Pension Protection Fund

Responsible Investment Report 2019/20

As a UN-supported Principles for Responsible Investment (PRI) signatory and formal supporter of the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD), we recognise the value in being clear about our Responsible Investment (RI) strategy and sharing what we are doing.

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Aim of the Responsible Investment Report

"**Responsible investment is an important commitment in our Strategic Plan. I'm delighted to introduce our inaugural RI report, which sets out our RI strategy and progress so far.**"

Oliver Morley, CEO

Responsible investing and the integration of environmental, social and governance (ESG) factors have been embedded in our investment process since our inception. In 2018 we enhanced and formalised our RI framework. Since then, we have focused on applying the framework across both internally and externally-managed portfolios.

As a UN-supported Principles for Responsible Investment (PRI) signatory and formal supporter of the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD), we recognise the value in being clear about our RI strategy and sharing what we are doing.

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In part 1 of this report we outline who we are, why we believe being a responsible investor is important, and how we endeavour to act responsibly in our day-to-day investment activities.

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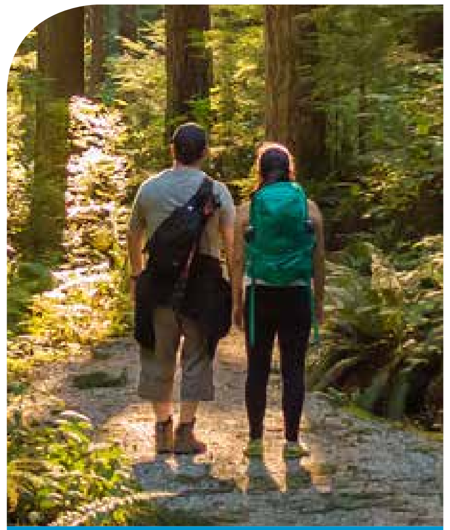
In part 2, we outline the **execution** of our key priorities in **being active owners** and **managing climate change risks and opportunities.** This also covers our commitment to investor collaboration, which is critical to the success of the wider industry, as together, we are better equipped to meet the challenges facing us.

18-37



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Part 3 **looks forward** to future developments planned for 2020/21 and beyond.

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Executive summary

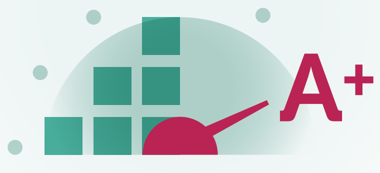
2019/20 RI highlights

General highlights

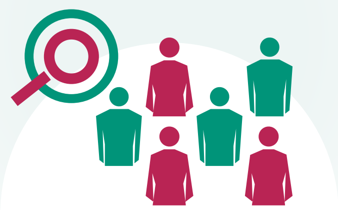
Published first RI report

Reported in line with recommendations from TCFD

Achieved PRI assessment score A+ for Strategy & Governance



Participated in government-backed Pensions Climate Risk Industry Group



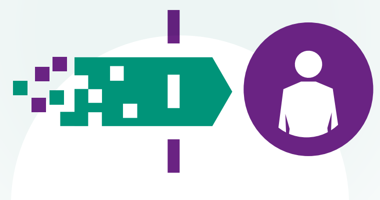
Approach

Expanded in-house ESG dedicated resources

Enhanced RI strategy and framework

Developed climate change policy

Integrated minimum ESG requirements into external manager arrangements

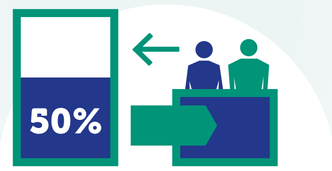


Execution

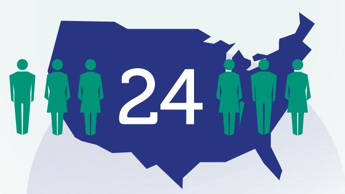
Expanded ESG data coverage and commenced climate-related analysis

Encouraged external managers to enhance ESG practices & reporting

Over 50% of our objectives were progressed to the next milestone during engagement with companies in our segregated equity portfolios



Supported 24 significant shareholder resolutions related to climate change at US AGMs during the year

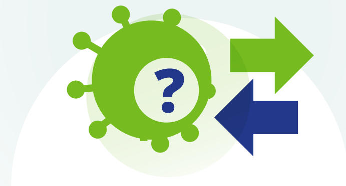


Looking forward to 2020/21

Develop enhanced stewardship policy, including bespoke voting policy

Develop further assessments and scenario analysis of climate-related risks & opportunities

Consider ESG implications of COVID-19 and the 'new normal'



Transitioning our managers towards best practice reporting standards on ESG and climate risks

Leadership statements

Chair's foreword

"RI has always been at the core of how we do things and I am delighted that, with a lot of work done behind the scenes, we are now publishing our inaugural RI report."

On behalf of the Board, I am pleased to reaffirm our commitment to RI at the PPF. We have been responsible stewards since the PPF was established 15 years ago, and signatories to the PRI since 2007. We pride ourselves on being a stable organisation with strong principles and values, and we are committed to continuing to protect our members for many years to come.

As a long-term investor, we look to be vigilant and remain agile to all market dynamics and evolving global trends – including climate change – to identify risks and opportunities. In order to serve our members, and provide for our levy payers and other stakeholders, we take a strong and informed stand on responsible investing. It is a priority, as set out in our Strategic Plan. With regular updates from the Investment Team and its dedicated ESG specialists, the Board is well informed and able to provide oversight and steer on the evolution of our RI framework and activities.

We take all our responsibilities seriously and, despite our continued success, we will never permit ourselves to become complacent. Recognising these responsibilities, we look to emulate best practice in governance and regulation. We fully support the guidance of the TCFD, and our response to the recommendations is reflected in the 2019/20 Annual Report and Accounts.

We also believe in strong peer collaboration across the industry, both with other asset owners and our external managers. We welcomed the recent regulatory amendments by the Department for Work and Pensions (DWP) that clarified the requirements for UK Occupational Pension Schemes. These included incorporating financially material environmental, social and governance (ESG) considerations into their approach, and we acknowledge the long-term benefits they will deliver. The UK pensions sector, as one of the world's largest investor groups representing £1.6 trillion of assets, should be a leader on this. The UK's enhanced regulations provide a significant opportunity to strengthen how its pensions industry is taking ESG factors into account and reporting on them, particularly for climate-related issues. Over the past year, we have enjoyed working with the DWP and The Pensions Regulator (TPR), among other participants, as a member of the Pensions Climate Risk Industry Group. Its objective is to support UK schemes on this journey, and we hope that the new Pension Schemes Bill will also be a driver for continuing progress.

We have no doubt that the importance of being a responsible asset owner will only grow. This report presents our progress so far and our commitment to continue evolving.

Arnold Wagner, OBE

Our RI journey so far
2005–2020

2005 – **April 6** – We opened our doors

2006

2007 – **February 16** – became signatory to the UN-supported PRI and used principles as base for defining our core RI beliefs

2008 – Voting & Engagement overlay service acquired

2009 – Became signatory to the Carbon Disclosure Project (CDP); RI ratings process developed

2010 – RI principles enhanced within Statement of Investment Principles; responded to the FRC's consultation on a new UK Stewardship Code and issued statement of compliance in Sep 2010

2011 – RI criteria formally embedded in manager selection process; became member of UKSIF

2012 – RI clauses formally included in investment management agreements, based on best practice defined by International Corporate Governance Network (ICGN)

2013 – Board adopted Statement of Stewardship principles and Standard of Diligence; RI Manager chaired the PRI's Fixed Income workstream and led collaboration of UK pension funds to standardise expectations for ESG disclosures from listed equity managers

2014

2015 – RI minimum standards policy approved; responded to DWP consultation on changes to Investment Regulations, following the Law Commission report on Fiduciary Duty

2016 – ESG research provider appointed

2017

2018 – Became member of IIGCC and formal supporter of TCFD and Climate Action 100+

2019 – RI enhanced framework and new climate change policy approved; became formal supporter of Transition Pathway Initiative; joined Pensions Climate Risk Industry Group

2020 – First RI report published; TCFD aligned reporting

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Chief Investment Officer's statement

"We believe it is vital that we demonstrate a robust and effective approach to RI, and we see the integration of material ESG issues as an essential part of the investment process at the PPF."

Our unique investment strategy has always been rooted in prudent risk-taking with a focus on generating sustainable long-term returns, and RI is a core component of this strategy.

I am pleased that our ESG capabilities have grown in the past year, with an additional ESG specialist joining the Investment Team to support our Head of ESG. We have also expanded our access to available ESG data, insights and analytics, which allow us to better track, monitor and ultimately report on various risks and opportunities. Applying the TCFD's recommendations has been a key area of focus, as we continue to integrate climate-related risk assessment and management.

Best practice around ESG implementation in some asset classes and investment strategies is still developing, so we work in partnership with our external managers and incentivise them to evolve their processes. Due to our size, we have the opportunity to encourage improvements in ESG integration across the globe, and we see this as an area where we can have the most influence. We have also established a set of minimum requirements around ESG integration and stewardship, and will ensure that our expectations are met in order to continue relationships with our external managers.

One area that we are pushing strongly is increased disclosure and reporting. At present, the level of fund-specific ESG reporting provided by many external managers is limited, and we will not be able to fully deliver on our own reporting requirements without underlying transparency from our external managers. In the meantime, to obtain a thorough oversight of our portfolios in relation to ESG risks and opportunities, we are investing significantly in expertise to monitor these portfolios ourselves. Whilst challenging, we recognise that a tailored approach is often necessary as different schemes will have different characteristics and expectations. The momentum around ESG integration has built in recent years, yet we are still in the early stages of the journey, and recognise that all partners must work together to deliver on this successfully.

Barry Kenneth

Overview of the PPF

Our duty is to protect the millions of people who belong to UK defined benefit (DB) pension schemes. When these schemes fail, we're here to support their members.

