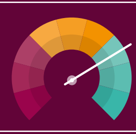
Annual Report of the Phoenix IGC

2022

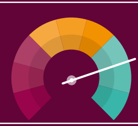
Do customers get good value for money? Yes*

Costs and Charges
Are the costs and charges you pay reasonable for what you get in return?

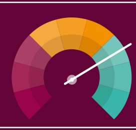
Investment Performance
How are your investments performing?



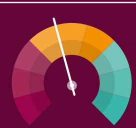
Investment Services
Are your investments well managed?



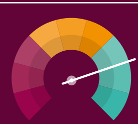
Customer Service
What is the quality of the service provided by Phoenix?



Communication and Engagement
How well does Phoenix communicate with you and keep you up-to-date with your pension?



Environmental, Social and Governance
Is enough allowance made for ESG considerations in how your pension savings are invested?



*Overall, we still believe Phoenix offers value for money, but there are areas where we believe this could be improved and we continue to challenge Phoenix on these areas.

Independent Governance Committee

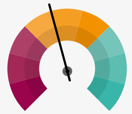
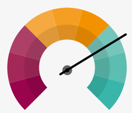
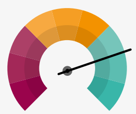
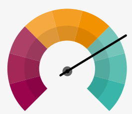
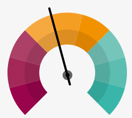
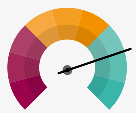
Welcome to this, the eighth annual report of the Phoenix Independent Governance Committee (IGC). This report is particularly relevant to you if you have a workplace personal pension plan provided by Phoenix Life Assurance Limited or Phoenix Life Limited (together, "Phoenix"). It provides you with important information about your plan and how to compare it with possible alternatives in the market. It also tells you what the IGC thinks of the value for money that you are receiving Readers who would prefer more of a summary view are encouraged to read the Value for Money Summary that can be found on the **IGC webpage**.

How to use this report. This report is written in layers, to enable readers to engage at whatever level of detail they want. We envisage that most readers will find the pages up to and including the Key Messages section sufficient, but hope that the structure of the more detailed sections makes it straightforward for those wanting more detail to get it. We would encourage all readers to consider if any of the Calls to Action on page 7 are particularly relevant to them.

Contents

Value for Money Summary

This dashboard gives you a summary of whether we think you are getting value for money from your pensions within the remit of the IGC. Much more information can be found in the pages that follow. Overall, we still believe Phoenix offers value for money, but there are areas where we believe this could be improved and we continue to challenge Phoenix on these areas.

Do customers* get good value for money?		**Yes**
Costs and Charges	Are the costs and charges you pay reasonable for what you get in return?	
Investment Performance	How are your investments performing?	
Investment Services	Are your investments well managed?	
Customer Service	What is the quality of the service provided by Phoenix?	
Communication and Engagement	How well does Phoenix communicate with you and keep you up-to-date with your pension?	
Environmental, Social and Governance	Is enough allowance made for ESG considerations in how your pension savings are invested?	

*when we refer to customer we mean those customers who are in-scope of the Phoenix IGC.

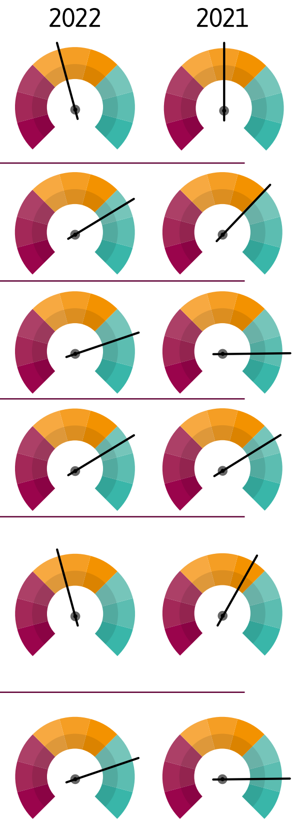
This report is for your information. You do not need to take action. However, we do recommend that you review your own pension arrangements on a regular basis and we hope this analysis helps you in doing so.

Value for Money Summary – What has changed since last year?

Why have some of the ratings changed?

In the pages that follow, we set out in increasing levels of detail, the results of the 2022 VFM analysis and what has led us to our conclusions. Overall, we still believe Phoenix offers value for money, but as described below there are areas where we believe this could be improved and we continue to challenge Phoenix on these areas. By way of "headlines", we would highlight the following:

Costs and Charges	We are disappointed at the lack of satisfactory progress on why 1% represents VFM for many customers given the options available on the market, despite our strong challenge to the business over the last 12 months.
Investment Performance	There was poor performance from some of the multi-asset funds in 2022. However, this needs to be balanced against strong performance in 2021 and good long-term performance versus inflation.
Investment Services	Oversight of key fund management relationships has been strengthened, with less reliance on external consultants, and regular views of funds have continued. We continue to have concerns over how long it can take to swap out of poorly-performing funds.
Customer Service	Quality of service is high, with 90% of transactions completed with target service levels. However, telephony service fell below targets on call answering and abandonment rates. A new digital app has been launched, which we welcome, and look forward to its limited functionality being addressed. Service levels are broadly in line with those of competitors.
Communication and Engagement	Rating has declined over the year since Phoenix's progress has not been sufficient to keep pace with rising standards and expectations across the market. As noted above, while a new digital app launched in 2022, it had only limited functionality. Implementation of our communication Fit for Purpose Protocol was slower than we had asked for. There were some good early initiatives for supporting vulnerable customers, updating of beneficiaries and 'tell us once' information sharing – but the pace of digital improvements remained slow.
Environment, Social and Governance	Improvements have been made to the already-strong policy and governance framework in place, and in the range of Responsible Investment funds available to customers. However, more needs to be done to widen choice and communicate the impact of ESG considerations at individual fund level rather than just at a more corporate level. Becoming a signatory to the Stewardship Code is an important external validation of the progress made.



As is our usual practice, we have set out a number of challenges to Phoenix for 2023, and these are set out in the next few pages. We have also highlighted a number of "Calls to Action" in areas which could prove worthwhile for some customers.

Value for Money Summary – IGC Challenges to the Firm

Key Challenges

The IGC has challenged Phoenix in the following areas:

Costs and Charges

- To review the charges customers are paying, given the alternative options available in the market and the lower cost funds available.

Investment Performance & Services

- To ensure that long-term pension fund performance remains ahead of high levels of inflation.
- To ensure that suitable processes are in place to identify and replace poorly performing funds with sufficient speed.

Customer Service

- To urgently improve the tracing of gone-away customers and standardise processes in line with the Phoenix Group.
- To continue to develop services for vulnerable customers.

Communication and Engagement

- To ensure all outsourced providers are utilising the Fit for Purpose Protocol.
- To improve the speed of rollout and the digital offering for Phoenix customers to ensure that they are not left behind other parts of the Group.

ESG and Stewardship

- To widen further the range of Responsible Investment fund choices available to customers, and enhance the climate risk management within the investment approaches.
- To enable customers to see more easily the beneficial impact on the environment and society of how Phoenix funds are invested.

Value for Money Summary – IGC Calls to Action for Customers

Customer Calls to Action

We strongly encourage you to review your pension plans in these turbulent times.

Costs and Charges

- Compare the charges you are paying with competitor charges. By taking action you could reduce them by over 25%.

Investment Performance

- Check you are comfortable with the types of funds you are currently invested in. Do they still fit with your appetite for risk?
- Are your retirement plans on course? If not, can you make any extra contributions to your pension?
- Review your planned retirement date. This may affect how your pension is invested when nearing your retirement date.
- If you are close to retirement, consider whether an annuity rather than income drawdown might be better for your future income.
- We recommend you seek guidance or independent financial advice to help you. If you're aged 50 or over, you can use the government's free Pensions Wise guidance service.

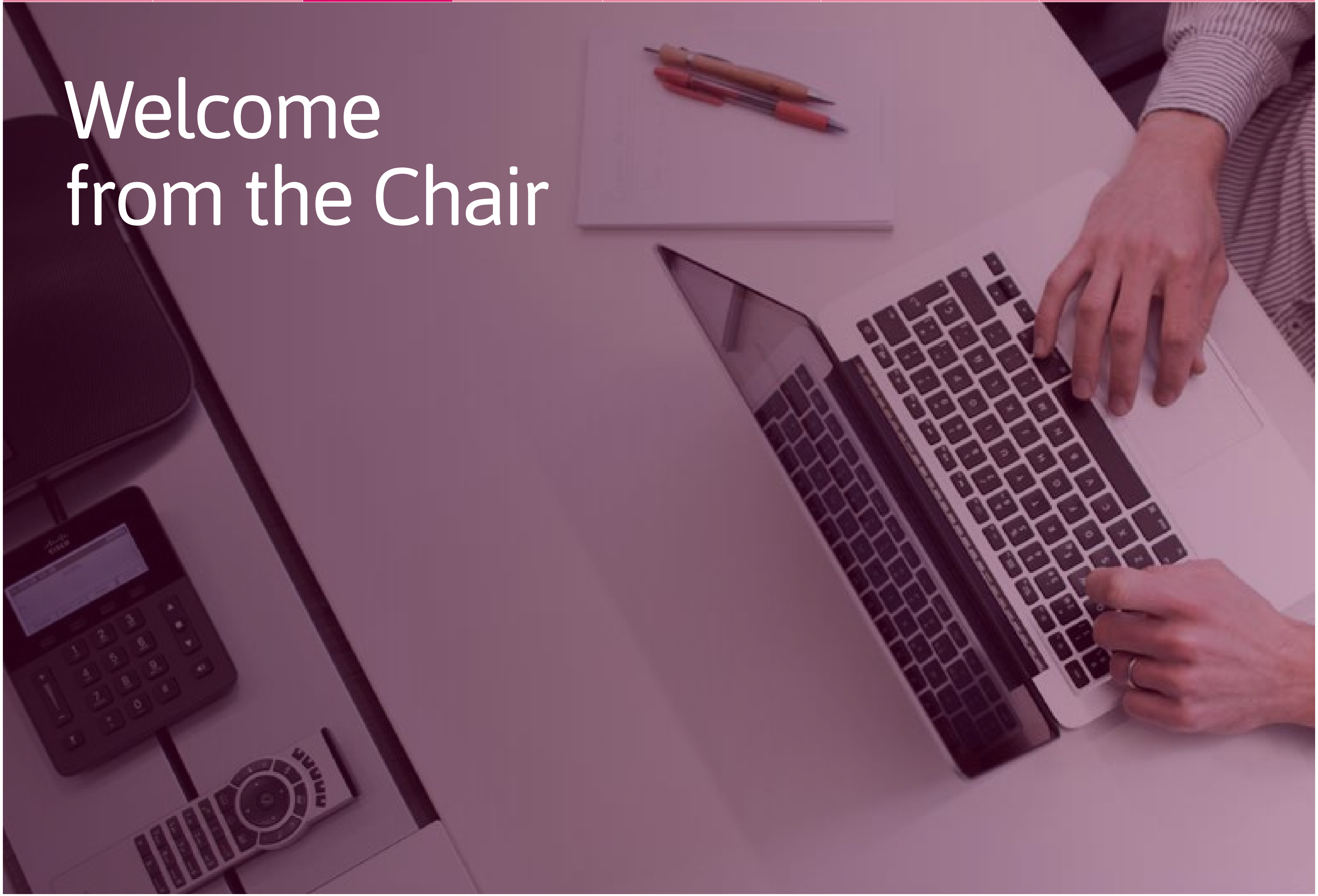
Customer Service

- Make sure your email address and all personal details are up to date, so you don't lose track of your pension savings.

Communication and Engagement

- We recommend you register for digital access and use it regularly to review your pension savings.

Welcome from the Chair



Welcome from the Chair

Welcome to this, the eighth annual report of the Phoenix Independent Governance Committee (IGC). This report is particularly relevant to you if you have a workplace personal pension plan provided by Phoenix Life Assurance Limited or Phoenix Life Limited (together "Phoenix"). It provides you with important information about your plan and how to compare it with possible alternatives in the market. It also tells you what the IGC thinks of the value for money that you are receiving.

There are other companies within the Phoenix Group that also provide workplace personal pension plans. They have their own IGCs, but with aligned membership across the Group. There are also other pension customers of Phoenix who are not within the remit of the IGC – predominantly holders of individual pension plans, rather than workplace arrangements. While some of our findings may be relevant to other portfolios of business within the Phoenix Group, the focus of this report is on what Phoenix is delivering for its pension customers within our scope.

There were a number of changes in membership of the Phoenix Life IGC during 2022 as part of a planned rotation in independent members and these are set out later in this report.

While some of the members may have changed, **the primary role of the Committee remains the same – to act solely in the interests of Phoenix in-scope pension customers and assess the value for money that you are receiving from your workplace pension plan**.

Assessing Value for Money (VFM)

The FCA (Financial Conduct Authority, the regulator which oversees the way pension providers like Phoenix treat their customers) wants to make it easier for IGCs to compare the VFM of pension products and services. To that end, they require that IGCs assess ongoing VFM by considering at least the following three factors:

- the level of charges and costs;
- investment performance; and
- the quality of services,

and how what is being provided compares with comparable options across the marketplace.

In order to support the FCA's intention, in last year's report, we mapped our existing VFM framework onto these three factors, but with some further subdivisions within the third factor in order to separately assess:

- communication and engagement;
- customer service; and
- investment services (e.g. default investment fund design and execution).

We have continued to use this approach for this year's assessment of ongoing VFM .

The IGC believes that "ongoing VFM " is fundamentally a forward-looking measure. Thus, of the following three questions:

1. Have you received VFM ?
2. Are you currently receiving VFM ?
3. Going forward, can you expect to receive VFM ?

our assessment is mainly addressing questions 2 and 3.

Of course, past performance is still important, since it determines customers' experiences to date and, in particular, the current size of your pension pot. However, past good performance is not a guarantee that VFM will be delivered in the future, nor is past poor performance a sign that VFM cannot be delivered going forward. Nevertheless, where we find:

- poor customer service which is not being addressed, or addressed quickly enough;
- charges that are out of line with appropriate comparators and which are not being reviewed and/or reduced; or
- poor investment performance (relative to the benchmarks set and/or relative to appropriate comparators within the industry) which is not being called out and the reasons for it being addressed quickly enough,

the IGC would see these as potential barriers to a "clean bill of health" as far as ongoing VFM is concerned. However, where past issues with an aspect of the pension proposition have been addressed and, looking forward, what is being delivered and at what cost, compares well with appropriate comparators across the industry, the IGC's assessment of ongoing VFM from that factor is likely to be positive.

More detail on the various components of each factor that we look at in forming our VFM judgements can be found **here**.

It is currently not possible to get the equivalent level of detail across the market. However, we do what we can to draw conclusions from what other IGCs publish in their annual reports, from the results of the benchmarking exercises that Phoenix takes part in and from our research of other publicly-available information. In particular, this year's analysis has benefited again from the results of a cross-industry comparison exercise that covered a high proportion of the contract-based workplace pensions business across the UK market.

The comparison gave helpful insights on how Phoenix performance compared with other providers across all the key VFM areas, and included contracts that are no longer open to new members as well as current contract designs. The IGC is grateful to Phoenix for willingly supporting our participation in this important cross-industry exercise.

Adding additional value as an IGC

It is now over 8 years since IGCs were introduced by the UK regulator. Over that time, we have developed what we believe is a robust and rigorous approach to assessing value for money. However, of necessity, the VFM judgements are high level and based on portfolio-level considerations. While we still believe such VFM assessments are worthwhile, as an IGC we are keen to go further and explore where our insights and additional challenge could further improve outcomes for the Phoenix customers within our scope.

To that end, we have added to the scope of our work with the introduction of additional thematic reviews designed to focus attention on areas of particular importance to particular groups of customers. Our aim is to either give comfort that any risk of potential harm to these customer groups is being appropriately guarded against, or to identify areas where Phoenix could do more to ensure good customer outcomes for these people. Out first area of additional focus concerns those customers expecting to retire over the next 18 months (which, at the time we started the investigation, comprised all of 2023 and the first six months of 2024).

Following the economic turmoil of 2022, the IGC felt that it was important to ensure that the retirement journey being provided to such customers appropriately reflects the new circumstances (e.g. higher interest rates, higher inflation and, possibly, smaller pension pots following the fall in investment values). The IGC is pleased to report that Phoenix has welcomed this additional review activity and, at the time of writing, is supporting it effectively. We will report on our findings in next year's report, as well as describe the further areas that we plan to investigate over the next year or two.

Cost of living crisis

The IGC is very conscious that we are publishing our report on 2022 at a time of continued economic stress and real worry for many of the Phoenix customers within our scope. While we hope that our VFM analysis and the targets that we place on Phoenix are of long-term benefit to you, we realise that many of you will have short-term pressures that you need help with. To that end, we are encouraging Phoenix to be as flexible as possible with requests from customers who are exploring their options.

We have been pleased to see the work that Phoenix has done over the last year to ensure that it does what it can to support customers through these difficult times. We receive regular updates on the various customer service and communication initiatives that have been put in place and continue to be developed. We are confident that Phoenix is doing what it can to be flexible with requests from customers who are exploring their options and to provide helpful guidance. You can find this material, and also pointers to other sources of information and guidance, on the Phoenix **website here**.

Purpose and structure of the report

The requirement on IGCs to produce an annual report, as well as the minimum content that it must contain, are set out in FCA rules and guidance. The IGC is fully supportive of the need for transparency around the work of the committee, particularly in providing enough information to enable relevant stakeholders to assess how thorough the VFM assessment has been. However, research carried out for the IGC in 2020 and again in 2021 confirmed that, the longer the report, the less likely customers are to engage with it.

In order to cover the detail required, but in as accessible a format as possible, we have again structured this year's report around three levels:

- Key Messages;
- Further Commentary; and
- Supporting Material,

and added in additional summary pages at the start. We expect that the content in the Key Messages section will be sufficient for many readers. However, we hope that the clear sign-posting, along with the embedded links between the different levels, will enable you to engage with the material at whatever depth works for you. For those readers who would prefer more of a summary, we have also produced a separate, IGC Value for Money Summary, drawn from the early sections of this report, which is available on the **IGC's webpage**.

Our VFM assessment considers all of Phoenix Group's pension products, those that continue to be on sale to customers (open products), and those products that are no longer on sale (legacy products). We look at Phoenix Life's open products against comparable open products in the market and their legacy products against comparable legacy products from other providers where Phoenix Life generally compares well. However, we are yet to reach a satisfactory conclusion with Phoenix Life on whether legacy products should be compared with open products where the IGC is concerned that legacy products offer less value for money. We will continue these discussions urgently over the next year and continue to seek clarification from the regulator on their rules and guidance on this question.

We are keen to hear what you think – about the report, the additional summary, or any aspect of our work. Please do get in touch .
with us at **www.phoenixlife.co.uk/about-phoenix-life/independent-governance-committee**. Many thanks for reading our report.

IGC Independence and Membership Information

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Current membership

Dr David Hare – Chair, Independent

Maggie Craig – Independent Member (from January 2023)

Andrew Davies – Independent Member (from September 2023)

Rachel Haworth – Independent Member (from August 2022)

Andrew Milligan – Independent Member (from July 2022)

Steven Blight – Company Nominee

Rona Cameron – Company Nominee (until September 2023)

Members during 2022

Jo Hill – Independent Member (from July 2022 until September 2023)

Ingrid Kirby – Independent Member (until September 22)

Venetia Trayhurn – Independent Member (until December 2022)

Changes of Membership

There were a number of changes of membership during 2022, as part of a planned rotation of the independent members. As noted in last year's report, Sheila Gunn reached the end of her tenure on the Committee as an independent member in January 2022, and the Committee operated with five members until two new independent members, Jo Hill and Andrew Milligan, joined in July 2022. Another new member, Rachel Haworth, joined the Committee in August 2022 in anticipation of Ingrid Kirby's retirement from the Committee in September 2022. The final change last year was in response to a request from Venetia Trayhurn to stand down from the Committee before her term was up because of other workload pressures elsewhere. We were sorry to lose Venetia's input but understood fully the need to maintain a balanced workload. We were pleased to welcome Maggie Craig as a new independent member with effect from the start of 2023.

