Pru
part of M&G plc

# PAC Shareholder Rights Directive II

April 2023

The Shareholder Rights Directive II has the objective of improving corporate governance in companies whose securities are traded on EU regulated markets by requiring certain disclosures from asset managers and asset owners, thereby improving transparency regarding their investment strategy, voting processes during general meetings, and director's remuneration.

Below, we have summarised the key findings of the 2022 engagement review, and detailed how PAC meets its Shareholder Rights Directive requirements, and implements its PAC Shareholder Engagement Policy.

## 2022 engagement review

The 2022 review is the third annual review process through which PAC With Profits funds plus PAC, PPL and PIA unit linked funds were reviewed. The review included 146 funds with direct equity holdings that are managed by 30 different investment managers, including segregated mandates and collectives managed by M&G Investments (the internal asset manager) alongside a number of collectives managed by external companies.

A questionnaire was sent to all the investment managers which covered both company and fund-specific disclosures required under the Shareholder Rights Directive II. The questionnaires looked to assess the following key areas:

- **Company Specific Disclosures** – Policies, Voting Record, Engagement, Incentivisation
- **Fund Specific Disclosures** – Investment Strategy of the fund, Key Risks, Fund Composition, Portfolio Turnover, Transaction Costs

## Key Findings

In general, the responses were aligned with our expectations of the investment managers. The following points cover the key areas assessed as part of this annual review.

### Company Specific Disclosures

1. **Policies** – there was a large variance in the level of detail provided regarding the ESG and Shareholder Engagement Policies of the firms.
2. **Voting Record** – Voting engagement tended to be very high, with few investment managers falling below a threshold of 85% participation of eligible votes. As a result, most investment managers scored very highly in this area, although two investment managers voted in noticeably fewer votes.
   a. One investment manager votes on all UK holdings and overseas holdings where they hold a sufficiently material amount of the company stock to impact the overall vote outcome. Whilst this approach is not considered to be best practice, the only asset owner exposure is to a UK equity fund and for this fund the manager voted on 100% of the eligible votes. As a result, there is no impact upon our business and so no further action is required.
   b. One investment manager reported a figure below 85% but for each region except for Japan they voted on well in excess of 85% of eligible votes.

3. **Engagement** – We note that active ownership through voting tended to focus on Governance issues. Non-voting engagement was often broader in its scope, encompassing Governance and Environmental issues (mostly climate change/ carbon emissions); we note that Social issues tended to feature less frequently on investment managers' engagement agendas. Two of our investment managers do not engage with other shareholders, but they may consider collaborative engagement in the future, and the remaining investment managers confirmed that they do collaborate with other investors when required.
4. **Incentivisation** – In general the remuneration of investment managers was in line with expectations, with incentives linked to performance and therefore aligned with the best interests of policyholders. However, two investment managers had renumeration policies that were not aligned with the medium to long-term performance of their funds and instead used other metrics to determine fund manager renumeration.

## Firm Specific Disclosures

1. **Investment Strategy of the Fund** – We note that all strategies were appropriately implemented in line with the objectives as outlined in the relevant documents, with consideration of the appropriate investment time horizon.
2. **Key Risks** – In general all investment managers demonstrated a strong awareness of the risks associated with the funds in question, including ESG risks.
3. **Fund Composition** – Investment managers tended to have appropriate levels of diversification within their funds, which were aligned with the objectives of their investment strategies. We are satisfied that all funds in scope were diversified by region, sector, market cap, largest holdings and top over- and underweights.
4. **Portfolio Turnover** – Turnover was assessed in the context of expectations given the nature of the strategy and asset class and was generally in line with expectations.
5. **Transaction Costs** – Transaction costs were assessed in the context of expectations given the nature of the asset class and were generally in line with expectations.

Please find below the link to the voting record of MAGIM, the largest in scope manager:

**www.mandgplc.com/our-business/mandg-investments/responsible-investing-at-mandg-investments**

## Additional Documents

PAC Shareholder Engagement Policy

PAC Voting Standard

PAC ESG Investment Policy

PAC Stewardship Report





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