

Statement of Investment Principles

April 2026



Contents

1.	Introduction	3
2.	Choosing investments	4
3.	Investment objectives	4
4.	The kind of investments to be held	5
5.	Policy on illiquid investments	5
6.	The balance between different kinds of investments	5
7.	Investment risk	6
8.	Expected return on investments	8
9.	Realisation of investments	8
10.	Financially material considerations	8
11.	Member views and non-financial factors	9
12.	Voting rights, corporate governance and engagement principles	9
13.	Investment manager arrangements	9
14.	Monitoring	11
15.	Agreement	11
Appendix 1		12
1.	Scheme investment objective	13
2.	The default option	13
3.	Alternative investment choices	15
4.	Governance	16
Appendix 2 Responsible Investment Policy		17
Appendix 3 Climate Change Position Paper		59

1. Introduction

1.1 This Statement of Investment Principles (SIP) has been prepared by The People's Pension Trustee Limited (the Trustee), the Trustee of The People's Pension Scheme (the Scheme).

This statement sets down the principles that govern the investment decisions that enable the Scheme to meet the requirements of relevant regulations currently in force, including:

- The Pensions Acts 1995 and 2004.
- The Occupational Pension Schemes (Investment) Regulation 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015, as well as to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK.
- The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
- The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023.

1.2 The Trustee has consulted a suitably qualified person by obtaining written advice from People's Investment Ltd. (PIL), the Trustee's primary investment advisers. PIL is authorised and regulated by the Financial Conduct Authority. Additionally, on an ad-hoc basis, the Trustee may refer to ISIO Group for additional investment research and advice. ISIO Group is authorised and regulated by the Financial Conduct Authority.

1.3 The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by this statement or in the profile of the Scheme's membership. The Trustee will take expert investment advice and consult the founder of the Scheme (as the nominated representative of the employers of the Scheme) over any changes to the SIP.

1.4 The powers of the Trustee are set out in Rule 51 of the Definitive Trust Deed and Rules, dated 30 May 2022. This statement is consistent with those powers.



2. Choosing investments

- 2.1 The Trustee's policy is to offer a default investment arrangement plus a core range of investment funds suitable for the Scheme's membership profile. Details of these are given in Appendix 1. In doing so, the Trustee considers the advice of its investment adviser.
- 2.2 The Trustee carefully considers its investment objectives, shown in Appendix 1, when designing the range of investment options to offer to the Scheme's members. The Trustee also acknowledges that members will have different attitudes towards risk and different aims for accessing their retirement savings. Therefore, while seeking good member outcomes net of fees, it also considers the level of risk that is appropriate based on the anticipated needs of the membership profile of the Scheme.
- 2.3 The day-to-day management of the Scheme's assets is delegated to the Scheme's investment managers. As at 01/04/2026, the Trustee has approved Amundi Asset Management, Invesco Investment Management, Robeco Asset Management and State Street Investment Management (SSIM) for use by the Scheme. It is anticipated that additional investment managers will be added during the Scheme year 2026/27. Any potential new manager will be subject to Trustee approval and have gone through an appropriate due diligence process, including an assessment of the alignment of their environmental, social and governance policies (ESG) with the Scheme's responsible investment (RI) policies. For the Shariah fund, SSIM has delegated the stock selection to HSBC Asset Managers. The investment managers are authorised and regulated by the Financial Conduct Authority and are responsible for stock selection. The investment managers will be responsible for the exercise of voting rights, in line with their policies.
- 2.4 The Trustee reviews the appropriateness of the Scheme's investment strategy on a continual basis. This review includes consideration of the competence of the investment managers with respect to their performance within any guidelines set.

3. Investment objectives

- 3.1 The Trustee has discussed and agreed on key investment objectives in light of an analysis of the Scheme's membership profile as well as the constraints the Trustee faces in achieving these objectives. These objectives were reviewed in November 2025 and increased for those funds with Consumer Price Index (CPI) based targets. The review concluded that:
- The general market conditions have changed, with lower inflation and more stable interest rates than when the targets were set in 2022.
 - The Scheme has developed its own capital market assumptions that project a higher level of return than the current targets. These exceeded the threshold required to change the projection rates.
 - The review of the Pre-Retirement Fund and changes made to its asset allocation resulted in an increase to its projected returns.

The funds' high-level objectives are set out in the table below. For all funds apart from the Cash Fund and Annuity Fund, their long-term performance objectives reference the CPI. Further detail is provided in Appendix 1.

Fund	Long-term performance objective
Global Investments (up to 85% shares) Fund	CPI +3.0%
Pre-Retirement Fund	CPI +1.5%
Global Investments (up to 60% shares) Fund	CPI +2.5%
Global Investments (up to 100% shares) Fund	CPI +3.5%
Ethical Fund	CPI +3.5%
Shariah Fund	CPI +3.5%
Cash Fund	Returns equivalent to cash returns
Annuity Fund	To protect against the rise in the level of annuity prices.

It should be noted that for those funds whose objectives reference CPI, their long-term performance objectives are net of fees.

- 3.2 The default strategy is designed to be appropriate for the majority of our members, considering membership demographics and risk tolerance. It aims to balance the risk and expected return over the lifetime of a member.

4. The kind of investments to be held

- 4.1 The Trustee is permitted to invest in a wide range of assets, including equities, bonds, securitised products, cash, property, derivatives, private market assets and alternatives, subject to complying with relevant legislation.
- 4.2 In practice, the kinds of investments held by the Trustee depend upon the investment strategy of the relevant fund. You can find the details in Appendix 1.

5. Policy on illiquid investments

- 5.1 The default strategy does not currently invest directly in illiquid assets such as private equity, infrastructure, and real estate. This is expected to change in scheme year 2026/27, where, subject to due diligence and Trustee approval, the Scheme will likely begin to invest in real estate, infrastructure and private credit assets.
- 5.2 The due diligence and Trustee approval process will consider if the illiquid assets selected are appropriate for a Defined Contribution (DC) pension scheme.
- 5.3 Illiquid investments are only expected to form a relatively small proportion of the Scheme's total assets.

6. The balance between different kinds of investments

- 6.1 The Trustee has made available a range of investment profile options. These options automatically invest members' assets in line with a pre-determined strategy that changes at different stages of membership. For example, whilst a member is a long way off accessing their retirement savings, emphasis is placed on medium to higher-risk funds (ie, investment largely in growth assets such as equities) in search of long-term, inflation-protected growth. As the member's target retirement date approaches, their retirement savings are progressively switched to hold a larger proportion of lower-risk assets so as to protect the value of their savings.
- 6.2 Members can choose to invest in any of the funds detailed in Appendix 1 or can elect to invest in a lifestyle strategy. Where members don't choose where their contributions and those made on their behalf by the employer are invested, the Trustee will invest these contributions according to the default investment strategy set out in Appendix 1.
- 6.3 The Trustee considers the merits of both active and passive management for the various elements of the Scheme's portfolio and may select different approaches for different asset classes.
- 6.4 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and that the asset allocation may change as the membership profile evolves.



7. Investment risk

7.1 Risk in a defined contribution scheme sits with the members themselves. The Trustee has considered members' circumstances and considered ways of managing risks when designing the investment strategy for the Scheme. Details of this are given in Appendix 1.

7.2 A comprehensive list of risks is set out in the Trustee risk register. The main investment risks affecting all members and the ways the Trustee measures and manages these are listed below.

Risk	Description	Mitigation
Inflation risk	The risk that the investments do not provide a return at least in line with inflation, therefore eroding the purchasing power of the member's retirement savings.	The Trustee makes available investment options that are expected to provide a long-term real rate of return.
Conversion risk	The risk that fluctuations in the assets held, particularly before members access their retirement savings, can lead to uncertainty over the amount likely to receive.	In the investment profile options made available through the Scheme, the Trustee adjusts the proportion and type of investments so that, as retirement approaches, the investments gradually align with how the Trustee expects members to access their retirement savings. The Trustee keeps the appropriateness of the strategies under review. The Trustee also makes alternative funds available, which members may select to better suit their circumstances.
Retirement benefit risk	The risk that a member's retirement benefit falls short of the amount expected, whether this shortfall is due to lower investment returns than expected or insufficient contributions being paid.	The Trustee periodically reviews the appropriateness of the investment options offered to consider whether there are opportunities to improve members' expected outcomes. The level of contributions is outside the Trustee's control. Members will receive regular SMPI projections providing them with an indication of the size of their pension pot at retirement.
Performance risk	The risk that an investment manager or benchmark does not perform as expected over the long-term assessment period. This encapsulates both systemic and 'active' risk.	The Trustee monitors the performance of the Scheme's assets on a regular basis. The Trustee will review the performance of the funds against their benchmarks, whether the selected benchmarks remain appropriate and have regular meetings with the investment managers. The Trustee has a written agreement with the investment managers that contains several investment restrictions on how they may operate.
Market risk	Market risk refers to the risk that an investment may fall in value due to fluctuations in the market.	The investment adviser is expected to invest in properly diversified portfolios and spread assets across a number of individual shares and securities.
Sequencing risk	The risk that the sequence of returns, particularly poor returns in the early stages of a member taking drawdown income from their pension, may impact that member's ability to sustainably withdraw income through the whole of their retirement.	The Pre-Retirement Fund is a broadly diversified fund, with a maximum of 20% invested in equities. The remainder is split between 60% in fixed interest securities and 20% in money market securities. This should, in most market conditions, reduce the downside risk of the fund.

Risk	Description	Mitigation
Currency risk	Some of the funds made available to members by the Trustee can invest in overseas assets that will be denominated in currencies other than Sterling. There is, therefore, a risk that the relative movements of Sterling and other currencies will lead to losses (or gains) in the value of the investment.	The Trustee monitors the impact of currency risk on the portfolios. The currency exposure associated with a proportion of certain assets held is hedged back to Sterling to reduce the potential impact.
Illiquidity risk	The risk that there are some assets that the Scheme invests in that are more difficult or take longer to sell.	The Scheme will only invest a relatively small proportion of its assets in illiquid investments. The Trustee will closely monitor the level of those assets to ensure the Scheme has sufficient liquidity.
Credit risk	The risk that a borrower, such as a corporate issuer, government, financial institution, or securitised product, fails to meet its contractual obligations in full and on time, resulting in financial loss to the scheme.	The Scheme's lending is highly diversified across sectors, geographies and credit types, limiting exposure to individual issuers. Our investment managers actively monitor the issuers they lend to and subject them to rigorous issuer-level credit analysis. The majority of the assets held will be rated investment grade. Where securitised products are used, due consideration will be made of these products' credit rating and the impact of overall portfolio credit quality.
Interest rate risk	The risk that movements in global interest rates negatively affect the value of the scheme's investments.	The Scheme's investments are spread across different regions and types of borrowers, with varying sensitivity to interest rates. The Scheme can adjust this sensitivity when market conditions change to help manage risk.
Operational risk	The risk of fraud, poor advice, errors, administrative failure, or acts of negligence.	The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.
Environmental, social and governance (ESG) risk	ESG risks can have a significant effect on the long-term performance of assets held by the Scheme.	The Trustee's Responsible Investment Policy addresses how these risks should be managed. This policy is included in Appendix 2.
Index selection risk	The risk that an inappropriate index is selected.	The Trustee takes advice from regulated advisers when making investment decisions.

8. Expected return on investments

- 8.1 The Trustee has regard to the relative investment return, net of fees, and risk that each asset class is expected to provide. The Trustee's investment adviser advises the Trustee on these matters.. However, the day-to-day selection of investments is delegated to the investment managers.
- 8.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

9. Realisation of investments

- 9.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. This role includes considering the liquidity of the investments in the context of the likely needs of members and the payment obligations of the Scheme.



10. Financially material considerations

- 10.1 The Trustee believes that environmental, social and governance (ESG) factors can affect the performance of investment portfolios and should be considered as part of the Scheme's investment policy.
- 10.2 ESG factors are integrated into the portfolio when they are believed to be material to the portfolio's return prospects or risk characteristics. Integration may mean using the ESG factors to influence the weights of securities, sectors, or asset classes held in a portfolio. In general, the Trustee does not believe that large-scale exclusions are consistent with its Responsible Investment objective that focuses primarily on potential financial factors. The Responsible Investment Policy (Appendix 2) further outlines the Trustee's position on ESG integration and exclusions. In addition, the Trustee has agreed to a Climate Change Position Paper as a subset to the Responsible Investment Policy (Appendix 3) as climate change is likely to be the most financially material of the ESG issues, as it has the potential to affect every business sector and geography.
- 10.3 The Trustee has a fiduciary duty to consider all material financial risks when making all investment decisions and makes no distinction in this consideration between the default and self-select funds. In fulfilling this duty, the Trustee also expects its investment managers to take all financially material considerations into account, over an appropriate time horizon of the investments, when selecting, retaining, and realising investments. This consideration includes, but is not limited to, ESG factors (including, but not limited to, climate change) where these are considered relevant financial factors. The People's Investment Ltd. will receive, review, and publish reports from the investment managers on the steps they take on the Scheme's behalf, including voting and engagement.

Further detail on how this approach is implemented in practice is set out in Appendix 2 (Responsible Investment Policy) and Appendix 3 (Climate Change Position Paper).

The Trustee recognises that its duty to act as a fiduciary for the members extends to all funds. As such, ESG risks, including climate change, must be managed across all member options as far as possible, recognising the greatest scale and ability to influence investments lies in the default funds.

11. Member views and non-financial factors

- 11.1 The Trustee has agreed to a Responsible Investment Policy (Appendix 2) that outlines its approach to non-financial factors, including exclusions.
- 11.2 The Trustee conducts research with members, as and when required, to understand their views on investments as well as ethical and ESG factors.
- 11.3 The Scheme also offers members self-select funds, such as the Ethical Fund and the Shariah Fund, which allow them to invest in accordance with their views.

12. Voting rights, corporate governance and engagement principles

- 12.1 The Trustee has a duty to act responsibly with regard to the assets it owns on behalf of its members. The Trustee believes that to fulfil this duty and to protect and enhance the value of the Scheme's investments over the long term, it must act as a responsible asset owner and market participant.

The Trustee does not, in the normal course of events, monitor or engage directly with issuers or other holders of debt or equity. The Trustee expects the investment managers to exercise ownership rights and undertake monitoring and engagement, considering the long-term financial interests of the beneficiaries. Topics included under this engagement should include capital structure, risk, strategy, performance, social and environmental issues (including climate change) and corporate governance. The Trustee expects its investment managers to take into account the Trustee's SIP (and Responsible Investment Policy) and the Trustee's stewardship priorities in exercising votes and company engagement on the Trustee's behalf.

Where there is a potential for any conflicts of interest, the Trustee expects its external agents to identify and manage any conflicts in accordance with Principle 3 of the Financial Reporting Council's (FRC) UK Stewardship Code, putting the best interests of clients and beneficiaries first. The Trustee expects the investment managers to employ the same degree of scrutiny for pooled funds as if the investment had been made on a direct basis.

The Trustee recognises the important role it has in influencing positive ESG and stewardship standards, both through voting on key policies and decisions at general meetings and through the investment managers'

ability to engage with companies on the Scheme's behalf as an asset owner. The Trustee expects its investment managers to align their voting practices to its net zero voting guidelines, as outlined in the Trustee's Responsible Investment Policy (Appendix 2).

The Trustee has access to regular reports from its investment managers on how their stewardship activities, including voting and company engagement¹, as well as wider industry and policy engagement. The Trustee monitors and discloses the voting and engagement behaviour carried out on its behalf. If the Trustee deems this behaviour inadequate, it will engage with the relevant manager and seek to better align the behaviour of the manager with the Trustee's policy.

- 12.2 The Trustee's Responsible Investment Policy (Appendix 2) outlines its minimum requirements and expectations of the investment manager on voting and engagement² activities. The Scheme works closely with its investment managers to help it support good corporate behaviour. Part of the Trustee's procurement process for choosing investment managers involves ensuring their voting policies are sufficiently robust and achieve greater alignment with the Trustee's Responsible Investment Policy. The Responsible Investment Policy is therefore framed around how the Trustee interacts with, monitors, and may seek to influence its investment managers. Should an investment manager be failing in these respects, this failure should be captured in the regular monitoring of the manager's activity.

13. Investment manager arrangements

- 13.1 Prior to appointing an investment manager, the Trustee discusses that investment manager's benchmark and approach to stewardship, as well as the management of ESG and climate-related risks, with the Scheme's investment adviser and how they are aligned with the Trustee's own investment aims, beliefs and constraints.

When appointing an investment manager, in addition to considering that investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how stewardship, ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be materially out of line with its investment objectives for the part of the portfolio being considered, it will consider another manager for the mandate. The Trustee's Responsible Investment Policy (Appendix 2) outlines its minimum requirements when selecting new investment managers.

The Scheme's investment adviser is PIL. PIL is a subsidiary of People's Partnership, the group of companies that operate The People's Pension. PIL is independent and does not provide asset management services. This, and its Financial Conduct Authority (FCA)-Regulated status, makes the Trustee confident that the investment manager recommendations it makes are free from conflict of interest. The Trustee has confidence that PIL has sufficient resources and expertise to provide them with appropriate investment advice.

¹ Includes company, industry and policy engagement activities, as well as collaborative initiatives.

² Ibid

The Trustee carries out a strategy review at least every three years, where it assesses the continuing relevance of the strategy in the context of the Scheme and its aims, beliefs and constraints. The Trustee monitors the investment managers' approach to stewardship, ESG and climate-related risks on an annual basis.

In the event that an investment manager ceases to meet the Trustee's desired aims, including stewardship and the management of ESG and climate-related risks, using the approach expected of them, the Trustee will expect to work with the investment manager to improve the alignment of their objectives. Should the collaboration with the investment manager be deemed unsuccessful by the Trustee, their appointment may be reviewed or terminated. The investment managers have been informed of these expectations by the Trustee.

Investment managers' stewardship, ESG and climate policies are reviewed in the context of best industry practice, and feedback will be provided to the investment managers.