There have been two changes in membership to date this year. Rona Cameron has decided to step down from the IGC as the Company Nominee as of September 2023. Following Jo Hill's decision to return to a full-time Executive career, she is having to stand down from the IGC in September 2023, to be replaced by Andy Davies, an experienced pension professional. We now anticipate a period of stability in the independent membership of the Committee, at least until the current Committee Chair reaches the end of his term in September 2024. For further information about the Committee members please **click here**.

Independence

The role of the IGC is to make sure that customers are getting value for money from their provider. It is therefore crucial that we are independent. We maintain our independence in a number of ways. We make sure that there is a majority of independent members on the Committee and that company nominees do not have a direct link to any areas they are scrutinising. The two nominee members were selected to bring valuable in-depth Phoenix policy-specific knowledge and understanding to the work of the Committee. In addition, both employee members were provided with side letters to their employment contract which made it clear that, when acting on the IGC, they must act solely in the interest of the in-scope policyholders and put aside the commercial interests of Phoenix. We also instruct independent consultants to carry out research on our behalf to ensure that in-scope customers are getting value for money from their provider.

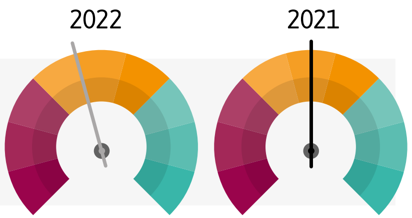
Competence

Members of the IGC are selected for the skills and experience they can bring to the Committee. In order to ensure we function appropriately, we carefully map the expertise required to provide robust oversight and then seek members who fulfil those criteria. For more information about how members of the Committee are selected please **click here**. We also undertake regular training to ensure that as a committee we maintain the expertise necessary to represent customers.

Key Messages

Key Messages

Costs and Charges



Overall, the IGC has given Phoenix a rating of AMBER for costs and charges for the following reasons:

- Phoenix has a maximum **ongoing charge** of 1% per year that is in line with charges amongst other providers of older style 'legacy' products. We have always believed that charges over 1% do not represent value for money (unless you have additional valuable benefits or selected particular funds). The assessment of value for money for the charges you pay is now primarily focused on comparing the charges of reasonable comparators and as such we believe the majority of you could get better value for money for the following reasons:
  - there are lower cost products available in the new business market;
  - there may be lower cost options available to new or certain existing customers of the Phoenix Group; or
  - some of you may have access to lower cost fund options with a current employer scheme.

We have strongly challenged Phoenix on why they view the level of charges being paid by some customers as providing value for money, given the comparators in the market and the alternative funds they themselves offer. Despite this challenge being made over 12 months ago, and a number of discussions on the topic since then, at the time of writing, the IGC continues to wait for a satisfactory response on this challenge.

However, we should also note that some of you pay significantly less than 1% or may have additional valuable benefits that are unavailable elsewhere.

- **Transaction costs** have been benchmarked using industry surveys and, although they are slightly higher than peers, we are comfortable that they remain reasonable. Phoenix's processes for monitoring and the quality of the reporting of this information to us has continued to be of a high standard over the year.
- We continue to monitor the processes that Phoenix has in place to review **other charges** made for protection benefits, with-profits guarantees and where you may pay more than 1% per year because you have selected particular funds. We continue to be comfortable that these represent value for money.
- All of you now have either no **exit charge** or an exit charge capped at 1% of the fund value.

Key Challenge for 2023

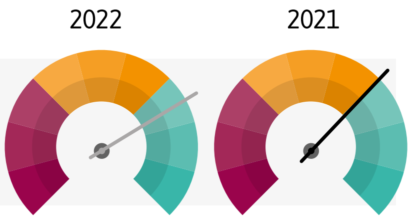
- To review the charges customers are paying, given the alternative options available in the market and the lower cost funds available.

Customer Call to Action

- Compare the charges you are paying with competitor charges. By taking action you could reduce them by over 25%.

Key Messages

Investment Performance



Overall, the IGC has given Phoenix a rating of GREEN for Investment Performance, for the following reasons:

- The multi-asset funds in which most of you are invested generally delivered poor returns in 2022, although that has to be seen in the context of the strong returns in the previous year. Over the long-term, investment pots continue to grow at a reasonable rate compared with inflation.
- The majority of your funds are performing in line with the benchmarks which have been set for the investment managers.
- A benchmarking assessment carried out by an external consultancy concluded that the design of your funds means that they should be able to achieve a good outcome for members.
- Nevertheless, we remain concerned about the medium-term performance of many of your funds. Less than half of all available funds were ranked in the top half of the table against similar competitor funds over all the time periods we look at. This continues the poor trend seen for several years.
- On balance, the IGC considers that your fund managers have done a reasonable job in relation to the investment briefs which they had been given, bearing in mind that 2022 was a particularly difficult year for investors due to the series of major economic and financial shocks resulting from the Russian invasion of Ukraine and the surge in inflation.

Key Challenges for 2023

- To ensure that long-term pension fund performance remains ahead of high levels of inflation.

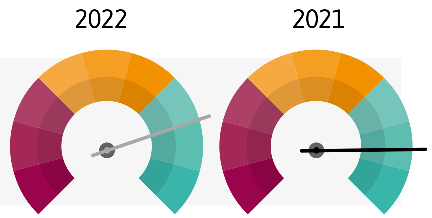
Customer Calls to Action

- Check you are comfortable with the types of funds you are currently invested in. Do they still fit with your appetite for risk?
- Are your retirement plans on course? If not, can you make any extra contributions to your pension?
- Review your planned retirement date. This may affect how your pension is invested when nearing your retirement date.
- If you are close to retirement, consider whether an annuity rather than income drawdown might be better for your future income.
- We recommend you seek guidance or independent financial advice to help you. If you're aged 50 or over, you can use the government's free Pensions Wise guidance service.

Key Messages

Investment Services

Overall, the IGC has given Phoenix a rating of GREEN for Investment Services, for the following reasons:



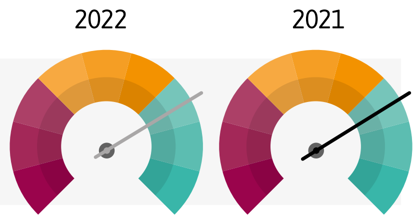
- We see continuing evidence of ongoing reviews of fund managers and the briefs they have been given, and changes being implemented.
- There is less reliance on external consultants as the Manager Oversight team has been strengthened.
- Actions are underway to implement Phoenix's Responsible Investment Policy in funds where Phoenix controls the mandate.
- However, the IGC has been concerned on occasion at the length of time it has taken for poorly performing funds to be replaced with suitable alternatives and will monitor this issue into 2023.

Key Challenges for 2023

- To ensure that suitable processes are in place to identify and replace poorly performing funds with sufficient speed.

Key Messages

Customer Service



Overall, the IGC has determined a score of 32 out of 42 (76%) and a rating of GREEN for the customer service element of value for money for the following reasons:

- The vast majority (just under 90%) of transactions were completed within their target time.
- Service quality is high – quality metrics have been met or exceeded during the year and customer satisfaction scores are high.
- Telephony teams did not meet their targets for call answering and abandonment for some of the year due to some resourcing issues and increased volatility in call demand. Phoenix has worked with its outsource partners to resolve these issues and the position improved towards the end of the year.
- Bereavement claims and complaints handling remained areas of challenge (as in previous years) and not all internally set targets were achieved. While individual impact may be significant, very few customers overall are affected. Phoenix has taken steps to improve processes, and the IGC recognises that it may take some time for this to have an impact on the metrics.
- Phoenix is working with its outsource partners to embed its new standards regarding customer vulnerability which will support an improved experience for these customers.
- Some progress has been made in offering digital services to more customers including launching the Phoenix App (albeit with limited functionality), which was a key challenge for 2022.
- External benchmarking has assessed Phoenix's services as broadly aligned with other legacy providers.

Key Challenges for 2023

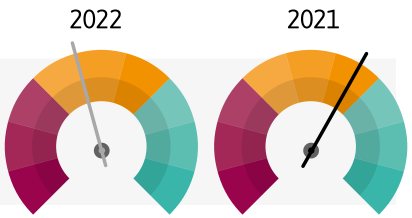
- To urgently improve the tracing of gone-away customers and standardise processes in line with the Phoenix Group.
- To continue to develop services for vulnerable customers.

Customer Call to Action

- Make sure your email address and all personal details are up to date, so you don't lose track of your pension savings.

Key Messages

Communication and Engagement



Overall, the IGC have given Phoenix a rating of AMBER for communication and engagement this year, for the following reasons:

- The MyPhoenix App launched for members in October 2022 allowing read-only access to pension information. Whilst we welcome this development, it remains disappointing that members cannot yet make changes to their pensions via the app. It is a similar story with the MyPhoenix website where 38,686 customers still do not have access to a digital offering and those that do have limited opportunities to transact online.
- In 2021 we set Phoenix the challenge to ensure that everyone involved in preparing communication material for IGC in-scope customers (whether that be letters, emails, website updates or information to be provided over the phone) was trained on how to use and complete our 'Fit for Purpose Protocol'. This is a questionnaire designed to ensure that all workplace pension communications from Phoenix are fit for purpose, taking into account customers' needs and objectives. It was disappointing that, by the end of 2022, this was still not fully implemented with all of Phoenix's outsourced providers. Phoenix confirmed at the end of Q1 2023 that the Fit for Purpose protocol had now been implemented across all outsource providers.
- The IGC called for a greater pace in the delivery of enhanced communications by Phoenix and its outsourced providers during 2022. Whilst there have been some excellent early initiatives to improve digital engagement and accessibility, including the development of forms to allow members to take action with their pension by providing all the necessary information the first time, a support hub for vulnerable consumers and the opportunity to update beneficiaries, the pace of development of a digital offering remains too slow and Phoenix are falling further behind comparable organisations.
- We are supportive of the recommendations of Phoenix' independent retirement research which recommends putting the customer needs at the heart of communications to produce clear simple, actionable communications at the point of retirement which help members manage taking their retirement income and welcome the actions Phoenix is proposing to take.

Key Challenges for 2023

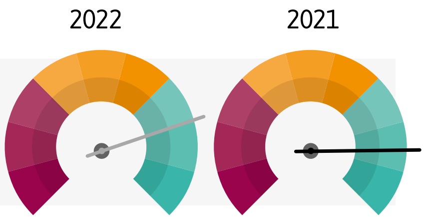
- To ensure all outsourced providers are utilising the Fit for Purpose Protocol.
- To improve the speed of rollout and the digital offering for Phoenix customers to ensure that they are not left behind other parts of the Group.

Customer Call to Action

- We recommend you register for digital access and use it regularly to review your pension savings.

Key Messages

ESG and Stewardship



Overall, the IGC has given Phoenix a rating of GREEN for its approach to ESG and Stewardship in relation to your pension savings for the following reasons:

- Phoenix continues to have a strong **policy framework** that sets out clearly how ESG and Stewardship considerations should be taken into account in investment decisions that impact customer outcomes. The policy framework covers factors that can influence the financial return from investments, but also recognises that some customers may wish to have their ethical, non-financial, values reflected in how their pension savings are invested. During 2022, the policy framework was strengthened in a number of ways, most notably through the introduction of a **Voting Policy** as part of a suite of measures to increase the impact that Phoenix Group (and hence Phoenix) can have over the companies that your savings are invested in.
- The policy framework is backed up by a **strong governance framework**, to ensure that the policy intentions are carried out. All investment decisions that Phoenix takes are required to meet certain minimum ESG standards. This framework was strengthened and deepened during 2022, and there are plans to further strengthen it to ensure it keeps pace with evolving regulatory requirements going forward.
- During 2022, significant progress was made on extending the amount of reliable and relevant data available to Phoenix and the wider Phoenix Group in order to assess progress on their climate change targets and inform relevant decision-making. This data is key to the work of the team that oversees the investment decisions carried out on Phoenix's behalf by its external fund manager partners and the extent of scrutiny on ESG and Stewardship activity that they carry out. The data will also form a key foundation for the implementation of the Voting Policy developed in 2022.
- Phoenix Group carries out regular research on what customers want regarding ESG investment choices and the findings are used to inform the range of funds made available to you. In July 2022 , following preparations in 2021, a range of 6 "low carbon" investment funds were made available to Phoenix customers who wish to self-select specific areas of equity investment in a climate-oriented way.
- Phoenix continues to **improve the visibility of its ESG and Stewardship** activities to you as customers. It is also continuing to take more of a leadership role in the industry, championing good practice in this important area. A key development in 2022 was the preparation of Phoenix Group's first application to become a signatory to the UK Stewardship Code. At the time of writing, it has recently been announced that the Financial Reporting Council (FRC) has accepted Phoenix Group as a signatory. This represents important external validation that Phoenix Group, and Phoenix in particular, are doing what they are claiming.

In last year's report, we set out two key challenges for Phoenix, and the wider Phoenix Group – to communicate better the impact on the environment and society of Phoenix's Responsible Investment activity, and to widen still further the range of Responsible Investment funds available to you. In terms of the former challenge, Phoenix Group's publications in this area still focus at a more corporate level rather than showing the difference at an individual fund level. Fund-level impact reporting was introduced for one of the commonly-used Standard Life workplace pension funds in 2022 and the IGC is keen to see this extended. Nevertheless, the IGC recognises the quality and value of the reporting that has been published, and the huge amount of effort that has been put into its development – both in terms of the commitments that have been made and the sourcing of robust data in order to evidence progress against them. The Phoenix Group 2022 Sustainability Report is available **here** and the Phoenix Group 2022 Climate Report is available **here** and both are worth reading.

Key Challenges for 2023

- To widen further the range of Responsible Investment fund choices available to customers, and enhance the climate risk management within the investment approaches.
- To enable customers to see more easily the beneficial impact on the environment and society of how Phoenix funds are invested.

Further Commentary

Further Commentary

Costs and Charges

Further Commentary

Costs and Charges

What we look for

A number of costs and charges may apply to your plans and include:

- charges deducted on an ongoing basis (**'ongoing charges'**); and
- deductions to cover the costs of buying and selling the investments within the plans called **'transaction costs'**.

Some of you may have other benefits or services on your plan – certain guarantees that apply to with-profits investments; protection benefits e.g. life insurance or waiver of contribution cover; specialist investments, or advice from an adviser. Customers typically pay extra for these benefits through **'other charges'**. Additionally there may be an **'exit charge'** deducted from the value of a plan if it is transferred to another provider.

In determining whether the costs and charges you pay provide you with value for money, our primary driver (in line with Financial Conduct Authority (FCA) rules) in the assessment is against reasonably comparable scheme comparators that are available to you. These comparators can be within the Phoenix Group as a whole or available in the wider open market. We have always believed that ongoing charges greater than 1% per annum do not represent value for money unless there are associated additional benefits as described above. Given comparators we have seen in industry surveys, and alternative options available within the Phoenix Group that are priced at 0.65% per annum, with charges significantly lower than what the vast majority of you are currently paying, we have challenged Phoenix to provide us with more evidence around why they still hold the view that a 1% per annum threshold for charges provides value for money.

Whether a customer will receive better value by taking those lower cost options can be a complex decision as value depends on benefits received as well as the costs. What is critical is that customers are aware of and regularly review their options and we would encourage all of you to do so.

We expect **transaction costs** to be within normal market ranges or, where they appear materially higher, to understand why this is the case and any action taken to offset the impact on customers. Where customers pay other charges for other benefits and services, then we consider this to be reasonable provided customers know that they are paying for those **other charges**, understand (and still need) the benefits or services, and receive adequate communications. We also look to see that these other charges are reviewed periodically to ensure that they remain appropriate.

We are concerned if **exit charges** are above 1% of the value of the plan.

Ongoing Charges

Ongoing charges remain in line with what we have seen in previous years, with the vast majority of you paying no more than 1% per year in ongoing charges and some of you paying less, as shown in the table below.

Total member charge	Number of workplace and former workplace personal pension members	Percentage	Assets under Administration (£m)	Percentage
1.01% to 1.50%	532	0.6%	5	0.5%
0.75% to 1.00%	68,162	80.5%	873	79.3%
>0.50 to ≤0.75%	16,005	18.9%	223	20.2%
	84,699	**100%**	**1,101**	**100%**

Our review of reports from other IGCs show that an ongoing charge of 1% per year is typical amongst other firms with ‘legacy’ workplace pension policies. ‘Legacy’ is a term that tends to be used to describe older style pension policies sold a number of years ago, usually not now available to new employers or even open to new customers, and rarely used by employers for auto-enrolment. We also took part in external benchmarking research amongst ‘legacy’ workplace pension providers; this research supported the conclusion that 1% per year was in line with other providers of older style pensions.

Whilst this demonstrates that Phoenix compares reasonably amongst its peers, we hold the view that ‘legacy’ is not a meaningful term for customers or necessarily a reason why a customer should be charged more than someone in a more ‘modern’ pension product. For example, pensions used for auto-enrolment where the default investment fund is chosen have charges that are capped at a maximum of 0.75% per year, whilst also offering more in terms of online servicing and support, engaging communications, etc. Therefore, if you are being charged above this, we would strongly encourage you to review your options.

Given the above and the FCA requirement to measure value for money against reasonably comparable comparators available in the market, we have strongly challenged Phoenix on why they view the level of charges being paid by some customers are providing value for money given the comparators in the market and the alternative funds they themselves offer. We are very disappointed that this challenge remains outstanding despite it being raised over 12 months ago and continue to await a satisfactory response from Phoenix on this challenge.

However, it does remain the case that many, but not all, Phoenix pension pots are relatively small, are not receiving new contributions, and the number of customers within each scheme may also be small, so even a 1% charge may not in fact cover the costs to Phoenix of administering the policy. Nevertheless, the IGC is glad that Phoenix continues to invest in making improvements to customer service, support for vulnerable customers and its digital offering. We do recognise that a key issue is that 'value' depends on not only costs and charges but other factors as well. For example, a Phoenix customer invested in with-profits may have valuable guarantees that will not be available elsewhere, and transferring to another pension or provider offering lower ongoing charges may not improve overall value if the investment choice is less suitable or investment performance is worse. Switching to another option may also be of limited value if the customer has a smaller pot or is close to retirement, and the decision can be complex and require advice, the cost of which would outweigh any potential benefit of transferring.

Other Charges

We have discussed in previous reports the operation of with-profits investments and charges made for guarantees. We noted that a charge is currently only made for customers who invest in the NPL With-Profits Fund (which has a charge set at 0.5% per year which is deducted from the plan value) but that many plans within that fund have guaranteed bonus rates of up to 4% per year which applies at retirement age which is a valuable feature. We remain comfortable that the charges paid by customers are reasonable given the guarantees provided.

There are a small number of customers (around 420) who have **protection benefits**, the majority of which is waiver of contribution benefit which ensures that contributions to your plan continue if you are unable to work for an extended period through long-term ill health or disability. We remain comfortable that Phoenix maintains processes to regularly review the charges for those benefits and that letters are periodically issued to customers to remind them of these benefits, to consider if they might have a valid claim, and to encourage them to consider if they still want the benefit.

