



Update May 2023: This Climate Transition Plan was published in 2022 and included in our Say on Climate resolution at M&G plc's 2022 Annual General Meeting (AGM). Please refer to our latest Annual and Sustainability Report for up to date information on our approach to climate.

M&G's Climate Transition Plan

M&G is tackling the climate emergency on three fronts: as a business employing more than 6,000 people worldwide; as an asset owner acting as custodian of customers' assets; and as an asset manager (M&G Investments), responsible for investing internal and external client money. The Climate Transition Plan outlined in this document has the full support of the Executive Committee and the M&G Plc Board.

Our intention is to transition our own business, and the investments we look after, to net zero carbon emissions in aggregate, in line with the Paris Agreement on Climate Change to limit global warming to 1.5 degrees.

We are conscious that climate change is an evolving area and we will understand more about how our commitments can be achieved as we work towards them. We intend to update this Plan as required to reflect this.

M&G recognises that there is an interdependence between climate change, ecosystems, biodiversity, and human communities. While this report focusses on climate, M&G has also published our positions to protect biodiversity and support a Just Transition, to enable the move towards a climate-neutral sustainable economy and that this occurs in a fair way.

Our net zero commitments

- To reach net zero carbon emissions on our own business operations by 2030 at the latest
- To reach net zero carbon emissions across our investment portfolios by 2050 to align with the Paris Agreement on climate change, and as an initial interim step towards this goal, to reduce carbon emissions by 50% across £58 billion of public assets in M&G Investments' portfolios by 2030 managed by the asset manager on behalf of the asset owner

- To publish new interim net zero targets every five years, starting in 2022, for the assets held by our asset owner

Achieving net zero for our own operations

Scope 1 and 2 emissions

M&G plc is committed to a 46% reduction in Scope 1 and 2 carbon emissions from its 2019 baseline for its business operations by 2030, with offsets for the remaining emissions to achieve net zero

Actions

- Phase out by 2030 fossil fuel in our offices where we have operational control
- Achieving 100% renewable electricity use across our operational estate by 2025 where we have operational control

Operational Scope 3 emissions (excluding category 15 Investments)

The goods and services we procure are a significant source of Scope 3 emissions for our operations, which need to be tackled to reach our net zero goal.

Actions

- Reducing scope 3 business travel carbon emissions by 46% by 2030, with the remainder offset.
- Engaging with our most significant suppliers (making up 68% of our supply chain carbon emissions) to understand their plans for net zero alignment.
- In our Supplier Code of Conduct, requiring all suppliers to understand, measure and manage the direct and indirect impact of their goods and services.
- Including environmental criteria in all supply chain decisions requiring market assessment.

Achieving net zero for our investments

Asset management

In planning for climate transition across the investments we manage on behalf of clients and customers, we recognise and will align to credible science based targets. We recognise that a linear approach to decarbonisation is fraught with uncertainties and can create unintended consequences, such as cyclicality in investing and incentivising divestment to pass the problem onto someone else, and missing out on transition related opportunities. We believe that engaging intensive emitters to put in place robust transition plans and invest in climate solutions is a more responsible and effective approach.

In approaching decarbonisation, we are also mindful of the need for a just transition to a low-carbon, more sustainable economy, which shares the risks and rewards fairly between generations, regions and communities. For example, our policy on thermal coal will see M&G phase out relevant holdings in developing markets by 2040 rather than 2030 in OECD/EU countries, reflecting the differing social and economic dependence on thermal coal in these regions.

Actions

In 2021, as a founding member of the Net Zero Asset Managers Initiative (NZAMI) we committed to halve carbon emissions by 2030 across £58 billion in public assets managed by M&G Investments on behalf of the Prudential With-Profits Fund.

M&G Investments' path to net zero has four main tracks:

- Engaging with investees to encourage science-based, carbon transition plans aligned with the goals of the Paris Agreement on Climate Change, with a focus on investees who are high emitters and which have contentious carbon exposure (such as thermal coal).
- Engaging with clients towards Paris-alignment of mandates and fund objectives, which will enable us to grow the proportion of our assets under management included in our interim targets.

