include within the Portfolio or to effect transactions on behalf of the Portfolio in the ordinary shares of, and/or other Securities issued by the Manager or its Associates; and

(vi) subject to clause 4.6 (*Aggregation of Deals*) the Manager and its Associates are authorised in any one transaction, or series of transactions, where it is in the best financial interests of the Board, to act for more than one portfolio or client collectively (including the Portfolio) without the written consent of the Board, provided always that if the Manager has aggregated transactions for its own account with one or more client orders (including of the Board), it must not allocate the related trades in a way that is detrimental to the Board.

Appendices continued

Appendix E

Our voting principles

Voting guidelines 2025

This document provides broad guidelines across a prioritised subset of themes, within which voting decisions will be assessed and implemented on a case-by-case basis. For clarity, the themes highlighted here are not an exhaustive list of themes that inform our voting decisions. A degree of pragmatism is required when interpreting the guidelines to reflect specific market, company and meeting circumstances.

These guidelines are to be read in conjunction with our [Stewardship policy](#). Stewardship is a fundamental pillar of our [Responsible Investment \(RI\) strategy](#), and our Stewardship policy sets out the core principles of how we consider ESG risks and engage with companies, in recognition of the best market practices supported by the UK Stewardship Code, as well as others. The guidelines will be updated for respective AGM seasons, to reflect the current priorities within our RI Strategy.

1. Summary of our approach to stewardship

As a responsible asset owner, the PPF believes that integration of material ESG factors can enhance the value of our investments, particularly over the long term. We believe in engagement as a path for verifiable and tangible impact, focused on material issues. We are committed to supporting companies in building and sustaining good governance and progressing their practices on material environmental and social matters. In order to incentivise all issuers and companies, we are committed to transparent voting following a robust assessment and review of the practices of a company. We will use our voting rights to support what we consider to be in the best interests of the PPF and its stakeholders.

We engage regularly with our asset managers and agents, and encourage them to demonstrate clear and transparent engagement and voting practices while also acknowledging our stewardship priorities.

We'll always seek to exercise our rights as shareholders to vote our ballots, unless it is operationally impractical or prohibitively expensive, for example due to share blocking markets or overly complex power of attorney requirements. The PPF also operates a share-lending scheme. We will determine on a case-by-case basis whether it is appropriate to recall shares to facilitate us voting our full position at a shareholder meeting.

For our segregated Public Equity, we work with a designated stewardship provider, EOS at Federated Hermes (EOS), who we closely align with and participate actively in client discussions defining their engagement plans. We have direct oversight of the voting execution within our segregated equity mandates. This allows us to exercise our voting power and ensure consistency in our strategy. For our pooled equity funds, we have oversight of our managers' stewardship activities and outcomes through regular reviews and quarterly reporting from them. Where possible, we set up split voting arrangements with managers of pooled funds, allowing us to instruct voting in a consistent manner. We monitor the consistency of our voting across mandates, in particular for any companies and issues with significant importance such as companies on our watchlists.

2. Our voting principles

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

No abstentions: We aim to take an active position on matters open to vote and aim to either vote in favour or against a resolution and only abstain in exceptional circumstances, such as where our vote is conflicted or a resolution is to be withdrawn.

Support for management: We seek to be supportive of boards and to vote in favour of proposals unless there is a good reason not to do so in accordance with our voting guidelines, global or regional governance standards or otherwise to protect our interests.

Consistency of voting: We aspire to be consistent in our votes across our entire portfolio. We seek to provide clarity of our positions through our asset managers and designated stewardship provider, in accordance with our RI Strategy and stewardship priorities. However, we recognise the limitations of investing across a range of mandates, especially the challenges of implementation within pooled funds at times, and we do this on a best effort basis.

Engagement: Engagement is a fundamental aspect of our RI strategy, which we apply across all asset classes. Within our Public Equity portfolio, we have identified a list of high priority companies ('watchlist' companies) for which additional analysis is undertaken prior to voting. Should we determine that voting against a resolution is warranted if there is a reasonable prospect that engagement will generate further information to enable a better quality of voting decision, we will seek to do so. We'll also seek to inform such companies of any anticipated votes against management, together with the reasons why, through our designated stewardship provider.