A small number of you invest in specialist funds that charge more i.e. make the ongoing charge higher than 1% per year. These include Invesco Perpetual Managed at 1.78% and Newton Managed at 1.46%. We accept that such funds were specifically chosen by customers and may still offer reasonable value for money provided customers understand that suitable alternative and lower charging options may be available and/or that the investment performance is adequate given the extra cost. Phoenix has monitoring processes in place to assess whether investment performance has been acceptable and, whilst it cannot force customers to move to a different fund, has in recent years written to them to highlight any poor performance and ask them to consider alternative options.

No charges are taken from any customer's plan to pay **commission to advisers**.

Transaction Costs

The quality of **transaction cost** reporting to the IGC has continued to be high over the course of 2022. This reflects a continued high level of data coverage, Phoenix doing more in terms of analysis of costs and how these change from period to period, and investigating funds where charges appear particularly high. Our report covers the 2022 calendar year and includes 100% coverage of the transaction costs associated with the underlying investment held by the Phoenix funds (99% in 2021), and 98% coverage of transaction costs related to the buying and selling of units in those underlying funds (98% in 2021).

However, the issues with the time it takes for transaction cost data to be reported to us still remain. This appears to be an industry-wide issue, in large part due to the delay in fund managers providing data to firms to enable them to collate, review and report e.g. Phoenix can only report a complete set of data to us when all the fund managers it uses have supplied the necessary data. This report is required to cover charges during 2022 but we did not receive data until end of April – almost four months later.

Transaction Costs by Type of Asset

As in previous years, we have included a table that shows the transaction costs for the Phoenix Unit Trust Managers (PUTM) collective investment schemes that Phoenix uses to construct many of the unit linked and with-profits funds that customers invest in. Each collective investment scheme invests in a particular type of asset. PUTM include the Anti-Dilution Levy (ADL) offset in their reporting which represents the value within the pricing of the collective investment scheme that is taken to cover the cost of trading as units are sold or purchased. For the purpose of transaction cost reporting, the ADL can be used to offset the costs associated with trading in the underlying stocks and bonds that such unit movements generate. The level of transaction costs should be considered alongside the level of investment return; for example, a high transaction cost is not necessarily poor value for money if it results in overall better returns. For Japanese equities, there has been a significant reduction in transaction costs compared to 2021, which is a result of a change in the asset manager and investment strategy that occurred in March 2022 following Phoenix's monitoring processes identifying underperformance within this asset class.

Type of transaction cost	**Implicit (%) (1)**	**Explicit (%) (2)**	**Anti Dilution Levy (%)**	**Total (%)**	**Total (%)**
Year	**2022**	**2022**	**2022**	**2022**	**2021**
Type of investment				**1+2-3**	
UK Gilts	0.01	0.00	0.01	**0.00**	**0.10**
UK Corporate Bonds	0.02	0.06	0.08	**0.00**	**0.00**
Overseas Bonds	0.09	0.02	0.01	**0.10**	**0.11**
Supernationals	0.02	0.04	0.06	**0.00**	**0.01**
UK Equity	0.02	0.05	0.07	**0.00**	**0.05**
N America Equity	0.01	0.00	0.01	**0.00**	**0.01**
Japanese Equity	0.05	0.03	0.02	**0.06**	**0.98**
Asia Pacific	-0.10	0.11	0.04	**-0.03**	**0.07**
European Equity	0.22	0.04	0.01	**0.25**	**0.15**
Emerging Markets	0.03	0.13	0.04	**0.12**	**0.12**
Property (estimated)	0.00	0.02	0.00	**0.02**	**0.04**
Global Credit	0.29	0.01	0.04	**0.26**	**0.21**
Tactical Asset Allocation	1.26	0.08	0.01	**1.33**	**0.97**
Emerging market debt	0.42	0.00	0.34	**0.08**	**0.15**
Cash	0.00	0.00	0.00	**0.00**	**0.00**
Typical (managed) fund	**0.10 to 0.12**	**0.03 to 0.04**	**0.02 to 0.03**	**0.11 to 0.13**	**0.11 to 0.13**

Transaction Costs for the Relevant with-profits Funds

Phoenix provides us with transaction costs for the with-profits funds that are invested in by some customers. The costs shown represent the assets within the fund that inform policy payouts and, whilst the asset mix for certain groups of policies within each fund may vary, they are indicative of the level of costs.

In general the costs appear reasonable.

Fund Name	Fund Average NAV (£bn)	Aggregate Transaction Costs 2022 (%)	Aggregate Transaction Costs 2021 (%)
PLAL London Life	0.1	**0.043**	**0.039**
PLAL NPL	0.5	**0.035**	**0.049**
PLAL NPI	3.6	**0.141**	**0.129**
PLAL Pearl	3.6	**0.141**	**0.129**
PLL Alba	0.2	**0.046**	**0.038**
PLL SAL	1.4	**0.092**	**0.115**
PLL Scottish Mutual	0.9	**0.112**	**0.107**
PLL SPI	0.7	**0.153**	**0.125**

Transaction Costs for the Main Unit Linked Funds

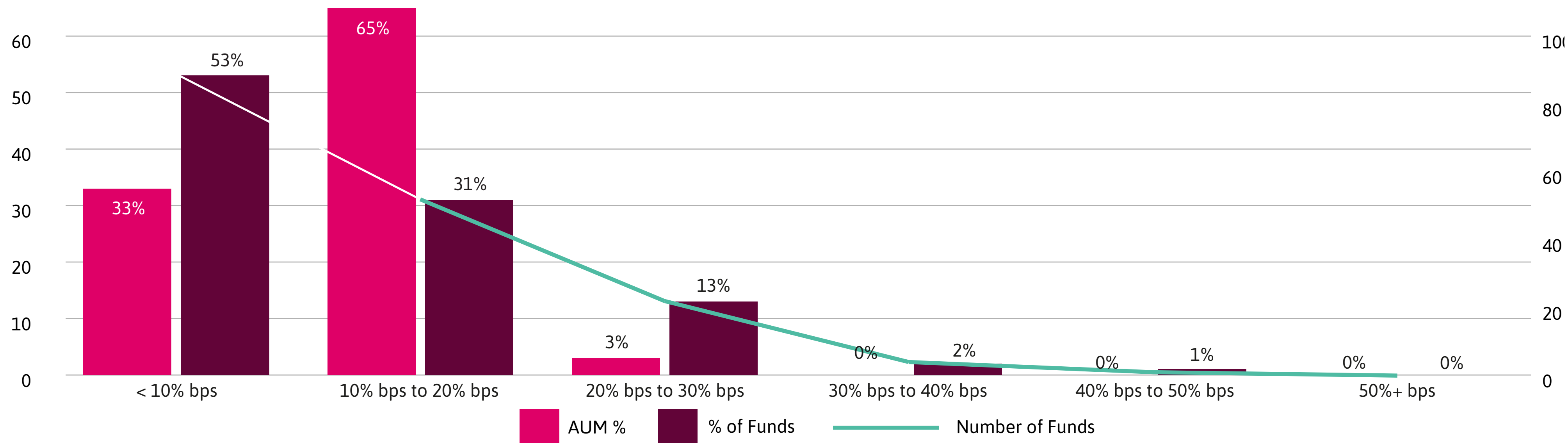
The following table shows transaction costs for the main unit linked funds used by you and generally show broad consistency with the transaction costs in 2021. Whilst these are not 'default' funds (because customers made a decision to invest in them), they are used by a large proportion of customers so we treat them as 'pseudo' default funds.

Fund Name	Fund Average Asset Value (£bn)	Total Transaction Costs 2022 (%)	Total Transaction Costs 2021 (%)	Total Transaction Costs 2020 (%)
RSA Pension Managed	1.27	**0.13**	0.174	0.171
Abbey Life International	1.52	**0.112**	0.092	0.167
NPI Pensions Managed	1.07	**0.100**	0.129	0.16
Abbey Life Pensions Managed	1.45	**0.123**	0.114	0.24
Scottish Mutual Growth Pension	0.24	**0.185**	0.134	0.229
NPI Pensions UK Equity Tracker	0.07	**0.046**	0.037	0.043
Pearl Pensions UK Equity	0.03	**0.053**	0.057	0.067
Phoenix Pension Growth Stakeholder	0.04	**0.062**	0.076	0.207
NPI Pensions Overseas Equity	0.08	**0.097**	0.106	0.144

Transaction Costs for all Relevant Unit Linked Funds

Transaction costs for all 169 unit linked funds offered by Phoenix to customers who are within the scope of the IGC are available on our section of the Phoenix **website**. The chart below provides a summary view of costs split into bands. This illustrates that 84% of funds (87% in 2021) saw transaction costs below 0.20% and 97% (94% in 2021) below 0.30%. The chart also illustrates that higher costing funds tend to be smaller. We continually ask Phoenix to look particularly at funds with transaction costs at the extreme end i.e. in excess of 0.50%. In general, it appears that costs at this higher end are associated with implicit costs i.e. differences in the price the fund managers received or paid when they sold or bought underlying investments compared to the price when they decided to trade. In other words, the costs are a feature of the methodology used to calculate transaction costs rather than due to higher explicit costs such as commission and stamp duty. In some cases, the larger costs are associated with specialist funds and are not out of line with the market. There were no funds with transaction costs over 50bps for 2022.

Q4 2022 Phoenix Breakdown of Transaction Costs



We have included industry **benchmarking information** which indicates that Phoenix transaction costs continue to be in line with typical market ranges.

Phoenix also took part in an industry benchmarking exercise that showed transaction costs were towards the upper end of the industry range. However, we are comfortable that the transaction costs are reasonable overall.

Finally, it should also be noted that a higher transaction cost is not necessarily bad value for money, if it has resulted in a better investment return for customers, or is due to a change in investment strategy designed to improve future returns. Overall, we continue to be comfortable with the level of transaction costs.

Increased Disclosure of Costs and Charges

Increased disclosure requirements introduced ast year required IGCs to publish costs and charges information in more detail.

The table of costs and charges for all investment funds, together with sample illustrations to show the impact of those costs and charges, are available on the **website**.

The tables show the range of costs and charges incurred by individual customers and demonstrate that not all customers pay the same for the same fund but that costs and charges vary, generally due to the terms agreed at outset. What you pay may also vary by the fund(s) that you are invested in. It is important, therefore, to understand how your charges compare with what you may be able to get elsewhere. The sample illustrations also show how significant ongoing charges can be on the ultimate value of your pension, particularly if you have a larger pot invested over a long period.

In addition, the Financial Conduct Authority (FCA) rules around assessing value for money in workplace pension schemes require IGCs to consider the most appropriate and proportionate way to assess an employer's scheme so that the IGC can produce a value for money assessment that is most useful for members.

IGCs have a judgement to make on whether to assess costs and charges at an individual employer level, at an aggregated level or by a combination of both. We have chosen to assess costs and charges at an individual employer level rather than an aggregated level. We feel this is most appropriate, as it is at this level that you experience the service offered for the particular charge that you are paying and allows you to fully understand where your level of charges sits in comparison to others.

Given the legacy nature of the Phoenix business, the vast majority of employer arrangements will no longer be active and only have a very small number of members. Therefore, the ability and likelihood of an employer arrangement transferring to another provider is remote and it will be down to the individual member to make that decision. Therefore, we also feel it is appropriate to additionally consider and report at an individual member level to show how your charges compare to all other Phoenix customers.

In considering our value for money assessment, we have looked at costs and charges information available both internally within Phoenix (with data set out in this report) and also across the wider Phoenix Group. We have considered looking at how charges compare across schemes with similar numbers of members and/or assets under administration as these can be key factors that will have initially influenced the level of charges applied to a particular scheme. However, the legacy nature of Phoenix's business, with only one or two members in individual employer arrangements that are no longer active, makes this approach less relevant.

Externally, we have taken part in industry-wide benchmarking surveys to understand how the level and spread of charges compare with those across the industry. We will also continue to look at disclosures within our peer IGCs' reports to see how Phoenix's costs and charges compare across the industry.

We strongly encourage you to understand how the level of charges you pay compares to charges paid by other employer arrangements with Phoenix. Within this report (for pseudo default funds) and on the website (for all funds) there are details that show the distribution of charges at an employer and individual member level. We have chosen to present the data in this fashion as we believe this is a useful and effective way for you to understand how the level of charges you are paying compares with those of other employer arrangements within the same fund, and as such, what relative value for money you may be receiving.

In order to help you to be able to assess this, Phoenix have delivered a digital solution that allows you to find the level of charges for all funds that you are invested in or are available to you. From the Phoenix **website**, you are able to enter the name of your employer who your pension arrangement was with and be presented with all relevant costs and charges for both invested funds and funds available to you.

In order for you to consider how the charges you are paying compare to those being applied to other members or employer arrangements provided by Phoenix, for each fund available we have set out, using various charge bands, the proportion of members and employers invested within that fund who are paying the level of charges indicated within the relevant band.

For example, the table below shows the distribution of charges for employer arrangements invested in the Phoenix NPI Pensions Managed Fund. If you are invested in this fund and are paying a charge of between 0.96% and 1.00%, then 10% of other employer arrangements who are invested in this fund will be paying a lower charge, some significantly so. There may have been valid reasons for this, but, in this scenario, we would encourage you to consider whether you are receiving value for money given the charges being applied to other members, alongside the fact that there will be significantly lower-charging alternatives available in the new business market.

Fund Name	< 0.3%	0.30 – 0.39%	0.40 – 0.49%	0.50 – 0.59%	0.60 – 0.75%	0.76 – 0.85%	0.86 – 0.95%	0.96 – 1.00%
Phoenix NPI Pensions Managed	0.35%	0.00%	0.58%	4.03%	2.30%	1.55%	1.21%	89.98%

The distribution of charges for all other pseudo default funds can be found within this report. For all other investment funds, the distribution of charges are available on the Phoenix **website**.

Finally, we are required to publish the charges that apply to each fund that is available to invest in for each individual employer arrangement with Phoenix. We feel that the most effective approach for members to understand the charges applicable to them, and how they compare to the charges of other members or employer arrangements invested in the same fund, is through use of the digital solution described above in conjunction with the distribution of charges set out in this report. However, we do view it as important that we present data that satisfies the regulatory requirements, and this information is available on the Phoenix **website**.

Although charges may vary, it is not always possible to switch to a lower-charging option within Phoenix; and, depending on the features of the current policy, the size of the pot and time to retirement, it may not be in a customer's best interests to do so. However, as mentioned above, it emphasises the importance of customers considering whether their pension pot and the way it is invested with Phoenix remains suitable for them. If you need help in understanding what level of charge you are paying, you should contact your employer, ex-employer or Phoenix to help explain. If you are still working for the same employer, you could ask them how recently their pension arrangements and charges have been reviewed. You should also consider seeking professional advice before making any changes.

Exit Charges

The majority of Phoenix plans have no exit charges, with others capped at a maximum of 1% of the plan value. We consider this to be value for money.

Further Commentary

Investment Performance

Further Commentary

Investment Performance

Overall, Phoenix's Investment Performance contribution to 2022 Value for Money for Customers is now assessed as GREEN. Assessment criteria scores were higher than in 2021, with 78% of the maximum score.

What do we hope to find?

- Key managed funds are delivering sufficient returns on your retirement savings over the medium/longer-term to provide a decent outcome when you retire, without taking too much investment risk.

Although Value for Money is mainly about what you might get in the future, we look to see how your investments have performed in the past to confirm our findings. We look at how well fund managers have performed against the specific brief that they've been given, and we also look at how well funds have performed against similar funds that you or your Employer might have chosen instead. The ultimate test, though, is how your savings pot has grown over time and, for that, we see how funds have performed in real terms, taking past inflation into account.

What we found

- 2022 was a particularly difficult year for investors. Although the multi-asset funds in which most of you are invested had delivered strong returns in 2021, as economies started to recover from the worst impacts of the pandemic, this was reversed in 2022, when the world economy was hit by a series of major economic and political shocks. The majority of the key funds which many of you are invested in delivered flat or significantly negative returns over the calendar year.
- Much higher inflation rates in 2022 – headline UK inflation reached 11% in the year to November, a multi-decade high – mean that most investors have lost some of the purchasing power which they built up over time in their investment pot. Nevertheless, this needs to be put into perspective. Over the long-term, your retirement pots continue to grow at a reasonable rate. Most investment funds have still out-performed inflation over periods of 5, 10 or 15 years, depending on the fund. Secondly, the increase in interest rates means that annuity rates are much more attractive for any investor who is deciding what to do with their pension pot as retirement approaches.

- All in all, we consider that your fund managers did a reasonable job in 2022, when compared with the specific investment brief which they had been given. The Redington analysis, referred to later in this report, supports such a view. In addition, there are some signs that your fund managers have performed relatively better versus their competitors in recent years. Nevertheless, we remain concerned that less than half of all available funds were ranked in the top half of the table against similar competitor funds over all the periods we look at, which continues the adverse trend reported on in several years of these annual reports.
- These points are discussed in more detail in the next section of the report.

Key Challenge for 2022

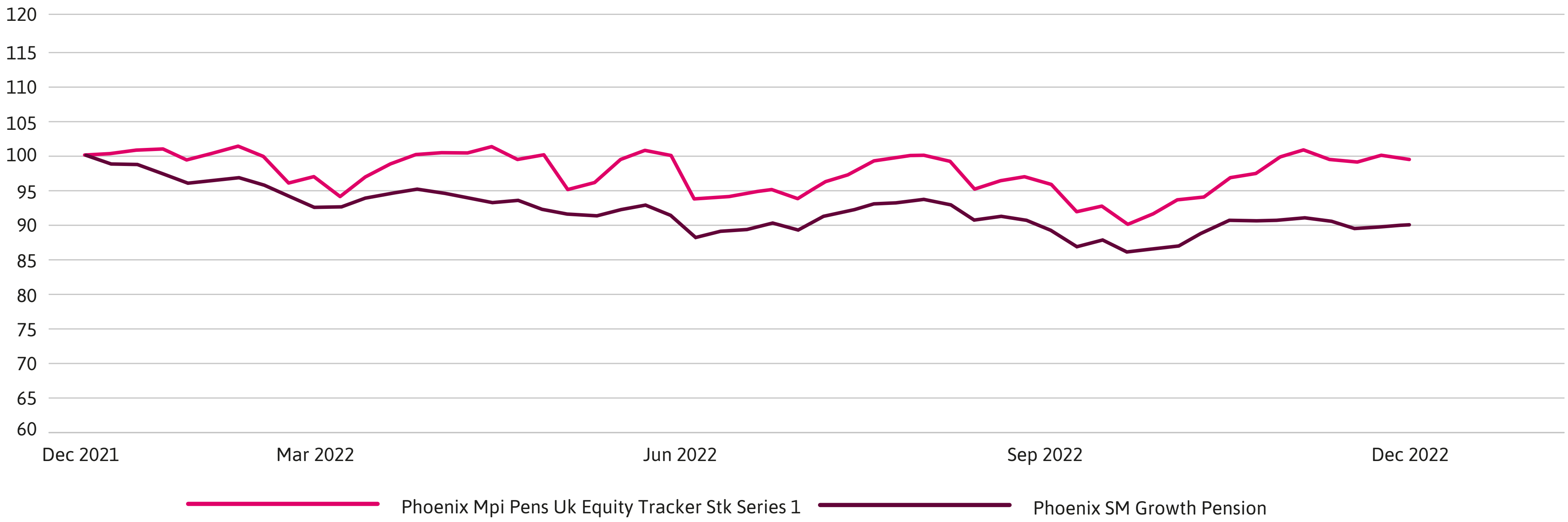
- To improve fund performance vs peers, to ensure long-term fund performance remains ahead of high levels of inflation, and to broaden out further the Group's Responsible Investment Policy in your funds.

How did your funds do in 2022?

The key funds in which most of you are invested delivered flat to negative returns in 2022, as almost all financial markets reacted badly to the combination of the Russian invasion of Ukraine, surging inflation, higher interest rates, and weaker global economic growth. This combination of factors adversely affected bond and equity and commercial real estate markets. It reversed the strong returns seen across most financial markets in 2021 as economies started to recover from the worst impacts of the pandemic.