- 13.2 The Trustee is mindful that the impact on performance of stewardship, ESG and climate change may have a long-term nature. However, they are aware that the risk associated with them may be much shorter-term in nature. The Trustee has acknowledged this relationship between long-term impacts and shorter-term risks in its investment management arrangements.

When considering the management of objectives for an investment manager (including stewardship, ESG and climate risk objectives) and then assessing their effectiveness and performance, the Trustee assesses these over mutually agreed rolling timeframes. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon.

The Trustee expects the investment managers to vote and engage on behalf of the fund's holdings, and the Scheme monitors this annually. The Trustee does not expect ESG and stewardship considerations to be disregarded by the investment managers in an effort to achieve any short-term targets.

- 13.3 The Trustee monitors the performance of their investment managers over medium to long-term time periods that are mutually agreed with the investment manager and are consistent with the Trustees' investment aims, beliefs and constraints. The investment adviser assists the Trustee in this monitoring process.

The Scheme invests in both pooled funds and segregated mandates. The Trustee remunerates the investment managers based on the assets they manage on the Trustee's behalf.

In general, the Trustee believes that the fee-based structure without performance fees enables the investment managers to focus on long-term performance without worrying about short-term dips significantly affecting their revenue. However, the Trustee accepts that there may be certain fund structures for particular types of assets that will include performance fees.

The Trustee asks the Scheme's investment adviser to assess if the asset management fees are in line with the market when the manager is selected, and the appropriateness of the annual management charges is considered annually.

- 13.4 The Trustee defines portfolio turnover as how often assets are bought and sold by the manager in the course of their investment management activities. During the investment manager appointment process, the Trustee considers both past and anticipated portfolio turnover levels. Overall performance is assessed as part of the regular investment monitoring process, which can be impacted by turnover costs.

The Trustee recognises that there are circumstances when turnover costs are unavoidable, eg, changing managers.

The Trustee does not target a specific portfolio turnover. The Trustee recognises that turnover costs are necessary where they are incurred to ensure the Scheme remains in investments that will provide rather than detract from performance over the long term. The Trustee is mindful of the costs associated with portfolio turnover whilst the portfolio will primarily use passive investment which typically has low turnover. The Trustee recognises that there may be some areas of investment where active management can provide value to members even if portfolio turnover costs are higher. When monitoring turnover costs, both the level and reason behind them are considered and, if necessary, investigated further.

- 13.5 For the open-ended pooled funds in which the Scheme invests, there is no scope to amend the terms of agreement with the investment managers.

Each of the segregated mandates the Scheme invests in is governed by an individual Investment Management Agreement (IMA) between the Scheme and the investment managers.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment aims, beliefs and constraints are assessed every three years, or more frequently when changes deem it appropriate to do so. As part of this review, the ongoing appropriateness of the investment managers and the specific funds used is assessed.

14. Monitoring

- 14.1 Investment performance: The Trustee reviews the performance of each investment option offered through the Scheme against the stated performance objective and receives a performance monitoring report. This monitoring considers both short-term and long-term performance. The investment managers' overall suitability for each mandate will be monitored as frequently as the Trustee considers appropriate in light of both its performance and other prevailing circumstances.
- 14.2 Objectives: The Trustee monitors the suitability of the objectives for the Scheme (Appendix 1) and performance (net of fees) against these objectives at least every three years. It also does this – monitoring suitability and performance – whenever there is any significant change in the investment policy, underlying economic conditions, or membership profile.
- 14.3 Investment choices: The Trustee monitors the appropriateness of the investment choices offered on a periodic basis.
- 14.4 Engagement and stewardship: The Trustee monitors the engagement and stewardship activities undertaken by the manager of the pooled funds on an annual basis.

15. Agreement

- 15.1 This Statement was agreed by the Trustee and replaces any previous statements. Copies of this Statement and any subsequent amendments will be published on the Scheme website and made available to any participating employer, the investment manager, and the Scheme auditor upon request.

Signed: _____

Mark Condron

Date: 1 April 2024

On behalf of The People's Pension Trustee Limited, Trustee of
The People's Pension Scheme

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Appendix 1

Note on investment policy in relation to the current Statement of Investment Principles, dated 1 April 2026

1. Scheme investment objective

- 1.1 The Trustee's key objective is to enable members to provide adequately for their retirement via appropriate investment of their accumulated pension contributions.
- 1.2 In relation to the default option in particular, the objective is to provide an investment strategy that is intended to be suitable for the majority of the Scheme's members.
- 1.3 To ensure that the expected volatility of the returns is achieved, the level of volatility and risk in the value of members' pension pots is managed through appropriate diversification between different asset types.

2. The default option

- 2.1 Having analysed the Scheme's membership profile, the Trustee decided that the investment profile set out below represents a suitable default investment option for the majority of members who don't make a choice about how their contributions (and those made on their behalf by the employer) are invested. The aims, objectives and policies relating to the default option are intended to ensure that assets are invested in the best interests of relevant members and their beneficiaries.

The default strategy is known as the 'balanced' investment profile.

- 2.2 The 'balanced' investment profile is made up of two funds.

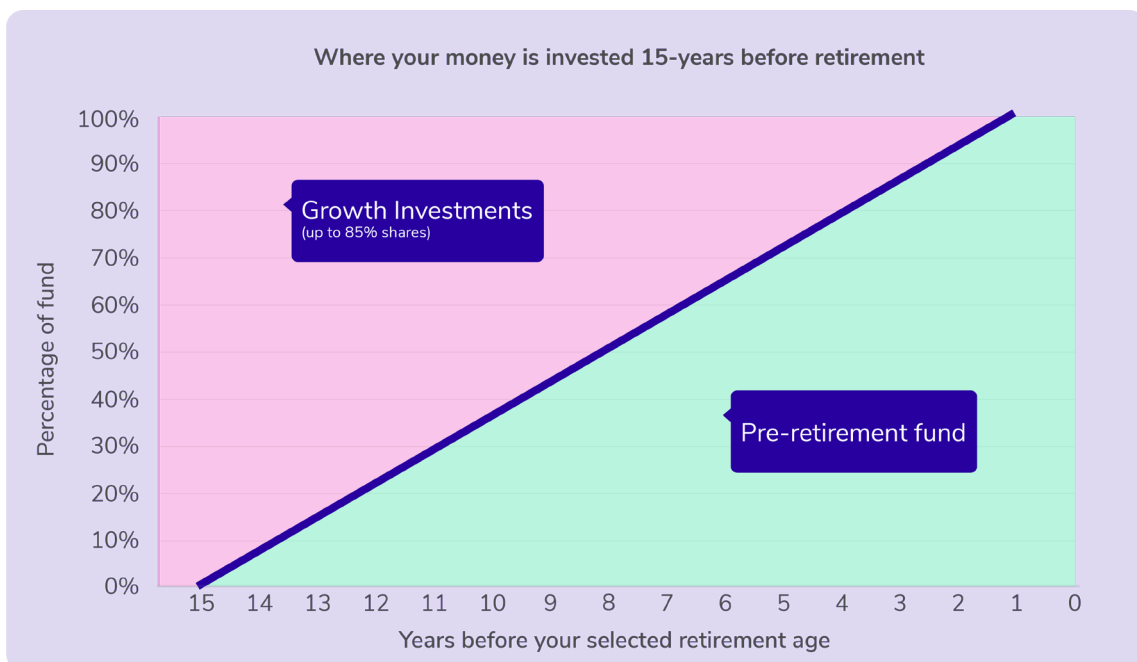
Fund name	Objective	Asset allocation
Global Investments (up to 85% shares) Fund	<p>Purpose: The fund is a balanced-risk, long-term capital growth fund.</p> <p>Return frame: To generate returns in excess of Consumer Price inflation (CPI).</p> <p>Return objective: CPI+3.0% per annum on a net of fees basis.</p>	<p>76.8% Global Equity</p> <p>3.2% Infrastructure</p> <p>13.5% Global Corporate Bonds</p> <p>5.9% Global Sovereign Bonds</p> <p>0.6% Securitised Loans</p>
Pre-Retirement Fund	<p>Purpose: The fund is a low to medium-risk fund that balances capital preservation and capital growth.</p> <p>Return frame: To generate returns in excess of Consumer Price inflation (CPI).</p> <p>Return objective: CPI+1.5% per annum on a net of fees basis.</p>	<p>19.2% Global Equity</p> <p>0.8% Global Infrastructure</p> <p>79.0% Global Corporate Bonds</p> <p>1% Money Market</p>

Strategic asset allocation correct at 1 April 2026

2.3 The investment profile gradually moves a member between the two funds depending on their proximity to their retirement age (state pension age unless the member has selected otherwise), as illustrated below:

2.4 The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their savings, so it's not possible to offer a default investment option that will be suitable for all. However, the Trustee believes that the default option provided represents a suitable default investment option for members who don't make a choice about how their contributions (and those made on their behalf by their employer) are invested.

Years from retirement	Global Investments (up to 85% shares) Fund	Pre-retirement Fund
-15	93.75%	6.25%
-14	87.50%	12.50%
-13	81.25%	18.75%
-12	75.00%	25.00%
-11	68.75%	31.25%
-10	62.50%	37.50%
-9	56.25%	43.75%
-8	50.00%	50.00%
-7	43.75%	56.25%
-6	37.50%	62.50%
-5	31.25%	68.75%
-4	25.00%	75.00%
-3	16.67%	83.33%
-2	8.34%	91.66%
-1	0.00%	100%
0	0.00%	100%



3. Alternative investment choices

3.1 The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their savings. Therefore, it's not possible to offer a single investment option that will be suitable for each individual member.

3.2 Investment profiles

Alongside the default, the Trustee has made two alternative investment profiles available.

The 'cautious' investment profile uses the same basis as described above but initially invests in the Global

Investments (up to 60% Shares) Fund instead of the Global Investments (up to 85% Shares) Fund.

The 'adventurous' investment profile uses the same basis as described above but initially invests in the Global Investments (up to 100% Shares) Fund instead of the Global Investments (up to 85% Shares) Fund.

3.3 Self-select options

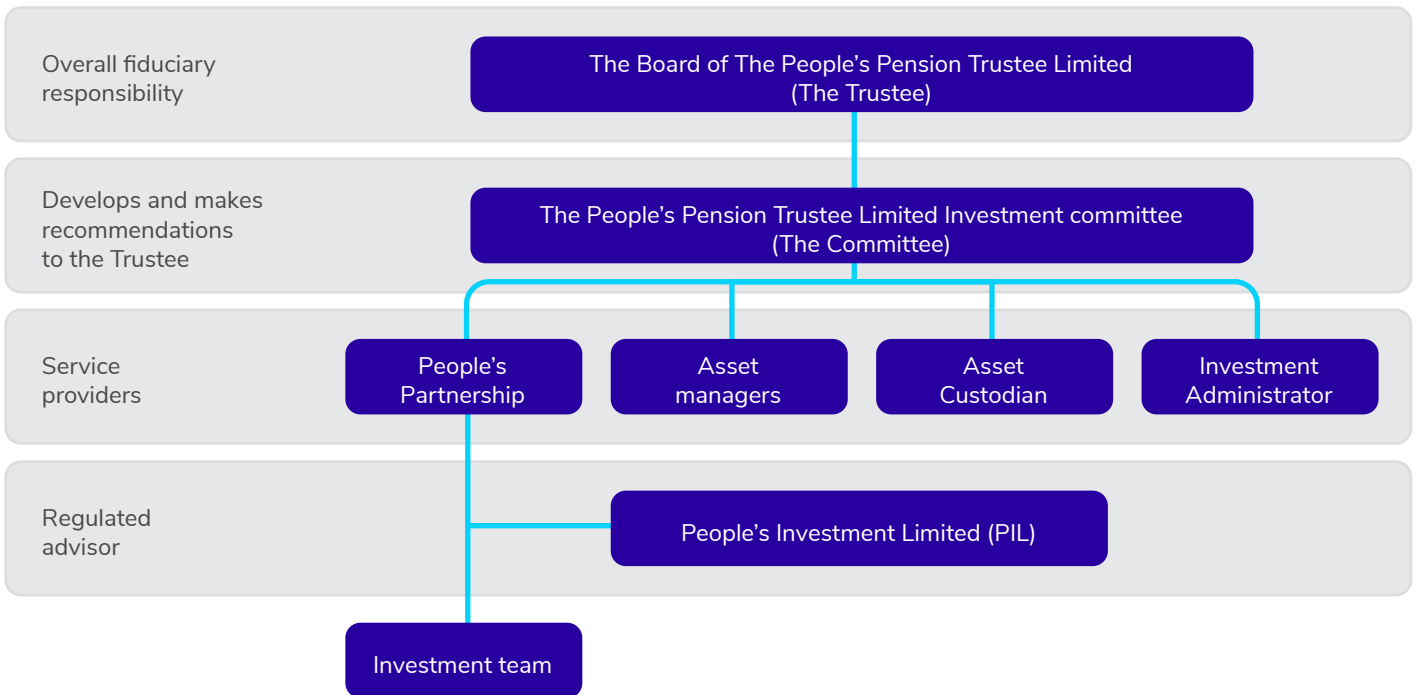
The Trustee offers a number of funds for members to self-select. These are shown in the table below.

Members may also self-select from the Global Investments (up to 85% shares) Fund and the Pre-Retirement Fund.

Fund name	Objective	Asset allocation
Global Investments (up to 60% shares) Fund	<p>Purpose: The fund is a moderate-risk, long-term capital growth fund.</p> <p>Return frame: To generate returns in excess of the Consumer Price Index (CPI).</p> <p>Return objective: CPI+2.5% per annum on a net of fees basis.</p>	<p>52.8 Global Equity</p> <p>2.2% Global Infrastructure</p> <p>30.4% Global Corporate Bonds</p> <p>12.4% Global Sovereign Bonds</p> <p>2.2 % Securitised Loans</p>
Global Investments (up to 100% shares) Fund	<p>Purpose: The fund is a higher-risk, long-term capital growth fund.</p> <p>Return frame: To generate returns in excess of the Consumer Price Index (CPI).</p> <p>Return objective: CPI +3.5% per annum on a net of fees basis.</p>	<p>96.0% Global Equity</p> <p>4.0% Global Infrastructure</p>
Ethical Fund	<p>Purpose: The fund is a higher-risk, long-term capital growth fund.</p> <p>Return frame: To generate returns in excess of the Consumer Price Index (CPI) while screening out companies that do not exhibit high ESG standards.</p> <p>Return objective: CPI+3.5% per annum on a net of fees basis.</p>	<p>100.0% Global Equity</p>
Shariah Fund	<p>Purpose: The fund is a higher-risk, long-term capital growth fund.</p> <p>Return frame: To generate returns in excess of the Consumer Price Index (CPI), while investing in the largest global shariah-compliant companies.</p> <p>Return objective: CPI+3.5% per annum on a net of fees basis.</p>	<p>100.0% Global Equity</p>
Cash Fund	<p>Purpose: The fund is low-risk capital preservation fund.</p> <p>Return frame: To maintain the capital value of investments.</p> <p>Return objective: Returns equivalent to cash returns net of 0.5% annual management charge.</p>	<p>100% cash and money market instruments.</p> <p>The fund invests in the short-term money markets, such as bank deposits and Treasury Bills</p>
Annuity Fund	<p>Purpose: The fund is a low-risk, long-term income fund.</p> <p>Return frame: To provide current income and low-moderate capital appreciation.</p> <p>Return objective: To protect against the rise in the level of annuity prices.</p>	<p>70.0% Sterling Corporate Bonds</p> <p>30.0% Gilts</p>

4. Governance

4.1 The Trustee of the Scheme is responsible for the investment of the Scheme's assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has considered whether it has the appropriate training and expert advice in order to make an informed decision. The Trustee has established the following decision-making structure:



4.2 Roles and responsibilities

The Trustee	Investment committee	People's Partnership	Investment adviser	Investment managers	Investment administrator
<ul style="list-style-type: none"> • Sets the structures and processes for carrying out its role. • Selects appropriate experts to provide advice as and when required. • Sets the structure for the implementation of the investment strategy. 	<ul style="list-style-type: none"> • Selects and monitors the planned asset allocation strategy. • Reviews the self-select fund range and investment profiles on a regular basis. • Monitors investment adviser and investment managers. • Makes ongoing decisions relevant to the operational principles of the Scheme's investment strategy. • Monitors investment performance and costs. 	<ul style="list-style-type: none"> • Administrative and operational liaison with the investment managers. • Negotiation of fee terms and contractual terms. • Recommendations on generic fund options required to keep the Scheme an attractive option for participating employers. • Scheme secretarial and reporting liaison with the investment manager. 	<ul style="list-style-type: none"> • Advises on all aspects of the investment of the Scheme's assets, including implementation. • Advises on this SIP. • Provides the required training to the Trustee. • Ensures that it delivers advice that is compliant with the requirements of the Financial Conduct Authority. 	<ul style="list-style-type: none"> • Operates within the terms of this SIP and its written contracts. • Selects individual investments with regard to their suitability. • The Trustee expects the investment managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this SIP so far as is reasonably practicable. 	<ul style="list-style-type: none"> • Fund administration. • Unit pricing.

02

Appendix 2

Responsible Investment Policy



people's
pension

Responsible Investment Policy

March 2026

Appendix 2: Responsible Investment Policy continued



Contents

Overview	02
Part 1: The Scheme's responsible investment approach	04
Introduction	05
What responsible investment means to the Scheme	06
Responsible investment objectives and beliefs	06
Responsible investment spectrum	07
Strategic framework	08
Pillar 1: Portfolio construction	10
Pillar 2: Stewardship	12
Pillar 3: Reporting	17
Part 2: The Scheme's stewardship priorities	18
Summary	19
Targeted stewardship activity	20
Measures of success	21
Company expectations	22
Climate	22
Nature	24
Human rights	25
Policymaker expectations	26
Climate	26
Nature	26
Human rights	26
Industry and collaborative engagement	28
Climate	28
Nature	28
Human rights	29
Appendix 1: Glossary	30
Appendix 2: Exclusions policy	32
Appendix 3: Net zero voting guidelines	36

Overview

The People's Pension ('the Scheme') is a defined contribution (DC) master trust open to all UK employers. The Scheme has over 7m members and is growing by more than £3bn in contributions annually. As an open and growing master trust, it has a long-term investment outlook. The People's Pension Trustee ('the Trustee') acts as fiduciary for members and the savings held within the Scheme.