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

Climate Watchlist: We continue to operate a Climate Watchlist, in line with the IIGCC's Net Zero Stewardship Toolkit's guidelines. This has been updated for 2025 to reflect our Public Markets portfolios' top-emitting companies in material sectors that collectively are responsible for over 70 per cent of our Public Markets' financed Scope 1 and 2 emissions. In addition to our high priority, watchlist, companies, we will review the information provided at shareholder meetings and for these Climate Watchlist companies.

Escalation: Using our proxy votes effectively may form part of our formal escalation strategy, which can be leveraged where company practices have failed to improve or are improving too slowly. Ultimately, whilst threshold levels exist in relation to corporate behaviour, the variance of what is considered acceptable progress is significant due to factors such as location, company size and sector. Qualitative analysis of the shareholder meetings can result in one or more resolutions being voted against, should we consider it in our best interests.

3. Key themes for 2025

With a specific focus on financially material issues, we identify key ESG matters that are of particular importance in a specific AGM season and highlight them through targeted engagement.

Climate change

With the continued application of the Climate Watchlist, climate change is a key area of focus for the PPF. We consider climate change to be financially material to our investment in a company. Also, contributing to the global transition to Net Zero is a fundamental part of our approach to managing of climate-related risks. Read our [Climate Change Policy](#) for more detail. Through our stewardship provider services and participation in investor-led initiatives, we encourage tangible progress around Net Zero and work with both our managers and portfolio companies and issuers to facilitate the transition to a low-carbon economy.

In order to track and encourage progress on climate, we utilise the management quality assessment of companies that are analysed by the Transition Pathway Initiative (TPI). We are also informed by the Climate Action 100+ Net Zero Benchmark for those companies included in this assessment. We are also guided in our voting by the industry initiatives around Net Zero alignment for both asset owners and our asset managers.

For 2025, expectations for climate-related voting guidelines have developed, taking the below factors into consideration:

Climate Action 100+ Net Zero benchmark

- Companies identified as lacking comprehensive medium-term greenhouse gas emissions reduction targets and/or alignment with TCFD recommendations (now absorbed into IFRS S1 and S2 guidance) by the Climate Action 100+ (CA100+) Net Zero benchmark, or those scoring poorly across the benchmark.
- Companies identified as failing to appropriately reflect, or demonstrate consideration of, material climate-related risks in their financial statements by the CA100+ Net Zero benchmark or other sources.
- Companies identified as laggards in the general management of climate-related risks and opportunities through a proprietary aggregate score derived from the CA100+ Net Zero benchmark.

Transition Pathway Initiative

- Any company scoring below Level 3 on the TPI Management Quality Score. Companies in the oil and gas, coal mining, electric utilities, mining & materials, or automotive sectors, and/or European, UK, Australian or New Zealand companies scoring below Level 4 will also be flagged, or those not achieving indicator 16 requiring scenario planning.

Banks

- Banks without a medium-term target for reducing emissions associated with their financing activities and/or those that do not recognise climate-related risks as a key risk category or explain the exclusion.

Coal

- Companies included on the Global Coal Exit List without Paris-aligned coal phase-out plans and those listed as expanding coal-related infrastructure.
- Banks with significant exposure to thermal coal in the absence of a coal policy, drawing on the Still Banking on Coal dataset.

Paris Alignment

- Companies identified by the Global Oil & Gas Exit List as significantly expanding tar sand and extra heavy oil assets without the necessary investment guardrails. We deem these assets as the most unlikely to be Paris-aligned and, therefore, to pose the greatest financial risk.
- Upstream oil & gas companies with a methane emissions intensity above 1% of volumes, as assessed by the ERM.