This situation can be seen in the graph showing the best and worst performing of the 9 key funds in which many of you are invested. Some managed to end the year almost unchanged, whilst others ended the year with strongly negative returns. The considerable differences between the funds is not just due to the performance by the relevant fund managers; it will also reflect differences in the mix of assets (bonds, cash, equity and property) held across different countries and regions.

Highest and lowest performing key funds in 2022



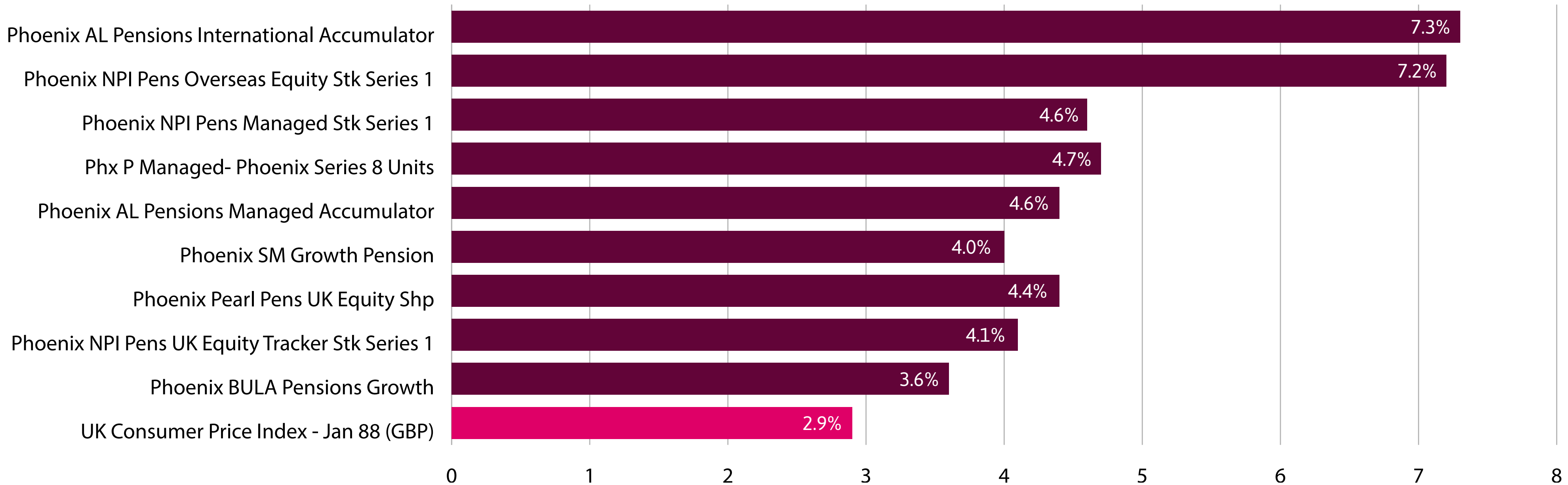
Source: FE Fundinfo, at as 24 March 2023.

The other key funds produced returns between these two. However, you may be invested in other funds that have performed differently, funds that either you or your previous employer selected some time ago. We include all funds in our overall oversight as reported on the next page. Although UK-only funds have done better this year than last, it is again due to the sector biases in the UK market versus the rest of the world, with a much higher proportion in energy and commodity stocks and hardly anything in technology sectors. You may wish to consider whether these funds are still the most suitable for your pension savings.

What about over the longer-term, when compared with inflation?

Here we look at the performance of all available funds over the longest possible timescale, as many of you will be invested for several decades. Ultimately the value of your pension depends on its purchasing power when you decide to take your money. Funds invested in stock markets would hope to beat inflation every year, but this need not be the case in the short-term. In 2021, for instance, some funds targeting returns based on high dividend income rather than capital growth did not beat inflation over the previous five years. Towards the end of 2022, headline inflation in the UK reached 11% year on year, a multi-decade high. Over the longer term, however, these shorter-term impacts tend to average out, and the results provide a good indicator as to how your savings pot is growing in real terms. Over the last 15 years, inflation has averaged 2.9% a year, and the graph below shows that all the 9 key funds have beaten inflation over that period, some by a considerable margin.

15 Year Annualised Performance of Key Funds and CPI



Source: FE Fundinfo, data to 9 March 2023.

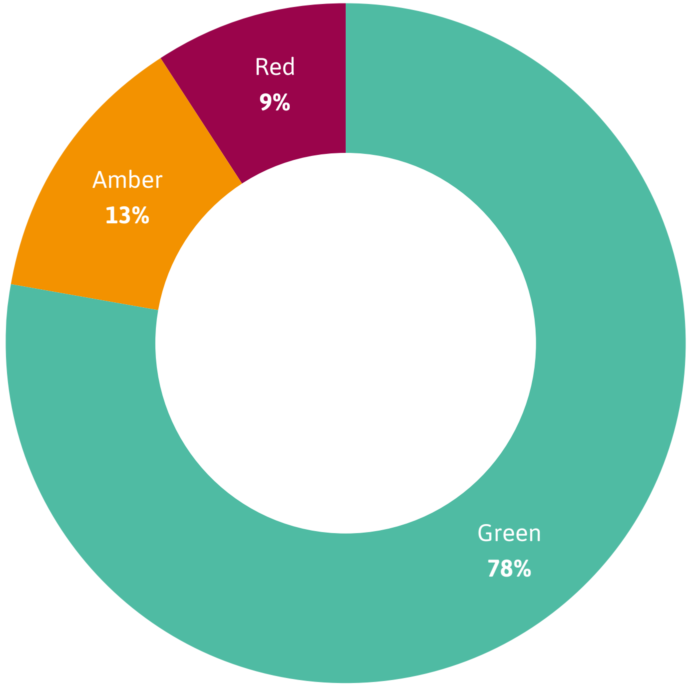
We also looked at fund performance versus inflation over shorter time periods. It is sadly the case that a majority of the key default funds managed by Phoenix have not exceeded inflation over the past 5 years, which means that the real purchasing power of your investment has declined. However, we are pleased to see that all the key funds did achieve a better than inflation performance over the past decade. When we look at the results of all the funds, we raise queries on any that have not beaten inflation over five years where it is not immediately obvious why that might the case (for instance, it may be a cash fund or fixed interest fund) and where this has not already been highlighted on other performance grounds.

How good a job are the fund managers doing?

To assess this, the IGC have devised a Red/Amber/Green ("RAG") performance flag which indicates how funds have performed compared to the benchmarks that have been set for the managers. The benchmarks could be a published market index like the FTSE All-Share, or a customised combination of indices, or the average return of a suitable peer group. We look every quarter at key fund three-year performance, and the RAG assessment takes into account how we would expect a fund to perform given the brief the manager had been given. For instance, if the brief was to match an index, we expect performance to be very close to index performance. If it's an actively managed core fund, we look for outperformance against the benchmark. However, we understand that, in the short-term, results can be more variable. This was especially the case in 2022, when market conditions were very unsettled due to the unexpected inflation shock after Russia's invasion of Ukraine and the resulting increase in interest rates.

The proportions of Red/Amber/Green across all Phoenix funds available for investment by workplace customers such as you are shown alongside. This shows that the majority of fund managers are delivering positive results against the brief they have been given, whether to match the return of a benchmark comparator, or to beat it. However, this year's results are not as good as in 2021, and more akin to those seen in 2020. The equivalent results for 2021 had 86% of funds as green, 8% as amber and 6% as red. In contrast in 2020 the figures were 74% green, 17% amber and 9% red).

Performance RAG distribution (rated funds)

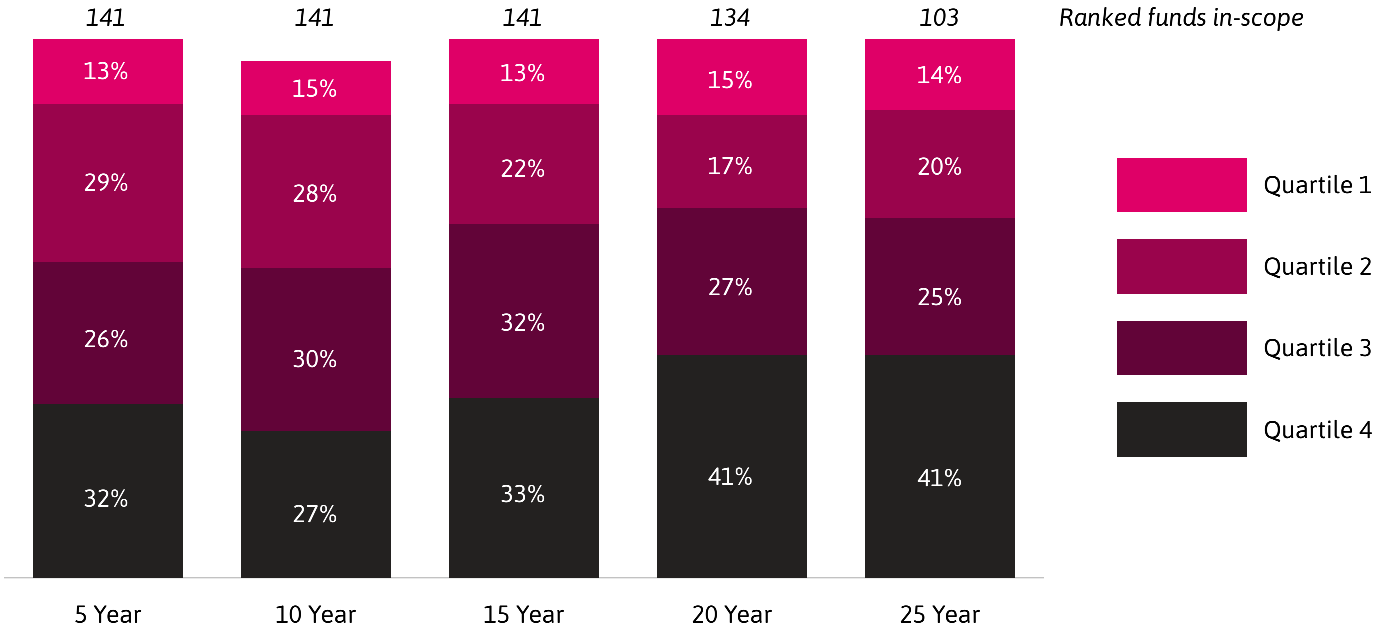


There were 5 (3%) unrated funds due to unavailability of data

How do these funds compare with peers?

The quartile rankings of those funds which can be compared against similar competitor funds over various periods are set out below. We use analysis provided by the Association of British Insurers (ABI) which examines funds across a variety of sectors and types. 'Quartile ranking' involves arranging all similar funds in order from the best to worst performing, and then dividing the list into four groups, with Quartile 1 reflecting the best performing quarter of the list, quartile 2 the next, and so on, meaning quartile 4 is the worst performing funds. 2022 saw a continuation of the adverse trend seen in 2020 and 2021 year, with the majority of funds over all periods now in the bottom two quartiles (ie in the lower half of the table). The good news seen in 2022, however, was that the proportion of funds over the last 5 and 10 years in the top two quartiles has improved to just over 40%, compared with about one third in previous years. In other words, the more recent years are starting to score better than the years they are replacing as these drop out of the calculations. It may be the case that a stronger focus on investment performance across Phoenix might be starting to bear some fruit.

Quartile Rankings (Ranked Funds)



Source: FE Fundinfo, data to 31 December 2022.

Although we can analyse Phoenix's performance, we don't know how competitor results were achieved. Nonetheless, despite recent improvements, the overall result is still disappointing for you, as it indicates that better results could have been obtained elsewhere if you (or your previous employer) had made different choices.

What external validation do we have for our assessment?

Several years ago, the Standard Life IGC (now aligned with the Phoenix IGC) worked with Redington, a firm of investment consultants, to devise a framework for assessing all the different default profiles used by client schemes and their underlying funds, and highlighting for further investigation those that might not be offering VFM either due to poor performance, or questions of suitability for their part of the savings journey. Subsequently, Redington have applied some parts of this framework in their industry benchmarking assessments, although those tend to focus on selected key defaults and funds.

Although Phoenix does not have default funds as such, we have again used this framework to analyse the 9 key funds and their underlying component funds to see whether any new issues were highlighted. Redington analysis has indicated that the managed funds were more suitable for the later years of saving for retirement rather than the early years, but that is not inappropriate given the average age profile of customers invested in these legacy funds.

In the Redington analysis, eight of the Phoenix funds were initially flagged for further investigation in the backward-looking assessment, with one of them flagged in the forward-looking assessment. An explanation of these two assessments is made later in this report. However, on further investigation:

- In the backward-looking assessment, the funds were only flagged due to the extraordinary gyrations in value seen at several points in 2022, reflecting major economic and market shocks, while there were no ongoing performance concerns. Redington concluded that there was no action required.
- In the forward-looking assessment, one Phoenix fund was flagged for a second year. However, it is a property fund, a component feeding into an overall fund, and that larger fund passes the forward-looking assessment. Redington again concluded that there was no action required.

We are reassured that this external analysis by Redington has not highlighted any issues that were not already known and understood.

What about the performance of with-profits funds?

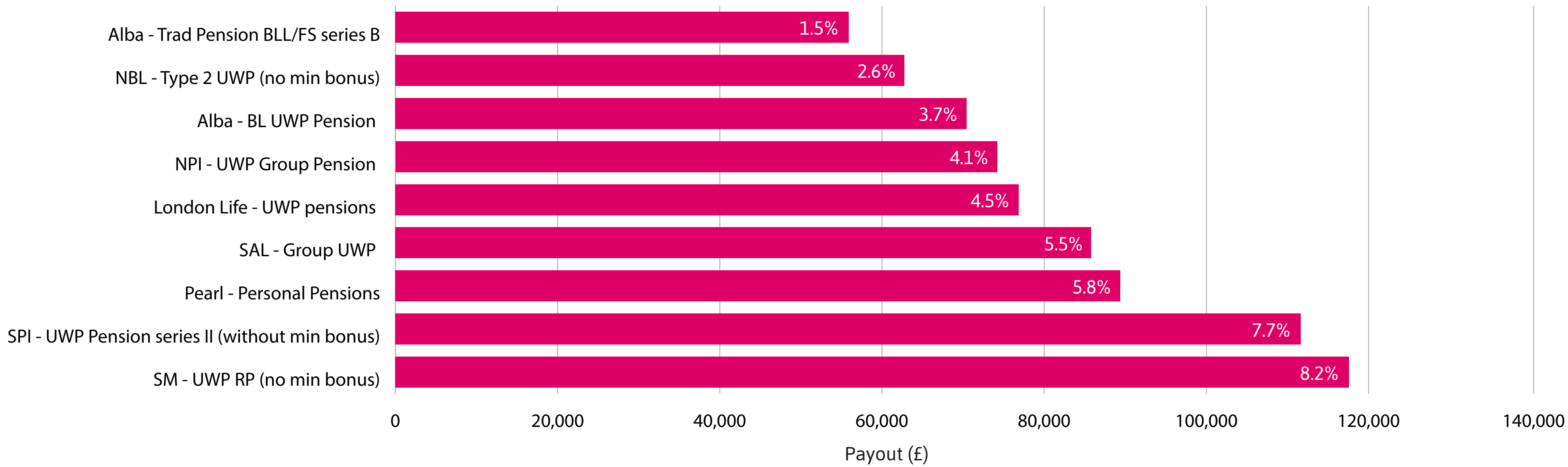
It is not straightforward to compare short-term performance in with-profits funds against unit-linked funds given that year-to-year bonus rates will be affected by various factors. These include smoothing, where eventual payouts will reflect both the performance of the underlying asset shares, any estate distribution, and any investment guarantees – and a Market Value Reduction (MVR) may apply if taken earlier than at retirement. VFM can really only be assessed once benefits are finally taken.

In addition to tracking the performance of the underlying asset shares net of costs, which is what drives terminal bonuses and guarantee deductions, and monitoring the asset allocation for likely future performance, we also look at performance over various time periods versus inflation. We have extended the 1, 3, and 5 year periods, which were examined in previous IGC reports, to include 10 and 20 year comparisons (see **Supporting Material**).

The surge in inflation seen in 2022, reaching over 11% towards year end, has had a material effect on short and long-term performance. It is a concern that some of the funds in the table below no longer provide a decent return over and above inflation which averaged 2.7% a year over the past 20 year period. We are reassured, however, that most of the other funds have performed well in relation to inflation, some very well indeed. This largely reflects the mix of assets held within those with-profits funds, how much in risk-seeking equity and how much in hopefully risk-dampening bonds. In addition, the details of many of these funds require careful examination. For example, some of the funds with a low equity weighting benefit from an annual guarantee which can protect the fund during difficult times. This emphasises once again the need to take a long-term view when investing in with-profits funds, and looking at the specific details of the fund you are invested in.

Overall, we concluded that example 20-year payouts and returns on premium on retirement in 2022 were reasonable compared with headline CPI inflation averaging about 2.7% a year over the whole of that period. Indeed, in some cases long-term performance has been very good.

Example 20 year payouts and return on premium



Finally, we remain concerned about those with-profits funds where Market Value Reductions (MVRs) are expected to apply and can be rather high, in some cases around 30%. Last year, we reported that Phoenix Group had put on hold their previous proposal to offer these customers substantial enhancements to their pension pots in return for giving up their guarantees, as the uncertainty of the pandemic did not feel an appropriate time to ask customers to make decisions about giving up guarantees. Phoenix is currently considering options for this block of business under a wider "Cost of Living" project, which may no longer be in the form of an offer requiring customers to give up their guarantee for an enhanced pension pot, but still with the aim of reducing the large MVRs currently in place. The IGC will continue to keep a close eye on this situation.

What other changes are being considered going forward?

Following the publication of the Phoenix Group's Responsible Investment Philosophy, Phoenix have started discussing with key asset management partners the likely impacts on mandates under their control (see the Investment Services section), but no changes have yet been implemented on customer funds. The IGC will monitor these issues closely into 2023.

Further Commentary

Investment Services

Further Commentary

Investment Services

Overall, Phoenix's Investment Services contribution to 2022 Value for Money for Customers is assessed as GREEN. Assessment criteria scores at 78% were lower than those seen in 2021 but higher than those seen in 2020.

What do we hope to find?

- That the funds offered to you are well-designed, well-managed and governed in order to meet your expectations.
- To assess this we look at regular governance reports, particularly focusing on actions taken to address any issues uncovered.

What we found

- Continuing evidence of ongoing reviews of fund managers and the briefs they had been given, and changes being implemented, and changes being implemented where necessary.
- Less reliance on external consultants as the Manager Oversight team has been strengthened.
- Actions are underway to implement Phoenix's Responsible Investment policy in mandates under Phoenix control.
- The IGC was concerned on occasion at the length of time it took for poorly-performing funds to be replaced with suitable alternatives, and will monitor this issue closely into 2023.

Key Challenge for 2022

- To embed the Responsible Investment Policy in your funds.

What evidence is there of ongoing review of my funds?

Phoenix Life's response to the unexpected Russian invasion of Ukraine in spring 2022 provides a useful case study. The Strategic Partnerships & Research team quickly reviewed Group-wide exposures to Russia, Ukraine and related countries within funds held by customers such as you. They established that most exposure was via Emerging Market Equity and Debt funds, and that 99% of overall exposure was held in mandates with key Asset Management partners. They worked directly with these partners to understand their before/after performance impacts and the actions which had been taken.

Phoenix's internal governance team report to us every quarter under a 'RAG' system, providing commentary on why funds are flagged as Amber or Red, and whether any further action needs to be or is being taken, engaging with fund managers as necessary. Where Phoenix controls the mandate, its Manager Oversight team make recommendations to the Group's Investment Committee and can implement any changes to the mandate or manager required once approved. However, if you or your employer had specifically chosen a particular fund, whilst poor performance might be highlighted, ultimately you or your employer would need to make the necessary switch.