The primary objective of the Scheme's responsible investment (RI) approach is to add financial value and resilience to its members' savings through its portfolio construction and stewardship approaches. As a complement to the primary objective, the Trustee also wishes to encourage companies to behave in a more sustainable way for the benefit of society and the world members retire into. Ultimately, this is likely to lead to better and more sustainable retirement outcomes for members.

The Trustee believes that it can achieve these complementary objectives by:

- Prioritising environmental, social and governance (ESG) risks and opportunities where the investment case for financial materiality over the medium to long term is strongest.
- Identifying ESG issues that contribute value to wider society and embedding them into the Scheme's stewardship approach¹
- A limited use of exclusions²

1. So long as there is no material financial detriment in pursuing this activity. Also refer to Glossary for the Scheme's definition of stewardship, which does not include portfolio construction.

2. As above, so long as there is no material financial detriment in its use, in alignment with the [Law Commission's recommendation](#) regarding exclusions. For further details regarding the Scheme's methodology in its use of exclusions, please refer to the Exclusions Policy in Appendix 2.



The Trustee has concluded that its fiduciary duty is to address these issues as part of its investment decision-making.

The Trustee has identified the importance of considering and managing ESG risks and opportunities as part of its portfolio construction alongside and connected to a stewardship programme that includes not only investee companies but wider industry and policymakers. Due to the breadth and scope of these issues, prioritisation is essential. The Trustee has chosen to focus on:

- Issues that relate to climate, nature, and human rights, as these are deemed to be most material to the Scheme's stakeholders.³
- Stewardship 'asks' where a business materiality to the company or sector involved can be identified.
- Industry-wide stewardship programmes where the asks are already well-established
- Stewardship initiatives where there is a comparative advantage in undertaking that particular course of stewardship.

This Policy was approved by the Trustee in March 2026. It will be reviewed and updated at least every 3 years or following any significant change in approach, policy, or demographic profile of members.



This Policy is divided into 2 main parts:

- » **Part 1:** The Scheme's Responsible Investment Approach, which highlights its responsible investment objectives and beliefs and the strategic framework through which this Policy will be implemented.
- » **Part 2:** The Scheme's Stewardship Priorities, which outline the key ESG issues and connected key stakeholder expectations upon which the Trustee will focus its stewardship activities.

3. As defined in the Part 1 – Introduction section of this Policy.

Part 1

The Scheme's responsible investment approach



Introduction

The Responsible Investment Policy ('Policy') describes the framework governing the approach of The People's Pension ('the Scheme') to integrate ESG and stewardship considerations into its investment decision-making. The Policy is approved by the Trustee of the Scheme ('the Trustee').

As a primary directive, the Policy has been developed to serve the Scheme's main stakeholders - its members. However, due to the technical nature of the Policy, the information contained on the Scheme's website may better serve their needs. The main audiences for this document are therefore likely to be the Scheme's asset managers, other service providers (ie, data/index providers), policymakers, and investee companies. This is because the document sets out the Trustee's 'asks' of these stakeholders, and People's Investment Limited (PIL)⁴ uses this information to inform its investment approach, including asset manager and service provider selection and oversight on the Trustee's behalf. This document may also be of interest to the Scheme's employers using the Scheme for their pension arrangements, and other wider stakeholders.

This Policy should be read in conjunction with the following associated Scheme policies and reporting:

- [Statement of Investment Principles \(SIP\)](#), which outlines the Scheme's investment strategy, objectives, policies and governance arrangements in which this Policy and the Climate Change Position Paper are included in the appendix.
- [The Climate Change Position Paper](#), which should be considered a subset of this Policy. It: (i) defines the forms of climate risk relevant to a long-term horizon, diversified investor; (ii) sets out practical tools and trade-offs; and (iii) describes a proportionate framework for action.
- [The Scheme's Climate Progress Report](#), which is required to be updated annually, outlines further details regarding the Scheme's climate-related governance, strategy, risk management and metrics and targets.
- The Scheme's yearly [Implementation Statement](#) which provides a high-level summary of its stewardship activities (including voting activity) and the Scheme's performance against its SIP.

4. PIL is the Trustee's primary investment advisor. PIL is a subsidiary of People's Partnership, the group of companies that operate the Scheme.

What responsible investment means to the Scheme

Responsible investment objectives and beliefs

The primary objective of the Scheme's RI approach is to add financial value and resilience to its members' savings through its portfolio construction and stewardship approaches. As a complement to the primary objective, the Trustee also wishes to encourage companies to behave in a more sustainable way for the benefit of society and the world members retire into.

The Trustee believes that it can achieve these complementary objectives by:

- Prioritising ESG risks and opportunities where the investment case for financial materiality over the medium to long term is strongest.
- Identifying ESG issues that contribute value to wider society and embedding them into the Scheme's stewardship approach.⁵
- A limited use of exclusions.⁶

The Trustee has concluded that its fiduciary duty is to address these issues as part of its investment decision-making. The investment beliefs that underpin the aforementioned RI objectives are outlined below.⁶

Investment beliefs
Portfolio level
Many ESG issues within investee companies have the ability to impact upon member outcomes, both financial and non-financial.
The Scheme has universal owner characteristics with a long-term investment horizon and a very diversified portfolio. This means that the Scheme's investment returns are dependent on the wellbeing of the economy ⁷ as a whole, and a wide variety of individual company ESG issues are financially material to the Scheme and its stakeholders.
Company level
Well-governed companies that manage material ESG risks and opportunities in their operations and supply chains, such as those that impact employees, suppliers, customers, communities and the environment, are expected to enhance value for shareholders, including the Scheme's members, over the long term. ⁸

5. So long as there is no material financial detriment in pursuing this activity. Also refer to the Glossary for the Scheme's definition of stewardship, which does not include portfolio construction.

6. As above, so long as there is no material financial detriment in its use, in alignment with the [Law Commission's recommendation](#) regarding exclusions. For further details regarding the Scheme's methodology in its use of exclusions, please refer to the Exclusions Policy in Appendix 2.

7. The Trustee believes that the Scheme and members are exposed to system-level financial risks at the level of one or more economic sectors, financial markets or economies.

8. Edmans, Alex (2020): *Grow the Pie: How Great Companies Deliver Both Purpose and Profit*. Cambridge University Press.

Appendix 2: Responsible Investment Policy continued

Menu



Responsible investment spectrum

The below figure shows a spectrum of capital allocation techniques in the context of RI and highlights where the Scheme operates within that spectrum.

	Responsible investment			Impact investment		
	Traditional	Screening	ESG integration	Themed	Impact-first	Philanthropy
	Targeted social and environmental impact					
Focus	Limited or no focus on ESG factors of underlying investment.	Negative or exclusionary screening and positive or best-in-class screening, based on criteria defined in a variety of ways (ie, by product, activity, sector, international norms).	The use of qualitative and quantitative ESG information in the investment process, by taking into account ESG-related trends at the portfolio, security or issuer level.	The selection of assets that contribute to addressing challenges such as climate change or water scarcity.	Environmental or social issues which create investment opportunities with some financial trade-off.	Focus on one or a cluster of issues where social and environmental need requires a 100% trade-off.
Examples	Can be an active choice to not include ESG or due to a lack of data for that asset class or security type.	Screening out global norms violators (eg, UN Global Compact) and Climate-related screening (eg, Thermal Coal).	<ul style="list-style-type: none"> • Tilting towards companies with higher ESG scores. • Setting constraints on emissions linked to investee companies. 	<ul style="list-style-type: none"> • Private equity renewables projects. • Emerging markets healthcare-themed fund. 	<ul style="list-style-type: none"> • Fund providing debt or equity to social enterprise or a trading charity. 	<ul style="list-style-type: none"> • Donating or creating a charitable organisation without expectation of return.
Funds	Cash Fund	<ul style="list-style-type: none"> • Global Investments (up to 100% shares) Fund • Global Investments (up to 85% shares) Fund • Global Investments (up to 60% shares) Fund • Pre-Retirement Fund • Ethical Fund 				
		<ul style="list-style-type: none"> • Shariah Fund • Annuity Fund 				

Dark blue denotes where on the Responsible investment spectrum The People's Pension Scheme operates. Themed investment is being researched as a potential area of investment in the short to medium term.

Strategic framework

The Scheme has developed a strategic framework to guide its RI approach. It consists of a set of principles divided into 3 pillars: portfolio construction, stewardship and reporting. In summary, the Trustee has committed to:

Portfolio construction

- Consider and manage ESG risks and opportunities as part of the Scheme's portfolio construction (Principle 1).

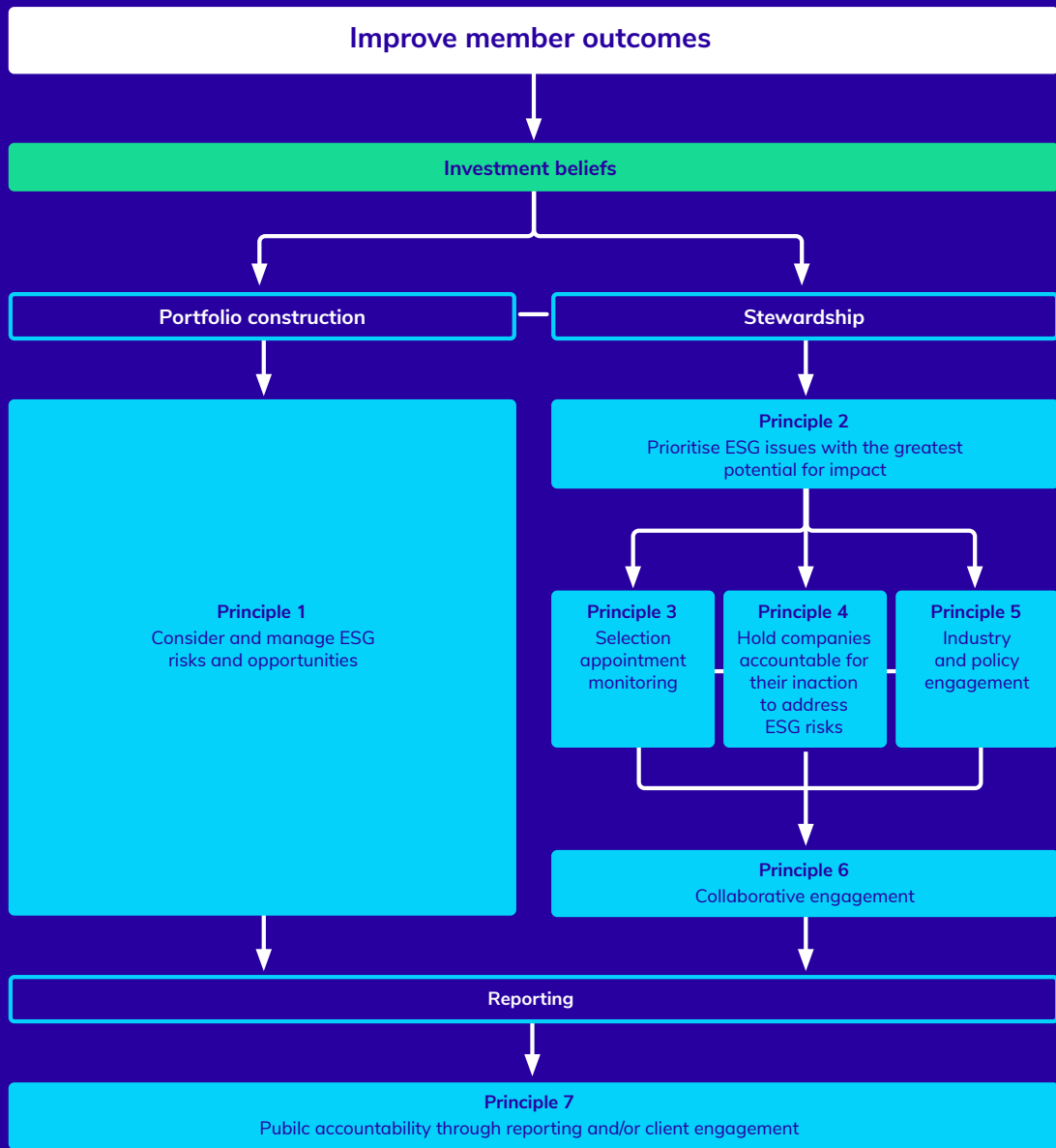
Stewardship

- Prioritise ESG issues with the greatest potential for impact (Principle 2).
- Integrate ESG and stewardship considerations into how the Scheme selects, appoints and monitors its asset managers and other service providers (Principle 3).
- Through the Scheme's asset managers' activities, hold investee companies to account for the actions they are taking to address business-material ESG risks and opportunities (Principle 4).
- Hold key industry players and policymakers to account to ensure they are able to help the Scheme achieve its RI objective (Principle 5).
- Collaborate with other like-minded investors and stakeholders to increase influence (Principle 6).

Reporting

- Annually report on the Scheme's progress (Principle 7).

The chart opposite outlines the Scheme's RI approach and how the strategic pillars and the underlying RI principles interconnect with each other.



Pillar 1: Portfolio construction

Principle 1: Consider and manage ESG risks and opportunities as part of the Scheme's portfolio construction.

The Trustee incorporates the assessment and management of ESG risks and opportunities into the investment decision-making process using two main approaches: integration and exclusion.

The Trustee considers climate change to be a systemic ESG risk with the greatest potential impact upon member outcomes. The Trustee has therefore set a Paris-aligned ambition as outlined in its Climate Change Position Paper.⁹ The appropriateness of this decision will be continually assessed to ensure this ambition remains in alignment with the Trustee's fiduciary duties and legal requirement to invest assets in the best interests of the Scheme's members. For further details regarding the targets that underpin this ambition, please refer to the Scheme's Climate Progress Report.

The Trustee remains open to exploring the integration of other ESG risks and opportunities, such as nature and human rights, into its portfolio construction, subject to an evaluation of the availability and robustness of data and analytics. As a result, this will be kept under review.

Integration

The integration of ESG analysis into the investment decision-making process is done on the basis of financial materiality. If there is a manageable unpriced risk that it is believed may negatively impact the performance of the portfolio or an accessible opportunity that it is believed may positively impact the performance of the portfolio, the Trustee will consider how this can be integrated into the portfolio construction. A key consideration in this area concerns the extent to which ESG factors are already reflected in pricing and valuation.

To date, the Scheme has begun integrating climate change into its portfolio construction decision-making. This has been done through the use of an index tracking strategy using climate-aware indices (eg, developed market equities) and integrating climate and other financially material ESG considerations into active mandates (eg, investment-grade corporate fixed income).

In addition to the portfolio-level integration, the Trustee will also assess asset managers on their ability to integrate best-practice public frameworks (eg, IIGCC's Net Zero Investment Framework) into their assessment and management of climate-related risks, opportunities, and stewardship.

9. <https://thepeoplespension.co.uk/downloads/climate-change-position-paper/>



Exclusions

In general, the Trustee does not believe that large-scale exclusions¹⁰ are consistent with its RI objectives, which focus primarily on potential financial factors. The Trustee believes, as a general principle, it should retain the option to make a decision on a case-by-case basis rather than make a blanket exclusion, which rules a significant number of companies out on the basis of their business. On balance, the Trustee believes that a robust stewardship programme will influence corporate behaviour more effectively than divestment. Enforcing large-scale exclusions limits our ability to work collaboratively with others to develop investment solutions designed to bring about change.

Using climate change as an illustration, the Trustee prefers a tilting methodology that can reduce its exposure to individual securities (such as those in the fossil fuel industry), potentially to zero, but this is distinctly different from blanket exclusion. With regard to investment in conflict-affected regions, the Trustee will continue to monitor where assets are held and work with its asset manager(s) to make sure all our investments are compliant with current sanctions.

There are, however, certain issues where exclusions are considered appropriate. Appendix 2 details the Scheme's exclusions policy. The exclusions policy has been developed to reflect the minimum standards to be applied, where feasible, to the investment strategy.



Potential trade-offs

Pursuing a net zero strategy may introduce additional concentration risks if there are inconsistent and uncertain government policies and actions globally.¹¹ To address this risk, the Trustee will conduct yearly monitoring of industry and policy developments, or earlier as needed, to confirm whether or not the current climate strategy remains fit for purpose.

10. For example: excluding whole GICS sectors.

11. Refer to the Scheme's Climate Change Position Paper for further detail.

Pillar 2: Stewardship

Introduction

Stewardship has the potential to create long-term value for clients and beneficiaries. To maximise effectiveness, stewardship priorities¹² underpinned by a robust prioritisation process are key. To address the trade-offs inherent in prioritising a small subset of stewardship activities, the Scheme has used the following criteria to decide where to allocate its stewardship resources:

- Prioritise ESG issues that are considered to be systemic financial risks.
- Focus on stewardship 'asks' where a connection can be made to generate shareholder value in a way that aligns with value to the Scheme's members as well as wider society.
- Focus on stewardship activities where the Scheme has a comparative advantage¹³ in undertaking that stewardship.
- Focus on companies where a material ESG issue also has business materiality for the company or sector considered.
- Focus on stewardship 'asks' that are part of established industry-wide frameworks with existing momentum and track record behind them.

Principle 2: Prioritising ESG issues with the greatest potential for impact.

Using the above prioritisation framework, the Trustee has identified **climate change, nature, and human rights** as its stewardship priorities. The stewardship priorities in Part 2 of this Policy set out the following with respect to each of these priorities:

- The rationale that has driven the selection of the thematic and sectoral focus areas.
- Key investee company expectations on the issue in question, including voting.
- Key policy expectations.
- Key industry engagement and collaborations Potential trade-offs involved.

Overall, Part 2 of this Policy also outlines how these expectations and engagements will drive the Scheme's asset manager monitoring programme (Principle 3).

Principle 3: Integrate ESG and stewardship considerations into how the Scheme selects, appoints and monitors asset managers and other service providers.