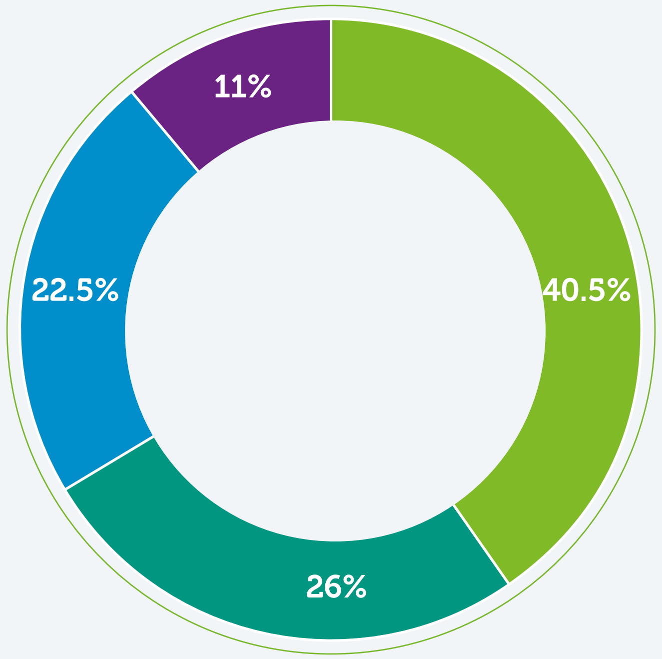
When an employer becomes insolvent and its pension scheme cannot afford to pay its promised pensions, we compensate scheme members for the pensions they have lost. We take over responsibility for payments once we have assessed that a scheme cannot afford to buy benefits from an insurance company which are equal to, or more than, the PPF would pay. Currently around 277,000 people are members of the PPF. Before the PPF, these people could have faced significant financial uncertainty and hardship. We protect more than 10 million members of more than 5,000 DB pension schemes.

How we are funded

We raise the money we need to pay PPF benefits and the cost of running the PPF in four ways:

Split of funding sources

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



We have £32 billion in our investment portfolio (31 March 2019) which is continually growing, and is currently managed both internally and externally.

Source: The PPF

The foundations of our RI principles

Embedding our core beliefs and investment principles into our RI strategy

The PPF was an early signatory to the PRI back in 2007, and has considered the PRI's six Principles as a base for guiding our own core RI beliefs and investment principles. These beliefs are also embedded in our Statement of Investment Principles. Our RI strategy and framework was further developed in 2018/19. It incorporates ESG risks and opportunities across our investment process, with an essential focus on risk management. It covers our processes and procedures, while also facilitating flexibility and longevity, to enable us to keep pace with evolving regulation in this space.

We view ESG factors as the interaction of our investments with:

- the physical environment and climate (E);
- communities, workforces, wider society and economies (S);
- governance structures of the organisations and markets we invest in (G).

Our RI strategy

Our core RI beliefs

1. By acting as a responsible and vigilant asset owner, we can protect and enhance the value of our investments.
2. ESG factors can have an impact on the performance of our investments, and the management of ESG risks and exploitation of ESG opportunities can, particularly for a portfolio-wide issue like climate change, add value to our portfolio.

RI Framework

Governance & Accountability	Strategic Direction & Policy	Risk Management	Metrics & Transparency

Priorities

Climate Change	Stewardship	Reporting

Underneath the RI framework, we have identified three key priorities: Climate Change, Stewardship, and Reporting. To support these priorities, we apply a set of specific policies, reviewed annually, to ensure that emerging best practices are considered.

PRI's six Principles for Responsible Investment

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

Our climate change policy governs our principles and actions around climate change related risks relevant to our investments. The policy was formally approved by the Board in 2019 and can be accessed on our website. Throughout this report, we have provided signposts for each aspect of how we are implementing our climate change policy:

Climate change policy (TCFD pillar*)	Location
Climate-related investment beliefs (G)	Our core RI beliefs (12); Managing climate change risks and opportunities (30-37)
Assessment of climate-related impacts on investments (S)	Use of ESG data to identify and manage ESG risks (16, 31-32); Managing climate change risks and opportunities (30-37)
External manager expectations around climate-related stewardship (RM)	Our RI approach (14-17); Working with our external managers (15-16, 20); Managing climate change risks and opportunities (30-37); Climate change stewardship in risk management (32-33); Roadmap: assessing climate exposure (30-31)
Collaboration with peers and industry initiatives (RM)	Engagement with industry and collaborative initiatives (17); Collaborative efforts to engage and improve RI standards across asset classes (28-29); Managing climate change risks and opportunities (30-37)
Reporting and engagement on climate-related activities (M&T)	Managing climate change risks and opportunities (30-37); Climate-related disclosure (35)

*G – Governance; S – Strategy; RM – Risk Management; M&T - Metrics & Targets

Under stewardship, our minimum standards policy sets out our requirements for responsible conduct from our underlying issuers and external managers, which are aligned with internationally recognised norms or international conventions for controversial activities that are ratified into UK law. A new stewardship policy is also being developed with a bespoke voting and engagement focus for certain themes.

Finally, for reporting, we are a strong advocate for transparency across the entire investment value chain and a supporter of several disclosure initiatives, including the TCFD and the CDP, where we are an Investor member. We were pleased to receive an assessment score of A+ for the Strategy & Governance module in the 2019 PRI reporting cycle, and A across nearly all other modules.

One aspect we recognise as an area for improvement is sharing what we do more widely, which we are addressing in a number of ways, including the publication of this report.

Our RI approach

RI governance at the PPF

Inadequate governance is often a factor in schemes entering the PPF, therefore we have a responsibility to exemplify good governance on behalf of our members and levy payers.

PPF Board	Highest governing body with oversight of RI (including climate-related) issues.
Investment Committee (IC)	Responsibility for developing and maintaining the Fund's RI principles and policies (including climate-related) is delegated to the IC.
Investment Team	Led by the Chief Investment Officer (CIO). Responsibility for ensuring adherence to the RI framework and associated policies (including the integration of climate change) across all asset classes, both internally and externally managed.
ESG Team	The ESG Team, as part of the Investment Team, provides support and expertise, oversees appropriate implementation of the RI framework, engages with portfolio managers, and monitors investments for ESG risks and opportunities (including climate-related).

RI criteria and ESG considerations as part of our investment process

Phase	Request for proposal/ identification	Selection/ due diligence	Appointment	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, LPAs, side letters).	Ongoing monitoring and engagement with external managers; regular fund-level ESG, carbon and stewardship reporting; commitment to continuous improvement.

ESG integration

Our RI strategy is primarily focused on integrating material ESG issues into our investment process, which we believe allows us to make more informed decisions and enhances the value of our assets. Since 2007, we have applied Principles 1 and 2 of the PRI's Six Principles for Responsible Investment (see page 12) as a benchmark for integrating ESG across all asset classes and markets in which we invest. We take a materiality-based approach to relevant ESG factors, and give particular consideration to climate change (see page 13 Climate change policy – assessment for further information).

ESG integration (including climate change) is achieved by engaging with and advancing the ESG practices of our external managers and underlying issuers, rather than divesting. As a large and diversified asset owner, we have the opportunity to encourage improvements in ESG integration from the top down and bottom up. We expect our external managers to integrate all relevant material factors into their investment analysis and decisions, and demonstrate active stewardship. Our expectations vary between different asset classes, depending on relevance (such as time horizons or types of instruments used) and current best practice.

External manager selection and due diligence

Before we appoint external managers, we carry out extensive due diligence on their RI policies and approach to ESG integration, which not only includes minimum requirements that they must meet, but also a consideration of how they might go beyond those minimum standards. We have also integrated considerations on diversity and inclusion policies and initiatives within the external manager's firm. We ensure that appropriate RI clauses are incorporated into all investment management agreements and side letters.

Ongoing monitoring and rating of external manager mandates

When monitoring our external managers, we assign to them an ESG rating which forms part of a wider and integrated performance-monitoring framework. The ESG rating (specific to asset class and strategy) scores our external managers across a number of areas, such as RI governance, alignment and resources; integration of ESG factors within investment analysis and decision-making; stewardship; and reporting. All external managers are required to report material ESG issues alongside their investment performance, and RI is a standing agenda item in external manager review meetings.

We have an internal RI policy, as well as guidance and implementation documents which set out our expectations of external managers in various asset classes. These are reviewed and updated when new insights and best practices are available, such as when new guidelines are issued by the PRI or other organisations. These documents support the assessment of our external managers, and inform our due diligence process and requirements for incorporating ESG into fund terms. When communicating our expectations to managers, the feedback is tailored to the areas where we see scope for improvement.

Use of ESG data to identify and manage ESG risks

At a strategy and individual portfolio level, ESG risks (including climate-related risks) are identified internally using monitoring processes, tools, data and systems – enabling us to engage with our external managers around risk identification and management activities. ESG data is available through our portfolio management systems, and we are developing our processes for monitoring ESG and climate-related risks at a fund, asset class and strategy level as part of risk reporting (see page 30 for more on our activities around climate-related strategy and risk identification).

Exercising our ownership rights such as shareholder rights and voting

Active ownership through share voting and issuer engagement is a key part of our role as a responsible asset owner. It is an essential risk management tool that ensures that boards are accountable and are fulfilling their stewardship obligations. We welcome the enhanced UK Stewardship Code (January 2020) and will develop a new stewardship policy and enhance our stewardship practices to align with the Code. We are supportive of its aim to further improve the quality of engagement between asset owners, external managers and issuers, and the emphasis it has on establishing strong and transparent corporate governance practices.