Last year, we saw the UK equities changes recommended and approved in 2022 implemented, with assets moving from abrdn to Enhanced Index strategies managed by Invesco, Janus Henderson and HSBC Asset Management. We have also seen changes to North American equites mandates with assets moving from Active to Passive management with abrdn. There has also been an allocation in with-profits funds to a Multi Asset Climate Solutions mandate managed by Robeco.

What improvements have been made to governance processes?

- During the year, the Strategic Partnerships & Research team (formerly known as the Manager Oversight team) was strengthened, with the additional of four new analysts and the integration of three members from the Relationship Management team. Oversight scope was also increased, with the addition of new External Asset Management partners taking the total now to twenty-six. Enhancements have been made through improved performance Management Information from managers delivered in a consistent format, efficiencies in actions following quarterly governance meetings, and a new monthly Policyholder Investment Forum chaired by the Head of Policyholder Assets.

How will Phoenix's Responsible Investment policy be reflected in my investments?

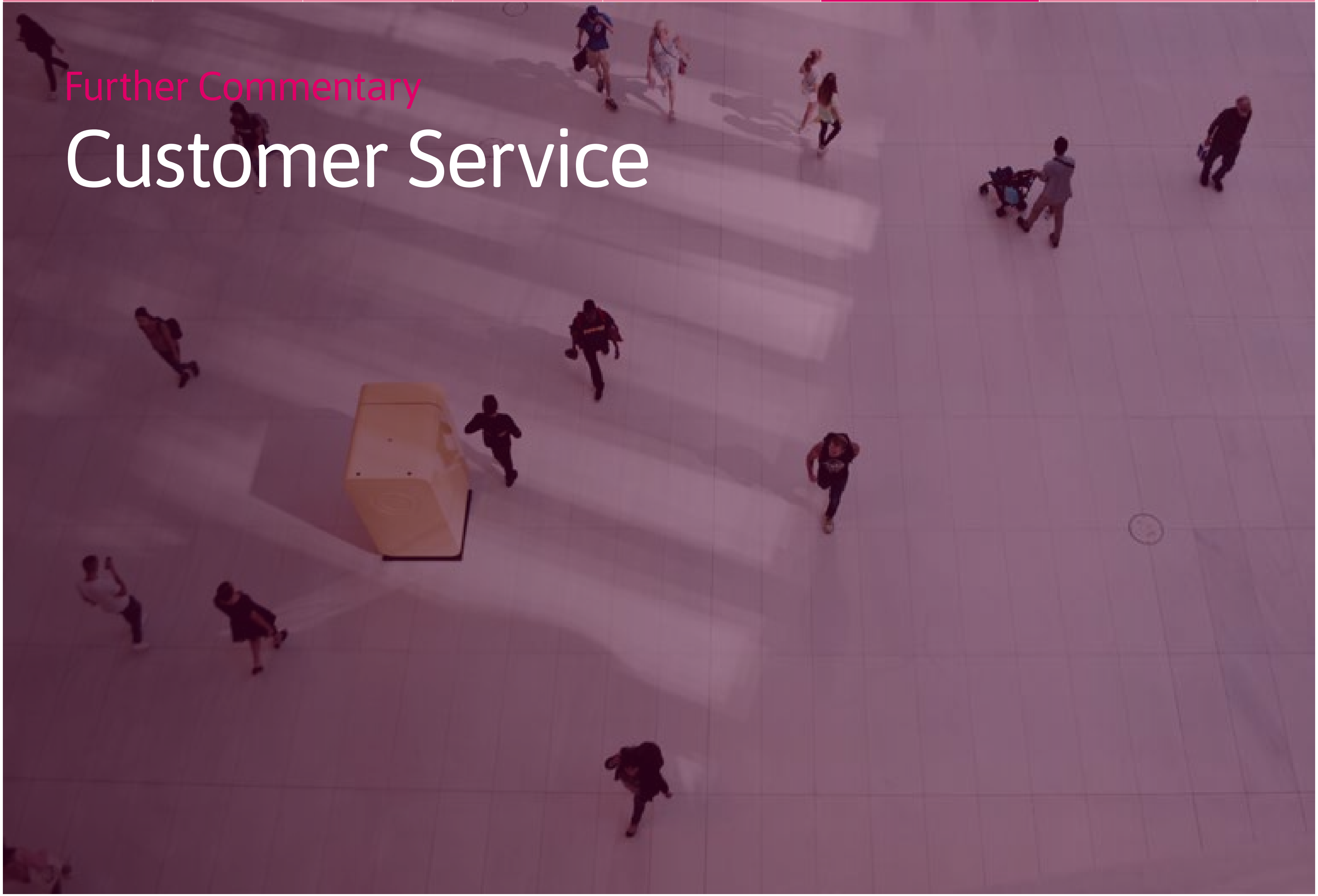
- As featured elsewhere in this report, Phoenix's group-wide investment policy reflects exclusions of certain stocks and sectors, tilting portfolios towards others, and incorporating explicit carbon-reduction targets. For active mandates under Phoenix control, Phoenix is currently engaging with its strategic managers to implement the Exclusion Policy, but not the tilts or carbon-reduction targets which are deemed to be too great a change for these legacy funds which were chosen by you or your ex-Employer long ago. However, some new funds with specific ESG features have been launched and are already available for you to switch into.

Key Challenge for 2023

- To embed more deeply the Responsible Investment Policy in your funds, and to improve the speed with which poorly-performing funds are removed or turned around.

Further Commentary

Customer Service



Further Commentary

Customer Service

What are we looking for?

The IGC's minimum responsibility in respect of customer service under the FCA's regulations is to determine "whether core scheme financial transactions are processed promptly and accurately". Our actual assessment of customer service is much wider than this and, in 2022, has focused on:

- Performance against target service levels (including the prompt and accurate processing of core transactions);
- How Phoenix has responded to customers with additional needs and vulnerabilities;
- How complaints are dealt with; and
- Continuous improvements to service that respond to customer needs and are designed to provide a high-quality experience.

We assess a wide variety of information to make our assessment, including:

- Metrics which seek to measure the end-to-end customer experience on a quarterly basis, such as how long it takes transactions to be completed, or issues to be resolved;
- Customer survey satisfaction scores and feedback;
- Complaint levels, resolution times, themes complained about and the action taken by Phoenix in response. We also monitor the number of complaints overturned by the Financial Ombudsman Service;
- The output of Phoenix's internal assurance activity and testing;
- Information regarding business strategy and key projects which impact on the customer servicing approach and experience; and
- A benchmarking exercise conducted by external consultants Redington.

[1]FCA Conduct of Business Sourcebook 19.5.5 R2 (c)

What did we find in 2022?

Service levels and performance

Service levels over the year have generally been in line with targets, with some localised issues due to resourcing challenges. Phoenix's outsourcing partners have ongoing recruitment activity to fill gaps in resources arising from staff attrition. Customer satisfaction scores were around 96%, exceeding the target of 90%, and similar to previous years. The vast majority of claims and servicing requests have been completed within the agreed internal targets (95%).

Back office processing has been reasonable, despite the impact of resourcing challenges. Overall, just under 90% of servicing demand and 91% of claims have been processed within the target time. External benchmarking has however highlighted that Phoenix has the longest times for the processing of retirement claims compared to some other providers. This is a potential area of improvement for Phoenix.

Telephony teams were under target for call answering and abandonment metrics for several months, with an improving position by the end of the year. This was a result of staff recruitment and retention challenges, and call volumes at times being above forecast. The IGC conducted a site visit in early 2023 and were impressed with the care taken in handling customer calls.

Bereavement claims continue to be an area of challenge for Phoenix, as in previous years. Processing times have remained out-with appetite throughout the year. Phoenix seeks to make payments to beneficiaries within 45 days of notification, and processing times have generally exceeded this by more than 10 days. It is notable however that death claims can be delayed due to information required from third parties such as legal representatives. A very small number of you are impacted by these issues as around 50 bereavement claims per year are made by IGC in-scope customers. The IGC still sees progress in this area as important given the impact it can have on individuals. Phoenix has taken action to improve processes, and the IGC appreciates that it may take some time for the actions to have an impact on the metrics.

Phoenix continues to work on enhancing access to digital servicing options through the MyPhoenix portal. Phoenix is continuing to work with its outsource partners to increase the number of customers with access to this portal. The MyPhoenix App was launched in 2022 which provides access to information and some limited transactions. A challenge for Phoenix going forward will be to increase functionality within the app and to make customers aware of the services available.

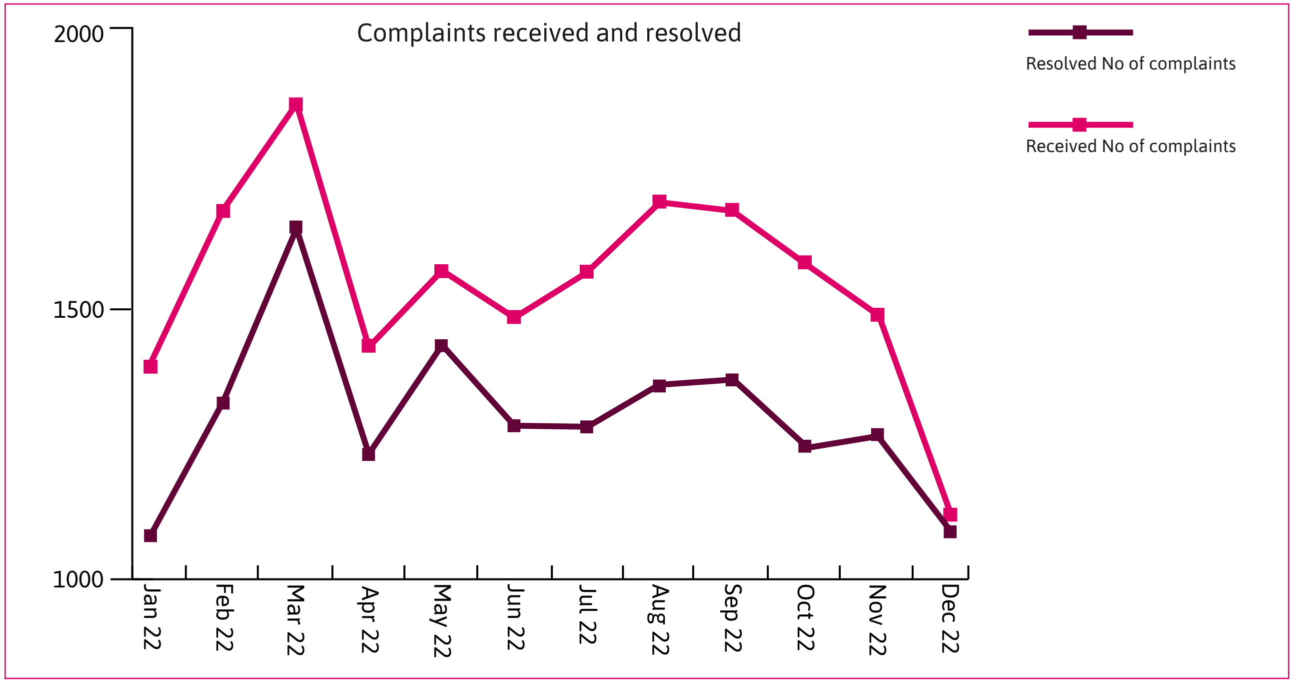
Service Quality

Service quality has remained high, with back office quality assurance checking meeting its target throughout 2022, and telephony quality assurance meeting targets for most of the year.

Complaints

During 2022, there were around 18,500 complaints from Phoenix customers (including those out-with the scope of the IGC) which is slightly higher than that received in 2021. Some of this was due to the localised issues in service performance arising from resourcing issues. There is also some evidence that customer expectations are increasing, and some customers are complaining earlier than they may previously have done. Around 75% of complaints were upheld and, in general, a majority were resolved within three working days. Complaints as a proportion of customer transactions were low and at or around target.

There were additional challenges in 2022 to ensure that sufficient resources were in place to manage the complaints pipeline, including recruitment and training at outsource partners. The gap between complaints raised and resolved was closing, as demonstrated in the chart below. A challenge for Phoenix in 2023 will continue to be to bring complaint handling metrics consistently within targets across all outsource partners.



Few complaints were referred to the Financial Ombudsman Service and just under 18% were overturned, which is within target and better than the average industry overturn rate of 38% (using data from the Financial Ombudsman Service).

Gone-aways

Phoenix has identified that the proportion of customers within the scope of the IGC identified as "gone-away" is significantly higher than the wider population – 23% versus 14% more widely. There are several reasons for this including the age of the policies, poor data quality and the fact that some customers were not active in the purchase and maintenance of their policies. The IGC notes that Phoenix has a higher gone-away rate than other firms within the same group (Standard Life and ReAssure). Phoenix Group is undertaking activity to have a standard approach to tracing and reporting on gone-aways. A challenge for Phoenix for 2023 will be to demonstrate consistent and improved tracking of gone-aways, and with urgency given the risk of poor outcomes for those customers.

Vulnerable Customers

The IGC continues to receive regular updates on how services meet the needs of customers with challenges due to their individual circumstances or underlying conditions. Activity is underway to improve the recording of vulnerabilities, and improve the management information available to monitor the level of vulnerability within the customer population. In addition, new vulnerable customer standards are being embedded within outsource partner processes.

Using enhanced MI to improve the responsiveness of processes to better meet the needs of vulnerable customers will be an ongoing challenge for Phoenix in 2023.

How does Phoenix compare with other pension providers?

Phoenix participated in a market comparison exercise with other legacy pension providers during 2022. The study was undertaken by Redington and covered five main elements used when assessing value for money: engagement, investment, access, service and charges.

In relation to service, it was noted that the time taken for core transactions aligned with others in the industry. Call wait times were noted as faster than other providers – an improvement from last year. Some complaints took slightly longer than average to resolve, whilst Phoenix had a high percentage of complaints resolved within 3 days.

What are our conclusions in relation to value for money?

Based on the management information that has been produced quarterly by Phoenix, the IGC is satisfied that core financial transactions have in general been processed promptly and accurately. Where this is not the case, procedures are in place to ensure that customers are not disadvantaged as a result of delays or inaccuracies.

Some challenges remain for Phoenix to work with its outsource partners and ensure sufficient resources are available to support all service demands. This is particularly the case for the complaints pipeline. Further work is required to standardise and improve processes to manage gone-aways. We are pleased processes for vulnerable customers continue to have focus. A continuing challenge for Phoenix will be to use enhanced MI to improve processes to meet additional customer need.

The criteria that the IGC has taken into consideration in its assessment of value for money are set out at the end of the report. The IGC has determined an overall score of 32 out of 42 or 76% (2021 76%). This equates to an overall rating of **GREEN**.

Further Commentary

Communication and Engagement

Further Commentary

Communication and Engagement

Why are communications from Phoenix important?

Communications in whatever form – by letter, by email, through the website, by telephone – are essential to provide you with information about your pension pot and about the services that Phoenix offers you.

But, providing you with information alone is not sufficient to enable you to make informed choices. Phoenix must also engage with you as a customer to ensure that:

- the language and format used are understandable to you, signposting you to any action you should take and where to find out more;
- information is given to you at the right time; and
- information is given to you through an appropriate channel.

Communications form part of our Value for Money assessment

Your IGC are responsible for *assessing* whether Phoenix' communications to customers are **fit for purpose and properly take into account customers' characteristics, needs and objectives** (the 'fit for purpose requirement').

What does this mean?

Phoenix has given careful thought to the challenge presented by this IGC responsibility, what 'fit for purpose' means in this context, and has agreed with the IGC the following meaning:

"A communication which takes into account the needs and objectives of the customer and is provided to them in a timely fashion. It should contain content which is relevant, salient and informative, taking into account the financial literacy levels of the customers. The content of a communication should support the customer to recognise the information they may need to know or the appropriate action(s) they may need to take, which enables them to keep on track with their retirement plans and support their desired outcomes."

It is against this backdrop that the IGC expects to assess:

- **Informative Communications:** providing customers with necessary information and educational material to support their understanding, including communications issued where there is a regulatory requirement.
- **Action-Focused Communications:** designed to encourage customers to complete a call-to-action to assist their retirement outcome – for example, reviewing investments and contributions, nominating beneficiaries, or registering online.
- **Customer Journeys:** journeys designed to support customers to take steps towards their desired outcome at retirement, including both digital options and over-the-phone.

What steps has Phoenix taken to embed the fit for purpose requirement in communications with their customers and how does the IGC assess this?

1. Working with the IGC, in 2020 Phoenix developed a Fit for Purpose Protocol, detailing four separate stages to be completed by the author of any relevant communications. To see this Protocol, **click here**.

2. To meet IGC requirements, this Protocol is used by the author of any communication to record, before and during the preparation of the communication, how the fit for purpose requirement is being met; and, after the communication has been issued, the protocol document is used to record what evidence exists to demonstrate that the communication's purpose has been achieved. It should also be used for 'lessons learned' to ensure communications are adapted and improved if the evidence demonstrates the communication's purposes have not been satisfactorily achieved.

In 2021, the IGC set Phoenix the challenge of ensuring that the Fit for Purpose Protocol was fully embedded across its outsourced providers by the end of 2022 as, at the time of writing last year's report, only in-house Phoenix teams and Capita outsourced staff had been fully trained. It was disappointing that Phoenix failed to ensure this training was rolled out fully in the timescales required (i.e. by the end of 2022). Phoenix have since ensured the roll out to all its outsourced partners during 2023.

What impact is this Fit for Purpose Protocol having on Phoenix's communication and engagement with you?

During 2022, 17 communications were assessed against the Fit for Purpose Protocol as part of the Phoenix approval process.

Key communication activity

Digital access

Phoenix offers some members digital access to their pensions through the MyPhoenix website. Currently 33,045 members have access to this service representing 46% of members compared to 45% in 2021. In 2022, Phoenix launched the MyPhoenix app to members who currently have access through the MyPhoenix website, to allow them to access information about their pensions from their mobile phone. To date just over 3,300 customers have downloaded the MyPhoenix app.

Within MyPhoenix, customers can initiate a small number of notifications and view key information about their pension policy such as its value, the contributions which have been made and information about fund investments. In October, Phoenix introduced some small changes to MyPhoenix to improve the experience for members updating beneficiaries through the website. Overall, progress has been slow to give more members access to MyPhoenix, and whilst Phoenix has plans to enhance the offering to allow members to undertake transactions digitally, to date only small changes have been delivered.

All members can access general information and submit forms to undertake some actions through the phoenixlife.co.uk website and, during 2022, Phoenix has invested in campaigns to raise awareness of this so that members can access general information quickly and directly from the website.

SCORING: Phoenix has a number of key challenges to address in the area of communication and engagement, but has evidenced to the IGC that it continues to seek ways to achieve improvements. Recognising this we would award a RAG rating of AMBER this year, due to the pace of delivery of improvements, and the delay in fully implementing the Fit for Purpose Protocol.

Further Commentary

ESG and Stewardship

Further Commentary

ESG and Stewardship

IGCs are required to consider and report on how ESG considerations and other aspects of what it is often called "Responsible Investment" are taken into account in the provider's investment decisions that impact in-scope customers' pension pots. This is an important part of the Government's strategy to ensure that pension savings play their part in combatting climate change and promoting good outcomes for society as well as good outcomes for pension savers.

Our role is to review three key areas of investment considerations, looking at what the provider intends to do regarding each (i.e. their "policy") and how good they are at doing it (i.e. "implementation"). The three areas are:

- ESG financial considerations ("environmental, social and governance factors (including climate change) that are material to the sustainability of an investment");
- Non-financial matters ("factors which may influence a firm's investment strategy or decision, and which are based on the views (including ethical concerns regarding environmental, social and governance issues) of the firm's clients or relevant policyholders"); and
- Stewardship (which the FRC define as: "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society").

