

# Integrating a responsible approach to your pension investments

**Our guide explains how Phoenix Life Limited, trading as Standard Life, approaches incorporating environmental, social and governance (ESG) factors into unit-linked and with-profits investments.**

**Our guide has been created for people who are familiar with investment terms. If you're unsure of any of the words or descriptions used, you can find out more at [standardlife.co.uk](https://www.standardlife.co.uk)**



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## What is responsible investment?

Responsible investment (RI) is the practice of incorporating environmental, social and governance (ESG) factors into investment decisions and active stewardship.

ESG issues can take many forms and cover a wide range of topics.

Here are a few of the many examples:

- **Environmental:** climate change, resource depletion, waste, pollution, deforestation, biodiversity loss
- **Social:** human rights, modern slavery, child labour, working conditions, employee relations
- **Governance:** bribery and corruption, executive pay, board diversity and structure, political lobbying and donations, tax strategy

The value of investments can go down as well as up and you may not get back what was paid in.

# Who we are

Phoenix Life Limited, trading as Standard Life, is a provider of pensions plans, savings products and retirement solutions. We are part of Phoenix Group.

Phoenix Group has around 13 million customers and £310 billion in assets under administration and is the UK's largest long-term savings and retirement business. As an insurer and long-term global investor, we have a duty of care to act in the best interests of all of our customers, shareholders and stakeholders.

Our guide explains how we approach incorporating RI practices into the management of your unit-linked and with-profits funds. It covers all our insured funds and external fund links and all asset classes in all markets including equities, fixed income, property, private markets, as well as alternative asset classes.

While we don't expect our RI approach to change often, we may change this at any time to reflect the needs of our customers, shareholders, and stakeholders.

We do expect our approach to evolve as the business environment changes. We will review our approach on at least an annual basis, or more frequently if there are reasons to do so.

At Standard Life, we delegate some of our investment management activities to third-party asset managers. They are responsible for the day-to-day investment management activities.

For discretionary managed funds and internal insured funds, typically, Standard Life instructs the asset managers on the requirements and expectations we have for the fund objectives.

The value of investments can go down as well as up and you may not get back what was paid in.

## Internal insured funds and external fund links

Internal insured funds are funds where Standard Life is responsible for briefing an asset manager on what they want a fund to do, and the asset manager carries out that task within the boundaries set by Standard Life. The manager is responsible for day-to-day investment decisions.

External fund links (EFLs) are funds which invest in an existing fund run by external asset management groups. Phoenix Group has no direct control over the way these funds are run.



# Committing to a sustainable future

Standard Life is part of Phoenix Group, and the [Phoenix Group Sustainability Report](#) sets out our key commitments for a sustainable future. Fostering responsible investment is an important part of our overall approach.

Our sustainability strategy is aligned to our purpose of helping people secure a life of possibilities. We believe that we have a significant opportunity to make a difference in creating the sustainable future we all want. Our strategy addresses the issues impacting our industry, such as the growing pension savings gap and climate change.



## Investing in a sustainable future

We are part of the UK's largest long-term savings and retirement business, Phoenix Group, which is responsible for managing over £310 billion of assets on behalf of our c.13 million customers. Our customers and shareholders trust us to reflect their priorities in how we invest. That means aiming to keep their money safe and endeavouring to provide them with strong long-term financial returns, using our scale to play our part in helping deliver a secure and sustainable future. That is why we are integrating environmental, social and governance issues into our investment decision making process. By investing sustainably we can help to deliver the future that we all want.



## Engaging people in better financial futures

We want to help our customers achieve a life of possibilities by providing the right guidance and products, at the right time, to support the right decisions. We are committed to meeting our customers' needs through innovative product offerings and fund solutions, and engaging them in their financial futures by providing the right education, tools and guidance that promote financial inclusion for all. We recognise that there are a number of barriers that need to be overcome to help close the pension savings gap. We therefore want to drive a national conversation on achieving better, longer lives through **Phoenix Insights** and are advocating for the societal change that will help to achieve this.