Shareholder proposals

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

Biodiversity

Deforestation: There will be a continued focus on companies scoring poorly on Forest 500, which tracks companies most responsible for global deforestation. This is defined as companies that score below 10 on the Forest 500 ranking (which assesses companies' disclosure and management of deforestation risks), and financial institutions that score 0 on the Forest 500 ranking.

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

Appendices continued

Assessing human rights laggards

Following significant development in 2023 targeting laggards across several focus areas, our approach for 2025 remains largely unchanged. We may recommend a vote against responsible directors for the following reasons:

General failings: A company is in clear breach of its applicable regulatory responsibilities (e.g. UK’s Modern Slavery Act), or has caused or contributed to egregious, adverse human rights impacts or controversies, without providing appropriate remedy. Also, as evaluated by the engagement manager and/or severe controversy scores by third-party ESG data providers. See more on Modern Slavery below.

Benchmark laggards: A company scores significantly lower than industry peers (bottom 15–20%) within credible external benchmarks of companies on human rights, without providing a sufficient explanation or a commitment to improve. These benchmarks are:

- **2023 Corporate Human Rights Benchmark:** Ranks some of the world’s largest companies on the policies, processes and practices they have in place to systematise their human rights approach and respond to serious allegation
- **2022 Ranking Digital Rights Index:** Ranks some of the world’s largest technology companies on their commitments and policies affecting users’ freedom of expression and privacy rights
- **2022 BankTrack Human Rights Benchmark:** Ranks some of the world’s largest banks on their progress towards fully implementing the UN Guiding Principles on Business and Human Rights (UNGPs)
- **2025/26 Know the Chain Index:** Ranks some of the world’s largest companies on their current corporate practices to identify and eradicate forced labour risks in their supply chain.

Modern slavery

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

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

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

We would consider withholding our support for the approval of the annual report and accounts at a company’s next AGM, should the required changes to achieve compliance not occur prior to the annual general meeting. All non-compliant companies have been contacted and details of perceived non-compliance communicated.

Diversity & inclusion

Board diversity

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

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

In 2025, we consider the following to be minimum expectations and will likely oppose the chair or other responsible directors if not met:

UK: In the UK, we support the changes to the FCA’s listing rules for board diversity and encourage companies to disclose whether they comply – or, if not, why not – with the following targets: at least 40% of board seats and at least one senior board position (Chair, CEO, CFO or SID) held by a woman, and at least one board seat held by someone from an ethnic minority background. FTSE 350 companies will receive stricter voting outcomes for being non-compliant with FCA Listing Rules approach to gender/ethnic diversity (40% female, one ethnic, one female at executive level).

Europe and Australia: Matching diversity/independence thresholds with local best practice (e.g. minimum 30 per cent female in all markets) and continued focus on below board-level diversity. German MDAX constituents are encouraged to meet the 40 per cent diversity target in addition to DAX companies.

Asia/GEMs markets: Following the introduction of minimum gender targets of 15 per cent female directors across all markets, this guideline has been developed into market-specific minimum aspirations for board and management diversity. These aim to strike a balance between market context and international good practices.

In most Asian markets and emerging markets, we seek for boards to comprise at least 30 per cent women by 2030, and in some markets, we encourage boards to achieve this level well in advance of 2030. Ten Asian and emerging market countries are now expected to meet the 30 per cent gender diversity guideline.

Other board governance/remuneration and audit voting policy changes

For 2025 we are implementing several changes in relation to wider corporate governance issues as noted below:

Board independence in developed markets (ex-US): We have amended the director independence criteria, introducing a five-year ‘cooling off’ period for executives being appointed to key board positions, compared to a two-year period required in 2024.

Remuneration: We will harmonise standards across regions to improve consistency (e.g. increased focus on disclosure at all Asia/GEMs and European markets); ‘common rules approach’.

Japan: Given the continued issues relating to capital inefficiency in the Japanese market, the policy will be further developed to focus on promoting wind down of cross shareholdings of more than 5 per cent of net assets via vote recommendations against directors.