The Phoenix Group, of which Phoenix is a part, takes its responsibilities to the environment and wider society very seriously. For many years, it has published reports of its activities in these areas, and these can be found on the Phoenix Group **website**. While setting helpful context for the IGC's assessment, our focus is narrower and is concentrated on the adequacy and quality of the policies that impact the investment returns that in-scope customers receive.

In last year's report, we outlined the important steps that Phoenix had taken, as part of a wider initiative across the whole of the Phoenix Group, to ensure Responsible Investment principles were taken into account in their investment decision-making.

In 2022, significant further progress has been made to strengthen the policy framework that applies and ensure that it is robustly implemented. In particular:

- Phoenix has further strengthened its policy framework. The existing policies that deal with ESG and Stewardship considerations have been updated to ensure effective stewardship approaches. In addition, new policies and supporting documents have been developed to deepen the impact Phoenix Group seeks to have in this area. In particular, a set of Global Voting Principles have been developed which summarise the Group's high-level beliefs and expectations of good ESG practices that asset manager partners should take into account when making investment decisions on Phoenix's behalf.
- Phoenix has further strengthened the **governance infrastructure** around Responsible Investment, to ensure that the policy intentions are definitely carried out, and can be seen to be. The ESG assessment framework that applies to the Group's five strategic asset manager partners has been enhanced, and extended to cover 6 of the managers with smaller mandates from the Group. The framework supports the evaluation of a manager not only on its ESG capabilities at the firm level, but also on how a relevant strategy integrates ESG issues into investment analysis and stewardship activities.
- In order to increase the choice of investment options open to workplace pension customers, in July 2022, following preparations in 2021, a range of 6 "low carbon" investment funds were made available to Phoenix customers who wish to self-select specific areas of equity investment in a climate-oriented way. These funds are aimed at customers who wish to have equity exposure which is managed within explicit climate change-related limits and each has a different geographical focus (e.g. UK equities; US equities; European equities; Japanese equities).
- Phoenix Group continues to play a leading role , working with sector peers to highlight the important role of private finance in combatting climate change. Phoenix has also further extended its strategic industry partnerships to promote collective action on climate change.
- Following the introduction of its Stewardship Policy in 2021, Phoenix Group has been working hard in 2022 on evidencing its implementation sufficiently to become a signatory to the UK Stewardship Code (produced by the Financial Reporting Council). The resulting evidence pack, in the **Stewardship Report 2022** which was published in March 2023, makes impressive reading. In August 2023, the FRC announced that Phoenix's application to become a Stewardship Code signatory had been accepted. This is an important external validation of the effectiveness of the Phoenix Group's (and hence Phoenix Life's) approach.

The IGC has been pleased to see continued progress in 2022. There is still more to be done, particularly in developing the range of fund options for those customers who wish to self-select funds which incorporate additional climate-related restrictions, and also in the area of communication – helping customers to see the beneficial impact on the environment and society of how their pension pots are being invested. Nevertheless, 2022 has been another good year as far as ESG and Stewardship are concerned.

IGC conclusion

Phoenix's policy on ESG matters and Stewardship is clearly set out.

- It covers the key financial risks, and also opportunities, arising from ESG considerations.
- It sets out clear standards that must be followed in the investment of in-scope customers' savings, where that investment is carried out on behalf of Phoenix.
- It highlights the importance of being responsible investors, having a policy of active engagement with the firms that are invested in, including exercising voting rights and holding management to account over their governance standards and business behaviour.
- The policy framework also recognises the significance of non-financial matters to many customers, and a range of appropriate investment options is available to respond to their ethical concerns.

The standards are linked to the United Nations Principles for Responsible Investment, which is a helpful reference point as to adequacy and quality. Another helpful reference point is the acceptance by the FRC of Phoenix Group's March 2023 application to become a signatory to the UK Stewardship Code.

Thus the IGC is able to confirm that the Phoenix policy on ESG financial and non-financial matters, along with Stewardship, is both adequate and of an appropriate quality.

The implementation is built into the existing Group-wide Risk Management Framework and so is subject to regular monitoring and reporting. In addition, the oversight of its implementation in asset manager partners is clearly evidenced, and regularly monitored.

In the comments above, the IGC has given a flavour of what has happened over 2022. Those readers who wish to know more about any area highlighted here can find additional information in the appropriate **Supporting Material**.

The IGC is pleased to rate Phoenix **GREEN** in this area, and looks forward to see what further developments 2023 will bring.

Supporting Material

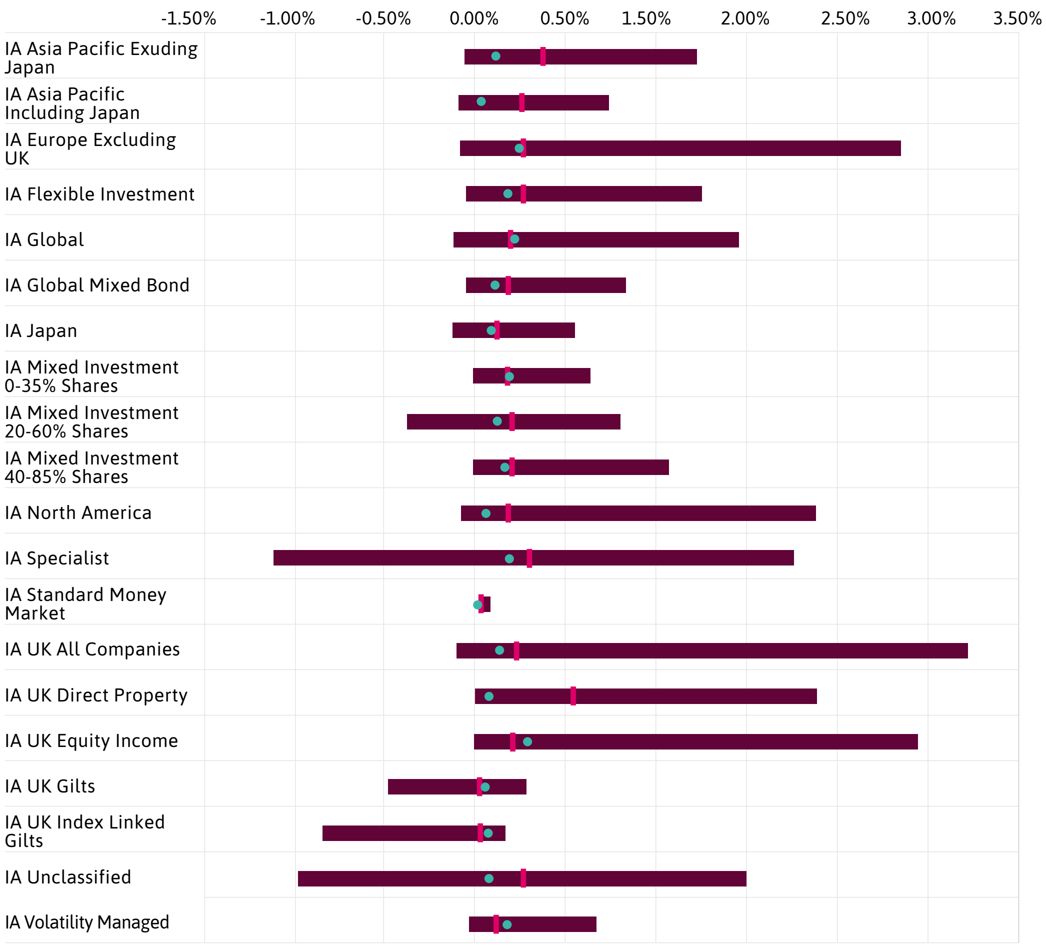
Supporting Material

Costs and Charges

Supporting Material

Costs and Charges

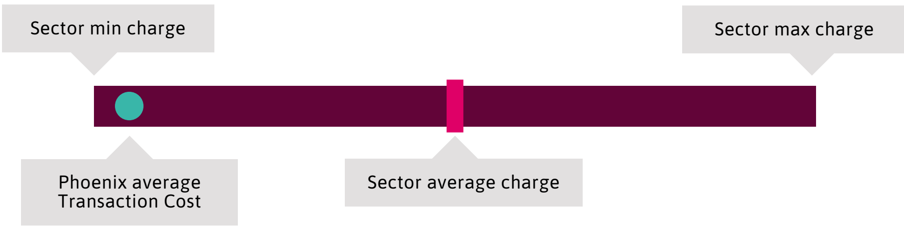
Transaction cost – benchmarking



The chart illustrates that the average Phoenix transaction costs relative to those of other companies in the market are within normal market ranges for funds with a similar strategy, albeit that market participants may use a range of different interpretations and methodologies.

Methodology

- The chart shows the range of transaction costs being reported in the Investment Association (IA) sectors.
- Each bar demonstrates the minimum, maximum and average transaction cost reported for each IA sector.
- The average Phoenix insured fund transaction cost has been overlaid for comparison purposes. Insured funds have been aligned to IA sectors based on their respective ABI sector. Where no average is shown, there is either no comparable ABI sector or no Phoenix fund within scope in that sector.



Disclosure of costs and charges by individual customer

The table below shows the range of charges applied to individual customers' pension pots for each of the nine main unit-linked funds used by customers within the relevant schemes. Customers can see from their annual benefit statement the name of the funds in which they are invested. For example, the table below shows that, if you are invested in the Phoenix NPI Pensions Managed Fund, most customers, around 82%, pay an ongoing charge, of between 0.96% and 1.00% per year. Some customers are paying a lower ongoing charge with around 12% paying between 0.60% and 0.95% per year and around 6% paying ongoing charges less than 0.59% per year.

Some customers pay different types of charges but, in the table below, these have all been converted to an equivalent percentage ongoing charge to make comparisons easier.

Fund Name	Ongoing Charges								Transaction Cost
	<0.3%	0.30% – 0.39%	0.40% – 0.49%	0.50% – 0.59%	0.60% – 0.75%	0.76% – 0.85%	0.86% – 0.95%	0.96% – 1.00%	
Abbey Life Pensions International	0.00%	0.00%	0.00%	0.00%	0.00%	47.86%	11.56%	40.58%	0.1115%
Abbey Life Pensions Managed	0.00%	0.00%	0.00%	0.00%	0.00%	46.15%	12.29%	41.55%	0.1229%
Phoenix BULA Pension Growth Fund	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.0624%
Phoenix NPI Pensions Managed	0.08%	0.00%	1.62%	4.33%	5.58%	4.29%	2.05%	82.05%	0.0995%
Phoenix NPI Pensions Overseas Equity	0.00%	0.00%	9.75%	6.75%	6.05%	3.80%	2.42%	71.23%	0.0967%
Phoenix NPI Pensions UK Equity Tracker	0.00%	0.00%	9.66%	8.69%	9.89%	11.46%	2.24%	58.06%	0.0460%
Ex-RSALI Managed Growth Fund	0.00%	0.00%	0.00%	80.53%	8.39%	0.00%	0.00%	11.08%	0.1301%
Pearl Pensions UK Equity	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.0534%
Phoenix Scottish Mutual Growth Pension	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.1847%

Disclosure of costs and charges by individual employer arrangement

The table below shows the range of charges applied within each employer arrangement for each of the nine main unit-linked funds used by customers. Customers can see from their annual benefit statement the name of the fund or funds in which they are invested.

Some customers pay different types of charges but, in the table below, these have all been converted to an equivalent percentage ongoing charge to make comparisons easier.

Fund Name	Ongoing Charges								Transaction Cost
	<0.3%	0.30% – 0.39%	0.40% – 0.49%	0.50% – 0.59%	0.60% – 0.75%	0.76% – 0.85%	0.86% – 0.95%	0.96% – 1.00%	
Abbey Life Pensions International	0.00%	0.00%	0.00%	0.00%	0.00%	44.97%	16.22%	38.81%	0.1115%
Abbey Life Pensions Managed	0.00%	0.00%	0.00%	0.00%	0.00%	44.03%	16.72%	39.25%	0.1229%
Phoenix BULA Pension Growth Fund	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.0624%
Phoenix NPI Pensions Managed	0.35%	0.00%	0.58%	4.03%	2.30%	1.55%	1.21%	89.98%	0.0995%
Phoenix NPI Pensions Overseas Equity	0.00%	0.00%	4.44%	7.46%	6.83%	5.24%	4.60%	71.43%	0.0967%
Phoenix NPI Pensions UK Equity Tracker	0.00%	0.00%	4.92%	8.71%	8.71%	6.25%	4.92%	66.49%	0.0460%
Ex-RSALI Managed Growth Fund	0.00%	0.00%	0.00%	87.11%	6.30%	0.00%	0.00%	6.59%	0.1301%
Pearl Pensions UK Equity	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.0534%
Phoenix Scottish Mutual Growth Pension	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.1847%

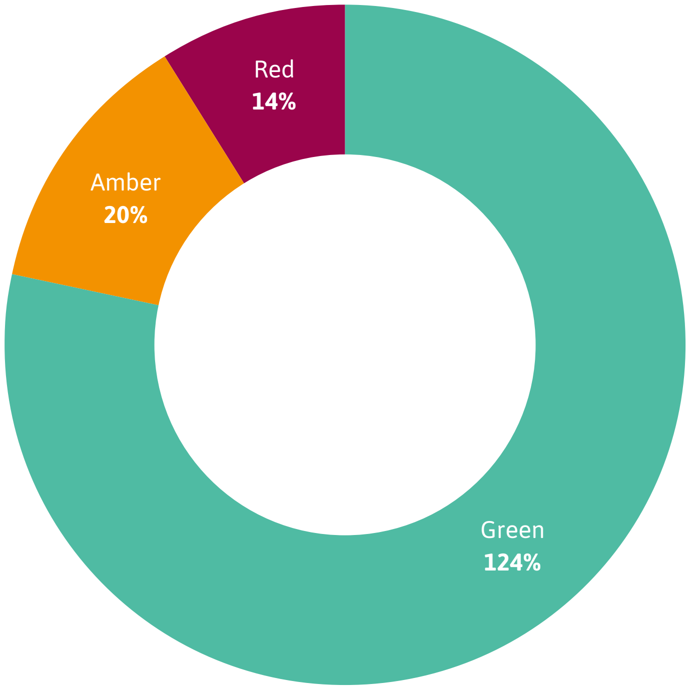
Supporting Material

Investment Performance and Services

Supporting Material

Investments

Performance RAG distribution (rated funds)



There were 5 (3%) unrated funds due to unavailability of data

Where funds are in ABI Unclassified and ABI Specialist sectors, performance ranking of these funds as a whole is inappropriate, given the diverse nature of the sector constituents.

Summary (Proportion of overall fund range in each Quartile)	Quartile rankings				
	5 Year	10 Year	15 Year	20 Year	25 Year
Quartile Summary (% of Ranked funds in each quartile over stated periods)					
Quartile 1	13%	15%	13%	15%	14%
Quartile 2	29%	28%	22%	17%	20%
Quartile 3	26%	30%	32%	27%	25%
Quartile 4	32%	27%	33%	41%	41%
TOTAL number of ranked funds	141	141	141	134	103
Unranked (% of total number of funds which are unranked)	13%	13%	13%	12%	26%
Total number of funds in-scope	163	163	163	152	139

Source: Quartile rankings and ABI Pension Sector: FE. The rankings range from 1 to 4, with 1 representing those funds within the top 25% of sector and 4 those funds within the lowest 25% of their sector. Where funds are in the ABI Unclassified and Specialist sector, Quartile rankings are not appropriate due to the diverse nature of their components. All other information: Phoenix.

Supporting Material

External Assessment of Value for Money in Investments

Several years ago, the Standard Life IGC and Redington developed an investment VFM assessment framework.

The framework enables the IGC to identify, on a quantitative basis alongside existing controls and reporting, if any default strategies or single funds may not be providing value for money. For those strategies or funds identified, further investigative work is carried out to determine if it is offering value for money or not as deemed by the IGC.

The assessment takes into account the differing objectives of an investment strategy through the retirement journey.

It is made up of a **forward-looking** and **backward-looking assessment**. A final score of less than 3 for either the forward or backward-looking assessments will require further investigation. A final score of 3 or more effectively passes the assessments.

Forward-Looking Assessment

Considers the entire investment journey for a member, focusing on four particular time-based slices.

The assessment looks to determine:

- If the strategy has the propensity to deliver a good outcome for members; and
- Whether the target of the strategy (e.g. cash, annuity, drawdown) is aligned to the investments used at the end of the glidepath.

Backward-Looking Assessment

Considers past performance and tracking error (a measure of volatility) of the underlying funds.

The purpose is to ensure the IGC can identify fund-specific issues that would prevent a strategy from being value for money. Examples include:

- Poor performing actively managed funds (significant and sustained);
- Passively-managed funds with significant tracking errors;
- Actively-managed funds which are closet index-trackers: and
- Expensive passive-funds.

With Profits funds underlying asset share performance vs CPI

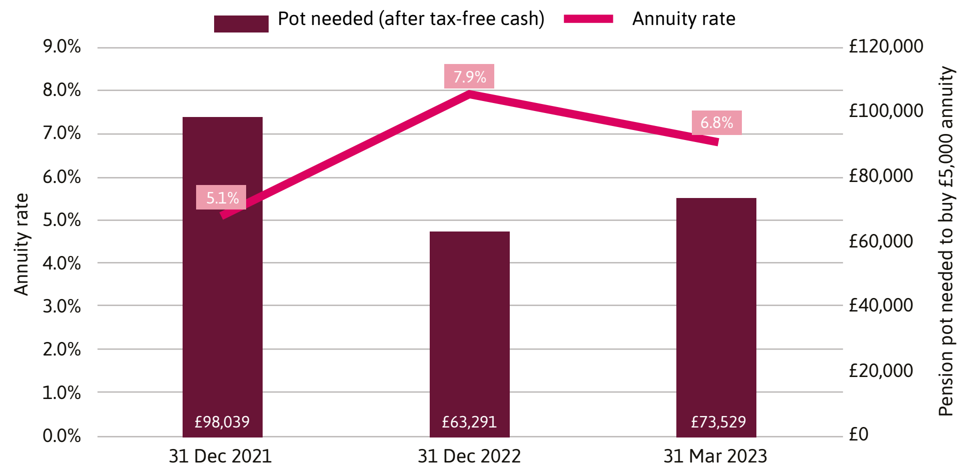
The following tables provide a comparison of the annualised investment return of various with-profits funds, after expenses and charges, against inflation as measured by the headline CPI, over the last 1, 3, 5 and 10 year periods. This gives an indication as to how portfolios underlying your with-profits policies have performed in terms of protecting the purchasing power of your fund over these various time periods.

It is important to remember that the details of each with-profits fund will differ, depending for example on whether there are any annual guarantees and the ability of the scheme to pay bonuses. Headline inflation averaged 7.9% in 2022, it averaged 5.44%% in the 3 years 2020-22, it averaged 3.9% in the 5 years 2018-22, and it averaged 2.7% in the decade including 2022.

As the tables show, some funds have not performed well in relation to inflation, especially in the Alba series. Others have achieved a much higher return, such as some Scottish Provident and Pearl funds. The outcome will depend on the mix of bonds, equity and property held within the fund, and how much risk it has taken in relation to the objective of providing a smoother return to the investor over time. The IGC continues to encourage the with-profits team at Phoenix to consider the importance of matching or exceeding inflation over the longer term.