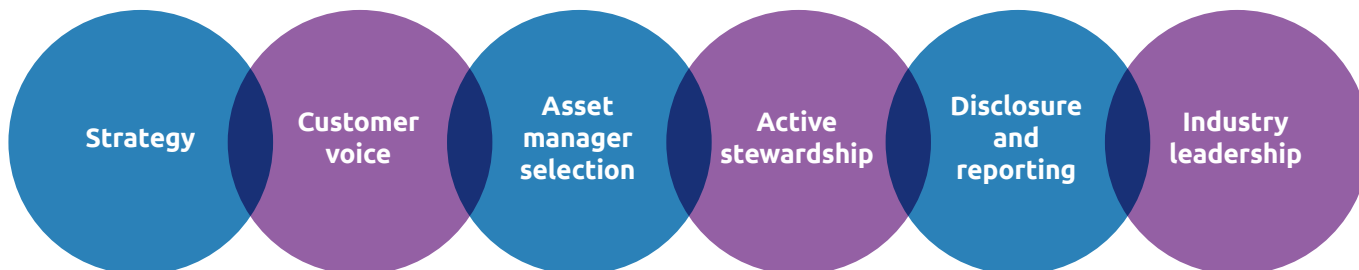
## Building a leading responsible business

We are committed to embedding sustainable best practice as the foundation that enables us to achieve our purpose of helping people enjoy a life of possibilities. It is important that we adopt the highest sustainability standards across our business; and lead by example for the stakeholders we engage with to drive real world change and deliver a positive impact. We are doing this by investing in our people and culture, reducing the environmental impact of our own operations, building a sustainable supply chain and making a positive and lasting difference within the local communities where we operate.

### Underpinned by a rigorous approach to governance

We are committed to the highest standards of governance, to ensure we are making the right decisions.

# Our approach to responsible investment



We place our customers at the heart of our decisions. This lets us manage risks, support informed investment decisions and help generate long-term results for you.

To make sure that responsible investment factors are incorporated into investment decisions and how our assets are managed, we have adopted the approach described below.

## What are ESG risks?

With any investment, there are associated risks. Risk is simply a way to measure the level of uncertainty of an investment getting the returns that an investor might be expecting. Risks can come from many sources such as economic, political, market or, of course, ESG.

There are many ESG risks, which include those related to climate change, environmental management practices, human rights issues, and anti-bribery and corruption practices. They also consider emerging regulations or voluntary guidelines, such as the UK Modern Slavery Act, as well as the requirements of wider stakeholders for transparency.

Climate change is one of the biggest risks that we all currently face, and it also poses risks and opportunities to your funds, in terms of both transition and physical risks.

Our investment strategy and processes aim to be consistent with the latest climate change best practice and scientific research. So we'll monitor and assess initiatives the government, regulators and industry take in terms of their impact on our investment processes and portfolios.

Our asset managers are responsible for monitoring and managing these risks on our behalf. See below for more information on how we ensure this is managed appropriately and consistently with our approach.

## Types of climate risk

There are two types of climate risk:

**Transitional:** where there's a risk of losing value due to regulatory changes within the economy e.g. carbon taxes impacting the value of an oil firm.

**Physical:** where there's a risk of climate change physically disrupting the business operations of a firm, leading to losses.

# Our approach to responsible investment

## Our net-zero commitment

In December 2020, Phoenix Group announced its commitments for operations to become net-zero by 2025 and its investment portfolio net-zero by 2050. In October 2021 Phoenix added an interim target for its investment portfolio.

We will be working with our strategic partners in the years ahead to look at all of our solutions, our benchmarks and stewardship, with our important net-zero 2050 commitments front of mind.

## Our targets

By 2025	By 2030	By 2050
A reduction of 25% in the carbon emission intensity of our investments*	A reduction of at least 50% in the carbon emission intensity of our investments**	Net zero carbon in our investment portfolio***