Appendix F

Stewardship section of our ESG questionnaire

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

- Are you a signatory or do you intend to apply for signatory status to the revised Stewardship Code in 2020, or other national stewardship codes? Yes/No
 - If you are not a signatory to the Stewardship Code, please provide rationale.
- Please explain how active ownership practices, such as company engagement, are integrated into investment decisions.
- How do you set objectives, measure progress and report on the outcomes of your engagement with issuers on ESG issues?
- How do you encourage better disclosure from corporates, especially regarding climate risks?
- For what percentage of investments (by value, over the last year) have you undertaken engagement on climate change, environmental, social and governance issues?
 - If percentage > 0, please provide detail on processes (e.g. on monitoring processes, engagement strategy) by engagement topic.
 - Please provide recent examples of such engagement and your assessment of the effectiveness of your stewardship activities, e.g. instances of positive change at issuers versus the level of influence you had on the issuer.
 - If percentage = 0, please explain why engagement was not undertaken.

- What escalation processes do you have in place for situations of continued underperformance on the engagement objective? Please give two recent examples of where this has occurred in practice.
- Please also describe in detail your approach to voting shares, and whether your voting actions are determined internally or outsourced to a proxy voting agency. If the latter, do you ever override the agency’s recommendations? Please give a recent example.
- How do you approach ESG and climate-related ballot items in your voting decisions? Have you voted against management and/or filed or supported shareholder resolutions on ESG or climate issues? If so, please give an example of where you have done this, and your rationale for doing so.
- How do you overcome challenges such as share blocking markets or stock lending procedures when looking to exercise your votes?
- What customisation do you offer to clients on voting decisions – can clients retain votes to determine in line with their own policies? Please also describe the fund-specific reporting on all voting that you provide.
- Please describe what engagement activities you carry out from a policy, market-functioning or industry perspective.

Appendices continued

Appendix G

Our standard RI external manager contract terms

A1. RESPONSIBLE INVESTMENT

A1.1 The Fund Parties acknowledge the importance that the Board places on principles of corporate governance and responsible investment. The Fund Parties agree to give appropriate consideration to the relevant principles which may include the [Principles for Responsible Investment](#) to which the Board is a signatory. The Fund Parties acknowledge that they have received, read and understood the [Board’s Statement of Investment Principles](#). The Fund Parties acknowledge the Board’s need to consider long-term and systemic risk factors in order to manage risks which are relevant to its long-term investment horizon and its statutory responsibilities.

A1.2 The Fund Parties will have a process for monitoring current or potential investments in relation to relevant long-term factors including environmental, social and governance (ESG) and climate-related concerns. The Fund Parties will ensure that their staff apply due care and diligence to implementing this monitoring process, including considering the extent to which such factors generate investment risks or opportunities.

A1.3 The Fund Parties will, in accordance with the Board’s commitment to responsible ownership set out in its Statement of Investment Principles, engage in such activities as are appropriate in the circumstances to monitor and influence the management of the issuing entities and other underlying assets, where such activity is considered by the Fund Parties to be likely to enhance the value of such securities and in the best financial interests of the Fund.

A1.4 The Fund Parties will procure the exercise of any voting rights attached to the Portfolio investments on the Board’s behalf, in accordance with the Fund Parties’s voting policy and any market-specific guidelines approved by the Board. The Board reserves the right to rescind, upon one day’s advance written notice, the Fund Parties’s authority to make voting decisions for specific companies, issues or time periods. The Fund Parties will use best endeavours to facilitate such Board voting decisions to be implemented. The Fund Parties will have in place appropriate policies to manage any conflicts of interest in relation to voting matters and shall report at least quarterly on all votes involving companies where the Fund Parties or an affiliate has a contractual relationship or other material financial interest.

A1.5 The Board has put in place a responsible investment policy, addressing controversial weapons, company conduct and sovereign bond exposure detailed further below:

A1.5.1 The Board will expect companies that are directly involved in the production of anti-personnel landmines, cluster weapons, chemical weapons and biological weapons and of essential components of these weapons to be excluded from its investment universe.

