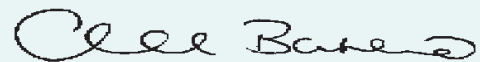


The Prudential Assurance Company Limited

2022 TCFD Report

The disclosures set out in this report for The Prudential Assurance Company 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.



Clare Bousfield,
Director
The Prudential Assurance Company 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 The Prudential Assurance Company Limited (PAC). Our climate-related disclosures are consistent with the four pillars and associated disclosures as set out in the TCFD 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 owners. 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 Annual Report and Accounts (ARA) 2022.

TCFD Pillars	Recommended disclosures	For further information, please refer to	
		M&G plc ARA 2022	This report
Governance	Board's oversight of climate-related risks and opportunities	Sustainability Governance – p36	Governance – p4
	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
Strategy	Climate-related risks and opportunities the organisation has identified	Climate risks and opportunities – p70 to 73	Strategy – p6
	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 – p6
	Resilience of the organisation's strategy, based on different climate-related scenarios	Climate risks – p70 to 71; Scenario analysis – p84; Financial statements – p196	Strategy – p6 ; Scenario analysis – p10 to 12
Risk management	Processes for identifying and assessing climate-related risks	Climate risks and opportunities – p70 to 73	Risk management – p8
	Processes for managing climate-related risks	Climate risks and opportunities – p70 to 73; ESG risk management – p37	Risk management – p8
	Integration of climate risks into overall risk management	Risk management – p61	Risk management – p8
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 – p9
	Greenhouse gas (GHG) emissions	Climate change and our operations – p74 to 76; Climate metrics – p82 to 83	Metrics – p9
	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 – p9

Introduction

M&G plc's purpose is to help people manage and grow their savings and investments, responsibly. As an asset owner, we believe a well governed business, run in a sustainable way, delivers stronger, more resilient returns for clients and shareholders, and better outcomes for society and the environment.

M&G plc's goal is to reach net zero emissions across our investment portfolio in aggregate by 2050 at the latest, following Paris-aligned decarbonisation pathways.

PAC forms a significant part of M&G plc's Retail and Savings (R&S) business, and so has a key role to play in helping M&G plc achieve these objectives, while ensuring that they remain appropriate for our customers. This report covering the core pillars of TCFD outlines the structures and processes in place to enable us to achieve these goals.

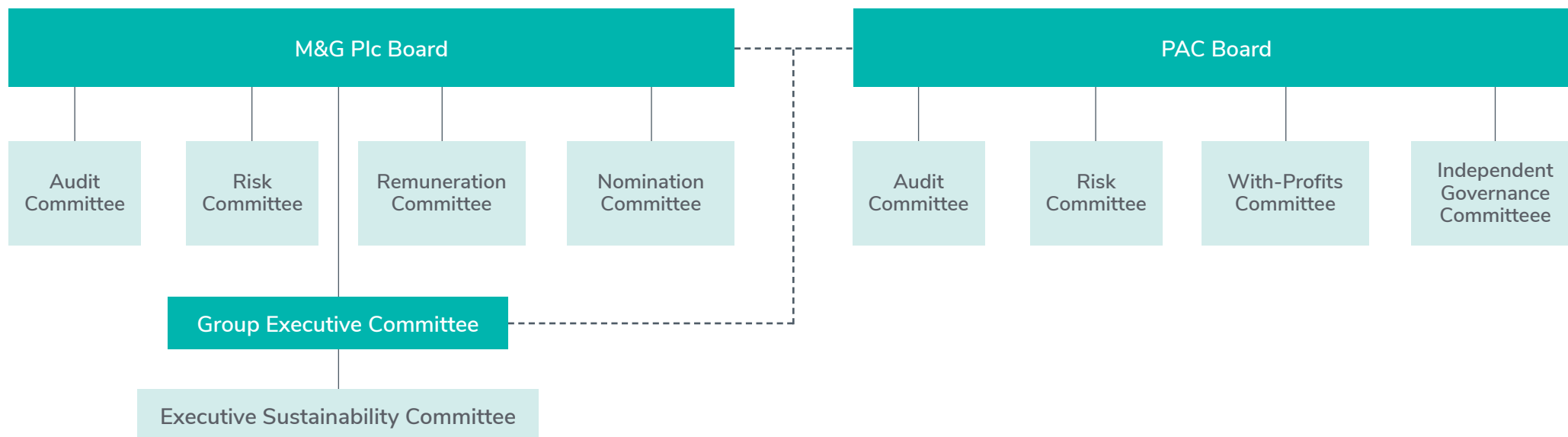
Governance

The M&G plc Board is responsible for setting the group-wide sustainability strategy and ESG values and principles. Responsibility for sustainability at an individual level is assigned to the Group Chief Financial Officer, while other duties are delegated to sub-committees.