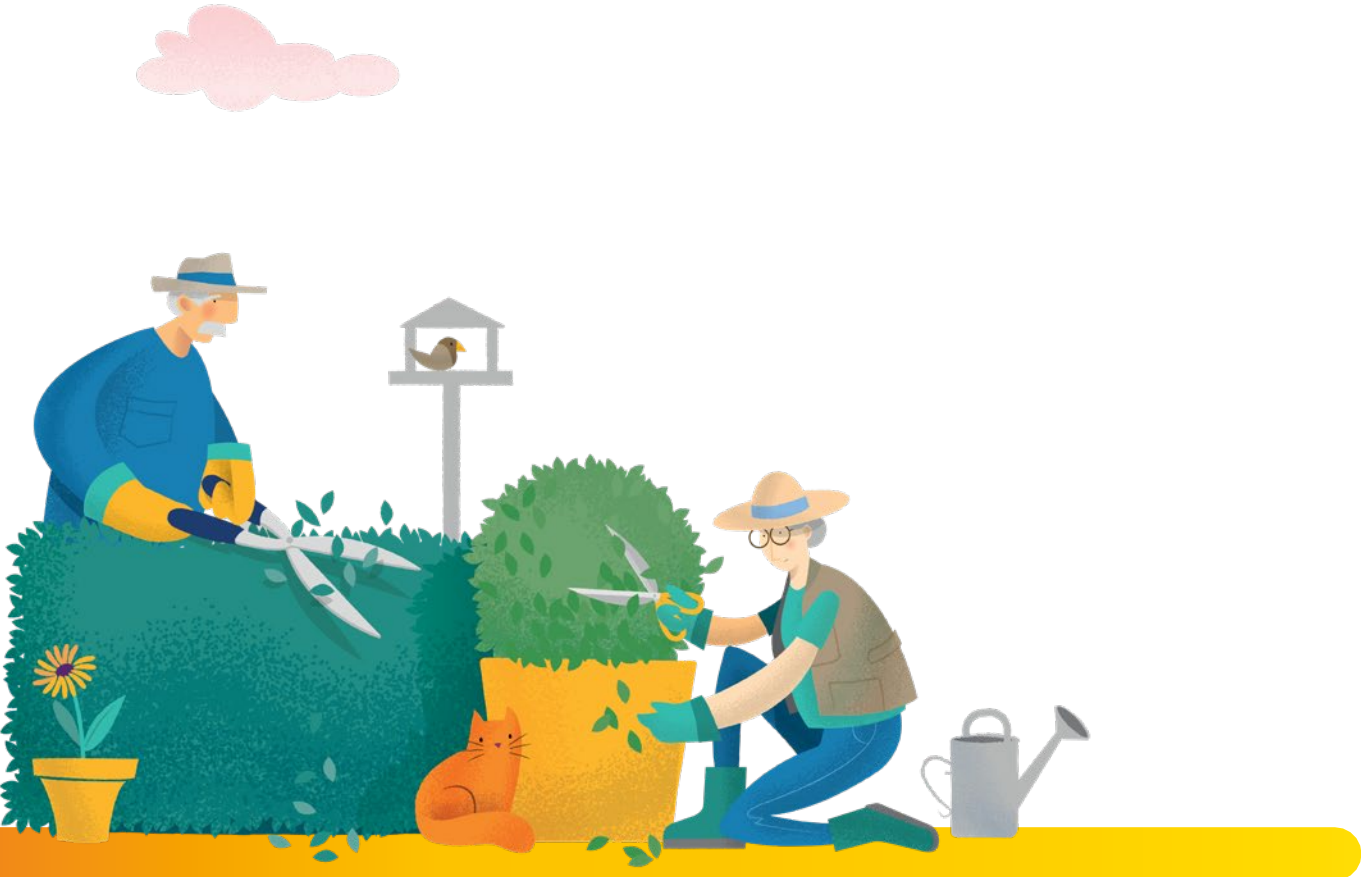
\* This will cover all listed equity and credit assets where Phoenix can exercise control and influence  
 \*\* This will target all assets at a Group level where Phoenix can exercise control and influence  
 \*\*\* This target applies to Phoenix's c£310bn assets under administration

## Opportunities

Where there is a risk, there is an opportunity. We believe that companies that have good ESG credentials can be more resilient to adverse economic events. Many of our asset managers believe that incorporating ESG considerations into investment-making decisions can potentially boost returns over the long-term.

## What is ESG integration?

ESG integration is an approach which aims to identify and quantify the effect of ESG risks and issues on companies and their performance. At Standard Life, we believe that considering important financial ESG issues in the investment process improves decision making and could help deliver better outcomes for our customers.