A1.5.2 The Board will expect the Fund Parties to exclude from the investment universe: (A) sovereign bonds issued by countries subject to complete UN arms embargoes which the UK supports; and (B) investments in companies involved in the cultivation, production, manufacture, sale and/or distribution of cannabis and cannabis-related products, the proceeds of which would contravene the UK’s Proceeds of Crime Act 2002 which is binding on the Board.

A1.5.3 The Fund Parties acknowledge the Board’s interest in investee companies making all reasonable efforts to abide by the UN Global Compact and the OECD Guidelines for Multinational Enterprises and that the Board expects its managers to assess the significance of risks and opportunities in relation to their fund’s investments. Such assessment may include, where applicable and appropriate, the consideration of the above guidelines. The Fund Parties will assist the Board as is reasonably necessary to manage reputational risks and/or investigations that may arise from individuals investments made where investee companies fail to abide by the above guidelines. Such assistance may include the sharing of the investment research or, in the extreme, divestment or future segregation of profit or loss relating to any investment for which material reputational issues arise.

A1.6 In respect of clauses A1.5.1 and A1.5.2 above, the Fund Parties will be provided with a list of excluded companies and countries which may be updated by notice given in writing from time to time using the form specified in Annex A, signed in accordance with the Board’s signing authorities. Such notifications may be sent via email containing a scanned PDF copy of the instruction, sent to Fund to confirm (or such other email account as is notified by the Fund Parties to the Board in writing).

A1.7 In addition, the Board will provide the Fund Parties with an Excel document confirming the constituents of the Exclusion List as provided in the scanned PDF copy. Following receipt of such instruction, the Fund Parties shall use reasonable endeavours to effect such exclusions within a reasonable timeframe and will confirm to the Board that the portfolio has been brought in line with the requested exclusions.

If it will become clear to the Fund Parties that for any reason it will not be possible to bring the portfolio in line with the requested exclusions, the Fund Parties will notify the Board.

A1.8 The Fund Parties shall prepare and send to the Board and such other person or persons notified from time to time to the Fund Parties in writing on behalf of the Board as soon as reasonably practicable and in any event no later than eight (8) Business Days after the end of the relevant quarter, quarterly reports on:

A1.8.1 compliance with the policies and standards set out in the Statement of Investment Principles and Principles for Responsible Investment, including any instances where those policies and standards were set aside in order to achieve investment objectives;

A1.8.2 the key material ESG and climate-related concerns and relevant metrics associated with Portfolio investments and an explanation how the Fund Parties have sought to identify, monitor and manage them;

A1.8.3 the stewardship activities – including issuer engagement – during the reporting period, including evidence of the effectiveness of those activities; and

A1.8.4 voting activities over the reporting period, including full disclosure of any votes and an explanation of any exercises of discretion under the Fund Parties’s voting guidelines and conflicts of interest.

A2. [What are the Principles of Responsible Investment by the PRI](#)

A3. [The PPF’s Investment Principles and Strategy](#)

Appendices continued

Appendix H

RI criteria and ESG considerations within our investment process

RI criteria and ESG considerations as part of our investment process

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

Appendix I

Disclaimers

Use of artificial intelligence

Disclaimer: This report includes content generated with the assistance of artificial intelligence tools to enhance clarity and efficiency. All content has been reviewed and approved by the authors to ensure it meets the PPF’s standards of integrity and accuracy.

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Appendix J

PPF Climate Change Policy

Ambition: We’re committed to supporting the UK Government’s Net Zero by 2050 target and are taking all reasonable steps to achieve this for our own operations by 2035 or sooner. For our investments, we seek to contribute to the global transition to Net Zero through our portfolio and engagement activities.

Beliefs: As a long-term investor, the PPF has a duty to consider all financially material risk factors in our investment decisions, including climate-related. We believe climate change can materially impact businesses, markets and economies globally in a number of ways, from a societal perspective as well as environmental.