- Increasing capital directed to climate solutions and climate positive companies.
- Transitioning portfolios away from contentious carbon such as thermal coal, or if unsuccessful, divesting.

These will be supported by:

- Implementation of clear policies, such as M&G Investment's Thermal Coal Investment Policy, which commits M&G Investments to phase out thermal coal from our public investments by 2030 for OECD and EU countries, and by 2040 for developing countries, and the M&G Investments' ESG Investment Policy, to which all our asset managers are required to attest compliance¹.
- Collaboration with a variety of initiatives (IIGCC, CDP, PAI and other third party data providers) to improve climate data reporting and standardise measurement methodologies, particularly on private assets where access to carbon data is a challenge across the industry.
- Collective action through Climate Action 100 (CA 100+) and other groups to accelerate investee alignment to the Paris Agreement climate goals.
- The asset manager will undertake continuous development of processes, data and reporting to enable measurement and delivery progress against science based targets effectively and credibly, the results of which will be share publicly in the NZAMI disclosures and TCFD report.
- Mandatory performance objectives for investment teams linked to our sustainability goals.

Providing the structural underpinning of our path to net zero as an asset manager is our Net Zero Investment Framework (NZIF), based on our work as a member of the Paris Aligned Investor Initiative and the Institutional Investor Group on Climate Change (IIGCC). Our NZIF will include the available investor actions, metrics and methodologies designed to enable us to decarbonise our portfolios, reduce climate related risk and allocate more to

¹ *these policies currently exclude M&G South Africa which was consolidated into M&G PLC in September 2021.

climate solutions. NZIF internal portfolio tools aid with the identification and prioritisation of transition risk and climate solutions opportunities within public markets.

Climate policy & advocacy

Engagement and advocacy is a key part of our climate transition plan. As an active investor and steward of customers' assets, we use our expertise to identify climate risks and opportunities, and to use our influence and our votes to press for positive change.

Overall, we expect our investee companies to commit to reaching net zero in line with the Paris Agreement, and to provide credible targets and metrics for how they will do so, preferably evidenced by the Science Based Targets initiative (SBTi). We also specifically engage on strategy, disclosure, stranded asset risk, goals and targets to achieve decarbonisation.

If we find that investee companies are not making adequate progress on these objectives we will use our vote to hold directors to account. As a last resort, if we feel that investees cannot or will not commit to Paris-alignment, we can divest from the company. Our main climate related engagement programmes are the Climate Hotlist and Thermal Coal Phase-Out.

The Climate Hotlist consists of a list the top 100 investee companies based on highest emissions and largest M&G-wide exposure. Engagement began at the end of 2020, and continues to expand coverage. We have a specific engagement strategy for each engaged company with a clear objective, key performance indicators to determine progress to delivery, and a timetable for engagement, tracked by our engagement dashboard.

Through our coal engagement programme we are currently targeting investee companies with thermal coal exposure where it is not clear that they have a science based, time bound phase-out plan. If after engagement we feel that investees cannot or will not commit to a credible phase-out plan, they will become candidates for divestment.

Within CA100+, M&G is a co-lead on miner Rio Tinto, chemicals company BASF, auto maker VW and oil and gas supplier TotalEnergies, representing the 617 members of CA100+. We

are also active members of working groups on energy company BP and Petrobras, and chemicals company LyondellBasell, while we sit on the Corporate Programme Advisory Group, which helps set future CA100+ priorities. During the year we also joined the Net Zero Stewardship Working Group.

We actively engage in consultative processes with our regulators as they develop climate-related initiatives, both in our own right, and through investor organisations such as the UK Sustainable Investment and Finance Association (UKSIF) and trade associations such as the Association of British Insurers (ABI).