While setting the group-wide sustainability strategy is the responsibility of the M&G plc Board, the PAC Board is responsible for interpreting and applying the group strategy and ensuring it is appropriate for PAC's business and customers.

Ongoing communication across the group is key and this is supported with the Chief Executive Officer (CEO) of the Retail and Savings business (of which PAC forms a significant part) sitting on the M&G plc Group Executive Committee and Executive Sustainability Committee.

Additionally, there is one individual who is a member of both the M&G plc and PAC Boards. The PAC Audit Committee is responsible for reviewing material regulatory disclosures, which includes this TCFD report, and recommending to the PAC Board for approval.



We have an appropriate governance structure to ensure that discussion and decision making is carried out at the appropriate level of the company.

Governance over our investments is managed through the Treasury & Investment Office (T&IO). The T&IO makes its decisions via several different mechanisms, and representatives also attend the M&G plc Executive Sustainability Committee. There are delegated authorities extended by the PAC Board to personnel at various levels. The exercise of these delegated authorities is overseen by the Executive Investment Oversight Committee (EIOC). The EIOC is a M&G plc Retail and Savings management committee chaired by the CEO of the Retail and Savings business.

All investment decisions are channelled through this governance structure, and ultimately, through the EIOC. The EIOC considers ESG factors, including climate, and the interests of customers when making its decisions, in accordance with our PAC ESG Investment Policy. In 2022, the EIOC terms of reference were updated to outline explicit responsibilities with respect to ESG and Stewardship.

There are two working groups in operation that cover these assets – the Asset Owner ESG Working Group and the Target Setting Working Group. These working groups provide structure in supporting with reviewing and overseeing key ESG activities, and in providing relevant input to enable the achievement of our interim targets and net zero ambitions.

Strategy

Climate change is one of the most pressing issues facing the planet, and will have an increasing impact on the environment, the economy and the way we live our lives. As part of M&G plc, PAC is committed to achieving net zero carbon emissions by 2050 across our investment portfolios, in line with the UK Government's target to help limit global warming.

As an asset owner, PAC does not engage directly with investee companies on stewardship and sustainability issues. However, our T&IO team do take strategic decisions about the kind of investments the asset owner funds make for the long term, and how long-term risks like climate change should be approached. They set investment policies and instruct asset managers to engage on their behalf in accordance with its stewardship and sustainability-related policies.

We have begun a number of initiatives to mitigate climate risks in our investment portfolios. Key among these is the setting of 2030 interim emissions reduction targets, with the aim of getting to net zero by 2050. These were published in September 2022, using the Net Zero Asset Owner Alliance (NZAOA) Target Setting Protocol (TSP).

In addition, we have products designed to meet growing client demand for sustainable and climate-focused investment strategies. This includes our PruFund Planet range, and our Catalyst investment mandate – a private assets strategy investing in ESG, sustainable and impact investments – to which the With-Profits Fund committed a total of around £5 billion to be drawn as opportunities are identified.

PAC, as part of M&G plc, has committed to phase out thermal coal from its public listed investments by 2030 for OECD and EU countries, and 2040 for other countries, and has already started the process of disposing of coal assets held by the With-Profits Fund.

M&G plc joined the NZAOA in 2021, and we set our initial targets in line with the relevant version of the TSP; all assets in scope of our targets are owned by PAC and PAC's policyholders. Members are required to set engagement targets focusing on their heaviest emissions contributors, plus two out of three optional focus areas. We set decarbonisation targets for our public equity and corporate issuer debt exposures, our direct real estate exposure, and priority high-emitting sectors (see figure on next page).

When selecting an investment manager, we seek to ensure that they have the people, processes and expertise in place to meet the ESG requirements specified in the asset owner investment mandate. In order to achieve this, we ensure our selection process includes a comprehensive assessment against ESG-specific criteria and we have a dedicated team performing investment due diligence as part of this process. Once an investment manager has been selected and onboarded, the T&IO Manager Oversight team conducts ongoing due diligence reviews.

As part of our interim climate goals, we have committed to engaging with the 40 biggest carbon emitters in our portfolios to encourage them to set net zero targets in line with the NZAOA criteria. While engagements are led by our asset managers, we are accountable for the framework used when interacting with investee companies, and commit to engaging with our asset managers to deliver our desired results.