PLAL fund	London Life	London Life	NPL	NPI	Pearl
IGC Bonus series	Trad pensions	UWP pensions	Type 2 UWP (no min bonus)	UWP Group Pension	Personal Pensions
1yr	-23.3%	-23.8%	-18.1%	-20.8%	-21.5%
3yr	-9.7%	-8.4%	-5.3%	-6.2%	-5.8%
5yr	-5.6%	-4.3%	-3.1%	-3.0%	-2.3%
10yr	-2.1%	0.3%	-0.2%	1.5%	2.2%

PLL fund	SM	SPI	SAL	SAL	Alba	Alba	Alba
IGC Bonus series	UWP RP 3 (no min bonus)	UWP Pension series II (without min bonus)	Group UWP	Trad Regular Premium Pensions	Trad Pension BLL/FS series B	LASIA UWP pension	BL UWP Pension
1yr	-17.6%	-16.4%	-25.0%	-11.7%	-19.4%	-20.1%	-19.5%
3yr	-4.3%	-3.8%	-7.5%	-3.8%	-6.8%	-8.6%	-6.9%
5yr	-1.8%	-1.5%	-3.3%	-2.2%	-3.8%	-5.3%	-3.9%
10yr	2.3%	2.5%	1.2%	0.9%	-0.1%	-1.7%	-0.2%



Supporting Material

Communication and Engagement

Supporting Material

Communication and Engagement

Fit for Purpose Protocol

What is the PURPOSE of this communication and desired outcome for:

i. the provider

ii. the customer

(NB: purpose could be to provide information, inform a decision, prompt action or give comfort that an existing decision is still fine)

How are the contents FIT for the identified PURPOSE – that is:

i. contains at least the minimum information required for the identified purpose, or indeed more than the minimum if it can make the document more accessible and/or appealing; and

ii. how the minimum information (and anything additional) has been tailored to the characteristics, needs and objectives of the customer e.g. age, sex, risk appetite, level of financial understanding.

How has the communication been designed and/or presented to make it as accessible and appealing as possible to the relevant customer? (E.g. appropriate reading age, colour, use of diagrams etc.)?

What evidence exists to demonstrate that the desired outcome has been achieved?

(i.e. customer research re extent to which the communication has been i. read; ii. understood; and iii. acted upon)

Supporting Material

ESG and Stewardship

Supporting Material

ESG and Stewardship

In the ESG and Stewardship sections of the Key Messages and Further Commentary parts of the report, we listed some of the key developments that Phoenix, as part of the wider Phoenix Group, has put in place during 2022. The purpose of what follows in this part of the report is to explain a bit more about the framework that is in place and what has been done to strengthen it in 2022 and why the IGC continues to be impressed with the progress made.

The Phoenix Group sustainability strategy

Phoenix Group, of which Phoenix Life is a part, is (to quote their 2022 Sustainability Report):

"a purpose-led organisation that strives to be an uncompromising force for good in our society, while maximising value for our customers and investors."

The Group's purpose of **"helping people secure a life of possibilities"** is articulated in the following commitment:

"As the UK's largest long-term savings and retirement business, managing £259 billion of assets on behalf of our 12 million customers, we have the responsibility and opportunity to make a real difference to our customers' financial futures. We want to support them on their journey to and through retirement and meet more of their existing needs, while helping to drive a low-carbon, fair and more secure future."

The Group's sustainability strategy is embedded in the Group's strategic priorities and aims to deliver positive outcomes for customers and society. Its three pillars, aligned to the Group's strategic priorities, define how the Group will deliver its purpose:

1. Invest in a sustainable future;
2. Engage people in better financial futures; and
3. Lead as a responsible business,

and supports the Group's climate ambition:

"To optimise value for our customers and play a key role in delivering a net zero economy. We do this by decarbonising our investments, operations and supply chain to manage risks; investing in the growing sectors of the future to take advantage of the opportunities; and being a leading voice in calling for action and driving system change."

Across these three pillars, Phoenix Group has chosen to focus on four priority ESG themes where they believe they can have the most material impact, two of which concern the "E" of ESG ("climate change" and "nature and biodiversity") and two of which concern the "S" ("financial wellness and inclusion" and "longevity and evolving demographics"). This is in addition to the ongoing embedding of sustainability and good governance across all aspects of the Phoenix Group.

In the 2022 Sustainability Report (published in March 2023 and available **here**), Phoenix expand on their strategy and activity in each of these pillars. The first pillar ("Invest in a sustainable future") is particularly relevant to this section of the IGC report, and comprises the following three key initiatives:

- **Decarbonising our investment portfolio** by transforming our portfolio to increase net zero alignment;
- **Effective stewardship of our assets** by working with investees and asset managers to drive emission reduction and reduce risk; and
- **Investing in climate solutions** in the growing companies and sectors of the future.

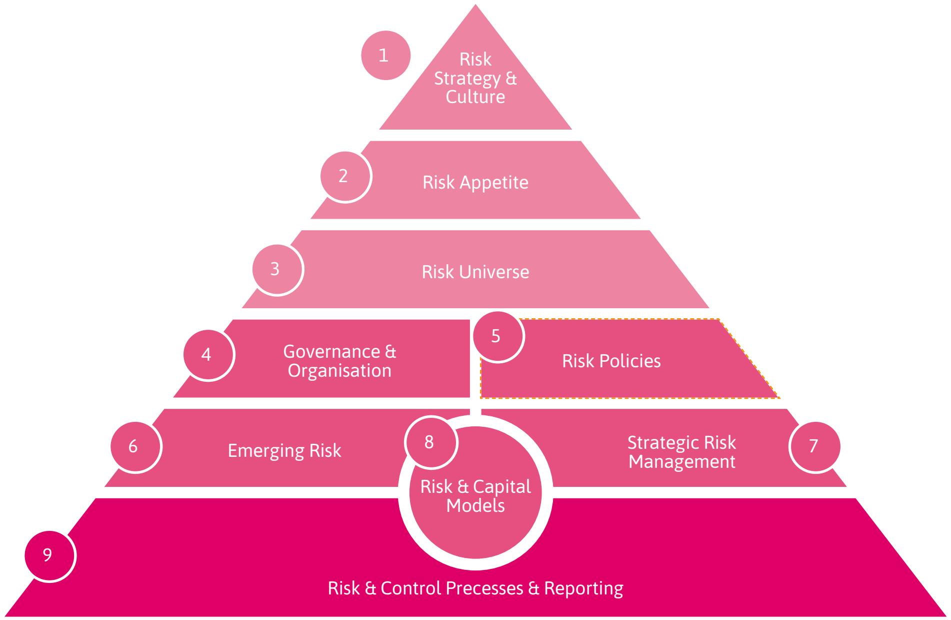
The IGC continues to be pleased to see such a strong "tone from the top" on ESG issues, with its strong focus on customer interests and outcomes.

Strengthened policy framework

That Phoenix Group is serious about following through on these commitments can be seen from the way Responsible Investment considerations have been built into the Group's Risk Management Framework (RMF). The RMF sets out how the Group identifies, manages, monitors and reports on the risks to which it is, or could be, exposed, including climate-related risks. The diagram below summarises how climate change is reflected across the Group's RMF. The Group Risk Policy Framework is a key component of the RMF. Group risk policies support the delivery of the Group's strategy by establishing the operating principles and expectations for managing the key risks to the Group's business. They set the risk appetite within which these key risks should be managed and the minimum control standards that the business must adhere to in order to operate within the stated risk appetite.

Phoenix Group Responsible Investment (RI)

Embedded within the Group Risk Management framework



1. Risk strategy and culture Sustainability and minimising environmental impact are a key component of the Group's strategy. We have aspecific sustainability strategy and set net zero carbon commitments for operations, supply chain and the investment portfolio, as well as specific annual goals such as sustainable origination targets for private placements.

2. Risk appetite The sustainability risk appetite statement is approved by the Board and has been updated during 2022 to reflect our latest sustainability strategy. We have approved supporting climate risk appetite statements and metrics with footprints throughout the Risk Universe.

3. Risk Universe Climate risk is treated as cross-cutting risk, rather than standalone risk, as it can potentially impact all risk categories underlying the risk universe.

4. Risk policies All policies have been reviewed to ensure appropriate content is included for material climate risk exposures. Policies with a potential climate impact contain specific flags to ensure climate risk is clearly considered.

5. Governance and organisation Governance is led by the Board Risk and Board Sustainability Committees plus supporting management committees. There is clarity on roles and responsibilities across the three lines of defence.

6. Emerging risk Climate and ESG risks continue to be monitored via the well-established emerging risk process, which also considers the evolving regulatory landscape. This is supported by forward-looking Own Risk and Solvency Assessment ('ORSA') monitoring.

7. Strategic risk management Climate risk is a principal risk and considered as part of Line 2 oversight of strategic developments, e.g. Annual operating plan development, project reviews, ORSA, management actions and regular risk reporting.

8. Risk and capital models External tools have been sourced to support carbon foot-printing and climate scenario analysis. Models have been developed for internal climate scenario analysis with enhancements made in 2022 and planned in 2023.

9. Risk and control processes and reporting A climate risk dashboard covering key Level 1 risks is integrated into our regular risk reporting. Minimum control standards are also in place for key policies.

Phoenix Group Holdings plc Climate Report 2022.

The Group has six “macro” Risk Appetite Statements that shape what is done across the whole Group. They set out the Group’s approach to Capital, Liquidity, Shareholder Value, Control, Conduct and Sustainability. The Sustainability statement is particularly relevant to this section of the IGC report:

“Sustainability – The Group is committed to being a leader on sustainability to help deliver our corporate purpose and to protect the long term financial interests of our customers, employees and shareholders. To manage the risks in the delivery of our sustainability strategy, the Group will monitor and take action to achieve our targets and invest in a sustainable future, engage people in better financial futures and build a leading responsible business.”

The IGC sees this as particularly significant, as it puts sustainability (and hence ESG and Stewardship considerations) at the heart of how Phoenix Life, as part of the Phoenix Group, is required to carry out its business.

Following on from this, a number of key supporting documents have been produced, setting out how these aspirations and commitments become embedded in business operations:

- The **Sustainability Risk Policy** for the Group;
- A **Responsible Investment Philosophy** setting out what is expected of the investment managers that Phoenix Group use;
- A more detailed set of **Responsible Investment Principles and Practices** that apply to customer investment decisions; and, new in 2021,
- An **Exclusion Policy** setting out the principles that should guide “the focused use of portfolio exclusions alongside other ESG engagement and investment strategies; and
- The first **Stewardship Policy** for the Group.

All these documents were reviewed and updated in 2022 to ensure effective Stewardship approaches. In addition, the following new documents and policies were introduced:

1. A set of **Global Voting Principles** that summarise Phoenix Group’s high-level beliefs and expectations of good corporate governance, environment and social practices that should be followed by the Group’s asset management partners;
2. A **Human Rights Policy** for the Group, that includes reference to collaboration with the Group’s asset management partners to integrate human rights considerations into the investment processes and support effective stewardship of assets;
3. A document setting out **ESG expectations of companies**, consistent with the expectations set out in the Global Voting Principles; and
4. A **Sustainable Investment Risk Policy** for the Group.

The **Sustainability Risk Policy** sets out the high thresholds concerning Sustainability and Responsible Investment that must be met across all the relevant areas of the business, including, in particular, the investments being made on behalf of customers (including, by definition, those within our scope). Amongst the key highlights in the policy from the perspective of the IGC's scope are the following:

- The policy confirms that Phoenix Group has a "very low appetite" for failing to maintain and continually evolve an adequate and effective Responsible Investment;
- Philosophy and for failing to maintain an appropriate framework to integrate sustainability activities in the investment activities of the business;
- The policy requires that the Group's Responsible Investment Philosophy is reviewed, embedded, monitored, reported on, and action progressed in a timely manner across the Group, overseen by the relevant governance committees;
- It also requires the setting of sustainable investment targets, providing regular updates and tracking, continually striving for improvement in order to aid in the delivery of the overarching sustainability strategy; and
- The policy requires the Group to maintain a suitable level of expertise, relevant governance documentation, and appropriate management of investment activity within the business in order to integrate sustainability activities in the investment activities of the business.

The Responsible Investment Philosophy is a public document, available on the **website**. It sets out Phoenix's commitment to Responsible Investment, and what that means in practice. The Philosophy applies to all the Group's investment portfolios across with-profits, unit-linked and non-profit policies, where Phoenix Group has the ability to determine the investment strategy and investment guidelines that apply. Where customers choose to invest in externally-managed investment options, then Phoenix has less influence over the ESG policies followed. The IGC recognises this distinction, but continues to encourage Phoenix to make the most of whatever influence it might have in the latter situations.

Central to Phoenix Group's approach is its commitment to the United Nations-supported Principles of Responsible Investment (PRI).

Phoenix Group became a signatory to the PRI towards the end of 2020, one of the first insurance groups in the UK (rather than just the fund management subsidiary) to do so. Phoenix Group are publicly committed:

- To incorporate ESG issues into investment analysis and decision-making processes;
- To be active owners and incorporate ESG issues into the Group's ownership policies and practices;
- To seek appropriate disclosure on ESG issues by the entities in which the Group invests;
- To promote acceptance and implementation of the Principles within the investment industry;
- To work together to enhance effectiveness in implementing the Principles; and
- To report on activities and progress towards implementing the Principles.

The 6 Principles in the "Principles and Practices – Responsible Investment for Policyholder Assets"

Principle 1 – Strategy

We invest responsibly with ESG risks and opportunities incorporated into our investment analysis and decision-making processes. We will hold investments where we and our asset managers have considered and assessed financially material ESG risks. We also consider non-financial risks where appropriate in our investment decisions.

Principle 2 – Customer voice

We actively seek views from customers and reflect these in our fund range and investment strategies, as there are many who want to invest in ways that align to their own values.

Principle 3 – Asset manager selection

We only appoint asset managers who meet our Responsible Investment standards. We ensure that existing and new asset managers continue to meet our standards through our due diligence processes.

Principle 4 – Active stewardship

We are responsible asset owners and actively foster responsible stewardship of all investments that are managed on our behalf. We promote good ESG practices by investee companies through engagement activities conducted internally and through our asset managers. We monitor our asset managers' voting policies and practices.

Principle 5 – Disclosure and reporting

We seek appropriate disclosures on ESG issues from the asset managers with whom we invest and partner. We also report on activities and progress relating to our own principles and practices in an open and transparent way.

Principles 6 – Industry leader

We strive to play a leadership role in Responsible Investing and liaise with industry bodies in order to be at the forefront of industry development. We will promote Sustainable Investing within our industry, using our voice as a large insurer and long-term global investor to influence and drive change throughout the industry.

Phoenix Group requires all the fund managers that it uses to be signatories of the UN PRI too, and to have the necessary resources and operational structure to embed ESG considerations into their investment and decision-making processes. There is a regular programme of oversight in place to ensure that fund managers are delivering to these standards – see later in this **section**.

The Responsible Investment Principles and Practices were first published in 2020, building on the September 2019 Standard Life publication entitled: "Integrating a responsible approach to your pension investments". They set out a more clear and more measurable set of outcomes that Phoenix is targeting in respect of customers' investments.

- There are six principles, that set out the key objectives in all the relevant areas – e.g. how ESG impacts investment strategy decisions and how they are implemented; how customer views are taken into account; what Phoenix expects of the fund managers it appoints etc. – See shaded box on previous page.
- Each Principle is accompanied by a number of Practices that explain the specific actions that follow from the Principles.
- The Principles are not expected to change often. However, they are kept under regular review, and any changes would need to be approved by the Investment Committee and/or the Board. Minor revisions were made to some of them in 2022, to improve clarity and emphasise the need for asset manager partners to continually enhance their practices in this important area.
- The Practices are expected to evolve as the business environment changes. Any change will follow formal consultation with the management responsible for the relevant blocks of business and/or processes. Material changes to the practices would need approval from the Investment Committee and/or the Board. Minor changes were made to some of the Practices in 2022, to reflect the escalation process with asset manager partners in case of poor performance on ESG practices, and also the current process for the customer survey on Ethical funds.
- The Principles and Practices apply to all policyholder assets of the Phoenix Group, but not to External Fund Links (EFLs) that Phoenix provides some customers on a self-select basis, as Phoenix has no direct control over how these funds are run.

The **Investment Exclusions Policy** was first published in September 2021. It starts from the Phoenix Group's commitment to "putting Sustainability at the heart of its business by integrating environmental, social and governance factors (ESG) into the investment process", but recognises that there may be times when it is better not to invest at all in certain companies or industries, rather than investing and trying to push for positive change from within.

The policy sets out four principles which, if satisfied, would be expected to lead to those assets being excluded from investment portfolios controlled by Phoenix:

Principle 1: Sectors or companies that face acute social or environmental challenges that are very likely to translate into financially material risks;

Principle 2: Sectors or companies where Phoenix Group does not believe that engagement will be effective;

Principle 3: Sectors or companies that do not adhere to international standards of minimum acceptable behaviour as identified in relevant international treaties and United Nations initiatives; and

Principle 4: Sectors or companies that do not align with Phoenix's pledges and commitments, corporate values and present reputation risk.

"Exclusion" means that Phoenix will not make additional investments and will sell existing holdings from in-scope portfolios within 12 months. The policy also allows for a waiver process to be followed where particular extenuating circumstances suggest that a particular asset or sector should not be excluded at that time (for example, because the company is making good progress in responding to previous challenges from Phoenix and/or further opportunities for engagement with management exist).

The policy applies to all assets where Phoenix Group (and hence Phoenix) has direct control over the investment mandate. For those assets where Phoenix does not have control (e.g. investment fund choices managed by third parties that Phoenix makes available to customers), Phoenix will use whatever influence it has to engage with the relevant investment manager to encourage implementation of a consistent approach.

The initial list of potential exclusions was drawn up in July 2021 and included 544 issuers covering such areas as:

- Manufacturers of controversial weapons;
- Tobacco producers; and
- Companies where more than 20% of revenues come from certain forms of fossil fuel production (e.g. thermal coal, oil sands and artic drilling).

Of these, 21 issuers were proposed for waivers, leaving 523 issuers on the final list. The Exclusions Policy was implemented for the majority of policyholder mandates by the end of 2022. (For a small number of UK and US equity tracker mandates, implementation was delayed in order to reduce tracking error – the Group's intention is, by early 2024, to introduce new climate transition benchmarks for these portfolios to track, and these new benchmarks will incorporate the Exclusions Policy.)

It is not the IGC's role to opine on what criteria are applied by Phoenix. Rather, we are looking for evidence that principles are in place to address climate-related and other factors that could lead to financially material risk, that the principles are based on a robust process of analysis and review, their approval is subject to appropriate internal governance, and they are implemented in a controlled and transparent way.

In the IGC's opinion, the Investment Exclusions Policy meets these standards, and plays an important role as part of the overarching approach to Responsible Investment that applies within Phoenix Group (and hence Phoenix).

The development of the **Group Stewardship Policy** was another important milestone in 2021. Approved in November 2021, it sets out what Phoenix Group (and hence Phoenix) mean by "Stewardship" and their commitment to support effective engagement with the companies in which they invest (whether using customer money or shareholder money).

In terms of definition, Phoenix embrace the Financial Reporting Council's definition that:

"Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."

For Phoenix, "Stewardship" refers to their "use of the rights and position of ownership to influence the activity or behaviour of the companies they invest in". Where they hold shares (i.e. equity) in a company, this means engaging with the company's management, influencing on issues of concern and voting on company resolutions at shareholder meetings. For other types of investment, voting may not be applicable, but Phoenix would still aim to engage as appropriate. The policy sets out what Phoenix sees as the characteristics of effective stewardship, including:

- Robust ESG research on material risks and opportunities, using internal and external data;
- Dialogue with corporate top decision makers;
- Setting of goals;
- Continuous evaluation of progress against objectives; and
- Influence on investment decision-making.

The policy recognises that the majority of Phoenix's engagement activity with investee companies will be conducted by their asset manager partners. However, importantly, the policy also makes clear that Phoenix reserves the right to deal direct with investee companies and also join collaborative engagements with other investors.