# Passive and active investing

**All funds will be managed in one of two ways: 'active' or 'passive'.**

A fund that is 'active' will have its asset manager actively manage the assets in it.

A fund that is 'passive' will track an investment market or benchmark as closely as possible.

We expect both active and passive managers to use effective stewardship to positively influence the companies within our funds. There are some passive funds that take ESG factors into account in a more direct way, usually by tracking a revised index benchmark.

Managers of internal and external active funds must consider ESG factors when selecting assets for investment into the fund.

## Exclusions

We may apply exclusion policies to some of our funds (this excludes external fund links (EFLs) as we have no direct control over how these funds are run). The details of our exclusion policies may vary between funds. They may include, but are not limited to, factors such as controversial weapons, tobacco production and thermal coal. Our exclusion policies may change over time. We will follow a robust governance process before making any changes.



# We have a range of ethical funds to reflect your values

## Non-financial matters

When handling your investments, we understand that there are matters to consider that cannot be quantified and categorised as a financial matter. These can reflect non-monetary and long-term values important for all our policyholders.

These non-financial matters are arguably just as important as the financial matters that we have discussed previously. As an example, these can include, but are not limited to:

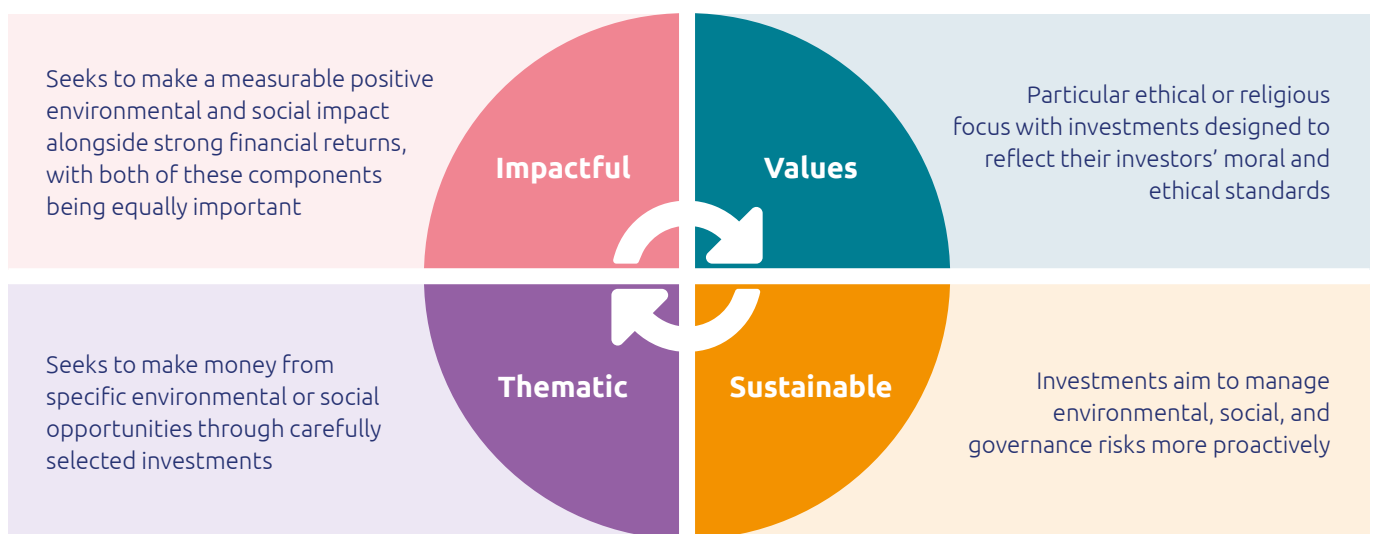
- Climate considerations
- Ethical considerations
- Religious considerations
- Social impact considerations

We understand that many of our customers wish to invest in ways that reflect their own personal values, and offer specific funds within our range to cater to these wishes.

We conduct annual customer research and have used this to identify four distinct categories to help you understand the different ways you can invest.

We have developed a range of funds that may be suitable and can align to these values. For more information on our fund offerings please visit the [responsible investment pages](#) on our website.