Overall, we expect engagement processes to be aligned with the PAC ESG Investment Policy, Shareholder Engagement Policy and Voting Standard, as well as the agreed-upon mandate. If we feel there is persistent misalignment, we will step-up engagement where appropriate to enable further assessment and a decision on divestment and exclusion. We view the exclusion of any company from a portfolio due to their carbon emissions as an action of last resort, only to be taken if we are certain that engagement will not lead to meaningful strategic and operational change.

Examples of our engagement with investee companies can be found in the PAC Stewardship Report which is available on our website.

PAC's interim commitments as part of NZAOA

Engagement

Engaging with the 40 biggest contributors to our financed emissions, to encourage them to set net zero targets that meet best-practice criteria

Public equity and corporate debt

50% reduction in emissions intensity (tCO₂e/\$m invested) for each asset class by 2030*

Real estate

36% reduction in emissions intensity (kgCO₂/m²) within our directly owned real estate portfolio by 2030*

Sectoral decarbonisation

Reducing emissions intensity (tCO₂e/\$m invested) by the amount below by 2030*, across the named sectors.

Utilities

60%

Oil, gas and coal

50%

Materials, steel

40%

Transport, road

50%

Transport, aviation

25%

Transport, shipping

25%

* 2030 refers to end of 2029. Target covers Scope 1 and 2 emissions against 2019 baseline.

Risk management

The identification, assessment and management of climate-related risks, along with other ESG-related risks, is integrated into the M&G plc group-wide ESG Risk Management Framework. As climate change is a critical aspect of sustainability and ESG – a principal risk for the M&G plc group – it is a key area of oversight for our 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.

We use several methods to identify exposures to climate risk, including scenario analysis from both a balance sheet (top down) and portfolio (bottom up) perspective.

As part of our Own Risk and Solvency Assessment (ORSA) we use our in-house climate modelling expertise to explore the potential financial impacts of physical and transition risks through three different climate scenarios. The scenarios, which use the Network for Greening the Financial System (NGFS) phase 2 scenarios as a base, have been assessed over short- and longer-term time horizons, covering both an orderly and disorderly transition to a low-carbon economy, and a 'Hot House' scenario where the transition is limited and physical risks dominate.

The results of our 2022 modelling indicate a modest impact over a short-term horizon, but further out – particularly in the disorderly and Hot House scenarios – the uncertainty and potential balance sheet effects become more pronounced.

In addition to the overall balance sheet modelling conducted as part of the ORSA, we also undertake more granular, asset-by-asset climate modelling of our portfolio exposures and how they behave under different climate scenarios, and will extend this capability across our strategies. This will help us to identify climate-related risks and how they are likely to impact investments, as well as track how individual exposures change over time. Find out more on pages 10 – 12.

Scenario modelling does not capture all climate-related risks and relies on many assumptions. We therefore consider various ESG issues, and their impact on climate change. We contextualise the findings in our investment strategy at a portfolio level to determine the best approach to address these with asset managers.

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 (e.g. technology, market, reputation) and physical risks (e.g. acute physical, chronic physical).

Our first-line risk management approach is embedded in our position on thermal coal and PAC's ESG Investment Policy, which details our approach to ESG investing and helps to ensure our decisions and behaviours are consistent with our sustainability priorities. 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 portfolios 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 (through our asset managers) 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. These include 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 internal and external 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, 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.

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. Externally managed funds in which PAC are invested alongside other clients are also not included. For more information on definitions and how the metrics are calculated, please refer to pages 88 and 89 of the M&G plc ARA.

Public Assets	2022		Coverage	
	Scope 1&2	Scope 3	Scope 1&2	Scope 3
AUMA in-scope for metrics presented (£bn)	80.4	80.4	N/A	N/A
Financed carbon emissions (FCE) ('000s tCO ₂ e)	5,179	30,788	71%	71%
Carbon footprint (tCO ₂ e/£m invested)	91	541	71%	71%
Weighted Average Carbon Intensity (WACI) (tCO ₂ e/£m sales)	182	1,091	82%	79%

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 £5.3bn 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.

Sovereign debt	2022	Coverage
Financed sovereign production emissions (Scope 1 incl. LULUCF) ('000s tCO ₂)	1,360	99.9%
Financed sovereign consumption emissions (Scope 1, 2, 3 excl. exported emissions, incl. LULUCF) ('000s tCO ₂)	3,181	99.9%
Weighted average sovereign production intensity (Scope 1 incl. LULUCF) ('000s tCO ₂ /£m GDP PPP)	0.3	99.9%
Weighted average sovereign consumption intensity (Scope 1, 2, 3 excl. exported emissions, incl. LULUCF) (tCO ₂ /Capita)	23.0	99.9%

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)	15.5	15.5	N/A	N/A
GHG emissions ('000s tCO ₂ e)	42.3	272.3	100%	100%
Carbon footprint (tCO ₂ e/£m invested)	2.7	17.6	100%	100%

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 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, is based on three Network for Greening the Financial System scenarios:

- An orderly scenario, predicting a temperature rise of less than 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.

