# INVESTING RESPONSIBLY WITH YOUR PENSION

Your workplace pension offers the Scottish Widows Pension Investment Approaches.

These are straightforward investment options you can choose between depending on the level of risk you are comfortable taking and how you want to access your savings in later life.

## WHAT DO THE PENSION INVESTMENT APPROACHES INVEST IN?

The Pension Investment Approaches are invested in the Scottish Widows Pension Portfolio Funds. These are made up of a mix of different types of investments, from lower-risk bonds to higher-risk equities (shares in companies), in different proportions according to the fund in question.

To access the different investments, the Pension Portfolio Funds invest in other funds managed by our appointed investment managers State Street Global Advisors, BlackRock and Abrdn.

## OUR APPROACH TO INVESTING

The way we invest on behalf of our customers can have an important role to play in building a sustainable future worth living in. This is because the money you're saving into your pension is likely to be predominantly invested in companies. And these companies have an impact on the world around us. So by investing in them so do we.

It's important to understand how companies behave in relation to the planet and people, and the way they're managed. These are known as environmental, social and governance factors – or ESG for short.

Our role is to deliver good investment outcomes to help our customers build their future financial security. Global challenges facing society today, like climate change, make our role even more important. So we're fully embracing responsible investment practices to allow us to manage risks and returns in a more effective way in the funds we offer to safeguard our customers' long-term savings.

This means we aim to prioritise investing in companies that are working hard on things like reducing their impact on the environment and improving people's wellbeing. And excluding those that are causing severe harm to the planet or society.

By investing in this way, it doesn't have to mean you're sacrificing investment growth. Research* shows that companies that are run in a sustainable way also tend to do well. They're typically better positioned to adapt to long-term challenges, such as climate change. And they're less likely to suffer falls in their value from scandals or fines, or because they have fallen out of favour with their customers or investors.

*ESG and Financial Performance, by NYU Stern Center for Sustainable Business and Rockefeller Asset Management

# WHAT ARE ESG FACTORS?

'ESG' stands for environmental, social, and governance. Certain factors within these three categories are used to inform decisions about the companies we invest in.

## ENVIRONMENTAL

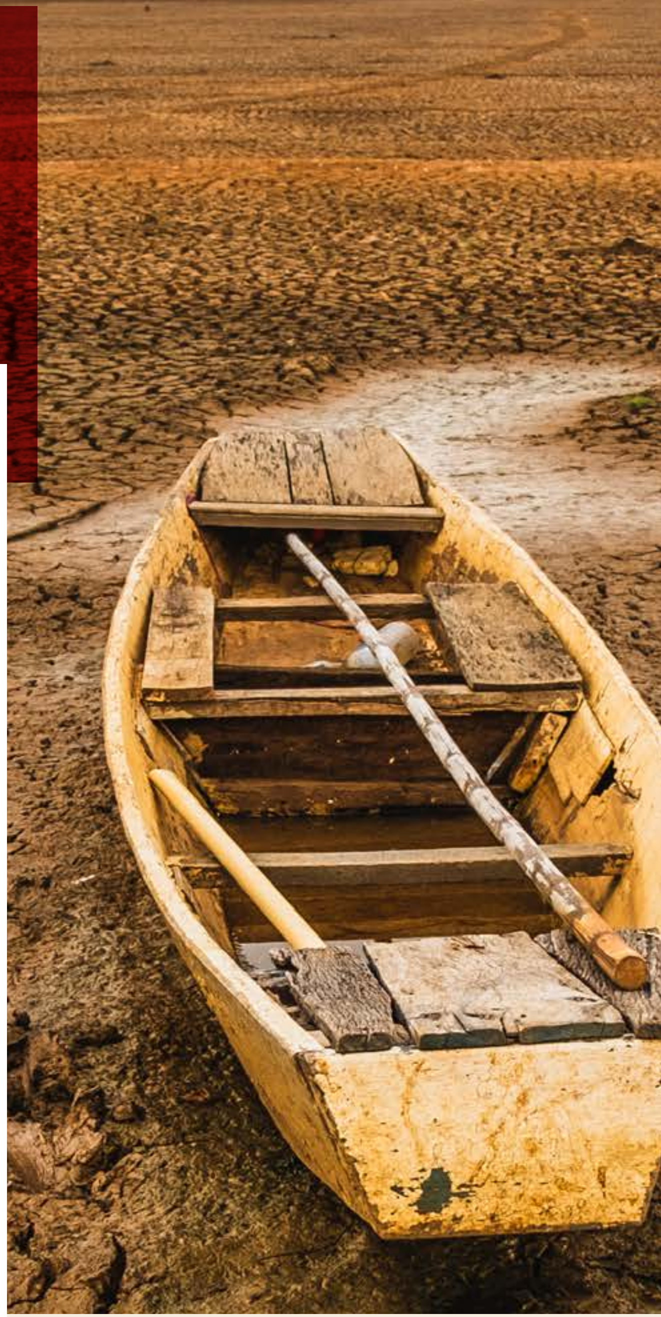
Environmental issues not only have a measurable impact on the world we live in today – they can also impact the world we will live in tomorrow. They include climate change, conservation of natural resources such as water and timber; extraction of fossil fuels including coal, gas and oil; waste management and pollution. Environmental issues also relate to activities aimed at helping nations transition to a low-carbon economy such as renewable energy production or electric vehicle manufacturing.

## SOCIAL

Social issues involve people – from a company's workforce to its customers and suppliers and the people living and working near its operations. They include labour relations, workers' rights and working conditions, slavery, child labour, workforce equality and diversity and health and safety. Social issues also concern the wider impact an organisation may have on communities at home or overseas and in areas where suppliers and partners operate.