The policy also recognises that Phoenix does not have the same influence over externally managed investment fund choices (EFLs, external fund links) as it does over the investment funds where it chooses the investment strategy and fund manager partners implement it on Phoenix's behalf.

That Phoenix is definitely committed to such responsible behaviour can be seen, not just from this public policy, but also from the huge amount of work that has gone in to the Phoenix Group submission to the Financial Reporting Council (FRC) in order to become a signatory to the UK's Stewardship Code. Published in March 2023 and available on the Group website [INSERT LINK], the 2022 Stewardship Report makes impressive reading and, amongst other topics, sets out in some detail how the Group's good intentions in these areas are put into practice.

In the IGC's opinion, the Phoenix Group policy on Stewardship, which applies within Phoenix, is of a high quality and appropriately addresses Phoenix's Stewardship obligations. While it is still early days in its implementation, what is in place already would seem robust and effective to the IGC. In August 2023, the FRC announced that Phoenix's application to become Stewardship Code signatories had been accepted. This is an important external validation of the effectiveness of the Phoenix Group's (and hence Phoenix Life's) approach.

Strengthened governance framework

By embedding Responsible Investment and ESG considerations in the established RMF, the Group's performance in this area is then automatically subject to the routine review and reporting of compliance with the targets set, along with escalation, as appropriate, of any failure to meet the standards set. The IGC sees this as a key strength of the approach being taken to implement Responsible Investment considerations into the management of in-scope customers' pension savings.

For example, the Group's Market Risk and Credit Risk policies, which apply to all investment decisions made by Phoenix Group (and Phoenix in particular), both set out a number of minimum controls that must be in place regarding Responsible Investment, including, in respect of climate risk, the following ongoing controls:

i. Monitor and report current carbon/climate contribution of existing asset portfolio and progress against interim targets to deliver net zero on a phased basis;

ii. Maintain a process to review data feeds from external providers to ensure they meet requirements for monitoring and reporting of climate change risks;

iii. Maintain a process to perform portfolio analysis using best in-class metrics e.g. value at risk (taking into account physical and transition risks) and warming potential; and

iv. Maintain a process to use climate scenario analysis to inform understanding of range of physical and transition impacts on investments.

The Investment Committee that oversees Phoenix's investment decisions has, in its Terms of Reference, a specific responsibility to "ensure that all activities within the remit of the Committee are conducted in accordance with the Responsible Investments ethos and strategy of the Company and the Group". As part of this, it has responsibility for the development, implementation and monitoring of the Responsible Investments Principles and Practices mentioned above.

In carrying out these responsibilities, the Investment Committee is supported by a separate management committee, the Sustainable Investment Forum, that has been set up to provide direction, oversight, scrutiny and challenge on sustainable investment matters, including stewardship. The purpose of the Forum is to embed ESG issues into the investment process and decision-making used across the Phoenix Group in a way that is consistent and aligned with the Group's overall sustainability strategy.

The IGC receives regular updates on the oversight activity carried out by Phoenix Group on its 5 key fund manager partners and also the many other fund managers whose funds are made available to Phoenix Group customers. Where Phoenix is responsible for the investment decisions being made that impact IGC in-scope customer investment returns, we can confirm that Phoenix is keeping a careful eye on how its Responsible Investment framework is being implemented by its fund manager partners, and ensuring appropriate action plans are agreed and progressed wherever it perceives gaps exist that need closed.

Another key element of the governance framework around ESG and Stewardship is the Group Board's Sustainability Committee. First set up in 2020 , the role of this Committee is to assist the Board in overseeing the achievement of the Group's sustainability strategy, including stewardship activities. A number of management committees and working groups feed into it, providing updates against strategy, KPIs and targets (as can be seen from the governance framework diagram set out on page 77 of the **2022 Sustainability Report.**) The Terms of Reference of this important Committee are available on the Phoenix Group **website** and cover such matters as:

- Oversight of the Group's Sustainability Strategy and the setting of appropriate key performance indicators;
- Review, challenge and support the implementation of the Sustainability Strategy across all business within the Phoenix Group; and
- Keeping up-to-date with sustainability best practice and thought leadership.

While the remit of this Committee is much wider than the application of Responsible Investment considerations to the investment of pensions savings within the remit of the IGC, the IGC welcomes its existence as a tangible sign that the "tone from the top" across Phoenix Group is consistent with, and supportive of, the developments seen within Phoenix in this important area.

The 2022 Sustainability and Stewardship Reports, both available on the Phoenix Group **website**, set out the breadth of activity that is underway across the Group in this important area and demonstrate the effectiveness of the framework that is now in place in delivering on the targets set and aspirations described.

Customer Research

Approximately every year, Phoenix Group carries out a Responsible Investing Survey to monitor how customers' attitudes to ESG and other Responsible Investment considerations are changing. While carried out amongst customers with Standard Life products (another pension brand offered by the Phoenix Group), the mix of customers surveyed was considered broad enough to be considered representative of Phoenix customers too. Amongst the findings from the early 2022 survey were the following, where the equivalent results from the previous (late 2020) survey are shown for comparison:

- Customers surveyed still ranked "return" (88%) and "risk" (81%) as the most important factors to take into account when investing. However, "good corporate governance" was also rated highly (77%);
- 90% (up from 89%) of respondents believe that protecting the environment is important;
- 66% (down from 70%) of respondents believe that responsibly invested funds will outperform other funds in the long-term;
- 70% (up from 65%) of respondents believe that it is important to invest in a way that drives positive change (e.g. influencing companies' impact on society, corporate governance or climate impact);
- 70% (up from 66%) of respondents feel that it is important to exclude companies that have a negative impact on society, poor corporate governance or are damaging the environment; and
- 64% (up from 61%) of respondents said that they want to invest in a way that commits to net-zero carbons emission status by 2050 (or earlier).

The consistency in findings since the previous survey is striking, and confirms that Phoenix's emphasis on sustainable and responsible investment is well-placed and aligns with widely-held customer views.

In addition to this regular survey, in late 2022, the Phoenix Group commissioned an external agency to carry out research across Phoenix, ReAssure and Standard Life customers in order to explore customer understanding and attitudes towards sustainable/responsible investing, net zero and ESG factors and to inform Phoenix's approach to communicating to customers of these important topics and what they may mean for them and their pension savings. The research explored questions like:

- What do customers expect the Phoenix Group to be doing with regards to sustainable investment?
- Do customers expect the Phoenix Group to be making decisions on their behalf or would they like to be involved in the decision-making?
- How much do customers want to know about what the Phoenix Group are doing in these areas?
- What do customers think should be the key sustainability issues that the Phoenix Group should focus on to influence the companies they invest in?
- How would customers like the Phoenix Group to communicate with them about these topics (e.g. website content, regular letters, etc)?

The research took the form of in-depth focus groups (carried out by video conference) and produced a lot of rich, in-depth feedback, much of it consistent with the findings of a similar exercise carried out in 2020. In particular, the research highlighted that:

- When it comes to pensions and investments, ESG considerations are not “top of mind” and many customers are not aware of sustainability-related actions being taken by financial services providers like Phoenix.
- When ESG considerations are discussed with them, many customers feel more interested in these issues and would like to consider them in relation to their pension investments. However, customers tend to balance this interest with their desire for good investment returns.
- Many customers would like the choice to set some sort of ESG “level” for their pension savings and then be able to leave Phoenix to manage this on their behalf. Some customers, however, would like a more active role in selecting where their savings should be invested (e.g. excluding certain industries, or targeting certain minimum ESG credentials).
- Customers are open to more communications related to ESG considerations, but would prefer that these are bite-sized and interesting. They also expect more detailed information to be available on the website for those who want it.

These insights are being used by Phoenix to shape their Responsible Investment planning and communication developments. They have already led to certain new funds being launched – see below – and the IGC is looking forward to seeing what further developments are put in place in 2023.

Impact on default funds

In keeping with the research findings mentioned previously, and in response to demand from current and prospective employer clients, in December 2020, Standard Life (another provider within the Phoenix Group) launched their new “Sustainable Multi-Asset Default Fund”. Designed for those workplace pension arrangements that are looking for a low cost Responsible Investment option for their default fund, the new fund aims to deliver good customer outcomes by investing predominantly in component funds that track ESG-oriented indices rather than whole of market indices.

In particular, the fund aims to deliver a similar risk/return profile to a fund that tracks market indices, but, in addition, to meet the following investment criteria:

The top 5 responsible investment issues according to surveyed Phoenix customers are:

1. Climate change;
2. Human rights;
3. Recycling;
4. Clean fuels;
5. Energy conservation

- Screening out financially material ESG risks, e.g. controversial weapons, tobacco, thermal coal and unconventional oil/gas, UN Global Compact Violators and severe controversies;
- Sustainable targeting of positive ESG outcomes, reducing carbon intensity by 50% and uplifting green technology solutions by 50%; and
- Influencing positive change through stewardship utilising proxy voting and company engagement to drive positive behaviour.

At launch, 64% of the fund was invested in ESG index-tracking equity portfolios, with the intention of moving as much of the balance (comprising mainly property, bond and cash investments) into appropriate ESG index-tracking funds as soon as they become available from the investment partners that Standard Life uses. At the time of writing this report, that percentage had risen to 83.2%.

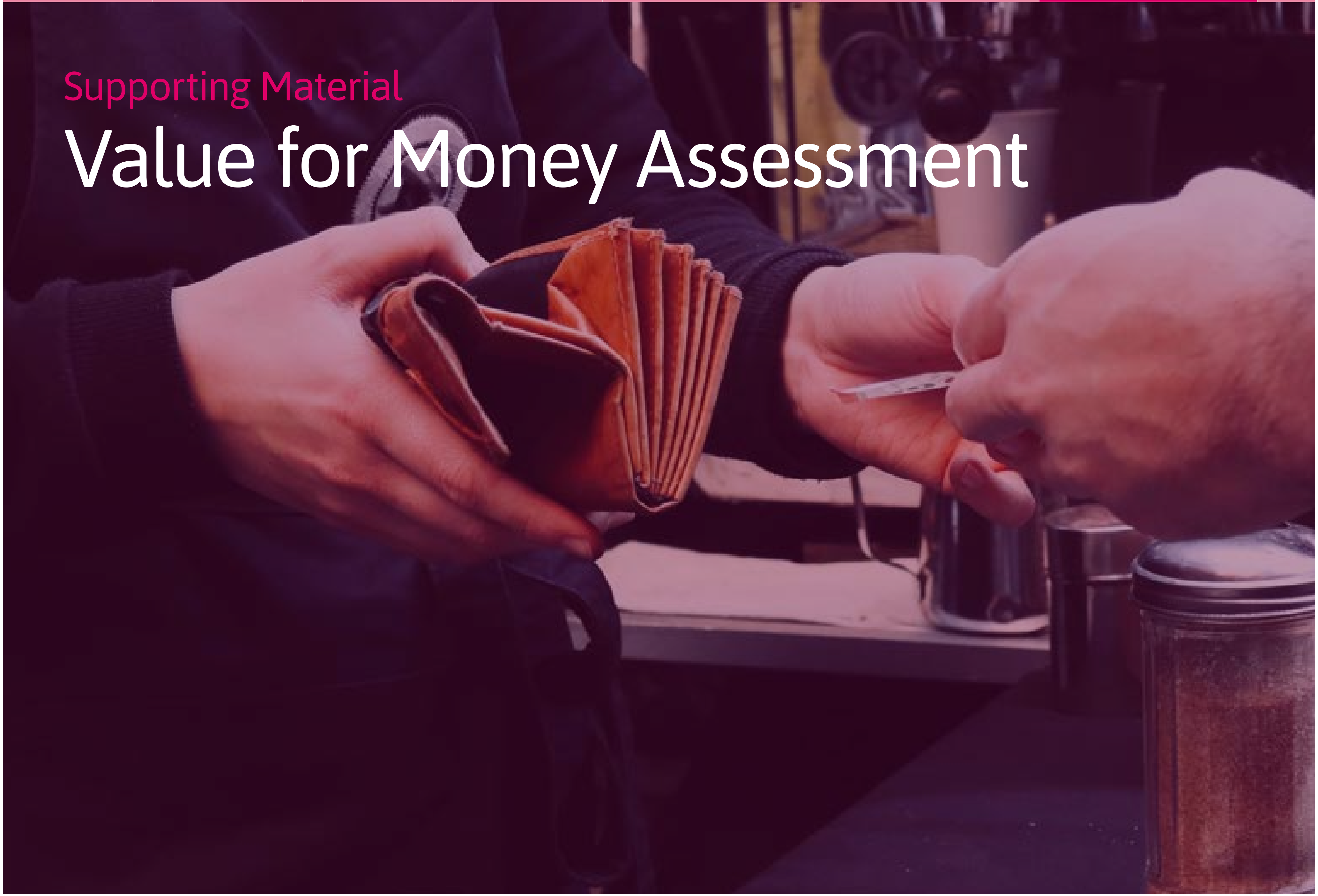
The IGC welcomed this new initiative. However, we were keen that this increased focus on ESG was extended to the equivalent funds that Phoenix offers. As mentioned above, the first steps have been taken within Phoenix to make this a reality. In the meantime, further work has been done within the Standard Life product range to replace Standard Life's range of Active Plus and Passive Plus default funds with a new range of more sustainable default fund options. Wearing our "Standard Life" hats, we welcome this new range of default funds, but remain keen to see the equivalent options developed for Phoenix customers.

Additional fund choices

Another development that is linked to the research findings set out above was the 2022 launch of six new funds for those Phoenix Life customers who are keen to self-select their pension investments to align with their individual beliefs. The new funds focus on climate change and sustainability within equity investment across specific geographic regions, and are:

- **Phoenix Sustainable Index UK Equity Pension Fund;**
- **Phoenix Sustainable Index US Equity Pension Fund;**
- **Phoenix Sustainable Index Euro Equity Pension Fund;**
- **Phoenix Sustainable Index Asia Pacific excl Japan Equity Pension Fund;**
- **Phoenix Sustainable Index Emerging Markets Equity Pension Fund;**
- **Phoenix Sustainable Index Japan Equity Pension Fund.**

While the IGC recognises that not all in-scope customers wish to self-select such funds, we are keen that Phoenix continues to increase the range of funds available to those customers who do, in order to meet as wide a range of personal values as possible.



Supporting Material

Value for Money Assessment

Supporting Material

Value for Money Assessment

Assessment Framework

Assessing VFM is not just about what something costs. You also need to look at the quality of what you get in return and how it compares with similar alternatives. That's why, since the IGC was formed in 2015, our VFM assessment has taken into account a number of different aspects of your workplace pension experience, to form a holistic view of the value for money that Phoenix is providing.

As noted in the Chair's introduction, for this year's assessment, we have further revised our VFM framework, to more closely align it to the VFM factors that the FCA have proposed that IGCs should use and, in particular, split out investment performance from all the other investment-related matters that are included in our VFM assessment. While two of the areas that were previously included in the VFM assessment ("Risk and Governance" and "Management Culture") are still monitored by the IGC, as they can influence the outcomes customers receive, we felt it was better to focus our assessment on the FCA's proposed definition of VFM . Thus, our VFM framework now covers the following 5 areas:

- Costs and Charges;
- Investment Performance;
- Investment Services;
- Customer Service; and
- Communication and Engagement.

ESG still being reviewed by the IGC, but as a separate assessment alongside the VFM analysis.

Rating provider performance

In arriving at the performance ratings for each performance area, the IGC carries out a rigorous and wide-ranging analysis of Phoenix performance. We review lots of different information, including regular management information packs that are produced within Phoenix and the wider Phoenix Group, and specially-produced information packs containing the results of detailed investigations that we request.

To the extent we can, we assess Phoenix's performance relative to other workplace pension providers, using data drawn from other IGC reports, industry publications and specially-commissioned benchmarking exercises. The information available tends to be at provider proposition level, rather than at a more granular, employer scheme level. However, where it is possible to identify different groups of customers that get different treatment (particularly on levels of charges), we make sure we are comparing "like with like" as far as we can, in order that any VFM challenges that we make are soundly based. We also use this approach to compare performance across Phoenix and the other pension providers within the Phoenix Group. As explained earlier in the report, the quality of communications and the extent of online facilities varies for different groups of workplace customers across the Group and we do what we can to encourage best practice to be available to all in-scope customers.

We recognise that assessing value for money is not an exact science because some aspects are more difficult to measure than others and individual customers value things differently. Nevertheless, we try to be as objective and fact-based as possible.

All of the performance areas are assessed on a Red/Amber/Green scale, with "speedometer gauges" used to give readers an indication of relative positioning of performance within the broad RAG bands.

For four of the performance areas ("Investment Performance", "Investment Services", "Customer Service" and "Communication and Engagement"), the RAG rating is based on a numerical score from a detailed assessment across a number of sub-areas (see below), as follows:

Green – performance score greater than 70%

Amber – performance score between 40% and 70%

Red – performance score less than 40%

The other areas ("Costs and Charges" and "ESG"), are not currently scored in such a granular way – although the assessment is similarly rigorous and wide-ranging. Rather, the IGC feels it is sufficient to assign a performance rating using a colour-based scale as follows:

Green – no material concerns

Amber – some material concerns found that affect some members

Red – major concerns found (i.e. material concerns that affect a large number of members, or very material concerns that affect some members)

Numerical scoring

For each of the four VFM areas for which we use this approach, Phoenix's performance was rated on a numerical scale (from 0 to 3) across a number of sub-areas, based on the evidence provided to the IGC as well as our own knowledge of the workplace pension market. The sub-areas are broadly the same as those used in last year's IGC report, but with some changes in order to be more explicit about what we are looking for, especially in relation to real purchasing power versus inflation.

By using a similar approach to last year's report, we are able to continue with the historic trend analysis that we have been developing. It also enables comparisons to be drawn across the various books of business in the different companies within the Phoenix Group and highlights areas where internal best practice could be further shared.

The scoring criteria used was the same as that used last year, namely:

0 not offered

1 basic standard

2 beyond basic

3 area of strength

The scores for individual sub-areas are then summed and converted into a percentage score for each of the 4 areas. Where appropriate, we have retained the development introduced several years ago, to identify the key one or two performance sub-areas and give them double weighting in arriving at the percentage score allocated. This is to ensure that the individual RAG ratings are not unduly influenced by less important, but still nice to have, elements of performance.

The sub-areas used for this assessment are as follows, with those that receive a double weighting shown in bold.

Investment Performance

1. Life styling approach and profiles are suitable.
2. Performance of all funds vs stated goals and benchmarks.
3. Performance of all ranked funds vs peer group competition.
4. Performance of key default funds vs inflation over long-term.
5. **Performance of key default funds versus inflation over 15 and 20 years.**
6. Performance of key default funds versus inflation over 10 years.

Investment Services

1. Design and description of default funds.
2. Regular reviews of funds, asset allocation and manager selection.
3. Adaptability of funds to changing circumstances.
4. Range and suitability of additional fund choices.
5. Poorly performing funds identified and addressed appropriately.

Service quality

1. **Responsiveness to customer need**.
2. Relevant experience and expertise of staff.
3. Easy access to phone support.
4. Easy access to online support (webchat etc.).
5. Clarity of communication in servicing transactions.
6. Efficiency and scalability of operational capability.
7. **Quality and speed of processing of core financial transactions**.
8. Level of automation/straight through processing.
9. Ease of transfer by an individual to another provider.
10. Ease with which customers can make contact via different channels.
11. Customer satisfaction.
12. Complaints and complaints handling.

Customer Comms and Engagement

1. **Adoption of “Fit For Purpose Protocol”**.
2. Innovation to improve customer experience.
3. Feedback from customers driving improvement in communications.
4. Digital/online tools.
5. Quality of Annual Statements and Key Milestone Communications.
6. Initiatives to improve customer experience at retirement.

Independent Governance Committee