Asset managers

Minimum requirements¹⁴ – listed markets

The Trustee will incorporate the following minimum requirements into its asset manager selection process:

12. DWP also recommends stewardship priorities in its June 2022 guidance. [Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance - GOV.UK \(www.gov.uk\)](#)

13. [investorforum.org.uk/wp-content/uploads/securepdfs/2022/05/Stakeholder_Capitalism-report.pdf](#)

14. Applies to fund managers with which the Scheme has a direct contractual relationship.



- Become a signatory to and remain compliant with the 2020 UK Stewardship Code or an equivalent local stewardship code applicable in their jurisdictions.
- Support the Scheme's net zero strategy through its own net zero actions.¹⁵
- Suitable commitment to the resourcing of the manager's own stewardship function above the average level of industry peers.
- Commitment to training and development of key fund management individuals on RI.

If circumstances arise whereby (an) existing manager(s) does/do not meet these minimal requirements, the Trustee will allow the manager(s) a suitable grace period to meet them. If, after this grace period, the minimum requirements are not met, an appropriate escalation strategy will be triggered, as highlighted on page 15.

Expectations

Introduction

The Trustee takes a balanced scorecard approach to evaluating its asset managers, which includes RI expectations as outlined in this section. The Trustee acknowledges the need for flexibility in its assessment of how asset managers meet its RI expectations to take account of investment strategies, asset classes, geography, ability to influence and/or legal control. The weightings of each expectation may also differ in the Scheme's selection and monitoring processes, depending on the mandate.

In addition, some of the expectations may be met either immediately or within a relatively short timeframe, whereas other expectations are more challenging and longer term in nature because the barriers to success are more systemic in nature. However, as long-term investors, the Trustee recognises the importance of providing a longer-term vision of where the market should be, and not to dilute its expectations in the face of any systemic barrier, such as challenges in the political landscape. Codifying these longer-term expectations into asset manager monitoring has the potential to be an important driver for innovative RI solutions between the Scheme and the asset manager(s) in question. Ultimately, the determination to include an expectation should not be defined by its difficulty but rather by its fiduciary importance to address in the best financial interests of the Scheme's members.

RI expectations (including those related to the Scheme's net zero ambition) are embedded into the mandate design and implementation, taking into account the above-noted considerations.

As part of its monitoring programme, the Trustee will annually review all the Scheme's asset managers to evaluate whether their approach to RI is:

- Continuing to meet the minimum requirements as outlined in this principle.
- Demonstrating reasonable progress against the expectations outlined in the table on the following page.

¹⁵. In practice, this means the existence (and ongoing development) of products and services that allow the Scheme to further advance its net zero strategy.

Appendix 2: Responsible Investment Policy continued

Topic	Asset manager expectations	Key monitoring metrics
Purpose and governance	<p>Alignment with the Scheme's RI objectives and beliefs</p> <p>Robust governance systems that drive effective stewardship</p>	<ul style="list-style-type: none"> Evidence of a prioritisation framework that drives the stewardship strategy. If present, whether it is in broad alignment with the Scheme's approach. Sufficient board-level ESG oversight. Adequate stewardship resourcing, which aligns with the Scheme's RI objectives and beliefs (financial investment, skills, training, headcount, market coverage). Evidence of a diversity, equity and inclusion (DEI)¹⁶ action plan. Completion of the Asset Owner Diversity Charter questionnaire.
Voting and engagement activities	<p>Exercise voting rights on the Trustee's behalf in companies in which the Scheme has holdings (baseline expectation)</p> <p>Align stewardship activity with the Scheme's stewardship priorities</p> <p>A formalised and robust process for setting and tracking engagement milestones, including escalation</p>	<ul style="list-style-type: none"> Voting policy alignment with good-practice corporate governance principles. Executes engagement programme as outlined in the Scheme's Stewardship Priorities. Executing the Scheme's net zero voting guidelines. Appropriate disclosure of deviations from the house voting policy views and appropriate rationales. Appropriate disclosure of deviations from the proxy adviser recommendations (ie, to address issues of 'robo-voting') Evidence of a link between equity and bond stewardship activity, where doing so will increase influence and impact. Evidence of an integrated tracking system for voting and engagement activity. Evidence of a robust process for escalation activity linked to failed engagement or policy breaches.
ESG integration and exclusions	<p>Robust oversight of index construction and management process, and how ESG issues are integrated into the investment process</p>	<ul style="list-style-type: none"> How changes in ESG trends are incorporated into ESG integration, data strategy and use, and portfolio construction process, including exclusions. Evidence that any deviations from an investment strategy are handled appropriately. Provide detail on how changes to the investment strategy are/ would be implemented effectively. How exclusions are implemented in different instances eg, when at a fund level rather than an index level.
Industry and policy engagement	<p>Align industry and policy engagement activities with the Scheme's stewardship priorities</p>	<ul style="list-style-type: none"> Percentage of the Scheme's industry and collaborative engagements that the asset manager participates in. Quality of industry and policy engagement (eg, leading versus supporting, light touch versus intensive, etc). Proportion of resources allocated to industry and/or policy engagement (or systemic stewardship) versus company engagement. Proportion of policy and/or industry engagement tied to the Scheme's stewardship priorities.
Quality of client reporting ¹⁷	<p>Provide best-in-class strategy-level ESG and stewardship reporting with particular note to the Scheme's stewardship priorities</p>	<ul style="list-style-type: none"> Engagement reporting, which provides company-level information on milestones, progress against them, escalation routes taken, and outcomes. Detailed voting records on the Scheme's significant votes.¹⁸ Quality of voting rationales for votes against management and controversial votes. How data and reporting are shared with clients, including user access, bespoke reporting, and method of delivery.

16. For the avoidance of doubt, DEI stands for frameworks that seek to promote the fair treatment and full participation of all people based on merit, regardless of gender, race, socioeconomic background, education, disability, or other backgrounds.

17. With regards to voting disclosure, the Trustee expects it to be in alignment with Pension UK's 2025 Vote Reporting Template: [A new industry shareholder Vote Reporting Template](#), in alignment with the [Financial Conduct Authority's Vote Reporting Group](#) recommendations.

18. As determined by the Scheme's stewardship priorities and taking into account statutory guidance.



The Trustee acknowledges that some managers may be on a journey to achieve these expectations. If significant gaps are identified, asset managers will be put on notice to improve within the agreed timelines. If those timelines are not met and collaboration with the asset manager is deemed unsuccessful by the Trustee, their appointment will be reviewed, which may result in a redirection of new investments, or their contract may be terminated. The minimum requirements and expectations will be reviewed by PIL with appropriate escalation to the Trustee at least annually to ensure alignment with industry developments.

PIL as the Trustee's Advisor

The Trustee expects PIL to demonstrate its competency in the field of RI and conducts an annual review against that expectation accordingly. Key focus areas in the competency assessment will include:

- Satisfying the Scheme's governance arrangements pertaining to RI.
- Supervising the implementation of the Scheme's RI Policy, including but not limited to maintaining satisfactory oversight of managers that draws clear lines between leading and lagging RI practice.
- Ensuring the Trustee remains compliant with all regulatory requirements pertaining to RI.

Data and index providers

The Trustee expects its data and index providers¹⁹ to:

- Operate with robust governance, with the appropriate workforce, resources and incentives to drive effective product delivery to clients (including evolving their products in line with market developments).

- Be sufficiently transparent in its/their methodology, information, and data inputs and assumptions, working with openly available inputs wherever possible, including:
 - Where data is estimated as opposed to directly measured.
 - Being open about the limitations of its/their data.
- Determine their outputs by applying systematic processes, sound systems and controls.
- Identify, manage, and disclose conflicts of interest.
- Identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
- Provide appropriate reporting to support the Scheme's requirements.
- Have the ability to provide information aligned with the Scheme's evolving needs and expectations.
- Provide additional value and services in comparison with similar offerings by other industry peers.

Monitoring index providers against the Scheme's expectations will be incorporated into the 'ESG integration and exclusions' section of its asset manager monitoring framework (refer to the table on page 16).

PIL conducts an annual review of the suitability of the ESG data and analytics strategy and, by extension, its ESG data provider(s) to determine whether its/their offering remains suitable for the Scheme.

19. Note that it is the Scheme's relevant asset manager that has a direct commercial relationship with the index providers. Therefore, the monitoring programme against the Scheme's expectations will be reflective of that relationship. The Trustee encourages data and index providers to be signatories to the FRC's Stewardship Code for Service Providers in fulfilment of these expectations.

Principle 4: Through the Scheme's asset managers' activities, hold investee companies to account for the actions they are taking to address business-material ESG risks and opportunities.

The Trustee currently delegates voting and engagement with investee companies to asset managers. Therefore, the primary avenue the Trustee has to implement this principle is through the voting and engagement policies of its managers and holding them accountable for their approach against its stewardship priorities. Further details on this can be found in Part 2 of this Policy. Any company-level engagement that the Trustee (through PIL on its behalf) chooses to undertake itself would be decided on an exceptional basis, informed in part by:

- The gap between the Scheme's asset manager expectations and its asset managers' stewardship approach.
- The systemic importance of the sector in which the company is situated or the company itself (the potential efficacy of the company's actions in addressing the issue).
- The business materiality of the ESG issue to the company itself.
- The comparative advantage of us undertaking the stewardship as opposed to other investors.
- The ability to leverage existing investor collaborative engagement platforms such as the [Principles for Responsible Investment \(PRI\)](#) and the [Institutional Investors Group on Climate Change \(IIGCC\)](#).

The Scheme's company expectations of its stewardship priorities are outlined in Part 2 of this Policy.

Principle 5: Hold key industry players and policymakers to account to ensure they are able to help the Scheme achieve its RI objectives (systemic stewardship).

The Trustee recognises the importance of other investment actors (eg, data and index providers, advisers and policymakers) in delivering its RI objectives. The Trustee will prioritise investor collaboration (Principle 6) in engaging with these key stakeholders and prioritise issues where material breaches in the service provider and policy expectations of the Scheme's stewardship priorities occur. The Scheme's key industry engagements are outlined in Part 2 of this Policy (Stewardship priorities).

For further details on the Scheme's systemic stewardship approach pertaining to climate, please refer to the Climate Change Position Paper.

Principle 6: Collaborate²⁰ with other like-minded investors and stakeholders to increase influence.

Building coalitions of like-minded asset owners and managers is perhaps one of the most important ways the Trustee can drive real change and make a material difference, given the Scheme's market position and influence. As a result, the Trustee will continue to:

20. In alignment with acting on concert rules. Further guidance on this is provided here: [CMA clarifies stance on climate collaborative sustainability agreements](#)



- Lend support to selected existing collaborative initiatives that are focused, well organised, and can add more power to our stewardship approach.²¹
- Look to build coalitions of support in key, material ESG areas where we have a comparative advantage in doing so and existing initiatives do not exist.
- Convene or participate in collaborative engagement if there are particular issues the Scheme has identified, recognising that it may have more success when dealing with asset managers, service providers, data providers, and policymakers collectively.

The Scheme's key collaborative initiatives are outlined in Part 2 of this Policy (Stewardship priorities).

Pillar 3: Reporting

Principle 7: Annually report on the Scheme's progress.

The Scheme's activities will be publicly reported on as part of its annual Implementation Statement and Climate Progress reporting, as well as any additional reporting deemed



necessary as the Scheme evolves its approach. The Trustee has identified improving member communications in its RI activities as a priority and has produced a member-friendly version of this Policy and its Climate Progress Report.²² The Trustee intends to apply for signatory status to the Financial Reporting Council's (FRC) Stewardship Code in spring 2026, subject to revisions to the Code and the outcome of consultation which are currently ongoing as of the date of this Policy. The Scheme's SIP outlines the internal monitoring and reporting of its responsible investment activities, of which the Trustee has oversight.

21. Examples include being part of various PRI and IIGCC working groups to address industry challenges. For full details of the Scheme's participation in these working groups, please refer to its website.

22. [Responsible investment | The People's Pension](#)

Part 2

The Scheme's stewardship priorities



Summary

The Trustee has identified **climate change, nature and human rights** as its stewardship priorities. For each priority, this section lays out:

- The rationale that has driven the selection of the focus themes and sectors
- Key investee company expectations, including net zero voting guidelines
- Key policy expectations
- Key industry engagement and collaborations
- Potential trade-offs involved

The stakeholder expectations outlined in this section will be predominantly used to drive the Scheme's asset manager monitoring programme. The Trustee expects its asset managers to:

- Align with the investee company expectations and hold them accountable for adhering to them.
- Align their voting to the Scheme's net zero voting guidelines.
- Participate and demonstrate leadership in industry engagement and collaborations referenced in this document.
- Broadly align with the policy expectations and demonstrate leadership with policymakers and government bodies in holding them to account for adhering to them.



If these expectations are not materially met, the findings will be incorporated into the broader asset manager monitoring programme, as outlined in Part 1 of this Policy (Principle 3).

Appendix 2: Responsible Investment Policy continued

Summary continued

Targeted stewardship activity

The tables below provide a summary of the key targeted stewardship activities within the Scheme's stewardship priorities. Further details regarding company and policy expectations, as well as the Scheme's participation in industry and collaborative engagement, are presented in subsequent sections.

Rationale for prioritisation	Focus sectors and themes	Key stakeholder expectations
Company expectations and voting escalation		
Insufficient progress on company net zero strategies requires increased voting escalation.	<ul style="list-style-type: none"> Climate Action 100+ (CA100+) companies Banks 	Investee companies – adhere to the Scheme's company expectations.
Further scrutiny (in addition to the above) on: a) Fossil fuel-reliant sectors (including supply and demand) given their importance in the energy transition. b) Banks, given their gatekeeping role in fossil fuel financing.	<ul style="list-style-type: none"> Net zero commitment Science-based targets TCFD reporting Decarbonisation strategies 	Asset managers – adhere to the Scheme's company expectations and align to its net zero guidelines.
	<ul style="list-style-type: none"> Oil and gas Auto Utilities Steel Banks 	
Net zero cannot be achieved without addressing deforestation.	<ul style="list-style-type: none"> CAPEX disclosure Report and accounts Lobbying 	
	<ul style="list-style-type: none"> Sectors linked to agricultural-linked commodities²³ Deforestation policy and/or commitment 	

23. As identified by the Science Based Targets Network (2023) SBTN High Impact Commodity List.

Appendix 2: Responsible Investment Policy continued

Menu

Rationale for prioritisation	Focus sectors and themes	Key stakeholder expectations
Policymaker expectations		
Inadequate policy frameworks weaken stewardship effectiveness, especially with well-diversified investors (universal owners).	<ul style="list-style-type: none"> • Climate • Nature • Human rights 	<p>Policymakers – adhere to the Scheme’s policy expectations.</p> <p>Investee companies – to implement responsible lobbying practices (see page 22).</p> <p>Asset managers – to participate and take a leading role in policy engagement activities.</p>
Industry and collaborative engagements		
With respect to company engagement, prioritising existing industry and collaborative engagements over individual engagements will greatly increase the likelihood of a successful outcome.	<ul style="list-style-type: none"> • CA100+ (climate) • Nature 100+, PRI’s Spring (nature) • PRI’s Advance (human rights) • Global Investor Commission on Mining 2030 	Asset managers – to participate and take a leading role in these collaborative engagements.
Given its nascency, prioritising enhancement to human rights data and analytics through industry and collaborative engagement is the most effective way to advance the Scheme’s approach to this issue.	Human rights	Asset managers – to participate and take a leading role in industry and collaborative engagements to drive better-quality human rights data and analytics.

Measures of success

The Trustee measures the success of the Scheme’s stewardship programme by considering indicators such as:

- How the Scheme’s asset managers exercise company engagement, proxy voting, industry, policy, and collaborative engagement in alignment with the Scheme’s expectations.
- The Scheme’s participation in industry, policy, and/or collaborative engagement resulted in a tangible positive impact, with emphasis on those initiatives where the Scheme took a leading role.

Company expectations

The company expectations outlined below will be predominantly used to drive the Scheme's asset manager monitoring programme. The Trustee expects its asset managers to embed these company expectations into their stewardship activities and align to its net zero voting guidelines.

Good corporate governance is the foundation of any well-run business. How the company's board aligns with shareholders' long-term interests is a critical underpinning of whatever stewardship priority has been selected. The Trustee encourages all companies in which it invests on a global scale to closely align with the International Corporate Governance Network's [Global Governance Principles, the Organisation for Economic Co-operation and Development's \(OECD\) Principles of Corporate Governance](#), as well as regional good practice frameworks such as the UK's [Corporate Governance Code](#), all of which set out the fundamentals of corporate governance. The Trustee encourages companies to begin aligning their sustainability reporting to the [International Sustainability Standards Board's](#) sustainability standards.

Climate

For further details on the investor and company-level materiality of climate, please refer to the Scheme's Climate Change Position Paper. Some companies operate in sectors where climate change risks are closely related to the core business or have a business materiality. In these areas, the Trustee expects boards to pursue value creation in ways that align with the grain of climate change mitigation activities. The Trustee believes that this is best enacted by aligning with the requirements of Climate Action 100+ and the Transition Pathway Initiative's banking tool.²⁴ Appendix 2 outlines the net zero voting guidelines which will be used to benchmark the Scheme's fund managers' voting performance as part of its monitoring programme.

Specifically, the Trustee expects²⁵ all CA100+ focus companies and banks to:

- Set an ambition to achieve net zero by a target date that is appropriate for their market.
- Work towards achieving a credible business plan to achieve this ambition that sets out clear interim targets and milestones, material actions, activities and accountability mechanisms that are appropriate for their sector and market.
- Align their disclosures to relevant recognised industry benchmarks.²⁶

24. [Banking Tool - Transition Pathway Initiative](#).

25. The Trustee expects company directors to implement their respective net zero strategies insofar as economic, political and technological circumstances reasonably allow (ie, the policy environment), and ultimately in the long-term best interests of the company. Further details on this can be found here: [NZAQA The future of investor engagement.pdf](#). Appropriate explanations regarding these constraints and how they impact upon net zero delivery should be explained in public disclosures.

26. Examples include the [Climate Action 100+ Net Zero Company Benchmark](#), the Transition Plan Taskforce Disclosure Framework, and sector-specific guidance such as Net Zero Standards for [Oil and Gas, Banks](#) and [Diversified Mining](#).

