

Prudential Index-Linked Passive Fund

Climate Report as at 31 December 2022

Climate-related Financial Disclosures

This report is designed to help you understand more about the impact this fund has on the climate and will give you the ability to compare a range of climate metrics with other funds. A glossary of terms used in this document can be found here - [TCFD Glossary](#).

The report is based on the recommendations set out in the global standards set by the Task Force on Climate-related Financial Disclosures – (TCFD). The report sets out a range of different climate metrics that can be used to assess climate related risks and opportunities associated with the fund.

We recognise that the investments within the fund could have an impact on climate change and equally, climate change could influence the performance of investments in the fund. To understand the governance, strategy and risk management that Prudential Assurance Company (PAC) has in place to manage the risks and opportunities related to climate change, please refer to the Prudential [Entity TCFD report](#).

Although the fund doesn't consider climate change as part of its investment objective, it aligns with the PAC Environmental, Social and Governance (ESG) Investment Policy which sets thresholds and screening criteria for coal related investments in line with the M&G Plc Thermal Coal Position. Our stewardship approach includes active ownership, relying on our investment managers to engage with companies to change their behaviour to help reduce the impact of climate change.

The climate metrics are only provided if reliable climate data and appropriate methodologies are available. Where a type of asset class is not a material proportion of the total fund value, less than 5%, then climate metrics are not provided.

Definition of climate metrics

Financed Carbon Emissions

(FCE): Represent the total financed greenhouse gas (GHG) emissions associated with the fund. The larger the number, the more it is contributing to the effects of climate change. The FCE is directly related to the size of the fund and therefore it is difficult to use to compare across funds.

tCO₂e: Refers to tonnes of carbon dioxide (CO₂) equivalent. There are a number of greenhouse gases which warm the earth with different intensity levels. Rather than providing metrics for each gas they are converted into tCO₂e for reporting.

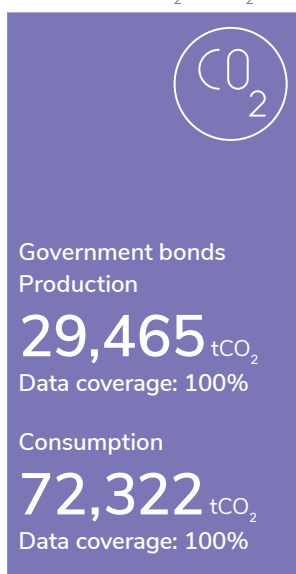
Scope 1 emissions: Are the direct emissions associated with the business operations eg, a utility company's emissions from combusting fuel.

Scope 2 emissions: Are the indirect emissions associated with the business' heating/power requirements eg, a software company's emissions from buying electricity.

Climate metrics for the Fund investments

Financed Carbon

Emissions: tCO₂e/tCO₂



Data coverage

The data coverage ratios for this particular metric for all asset classes is sufficient to be relied upon. Any data gap is likely to be as a result of climate or financial data not being reported for the underlying asset types. Lower data coverage results in reduced reliability for this climate metric.

Government Bonds - Production FCE represent the scope 1 Financed Government Bonds Production Emissions of the fund, expressed in tCO₂.

Government Bonds - Consumption FCE represent the scope 1+2+3 Financed Government Bonds Consumption Emissions of the fund, expressed in tCO₂.

Weighted Average Carbon Intensity

(WACI): Is the fund's exposure to carbon-intensive issuers, expressed in tCO₂e/£m sales. The larger the number, the more carbon intensive the investments currently are. WACI allows comparison across different funds.

WACI: units vary



Government bonds
Production

0.00020

tCO₂/PPP-adj GDP

Data coverage: 100%

Consumption

16

tCO₂/capita

Data coverage: 100%

Data coverage

The data coverage ratios for this particular metric for all asset classes are sufficient to be relied upon. Any data gap is likely to be as a result of climate or financial data not being reported for the underlying asset types. Lower data coverage results in reduced reliability for this climate metric.

