M&G Investments

M&G Investment Management Limited

2022 TCFD Report

The disclosures set out in this report for M&G Investment Management Limited, including group disclosures cross-referenced, comply with the requirements set out in 'ESG 2.2 TCFD entity report' and other relevant sections of the FCA ESG Sourcebook. This report should be read in conjunction with the relevant sections of the M&G plc Annual Report and Accounts 2022 (ARA) as indicated throughout.

Joseph Pinto
Director, M&G Investment Management Limited

30 June 2023

In accordance with 'ESG 2.2 TCFD entity report' of the FCA Handbook, this report sets out our disclosures in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) for M&G Investment Management Limited (MAGIM). Our climate-related disclosures are consistent with the four pillars and associated disclosures as set out in the TFCD recommendations (see table below). We have also considered the TCFD Annex published in October 2021 along with other relevant supplementary guidance published, such as that provided for asset managers. Our approach to the management of climate-related risks and opportunities is largely consistent across the M&G plc group. Therefore, as set out in the table below, we have cross-referenced to a number of areas of the M&G plc 2022 Annual Report and Accounts (ARA).

		For further information, please refer to:	
TCFD Pillars	**Recommended disclosures**	**M&G plc 2022 ARA**	**This report**
Governance	Board's oversight of climate-related risks and opportunities	Sustainability Governance – p36	Governance – p4 to 5
	Management's role in assessing and managing risks and opportunities	Management's role – p37 Climate governance and strategy – p69 Climate risks and opportunities – p70	Governance – p4 to 5
Strategy	Climate-related risks and opportunities the organisation has identified	Climate risks and opportunities – p70 to 73	Strategy – p5 to 6
	The impact on the organisation's businesses, strategy and financial planning	Climate governance and strategy – p69 Climate risks and opportunities – p70 to 73 Our strategy – p10	Strategy – p5 to 6
	Resilience of the organisation's strategy, based on different climate-related scenarios	Climate risks – p70 to 71 Scenario analysis – p84 Financial statements – p196	Strategy – p5 to 6 Scenario analysis – p9 to 11
Risk Management	Processes for identifying and assessing climate-related risks	Climate risks and opportunities – p70 to 73	Risk management – p7
	Processes for managing climate-related risks	Climate risks and opportunities – p70 to 73 ESG risk management – p37	Risk management – p7
	Integration of climate risks into overall risk management	Risk management – p61	Risk management – p7
Metrics and Targets	Metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Climate change and our operations – p74 to 76 Climate metrics – p82 to 83	Metrics – p7 to 8
	Greenhouse gas (GHG) emissions	Climate change and our operations – p74 to 76 Climate metrics – p82 to 83	Metrics – p7 to 8
	Targets used to manage climate-related risks and opportunities and performance against targets	Climate change and our operations – p74 to 76 Climate metrics – p82 to 83	Metrics – p7 to 8

M&G Investment Management Limited (MAGIM) forms a significant part of the Asset Management segment of the M&G plc group. M&G plc's purpose is to 'help people manage and grow their savings and investments, responsibly', and MAGIM is aligned with this purpose through its investment activities, where it invests in line with its client mandates.

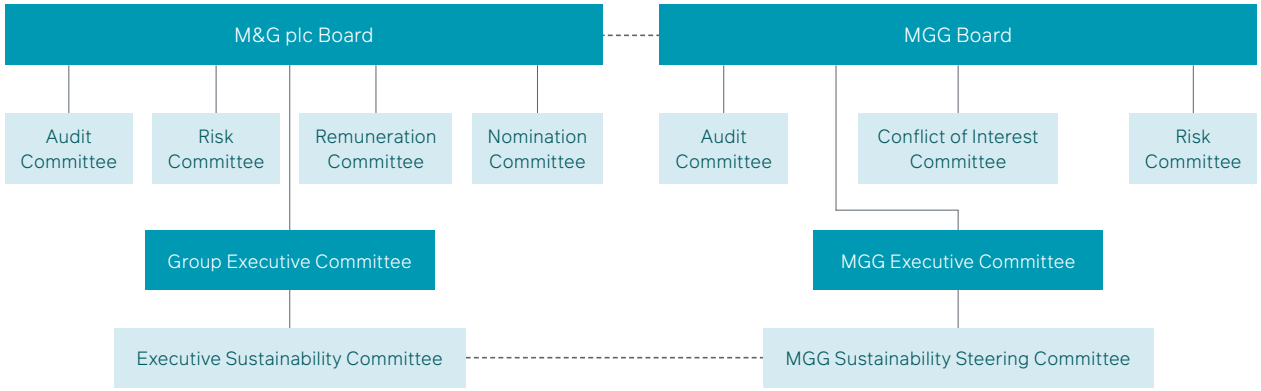
M&G plc's goal is to reach net zero carbon emissions across their investment portfolios by 2050 at the latest, to align with the Paris Agreement on climate change. As part of this effort, the group will seek to contribute to real-world positive change by scaling investment in climate solutions, and to support a just transition and advocate for economy-wide change. As the main asset management company of the group, MAGIM has a significant role to play in helping M&G plc to achieve these objectives. The following sections covering the core pillars of TCFD set out the structures and processes in place to enable us to do so.