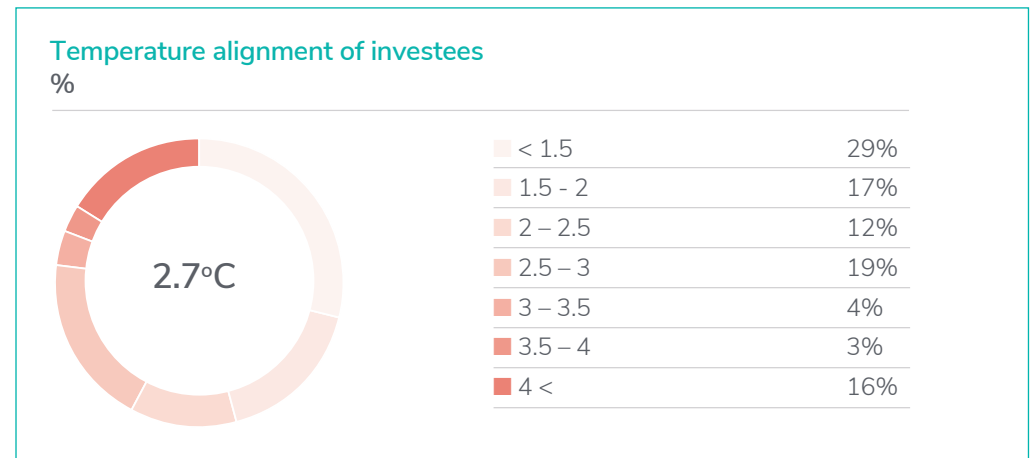
Climate change scenario modelling is an inherently complex area with results influenced by assumptions, judgements and limitations. We recognise that the climate models are based on stylised scenarios, and attempt to capture the possible future interplay between physical climate impacts, policy and regulation, 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 issuer where data is available (covering 71% 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 54% of assets exceed 2°C, given the underlying issuers' transition pathways. The weighted average warming potential across modelled issuers is 2.7°C.



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)

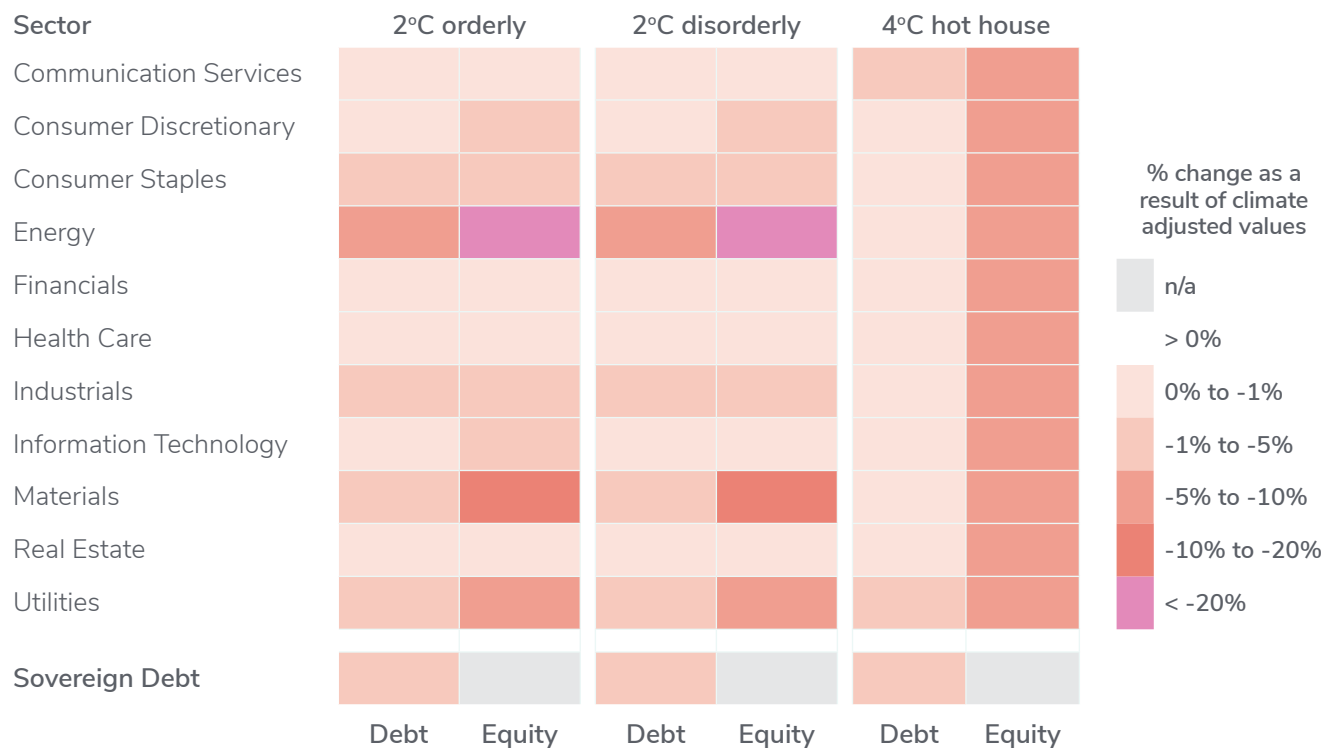
The climate modelling results help us to quantify the relative financial impacts of climate change across different emissions projections and compare our exposure to climate risks and opportunities over time.