Appendix 2: Responsible Investment Policy continued



- Disclose evidence of board or board committee oversight of the management of climate change risks and demonstrate that it has capabilities and competencies to assess and manage climate-related risks and opportunities at board level.
- Provide robust reporting on the effectiveness of systems of internal control and risk management for climate-related risks and how climate change issues are considered when reviewing the company's financial performance, corporate governance, strategy and business plans.
- Appropriately define and consider any material climate-related risks in preparing the financial statements.
- Set short, medium, and long-term science-based targets²⁷ for Scope 1, 2 and material Scope 3 emissions built around robust methodologies.
- Disclose evidence of a decarbonisation strategy that explains how it intends to meet its medium and long-term GHG reduction targets.
- Disclose evidence of:
 - how it is working to decarbonise its capital expenditures (CAPEX) and/or lending practices
 - how it intends to invest in climate solutions
- Make an explicit statement of how it has phased out or is planning to phase out capital expenditure and/or lending in new unabated carbon-intensive assets or products by a specified year.
- Review all trade association funding and corporate lobbying activities and ensure it is fully aligned with the company's public position and policies on climate change.²⁸
- Show a commitment to the principles of a "just transition" (see glossary for further detail).

27. Example: Science-based Targets Initiative.

28. The Trustee supports the [Global Standard for Responsible Climate Lobbying](#) and thus, on a comply or explain basis, expects companies to adhere to it.

Appendix 2: Responsible Investment Policy continued

Company expectations continued

Potential trade-offs

Just Transition

Pursuing as fast as possible decarbonisation and energy transition will impose uneven costs on countries and societies. For example, in the developing world 600m people are without electricity today, and an accelerated global decarbonisation pathway might slow their ability to gain access. In addition, many jobs, especially in the developing world, depend on the fossil fuel extraction and transport chain. Fast reduction in fossil fuel consumption puts these jobs and livelihoods at risk, creating societal harms which in turn can impact upon the ability to achieve a net zero economy. To address this, the Trustee believes in a commitment to the principles of a Just Transition.²⁹

Shareholder value

A fast decarbonisation pathway may conflict with shareholder value generation in certain companies and sectors. At some point it may become clear that certain business models and even entire sectors are no longer able to generate shareholder value in ways consistent with mitigating climate change. A notable example of this is the oil and gas sector, where shareholder value may be eroded if it significantly reduces oil output.

The Trustee acknowledges there is currently no framework for directors of a business to voluntarily move away from creating shareholder value. To address this, the Trustee will:

- Review its position on these sectors on a yearly basis to determine whether it remains suitable to maintain exposure to these assets.
- Put stewardship emphasis on the demand side of the fossil fuel reliance value chain – notably the automotive sector – where incentives to decarbonise are high.

- Continue to prioritise industry and policy engagement as part of its stewardship activities.

Selling assets

A company's net zero strategy may involve the selling of assets (eg, oil and gas), which may then be bought by a third party who may not have net zero commitments and/or are transparent about their climate strategy (eg, private equity). This is a complex issue which will need to be dealt with on a case-by-case basis as part of the Scheme's asset manager monitoring programme.

Nature

The Trustee expects companies in high-impact sectors³⁰ to:

- Begin disclosing their approach to address nature-related financial risks in alignment with the [Taskforce for Nature-related Financial Disclosures](#) (TNFD), and work towards setting Science-Based Targets.³¹
- As a compliment to the above, work towards adhering to the high-level investor expectations of [Nature Action 100](#) related to the areas of: Ambition, Assessment, Targets, Implementation, Governance, and Engagement.
- Adhere to the Finance Sector Deforestation Action's more specific investor expectations of companies³² in sectors associated with agricultural-linked commodities.³³
- Consider embedding circular economy principles into their business model. Applying a circular economy business model can help companies address regulatory obligations, reduce waste and disposal costs, improve company image, and create new business opportunities through innovative new products and services.

29. It is also a CA100+ indicator.

30. Such as those identified by Nature 100.

31. Example: Science-based Targets for Nature.

32. [FSDA Investor expectations of companies - 16.09.2022.docx](#)

33. As identified by the Science Based Targets Network (2023) SBTN High Impact Commodity List.



Potential trade-offs

Just Nature Transition

Similar to that of the Just Transition, a rapid journey to a nature-positive economy could also result in impacts to livelihoods. The Trustee believes in a commitment to a Just Nature Transition.³⁴ It implements that belief primarily through its expectation of asset managers to participate in Nature 100, in which one of its key engagement asks is that the implementation plan should prioritise rights-based approaches and be developed in collaboration with Indigenous Peoples and local communities when they are affected.

Human rights

The Trustee expects all companies to respect human rights in accordance with the UN Universal Declaration of Human Rights and the International Labour Organisation's (ILO) Core Labour Standards. Companies should comply with the principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights (UNGPs).

Under the UNGPs, the Trustee expects companies to have:

- A governance structure for human rights which identifies board-level oversight and executive accountability;
- A statement of their policy commitment to respect human rights;
- A human rights due diligence process to:
 - assess their actual and potential human rights impacts;
 - integrate the findings and take action to prevent or mitigate potential impacts;
 - track their performance; and
 - communicate their performance.

- Processes to provide or enable remedy to those harmed, in the event that the company causes or contributes to a negative impact.

Potential trade-offs

Companies may face trade-offs in incorporating human rights into their business model, which could result in additional costs that are then passed on to their customers. As highlighted in the Scheme's investment belief, the Trustee expects companies to address this tension through a stakeholder value creation approach.³⁵

³⁴. [Just Nature How finance can support a just transition at the interface of action on climate and biodiversity.pdf \(lse.ac.uk\)](#)

³⁵. [2018-10-03.AlexEdmons PurposefulBusiness-T.pdf \(gresham.ac.uk\)](#)

Policymaker expectations

The policymaker expectations outlined below will be predominantly used to drive the Scheme's asset manager monitoring programme. Using these policy expectations as an underpin, the Trustee expects its asset managers to take a leading role in driving policy change where material gaps exist that undermine the Trustee's ability to meet its own RI objective.

The Trustee expects governments to maintain a stable policy environment for its stewardship priorities as outlined in the below policymaker expectations, as this is fundamental to making the case for investment and long-term business model change in material sectors.

Climate

The Trustee expects governments to comply with the goals of the Paris Agreement as summarised [here](#) and adhere to the climate policy principles set out by the [Investor Agenda](#).

Nature

The Trustee expects governments to adhere to the [Kunming-Montreal Global Biodiversity Framework](#) and:

- Dedicate sufficient and predictable domestic and public expenditure to consideration of critical ecosystems.
- Support green public finance and repurpose harmful subsidies and incentives driving degradation of nature, green budget tagging.
- Create enabling conditions to catalyse private investment through policy and regulations that level the playing field for sustainable practices.
- Develop environmental markets that allow private sectors to monetise ecosystem services.

- Promote nature-related data, standards, labels and disclosure to encourage market transparency and integration of nature-related risks in financial decision making.
- Promote nature-related data, standards, labels and disclosure to encourage market transparency and integration of nature-related risks in financial decision-making.

Human rights

The Trustee expects governments to align their policies with the [UN Guiding Principles on Human Rights](#) (UNGPs), in which it states that in meeting their duty to protect, they should:

- Enforce laws that are aimed at, or have the effect of, requiring business enterprises to respect human rights and periodically to assess the adequacy of such laws and address any gaps;
- Ensure that other laws and policies governing the creation and ongoing operation of business enterprises, such as corporate law, do not constrain but enable business respect for human rights;
- Provide effective guidance to business enterprises on how to respect human rights throughout their operations;
- Encourage, and where appropriate require, business enterprises to communicate how they address their human rights impacts.

Appendix 2: Responsible Investment Policy continued



Industry and collaborative engagement

The Trustee believes that driving change through supporting industry-wide initiatives and holding its asset managers accountable to participate in leading industry coalitions offers the best chance of driving the stakeholder value it thinks is warranted and gives it the most comparative advantage in its stewardship efforts.

The Trustee has identified the following industry initiatives to prioritise predominantly based on: their focus, current momentum and alignment of objectives.

Climate

Memberships:

- Institutional Investors Group on Climate Change (IIGCC)
- UK Sustainable Investment and Finance Association (UKSIF)

Supporter of:

- CA100+
- Global Investor Coalition on Mining 2030

Additional information:

The Scheme's IIGCC and UKSIF memberships help the Trustee to address key industry and policy challenges to achieving net zero through its forums for investor collaboration. Key working groups that the Scheme has or is involved in include: net zero benchmarks, indexed investors, proxy voting, asset owners, sovereign debt, and climate audit and accounting.

The [Global Investor Commission on Mining 2030](#) is a collaborative, investor-led initiative that recognises the mining sector's pivotal role in the energy transition and considers key systemic issues faced by the sector that currently challenge, or could challenge, existing good practice and the sector's social licence to operate.

The Scheme is a supporter of this initiative.

Nature

Memberships:

- [FAIRR Initiative](#) (FAIRR)

Supporter of:

- [Nature Action 100](#)
- [Spring: A PRI stewardship initiative for nature](#)
- [Investor Policy Dialogue on Deforestation](#) (IPDD)

Additional information:

Nature Action 100 is a global investor engagement initiative that aims to mobilise institutional investors to establish a common high-level agenda for engagements and a clear set of expectations to drive greater corporate ambition and action on nature and biodiversity loss.

Spring engages with companies that have an influential voice in shaping public policies relating to deforestation dynamics, either through their direct political engagement or indirectly through their membership in or association with trade associations, think tanks and similar bodies. Support of this initiative stems from the systemic importance of corporate lobbying to deliver real-world outcomes. Note that this company ask is not part of Nature Action 100 company expectations.

FAIRR is a collaborative investor network that raises awareness of the ESG risks and



opportunities in the global food sector. Their mission is to build a global network of investors who are aware of the issues linked to intensive animal production and seek to minimise the risks within the broader food system. Given its links to agricultural commodities and thus deforestation, creating a sustainable food system is a key component of a net zero economy.

The IPDD seeks to ensure long-term financial sustainability of investments in the countries they are invested in by promoting sustainable land use and forest management and respect for human rights, with an initial focus on tropical forests and natural vegetation. It will work with key stakeholders to encourage adoption and implementation of regulatory frameworks that ensure protection of such natural assets and human rights. Secretariat support is provided by the Tropical Forest Alliance (TFA), an initiative hosted by the World Economic Forum. IPDD is an initiative supported by the PRI.

Human rights

Given its nascency, the key focus area for industry and collaboration engagement will be the improvement of both company disclosures and industry data/analytics on human rights. The Scheme is a supporter of [Advance](#), a PRI-led stewardship initiative where institutional investors work together to take action on human rights and social issues. The Scheme is a participant in two investor coalitions aiming to improve human rights disclosures:

1. The first's purpose is to hold key stakeholders in the investment chain - data and index providers and proxy advisers - to account for the lack of credible, comparable human rights data and analytics. This impinges upon the Scheme's ability to fully integrate human rights considerations into its stewardship approach.
2. The second is to develop and launch a disclosure framework to assess company fair pay practices.

Appendix

Appendix 1: Glossary

Greenhouse gases (GHGs)

There are four primary GHGs linked to global warming: carbon dioxide (CO₂), methane, nitrous oxide and fluorinated gases. The Greenhouse Gas Protocol, an international accounting tool, categorises GHG emissions into three scopes. Scope 1 covers direct emissions from the reporting company's owned or controlled sources. Scope 2 covers indirect emissions from purchased electricity, steam energy, heating and cooling that have been consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in the reporting company's value chain.³⁶

Institutional Investors Group on Climate Change (IIGCC)

A European membership body for institutional investor action on climate change. Its work focuses on corporate governance, investor practices and public policy.

Just Transition and Just Nature Transition

'Just Transition' was included as part of the Paris Agreement to ensure that workers and communities are not left behind as the world's economy responds to climate change. The Investing in a Just Transition initiative is led by the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE)³⁷ and

the Initiative for Responsible Investment at the Harvard Kennedy School.

The Grantham Institute defines the 'Just Nature Transition' as one delivering decent work, social inclusion and the eradication of poverty in the shift to a net zero and climate-resilient economy that simultaneously delivers biodiversity goals in agriculture, forestry, land use and the oceans.³⁸

Net zero and Nature Positive

The term "net zero" means cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions being reabsorbed from the atmosphere. A 'gross-zero' target would mean reducing all emissions to zero. This is not realistic, so instead the net-zero ambition recognises that there will be some emissions in hard-to-abate sectors for which the transition to net zero is either technologically or financially difficult (eg, steel and cement industries). Therefore, the emissions associated with these hard-to-abate sectors would need to be offset through negative emissions technologies or some other mechanism. Negative emissions technologies are mechanisms for the absorption and storage of carbon and other atmospheric greenhouse gases (eg, carbon capture).

Nature Positive is a global societal goal defined as 'Halt and Reverse Nature Loss by 2030 on a 2020 baseline, and achieve full recovery by 2050'. To put this more simply, it means ensuring more nature in the world in 2030 than in 2020 and continued recovery after that.³⁹

36. [Homepage | GHG Protocol](#)

37. [Investing in a just transition - global project - Grantham Research Institute on climate change and the environment \(lse.ac.uk\)](#)

38. [Just Nature How finance can support a just transition at the interface of action on climate and biodiversity.pdf \(lse.ac.uk\)](#)

39. [Nature Positive](#)



Paris Agreement

The Paris Agreement was reached at COP21 in 2015. Its aim is to ensure global warming in the 21st century remains well below 2°C above the average level recorded for the period 1850 to 1900 and to support efforts to limit global warming to 1.5°C. The Agreement also takes into account a 'Just Transition,' meaning 'taking into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities.'⁴⁰

Principles for Responsible Investment (PRI)

A United Nations-supported international network of financial institutions working together to implement its six aspirational principles. Its goal is to understand the implications of sustainability for investors and support signatories to facilitate incorporating these issues into their investment decision-making and ownership practices. In implementing these principles, signatories contribute to the development of a more sustainable global financial system.

Responsible investment

The Scheme defines responsible investment as an approach to investment that explicitly acknowledges the relevance to the investor, from both a financial and non-financial perspective, of environmental, social, and governance factors at

investee companies, as well as the long-term health and stability of the market as a whole. Responsible Investment recognises that:

- The generation of long-term sustainable returns is dependent on stable, well-functioning, and well-governed social, environmental, and economic systems.⁴¹
- Companies can choose to create value for shareholders in ways that create harm to the wider environment or society, which detract from member outcomes in non-financial ways.

Stewardship

Given the risk of conflation between the term 'stewardship' and 'responsible investment' and the activities that underpin them⁴², for the purpose of this Policy, the term 'stewardship' and its remit will be defined by the RI Strategic Framework as outlined in this Policy.

The UK Stewardship Code 2026⁴³ sets high stewardship standards for those investing money on behalf of UK savers and pensioners and those that support them.

40. [The Paris Agreement](#) | UNEFCCC

41. Source: [What is responsible investment?](#) | Cambridge Institute for Sustainability Leadership (CISL)

42. As an illustration, the FRC's 2026 definition of stewardship includes capital allocation. [UK Stewardship Code 2026](#)

43. [UK Stewardship Code 2026](#)

Appendix continued

Appendix 2: Exclusions Policy

Introduction

The Trustee believes that it can achieve its responsible investment objectives by:

- Prioritising ESG risks and opportunities where the investment case for financial materiality over the medium to long term is strongest.
- Identifying ESG issues that contribute value to wider society and embedding them into the Scheme's stewardship approach.
- A limited use of exclusions.

'A limited use of exclusions' means that exclusions are not enacted on a large scale but are instead used in a targeted manner following an assessment of the need for the exclusion, provided there is no material financial detriment in its use and it aligns with the Law Commission's recommendation regarding exclusions.

The Trustee believes that a robust stewardship programme will influence corporate behaviour more effectively than large-scale exclusions eg, excluding whole GICS sectors. There are however, certain issues where exclusions are considered appropriate for the portfolio. The ability to apply a stewardship escalation approach and the following questions are considered when deciding whether or not to introduce an exclusion:

- Is there an international ban or treaty against the manufacture/use of a product? eg, a UN treaty against certain weapons.
- Are there reasonably foreseeable risks associated with the business activity where there is a fundamental belief that the risk is not being appropriately captured in the asset price? e.g. stranded asset risk linked to climate change.
- Is there good reason to believe that members would agree with the exclusion?

Following this assessment, further analysis will be conducted to understand the financial materiality of any potential exclusion. The recommendations from the Law Commission on the use of exclusions forms the basis of the Trustee's decision-making process.

Scope and Implementation Considerations

This exclusions policy reflects minimum standards to be applied where feasible to the investment strategy.

The initial scope of the policy includes assets where the Trustee has control or significant influence over the investment mandate or solutions and where the Scheme has a contractual relationship with the manager. The ability to introduce exclusions to an investment strategy will be assessed on a case-by-case basis. Any strategies that are included within the Scheme's portfolio that do not fully align to this policy will be regularly monitored and, where possible, will become in scope when the mandate or index selection decision is up for renewal.

Widening the scope and implementation of the policy across the Scheme's portfolio will remain under review. The policy is treated as a 'living' document and, as such, will be continually reviewed and will evolve as data availability, ability to apply exclusions across certain asset types improves, and as the Scheme's investment strategy develops into the future.



Some assets may be excluded from the policy due to the nature of how they are invested or other challenges around the implementation. The following are examples of where this may happen:

Index-tracking mandates

Where the Scheme includes index-tracking mandates in its investment structure, there may not be the opportunity to apply the full exclusions policy, but there will likely be an opportunity to seek at least partial alignment. This is particularly true for funds that track non-customised indices (also known as 'off-the shelf indices'). In these instances, work will be done to ensure that there is at least partial alignment in the exclusions found in the index. The index selection process will be assessed on a regular basis, and any deviation from the exclusions policy will be considered as part of any future update to a strategy.