Governance

MAGIM's ultimate parent is M&G plc, and it is the M&G plc Board that is responsible for setting the group-wide sustainability strategy, including climate, and ESG values and principles. Responsibility for sustainability at an individual level is assigned to the Group Chief Financial Officer, while other specific duties are delegated to sub-committees.

The MAGIM business is overseen by the MAGIM Board, whose responsibilities include approving and overseeing the implementation of the sustainability strategy for MAGIM. The MAGIM Board is chaired by Massimo Tosato, who is also a member of the M&G plc Board. The MGG Audit Committee is responsible for reviewing material regulatory disclosures, including ESG-related disclosures, on behalf of the MAGIM Board.

MAGIM forms part of the M&G Group Limited (MGG) governance structure. The MGG Sustainability Steering Committee (SSC) was established in 2022, and reports into the MGG Executive Committee and is chaired by the Chief Investment Officer for Equities, Multi-asset and Sustainability, who also sits on the M&G plc Executive Sustainability Committee. The SSC is responsible for the implementation of the sustainability strategy, including climate strategy for M&G Investments. In 2023, they will take on responsibility for the approval of all new policies related to sustainability and climate.



Governance (continued)

In order to manage the complexities of our ESG, sustainability and impact strategies, the ESG Governance Meeting (ESGGM) was created, which has delegated authority from the Investment Leadership Team and is chaired by the Head of Sustainable Investment. The purpose of the ESGGM is to provide first-line oversight of our activities, considering inputs from ESG portfolio reviews. The ESGGM reviews and decides upon ESG issues and exceptions raised by investment teams, approves any new investment exclusions, and is responsible for the M&G Investments ESG Investment Policy, available on our **website**.

Our Stewardship & Sustainability team works with a wide range of other teams, including product and distribution teams, to help us meet increased client demand for ESG-integrated, sustainable and impact products and develop the roadmap to meet the commitment to achieve net zero carbon emissions across investment portfolios by 2050.

Strategy

As an asset manager, we have a primary responsibility to our clients, to invest in accordance with investment mandates. In general, for funds other than those that are specifically ESG or climate focused, the overall objective will be to deliver a given financial outcome or to optimise the investment returns in line with any level of risk defined in the fund documentation or client investment mandate. We work in partnership with our clients to support their climate transition efforts. This includes taking into account institutional clients' policies and ensuring alignment, for example when it comes to thermal coal.

As a significant part of the asset management business segment of M&G plc, our climate-related actions aim to help achieve the M&G plc objective to achieve net zero across the group's total assets under management by 2050, to align with the Paris Agreement.

In our role as an asset manager, we can utilise three key transition levers to drive real-world decarbonisation and support a just transition to a net zero economy. This in turn will allow us to manage our transition risk as a business, generating profitable growth in the future, in line with our Group purpose.

These are:

1. Investment strategies: making changes to our investment portfolios and financing climate solutions
2. Stewardship: engaging investees to implement ambitious transition plans
3. Advocacy: Engaging with policy makers and wider industry peers to drive real-world, positive change

In the past year, we have introduced new investment strategies through launches of a number of funds for our clients with a sustainability or climate-focused objective. We are focused on embedding our Net Zero Investment Framework (NZIF) across the business. This is integrated into our Portfolio Analysis Tool to provide investment teams with a clear overview of key metrics and the ability to assess transition alignment. While it currently only applies to public equities and fixed income, we continue to work on other classes as guidance becomes available.