Within our global listed equity portfolio, our external agents (managers and other vendors) vote and monitor portfolio companies for ESG risks – if concerns arise, they will engage with issuers on our behalf. For our segregated equity portfolios, we have appointed a specialist Engagement & Voting provider to support our stewardship activities. For pooled equity funds, we rely on the relevant external manager's stewardship activities, since extracting voting rights from pooled investments is currently operationally complex. For asset classes outside listed equities, such as listed credit, alternative credit and private equity, our external managers also report to us on stewardship activities and progress (see more on voting activity in 2019 on page 27 and climate-related voting on page 33).

While these activities are outsourced, we maintain oversight of our external agents by monitoring their voting and engagement practices in order to enhance the quality and quantity of their stewardship activities. For high profile issues, where possible, we will enquire about our external managers' voting intentions ahead of AGMs.

Engagement with industry and collaborative initiatives

We participate in industry-wide collaborative initiatives to help develop best practice and to ensure that our own RI standards are aligned with industry standards. On pages 20, 28-29, we outline outcomes of engagement with external managers, industry and collaborative initiatives designed to improve or set RI standards across asset classes.

PRI Principles for Responsible Investment

IIGCC Institutional Investors Group on Climate Change

UKSIF UK Sustainable Investment and Finance Association

CDP DISCLOSURE INSIGHT ACTION

Execution

Being active owners

Working with our external managers

From a stewardship perspective, we engage directly with our external managers. Robust ESG data and tools allow us to better track and manage our risk exposure, report transparently to our stakeholders, and communicate regularly with our external managers.

In late 2019, we expanded the ESG data we receive from external providers to include a wider variety of metrics at both a portfolio and issuer level, including climate-related metrics (see pages 32, 35, Managing climate change risks and opportunities for more detail).

We continuously monitor our external managers on their overall ESG performance and stewardship activities, and offer guidance and support on their ESG practices, aiming to elevate the industry to a more common understanding of RI. Development plans for external managers that do not meet our requirements are implemented. We ensure that these plans are meaningful and effective, and if signs of improvement or genuine action towards ESG progress are not made over a specified time period, we will re-evaluate our relationship.

Case study

Encouraging external manager industry collaboration through engagement

We put PRI Principle 4, 'promote acceptance and implementation of the Principles within the investment industry', into practice by encouraging our external managers to become signatories. Actively demonstrating the benefits of PRI membership, among other industry and collaboration initiatives such as Institutional Limited Partners Association (ILPA), GRESB, TCFD and Climate Action 100+, has seen a number of our external managers in the Alternatives space becoming signatories to the PRI.

Stewardship outcomes

We engage with our external managers and expect them to monitor and influence underlying issuers for both equity and debt positions. We also expect them to exercise voting rights on our behalf, with the exception of our segregated equities where we engage with companies and vote directly via our external provider. The overarching themes that we expect our external agents to engage on include climate change, human capital, diversity and inclusion, board composition and executive remuneration.

Segregated equities engagement strategy 2019-2021

The following section focuses on the progress of our external provider with respect to our segregated equity mandates, as this is where we receive the most comprehensive reporting. However, a key action for the coming year is to work with our external managers of pooled funds to improve the quality and comparability of reporting.

Our external provider for stewardship of our segregated equity mandates has created a 2019-2021 Engagement & Voting roadmap to engage with companies. The roadmap identifies 12 themes across environment; social; strategy, risk and communication; and governance, which cover material issues relevant to companies in all regions and sectors.

Engagement with investee companies happens in stages, following specific milestones. Engagement can often take place over a multi-year period, so milestones track progress that are related to objectives set at the beginning of our interactions, which can vary depending on the types of issues raised.

Case study

Alternatives external manager increases ESG integration

Through continuous engagement, a long-standing US Alternatives external manager created a new vehicle designed to allow our RI expectations to be incorporated within our mandate with them.

2019-2021 engagement themes of our external provider

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

Social
- Conduct, culture and ethics
- Human capital management
- Human and labour rights

Strategy, risk and communication
- Risk management
- Corporate reporting
- Business purpose and strategy

Governance
- Shareholder protection and rights
- Executive remuneration
- Board effectiveness

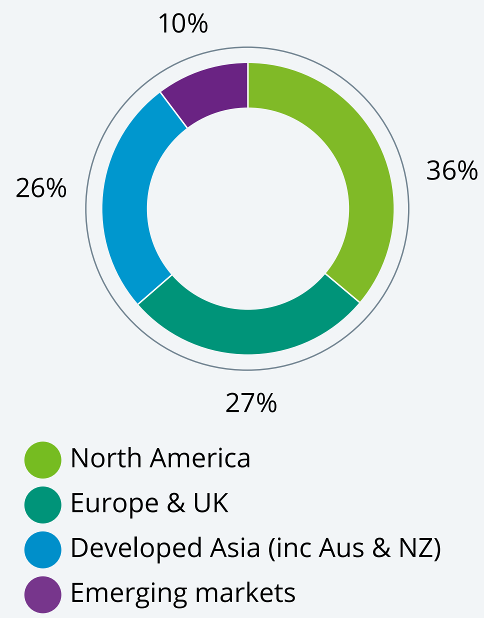
Engagement milestone process of our external provider

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

Progress

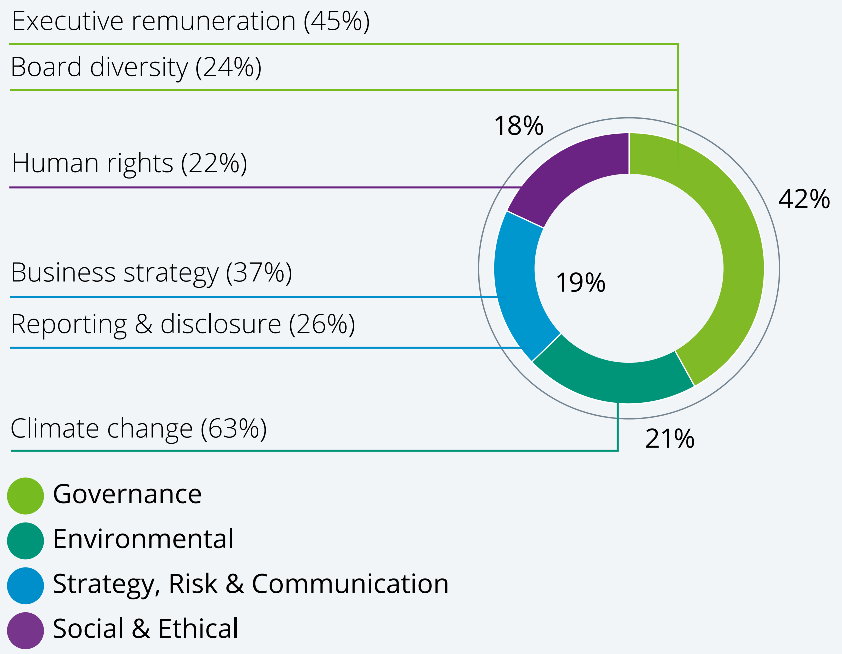
Segregated equities engagement highlights
https://ppf.co.uk/reporting-investing-transparently
Over the 2019 calendar year, we engaged with 136 companies in our segregated equity portfolios on 426 issues and objectives through our external provider. The following charts summarise our activities by region and the most common topics that we engaged on.

Segregated portfolios engagement by region



Source: EOS at Federated Hermes (external provider) 2019

Segregated portfolios engagement by types of issue

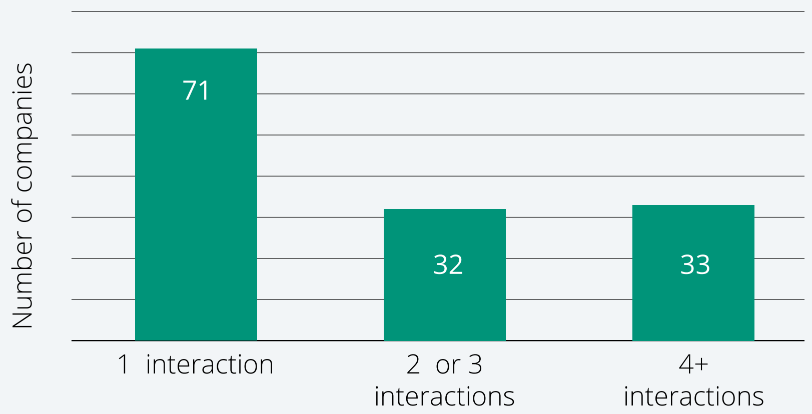


Source: EOS at Federated Hermes (external provider) 2019

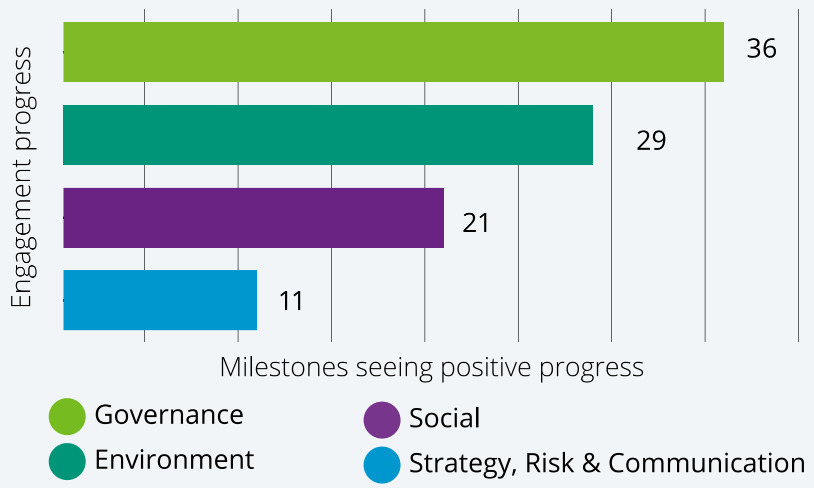
Segregated equities engagement outcomes and interaction intensity

Engagement differs between companies – some need multiple engagements before they take action, while others are responsive after very minimal interaction. We are pleased to report that, as a result of successful engagement, at least one milestone was moved forward for around 50 per cent of our objectives.