The PPF has developed a specific Climate Change Policy, as we see climate change as a systemic and non-diversifiable concern that has the potential to significantly affect the value of our investments across the short, medium and long term, throughout the global economy. We also believe that opportunities can exist and be exploited for companies and assets well-positioned for the transition to a low-carbon economy and for adaptation in relation to increasing physical risks. Through sharing our experiences, we can encourage others to increase investment focus in these areas to drive forward the transition.

Assessment: We recognise the complexity and barriers to identifying and assessing the forward-looking financial materiality of climate-related impacts on our investments. However, we seek to assess the exposure of our investments to climate-related risks and opportunities through a range of metrics and analysis, as the tools available to measure these evolve.

Consideration is given to the potential impacts on asset prices and return expectations across both short and longer-term time horizons, and how this could inform our decisions around strategic asset allocation and portfolio construction.

We oversee all new and existing investment arrangements in a way that takes account of climate transition and adaptation risks, as well as resilience, opportunities and inclusivity, in line with the 2015 Paris Agreement commitment to keep the average global temperature rise this century to well below 2°C above pre-industrial levels and aim to limit the increase to 1.5°C through an orderly transition.

Manager Expectations: We expect our external investment managers to understand and integrate material climate-related risks into their analysis and investment process, including undertaking carbon footprinting and scenario analysis, assessing asset exposure to physical risks, and engaging with issuers, where relevant for their asset class. We expect our managers to exercise their voting rights and engagement resource to positively influence the companies in their portfolio to transition to a low-carbon economy.

These expectations are a requirement of our manager selection process for new investment mandates. Managers that cannot demonstrate their commitment to meeting these expectations will not be appointed.

In monitoring the exposure and performance of our external managers, we review how they are managing climate-related risks and opportunities, including voting and engaging with issuers on climate-related issues, and how they are reporting to us on their actions. We share examples of best practice to promote consistency and alignment of approaches across our investment mandates.

Engagement & Collaboration: A significant part of our climate strategy to support the transition is implemented through our Climate Watchlist. This serves as an engagement focus list of companies that are responsible for over 70 per cent of our Public Markets Scope 1 and 2 financed emissions. We not only engage directly with selected companies, but also utilise our external managers and engagement service provider to achieve engagement objectives. Where sufficient progress is not considered to be taking place, we have developed an escalation policy, which provides a framework to drive change at these companies.

We seek to encourage greater climate disclosure by supporting disclosure frameworks such as the CDP and the Task Force on Climate-related Financial Disclosures (TCFD), and by engaging with companies identified by Climate Action 100+ and the Net Zero Engagement Initiative, so that exposure to climate risks (and opportunities) can be better understood and managed.

We also collaborate with the wider investment community on climate change issues, as a signatory to the Principles for Responsible Investment (PRI) and as a member of the Institutional Investors Group on Climate Change (IIGCC).

Policy Engagement: As stated in our Sustainability Strategy, we support the UK government’s Net Zero commitment and aspiration to make the UK the world’s first Net Zero aligned financial centre. We seek to actively contribute to public debate on climate change risks and opportunities and use our influence to promote the growth of a sustainable pensions industry. We consider collaboration through industry groups such as the IIGCC to be valuable platforms for driving change.

Reporting: We will communicate and engage on the actions and progress that have been taken around our climate change strategy to relevant beneficiaries and stakeholders, reporting in line with TCFD guidance for asset owners.