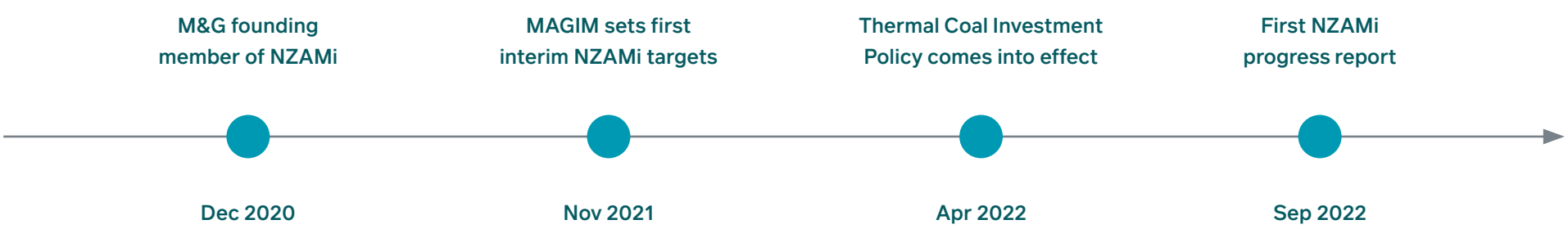
We periodically map our public holdings to determine a targeted engagement list of 100 investees based on highest emissions and largest exposure. For each company we create a specific engagement strategy, and by the end of 2022 we had either assessed or engaged with 54 of the 100 companies identified in August 2022, representing 74% of the financed carbon emissions for holdings in this target group.

Our Thermal Coal Investment Policy (TCIP) came into effect in April 2022. In line with scientific evidence, our policy seeks to enable M&G to align with the Paris Agreement's 1.5°C limit on global warming through the phase-out of thermal coal by 2030 in OECD and EU countries, and by 2040 in the rest of the world. More information can be found in the 'M&G Investments' section of our **website**.

M&G Investments, of which MAGIM is the main asset manager, is a founding member of the Net Zero Asset Managers initiative (NZAMi). An initial interim target to halve the emissions intensity of 20% AUMA by 2030 (Scope 1 and 2 emissions) was published in November 2021, and has since been expanded to cover over 30% of AUMA. Please refer to our group website for more information on our NZAMi interim target. In September 2022, the first NZAMi progress report was published in which it was reported that the emissions intensity (tCO_2e/£m) for the public corporate fixed income portfolio declined by 13.9% compared to the revised 2019 baseline for M&G Investments. The emissions intensity for the listed equity portfolio fell by 25.7% over this period for M&G Investments.

M&G plc's climate transition plan, annual report, and sustainability report set out how climate risks and opportunities are being addressed for the wider business, and are available on our **group website**.

Timeline of recent net zero related milestones



Risk management

The identification, assessment and management of climate-related risks, along with other ESG-related risks, forms part of the M&G plc group-wide ESG Risk Management Framework. Climate change is a critical aspect of sustainability and ESG, a principal risk for the M&G plc group, and a key area of oversight for the asset manager Risk and Compliance teams. Consideration and prioritisation of climate risk is also built into decision-making and governance processes, and is a requirement of key strategic risk assessments.

As an asset manager, we use a range of information, including portfolio alignment data and scenario modelling, to identify exposure to climate risk across our clients' portfolios (see pages 9-11).

Key tools used to identify and assess risks include our Portfolio Analysis Tool (PAT) and Coal Tool, which provide a quantitative assessment of investees' exposure to climate risks and opportunities. Our ESG scorecard also acknowledges the qualitative nature of many environmental and social considerations. Our analysis feeds into our climate stewardship efforts, which is the main way we seek to reduce exposure to transition and physical risks.

We take a holistic view of climate transition and physical risks across a range of timeframes (short term: < 3 years; medium term: 3-10 years; long-term: 10+ years), and consider both transition risks (eg, technology, market, legal) and physical risks (eg, acute physical, chronic physical).

Our first-line risk management approach is embedded in our Thermal Coal Investment Policies and Net Zero Investment Framework, which in turn inform our climate stewardship engagement efforts and any potential divestment where we do not see sufficient progress. We are willing to accept some time-bound transition risk exposure, as long as we can build confidence that investee companies are on sufficiently ambitious decarbonisation trajectories.

Aligning our investments with the transition also means identifying the opportunities and, for us, opportunity lies partly at a product level: offering investment strategies that meet clients' evolving sustainability needs and preferences.

Greater capital allocation across asset classes and strategies to climate solutions is another significant opportunity. Through private assets, we can directly help finance and enable mitigation and adaptations solutions. For our public assets, our emphasis is on stewardship and alignment with positive climate outcomes. We aim to lead by example, by creating a climate-aware culture, and building long-term resilience to transition and physical impacts.