We have a range of ethical funds to reflect your values. To help us do this, we carry out an annual survey of our ethical funds' investors to gather their views on which ethical issues are most important to them. We then review and amend our ethical funds' sustainability approach as required.





# How we select our asset managers

## Due diligence

We carry out a thorough initial due diligence exercise for all potential asset managers including external fund links (EFLs). EFLs are funds which invest in an existing fund run by external asset management groups. Phoenix Group has no direct control over the way these funds are run to make sure they are fit for purpose and suitable for managing funds. This includes assessing their capabilities, investment processes, financial reports, business structure and alignment with regulatory and industry bodies, including the United Nations supported Principles for Responsible Investing (UN PRI).

We also conduct an annual ESG due diligence exercise on all of our current asset managers to evaluate how they approach RI.

## How we assess for ESG

We may use external consultants to support us with the selection and monitoring of our asset management partners' RI processes in addition to our growing in-house capability.

When we review existing or appoint new asset managers, we carry out an assessment, which is shared with internal governance committees.

Part of the assessment process means that we closely monitor all our asset managers' RI processes. We also engage them in deeper joint planning and implementation of their RI. Standard Life requires regular reporting on the efforts made by external managers. Compared to our non-asset manager partners, we actively engage more thoroughly with our strategic partners, and are more able to encourage good RI practices with these firms.

If asset managers of our internal insured funds fall short of our RI standards, Standard Life will first proactively engage with them and seek rapid improvements. If this doesn't lead to improvements then we would look to end the relationship with the asset manager

If we find poor RI behaviours when monitoring and reporting on our asset managers, it will factor into our manager selection and due diligence process.

If managers of EFLs do not meet our RI standards, then we would look to work more closely with them to seek improvements.

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External fund links (EFLs) are funds which invest in an existing fund run by external asset management groups. Phoenix Group has no direct control over the way these funds are run.

### The different aspects of our asset management ESG due diligence process



### Internal insured funds

Funds where asset management is delegated. We control the investment strategy, our asset managers put it into action and are responsible for day-to-day investment decisions.

### External fund links

Funds that invest in an existing fund run by external asset management groups. Standard Life has no direct control over the way these funds are run.

# Active stewardship

## What is stewardship?

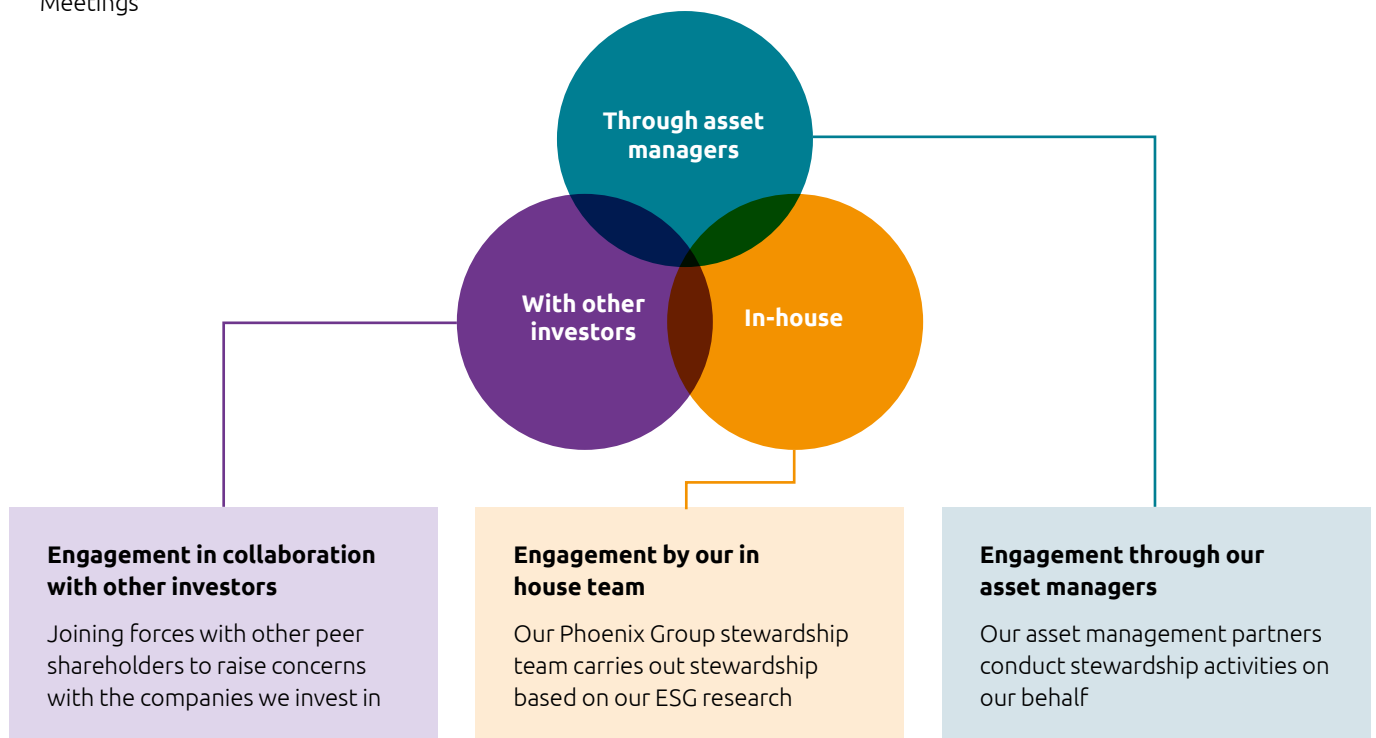
We believe that it is our responsibility to engage with the companies we invest in to drive better behaviour and influence positive change, so stewardship is an important part of our responsible investment approach.