Appendices continued

Appendix K
Disclosure metrics from the 2024/25 Annual Report and Accounts

PPF carbon footprint Public equity Scope 1 & 2 metrics	2024	2023	2020 (baseline year)	Changes from 2024 to 2023 (%)	Changes from baseline 2020 to 2024 (%)
Metrics based on investor allocation (EVIC)					
Total financed carbon emissions (tCO ₂ e)	168,806	181,172	797,637	-7%	-79%
Financed carbon emissions (tCO ₂ e/\$m invested)	49	64	122	-23%	-60%
Metrics based on portfolio weights (WACI)					
Weighted average carbon intensity (tCO ₂ e/\$m revenues)	87	96	243	-9%	-64%
Equity benchmark weighted average carbon intensity (tCO ₂ e/\$m revenues)	73	74	300	-1%	-76%
Market value of the fund's equities covered by carbon data (\$m)	\$3,470	\$2,820	\$6,528		
Proportion of the fund's equities for which data is available (%)	97%	98%	97%		

Source: Certain information ©2024 MSCI ESG Research LLC. Reproduced by permission. PPF portfolio holdings as of 31/12/2024.

1 For our aggregate Public equity holdings, we continue to include the equities from our Public equity and Absolute Return portfolios (long positions only).

PPF carbon footprint Corporate credit Scope 1 & 2 metrics	2024	2023	2020 (baseline year)	Changes from 2024 to 2023 (%)	Changes from baseline 2020 to 2024 (%)
Metrics based on investor allocation (EVIC)					
Total financed carbon emissions (tCO ₂ e)	244,628	277,238	361,360	-12%	-32%
Financed carbon emissions (tCO ₂ e/\$m invested)	31	37	58	-16%	-47%
Metrics based on portfolio weights (WACI)					
Weighted average carbon intensity (tCO ₂ e/\$m revenues)	71	122	328	-42%	-78%
Credit benchmark weighted average carbon intensity (tCO ₂ e/\$m revenues)*	193	200	257	-4%	-25%
Market value of the fund's Corporate credit covered by carbon data (\$m)	\$8,004	\$7,533	\$6,214		
Proportion of the fund's Corporate credit for which data is available (%)	98%	97%	90%		

Source: Certain information ©2024 MSCI ESG Research LLC. Reproduced by permission. PPF portfolio holdings as at 31/12/2024.

1 For our aggregate liquid credit holdings, we continue to include the corporate bonds from our Strategic cash, Investment grade credit (including Sterling short duration credit), Emerging Market Debt and Absolute Return portfolios (long positions only). The credit benchmark is Bloomberg Barclays Global Credit Index 100% GBP Hedged.

* Equity benchmark changed from FTSE All-World Minimum Variance Index to FTSE Custom All-World Climate Minimum Variance 100% GBP Hedged Index on 1 August 2021.

PPF carbon footprint UK Credit Scope 1 & 2 metrics	2024	2023	2020 (baseline year)	Changes from 2024 to 2023 (%)	Changes from baseline 2020 to 2024 (%)
Metrics based on investor allocation (EVIC)					
Total financed carbon emissions (tCO ₂ e)	75,725	106,522	102,249	-29%	-26%
Financed carbon emissions (tCO ₂ e/\$m invested)	36	46	51	-22%	-29%
Metrics based on portfolio weights (WACI)					
Weighted average carbon intensity (tCO ₂ e/\$m revenues)	121	131	156	-8%	-22%
Market value of the fund's UK Credit covered by carbon data (\$m)	\$2,087	\$2,328	\$2,012		
Proportion of the fund's UK Credit for which data is available (%)	95%	96%	67%		

Source: Certain information ©2024 MSCI ESG Research LLC. Reproduced by permission. PPF portfolio holdings as at 31/12/2024.

1 For our UK Credit holdings, we continue to include the corporate bonds from our public Hybrid Assets (HAIL) portfolios.

Metric definition:

1. Financed carbon emissions (tCO₂e/\$m invested)
Measures the Scope 1 + Scope 2 tonnes of CO₂ equivalent emissions, for which an investor is responsible, per US\$ million invested, by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% enterprise value including cash).

2. Total financed carbon emissions (tCO₂e)
Measures the Scope 1 + Scope 2 tonnes of CO₂ equivalent emissions for which an investor is responsible by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% enterprise value including cash).

3. Weighted average carbon intensity (tCO₂e/\$m revenues)
Measures a portfolio's exposure to carbon-intensive companies, defined as the portfolio weighted average of companies' carbon intensity (Scope 1 + Scope 2 tonnes of CO₂ equivalent emissions per million \$ of revenues).