We are working closely with the global disclosure organisation the Carbon Disclosure Project (CDP) on a pilot to develop greater climate transparency for private equity and leveraged loans and encourage more widespread estimation of private asset emissions moving forward. We are also collaborating with CDP on improving decision-useful water data for investors, to help address global systemic water risks closely linked to climate change.

Asset ownership

In September 2021 we joined the UN-convened Net Zero Asset Owners Alliance (NZAOA), the global institutional investor group acting to help limit global warming to 1.5°C as outlined by the Paris Agreement. As an NZAOA member we are committed to the transition of £128 billion of our investment portfolios to net zero carbon emissions by 2050.

Actions

- As a signatory of NZAOA, every five years we will set interim targets towards net zero. In 2021, we committed to halve carbon emissions by 2030 across £58 billion in public assets held within the Prudential With-Profits Fund and managed by M&G Investments (reference NZAMI above). In 2022, we will build on this commitment with the addition of interim science based emissions targets for our externally managed portfolios, in line with the NZAOA Target Setting Protocol.
- Instructing our asset managers to implement a thermal coal investment policy in line with M&G plc's public position, to phase out of thermal coal across our investment

portfolios by 2030 for companies in developed markets and by 2040 for companies in developing markets, a process which has already begun.

- Increasing capital directed to climate solutions and climate positive companies: for example our £5 billion Catalyst mandate, which has made investments in sectors such as carbon capture and storage, and climate positive housebuilding, (demonstrating M&G's commitment to investing directly into climate solutions).

Real estate actions

For our direct real estate investments:

- reducing operational and embodied carbon emissions from our properties.
- engaging with tenants to encourage alignment to net zero; and reducing emissions through onsite renewable energy as well as procurement of green electricity.

Climate scenario analysis

To help us develop and improve our transition plans, we have conducted detailed scenario analysis to evaluate how various climate scenarios could affect the future value of assets and our balance sheet. In 2021 this was done in partnership with two leading external consultancies: Baringa Partners for financial assets and Marsh for real estate asset modelling.

Our modelling quantifies the extent to which physical and transitional climate risks impact our equity, debt securities and real estate assets, across three plausible future climate change scenarios, in terms of value shocks including anticipating default rates on loans and credit rating changes. A temperature alignment metric is calculated for each counterparty that indicates that counterparty's alignment to a particular future temperature change.

Our immediate next steps on climate scenario analysis will involve engaging with the research function with the purpose of incorporating insights into investment analysis, and further develop scenario modelling capabilities and expanding model use.

As regards asset allocation, the asset owner also carries out scenario analysis in order to assess the exposures of asset classes and geographies to climate risk on a forward-looking basis. These exposures are converted into risk measures for different asset classes and regions in aggregate, while remaining cognisant of significant heterogeneity within each asset class.

It also considers measures of climate vulnerability and adaptability when assessing country risk. Such measures make for greater precision of the risk premium and volatility assumptions used for portfolio construction. Within the regions we consider, both Asian and other emerging markets appear higher risk from a climate perspective.

Governance and remuneration

As part of our overall environmental, social and governance (ESG) strategy, we have developed an ESG Risk Management Framework and Policy, including climate risks.

Climate risks are discussed at the Executive Risk Committee, chaired by the Chief Risk and Compliance Officer. Issues are escalated to the PLC Board as appropriate.

Our transition to net zero carbon emissions across our operational activities is captured in our environmental policy, sponsored by our Chief People and Corporate Affairs Officer.

Executive Committee members all have sustainability objectives in their personal performance management scorecards.

The 2022 long-term incentive plan (LTIP) for executives has a 7.5% weighting linked to actions to reduce the company's scope 1, 2 and operational scope 3 carbon emissions, relative to a 2019 base year.

Uncertainties, assumptions and risks

The achievement of the plan has a number of uncertainties, risks, and assumptions. Concerted agreement and action is required across many stakeholders in society. Historically this has not been enough, and whilst these are increasing as evidenced by

further Governmental climate ambitions at COP 26, it remains uncertain as to the extent and pace at which these will evolve.