Companies engaged by number of interactions



Companies engaged by number of interactions



Source: EOS at Federated Hermes (external provider) 2019

Summary of engagement themes in 2019/20

Engagement programme companies

	# of issues (related to) objectives engaged	# of objectives engaged	% of objectives with progress	# of objectives completed or discontinued
Environment	90	62	47%	6
Social	77	37	57%	9
Governance	179	67	54%	10
Strategy, risk & communication	80	26	42%	5
Total	**426***	**192****	**51%**	**30**

Source: EOS at Federated Hermes (external provider) 2019

* We measure engagement outcomes for specifically set objectives, while engagement happens on a broader set of identified issues of concern within ESG themes.

**Total number of objectives is higher than total number of companies engaged due to more than one objective per company for some companies.

192
objectives engaged on

51%
objectives with progress

Board composition and diversity and inclusion

Within our segregated equity mandates, board composition and diversity accounted for almost a quarter of governance-related engagements undertaken by our external provider on our behalf. Through engagement, we seek to underline the importance of diversity. This includes gender, age, ethnicity, nationality, background, skills and experience to improve decision-making and avoid groupthink. Good governance features significantly in our engagement, as it is often the first step towards addressing social or environmental issues.

In support of the '30% Club', our external provider developed a board-level diversity recommendation to have 30 per cent women on FTSE 100 boards and 25 per cent on FTSE 250 boards (read about voting on board composition and diversity on page 27).

We also support the progress of board and gender diversity in other jurisdictions, for instance, the publication of the German Corporate Governance Principles mirrors the goal of the '30% Club'. Currently, only 8 per cent of German companies have more than one woman on the executive board. Two thirds still have no female board members. In the US, we also continued to push our expectations for board diversity across a number of dimensions.

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Case study

Corporate governance engagement in Asia

Corporate governance can still vary across countries. Asset owners and external managers can play an effective role by elevating their expectations on stewardship and ESG engagement in these countries.

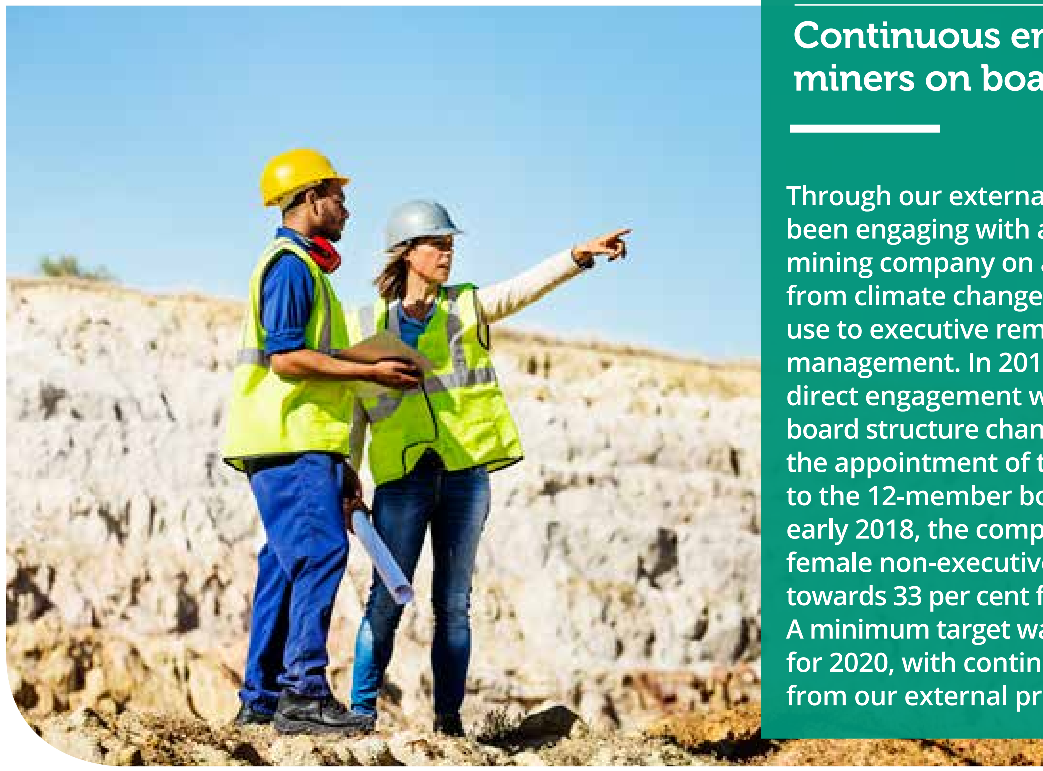
Japan: The introduction of the Stewardship Code (2012) and the Corporate Governance Code (2015) in Japan has supported our engagement with companies over the last few years. However, there are still some issues associated with board composition and diversity, and our external provider's engagements with Japanese companies are often centred on this issue.

South Korea: In 2019 our external provider joined the Asian Corporate Governance Association's (ACGA) coordinated engagement with regulators, government and large companies from South Korea on ways to improve corporate governance, such as board role and composition, executive remuneration, capital management and shareholder protection.

Case study

Continuous engagement with miners on board diversity

Through our external provider, we have been engaging with a multinational mining company on a range of themes, from climate change and natural resource use to executive remuneration and risk management. In 2017, concerns included direct engagement with the chairman on board structure changes, which resulted in the appointment of two female directors to the 12-member board. Furthermore, in early 2018, the company appointed a new female non-executive director in a step towards 33 per cent female representation. A minimum target was also recommended for 2020, with continued engagement from our external provider on this.



Human capital and corporate culture

Within our passive equity mandates, we place a high level of scrutiny on our external managers' stewardship activities. During 2019, our external manager piloted a corporate culture and human capital project, to increase understanding and assessment within the largest US technology companies. The project commenced by engaging with company executives who had oversight for internal culture, board oversight, strategy and remuneration.

Although the responses from the companies differed, some commonalities were identified during the process. For example, all companies conducted engagement surveys with their staff, and most passed aggregated engagement results to the board, but very few gave examples of tangible board actions arising from survey outcomes. This is inconsistent with our external manager's expectation for boards to engage (formally and informally) with employees to further understand results. Whilst culture-related metrics and targets are challenging to determine, we are now seeing their inclusion in standardised frameworks such as the Sustainability Accounting Standards Board (SASB) and the Workforce Disclosure Initiative. We hope to see the emergence of best practice over the next few years as more standardised metrics are agreed, and our external manager will continue to engage with technology companies on this issue.

Forced labour and modern slavery

Our external provider responded to the UK Home Office's consultation on potential revisions to the UK's Modern Slavery Act (MSA) in 2019 and argued for a requirement to report on recommended areas, instead of adopting a 'comply or explain' approach. They supported the creation of a central registry to enable stakeholders, including investors, to access companies' modern slavery statements, to include a list of companies required to comply with the MSA, regardless of whether they had submitted a compliant statement or not. They also supported the 'Find It, Fix It, Prevent It' collaborative initiative to combat modern slavery, which called on UK-listed companies to increase their efforts to address this issue and to support the provision of remedies to victims.

In another engagement, as an advisory committee member of the PRI's cobalt supply chain collaborative engagement, on our behalf, our external provider was the sole investor representative to attend an Organisation for Economic Co-operation and Development-led (OECD) event and roundtable in the Democratic Republic of Congo. The event allowed them to see first-hand the human rights challenges presented in the mining sector and share perspectives with local and international stakeholders.

Fixed Income investors can also engage effectively

We expect our external managers in other asset classes (outside equity) to also engage in active stewardship with companies where practicable. For example, an Investment Grade Credit external manager has been actively engaging with senior executives at General Electric on deleveraging, improving accounting practices and disclosures to investors. They also engaged on climate-related issues, such as encouraging the company to set ambitious energy efficiency targets and consider science-based carbon reduction targets. While further progress is required, the company sold a majority stake in its energy and oilfield services subsidiary in 2019 and stepped up its disclosures.

Emerging engagement on UK audit practices

Robust and transparent audit practices are an important agenda item as they underline good governance. Recent high-profile cases of UK business failures have raised questions about the quality, relevance and independence of audits, and strengthened calls for reform. Following the collapse of Thomas Cook in 2019, the company's auditors were heavily criticised by the UK Parliamentary Select Committee inquiry because the goodwill on its balance sheet had not been written down since 2012.

Our external provider has contributed to a number of consultations on our behalf, such as the Competition and Markets Authority's (CMA) Statutory audit services market study consultation (2019), where they called for a less concentrated market, improvements in audit quality and audit independence. Another example is the Department for Business, Energy & Industrial Strategy's (BEIS) consultation on the recommendations made by Sir John Kingman in the independent review of the Financial Reporting Council (2019), providing support for Kingman's view that a stronger regulator was needed to help improve audit quality. The UK Government agreed to support the proposal for a new Audit, Reporting & Governance Authority (ARGA), which will have enhanced powers and be accountable to Parliament.

The UK Parliamentary Select Committee explored the role of shareholders in audit, and we are supportive of increased engagement with audit committee chairs. Our external provider has already strengthened their recommendations for audit voting, audit committees' composition and tenure, and auditor independence.

Voting activity in 2019/20

Aside from climate change-related voting activities, including shareholder resolutions, which are covered in more detail in the Managing climate change risks and opportunities section on page 33, we provide a summary of the key themes within our voting activities during 2019/20.