Engagement and shareholder voting are the two main tools of stewardships:

- Engagement is a two-way interaction between the investor and investees in relation to the corporate business strategy and ESG practices. Engagements are undertaken to influence corporate practices and improve disclosure. Engagement includes: the provision of feedback on information collected, sharing best practice by peers and defining engagement objectives for focus
- Voting means voting on management or shareholder resolutions as well as filing shareholder resolutions during Annual General Meetings or Extraordinary General Meetings

## Stewardship approaches used at Standard Life

There are three routes to stewardship available to us, and in many cases these will overlap



## Working with asset managers and researchers

When it comes to stewardship and responsible investment, we want to ensure that our asset managers are on the same page as us. We monitor that they vote and engage on our behalf and in line with the Phoenix Group Responsible Investment philosophy.

If an asset manager does not meet expectations, we would work with them to improve within a set amount of time. If we don't see the required improvements, then we may decide to stop working with them. These are the expectations we have of asset managers on stewardship:

### Objective

Use stewardship to influence the long-term **performance, corporate governance** and **sustainability** of the companies we invest in

#### Sign up

Be a signatory to the PRI and adopt the 2020 UK Stewardship Code (or an equivalent in their jurisdiction)



#### Focus

Define criteria to identify a list of specific companies to engage with



#### Research

Use internal and external ESG research to monitor and assess the companies we invest in



#### Vote

Place votes on our behalf, applying a proxy voting policy that takes our views into consideration