Metrics

We use a range of metrics to identify and assess climate-related risks and opportunities, and track progress against our targets. This includes absolute metrics as well as intensity-based indicators that enable comparison across different issuers, portfolios and transition scenarios. The key backward-looking metrics used across our reporting are set out in the tables below covering the year to 31 December 2022. Although recognising there are limitations in the metrics and tools used (primarily data availability and scope of coverage), we currently rely on Scope 1 & 2 GHG emissions to inform investment decisions. While we monitor Scope 3 emissions to inform targeted actions, such as engaging companies on transition plans, limitations relating to this data are heightened with data quality and disclosure of this category remaining poor, therefore making it less reliable for decision making.

MAGIM provides portfolio management services to a number of other asset management entities within M&G Investments, and assets subject to these services are included in the metrics presented. In our analysis, 'coverage' refers to the proportion of in-scope Assets under Management and Administration (AUMA) for which we have either reported or estimated emissions data. Asset classes such as cash, derivatives, and asset-backed securities (ABS) are not included, reflecting a lack of either climate accounting standards or mature data sources for these types of assets. For more

information on definitions and how the metrics are calculated, please refer to pages 88 and 89 of the M&G plc 2022 ARA.

Public Assets	2022		Coverage	
	Scope 1&2	Scope 3	Scope 1&2	Scope 3
AUMA in-scope for metrics presented (£bn)	165.3	165.3	n/a	n/a
Financed carbon emissions (FCE) ('000s tCO_2e)	9,499	58,254	69%	69%
Carbon footprint (tCO_2e/£m invested)	84	514	69%	69%
Weighted Average Carbon Intensity (WACI) (tCO_2e/£m sales)	176	1,046	81%	78%

The public assets table presents emissions metrics relating to our public equities and corporate fixed income assets. The underlying emissions data is sourced from MSCI. The levels of coverage reflect the availability of data for in-scope assets, and we aim to increase coverage over these asset classes in time.

The next table shows our metrics related to sovereign debt, which are based on £21.6bn of in-scope AUMA. In the table, we have included financed domestic production and consumption emissions, and their respective weighted average intensities. LULUCF stands for Land Use, Land Use Change and Forestry.

Public Assets	2022	Coverage
Financed sovereign production emissions (Scope 1 incl. LULUCF) ('000s tCO_2)	6,039	99.7%
Financed sovereign consumption emissions (Scope 1, 2, 3 excl. exported emissions, incl. LULUCF) (000s tCO_2)	12,488	95.7%
Weighted average sovereign production intensity (Scope 1 incl. LULUCF) ('000s tCO_2/£m GDP PPP)	0.3	99.7%
Weighted average sovereign consumption intensity (Scope 1, 2, 3 excl. exported emissions, incl. LULUCF) (tCO_2/ Capita)	22.3	95.7%

The table below presents emissions metrics relating to our private real estate assets.

Real Estate	2022		Coverage	
	Scope 1&2	Scope 3	Scope 1&2	Scope 3
AUMA in-scope for metrics presented (£bn)	36.0	36.0	n/a	n/a
Financed carbon emissions (FCE) ('000s tCO_2e)	123.5	600.6	85.1%	85.1%
Carbon footprint (tCO_2e/£m invested)	4.0	19.6	85.1%	85.1%

Scenario Analysis

In addition to backward-looking data, which indicates the current emissions profile of an asset or portfolio, we also use forward-looking metrics to assess transition alignment and risk exposures over time, leveraging scenario analysis tools.

The key forward-looking metrics that we monitor for public assets are:

- Implied temperature rise (ITR): this metric allows a user to quickly gauge if a portfolio and issuer's GHG emissions' trajectory is aligned with the Paris Agreement through sub-industry and regional benchmark comparisons.
- Climate-adjusted value (CAV): this metric is equivalent to value at risk (VaR), but is calculated on a bottom-up basis, by assessing the impact of different climate scenarios on a company's financial position.

The financial impact analysis presented for our public listed equities, corporate debt securities and sovereign debt are based on three Network for Greening the Financial System (NGFS) scenarios:

- An orderly scenario, predicting a temperature rise of less that 2°C by 2100 as a result of immediate climate action
- A disorderly 2°C scenario, in which climate action is not taken until 2030
- A hot house scenario, which predicts an average temperature change in excess of 4°C by 2100, assuming no global response to climate change.