Segregated equities voting activity

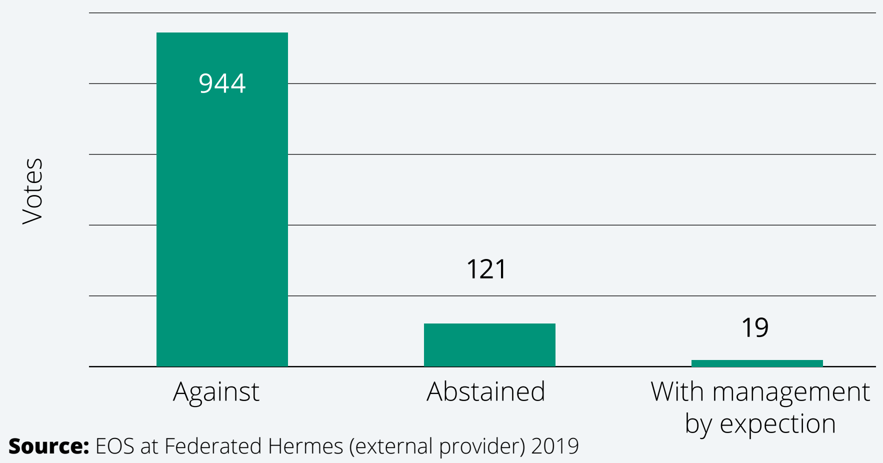
For our segregated equities, our external provider voted on our behalf on 7,260 total resolutions at 643 meetings during the 2019 calendar year and opposed 15% of these resolutions.

Our role as a responsible shareholder entails holding management to account, and we opposed one or more resolutions in over 60% of these meetings. We opposed management most frequently in the North American region (74 per cent of resolutions), where 24 per cent of our votes were in support of shareholder proposals.

Our most common rationale for supporting was that the proposal promoted appropriate transparency, accountability or incentivisation. Opposition to remuneration-related resolutions was our primary concern in the UK, Australia and New Zealand regions, and concerns around board structure were highest in the US, developed markets in Asia and emerging markets.

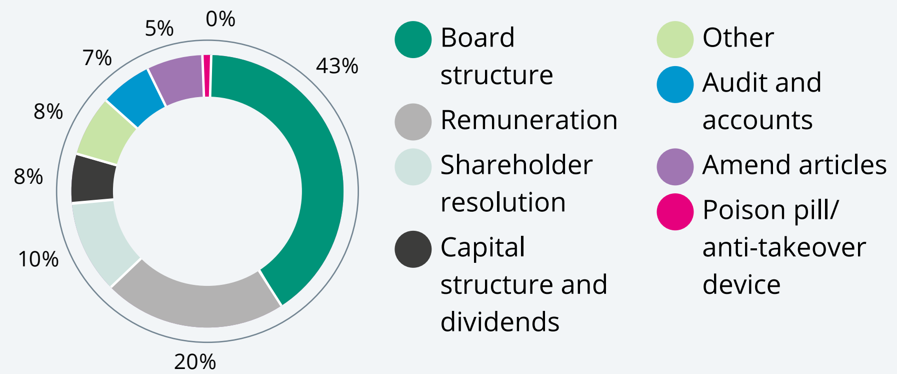
An overview of our voting records by geography and ESG issues can be seen in further detail in our annual Voting & Engagement report – https://ppf.co.uk/reporting-investing-transparently

Breakdown of the 15% opposed resolutions



Source: EOS at Federated Hermes (external provider) 2019

Voting against management or abstaining by ESG issue



Source: EOS at Federated Hermes (external provider) 2019

Case study

Voting on board composition and diversity

Board composition and diversity is critical to company management[1] , so we increased our expectations on gender diversity within our issuers this year. For UK companies, our external provider developed a board-level diversity recommendation to have 30 per cent women on FTSE 100 boards and 25 per cent on FTSE 250 boards. This also extended to guidelines to vote against the chair of any FTSE 100 company without a woman on its executive committee. We believe it is important to connect up our engagement and voting activities, so we wrote to 13 FTSE 100 companies, expressing our concerns on gender diversity, and held follow-up conversations with a number of them.

1 See Catalyst, Why Diversity and Inclusion Matter: Financial Performance (24 June 2020) https://www.catalyst.org/research/why-diversity-and-inclusion-matter-financial-performance/ (accessed 03/07/20); World Economic Forum article https://www.weforum.org/agenda/2019/04/business-case-for-diversity-in-the-workplace/ (accessed 03/07/20).

For pooled equity funds, where possible, we engage with our external managers in advance of high-profile votes or resolutions to obtain insights on their views. We also discuss their voting activities as part of our ongoing external manager monitoring and reporting processes – this includes engagement around disclosure quality on voting activities, as we see this as a crucial area for improvement across the industry.

Collaborative efforts to engage and improve RI standards across asset classes

We collaborate with industry peers on initiatives that support progression towards our goals, such as supporting the Paris Agreement and the transition towards a decarbonised economy. One forum is the UK Pension Scheme Responsible Investment Roundtable which meets quarterly, where we discuss issues with asset owner peers. In addition, the PPF's Head of ESG is a member of the PRI's Infrastructure Advisory Committee. We also support industry efforts to more consistently measure ESG risks, such as the SASB's sector-specific materiality disclosures and metrics, which we use ourselves as a guide when making direct investments.

We support many other industry collaborations and networks, and the following are some examples of our collaborative activities during the year.

Example: TCFD stewardship to drive industry expertise and promote adoption

The TCFD recommendations are critical in considering a business's climate-related risks and opportunities. We are delighted to sit on the Pensions Climate Risk Industry Group that was formed by the DWP and TPR. The group was formed in 2019 and worked extensively to produce guidance for UK occupational pension schemes around TCFD alignment to help trustees assess, manage and report on climate-related risks. The open consultation for the guidance was launched in March 2020.

We also promote the TCFD recommendations to our external managers to encourage acceptance, and seek to see an increase in TCFD alignment, which includes scenario analysis of both physical and transition risks. Many of our external managers are already TCFD supporters and are working towards increased disclosure. Likewise, we expect our external managers to engage with underlying issuers on the same disclosure expectations.

Example: Driving policy and industry change on climate change

We are keen to support policy development and cohesive industry dynamics, and we have been members of the Institutional Investor Group on Climate Change (IIGCC) since 2018. Throughout 2019/20, we have participated in the Paris Aligned Investment Initiative, and contributed as a member of the Strategic Asset Allocation working group.

Robust, transparent and strategic reporting by companies is vital, and we demonstrate our support for this through membership of CDP and the Transition Pathway Initiative (TPI). We are also a signatory of Climate Action 100+, which targets the 100 largest corporate greenhouse gas emitters (accounting for two thirds of annual global industrial emissions) and 61 other focus companies, to take necessary action on climate change. The initiative's ultimate goal is to limit global warming to less than 2°C, which it aims to do through encouraging these companies to curb emissions, improve governance and strengthen climate-related financial disclosures.

Example: Continuing efforts to drive diversity and inclusion in industry

At an organisational level, diversity and inclusion is a vital commitment for the PPF and we look to encourage and promote best practice, for example through gender, ethnicity and disability working groups. Upon signing the Women in Finance Charter two years ago, we committed to having 40 per cent female representation within senior management by 2021. In October 2019, we hit this target two years early.

We are also members of The Diversity Project, with a PPF Executive Committee member on its Advisory Committee, and our Director of Legal, Compliance and Ethics on its Steering Committee. This engagement adds another facet to our aspiration to promote a more sustainable financial system, and within our investments, we have been working with both external managers and investee companies to support improvements in diversity and inclusion.

Example: Leveraging PRI's Collaboration Platform following mining disaster

The collapse of Vale's dam at Brumadinho (January 2019) killed more than 250 people consisting primarily of employees, and Vale lost $1.6 billion (US) attributed to related costs in just the first quarter of the year.

Through the PRI, we joined a collaborative engagement to push for a transparent investigation into the causes of the collapse, as well as encouraging the company to outline a preventative action plan. Lack of appropriate governance, technical faults and overdue maintenance were identified as key causes.

Vale was challenged to review its safety management procedures, and the board stepped in and appointed independent expert committees to oversee the response to the situation. This led to changes in management and the appointment of a new CEO, increased focus on corporate culture and safety and operational goals. Vale set a target to reduce its reliance on tailings dams, increasing the use of dry proceedings to 70 per cent of its total volume by 2023. However, the company can still improve engagement with families of its employees and members of the local community affected. The tragic event highlighted the importance of active investor engagement, and opened up opportunities to engage across the sector more broadly, such as with the Investor Mining and Tailings Safety Initiative and the International Council on Mining and Metals (ICMM) independent review of global standards.

Managing climate change risks and opportunities

Our commitment to the TCFD

Since formally expressing our support for the TCFD in 2018, we have been assessing how to apply the recommendations to our investments, and our first disclosure in line with the guidance is presented in our 2019/20 Annual Report and Accounts. As an asset owner, the TCFD's recommendations guide us to consider appropriate governance and identify, assess and manage climate-related risks within our investments, including our external managers' application of the recommendations.

Governance of climate-related risks

Our governance and oversight of climate-related risks follow the same governance structure as part of our overall ESG governance and accountability. See page 14 for further information.

Strategy and identification of climate-related risks

We are focusing our strategy and risk management of climate-related risks on the Scope 3 downstream 'financed emissions' related to our investments, defined by the Greenhouse Gas Protocol (https://ghgprotocol.org/scope-3-technical-calculation-guidance), as this is where the majority of our material exposure to climate-related risks exists.

We started applying our climate strategy in 2019/20. Identifying our exposure and determining appropriate management of climate-related risks in our investments is a strategic priority for the PPF, and a specific milestone within the 2019/20 Business Plan. Progress against these milestones is reported to our Executive Committee on a quarterly basis.

