Phoenix

Developing internal guidelines for rebaselining: Phoenix Group

This case study, authored and provided by Phoenix Group, outlines the organisation's approach to rebaselining.

Background

Phoenix Group is the UK's largest long-term savings and retirement business, with c.12m customers and c.£283bn of total assets under administration as at year-end 2023. We offer a broad range of savings and retirement income products to support people across all stages of the savings life cycle through our family of brands; Standard Life, SunLife, Phoenix Life, and ReAssure.

We are on a journey from being a closed-book life consolidator to a purpose-led retirement savings and income business. The business is evolving such that future growth is not solely dependent on significant merger and acquisition (M&A) activity, but also through actively writing new business. This dynamic means that the profile of our business evolves each year, with some business in run-off, new business being written, and possible M&A activity.

This context helps to ground our thinking with respect to rebaselining, which refers to the recalculation of the carbon footprint baseline of our portfolio. Our carbon footprint baseline year is 2019, as recommended by the Net Zero Investment Framework. It is also the reference point from which our decarbonisation targets are set. Our primary concern with respect to rebaselining is therefore whether we need to retrospectively change the starting point of our decarbonisation trajectory due to a material change in our asset portfolio. Whilst we don't necessarily use rebaselining as a way to identify the value added by portfolio managers, we have developed our approach to attribution analysis to understand and disaggregate drivers of change in the carbon profile of our portfolio (in parallel to our recent thinking on rebaselining).

Our approach

In 2023 we developed our internal rebaselining guidelines[1]. The guidelines provide us with a starting point from which to shape our thinking with respect to rebaselining, and our expectation is that these guidelines will evolve over time as industry best practice develops. Our general approach is to determine possible factors that could drive a rebaseline, and isolate the impact that these factors would have on the economic emissions intensity profile of our investment portfolio. We think economic emissions intensity is an appropriate reflection of the carbon profile of our portfolio, and is the metric on which our decarbonisation targets are set.

In our guidelines we define two possible trigger points:

- If the economic emissions intensity changes by >5%, we define this as a "soft trigger" and table this at a relevant internal governance forum for discussion
- If the economic emissions intensity changes by >10%, we define this as a "hard trigger" and we will conduct a rebaseline

We set out the following examples of possible factors that could drive a rebaseline in our internal guidelines (noting that this is not necessarily an exhaustive list):

- Changes in our asset values due to business acquisition or disposal (e.g. merger and acquisition activity)
- Material changes in our carbon footprint methodology (e.g. to align to emerging guidance from PCAF)
- Changes in data vendors and/or their datasets which drive corrections in prior years, or changes in methodology
- A restatement of financials in our annual report and accounts which has a material impact on our asset portfolio

1 IIGCC (2024), What is driving portfolio decarbonisation?

Implementing our guidelines

In 2023 we acquired Sun Life Financial of Canada UK Limited (SLOC UK) and, as a result, we were able to test out our rebaselining guidelines. To determine whether our rebaseline trigger points would be breached as a result of this business acquisition, we calculated the carbon emissions intensity of our Group investment portfolio including and excluding SLOC as at Q3 2023, as a proxy for understanding how different the SLOC portfolio is from the Group portfolio from an emissions intensity perspective.

Applying appropriate asset growth rate assumptions enabled us to reverse engineer an indicative year-end 2019 position, and our analysis showed that the intensity profile of SLOC UK was very similar to our overall Group portfolio. Neither the soft or hard triggers were breached, and so we chose not to rebaseline as a result of this acquisition.

Moving forward

We will continue to consider the appropriateness of our rebaselining trigger points (and the likely factors that could drive a rebaseline), and base our approach on emerging best practice and industry developments in this space.