There may also be additional investment strategies where it is not feasible for the exclusions policy to be applied, such as where data is so nascent that exclusion criteria cannot be validated, where the exclusion would risk significant financial detriment for a specific strategy, or where access to the strategy requires an approach that has limited ability to apply an in-house exclusions policy. In some instances, eg, private markets, multiple issues may be present, and this will require further development to allow for a consistent approach to be applied across the portfolio.

What does exclusion mean?

An exclusion (sometimes also called 'divestment' if a company or asset is already in the portfolio) is a decision to not invest money with a company based on certain criteria.

This could be in the form of saying no to investing in companies that:

- Are deemed to be breaching international bans on certain products,
- Gain a significant portion of their revenue from a business activity which is deemed too risky,
- Gain a significant portion of their revenue from a business activity which we believe goes against the values of members,
- Are believed to be breaching global norms on how to do business

If a company or multiple companies are found to be doing any of the above, the Trustee will follow guidance from the UK Law Commission and ensure that any exclusion introduced would not harm the ability for the Trustee to act in the best interests of the Scheme's members over the long term

Appendix 2: Responsible Investment Policy continued

Appendix continued

Buy and hold/buy and maintain strategies

There are investment strategies that are designed to buy securities with the intention of holding them to maturity, where a forced sale may cause financial detriment. In these instances, the exclusions policy will be applied to restrict new purchases and to allow any remaining holdings to roll off as they mature, unless otherwise directed by the asset manager.

Cash Management

Currencies, cash, cash equivalents and money market funds which are held for cash management/ liquidity purposes will not be assessed for compliance with the exclusions policy due to the short-term nature of the holding.

Securities Lending

The exclusion list used by the service provider to determine the acceptability of collateral accepted as part of a securities lending programme used by the Scheme may not fully align with the exclusions policy as outlined here. As part of this process, in the event that the Scheme receives securities that are not aligned with the exclusions policy, it will work with the service providers to sell/limit exposure to/reduce exposure to the securities within an appropriate timeframe.

People's Pension exclusions

The assessment described above resulted in the following activities being deemed to be eligible for exclusion for assets in scope of this policy:

- Companies involved in the Controversial Weapons business.
- Companies which are deemed to be in breach of expectations of responsible business eg, UN Global Compact ('UNGC') Principles (see box 1).
- Companies involved in the tobacco-related business.
- Companies involved in thermal coal extraction and mining.
- Companies involved in unconventional oil and gas and Arctic drilling.

The extent to which these exclusions can be operationalised is likely to vary depending on data source and availability, external fund or index-level exclusion policies, and asset manager exclusion methodology. The Trustee therefore acknowledges that there may be slight differences in the application of this policy within the portfolio. The degree of alignment with this policy will form part of the ongoing monitoring of the portfolio and form part of the asset manager monitoring programme.

When assessing the ability to implement the exclusions the following criteria will be used:

Controversial weapons

Companies which are involved in the production of the weapon, key components of the weapon, or have significant ownership of or are owned by a company which is involved in the production of the weapon are in scope of this exclusion.

The following weapons form the basis of this exclusion:

Cluster Bombs, Landmines, Depleted uranium weapons, Blinding laser weapons, non-detectable fragments, and Incendiary weapons (white phosphorous).

UNGC violations and/or global norms violations

Companies which are found to be in violation of any of the ten principles of the UNGC are in scope of this exclusion. The Scheme acknowledges that data providers and asset managers may define controversies using a slightly different definition or include other standards, conventions, or principles. Different criteria for global norms violations will be accepted as long as violations of the UNGC are included within the methodology.



Tobacco

Companies classified as a tobacco producer or deriving 5% of their revenue from the production, distribution, retail, supply, and licensing of tobacco-related products are in scope of this exclusion.

Thermal coal

Companies deriving 10% of their revenue from the extraction/mining of thermal coal and its sale to external parties will be in scope of this exclusion.

Unconventional oil and gas and Arctic drilling

Companies deriving 10% of their revenue from sources such as oil sands extraction, shale energy extraction, and Arctic oil and gas drilling.

In addition to the exclusions in the funds which make up the investment profiles offered by the Scheme, the investment strategies of the self-select funds may also have different exclusions in place in order to align with the objectives of the funds.

For more information on the Ethical Fund, please see 'Our Ethical Fund in focus' webpage:

[Ethical fund - The People's Pension for Members](#)

For more information on the Shariah Fund, please see 'Our Shariah Fund in focus' webpage: [The Shariah Fund - The People's Pension for Members](#)

Box 1: The United Nations Global Compact ('UNGC') has developed a list of ten principles that act as minimum standards and fundamental responsibilities of being a responsible business.

The [ten principles](#) of the UNGC are:

Human rights

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.

Labour

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. the elimination of discrimination in respect of employment and occupation.

Environment

7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.

Appendix 2: Responsible Investment Policy continued

Appendix continued

Appendix 3: Net zero voting guidelines

Year	Voting guidelines	Focus sector(s)
Climate		
Directors – baseline expectations		
2025 onwards	<p>Where a company fails one or more of the following after three or more years of engagement:</p> <ul style="list-style-type: none"> TCFD reporting. Net zero ambition that is appropriate for their sector and market.⁴⁴ Short, medium, and long-term science-based emission reduction targets. A decarbonisation strategy in place, with a defined set of quantitative and qualitative actions to reach the emission reduction targets. <p>Vote against the entire Board</p>	<ul style="list-style-type: none"> All CA100 companies Banks⁴⁵
Directors – deeper scrutiny of key sectors for fossil fuel reliance		
2025	<p>If a company meets baseline expectations but does not provide sufficient disclosure with respect to:</p> <p>How it plans to align its capital expenditure and lending practices to net zero.</p> <ul style="list-style-type: none"> How material climate-related matters are incorporated into the financial statements (UK/EU only). How the auditor of the company has assessed the material impacts of climate-related matters (UK/EU only). How its lobbying activities are aligned to net zero. <p>Vote against the Audit Committee Chair (all markets) and the auditor (UK/EU only)</p>	<ul style="list-style-type: none"> Oil and gas Auto Steel Utilities Banks
2026	If the above remains unmet, vote against the entire Audit Committee	
Criteria for shareholder resolution⁴⁶ support		
2024 onwards	<p>Vote FOR climate-related shareholder proposals:</p> <ul style="list-style-type: none"> Supported by management, so long as the proposal is not vague, leading to the suspicion of greenwashing. Asking for enhanced disclosure on climate-related risks and opportunities, ideally in alignment with TCFD. Requesting the company to set reduction targets on their scope 1 and/or 2 emissions, and/or material scope 3 reduction ambitions. Requesting more transparency on corporate lobbying and membership of industry organisations. Submitting non-executive board member candidates who have relevant climate-related expertise and/or asking to increase relevant climate-related expertise at the board level where such knowledge is currently absent and where climate-related risks are material in the near future. 	<ul style="list-style-type: none"> CA100 companies Banks

44. And subject to the policy and economic and technological constraints as highlighted under the 'Company Expectations – Climate' section of this Policy.

45. Any reference to 'Banks' in the net zero voting guidelines will refer to those banks covered by TPI's banking tool.

46. As a general rule, the Trustee is supportive of well-crafted shareholder proposals that support the above-noted net zero voting guidelines but that are also not overly burdensome, a duplication of existing company actions and disclosures, or seeking to micromanage the company.

Appendix 2: Responsible Investment Policy continued

Menu



Year	Voting guidelines	Focus sector(s)
Deforestation and land use		
Directors		
2025 ⁴⁷	<p>If the company does not publicly demonstrate a commitment to end deforestation⁴⁸ in its supply chains or lending practices.</p> <p>Vote against the Chair</p>	<ul style="list-style-type: none"> • Sectors associated with agricultural-linked commodities • Banks
Criteria for shareholder resolution support		
2024 onwards	<p>Vote FOR shareholder proposals:</p> <ul style="list-style-type: none"> • Supported by management, so long as the proposal is not vague leading to the suspicion of greenwashing. • Asking companies to assess, monitor and disclose how they contribute to nature depletion via their own operations and supply chains. • Asking companies to assess, monitor and disclose their direct and indirect exposure to deforestation. • Asking companies to adopt a science-based deforestation target⁴⁹ • Asking companies to adopt policies and targets to improve the level of traceability in their supply chain. • Asking companies to develop and/or disclose the grievance mechanisms in place to deal with eventual incidents of deforestation in their own operations and supply chain. • Requesting more transparency on corporate lobbying and membership of industry organisations. • Submitting non-executive board member candidates who have relevant nature-related expertise and/or asking to increase relevant nature-related expertise at the board level where such knowledge is currently absent and where nature-related risks are material in the near future. 	<ul style="list-style-type: none"> • Sectors associated with agricultural-linked commodities • Banks

47. Voting escalation beyond 2025 will be updated subject to industry developments.

48. This escalation does not attempt to scrutinise the quality of the deforestation commitment eg, a no versus no net deforestation target – it is a presence/absence assessment. However, this baseline escalation trigger will be kept under review and will become more stringent over time with industry developments.

49. Example: SBTN/TNFD Joint [Guidance for corporates: Guidance for corporates on science based targets for nature v1.pdf](#)

Appendix 2: Responsible Investment Policy continued

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Appendix 3

Climate Change Position Paper

Climate Change Position Paper

March 2026



Contents

Introduction	3
Purpose of this position paper	3
<hr/>	
Part 1: Setting the scene – the fiduciary landscape	3
Understanding our risk landscape	3
Recent industry and policy developments	4
Applying a system-level investing approach	4
Literature Review	5
Potential actions and associated trade-offs	5
<hr/>	
Part 2: Strategic Framework	6
Net-zero ambition: our stance	6
Investment beliefs	6
Strategy	6
Reporting	6
<hr/>	
Appendix	7
References	8
Literature Review	9

Introduction

The People's Pension Scheme ('the Scheme') is a defined contribution (DC) master trust open to all UK employers. The Scheme has close to 7m members and is growing by more than £3bn in contributions annually. As an open and growing master trust, it has a long-term investment outlook. The People's Pension Trustee Limited ('the Trustee') acts as fiduciary over the savings held in the Scheme.

As a primary directive, this Climate Change Position Paper (position paper) has been developed to serve the Scheme's main stakeholders - its members. However, due to the technical nature of the position paper, the information contained on the Scheme's website may better serve their needs. The main audiences for the position paper are therefore likely to be Scheme's asset managers, other service providers (ie, data and index providers, investment consultants), policymakers, and investee companies.

This position paper should be read in combination with the Scheme's (i) Responsible Investment (RI) Policy, of which this position paper should be considered a subset; and (ii) Climate Progress Report, which provides further details regarding the Scheme's climate-related governance, strategy, risk management, metrics and targets, and is required to be updated annually.

Note that for the remainder of this Climate Change Position Paper, a first-person narrative (eg, 'we', 'our') will be used, which will refer to either the Scheme or the Trustee. The use of bracketed numbers (eg, [1-5]) after select sentences links to the appropriate references in the Appendix.

This position paper will be reviewed and updated at least every three years or following any significant change in approach, policy, or the demographic profile of members.

Purpose of this position paper

In our Responsible Investment (RI) Policy, we identify climate change to be a systemic ESG risk with the greatest potential impact upon member outcomes. The RI Policy broadly outlines how climate is embedded into its investment decision-making across its three strategic pillars: portfolio construction, stewardship and reporting.

As a subset to the RI Policy, this paper further clarifies how we integrate climate into investment decision-making to improve member financial outcomes. It: (i) defines the forms of climate risk relevant to a long-term horizon, diversified investor; (ii) sets out practical tools and trade-offs¹; and (iii) describes a proportionate framework for action. The scope is explicitly financial: climate is considered because, where material, it affects expected returns and risks.

Why a climate paper and not one for every long-term risk? First, climate combines physical and transition channels that can correlate across sectors and geographies, creating portfolio-level exposures that warrant a clear approach. Second, ambiguity in definitions, data and policy signals increases the risk of inconsistent decisions. For this reason, this paper codifies how we will treat climate alongside other risks within our market-driven investment philosophy.

1. Further details on trade-offs can be found in Part 2 of the RI Policy.

2. The duty to act in members' best financial interests is best seen as short hand for a range of fiduciary duties, most importantly: duty to exercise investment powers for proper purposes; duty to take account of factors which are relevant to these purposes; and duty to act with prudence.

3. To us as investors

4. In the round, recognising that climate change may be the exception to the rule on a case-by-case basis

Part 1: Setting the scene – the fiduciary landscape

Our fiduciary duty is to act in members' best financial interests.² Practically, that means identifying financially material³ risks and opportunities, taking actions that are effective and proportionate, and evidencing the rationale. Legal commentary across the UK/EU confirms trustees must consider financially material ESG factors, including climate risks, within prudent decision-making. [1–5]

Guidance such as the Legal Framework for Impact (United Nations Environment Programme Finance Initiative (UNEP FI)/ Freshfields) and the Institutional Investors Group on Climate Change's (IIGCC) fiduciary resources emphasises long-term portfolio stability where short-term returns create identifiable risks to enduring value. [6–7]

We apply a market-aware philosophy: in large, liquid markets we assume prices broadly⁴ reflect available information, so any deviations from market cap weights need to be considered carefully and with humility; in less efficient areas we allow for more discretion.

In navigating this fiduciary landscape, we use the following criteria when making investment decisions (hereafter referred to as MEPT criteria), and we document the criteria accordingly for significant climate-related decisions:

- **Materiality** (robust evidence the risk matters to returns or volatility for the exposure considered);
- **Efficacy** (the proposed action likely reduces risk or improves returns);
- **Proportionality** (scale of action commensurate with delivering maximum value against allocated resources); and,
- **Tracking Error** (deviation from the reference market portfolio, within budget).

Understanding our risk landscape

Definitions used consistently throughout the paper:

- **Climate dependency:** the effect of climate on the company
- **Climate impact:** the effect of the company on climate (eg, emissions)
- **1.5 vs Paris-aligned portfolio:** A Paris-aligned portfolio is an investment strategy designed to meet the goals of the 2015 Paris Agreement, which means limiting the global temperature increase to 'well below 2°C' above pre-industrial levels, while 'pursuing efforts' to limit it to 1.5°C. A 1.5°C portfolio target is the more ambitious goal and a specific, more rigorous form of a general 'Paris-aligned' strategy. Refer to Part 2 as to our specific position on this, which is more nuanced than what is being presented above. Therefore, these definitions are for reference purposes only.

Appendix 3: Climate Change Position Paper continued

- **Systemic versus idiosyncratic exposures:** economy-wide or multi-sector versus diversifiable or hedgeable.
- **Adaptation versus mitigation:** actions aimed at reducing dependency and improving resilience versus actions aimed at reducing impact and emissions.
- **Market mispricing:** a persistent gap between market price and fundamental value, where the former can represent either under or overpricing relative to fundamental value depending on the asset.
- **Systemic risk:**⁵ the potential for a single institution or sector failure to trigger a widespread collapse, spreading contagion through the entire financial system
- **Universal owner:** An institutional investor (such as a large pension fund or sovereign wealth fund) that has such a large, diversified, and long-term portfolio that it is, as a result, dependent on the wellbeing of the economy as a whole.
- **Transition risk:** risks that result from the transition to net zero, eg, money needed to shift from gas to solar energy.
- **Physical risk:** risks that result from more frequent extreme weather events causing disruption, eg, a flood stopping a factory from operating.
- **Liability risks:** risks that come from people or businesses seeking compensation for losses they may have suffered as a result of physical or transition risks. These may be third-party liabilities (ie, those seeking compensation for damages of physical risks) or direct liabilities (ie, those seeking compensation for financial losses).

Positioning within our market-driven investment philosophy

Climate-related exposures are assessed alongside sector, factor, and geography. As a well-diversified investor with universal owner characteristics, both climate dependency and impact are material to our approach.⁶ However, in alignment with our RI objectives and to avoid blanket conflation between the two, different implementation levers are used with no material financial detriment as a key underpin to both. Where climate dependency is particularly acute, underweights or exclusions may be justified if not fully priced in; where climate impact is the concern, stewardship is our key lever, holding our fund managers to account for their engagement objectives and escalation paths as outlined in our RI Policy. Understanding of physical and liability risks is still at a relatively nascent stage for both investors and investee companies relative to transition risk, and therefore stewardship is the key lever to address it.⁷

With regard to mispricing, evidence is mixed. Some studies and practitioner work suggest underpricing of climate risks due to disclosure gaps and policy uncertainty; others show instances of overpricing of so-called green exposures or outperformance by brown assets. We therefore avoid blanket claims and act only where MEPT criteria supports doing so, notably when tracking error is within budget. [8–11]

Potential actions are unpacked further in the next section.

Recent industry and policy developments

Policy: Since 2015, progress has been uneven across regions. The UNEP Emissions Gap Report 2025 finds that, even with full implementation of current national pledges, global temperature rise is projected at 2.3–2.5°C, and 2.8°C under current policies; an overshoot of 1.5°C is likely without faster cuts. The report implies uncertain timing for transition risks and cautions against binary policy bets. [14–17]. It also implies that a strict '1.5°C aligned' portfolio (with limited to no overshoot) will increasingly deviate from the market portfolio, which may impact risk budgets. However, some academic evidence suggests that progress towards meeting the Paris Agreement goals reduces portfolio risk and indeed likely increases portfolio values [13].

The muted policy response to date presents two divergent scenarios for the future. Firstly, a scenario where delayed action leads to a more severe policy action down the line. Alternatively, less policy action now could be indicative of chronic structural issues and tensions that may always place limits on a policy response, implying less policy response later. This poses a risk to any portfolio positioning that is predicated on either more or less policy response in the future and suggests disciplined position sizing is essential.