We started the process by identifying the types of climate-related risks and opportunities that could impact our investments, seeing that certain risks have different likelihoods or magnitude of impact, depending on the asset class:

Examples of potential risks and opportunities identified

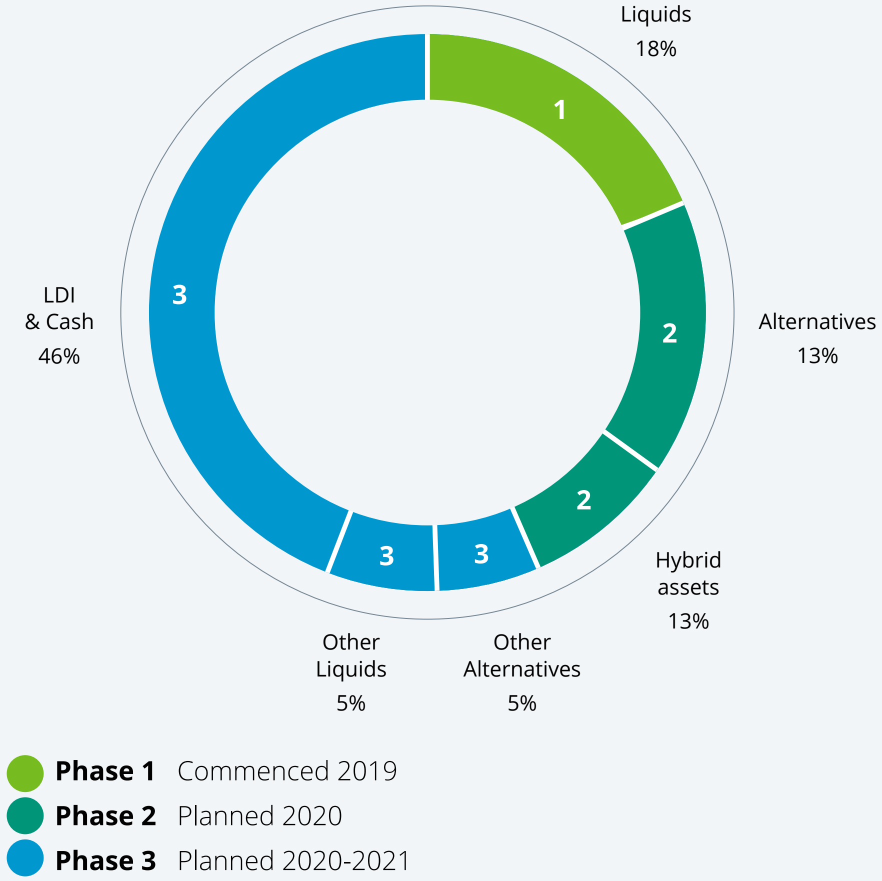
- **Transition –** risks that may impact company earnings in the shorter term (e.g. policy risks arising from carbon pricing or taxes)
- **Technology –** risks and opportunities as companies develop (or do not adopt) superior technology to build industry-based solutions
- **Physical –** risks in the medium to long term that, for example, may impact infrastructure and property in certain locations
- **Opportunities –** within some asset classes (e.g. sustainable forestry assets that offer a viable nature-based solution to carbon mitigation)

Roadmap: assessing our climate exposure

Having identified the main types of potential risks, our next step was to start assessing where the Fund could be most exposed to these risks. We are taking a phased approach, prioritising through a combination of likely materiality of impact and availability of data tools for each asset class. Due to the diversified nature of our investments, we use specific assessment methods most appropriate to each asset class.

Phase 1, covering just under 20 per cent of the Fund, incorporates carbon footprinting, quantifying high carbon intensity and reserves ownership metrics to measure our liquid portfolio's current and embedded exposure to corporate greenhouse gas emissions. We have also conducted preliminary analysis on emissions associated with sovereign holdings in emerging market debt portfolios; however, the data availability is challenging for government and supranational issuers, especially in emerging market countries, and the results can be characteristic of other factors, such as international trade flows. We accept that there are inherent limitations with the current data and analysis techniques, but we feel that they are appropriate as a starting point for assessing climate-related risks.

Portfolio assessment phases by asset class allocation (%):



Focus areas in 2020/21 and beyond

We will extend carbon footprinting across some of our Alternatives and Hybrid assets, in particular real assets. Asset classes such as Private Equity and Alternative Credit have limited disclosures available at present, so we will revisit these as data availability and methodologies develop. For our Liability-Driven Investing (LDI) and Cash allocations, the level of impact is generally considered to be lower. We will continue to review climate risk modelling developments to help us improve our understanding and further refine our use of metrics.

The UK Government's Green Finance Strategy, launched in 2019, set an ambition for all UK-listed companies and large asset owners to report to the TCFD guidelines by 2022. We are striving to meet this ambition across the Fund within this time frame, to the best standards available. Our external managers are also being advised of our requirements for climate-risk assessment reporting on our mandates from them within the next fiscal year.

Scenario analysis and risk management

We have started to consider methods for evaluating the future resilience of our portfolios, by reviewing a range of different scenarios where climate issues may be material.

Transition risks

A large portion of the scenario analysis tools available focus on transition risk, which include varying assumptions about the likely timing of policy changes, technology adaptation, changes in energy mix, and so on. The International Energy Agency (IEA) scenarios are the most commonly used, which project forward-looking pathways of the activities required in practice to remain within certain temperature warming scenarios (e.g. 1.5°C, 2°C, Business as Usual, etc.).

Physical risks

Physical risks can manifest in the short, medium and long term, and both chronic and acute risks will have different implications across asset classes. We are in the early stages of building our understanding of these risks across the portfolio, focusing on: coastal flooding; extreme snowfall; extreme cold; extreme wind; extreme heat; tropical cyclone; and precipitation.

Climate change stewardship in risk management

Active stewardship and engagement are key tools in the management of climate risks, and we believe in engagement over divestment as a fundamental enabler to a low-carbon transition. In 2019/20, conversations held with issuers on our behalf focused on setting science-based targets, conducting climate-risk stress tests, and increased disclosures which included TCFD reporting. We have also asked some companies to link executive pay to climate change outcomes, to ensure that their lobbying activities with policymakers or regulators do not undermine the achievement of the Paris Agreement goals.

Alongside engagement, we will vote for resolutions that reinforce our own stewardship principles, and especially those that are consistent with our climate change policy and the goals of the Paris Agreement. Our external provider applies the TPI methodology to guide votes on climate-related issues, and would consider voting against the chair of the board of a company ranked low by TPI, unless a credible plan is provided to address the climate risks and opportunities of the low-carbon transition. They wrote to 63 companies to advise them on these guidelines and requested further engagement ahead of each company's annual shareholder meeting. Through engagement, a few companies disclosed further details of their climate change strategies and emissions, leading to improved scores in TPI analysis.

As participants in investor initiatives such as Climate Action 100+, we are also constructive of certain shareholder resolutions that encourage appropriate improvements in company management and the disclosure of material climate-related financial risks. Some significant shareholder resolutions were filed during 2019, mostly in the US, which requested actions from management such as strategic alignment with the goals of the Paris Agreement, or building resilience to climate change. In the calendar year of 2019, across our segregated and pooled equities, we supported 24 high-profile resolutions at US companies that called for better climate change disclosure, adoption of greenhouse gas emissions reduction targets, and reporting on lobbying and political activities. We also voted for shareholder resolutions outside of the US, including a resolution on lobbying reporting at a large diversified mining company, and a resolution calling for strategic alignment to the Paris Agreement at a large UK 'oil major' – another resolution to be supported by the company's management.

Initial assessments from our data providers or open-source tools include:

- **Extractive companies** – potential 'stranded' assets for extractive companies with significant fossil fuel reserves, where some reserves may remain unexploited due to their unrealised embedded emissions.
- **Power generation companies** – the respective share of fossil fuel and renewable power in the generation mix indicates power companies' preparedness for operating in a world where temperature warming is kept below 2-degrees, and the scale of transitioning that needs to occur towards low carbon technologies.
- **Companies' carbon earnings-at-risk** – certain sectors or jurisdictions are more vulnerable to increased carbon prices resulting from legislation around carbon taxes or cap-and-trade schemes.
- **Companies' climate value-at-risk and 'warming potential'** – can also be aggregated to the portfolio level. Incorporates both transition and physical risks, and provides an understanding of the portfolios' potential warming temperature in aggregate (based on the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathways that result in a range of warming outcomes).
- **Open-source analysis** – including the Transition Pathway Initiative (TPI) and the Paris Agreement Capital Transition Assessment (PACTA) tools (both supported by the PRI), and the PRI's Inevitable Policy Response (IPR) forecast for policy scenarios by 2025.

> "63 companies were engaged with ahead of AGMs on our TPI-informed voting."

Supported 24 US resolutions related to climate change

In action

For example, our external provider acts as lead or co-lead engager for 27 companies included in Climate Action 100+. We saw encouraging progress from a major oil company in 2019, where the company's management also supported the shareholder resolution developed by our external provider – calling on the company to set a strategy consistent with the Paris Agreement goals. This had co-filing support from investors owning almost 10 per cent of the company – the largest ever secured for a climate change shareholder resolution, which passed with the support of over 99 per cent of shareholders at the 2019 AGM. Similarly, we saw progress after a long-term dialogue with a UK utility company, resulting in their ambition to support emissions reduction from their customers of 25 per cent by 2030, and to develop a path to net zero by 2050.

Identifying opportunities

Whilst sectors such as renewable energy are clearly likely to benefit from a transitioning economy, we also recognise that some sectors face larger challenges to decarbonise, such as cement and aviation. However, alternative technologies or materials present growing opportunities in other sectors such as timberland and transportation infrastructure, for example, increasing timber demand within construction in place of cement; and rail travel substituting demand for flying.

We believe that there are opportunities for some of our real assets in a decarbonising economy, and have identified forestry assets as a key area. Forestry has a strong potential to contribute to the mitigation of CO_2 emissions, and there is an increasing demand for carbon offsetting, with sustainable forestry assets as one of a few viable nature-based solutions.

Our exposure to sustainable forestry

We have approximately £600 million invested in timberland, with regional exposure mainly across Australia & New Zealand, Europe and the US. We use a combination of primary and secondary funds, as well as co-investments to gain exposure.