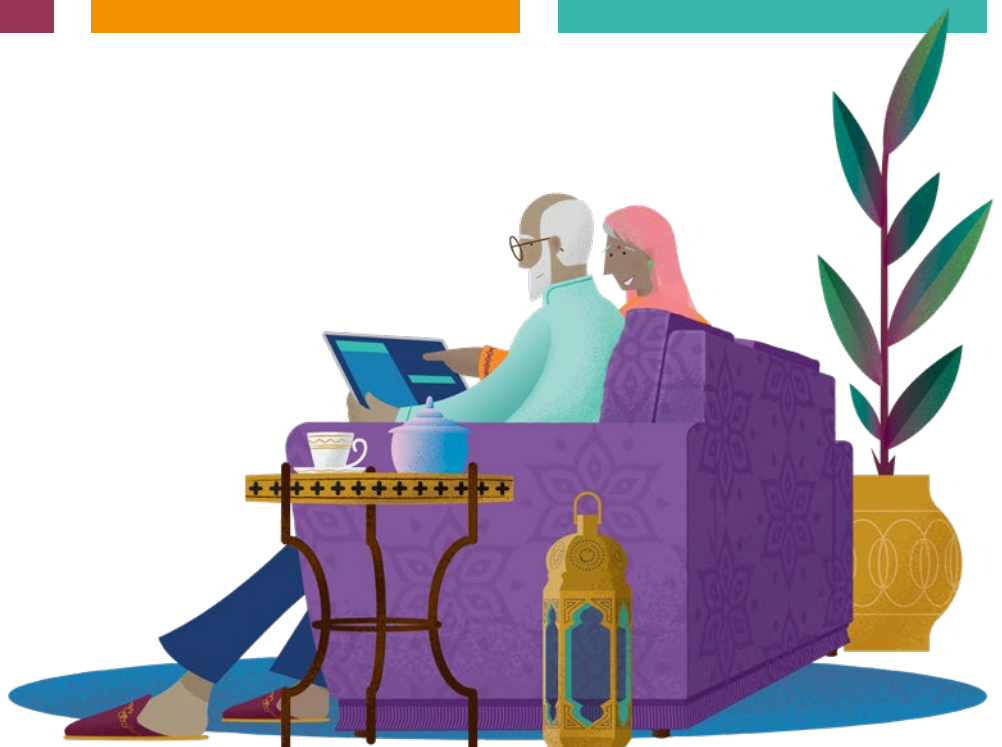
#### Engage

Set engagement objectives and escalate if progress isn't made.



#### Report

Update us regularly on all engagement and voting activities



# Active stewardship

## What our stewardship approach covers

Our stewardship approach applies to all Standard Life investments in equities (stocks and shares) and fixed income assets (for example bonds). It does not currently cover property or private market investments.

If your investment uses an **external fund link (EFL)** then it's important to note that some of our processes are different when it comes to monitoring stewardship, but our standards and expectations are still the same.

### Engagement and voting

Find out more about the stewardship approach of the managers we work with:

- [abrdn](#)
- [Vanquard](#)
- [Blackrock](#)

## Escalation – when engagement isn't working

Our first step will always be to engage and collaborate with the companies we invest in through our asset managers. However, if engagement efforts with a company are not working then we will consider further actions and escalate our concerns. These are the actions that we or our asset managers can take:

- collaborate with other shareholders
- vote against management
- present an AGM statement
- issue a public statement
- decrease or pull out our investment – as a last resort

## Performance and accountability

We are working with our asset managers to enhance their reporting on stewardship activity. In addition, our first annual stewardship report will be available at the beginning of 2023. This will enable us to be open and honest about the work we conduct internally and through asset managers and its impact. You can also expect to see regular stewardship updates on the Standard Life website. The Phoenix Group annual sustainability report includes a section on stewardship.



# How we disclose and report on responsible investment

Standard Life is committed to reporting on goals, actions and results we take to meet our responsible investment approach. We are also committed to making sure that our asset managers report on any responsible investment activities they take when managing your money.

We are and will continue to work with our asset management partners in developing and improving ESG and stewardship reporting.

**The high-level results of our RI activities will be made publicly available on an annual basis through our sustainability report.**

## Industry leadership

We're committed to talking to and working with other institutions, national as well as international associations, and trade bodies to promote RI and raise standards across the industry.

As a minimum, we expect all new asset managers to be signatories to the UN PRI. This makes sure that they follow the UN PRI principles when managing our internal and external funds.

### Industry engagement

Standard Life is part of Phoenix Group, and through Phoenix we are a member of a number of industry bodies. Both Standard Life and Phoenix Group are committed to open dialogue and collaboration with other institutions, national as well as international associations, to promote RI. The Group is part of the following industry bodies:

- United Nations Principles of Responsible Investment (UN PRI)
- The UN-Convened Net Zero Asset Owner Alliance
- Institutional Investors Group on Climate Change (IIGCC)
- Climate Action 100+
- Green Finance Institute (GFI)
- The Task Force for Climate-related Financial Disclosures (TCFD)

- The Science Based Targets Initiative (SBTi)
- ABI Climate Change Roadmap
- Sustainable Markets Initiative (SMI) Taskforce
- Race to Net Zero Campaign
- IIGC Paris Aligned Investment Initiative (PAII)
- Make My Money Matter
- Principles for Carbon Accounting Financials (PCAF)