4. Enterprise value including cash (EVIC)
Market capitalisation at fiscal year-end date + preferred stock + minority interest + total debt + cash and cash equivalent.

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Appendices continued

Appendix L

Our carbon footprint calculations

We report a range of carbon emissions-based metrics for our listed global equity and Credit investment holdings to align with both TCFD and the [Partnership for Carbon Accounting Financials](#) (PCAF) guidance. We are also guided by the DWP’s work around proposed metrics for pension funds.

Although our year-end is 31 March, we review our climate exposure metrics to 31 December. This allows for the greatest coverage of climate data, such as the annual corporate CDP responses made available to investors each autumn.

Our preferred metric for assessing carbon risk exposure on a day-to-day basis is Weighted Average Carbon Intensity (WACI). We feel it gives us the greatest coverage in fixed income where we have more significant exposure and allows us to compare similar types of assets and portfolios, regardless of investment size.

Total financed emissions

For absolute carbon emissions, we measure the total operational Scope 1 and Scope 2 carbon emissions (based on the definition set by the [Greenhouse Gas \(GHG\) Protocol](#)) using data from MSCI ESG Research. To calculate our apportioned ‘ownership’ of each investment, we’ve used Enterprise Value Including Cash (EVIC) as recommended by the PCAF.

Relative carbon intensity

To give the fullest picture of the carbon intensity of our portfolio, and so we can compare different portfolios on as close to a like-for-like basis as we can, we use two relative measures:

- Financed carbon emissions per million dollars invested metric. Measuring the Financed Carbon Emissions per million dollars invested helps us understand the carbon emissions being financed by the size of our investment portfolio.
- Weighted Average Carbon Intensity (WACI) metrics

As recommended by the TCFD, we use the WACI footprint to monitor our portfolios’ exposure to carbon intensive companies. It’s flexible enough to use across asset classes and gives us greater coverage in fixed income portfolios. EM Sovereigns have their own WACI calculation – see right.

1. Absolute financed emissions metric

Total Financed Carbon Emissions in tonnes CO₂e:

$$\sum_i^n \left(\frac{\text{current value of investment in entity}}{\text{entity's Enterprise Value including cash}} \times \text{entity's GHG emissions} \right)$$

2. Relative carbon intensity metrics

Financed Carbon Emissions per million dollars invested

metric (may be shown in other currencies too):

$$\frac{\sum_i^n \left(\frac{\text{current value of investment in entity}}{\text{entity's Enterprise Value including cash}} \times \text{entity's GHG emissions} \right)}{\text{current portfolio value (\$m)}}$$

Sources: Sovereign GHG without LULUCF from United Nations Framework Convention on Climate Change (UNFCCC) and PPP-Adjusted GDP from World Bank.
Sovereign Emission Intensity Formula based on PCAF standard (see page 116 of [Financed Emissions by The Global GHG Accounting & Reporting Standard Part A](#)).

Weighted Average Carbon Intensity

metric (where normalisation factor is entity’s revenues, but other normalisation factors can be used):

$$\sum_i^n \left(\frac{\text{current value of investment in entity}}{\text{current portfolio value}} \times \frac{\text{entity's GHG emissions}}{\text{normalisation factor}} \right)$$

Weighted Average Carbon Intensity for Sovereign Constituents (tonnes CO₂e/\$M GDP nominal)

Measures a portfolio’s exposure to carbon-intensive economies, defined as the portfolio weighted average of sovereigns’ GHG Intensity (emissions/GDP):

Sovereign constituents tonnes CO₂e/\$m GDP nominal

$$\sum_i^n \left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} \times \frac{\text{sovereign issuer's GHG emissions}_i}{\text{sovereign issuer's \$m GDP}_i} \right)$$

Appendix M

Example ESG Dashboard for an internal equity portfolio

Example ESG Dashboard for an internal equity portfolio





Statement

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

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