Within our forestry investments, we track the share of timberland (by hectares) certified under major universally recognised third-party systems for timber certification – the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC). We continuously engage with our forestry external managers to explore carbon accounting for nature-based solutions. We are currently tracking carbon sequestered from a number of forestry plantations and are looking to expand this metric throughout our holdings.

Certification of timberland (the PPF's share)

	Number of hectares	Proportion %
Certified timberland in accordance with the FSC and/or PEFC	440,579	98.2%
Timberland in the process of certification in accordance with the FSC and/or PEFC	742	0.2%
Land that is sustainably managed in accordance with the FSC and/or PEFC, but cannot be certified	997	0.2%
Other	6,271	1.4%

Climate-related disclosure

Transparency and regular reporting are essential aspects of responsible investing and we are committed to disclosing to our internal and external stakeholders. In relation to climate disclosure, we recognise that there is no single commonly agreed measurement of climate-related risks and opportunities, and we will continue to examine the most appropriate metrics to track our progress. We have expanded our ESG data coverage to provide us with a range of metrics at a portfolio and issuer level – including scope 1, 2 and 3 carbon emissions; climate value-at-risk measures; extractive fossil fuel revenues and reserves data; and physical risk datasets on various climate-induced events.

High-level findings

The initial results of the assessments carried out on our listed global equity and credit portfolios are shown below. Both portfolios are less carbon intensive than their benchmarks in terms of their exposure to operational carbon emissions. Scenario analysis indicates that some companies within both portfolios could be associated with potential transition risks due to their exposure to high carbon-intensive activities (e.g. in utilities, energy and materials sectors). We have also started measuring physical risk exposure for the listed global equity and credit portfolios, where coastal flooding is likely to be the most significant hazard. These findings have been useful in informing our conversations with our active external managers, and guiding our involvement in the various investor initiatives highlighted already.

Scope 1 + Scope 2 carbon footprints of our publicly listed Global Equities and Global Credit portfolios (as at 31 Dec 2019):

Equity portfolio:
- Weighted Average Carbon Intensity* = 290 tCO_2e/USDm revenue
- Over 30% lower than the respective Global Equity benchmark

Global Credit portfolio:
- Weighted Average Carbon Intensity* = 250 tCO_2e/USDm revenue
- Over 20% lower than the respective Global Credit benchmark

Transition Risks within Global Equities and Global Credit portfolios:

Equity portfolio:
- **Sectors most at risk:** Utilities, Energy, Transportation, Materials
- **Exposure to extractives by MV =** 4% lower than Equity benchmark
- **Portfolio warming potential** = 11% lower than Equity benchmark

Global Credit portfolio:
- **Sectors most at risk:** Utilities, Transportation, Energy, Materials
- **Exposure to extractives by MV =** 36% lower than Credit benchmark
- **Portfolio warming potential** = 5% lower than Credit benchmark

Physical Risks most exposed to in our publicly listed Global Equities and Global Credit portfolios:

Equity portfolio: Coastal Flooding, Extreme Heat
- **Sectors most at risk:** Software & Services, Autos, Transport, Utilities, Banks, Telecoms, Technology, Energy, Materials

Global Credit portfolio: Coastal Flooding
- **Sectors most at risk:** Software & Services, Consumer Services, Transportation, Utilities, Technology

Opportunities for Global Equities and Global Credit portfolios:

Equity portfolio:
- **Exposure to renewable energy-generation by MV = 55% higher than** benchmark

Global Credit portfolio:
- **Exposure to renewable energy generation by MV = 9% lower than** benchmark

* We have used the Weighted Average Carbon Intensity (WACI) of Scope 1 + Scope 2 tonnes of CO_2 equivalent emissions per million USD of revenues metric, as currently recommended by the TCFD (holdings as at 31/12/2019). Certain information ©2020 MSCI ESG Research LLC. Reproduced by permission; no further distribution.

Image courtesy of Pete Stevens

Focus areas in 2020 and beyond

Alongside the expansion of carbon footprinting to other asset classes, we will also start undertaking scenario analysis on a selection of private markets' assets, and plan to expand the physical risks metrics for real assets. We note the UK Parliament's legislation in 2019 requiring the Government to achieve net zero emissions by 2050 as part of its commitment to the Paris Agreement. In order to understand what tangible actions investors can practically take to support the achievement of country or regional targets, we are actively collaborating with the IIGCC through their Paris Aligned Investment Initiative (PAII), and following the developments of the Science Based Targets Initiative (SBTi) framework for Financial Institutions.

Case study

Infrastructure manager focus on sustainability

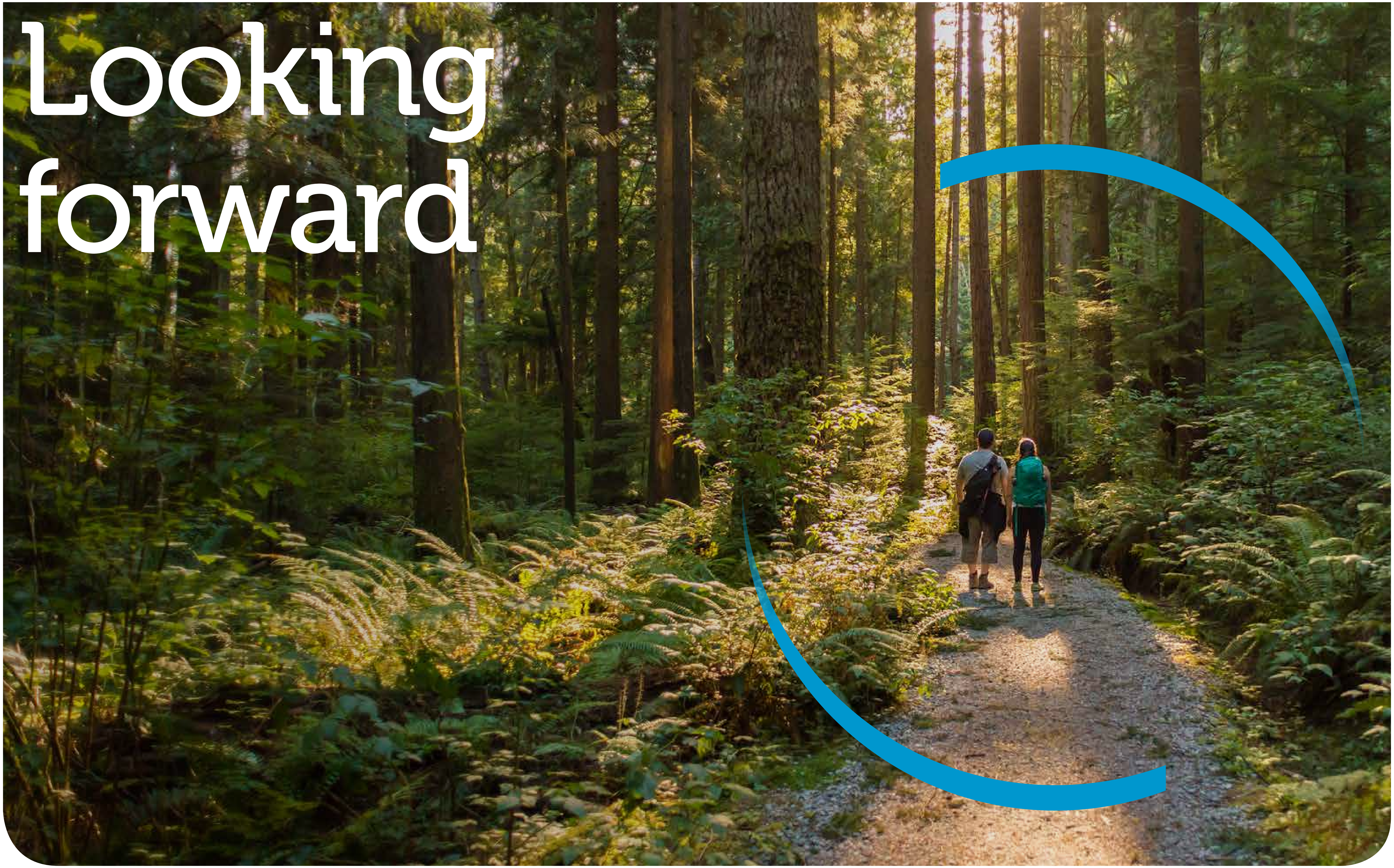
Through an infrastructure external manager, we invested in a high-class student accommodation project for the University of Hertfordshire. The housing stock of the University campus in Hatfield was in need of refurbishment, modernisation and expansion, and sustainability is a key priority at the University. The construction of 21 new buildings housing 3,000 people was completed in 2016 and delivered in partnership with Uliving@Hertfordshire. Quality of living was at the centre of the buildings' design, with natural light, ventilation, superior air quality and acoustic performance considered, with the development rated 'Outstanding' by BREEAM. Alongside climate-related benefits, the development also has water efficiency, circular principles in both construction and operation phases and sustainable transport benefits.

The overall development also included an onsite Energy Centre, completed in June 2018 to generate low-carbon heat and power for the accommodation blocks and communal facilities. High-level energy performance translates to significant savings on operational running costs, further supported by the availability of an onsite renewable energy source, with the University operation at 26-32 per cent lower energy use per bed space compared to other accommodation sites.

Source: https://www.herts.ac.uk/about-us/news/2019/october/university-of-hertfordshire-opens-innovative-musculoskeletal-research-unit

Approach Execution Looking forward

Looking forward



Continuing to drive RI forward

Further development and continuation of RI capabilities, collaboration and active ownership

In the year ahead, a critical development is the lead-up to the UNFCCC's Conference of the Parties (COP) 26, and we will continue our collaboration with PRI and IIGCC, as well as working with the industry, our external managers and peers to encourage the necessary progress required for this to be a success.