## GOVERNANCE

Governance relates to the rules, practices and codes of behaviour that influence how a company is run. The quality of a company's governance can have a big impact on its ability to succeed, prosper and survive. It involves people issues as well as strategic, financial and risk management issues. This includes selection and skill sets of board members, diversity of board and leadership teams, succession planning and executive pay. It also covers financial reporting, anti-fraud, bribery and corruption measures, data privacy and security, political lobbying and donations.



We're investing where we can in companies we believe are better at dealing with ESG factors than others, and working with other companies we invest in to help them evolve into more sustainable businesses. We're also excluding companies which we believe present too much of an investment risk due to the nature of their businesses.

## HOW WE INVEST RESPONSIBLY

### INTEGRATE

Integrate ESG factors into our investment processes

### EXCLUDE

Exclude companies which present too much investment risk

### ALLOCATE

Allocate to ESG-positive investments

### ENGAGE

Engage with companies to drive positive change

# INTEGRATE

## We integrate ESG factors into our investment processes

Every year, our investment team looks at which investments – like equities, bonds and property – should be in our pension funds and in what proportions. This is known as asset allocation. To do this, they look at past and future potential economic scenarios to give them a view of how different types of investments might perform over a longer-term period of 10 years or more. As part of this process, the team takes into account the impact of climate change and other ESG factors on the investments.

## Taking account of climate change

Climate change is one of the biggest issues facing society today. We firmly believe investing in companies which are reducing their carbon footprint has the potential to deliver long-term positive investment outcomes.

So we're committed to gradually reducing the carbon footprint of our investments to net zero. Net zero refers to achieving a balance between the amount of greenhouse gas emissions, like carbon, produced and the amount removed from the atmosphere. We'll do this by investing in companies adapting their businesses to become carbon neutral and those developing climate solutions, such as renewable energy, low-carbon buildings and energy-efficient technology. We'll also reduce our investment in high-carbon-emitting companies.

We're doing this across all our investments, including the Pension Portfolio Funds. Our target is to halve the carbon footprint of Scottish Widows' investments as a whole by 2030, on our path to net zero carbon emissions by 2050 or sooner. This is in line with the scale and pace needed to meet the 1.5°C global warming objective of the Paris Agreement, an international treaty on climate change.

# OUR CLIMATE CHANGE TARGETS

## 2025

**Increase investment**
in companies adapting their businesses to be less carbon-intensive and developing climate solutions

## 2030

**Halve**
the carbon footprint of our investments

## 2050

**Target of net zero**
across the entirety of Scottish Widows' investments


Read our **Climate Change Approach ›**

Read our **Climate Action Plan ›**

# EXCLUDE

## We exclude companies which we believe present too much investment risk

We prefer to have a constructive dialogue with the senior management of companies we invest in where we believe they need to improve their ESG performance. If we simply exclude companies from our investments, we lose the opportunity to use our influence to help drive positive change.

But there are some companies involved in activities that have such a negative impact on the planet and society that we won't invest in them.

We're excluding certain companies that fail to meet ESG standards from our Pension Portfolio Funds across different types of investments.

**The equities funds exclude some or all of the below:**

- Companies which disregard international standards on things like human rights, slave labour, corruption and protecting the environment.
- Companies involved in thermal coal or tar sand extraction. This is because thermal coal and oil extracted from tar sands are two of the most $CO_2$ intensive fossil fuels. Their use is a significant contributor to climate change.
- Manufacturers of controversial weapons such as anti-personnel landmines, cluster munitions, and chemical and biological weapons. This is because the production and use of these weapons is against international conventions as they may cause severe harm to civilians during and after conflicts, and generate significant long-term health and safety effects on civilian populations.

In addition to the exclusion of certain companies from the equities funds, the Scottish Widows ESG Sterling Corporate Bond Tracker doesn't invest in companies involved in weapons, firearms, tobacco, fossil fuel extraction, power generated using fossil fuels, and violators of international standards on human rights, labour, environment and corruption.

This fund also won't invest in companies with poor ESG ratings or those embroiled in controversy around the social or environmental impact of their operations and/or products.

# ALLOCATE

## We allocate to ESG-positive investments

To do this, we're working with our appointed investment managers to develop climate-aware investment funds which have a bias towards investing in companies that are adapting their businesses to be less carbon-intensive or developing climate solutions, such as renewable energy, sustainable agriculture and pollution prevention.

## EXAMPLE

We've invested 20% of the equities portion of our Pension Portfolio Funds in the BlackRock ACS Climate Transition World Equity Fund. It invests in a broad range of global companies that are well positioned to maximise the opportunities and minimise the potential risks associated with the transition to a low-carbon world. It focuses on businesses that are decreasing carbon emissions, more effectively managing water and waste and developing clean energy technology.

# ENGAGE

## We engage with companies to drive positive change

We challenge the companies we invest in to behave more sustainably and responsibly for the long-term benefit of our customers. We don't think it's good enough to leave this crucial activity only to the investment managers we've appointed to manage our funds. So when we have a significant investment in a company, such as through our Pension Portfolio Funds, and have ESG concerns, we'll work with them directly to encourage them to change for the better.

Investing in a company brings shareholder rights to vote on its policies and how its business is managed – both areas that may affect the value of investments. We work closely with the investment managers of the funds which our Pension Portfolio Funds invest in to encourage them to vote in line with our ESG approach.

## Ever evolving

While we've made good progress on integrating ESG factors into our investments, we're continually evolving our approach. We'll be making further adjustments to help us in our aim to grow customers' pension savings while having a positive impact on the environment and society.

Read our
**Stewardship Policy >**

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Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Financial Services Register number 181655.

60637 05/22