Markets: The strategic business case for the energy transition has varied considerably in strength through time. Relative performance and valuations of climate-aligned exposures have varied (eg, climate indices). There have been episodes of uprating of conventional energy stocks outside Europe and sustained volatility among transition leaders (eg, offshore wind). We therefore do not presume a persistent green premium and place emphasis on valuation discipline and risk control. [18–19]

World Energy Outlook 2024 highlights that delayed or inconsistent transition policies risk continued capital misallocation across energy and industrial sectors, increasing both physical and transition risks for investors. Clean energy meets virtually all growth in energy demand in aggregate, but policy uncertainty and uneven investment, particularly in emerging markets, can amplify risk asymmetries and repricing events. [23–24]

Applying a system-level investing approach

System-level investing is increasingly articulated as fiduciary-aligned practice: shifting the focus from single issuers to the wider systems (financial, environmental and social) that drive long-term portfolio performance, and using investor influence to improve market structures, policy and norms. Formal resources from PRI and TIIP, and academic and practitioner commentary, describe governance and resourcing models to operationalise this. [25, 27–29]

UKSIF, Scottish Widows, and Canbury propose a portfolio-resilience framework for systemic risks, emphasising that diversified asset owners should identify and address undiversifiable, cross-market risks and align stewardship,

5. Also referred to as "system-level risks" - both terms are used interchangeably in this position paper. Not to be confused with systematic risk - often called market risk or undiversifiable risk, which is the inherent, unavoidable uncertainty that impacts the entire financial market or a large segment of it. Caused by uncontrollable macroeconomic factors like recessions, inflation, or geopolitical events, it has overlapping characteristics with systemic risk, as both cannot be addressed through diversification alone, but they should not be conflated.

6. This emphasises the importance of prioritisation in our stewardship approach. For further details on this, please refer to the RI Policy.

7. Key focus areas are holding fund managers to account for improving company disclosures for the most material sectors and working with industry actors to improve investment tools to assess physical risk.

Appendix 3: Climate Change Position Paper continued

manager oversight and policy engagement accordingly. Rathbones argues that collaboration across companies and policymakers can strengthen system resilience and protect long-term portfolio value. [30–33]

What is our main business case for adopting a systems investing approach? This connects to our RI belief outlined in our RI Policy: being a well-diversified investor with universal owner characteristics means that we are dependent upon these wider systems to drive long-term portfolio performance. Systemic stewardship is the main lever by which this is implemented, which is outlined further in the next section.

Systemic stewardship and the investment case

Systemic stewardship (engagement across companies, financiers and policymakers) is emerging as a core lever alongside issuer-level engagement, particularly for well-diversified investors. The Net Zero Asset Owner Alliance calls for expanding investor engagement beyond single issuers to policy and sector or value-chain engagement and for aligning asset managers with asset owners' long-term interests, noting issuer engagement alone has limits. The Thinking Ahead Institute sets out the pillars of effective stewardship, with explicit focus on systemic-stewardship resourcing and coalition approaches. [34–36]

What is our main investment case for taking a systemic stewardship approach? Beyond the reasons outlined in the previous section, there is also a strong efficacy and proportionality argument (as part of our MEPT criteria). Climate change is a systemic risk that cannot be addressed by acting at the level of a single investment or company – therefore, prioritising our stewardship resources for engagement with policymakers and regulators and engagement across entire sectors (such as mining) or systems that span multiple sectors (such as food, water, energy or critical minerals) is deemed the most efficient approach to deliver maximum impact. We hold both ourselves and our asset managers accountable for this type of robust prioritisation. We acknowledge the above-noted trade-offs at a company level (refer to 'limitations to universal owner claims') [37, 38]. Refer to RI Policy and Principles 1 and 2 of the [Asset Owner Statement on Climate Stewardship](#) for further detail.

Literature review

We take into account both supportive and sceptical voices, including critiques of universal-owner assumptions and of portfolio-level net-zero targets that focus on financed rather than real-economy emissions, as highlighted by IIGCC's Net Zero Investment Framework (NZIF) 2.0⁸ [20–22]. Refer to the References and the Appendix for the literature review, which informed the contents of this position paper.

Potential actions and associated trade-offs

We consider a menu of potential tools we could employ and select case-by-case using MEPT criteria and the below noted trade-offs:

1. Investment Actions

- a) Rules-based, data-driven climate factor tilts are applied in index portfolios where there is reasonable evidence that these may improve risk-adjusted returns and are insufficiently priced by the market, to reduce exposure to

high transition dependency, sized within an appropriate risk budget. Other climate-related factors (eg, physical risk) will be considered for inclusion on an ongoing basis as data and financial materiality arguments improve.

- b) Targeted exclusions or underweights where dependency risk is deemed to be material and persistent to future returns and is also mispriced by the market, and exclusion does not create undue concentration or cost.
- c) Fundamental active decisions where managers have a demonstrable edge linking climate factor drivers to cash flows and valuation, with disciplined position sizing (alongside other investment factors)
- d) Non-index allocations (solutions or adaptation themes) only where return drivers are robust, valuations reasonable, and liquidity and sizing appropriate.

2. Stewardship Actions

- a) Prioritisation of industry and policy engagement (systemic stewardship approach) where there is a plausible pathway to improving the investment environment and a reasonable expectation of efficacy relative to cost. Refer to the RI Policy for further detail.
- b) Holding our fund managers to account for company-level engagement via focus lists where either (i) there is materiality in terms of climate risk posed to the portfolio and efficacy of the selected actions or (ii) the ask contributes to positive climate impacts but is neutral to returns. This approach aligns with our primary and secondary RI objectives. Refer to the RI Policy for further detail.

Trade-offs

1. **Tracking error:** departures from the market portfolio introduce performance dispersion. We budget for tracking error for climate tilts in the same way we do for other investment exposures and review outcomes; we avoid cumulating many small tilts that unintentionally exhaust the risk budget.
2. **Opportunity cost:** if climate-tilted factors de-rate or policy progress stalls, climate-aligned positions may underperform; conversely, abrupt policy shifts can penalise portfolios that ignore transition exposures. We manage path risks through sizing and diversification.
3. **Implementation and governance:** complex screens or bespoke indices raise cost and complexity; we favour simple, auditable rules and clear manager accountability.
4. **Limits to universal-owner claims (including taking a systemic stewardship approach):**
 - a). We avoid relying on blanket statements that all climate risks are material or non-diversifiable in every situation. Our framework recognises this and focuses action where it adds value. [12–13]
 - b). Addressing portfolio-level systemic risks may introduce trade-offs at a company level. To address this, we recognise that our investee companies can only pursue a net zero strategy insofar as technological, economical and policy constraints allow. Refer to the RI Policy (company expectations on climate) for further detail.

8. Emphasises focus on financing reduced emissions rather than only reducing financed emissions.

Part 2: Strategic Framework

Net-zero ambition: our stance

As a general yardstick for managing climate dependency and impact in the portfolio, we retain a Paris-aligned ambition, implemented bottom-up to reflect differences across markets, asset classes and sectors. Target setting will be pursued using this bottom-up guideline (investment strategy-led followed by target-setting feasibility assessments). This means we will no longer pursue a top-down '1.5°C aligned portfolio' (with limited to no overshoot) investment constraint.

Progress against this ambition depends on an enabling policy environment and company actions. Implementation will remain flexible, avoiding binary policy bets and focusing on risk-adjusted returns. We will outline these dependencies/barriers to progress in our yearly Climate Progress Report, which is broadly the same disclosure expectation we have of investee companies.⁹

Consistent with NZIF 2.0, our emphasis is on financing reduced emissions rather than solely reducing financed emissions; capital allocation to credible transition and adaptation opportunities will be evidence-led.

Investment beliefs

The core investment belief that drives our positioning is that climate risk is a systemic risk that cannot be eliminated through diversification alone.

In practice, this means:

- We manage left-tail risk with disciplined tilts and position sizing within a defined risk budget.
- Where mispricing exists, we will act, but we will avoid timing bets on policy or factor regimes.
- We do not adopt blanket divestment, notably in carbon-intensive sectors, which remain critical to the energy transition. Targeted exclusions or underweights may be used case by case, where climate dependency risk is acute. Refer to the RI objectives and beliefs section in the RI Policy (and Exclusions in the Appendix) for further detail.
- We will investigate the benefits of an investment strategy of favouring transition leaders within carbon-intensive sectors where fundamentals, valuations and evidence support downside protection and potential upside. Stewardship remains a core tool to drive real economy outcomes.
- We will focus on financing reduced emissions, not reducing financed emissions, to achieve real-world outcomes.
- We will evolve our scenario analysis¹⁰ in line with industry developments.

Strategy

The following are the guidelines we will implement at an investment strategy level:

Objectives first: In alignment with the RI Policy's primary objective, climate is integrated as a risk/return input alongside other factors; it does not override investment objectives. In practice, this means protecting member outcomes by addressing financially material climate risks while maintaining disciplined exposure to the reference market. We aim to reduce avoidable left-tail risks without making uncompensated bets on specific transition pathways.

Flexible and evolving: We apply the MEPT criteria in identifying the potential actions we will deploy as outlined in the previous section. We will review implementation (eg, tracking error budgets) at least annually and after major policy/market developments.¹¹ An illustration of how this works in practice is provided below.

MEPT in practice:

- **Materiality:** define the risk channel (physical or transition), identify exposures, assess financial relevance to the portfolio, and specify the time horizon.
- **Efficacy:** for tilts and exclusions, estimate risk reduction; for engagement, set asset objectives, milestones and escalation; for policy work, specify the target change and our leverage.
- **Proportionality:** scale actions to risk size and confidence level; avoid complexity that outweighs benefits.
- **Tracking error:** set and monitor risk budgets by asset class and mandate

Manager - led implementation: mandates set clear expectations on climate risk management,¹² including engagement objectives and reporting; we monitor delivery and escalate where needed. Refer to the RI Policy for further detail.

Systemic stewardship: we prioritise industry and policy engagement to strengthen market functioning and resilience, aligning asset manager activity with our long-term interests. Refer to the RI Policy for further detail.

Reporting

We will embed MEPT into manager guidelines and oversight and report annually¹³ on climate actions, including cases where we chose not to act due to insufficient materiality or efficacy.

9. Refer to RI Policy for further detail.

10. With respect to our Climate Progress Report in line with TCFD requirements.

11. RI Policy also highlights annual review – refer to Page 24 under 'Shareholder value'.

12. This includes reference to not compromising investment objectives in its pursuit.

13. Predominantly through our annual Climate Progress and RI Reports.

Appendix

Appendix 3: Climate Change Position Paper continued

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Appendix 3: Climate Change Position Paper continued

Literature Review

Introduction

This literature review was conducted by Canbury Insights Ltd, a sustainability consultancy. While not exhaustive, the purpose of this review was to gain an understanding of a wide spectrum of industry and academic voices that could help inform this position paper and to ultimately attempt to mitigate against unconscious bias in our decision-making. More specifically, in taking into account both supportive and sceptical voices, we can better understand the trade-offs inherent in any approach we choose to take and attempt to address them to the extent possible.

Research parameters

Timeframe: 2015-2025

Types of sources: Primarily academic, with practitioner/grey literature

Academic:

- Peer-reviewed journals
- Meta-analyses, systematic reviews, and industry reports

Practitioner/grey literature:

- Investor reports
- Think tanks and NGOs
- Consultancy and data providers
- Policy institutions

Research Categories

1. **Fiduciary landscape: integration of climate issues**
2. **Macro challenges in climate investing: market mispricing**
 - Global policy response
3. **Systems thinking: Climate change as a systemic risk**
4. **Systems thinking: use of systems investing approaches**
5. **Systems stewardship and the investment case**
6. **Other works not included in the overview**
 - Market mispricing
 - Paris alignment

Fiduciary landscape: integration of climate issues

Key points:

- **Climate risk is financially material, not optional**
- **Long-termism is now embedded in fiduciary expectations**
- **Universal ownership theory strengthens fiduciary expectations around climate**

The fiduciary landscape has developed to ensure that climate considerations form part of trustees' core duties and investment governance. The Financial Markets Law Committee Paper for Pension Trustees (2024) establishes that fiduciary duty requires trustees to assess all material risks to members' assets, including those related to climate change, as these risks affect the long-term sustainability of investment returns.

Legal practitioners are now central to clarifying fiduciary expectations. Sackers (2024) emphasise that trustees must integrate financially material ESG factors, including climate risks, within prudent decision-making. Dentons (Saunders 2025) further stresses, in analysis of the Mansion House Accord, that UK trustees must ensure any investments supporting national growth remain consistent with fiduciary duty and robust risk evaluation.

Legal commentary such as Colarusso-Kaperonis (2025) and Karamally and Franco (C2ES Report) shows that fiduciary frameworks in the UK and EU now embed long-termism, meaning that environmental and climate issues must be considered as financially material factors rather than discretionary concerns. In the United States, the interpretation of fiduciary duty remains contested. The C2ES finds that U.S. fiduciary obligations are gradually widening from a short-term financial focus to recognition of systemic climate risks, while the GRESB (2025) analysis highlights legal tension between fiduciary and antitrust frameworks as investors coordinate on climate action. Together, these sources show convergence toward the UK-EU view that climate risk is financially material and within trustees' duties.

The IIGCC Fiduciary Duties Report confirms that trustees may be required to prioritise long-term portfolio stability over short-term performance when short-term returns create identifiable risks to the enduring value of members' savings. The Legal Framework for Impact (UNEP FI & Freshfields 2022-25) provides a comprehensive cross-jurisdictional analysis of how law already requires investors to consider sustainability impacts where these affect financial outcomes. It identifies fiduciary duties as enabling, and in some contexts obliging, investors to act on climate and nature impacts.

Taken together, these sources confirm that integrating climate issues into fiduciary practice is a matter of legal and financial prudence.

Alongside this legal commentary, we can draw on universal owner theory (established by Hawley and Williams; drawn upon by Gosling and Quigley; applied to actual practitioners by AP7) to frame pension funds as large, long-horizon investors who cannot diversify away from systemic risks and externalities, making climate considerations material to their portfolio.

Appendix 3: Climate Change Position Paper continued

Additional evidence of fiduciary duty's expansion comes from Volans and the Generation Foundation's 2025 project on policy advocacy for systemic risk management. The initiative positions climate-related policy engagement as part of investors' legal duty to manage systemic risks, aligning with the Freshfields-authored Legal Framework for Impact, which concludes that investors may be required to pursue sustainability impacts when material to long-term returns.

Title	Author	Date	Type
Financial Markets Law Committee, FMLC Paper for Pension Trustees	FMLC	February 2024	Industry paper
Steering the "fiduciary duties" ship	Sackers	December 2024	Website article
The Mansion House Accord: balancing UK growth and fiduciary duty	Carolyn Saunders, Dentons	June 2025	Website article
The fiduciary's green thumb: reconciling fiduciary duty with sustainable investment in pension fund management	Kolarusso-Kaperonis	September 2025	Journal article
Redefining Fiduciary Duty: Climate Risk, Stewardship, and the Transition Imperative	Karamally and Franco, C2ES	August 2025	Industry report
Investor Climate Action Under Fire: How Fiduciary Duty and Antitrust Are Shaping the Debate	GRESB	October 2025	Industry article
IIGCC Insights: Fiduciary duties report offers clarity to asset owners on climate risk	Jane Murray, IIGCC.	15 February 2024	Industry article
A Legal Framework for Impact	UNEP FI & Freshfields	July 2021	Industry report
The Emergence of Universal Owners: Some Implications of Institutional Equity Ownership	Hawley and Williams	July 2000 – not within the threshold, but important foundation	Journal article
Universal Owners and Climate Change	Gosling	December 2024	Journal article
Universal Ownership in Practice: A Practical Guide for Asset Owners	Quigley	July 2020	Journal article
Universal Ownership: Systems thinking for asset owners	AP7	October 2025	Industry report
Mobilising investors to engage on real-economy policy for net zero	Volans	January 2025	Website article
Volans partnership summary – Fiduciary Duty and Policy Advocacy	Generation	February 2025	Website article

Counterpoints

While much recent commentary argues that climate considerations are now embedded within fiduciary duty, a parallel strand of legal scholarship cautions against expansive interpretations of fiduciary duty that some argue move beyond demonstrable financial materiality. Some authors state that treating climate as a core component of fiduciary duty may expose trustees to legal risk, particularly in jurisdictions where shareholder primacy remains dominant.

De Mariz et al. (2024) examine fiduciary obligations under U.S. and common law frameworks, finding that while ESG considerations may be permissible, they are not universally required unless a clear connection to financial performance can be demonstrated.

Hoyle (2023) similarly reviews recent fiduciary litigation and concludes that courts continue to apply a cautious and fragmented approach to ESG integration, suggesting that systemic or values-based climate objectives cannot yet be assumed to fall within trustees' core duties.

Ultimately, while climate risk is increasingly recognised as financially material, fiduciary duty remains fundamentally a legal duty grounded in case law and requires the Trustee to exercise its investment powers for proper purposes, which includes taking into account scheme-specific circumstances and relevant factors to reach a reasonable, justifiable investment decision. UK guidance (Law Commission) makes clear that trustees may consider environmental concerns as 'non-financial factors' under strict conditions and must avoid decisions that create a risk of significant financial detriment, leaving scope for narrower interpretations where materiality is contested (2017).

Appendix 3: Climate Change Position Paper continued

Even for long-term investors, the systemic nature of climate risk can paradoxically make financial materiality harder to demonstrate within conventional fiduciary frameworks, because the risk is diffuse, portfolio-wide and often realised through indirect or second-order channels rather than asset-specific losses.

Together, these sources challenge the view that fiduciary duty has fully converged around mandatory climate integration.

Title	Author	Date	Type
Fiduciary duty for directors and managers in the light of anti-ESG backlash	De Mariz et al.	2024	Journal article
The fiduciary's divestment dilemma: ESG and the age of climate change	Hoyle	2023	Journal article
Pension Funds and Social Investment	UK Law Commission	2017	Law Commission Report

Macro challenges in climate investing: market mispricing

Key points:

- Climate risks remain consistently and structurally underpriced
- Experts recognise mispricing, but markets still fail to reflect risks

Climate-related market mispricing remains a significant challenge in climate investing.

Eren, Merten and Verhoeven's BIS paper shows that climate risks are economy-wide, difficult to hedge and often underpriced because of incomplete disclosure and uncertainty about future policy responses. Campiglio finds that both physical and transition risks affect asset values and profitability but are still treated as diversifiable rather than systemic factors, leading to consistent undervaluation. The MSCI Climate Risk Outlook Study reports that while investors recognise these risks, integration into valuation and decision-making remains limited, resulting in a gap between awareness and market pricing. Bauer et al. (IZA Discussion Paper 17030) further observe that financial professionals continue to undervalue climate risks, showing persistent inconsistency between expert understanding and actual market pricing.