Climate change will remain a priority. We are planning to extend the measurement to our real assets in the next phase of our climate change implementation plan, focusing also on assessing the physical climate-related risks that they could be vulnerable to. We will continue to develop our TCFD disclosure in alignment with the guidelines. We will also review nature-based solutions and explore further potential opportunities for sustainable investment in forestry.

While we are keen to keep evolving, we have worked hard to set a baseline for understanding material ESG and climate change risks and will continue to dive deeper, seeking to improve our management and comprehension of these risks. We will also seek to achieve greater transparency in reporting across our pooled funds and segregated mandates.

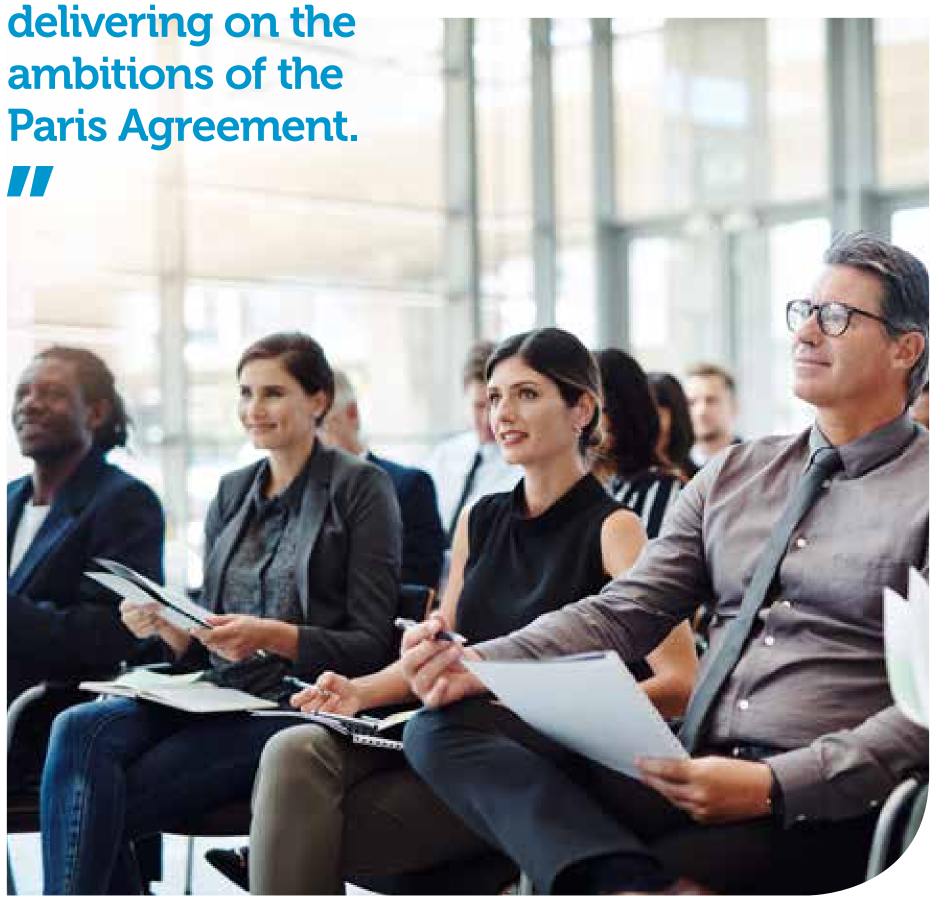
Working with our external partners, we are also aiming to develop and implement our own stewardship policy, including bespoke voting policies for certain key themes.

UNFCCC COP 26 in the UK

We need to see real world economy reductions of global carbon emissions and pursue a pathway towards net-zero emissions. The multilateral process of climate negotiations is key to curbing global emissions, and the aspiration of individual states to set and achieve the goals of limiting the global average temperature rise to 1.5°C is vital. The UK is due to host COP 26 in partnership with Italy in 2021, where the first review on the progress of the Nationally Determined Contributions (NDCs), submitted in 2015 as part of the Paris Agreement, will be discussed.

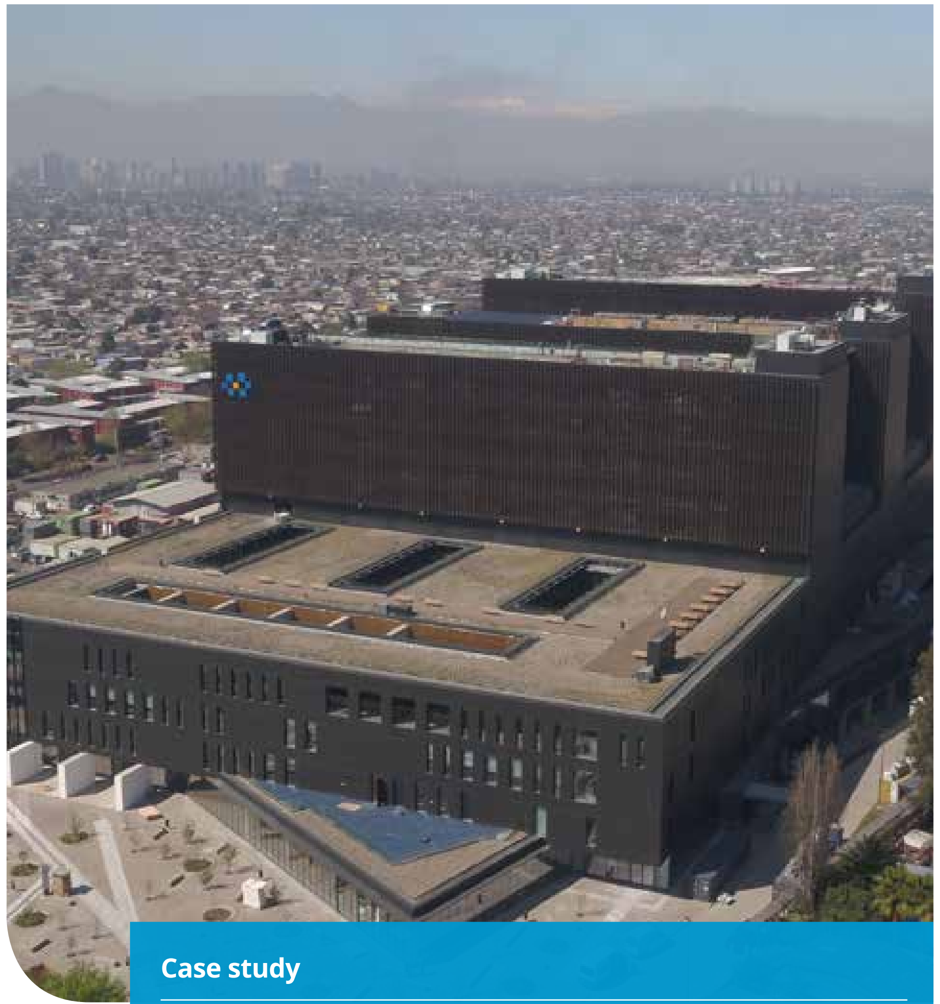
The role of private finance making finance flows consistent is vital in delivering on the ambitions of the Paris Agreement, as also referenced in the UK's Green Finance Strategy launched by BEIS during 2019. We are closely monitoring the dynamics and focus around the COP meeting, and as part of the policy-focused working group of IIGCC, we are open to collaboration. The UK Government's pledge to achieve carbon neutrality by 2050 sets a positive example and an ambitious agenda to mitigate emissions.

> "The role of private finance is vital in delivering on the ambitions of the Paris Agreement."



Considering the 'new normal'

In early 2020 the world was faced with the unprecedented challenge of the pandemic, caused by coronavirus, leading to widespread disruption of economic and social activity. We appreciate the gravity of the situation facing the global economy and circumstances faced by many companies, and recognise the critical role of good and stable leadership – by both companies and governments – in the management of the immediate crisis and the type of recovery that arises, while still considering the ongoing climate crisis. Consequently, in the current AGM season, we have been voting for some ballots by exception if they are deemed important to ensure ongoing stability within a company's management.



Case study

Social infrastructure

One of our external infrastructure managers recently opened the new Felix Bulnes Hospital in Santiago, Chile. This new state-of-the-art hospital will provide health and sanitary services, emergency inpatient, outpatient, adult, paediatric and maternal care to a population of 1.2 million people in one of the poorest areas of Chile. President Piñera announced that the opening of the hospital will directly contribute up to 30 per cent of the government's plan to add beds to the healthcare system to tackle the coronavirus pandemic.

The hospital is modern and innovative, using environmentally-efficient systems and materials, energy-efficient architecture with the most stringent anti-seismic technology, and contributes to the infrastructure external manager's global strategy to deliver resilient infrastructure and develop sustainable cities.

Meet the team

Claire Curtin
Head of ESG

Claire joined the PPF's investment team in 2018 to support our ambitions to further develop and implement our Responsible Investment strategy. She is responsible for contributing to the management of long-term risks, and to the achievement of long-term sustainable investment returns, by aligning the PPF's investment portfolio with the consideration of ESG factors.

Claire is a member of the PRI's Infrastructure Advisory Committee and the Pensions Climate Risk Industry Group.

Claire has 20 years' experience within the asset management industry, with the last decade specialising in ESG research and analysis, during which she has built a deep technical understanding of ESG issues across a wide range of asset classes. She was awarded the Chartered Alternative Investment Analyst designation in 2007.

Iliana Lazarova
Senior ESG Analyst

Iliana joined the PPF to implement our RI strategy and bolster collaboration initiatives. She is responsible for streamlining reporting on long-term ESG risks and deepening ESG integration across asset classes, with a focus on sustainable infrastructure and private markets.

Iliana has long tenure as a sustainability professional with expertise on carbon, climate and renewable energy.

Prior to joining the PPF, Iliana was an analyst with Trucost, part of S&P Global. Iliana has a Master's in Environmental Management from the Yale School of Forestry and Environmental Studies and a Bachelor's degree in International Economic Relations.

Getting in touch

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