Government bonds – Production WACI represents the Weighted Average Government Bonds Production Intensity, expressed in tCO₂/£m purchasing power parity -adjusted gross domestic product in GBP.

Government bonds – Consumption WACI represents the funds Weighted Average Government Bonds Consumption Intensity, expressed in tCO₂/capita.

Definition of scenario metrics

Climate adjusted value: This metric is the adjustment of the value of assets in the fund as a result of the climate scenario. A negative number denotes that under the scenario, there will be a devaluation for the fund's underlying assets. This metric is equivalent to value at risk (VaR). Scenario model outputs are expressed as a range of outcomes, reflecting the inherent uncertainty of the underlying assumptions. We have provided the average model output of that range of results.

Orderly transition: Scenario assumes climate policies are introduced early and become gradually more stringent, reaching global net zero greenhouse gas (GHG) emissions around 2050 and likely limiting global warming to below 2 degrees Celsius on pre-industrial averages.

Disorderly transition: Scenario assumes climate policies are delayed or divergent, requiring sharper emissions reductions achieved at a higher cost and with increased physical risks in order to limit temperature rise to below 2 degrees Celsius on pre-industrial averages.

Hot house world scenario: Scenario assumes only currently implemented climate policies are preserved, current commitments are not met and emissions continue to rise, with high physical risks and severe social and economic disruption and failure to limit temperature rise.

Scenario analysis

In addition to backward-looking data, which indicates the recent emissions profile of an asset or fund, we also use forward-looking metrics to assess transition alignment and climate risk exposures over a longer time horizon. The financial impact of climate change on our assets is assessed based on a range of scenarios that have been assessed using a climate scenario model.

Climate scenario models are complex computational tools that simulate interactions between various climatic systems integrating historical data, current observations, and assumptions about future socio-economic behaviour and regulatory landscape to generate plausible scenarios of future climate conditions. They are helpful in understanding potential impacts of climate change, but bear inherent uncertainties due to the long-term nature of their projections. Given the inherent uncertainty and long-time horizons, the model outputs presented here should be considered with caution as they are estimates of projections, not forecasts. Climate models are dependent on numerous assumptions which contain inherent uncertainties, and as such actual future conditions may differ substantially from these projections.

Whilst scenario analysis is in its infancy, the outputs are the most relevant models we have at our disposal to assess impacts across long-term horizons. The key forward-looking metrics that we monitor are outlined below.

Company shares and/or bonds and government bonds modelling results:		
Scenario	Climate adjusted value	Coverage
Orderly transition	-1.0%	100%
Disorderly transition	-0.5%	100%
Hot house world	-0.6%	90%

Assets under management as at 31 December 2022.

All results presented in the table(s) above are based on the Aladdin Climate model version 2.0.

The table above related to company shares or bonds and government bonds shows:

- Under either of orderly or disorderly transition scenarios, there is a minimal negative impact on the value of the assets, reflecting the cost of transition on the underlying issuers' profit and loss statements.
- Under hot house world scenario, there is a minimal negative impact on the value of the assets, reflecting the cost of adapting to a changing physical climate (eg increased capital expenditure to insure against flooding).

Data coverage

The data coverage ratios for this particular metric for all asset classes is sufficient to be relied upon. Any data gap is likely to be as a result of climate or financial data not being reported for the underlying asset types. Lower data coverage results in reduced reliability for this climate metric.

If you have any questions about anything in this report please speak to your financial adviser. You can also find more information including a [glossary of terms](#) and a [Q&A](#).

We have used several sources of data in this report as well as estimates using our own tools. While we've taken every care in producing this report please be aware that neither Prudential nor the sources used guarantee the accuracy, adequacy or completeness of this information or make any warranties from its use. Furthermore, the data presented is for a specific point in time and likely to change in the future and therefore should not be relied on as such.