Together these findings show that climate risks remain systematically mispriced across markets, distorting capital allocation and undermining effective transition planning.

Title	Author	Date	Type
Pricing of climate risks in financial markets: a summary of the literature	Eren, Merten and Verhoeven. BIS	December 2022	Journal article
Climate-related risks in financial assets	Campiglio	July 2022	Journal article
Climate Risk Outlook Study	MSCI	October 2024	Industry report
Mental Models in Financial Markets: How Do Experts Reason about the Pricing of Climate Risk	Bauer, Gödker, Smeets, and Zimmermann. IZA	May 2024	Journal article

Counterpoints

Although much of the literature argues that climate risks remain systematically underpriced, some recent academic work presents an alternative view, suggesting that markets may price climate risk in complex and heterogeneous ways rather than ignoring it entirely. This literature questions whether observed outcomes reflect mispricing or instead represent rational risk premia shaped by uncertainty and disagreement.

Lontzek et al. (2023) develop an asset pricing model in which disagreement about climate damages and policy responses leads to variation in carbon risk premia across investors and assets. Their findings imply that climate risk can be priced even when outcomes appear inconsistent or incomplete. Fliegel (2025) provides empirical evidence that transition risk is reflected in equity prices over time, with green firms outperforming brown firms, indicating that markets respond dynamically to climate-related information rather than persistently underpricing risk. These studies challenge claims of uniform or structural mispricing.

Title	Author	Date	Type
Asset pricing with disagreement about climate risks	Lontzek et al.	2023	Journal article
Brown risk or green opportunity? Dynamic pricing of climate transition risk	Fliegel	2025	Journal article

Appendix 3: Climate Change Position Paper continued

Macro challenges in climate investing: global policy response

Key points:

- Weak, inconsistent, or unstable climate policy increases transition risks
- Current global policies fall short of transition pathways, embedding long-term risk

Global policy response is a major constraint on effective climate investing.

The OECD's Investing in Climate for Growth and Development report finds that inconsistent or weak national commitments deter private capital and increase transition risks, while coordinated policy action supports growth and resilience. The NBER Working Paper on Environmental Policy Uncertainty shows that unstable climate policy reduces clean technology investment and raises market volatility. The Too Hot to Think Straight, Too Cold to Panic report highlights that short political cycles and fragmented international coordination delay capital reallocation and weaken investor confidence. The World Energy Outlook 2024 confirms that existing policy trajectories fall short of 1.5°C goals, locking in physical and transition risks across sectors. Together these findings show that clear, consistent and coordinated policy frameworks are essential to enable investment and manage systemic climate risk.

Title	Author	Date	Type
Investing in Climate for Growth and Development	OECD	June 2025	Industry report
Does environmental policy uncertainty hinder investments towards a low-carbon economy?	Noailly, Nowzohour and van den Heuvel. NBER	August 2022	Journal article
Too Hot to Think Straight, Too Cold to Panic	Benayad et. al	March 2025	Journal article
World Energy Outlook	IEA	October 2024	Industry report

Counterpoints

Global policy uncertainty is often framed as a constraint on climate investing because it can weaken confidence in transition pathways and raise the risk of stranded assets. Some schools of thought complicate this picture by showing that uncertainty can also accelerate parts of the transition, particularly where it shifts relative expectations toward tighter future constraints or encourages substitution away from fossil exposure.

Pata (2024) analyses the United States using monthly data (2002 to 2022) and finds that climate policy uncertainty is associated with increased renewable energy consumption and an acceleration of the shift toward low-carbon energy sources, with the direction and strength of effects varying across quantiles and time horizons.

Bai et al. (2023) study Chinese A-share industrial firms (2011 to 2020) and find that climate policy uncertainty positively contributes to firms' green innovation, with stronger effects in non-state enterprises, energy-providing industries, and technology-intensive firms, operating partly through increased environmental regulation intensity and higher R&D investment.

Together, these papers act as effective counterpoints because they challenge the assumption that unstable policy environments primarily suppress transition activity, instead showing conditions under which uncertainty can catalyse innovation and renewable uptake.

Title	Author	Date	Type
Comparative impacts of energy, climate, and economic policy uncertainties on renewable energy	Selin Karlilar Pata	2024	Journal article
Climate policy uncertainty and corporate green innovation: Evidence from Chinese A-share listed industrial corporations	Dongbei Bai, Lizhao Du, Yang Xu, and Shujaat Abbas	2023	Journal article

Appendix 3: Climate Change Position Paper continued

Systems thinking: Climate change as a systemic risk

Key points:

- Climate impacts are economy-wide and unhedgeable
- Delayed transition policy locks in larger systemic risks

Climate change is a material and systemic financial risk with impacts extending across the economy and financial system.

The Bank for International Settlements' Green Swan Report (2020) identifies climate change as a source of complex and unhedgeable risks that cannot be captured by conventional financial models, with the potential to cause system-wide disruption if unmanaged. The IPCC AR6 Synthesis Report (2023) provides evidence that physical impacts and transition pressures from climate change affect productivity, asset values and financial stability across sectors.

The World Energy Outlook 2024 (IEA) finds that delayed transition policies increase physical and transition risks through continued capital misallocation in energy and industry sectors. Together these sources establish that climate change presents a systemic risk that must be addressed through integrated governance and investment strategies.

Title	Author	Date	Type
IPCC AR6 Synthesis Report: Climate Change 2023	IPCC	March 2023	Industry report
The green swan: Central banking and financial stability in the age of climate change	BIS	January 2020	Industry report
The IEA's World Energy Outlook 2024	IEA	16 October 2024	Industry report

Counterpoints

D'Orazio (2025) finds that while physical and transition risks are associated with weaker financial stability indicators, stronger climate-related financial policies improve resilience, including through lower non-performing loans and improved liquidity. This challenges the view that climate risks are inherently unhedgeable or unmanageable within conventional stability frameworks and instead supports the argument that institutions and policy settings materially shape systemic outcomes. Liu et al. (2024) provide a complementary counterpoint by showing, across listed banks in G20 countries, that climate policy uncertainty is associated with lower bank systemic risk, consistent with a "systemic risk reduction" channel where banks respond via greater climate-related disclosure and sustainable investments.

While climate change can create, present, large, systemic risk to investors, some financial impacts from climate change can depend on asset-level exposure, geography and adaptive capacity, meaning investors can reduce sensitivity through portfolio construction (ie, to increase portfolio resilience) and risk transfer. Recent NBER research shows that lowering spatial concentration and reducing within-portfolio correlation of hazards can materially reduce exposure to climate-related losses (demonstrated for wildfire risk), implying that at least some physical climate risk can be managed through diversification and structuring rather than treated as inherently unhedgeable (2025). This does not deny the systemic nature of climate change, but it weakens the claim by showing that some risk is heterogeneous and partially manageable and that realised impacts depend heavily on adaptive investment and policy frameworks.

Together, these studies do not deny climate risk, but they counter the strongest form of the systemic-risk claim in the existing literature by showing that (1) resilience can be built through policy and supervisory frameworks, and (2) policy uncertainty does not uniformly amplify systemic instability.

Title	Author	Date	Type
Climate risks and financial stability: Evidence on the effectiveness of climate-related financial policies	Paola D'Orazio	2025	Journal article
Climate policy uncertainty and bank systemic risk: A creative destruction perspective	Yulin Liu, Junbo Wang, Fenghua Wen, and Chunchi Wu	2024	Journal article
Adaptation using financial markets: climate risk diversification through securitization	Matthew E. Kahn, Amine Ouazad, and Erkan Yönder	2025	Working paper

Appendix 3: Climate Change Position Paper continued

Systems thinking: use of systems investing approaches

Key points:

- System-level investing is increasingly defined as fiduciary practice
- Strengthening system resilience protects long-term portfolio value

The fiduciary landscape is expanding to include systems-based approaches to investment as a means of managing long-term value and resilience. The PRI's *What is System-Level Investing?* defines this approach as shifting focus from individual firms to the wider financial, environmental and social systems that determine overall portfolio performance, requiring investors to influence market structures, policy and norms to manage undiversifiable risks such as climate change. UKSIF, Scottish Widows, and Canbury's *Systemic Risks: A Framework for Portfolio Resilience (2025)* argues that asset owners, in particular universal owners, should be thinking about and addressing systemic risk – and proposes a framework to do so. Rathbones' *From Risk to Resilience* report adds that long-term investors can protect value by collaborating with companies and policymakers to strengthen system-level resilience, turning systemic vulnerabilities into drivers of stability.

Together, these sources demonstrate that integrating systems investing into fiduciary practice supports the management of systemic risks and aligns with trustees' duty to safeguard the long-term financial interests of beneficiaries.

Title	Author	Date	Type
What is System-Level Investing?	PRI	October 2024	Website article
Systemic Risks: A Framework for Portfolio Resilience	UKSIF, Scottish Widows, Canbury	May 2025	Industry report
From Risk to Resilience	Rathbones	May 2025	Industry report

Counterpoints

Systems investing is frequently presented as a fiduciary response to undiversifiable risks such as climate change, with the aim of strengthening system resilience to protect long-term portfolio value. Some recent academic work provides a counterpoint by highlighting conceptual and empirical limits to this approach, including challenges around financial justification and the effectiveness of investor intervention.

Gosling (2024) proposes a two-part test for universal ownership arguments and finds that applying widely adopted climate objectives, such as limiting warming to 1.5°C, is difficult to justify on both components. It is uncertain whether that objective is financially optimal at the portfolio level, and even if it were, investors may have limited efficacy to achieve the desired system-level outcome. This challenges the view that system-level investing is straightforwardly fiduciary and reliably value-protective.

While systems stewardship is increasingly presented as part of fiduciary practice, some sources state that asset owners should be cautious about overstating their roles in managing climate-related 'system' issues. Sachs et al. (2025) distinguish planetary, economic and financial market risks, noting that these risks differ in time horizons, transmission channels and, crucially, who is mandated and positioned to respond; they also note that conflating categories can muddy accountability and lead to poorly targeted strategies. An implication is that asset owners can legitimately use stewardship to manage financial climate risks and to support wider resilience where it aligns with beneficiaries' interests but should pair this with clear internal decisions on risk appetite, asset allocation, manager mandates and escalation pathways, rather than relying on engagement as a catch-all route to addressing planetary and economic risks that may sit more squarely with public policy and other institutions.

Title	Author	Date	Type
Universal owners and climate change	Tom Gosling	2024	Journal article
Distinguishing Among Climate Change-Related Risks	Sachs, Hearn, Goldklang & Toledano	2025	Industry article

Appendix 3: Climate Change Position Paper continued

Systems stewardship and the investment case

Key points:

- System stewardship is becoming accepted as part of fiduciary duty
- Engagement across companies, financiers and policymakers is more effective than divestment alone

The fiduciary landscape increasingly supports systems stewardship as a legitimate and necessary investment approach for managing long-term value. Recent legal debate also reinforces the stewardship imperative. ShareAction's 2025 fiduciary-duty amendment to the Pension Schemes Bill seeks to codify trustees' responsibility to consider long-term, system-level factors—such as climate and social stability—when acting in beneficiaries' best interests. The proposal clarifies that prudence and loyalty encompass systemic-risk management, not just portfolio-level returns.

The Pensions for Purpose Systemic Stewardship Report finds that asset owners recognise the importance of addressing systemic risks such as climate change through stewardship but face challenges of fragmented approaches, resource constraints and weak alignment between asset owners and managers. It identifies stronger governance, clearer expectations and greater collaboration as key to effective systemic stewardship. McDonnell and Gupta's review of institutional investor strategies shows that investors can influence the fossil fuel transition through multiple levers, including engagement with companies, the financial sector and policymakers, rather than relying on divestment alone.

Title	Author	Date	Type
Pension Schemes Bill: Our Fiduciary Duty Amendment Has Been Tabled.	ShareAction	2025	Website article
Systemic stewardship – challenges & strategies for change	Pensions for Purpose, Robeco	March 2025	Industry report
Beyond divest vs. engage: a review of the role of institutional investors in an inclusive fossil fuel phase-out.	McDonnell and Gupta	December 2022	Journal article

Counterpoints

Some argue that systems stewardship is ultimately a duty of policymakers and regulators, not investors, because system stability (eg, climate resilience) is a public good that depends on enforceable rules, public investment and coordinated governance. UK Parliament analysis treats climate and environmental risks as cross-cutting governance challenges requiring public-sector coordination (2024), while the Grantham Research Institute (LSE) frames climate change as a systemic financial risk demanding macroprudential policy responses beyond firm-level action (2023). Oxford research on cascading climate risks further reinforces that these risks require national resilience planning and policy interventions that investors cannot substitute for (2025), and the academic literature highlights that market failures and missing markets make government action necessary to enable transition at scale (2022).

Title	Author	Date	Type
Climate and environmental risks: governance challenges	Jonathan Wentworth (UK Parliament)	2024	Government report
Climate-related systemic risks and macroprudential policy	Paul Hiebert and Pierre Monnin	2023	Industry Report
Towards UK Systemic Resilience to International Cascading Climate Risks: The Role of Infrastructure and Supply Chains	Nicola Ranger, Jasper Verschuur, Roosa Lambin, Mathias Weidinger, Gregory Briffa and Juan Sabuco	2025	Academic research report
Towards a carbon neutral economy: How government should respond to market failures and market absence	Nicholas Stern	2022	Journal article

Appendix 3: Climate Change Position Paper continued

Other works not included in the overview

Market Mispricing

Source	Summary
CFA Institute Research & Policy Centre – Carbon Emissions, Net-Zero Transition, and Implications for Equity Portfolio Risk (Campos et al.)	Links carbon emissions and climate-news flow to equity-risk metrics, showing pricing sensitivity to transition signals.
CFRAC External Advisory Committee Report – Key Themes 2023-2024	Summarises US public- and private-sector perspectives on managing climate-related financial risk and data needs.
US Senate Budget Committee – Testimony of Robert B. Litterman (Feb 2023)	Highlights the systemic nature of climate risk and the need for effective carbon pricing to mitigate fiscal exposure.
FCA, PRA, TPR & FRC – Joint Statement on Climate Change Adaptation (Oct 2021)	UK regulators define expectations for governance, disclosure, and adaptation reporting across financial sectors.
Robeco White Paper (2024) – Transition Investing: Exploring Alpha Potential	Presents a framework for capturing alpha from transition leaders rather than only 'green' assets.
LSE – 15 Years on from the Stern Review (2021)	Revisits the economic rationale for proactive climate policy and green growth; contrasts with persistent underpricing.
PRI – Financial Markets Are Mispricing Climate Risk (2019)	Argues markets rely on outdated scenarios and underestimate policy-response risk; introduces IPR framework.
Man Group – Climate News Anomaly (2023)	Identifies return premium linked to climate-news attention, showing under-reaction to information flow.
UK Cabinet Office – Forests and Climate Leaders' Partnership (COP27, 2022)	Coalition advancing forest and land-use finance as integral to global transition risk management.
UK BEIS – Net Zero Strategy: Build Back Greener (2021)	The UK's detailed policy roadmap for achieving net-zero; contextual baseline for investment analysis.
Bilal & Känzig (2024) – The Macroeconomic Impact of Climate Change	Empirically estimates GDP losses from global warming, reinforcing rationale for carbon pricing and transition.
Institute and Faculty of Actuaries & University of Exeter – Planetary Solvency (2025)	Integrates climate, nature, and economic risks into a solvency-style prudential framework.
Bank of England – Breaking the Tragedy of the Horizon (2015)	Foundational framing of climate risk as a financial-stability issue; introduces physical, transition, and liability risks.
IMF Blog – Further Delaying Climate Policies Will Hurt Economic Growth (2022)	Demonstrates macroeconomic benefits of early, credible climate policy versus delayed action.
Grantham Research Institute – Preventing a 'Climate Minsky Moment' (2022)	Examines prudential tools and exposure limits to mitigate systemic climate-transition risks.

Appendix 3: Climate Change Position Paper continued

Paris Alignment

Source	Summary
Inevitable Policy Response – Quarterly Forecast Tracker	Ongoing tracker of near-term climate policy developments across major economies. Quantifies expected force and timing of responses shaping transition pathways.
Climate Action Tracker – Net Zero Target Evaluations (Nov 2023)	Evaluates the integrity and credibility of national net-zero targets, highlighting ambition gaps and offset reliance versus 1.5°C pathways.
European Commission – The European Green Deal	Comprehensive EU strategy for climate neutrality by 2050 covering energy, industry, transport, and finance.
Carbon Border Adjustment Mechanism (CBAM)	EU policy introducing carbon pricing on imports to prevent carbon leakage and drive global pricing convergence.
United Kingdom Climate Change Commitments – 2035 NDC & Seventh Carbon Budget	Summarises statutory targets and carbon budgets guiding the UK's 2050 net-zero path under CCC oversight.
International Energy Agency – World Energy Outlook 2024	Global scenario analysis comparing STEPS, APS, and NZE trajectories; outlines the capacity to accelerate the energy transition.
Net Zero Tracker – Data Explorer	Aggregates data on net-zero commitments and integrity metrics for countries, regions, cities, and corporates.
LSE Grantham Research Institute – Why is Net Zero So Important?	Explains carbon budgets, the logic of net zero, and implications for climate stabilisation.
International Court of Justice – Advisory Opinion on Obligations of States (Cleary Gottlieb Insights)	Reviews legal proceedings on state obligations under international law for climate protection
Möller, Högner & Schleussner (2024) – Achieving Net Zero Greenhouse Gas Emissions Critical to Limit Climate Tipping Risks	Analyses interaction between tipping elements and mitigation feasibility; underscores urgency of net-zero targets.
Transition Pathway Initiative – State of the Corporate Transition 2025	Benchmarks corporate decarbonisation progress; finds most firms misaligned with 1.5°C pathways without stronger plans.

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