Climate change scenario modelling is an inherently complex area with results influenced by assumptions, judgements and limitations. We recognise that the climate models are based on stylised scenarios, and attempt to capture the possible future interplay between physical climate impacts, policy and regulation, and consumer behaviour at a global scale.

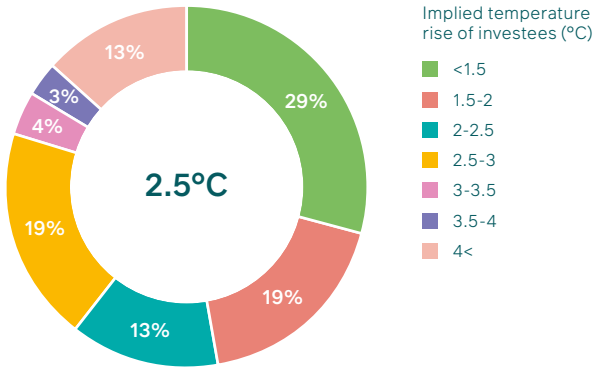
The scenarios are not predictive, but rather help us explore a range of potential outcomes. This analysis is a useful tool for interrogating and understanding how climate-related developments could impact our portfolios. For more detail on methodology and limitations, please refer to pages 84-89 of the M&G plc 2022 ARA.

Public asset results (Implied temperature rise)

As part of our modelling, we have calculated the implied temperature rise (ITR) for each individual investee where data is available (covering 69% of public equities and corporate debt as at 31 December 2022). Our ITR analysis showing the temperature alignment of investees shows that they are aligned to a broad range of temperature outcomes. While 29% of the modelled AUMA is projected to achieve alignment with a 1.5°C world by 2030, a significant proportion is projected to exceed 4°C.

The chart below shows our relative ITR exposure based on portfolio weightings to a range of temperature levels. Currently, our calculations indicate that more than 52% of assets exceed 2°C, given the underlying issuers' transition pathways. The weighted average warming potential across modelled issuers is 2.5°C.

Temperature alignment of investees (%)



In summary, this analysis enables us to identify companies that are leaders and laggards in carbon emissions via a simple metric, which aids comparison and provides an input into investment research and decision-making. It can be considered a guide to identifying sector leaders during portfolio construction, and inform engagement with laggards to encourage greater transition ambition.

Public asset results (climate-adjusted value)

The climate modelling results help us to quantify the relative financial impacts of climate change across different emissions projections and compare our exposure to climate risks and opportunities over time. Our bottom-up approach provides estimates of the financial impact on all issuers modelled, as well as the impact on asset valuations.

The chart opposite indicates a couple of key findings from an asset value perspective:

- Overall, the results indicate that the negative impacts on asset values will be larger under a hot house scenario, driven by the increasing physical risk and second-order macroeconomic impacts towards the end of the scenario horizon.
- Looking at the sectoral breakdown of public listed equities and public corporate debt, it is clear that the orderly and disorderly scenario impacts are most pronounced in the energy and material sectors (where significant change is required to decarbonise and align with the transition). By contrast, under the hot house scenario – physical impact only – asset valuations are impacted fairly evenly across all sectors.

Climate-adjusted value impact by sector (current to 2050)*

*The 2°C orderly and disorderly scenarios presented in this heatmap reflect transition risk impacts only with a coverage of 70%, and the 4°C hot house scenario reflects physical risk imapcts only have a coverage of 86%.