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.

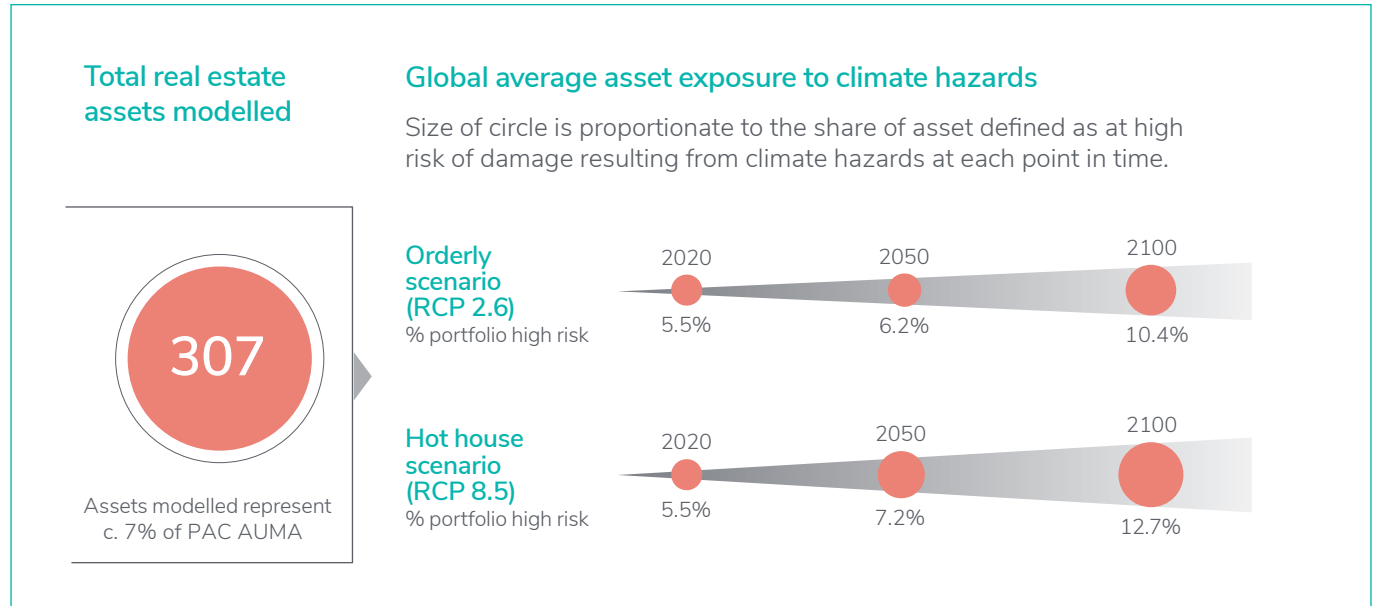
Climate-adjusted value impact by sector (current to 2050)*



* 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 impacts only having a coverage of 83%.

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 6.2% and 10.4% of assets will be rated high risk by 2050 and 2100, respectively; and
- Under a hot house scenario, these percentages increase to 7.2% and 12.7%.

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 (e.g. proximity to coast).

Glossary

Term	Definition
Carbon Footprint	Carbon Footprint refers to financed emissions normalised by portfolio value (GHG emissions per million pounds of investment).
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 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 Owner Alliance (NZAOA)	Convened by the UN, the NZAOA seeks to transform member investment portfolios to net zero GHG emissions by 2050.

Term	Definition
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.