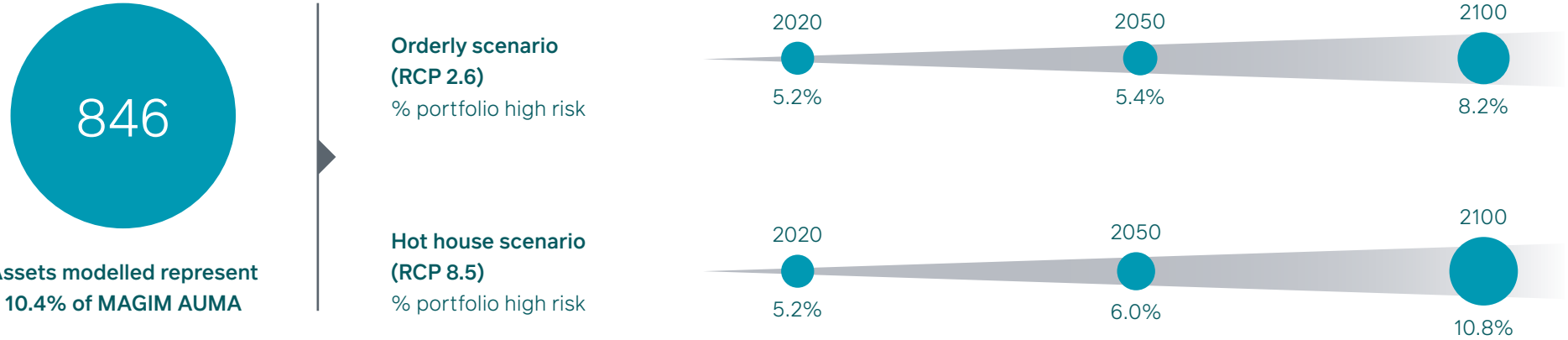
Private asset results

We have used the global insurance broker and risk advisor, Marsh, to assess our real estate exposure to physical climate risk. Marsh uses XDI which quantifies the cost of extreme weather and climate change impacts to physical assets, taking into account asset-specific information. The scenarios used in this model are based on Representative Concentration Pathway (RCP) 2.6 and 8.5, as produced by the IPCC. These broadly align to the orderly 2°C scenario and a 4°C scenario.

For our directly owned real estate equity portfolio, the analysis has identified only a relatively small proportion of assets are at high risk from future climate conditions. Under each scenario assets were rated low, medium or high risk (high risk meaning at least 1% of an asset's value being at risk of damage per year) and we found the following conclusions:

- Under an orderly scenario between 5.4% and 8.2% of assets will be rated high risk by 2050 and 2100, respectively; and
- Under a hot house scenario, these percentages increase to 6.0% and 10.8%.

Looking closer at these assets, it is clear that for the large majority, the physical risk is driven by their current exposure to hydrometeorological hazards (eg, proximity to coast).



Glossary

Carbon Footprint Carbon Footprint refers to financed emissions normalised by portfolio value (GHG emissions per million pounds of investment).

Climate Adjusted Value This metric is equivalent to value at risk (VaR), but is calculated on a bottom-up basis, by assessing the impact of different climate scenarios on a company's financial position. The adjusted value is calculated separately for physical and transition risks as part of the scenario model that we use across our public portfolios (Aladdin Climate).

Disorderly Scenario The disorderly scenario used in this report is aligned with Representative Concentration Pathway 2.6 and predicts a temperature rise lower than 2°C by the end of the century. However, climate action to achieve this is not taken until 2030, which delays transition impacts and makes them more drastic.

Financed Carbon Emissions (FCE) Financed Carbon Emissions represent the total greenhouse gas emissions associated with a portfolio of investments.

Hot house Scenario The hot house scenario used in this report is aligned with Representative Concentration Pathway 8.5 and predicts an average temperature change in the order of 4.3°C by the end of the century, assuming no global response to climate change beyond what has already been committed to.

Implied Temperature Rise (ITR) This metric allows a user to quickly gauge if a portfolio and issuer's GHG emissions' trajectory is aligned with the Paris Agreement through sub-industry and regional benchmark comparisons.

Just Transition Just transition refers generally to strategies, policies or measures to ensure no one is left behind or pushed behind in the transition to low-carbon and environmentally sustainable economies and societies.

Network for Greening the Financial System (NGFS) The Network for Greening the Financial System is a group of central banks and supervisors committed to sharing best practices, contributing to the development of climate- and environment-related risk management in the financial sector and mobilising mainstream finance to support the transition toward a sustainable economy.

Net Zero Asset Managers initiative (NZAMi) The Net Zero Asset Managers initiative launched in December 2020 and aims to galvanise the asset management industry to commit to a goal of net zero emissions.

Orderly Scenario The orderly scenario used in this report is aligned with Representative Concentration Pathway (RCP) 2.6 and predicts a temperature rise in the order of 1.5°C by the end of the century, aligned with the Paris Agreement.

Paris Agreement The Paris Agreement is an agreement within the United Nations Framework Convention on climate change, dealing with greenhouse gas emissions mitigation, adaptation, and finance, agreed in 2015.

Scope 1 emissions Emissions from: fuel combustion; company vehicles; fugitive emissions.

Scope 2 emissions Emissions from: purchased electricity, heat and steam.

Scope 3 emissions Emissions from: purchased goods and services; business travel; employee commuting; waste disposal; use of sold products; transportation and distribution (up and downstream); investments; leased assets; and franchises.

Weighted Average Carbon Intensity (WACI) Weighted Average Carbon Intensity is a measure of the carbon intensity of the portfolio, calculated as the weighted average sum of carbon emissions per million pounds of issuers sales.

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